

identified that lack of reliable data was one of the issues being faced by microinsurance. With this in mind the ILO's Microinsurance Innovation Facility presented a new Landscape Study of Microinsurance in Africa. As per the study 14.7 million people living under \$2 a day are covered by microinsurance in 32 African countries. The study also found that Africa is dominated in terms of

product by life insurance, while health insurance products cover only 1.9 million people. More positively, most of those covered enjoy comprehensive health packages with both in-patient and out-patient treatments.

As Prisca Soares, Secretary General of the African Insurance Organization (AIO), opined "We need to overcome the challenges of

education, not only for the population; but also the providers too need to have a deeper understanding of the target market, and innovation. We need to think out of the box and look at the needs of each individual population group, know their culture and customs, by doing this that we will be able to offer good-value microinsurance products."

(reference – www.microfinancefocus.com)

PLUS POINT

Interview with Prakash Bakshi,
Executive Director, NABARD

Prakash Bakshi, Executive Director, NABARD was busy attending sessions and delivering lectures at the Microfinance India Summit held in New Delhi. In this discussion Sony V. Mathew, Editor, LAHANTI caught up with him to get his views on microfinance industry and its future -

1) Could you please comment on the effects of financial literacy programs undertaken by the Government and various NGOs across India?

Financial literacy programs have not reached its full potential so far in India. Primarily, the contents of these programs should be decided in advance, like whether we should include savings as well as credit. Educating the poor on how to save and where to save is really important and it should be made part of financial inclusion. Here SHGs play an important role. If savings is properly encouraged may be the need for



Sony V. Mathew, Editor, LAHANTI in conversation with Prakash Bakshi

microfinance will also become insignificant.

2) How do you view the performance and future of microfinance industry in India?

Definitely, as of now the need of MFIs are there and they are growing by leaps and bounds in many forms along with banks. In fact, banks are enjoying an advantage as they can open branches in rural areas without permission. But still most of them are reluctant to take the

Interview with N. Srinivasan



The former CGM of NABARD is now a leading consultant engaged with the World Bank, CGAP, IFAD, ADB, UNDP, UNOPS, GTZ, Microsave and Government of India. He is also the author of Microfinance India: State of the Sector Reports 2008 and 2009 brought out by Access Development Services and published by SAGE.

1) Your views on MFIs providing integrated services. Do you feel it requires any proper direction?

Integrated or credit plus services will encourage people to access the benefits of microfinance. It will improve their livelihoods and will help them to realize the importance of savings, apart from borrowings and repayment. I am happy that ESAF has been one organization that has understood the value of credit plus services in the sector.

2) Please elaborate on the efforts that you have put on preparing the microfinance state of the sector report 2009?

For the report it had been a tough year,

information was very late in coming. But the co-operation received from the sector was unbelievable. I had to travel across the length and breadth of the country to meet clients, customers, MFIs and all. I have attended many round tables, conferences, brainstorming sessions and experience-sharing workshops with Industry Leaders, Private Banks, RBI, UN Solution Exchange and many other Practitioners, specifically for the purpose of this report.

3) Do you have any suggestions on improving the advantages of NREGA? How can it be possible?

NREGA should concentrate more on sustainable income generating ideas. Converting 100 day assured wages in to a capital asset that could yield a stream of future income is the challenge that NREGA should meet. Initiatives such as providing wages for leveling own-land and providing seedlings for plantations that would produce incomes after few years would be helpful. A sustainable

initiative.

3) What do you think are the drawbacks of microfinance industry?

MFIs should give more importance to technology, which could improve their efficiency. Initially, it may increase the cost but at the same time it will increase the quality on offer. MFIs should come up with new ideas that could utilize technological advancements. Those organizations emphasizing on technology will surely make it big in the long run.

4) Your opinion on Targeting Ultra Poor programs organized by MFIs like BASIX?

Targeting Ultra Poor (TUP) is an ambitious project that could be really expensive. The benefits cannot be expected in short term, it will come only gradually. Frankly I feel the real effects of these programs would be reflected only after a long period of time.

income generation model should be formulated and implemented for a period of five years and then try to understand on how to move forward and decide on corrective actions to be implemented.

4) Microfinance Regulation bill is now losing relevance? What's your take on that?

The bill in its present form is not useful. It appears like a poor substitute for sector regulation. The need of the hour is to redraft the bill and bring all MFIs with varying forms under the regulation.

5) What is your opinion on linking capital markets with MFIs through plans like SIP?

It is possible and already some MFIs have started coming up with similar products. This would allow the poor to enjoy the benefits of capital markets. But MFIs should do their job by educating customers on such topics, making them aware of the risks and by frequently coming up with innovative products that could change the way the poor lives in India.

