

Tajikistan, Banking Association of Tajikistan, Association of Microfinance Organizations of Tajikistan, and other International Organizations held extensive consultations during 2009-2010. As a result of this activity, Tajikistan adopted new legislation that encouraged 98 percent of Tajik financial institutions to become part of a credit information-sharing process.

(reference - www.microfinancefocus.com)

ADB supports Microenterprises in Uzbekistan

In a move to meet the growing demand for credit from micro and small enterprises, the Asian

Development Bank (ADB) has approved a \$50 million loan and a \$600,000 grant to help three Uzbekistan banks to expand financial services to micro and small businesses. Chosen for their financial soundness, significant rural and/or urban retail network, proven track record in microfinance intermediation, prudent exchange risk management, and transparent corporate, financial, and management practices, bank Hamkorbank and Agrobank will have allocations of \$20 million each, while Ipak Yuli (IYB) will have an allocation of \$10 million.

The participating banks will match ADB's loan funding with equal co-funding from their own

resources. The commercial banks will lend funds to MSEs at market-based rates and give them the option to draw down loan funds in cash. These features avoid subsidized direct credits or a premium to cash over noncash funds. The MSEs can use the money for production and trade in goods and services, and for investment and working capital purposes. Under the loan agreement, at least 25% of the new microfinance accounts opened will be for women, and at least 1,000 women borrowers will be trained. It will also coach end-borrowers, especially women, in business plan preparation and credit applications. (reference - www.microfinancefocus.com)

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



CALLING THE SHOTS

'Responsible Credit', order of the day



At the outset, let me congratulate all the ESAF team members for doubling the company's portfolio to Rs 150 crores, in the last FY 2009-10. It once again underscores our capability to thwart all sorts of challenges and come up trumps. At a time when the company is making quantum leaps at the international level, it is imperative to continue focusing on our mission and functioning as humble heroes for the poor.

In order to improve the governance practices, MFIN (the NBFC_MFI association), has put in place a code of conduct that MFIs need to observe. It is intended to strike a balance between the industry's social and commercial goals. It is true that commercial orientation is required to support the substantial growth the sector has witnessed so far, but a fine balance between the social and commercial aspects is also equally important. In short, 'Responsible Credit' is the order of the day.

The MFIN code of conduct stipulates that not more than three microlenders can lend to a single borrower and their cumulative loan offer should not exceed Rs 50,000/- (for unsecured loans). Over exposure of loans can lead the borrower to a debt trap and the lender will be the ultimate sufferer. So it is necessary to have a thorough understanding of the client's repayment capability and cash flow before lending. Another point that the code instructs is not to resort to any

abusive or unethical tactics to collect dues. Observing this rule is important as it upholds the principles and values of the sector. The need for transparency is another point that the code insists. In order to fill the gaps in the disclosure mechanism, the code specifies to mention all features of the loan including Interest Rate, Processing Fee, Security Money and Insurance Premium in the Pass Book or in the Application Form. The MFIN code also proposes to encourage a grievance redressal system and offers ways to tackle incidence of large massive defaults.

I am happy to reveal that our established practices are not different from the code of conduct formulated by MFIN. We take this as an opportunity to re-assure that we are on the right path. We conduct training sessions for the staff on the values to be followed while interacting with the clients. On the transparency side, boards showing interest rates are displayed in all the branches in vernacular languages (loan documents are also available in vernacular languages). Moreover, we have created a Grievance Redressal Forum and placed complaint boxes in all the branches. At the branch level, we have also formulated Branch Advisory Committees with Cluster Level Client Leaders as participants. We also rely on visual presentations for effective communication. Yes, I can say that our practices truly conform to the code of conduct formulated by MFIN.



K. Paul Thomas
Managing Director

PLUS POINT

Interview with Malcom Harper, Professor emeritus, Cranfield University

Professor Malcolm Harper is a veteran in the field of Microenterprises and Microfinance, Financial Inclusion, and Livelihoods Promotion. He is also the Chairman of M-CRIL and an Emeritus Professor at Cranfield School of Management. Excerpts from an interaction with him, on his views of microfinance sector in India.



Malcom Harper

1) What do you think of the scope of microfinance in India?

Microfinance in India gained momentum rather slowly and it came too late. But it's true that rapid growth could be dangerous. Competition gives

choice but it must be healthy. Otherwise it would lead to 'over indebtedness'. So if the players are willing to adhere to the principles of 'Responsible Lending' then the scope of microfinance is immense in India.

2) What are the challenges India is facing, to expand its reach?

