

Microfinance Insights™

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The Way Forward for Microfinance

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VI National Conference “Microfinance in Russia: Building an All-Inclusive Financial System”

November 14 and 16 , 2007
Moscow, Russia

The National Partnership of Microfinance Market Stakeholders (NAMMS) and the Russian Microfinance Center are pleased to invite industry participants to attend the microfinance event of the year - the VI National Conference “**Microfinance in Russia: Building an All-Inclusive Financial System**” to take place on November 14 and 16 , 2007 in Moscow.

About the Conference

The main purpose of the Conference is to promote the role of microfinance in improving access to financial services in Russia, fostering better standards of living and regional development through consolidating the efforts of all market participants and facilitating their dialogue with government.

It is expected that the Conference will be attended by Russian policy-makers and legislators, representatives of the UN agencies, the World Bank, top executives of Russian banks and MFIs, representatives of international institutions and funds which support innovations in microfinance, raters, Russian and international investors focusing on bank-led and non-bank microfinance programs.

The Conference will address a wide range of current and emerging issues involved in promoting better access to financial services, microfinance institutions and technologies. Issues such as building a multi-tiered system of credit cooperatives; enabling policies and investment opportunities for microfinance institutions; use of branchless banking, mobile banking and e-money technologies will find their place on the Conference agenda, alongside a discussion of future prospects faced by lenders to small and micro entrepreneurs, and many other things.

The Conference agenda will consist of plenaries, discussions and training sessions, debates and round tables. In addition, business brunches will enable participants to meet government officials, representatives of raters and other agencies. Participants of the Conference will benefit from first-hand knowledge of recent microfinance innovations and insightful discussions of pressing issues faced by providers of retail finance. Donor agencies will have an opportunity to target their audiences and to promote their products to providers of SME loans, microfinance and branchless banking services. In addition, the event will offer an opportunity to publicize programs in the context of current government policies.

The Conference is supported by the Russian Federation Council, the State Duma, the Ministry of Finance, the MEDT Council for Microfinance and SME Lending, the Ministry of Regional Development, and the Bank of Russia.

The Conference Program

The Conference organizers invite contributions to designing the Conference program. Suggestions can be emailed to conference@rmcenter.ru with name and contact details. The authors of the best suggestions and themes will be invited to speak at the Conference and offered a discount on their attendance fee.

Registration

To participate in the Conference – please fill out the **Registration Form.doc** and send it to Conference Technical Director Ekaterina Rozina at the e-mail conference@rmcenter.ru. **The Registration Form** can be downloaded at the RMC web-site through: <http://www.rmcenter.ru/en/news/anons-detail.php?ID=2483>. The early registration rates are only applicable until September 28, 2007.

Donor and Sponsorship Opportunities

Proposals are invited from agencies willing to support the Conference by becoming its official sponsor and partner. Please refer to the Sponsor Pack file for various options of supporting the Conference. The Sponsor Pack file can be downloaded at the RMC web-site from: <http://www.rmcenter.ru/en/news/anons-detail.php?ID=2483>. For additional information, please contact Boris Tkachenko, Conference Executive Director, at +7 (495) 258-68-31, or email at btkachenko@rmcenter.ru.

Contact Details

For more details and further queries about participation in the Conference, please contact:

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Microfinance Insights is pleased to be associated with the National Partnership of Microfinance Market Stakeholders (NAMMS) and the Russian Microfinance Center as one of the Information Partners of VI National Conference “Microfinance in Russia: Building an All-Inclusive Financial System”

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Cover Story

Riding the Innovation Wave

What are the crucial aspects of evolution in business? How have these aspects been applied in the microfinance space? How do organizations harness the innovation wave? Chris Mitchell and Leo Hornak provide the answers

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Creating social markets: Building social networks

This article by Prema Gopalan analyzes the co-created business relationship between a large company, BP Energy India Ltd., a development organization linked to Swayam Shikshan Prayog (SSP) and the women's self help groups (SHGs) linked to it. The business relationship was jointly envisaged and structured to deliver household energy products to low income customers.

While companies have discovered the importance of NGOs as paths to social markets, social groups have realized that carefully calibrated business models can unleash powerful forces for good. (Pg 6. Jeb Brugmann & CK Prahlad).

Social markets demand that business and social sectors are proactive and that they move beyond traditional lines that keep them apart. Creative business models are needed in low income markets that seek to increase development benefits and reduce risks. In such cases, the grassroots' approach to creating social markets places value on local resources and on the knowledge of markets that social networks bring into business. Accessing these and building on these, creates in its wake, a win-win situation for all – business, local entrepreneurs, networks, consumers and communities.