...means development in Santhali, the language of an underdeveloped tribal group in Eastern India.



CALLING THE SHOTS



Mahatma Gandhi once famously said "be the change you want to see in the world". The great man matched his words with deeds and helped India gain independence. For ESAF no words could match our goals better, not surprisingly our task was relatively easy to finalize our slogan for the New Year 2010. To attain a better world envisioned by us change is paramount. And there is no better way to bring in the change than to change ourselves. To make this possible, what is required is a

thorough understanding for the need of change. Powerful slogans and rhetoric speeches won't serve the purpose if we lack commitment. Commitment to the cause of those shabbily treated human beings who have been neglected for centuries unknown.

People like Mahatma Gandhi and Martin Luther King have shown the gentle way to

Be The Change You Want to See in The World

change the world. They became revolutionaries without launching a revolution...we should also tread the path shown by them, by cultivating the habit of doing services. The fact that we have been selected by International Labour Organization (ILO) to execute their Action Research Program 'Decent Work Deficits' underscores our growing reputation as an organization that strives for bringing in the transformation the world badly seeks. Remember, all good things happened because of change. Even the nature adhere to this rule, otherwise the world would have been deprived of the presence of butterflies...



K. Paul Thomas
Managing Director

FROM THE WORLD OF ESAF

ESAF Launches Project 'Shram Jyothi'

ESAF Launched Shram Jyothi an Action Research Program in association with ILO to identify Decent Work Deficits in India. Rajaji Mathew Thomas, MLA, Ollur inaugurated the function held at Ashoka Inn, Trichur. K. Paul Thomas, Managing Director, ESAF Microfinance, presided over the function. George Thomas, Director Operations, welcomed the gathering. Hideki Kagohashi, Enterprise Development Specialist, ILO India explained on the significance of the project. In his inaugural address Rajaji Mathew

Thomas, emphasized on the importance of finding new sectors for employment. During his speech Hideki Kagohashi said that "ILO has selected ESAF, among the 17 MFIs selected globally, for this task because of its socio-economic approach rather than pure financial way of functioning". He added that "the selected MFIs would receive a grant to cover



Hideki Kagohashi, Enterprise Development Specialist, ILO delivering his speech during the launch of Project 'Shram Jyothi'

costs incurred in the identifying, testing and analysing processes."

ESAF Managing Director K. Paul Thomas said that "In developing countries like India this study holds significance as Decent work is far from being a reality for millions of working poor." He added that "microfinance activities like conditional loans, credit with education, incentives like interest rate rebates, linkages with social partners and NGOs as well as the provision of micro insurance, conditional cash transfers or health care could be effective ways to reduce child labour, decrease vulnerabilities, raise awareness and create incentives to improve working conditions." Paul Thomas expressed hope that after three years "this study may help ESAF to come up with products that help to handhold micro enterprises.

MUSINGS

Raphael Parambi

Success-the year that passed: Indian Microfinance professionals can look back at 2009, with utmost satisfaction. The industry covered 71% of the poorest regions; grew by an impressive 97% to \$ 2.5 bill (excluding bank lending to SHGs) and proved that it could, in

A Call for Self Regulation

general, be profitable while charging some of the lowest rates in the world. Recognition of the stature of the industry came by way of four MFIs being rated among the top 20 in the world, by MIX. However, in our growth lies the germ of the problem waiting to sprout.

Challenges a Plenty: An analysis of the pattern of penetration suggests that, in AP, Tamil Nadu and

Karnataka, each poor house hold has, on average, been over financed 8, 3 and 2.6 times respectively. And the average loan outstanding shows a figure close to Rs 30,000. When one recognizes that our financing reaches only a proportion of the poor, the extent of multiple lending and over indebtedness becomes glaring. Ideally one would like the poor to have access to

multiple financiers, expecting that choice would drive down rates and lead to the development of a wider suite of offerings. Unfortunately, competition has clearly not resulted in lower rates or product development, and the poor, having been denied access to organized finance for generations, has been unable to exercise prudence.

Enlightened self interest: Member indebtedness and multiple borrowing pose serious problems for the MFI. In the first place, a highly leveraged family poses a risk of default at the slightest setback, like an illness in the family, or systemic, like economic slowdown. With a return on assets of under 2%, the industry can scarcely afford any increase in delinquency, let alone the possibility of the issue being politicized, resulting in systematic stoppage of payments. The second dimension to the multiple borrowing problem is more insidious.