As I said earlier, over-indebtedness is one important challenge. So the need to constitute a Credit Bureau is important. Commercialization of the sector is another challenge we need to deal with, otherwise the real poor will be left behind in the race for economic viability. Hence, programs like Targeting Ultra Poor hold significance.

3) What are the best practices that MFIs should follow for serving the clients effectively?

MFIs should take the responsibility of educating the clients and should function with transparency. Adequate attention should be

given to credit plus activities like Health Care. The poor should also be served with products that offer Savings, like Insurance.

4) 20 yrs from now what changes can microfinance bring to the New World Order?

I hope by then the world would be free of poverty. But I guess, it would take a huge effort to eradicate poverty in some regions of Africa. For further development of the sector in India, MFIs should be given the status of Local Area Banks, controlled by RBI.

5) Do you find any difference in the approach of ESAF and other big microfinance players?

ESAF has a tremendous reputation and enjoys good trust among the clients due to its credit plus activities. Many other players are also giving credit plus activities, which augurs well for the industry.

Interview with Nigel Bigger, Director, Social Performance Management Center, Canada.

In this short interview, Nigel Bigger, Director Social Performance Management Center, (Grameen Foundation), highlighted the importance of Progress out of Poverty Index tool, which measures poverty levels of individuals and groups.



Nigel Bigger

1) Some advantages of the Progress out of Poverty index tool?

This tool helps in Data Management, Integration of Data and gives Data Quality. Even though the tool is built on a universal methodology, each PPI is country specific. If it is well administered, the

tool will help the MFIs to reach the bottom of the poor sections of the society and also will help them to come up with conclusive data, which otherwise would be difficult for them to gather.

2) In how many MFIs have you implemented the tool? Brief on the importance of the tool from the point of view of ESAF?

The tool has been implemented in 43 MFIs so far. ESAF Microfinance is the 44th out of the 10,000 plus MFIs across the globe. ESAF always looks for innovations to serve the poor, so I think being a legend in the field; this tool will corroborate ESAF in serving its holistic vision.

Tribute

C.K. Prahalad, one of the world's most influential management thinkers died in San Diego, at the age of 69, after a brief illness. He was known for



C.K. Prahalad

his revolutionary views and believed that active engagement of private enterprises at the bottom of the pyramid was a critical element in creating inclusive capitalism, as private sector competition for this market would foster attention to the poor. The professor of Michigan Business School held a mirror to the multifaceted- India like almost no thinker before. We doff our hats to the man who spotted gold at the bottom of the pyramid, an original idea that was a true addition to the body of management thinking.

FROM THE WORLD OF ESAF

Oikocredit Acquires 12 % Stake in ESAF Microfinance

Netherlands based Oikocredit International bought 12% stake in ESAF Microfinance and Investments (P) Ltd (EMFIL), one of the largest microfinance companies in India, through its fully owned subsidiary Manaveeya Holdings and Investments, Hyderabad. Oikocredit is a 30 year



K. Paul Thomas, signing the agreement with Manaveeya Holdings and Investments (P) Ltd. Also seen are Sundar Rao, Managing Director, Manaveeya and K.C. Ranjini, Managing Director, Dia Vikas.

old Global Development Financing Institution that responds to the needs of businesses that create jobs and incomes for disadvantaged people. Through this deal the capital base of ESAF Microfinance has crossed Rs 30 crores. The deal was aimed to generate capital for the company to expand its business. "Our association with Oikocredit reinstates our social mission" opined K. Paul Thomas, Founder and Managing Director, ESAF Microfinance.

MUSINGS

Raphael Parambi

The title for this quarter's 'musings' is borrowed, with permission, from the seminal book of the same name by Adam Brandenburger & Barry Nalebuff, wherein the authors brilliantly demonstrate the need for cooperating to expand the pie, while competing for a share of it.

A Call For Co-opetition

The Expanding Pie: In 2009 the Indian market for microfinance grew by a scorching 97% in the face of a slowdown in virtually every other sector and indications are that 2010 will see even more rapid growth, with recoveries continuing to be good and reduced operating and borrowing costs enhancing margins. Microfinance institutions have also started leveraging their unparalleled access to hundreds of

thousands, and in many cases, millions of 'bottom of the pyramid' customers, to distribute micro insurance products, savings and investments, groceries and even durables to their members, using selected and trained members themselves, as the sales channel. They thus deliver services to the members, earning a handsome profit in the process. The coming of age of the industry and its

pivotal role is reflected in the loyalty of the members and the premiums being offered by private equity investors and the capital markets, for investment in every and any MFI.