Partners in progress

SSP is a learning and development organization headquartered in Mumbai. In 1993, parts of Maharashtra suffered a massive earthquake which claimed over 11,000 lives. Working to transform this mass-scale disaster into an opportunity for development, SSP developed a widespread network that went beyond savings to build social, political and economic competencies for its women



Rural women watch the smokeless stove demonstration

“Creative business models are needed in low income markets that seek to increase development benefits and reduce risks”

members. Since 1998, it has operated in five districts of the economically backward Marathwada region in Maharashtra as well as in two other states. Later, federations formed by SHGs linked women to local institutions, banks, and business opportunities. In 2006, the network promoted Sakhi Samudaya Kosh (SSK) as a MFI which has loaned Rs. 31.87 million to member groups for small business, infrastructure and agricultural investments. As of date, SSP partners with over 5,000 women SHGs that are linked to community-based federations with around 60,000 members.

Prior to the start of a business relationship with a large company, SSP had seen the need to explore market-based approaches. In the last three years, it has moved steadily from a microenterprise strategy to setting up social businesses that provide sustainable “livi-

hoods” to women. SSP views its role as that of a facilitator - turning right opportunities into businesses that involve the groups in financing, operations and management. It readied itself and the SHG network by securing credit and capital, creating legal entities and building new skills.

Within this context, the concept of creating a business that could leverage and expand on the skills of women was on top of the list of priorities. In SSP's view, when business goals are coupled with larger development objectives, they not only strengthen local communities and networks but also empower women at the grassroots by involving them in key elements of operations. This formed the basis of SSP's partnership with BP Energy India Ltd. in Maharashtra.

Starting out with a successful pilot in 2006, BP supports a cleaner, safer, affordable cooking solution for rural Indian consumers that currently rely on various forms of biomass for domestic fuel consumption. BP has aspirations to reach over 20 million households by 2020 and develop a business with a turnover of US\$1 billion.

Co-creating the relationship

For SSP, this journey began in early 2005, while exploring energy alternatives at women's SHG meetings. Around the same time, BP decided to seek out NGO partners. SSP promoted Adharam Energy Private Limited (AEPL) to distribute home energy products by BP starting with biomass appliances and pellets as a clean fuel, producing an expansive social impact in the daily lives of low income women and households. AEPL was established to fulfill women's demand for new kind of household cooking solution with respect to the availability of fuel which is smokeless and low cost. The business idea was still at an embryonic stage.

Viewing it as a unique co-creation opportunity, BP and SSP went to rural women's groups to understand their needs in the household energy sector. Women who generally used wood for cooking complained about soot-filled kitchens, long hours, ill health, inconvenience, and lack of time with the family. Not to mention the long hours spent by girls and women in collecting wood for fuel. The result of the time spent talking with the women's group was not only the product but a delivery model that could tap into and involve women's groups in every aspect of the business.

The prototype was tested from January to August 2006. BP bought its patented technology from the Indian Institute of Science (IISc) and 15,000 stoves were sold in the second half of 2006 with Rs. 8 million turnover, including fuel pellets from agri-waste, enriching the farmers. The business in SSP's operational area in Osmanabad, Latur, Beed, and Solapur districts (in Maharashtra) reaches out to over 15,175 customers (August 2007).

The relationship started with an agreement on principles, followed by a memorandum of understanding, and a service contract drawn between the company and the NGO to deliver local marketing, training research and Customer Relationship Management (CRM) Services. This contract was continually reviewed and modified to address the ups and downs of the experimental business and the capacities of women entrepreneurs.

In the meantime, the organizations tested the hybrid stove and biomass pellets, estab-

lished warehouses, formed legal entities and drew a business agreement. Both agencies decided to use SSP's operational areas as the market. AEPL and BP signed a distributorship agreement to mark the pilot phase from July to December 2006. This was an intensive learning phase that experimented and tested the relationship. An integral part was learning along with consumers while developing the delivery model and inviting feedback for product improvements. While it was the first time the multinational company was involved in the low income rural market, the unique combination of the NGO and SHG networks provided credibility to the venture. SSP relied on its local partners, the groups and federations for the recruitment of supervisory teams and village level entrepreneurs.

Getting to business jointly

Adharam Energy Pvt. Ltd (AEPL) was set up by SSP in Maharashtra and by the Covenant Centre for Development (CCD) in Tamil Nadu as a company to distribute energy products and manage the network of village level women entrepreneurs (called *Jyotis*). SSP team played a key role in setting up AEPL as a distribution company with a team of field executives, warehouse store for appliances and pellets, and a complex logistics network to reach the products to the villages. An important step in the relationship with BP was the performance of the *Jyotis* and their selection, training and supervision processes installed by the SSP's Business Development Services (BDS) team. BP showed conviction and valued SSP's BDS services to create and manage the social network for product distribution to the villages. In turn, BDS team expanded and decentralized the local marketing teams within the federation operational areas at the cluster of 25 villages to conduct

all marketing, selection and launching of *Jyotis*.