Many borrowers and sangams maintain a 100% repayment record for fear of losing access to future finance. In a multiple lending situation, the borrowers will soon learn that even if they are in default with one MFI, finance continues to be forthcoming from the others. Clearly it is in our enlightened self interest to curb excessive indebtedness and multiple borrowing beyond a point.

The way forward: Fortunately, the problem is relatively new and confined and MFIs have initiated steps to stamp it out. This will require a two pronged approach. Firstly, there has to be open dialogue and agreement among the MFIs operating in an area, regarding the appropriate level of indebtedness of a household (possibly based on the income generation activity pursued). Secondly, we will need an enforcement mechanism of the nature of an industry funded

Ombudsman (possibly as part of Sa-Dhan or Alpha Micro Finance Consultants) with the authority to receive complaints from borrowers and MFIs and investigate non compliance. As first step, the Ombudsman would warn the wayward MFI and require collecting out of noncompliant advances. If this fails, the Ombudsman should have the authority to report non compliance on its website. Both these would constitute powerful deterrents.

Conclusion: Fortunately the problems are yet tractable, MFIs have adequate forums for dialogue and establishment of standards, and organizations for monitoring and enforcement can easily be set up within existing structures. We would be failing in our duty as managers if we did not respond swiftly and vigorously.

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THROUGH THE EYES OF THE EDITOR

To support the Government's financial inclusion drive, RBI is likely to start more Local Area Banks in the next financial year. This is truly a welcome move as it offers help at hand for the unbanked. Even though their area of operation will be limited, they will be performing the functions of a scheduled commercial bank. Some of these banks can eventually attain the status of a full-fledged bank.

As per the finance ministry data there are 120 unbanked blocks in the

Local Area Banks, A Welcome Move

country and with proper governance structures these small banks can be viably run. Earlier in 1996 RBI has given license for six Local Area Banks out of which only four are still operational. The reasons for the closure of the two LABs should be properly reviewed and corrective measures should be adopted. Moreover, this move has the advantage of bringing in more local knowledge to bear on products that are needed locally.

Sony V. Mathew

contd. FROM THE WORLD OF ESAF

He concluded that "for the last 18 years ESAF has been striving to improve the working conditions and there by the social and economic status of the neglected class. We are happy that ILO has taken note of our efforts and selected us as partners for implementing their Action Research Program".

ESAF Expands Operations in Central Zone

ESAF expanded its operations in Central Zone by opening branches in Koradi and Bhilai. The Koradi branch was inaugurated on Dec 05, 2009 at 9.30 AM. Mathew Varghese, Linguistic Professor, Nagpur was the Chief Guest. In his inaugural speech he exhorted the members to abide by the Vision of the organization. George K. John, GM, Central Zone explained the objectives of ESAF. Jolly, Area Manager, welcomed the invitees. N. K. Somalingam, Deputy General Manager and Prajosh Rajan, Project Manager, delivered felicitation speeches. Pramod Khobragade, Branch Manager Sadar, proposed Vote of thanks. ESAF Bhilai Power House Branch was inaugurated by Shalu T. Ninan on Nov 28, 2009

ESAF at IHGF, Noida

ESAF an accredited Fair Trade member of World Fair Trade Organization (WFTO) had participated in India Handicraft and Gift Fair (IHGF Autumn 2009) in Greater Noida on Oct 10 - 13, 2009. IHGF is considered as the biggest handicraft fair in India

New Branch Creates History in Tamil Nadu

A new branch, opened in Chennai, Villivakkam, on Oct 01, 2009 had made a sensational impact in three months time. The branch had enrolled more than 1000 members and had raised a portfolio of Rs 1 crore in a short span. K. Paul Thomas, Managing Director ESAF Microfinance and Soman Roy Chief General Manager, Chennai, appreciated their efforts.

with more than 1800 exhibitors. The mega event was organized by Export Promotion Council for handicrafts under the aegis of Development Commissioner (Handicrafts), Ministry of Textile, Government of India. Apart from handcrafted products from Kerala, Tamil Nadu and Jharkhand, ESAF also introduced organic certified spices, beverages and nuts in the fair for the first time. About 50 buyers from various parts of the globe visited the stall. Enquiries came from different corners of the globe like Japan, Belgium, UK, Malaysia, Tunisia, Netherlands, Germany etc.



ESAF stall at IHGF Autumn held in Noida

ESAF Celebrates 'Gloria 2009'

Staff at ESAF Head Office celebrated Christmas with color, vigor, pomp and grandeur on the eve of Christmas day 2009. The celebration titled 'Gloria 2009' was held at the Veterinary College Auditorium, Mannuthy. H.G. Kuriakose Mor Eusebious Metropolitan, Jacobite Syrian Church, Thrissur delivered the Christmas message. K. Paul Thomas, Executive Director, presided over the function. George Thomas, Director Operations, welcomed the gathering. K.C. Ranjini, Managing Director, Dia Vikas cut the Christmas cake. Christudas K.V., GM HR and Admin proposed vote of thanks.