The moving finger writes: While the industry looks set for an unprecedented year, there are also a number of mission threatening challenges (see www.esafindia.org/publications/LAHANTI_NL_OCTOBER_2009_final.pdf, www.esafindia.org/publications/march_2010.pdf). The issues to be resolved include: multiple borrowing and over-indebtedness of members, availability of trained personnel to man the rapid growth, borrower default and creation of a borrower database, reduction of lending rates and transparency in dealings with members, increased efficiencies, public perception and goodwill, emerging regulation and access to cost effective capital. While these issues are being addressed individually by each MFI, many of them would be

most effectively addressed through co-operation. For example: governance and transparency issues have to be handled by individual MFIs, however, a few mavericks could taint the reputation of the entire industry, even if the rest of the players are completely responsible. Indebtedness and multiplicity of borrowing are being controlled at each individual MFI; however, industry wide cooperation is essential for the effort to succeed. Training and development are being conducted by each institution with ESAF, for example, having established a separate 'Centre for Excellence in Microfinance'. However, if industry wide standards and best practice are to be established and furthered, independent training and certification institutions need to be established to train the tens of thousands of staff required by the industry. Similarly cooperation would immeasurably enhance individual efforts at addressing the challenges of regulatory creep, image building for the industry and

establishing standards that would make the industry even more attractive to lenders and investors. Finally, cooperation would multiply the industry's bargaining position with its suppliers (insurance, savings, groceries); a joint offering of access to 10million members is far more compelling than an individual MFI's offering of access to a million. Fortunately the industry now has two admirable platforms, Sa-Dhan & MFN, to further the cause of co-operative growth of the sector.

In conclusion: While co-opetition may not be required for expanding our already rapidly growing pie, it clearly is required if we are to overcome the challenges facing the industry, enhance its image and continue to serve the needs of the poor.

The author is the Chief Mentor of ESAF Microfinance and Investments (P) Ltd. and an alumnus of IIT, XLRI and Harvard Business School. He can be contacted at raphael.parambil@post.harvard.edu

THROUGH THE EYES OF THE EDITOR

Financial Literacy Should not be Restricted to Rural Areas

In India financial literacy largely means educating the rural poor and the illiterate. This approach has two pronged focus: include the financially excluded in the main stream and educate the rural masses about banks, products, services, procedures and so on. But in developed countries the thrust of financial literacy is more profound as it is linked to consumer protection. In these countries, financial literacy takes the form of guiding consumers through the maze of complex financial products, helping them in taking confident financial decisions and safeguarding their financial interests. The approach in India is not surprising given the fact that 5.7 lacs out of 6 lacs villages in India don't have a bank branch. The Economic Survey 2009-10 says that poverty ratio in urban areas is 25.7 percent, slightly lower than 28.3 percent of poverty ratio recorded in rural areas. Hence, there is a strong need to extend the efforts of financial inclusion to urban areas as well.

What will help financial inclusion is not financial literacy per se but linking people's livelihood needs with banking services. Moreover, it should aim at empowering consumers to take financial decisions. Countries like Malaysia, Singapore and Philippines include financial education as part of school education. In New Zealand, as part of financial literacy strategy, topics have been classified in to three levels everyday (financial products, services, inflation etc.) occasional (wills, mortgage) and specialist (derivatives, portfolio management etc). Due to its geographical spread and diversity in languages, financial literacy is going to be a huge challenge in India. Just as banks have started offering credit counselling services some authorities has to take the responsibility of offering financial counselling. A centralized or impartial authority should take charge of this task to assure uniformity in delivery and credibility of content.

Sony V. Mathew

contd. FROM THE WORLD OF ESAF

ESAF Celebrates 18th Foundation Day

Launches New Website and Blood Donation Forum

ESAF celebrated 18th Foundation Day on March 11, 2010. The Program held at Ollukara Society Hall was inaugurated by Rev. Sunil Chiriyankandath, Asst. Director, Jubilee Mission Medical College, Thrissur. ESAF Blood Donation Forum was also launched on the occasion. Rev. Sunil Chiriyankandath released the Logo and Directory of the Blood Donation Forum. K. Paul Thomas, Founder and Executive Director, ESAF presided over the function. Prof. Elizabeth John, President, ESAF, switched on the new website of ESAF (www.esafindia.org). Selina George, Treasurer, ESAF, distributed the Housing Construction Assistance to a few selected members of ESAF. George Thomas, Director Operations, Christudas K.V., GM HR and Admin, and Jacob Samuel, Director Health Care spoke on the occasion.

Blood Donation Forum

ESAF Head Office has constituted a Blood Donation Forum as part of their Foundation Day Celebrations. ESAF SHG Federation organized Blood Group Determination Camp and Awareness Class. The camp was led by T. Sathyanarayanan, Blood Bank Head, Thrissur Medical College.