Women's role in product development

They demanded products specific to rural needs and were willing to pay for convenience in cooking, which would in turn enable them to multitask. By identifying the amount consumers were willing to pay, a critical aspect of scalability was covered - mass relevance. Product development teams slowly learnt to rely on women, who turned out to be the daily-life experts as well as the consumers.

When the prototype hybrid stove and pellets were tested, the advantage in engaging with women entrepreneurs was clear. As women from SHGs, they easily

“Women's groups played a key role from the drawing board to product development. They held discussions that challenged corporate notions on how women value their time at work and at home.”

approached other women in their homes and at group meetings. As users they could model the advantages. Group meetings were the venue for heated discussions, to answer queries and record feedback. This discipline was attributed by the women to their being part of a group.

The workings of the business model

BP supplied the products; AEPL took on the distribution from the warehouse to the village and the *Jyotis* took on the task of delivering stoves and pellets to customers. The *Jyoti*, or the village-level entrepreneur, is the backbone

Prema Gopalan is the Executive Director of Swayam Shikshan Prayog (SSP). Since 2006, SSP promotes a MFI – Sakhi Samudaya Kosh, lending of Rs. 31.87 million to over 1200 groups for productive activities, small business/trades and inputs for infrastructure and agriculture. For its work on transforming chaos of disasters into an opportunity for women's groups to transform communities, Prema received the 2007 Mary Fran Myers Award for Gender & Disaster Reduction.





Women entrepreneur making a statement

of the business model. Each *Jyoti* services 200-250 customers in her village and earns Rs. 1500-2000 a month based on sales commissions. She is responsible for interacting directly with customers, collecting their orders and payment, delivering appliances and repeat orders of pellets, handling servicing complaints and keeping daily sales records. Each *Jyoti* had to invest ten thousand rupees and collect cash from customers on sale. The investment from the entrepreneurs ensured their stake in the business.

As Manisha a SHG member remarks: “Before, I worked to form savings and credit groups. This increased my awareness, but in this case, my work and the business directly impacts the health and lives of the people.”

Rather than simply selecting individual women to deliver products, the business model builds on existing SHGs to nominate and sustain village-level entrepreneurs. Groups are asked to nominate potential candidates. Later, groups themselves gave start-up loans, helped with record maintenance and undertook customer/ community education. All these efforts ensured that women who joined the business were viewed as accountable by their groups and community.

Supported by SSP and federations, the social side of the business is growing. An entrepreneurial network of over 500 women retailers has emerged. At network meetings, they speak of their new business identities, receive support from peers and upgrade their

“ Women were prepared to trust the product if their group member was involved. They were sure that the stove and pellets would meet their needs. It was brand SHG that was a winner. ”

skills. Plans are afoot to include training of women as business managers and leaders. Currently they participate in advisory meetings and provide valuable insights to improve the accountability of the business.

Similarly, monthly SHG meetings are utilized for local marketing and product promotion in the villages. Experienced federation leaders took on the roles of trainers for new *Jyotis*; once trained senior *Jyotis* acted as trainers. No external trainers were involved in the entire activity. As the business expands to new villages, SHGs are being offered the first option to establish and manage inventory and warehouses. This enhances the involvement of groups. It also builds a repository of skills for smooth operations - managing inventory and sales records, handling cash collection, banking and accounting, thus lowering costs and enhancing reliability.

Developing ‘Brand SHG’

It was important to create a supportive climate

as an entry point for the business of hybrid stoves and fuel pellets. SSP assigned this task to federation and group leaders. They approached the village leaders and conducted SHG meetings to explain the business concept and its relationship to the SHG network.

In the first instance, the promotion and launch involved school children. City-based advertising agencies were brought in to conduct promotions through film shows and documentaries. But they failed to gauge the pulse of rural communities. The exercise was finally redesigned by talking to women’s groups. Meetings were timed to suit agricultural labourers. Film shows were replaced by live demonstrations of the stove including Chai (tea) drinking sessions. Social events and festivals organized by groups created an excitement around using smokeless stoves. Women were prepared to trust the product if their group member was involved. They were sure that the stove and pellets would meet their needs. It was ‘brand SHG’ that was a winner.

In order to educate customers, some *Jyotis* met their pool of customers at least thrice a month, totaling 1000 interactions every month to explain, answer questions, motivate, demonstrate and ensure safety while using the hybrid stoves and bio-mass pellets. Some others went beyond the call of duty. With the help of their groups, they used Gram Sabhas, (village assemblies) and encouraged people to stop cutting trees, making clean fuel, clean homes a community agenda.