In a function held at the Head office in the morning, Christmas Friends, randomly picked through lots, exchanged gifts. The function in the evening was more colorful and glamorous with the participation of ESAF staff families. Entertainment events like songs, dances and skits also took place followed by dinner.



ESAF Choir, singing and welcoming Christmas 2009

Three best branches of the quarter: Thoothur, Poovar and Vadanappally

contd. FROM THE WORLD OF ESAF

ESAF Goes to North Kerala

ESAF opened its branch for the first time in North Kerala, at Ramanattukara, Calicut on Nov 10, 2009. George Thomas, Director Operations, presided over the function. Anil T. Mathew, Vicar, Evangelical Church Calicut, led the dedication prayers. Samson Philip, UESI Calicut, Varghese T.C., Pastor, AG Church Calicut, Sulekha, Sangam Member, Abraham Philip, Deputy Chief Engineer, Local Authority Calicut, Shibu Chacko, Branch-in-charge Calicut, and P.D. Mathews, Manager Business Development, spoke on the occasion.

FOOD FOR THOUGHT

Are Carbide Survivors Doomed Forever?

On the 25th anniversary of the Union Carbide tragedy, survivors of the disaster in Bhopal staged a jhoot bole kauwa kaate (lie and the crow will bite) protest in front of the factory (on Nov 28, 2009). They organized the 'benign buffet' by sitting with a huge dummy crow and plates of delicacies made of chemical wastes. The hapless victims are still drinking an acid like golden yellow liquid that corrodes utensils and causes skin irritation. Their next generation is having learning deficiencies and has stopped studying as they can't memorize anything. Is it high time for the authorities to spare a thought for them or are they doomed forever?

FROM THE WORLD OF MICROFINANCE

Microfinance Policymakers Forum advocates technological advancements for financial inclusion

Bank Negara Malaysia in collaboration with the CGAP, a microfinance group based at the World Bank and the Alliance for Financial Inclusion (AFI), organized the Microfinance Policymakers Forum 2009 on December 2nd and 3rd. The workshop focused on key considerations and recent developments in institutional structures, as well as regulatory and supervisory requirements necessary for effective adoption and application of branchless banking.

The two-day workshop held at Lanai Kijang, Bank Negara Malaysia was attended by key policymakers and regulators from 17 Asian countries including Afghanistan, Bhutan, Timor Leste, India, Indonesia, Korea, Lao PDR, Malaysia, Thailand, Vietnam and Philippines. Most of the representatives were thoughtful and cautious about merging the domains of finance, payments, and telecommunications to create a framework that balances customer needs with concerns around security, risk and regulation. In terms of addressing the policy concerns, Bank Negara Malaysia had taken measures to put in place the payment infrastructure, promote a broad product range to cater for the different payment needs of consumers and cost-effective pricing framework to provide the incentive structure that would spur the adoption of electronic means of payments.

Branchless banking presents special challenges for policymakers like:

- Allowing non-bank third parties, such as local merchants, to conduct "cash-in/cash-out" functions and to interact directly with customers and to perform 'Know Your Customer' procedures

for remote account opening.

- Adopting the right measures to address money laundering and combating the financing of terrorism (AMLATFA)

- Ensuring effective consumer protection to avert potential issues that may arise with the use of mobile phones and the use of agents, including issues such as privacy and fraud.

- Identifying the right regulatory space for the issuance of e-money and other stored-value instruments (particularly when issued by parties other than licensed and supervised banks).

- Allowing an appropriate balance of competition and cooperation in retail payment systems in order to promote a certain degree of interoperability.

- Getting the balance right in competition policies – providing the right incentives for pioneers to invest in the branchless banking business without allowing for the formation of customer-unfriendly monopolies.

(reference – www.microfinancefocus.com)

Microinsurance Conference Takes Place in Dakar, Senegal

The 5th International Microinsurance Conference was held in Dakar, Senegal. The conference addressed the most challenging topics such as Health, Access and Product Design. According to the words of Craig Churchill, Chairman of the Microinsurance Network, "Over 14 million low-income people were covered by microinsurance at the end of 2008. Compared to a global landscape study conducted in 2005, this reflects more than an 80% increase for most African countries. This is substantial growth by any standard."

Over 400 microinsurance experts and practitioners attended the conference, organized by the Munich Re Foundation and the Microinsurance Network. The primary topic for discussion was the recent developments in cost-effective insurance for the poor. They