Grassroots approach to designing business

Essential to the success of businesses in rural areas is the presence of social infrastructure/ networks that provide a natural distribution chain. The grassroots approach to designing the business, took into account the networks and relationships that the organization and its partners had developed. Keeping the business local meant that the consumers and those closest, the SHGs, determined the ground-level design, as it intended to serve them and their communities rather than outsiders. Once the villages were identified, group leaders mapped the distance routes, storage space and transport and group capacities.

The SHG network at the cluster of ten villages within a radius of 40-50 kilometers provided the organic design for setting up the operations unit. Field supervisors with in-depth

knowledge and mobility were recruited. In turn they trained and managed assistants who collected and accounted for cash from sales. Women were quite skilled at this since they were accustomed to loans and payments.

Creating a cadre of women entrepreneurs

One of the initial challenges was that of changing mindsets of the women. Luring them away from wage labor, salary-based employment towards entrepreneurship and risk-taking was the first hurdle. Winning the support of their families on their new-found identity as rural entrepreneurs was also crucial. Group leaders played an important role in speaking to the men and family members of the *Jyotis*.

It was felt that women groups needed to be close to *Jyotis*, who in turn needed to be close to customers. The groups identified the following criteria to select *Jyotis* - one who can communicate with and service customers, answer questions, and ensure that the products worked. In addition, the *Jyotis* should be educated, hold no loan default record, and trusted by their groups. Based on these criteria every cluster SHG leader led the identification process by reaching out to a total of around 1500 groups across four districts.

Developing business skills

Most *jyotis* come from traditional families, where their roles and responsibilities within their families were confined to duties in the home. Despite having a strong background in credit and savings, in most cases they lacked sales and business skills. By having an entrepreneur from the group, members are exposed, at very close quarters, to how a business works. Through repeated exposure, SHG members learn new essentials of doing business. They gain tangible benefits of the products and home delivery of clean fuels (pellets made of agricultural waste) month on month.

In most cases, local women bring in expertise on the lifestyles of customers and feedback from the villages, but lack the skills to incorporate this knowledge into the business model. Training teams partner with these women in workshops to design curricula that uses their knowledge to modify existing business practices and to better tailor the business to the needs of local women.

“Any successful business model needs to be scalable, in order to maximize impact and achieve some level of efficiency”

In this seeming paradox lies a unique opportunity to tap development goals and turn them into potential profits. For example, through building on existing social networks, customers and rural communities are more likely to be loyal in the long run, thus increasing the sustainability of business.

Ensuring feedback

The teams from AEPL and BP are conscious that doing business well entails being responsive to customers. SHG leaders are invited to give feedback on how the business is doing at the village level. This feedback keeps the engagement dynamic and responsive to customers.

Where are we today?

It is too early to measure impact –economic, social or environmental. The business model is working beyond excel sheet projections. Early on, SSP deputed experienced staff with knowledge of the underserved communities and geographies. BP teams provided managerial support. Flexibility, continued adaptation to ground reality, and interdependency sustain the day to day coordination between NGO and the commercial entity and the partnership with BP. It has allowed the business relationship to move beyond the pilot phase. A set of social metrics is being installed. The larger challenge of building it into the DNA of the business still remains. In order that the business model grows to greater scale, an eco-system of producers, distributors and customers linked to SHGs needs to be developed. The focus is on providing quality goods at affordable prices and with high safety standards. The business model also needs to work towards enhancing existing social networks of women and to creating a larger community impact.

Facing challenges – the journey ahead

There are more serious challenges that the existing business model faces. Enterprises that stem from microfinance groups and models promoted by NGOs typically suffer from working capital constraints. Because the end product largely serves the need of clients in rural areas, the problem of developing a cost-effective supply chain in the face of inadequate rural infrastructure and transport is quite likely. These challenges are compounded by the fact that margins are wafer-thin, thus leaving very less room for expenditure the required capacity building, on information systems and customer databases.

Any successful business model needs to be scalable, in order to maximize impact and achieve some level of efficiency. The current business model faces the same challenge. Developing franchisees means that the women entrepreneurs need to overcome increased risks and find creative ways to capitalize their resources. Scalability also becomes a problem due to lack of staff with business perspective.

There are also governance challenges, such as building skills of women at the grassroots to manage and to take on visible and significant positions in governance and management. Most notably, the challenge of designing a profitable business while simultaneously creating positive social impact continues. Among the many lessons for microfinance networks and NGOs, is the need to create and sustain a robust learning process and communication with the business sector. This is crucial when faced with challenges that accompany scaling up and making the business profitable in rural, low income markets ■

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