Blood Donation Camp for HIV patients

In Central Zone, a Blood Donation Camp for the HIV positive persons was held by ESAF in association with Jeevan Jyoti Blood Bank,

ACCEPT and Rotary Club, Nagpur. 34 members of ESAF family donated blood for this cause. During his inaugural address, Anil Laddadh, President, IMA, said that the role of NGOs were not limited to providing food or clothes to a few people but to show real concern towards the people by providing sustainable development programs with full participation of the society.

Celebrates International Women's Day

ESAF branches across the nation celebrated World Women's Day on March 08, 2010. At the Head Office, Prof. Dr. V. Kochuthresya delivered an inspirational speech on women's rights and needs. The Vadakanchery branch of ESAF made the day memorable by distributing ESAF Bravery Award to Kumari Vijishna for rescuing a three year old child who fell into a canal. In ESAF Central Zone, Women's Day was celebrated at Durg Branch.

ESAF Doubles the Portfolio Size

ESAF Microfinance has doubled its portfolio by 102% to 152.8 crores for the Financial Year 2009-2010 from 75.6 crores gained in the last FY, 2008 -2009. During the Business Achievers Meet held at Ashoka Inn, Thrissur, K. Paul Thomas, Managing Director, attributed the achievement to the relentless efforts of the Field Staff. He also emphasized on the importance of maintaining a fine balance between the social and commercial goals of the company. K. Karthik of Thudiyalur (Tamil Nadu) and R. Nirmala of Colachel (Kerala) won the awards in the categories for handling maximum borrowers and loan outstanding. The company has also

ESAF Crosses One Crore in Loan Disbursement for Water and Sanitation Program

In less than 11 months, ESAF Central Zone has crossed loan disbursement of one crore in Water & Sanitation program with over 1700 beneficiaries. K. Paul Thomas, Managing Director, ESAF Microfinance, expressed his gratitude towards Damodaran, Country Director, Water.org and Jose, Manager, MFI Program, for their support. He also appreciated the efforts of the project staff at Nagpur and Bhandara.

launched a 'Diamond Circle' group on April 28, 2010, to honor those who have crossed 30 lakhs portfolio. They are given membership cards for easy identification. A total of 168 employees were selected for the Diamond Circle.



K. Karthik, Thudiyalur Branch, receiving the gift for winning the categories of maximum no of borrowers and loan outstanding (Tamil Nadu Region), from K. Paul Thomas, Managing Director, ESAF Microfinance

Three best branches of the quarter: Thoothur, Vadanappilly and Valappad

contd. FROM THE WORLD OF ESAF

Pernod Ricard Selects ESPCL as Value Chain Partner



Pernod Ricard

The Paris based Pernod Ricard, the global leader in Beverages, as part of their CSR activities, has selected ESAF Swasraya Producers Company, as one of their value chain partners for the supply of Organic Cardamom, Cloves & Zedoairy sourced from the marginal Sangam member-farmers of Idukki district in Kerala. As part of their due diligence Audrey Mascle & Jean Francois, Agronomists of Pernod Ricard and Anna Somos, Executive Director of Planet Finance (India) paid a field visit to Idukki, on March 31, 2010. Sreedharan Nair P., Chief Operating Officer, ESPCL coordinated



The Pernod Ricard team visiting the site in Idukki

their visit. 25 farmers including our Sangam members interacted with the team. They visited Cardamom & Cloves Plantations grown under total organic conditions. The visitors were really impressed and acknowledged that the visit was truly informative.

FOOD FOR THOUGHT

Are They Infants of a Lesser God?

Recently the Central Government celebrated five successful years of National Rural Health Mission (NRHM). But as per the report of an NGO 'Save the Children', there is no denying that 20 lakh children died in India this year. Amidst all the hullabaloo of a booming economy, India topped the global list of child mortality rate under five years. Nearly, 20 lakh children die every year, 50% of them in the first month. This indicates that Health Care System and NHRM are not delivering the expected results. India also tops in neo natal death cases (those taking place within four months). A large number of these deaths can be prevented if the Govt implements some low cost interventions like providing information on breast-feeding, bathing the new born etc. As per the report Bangladesh has invested heavily in training and deploying adequate female health workers to deliver care to the poorest mothers and babies. Yes, for a change the world's largest democracy has got something to learn from its tiny neighbor.

FROM THE WORLD OF MICROFINANCE

IFC and Tajikistan's MFIs Launch Country's First Credit Inform. Bureau

World Bank's financial arm, International Finance Corporation (IFC) in partnership with the National Bank of Tajikistan and the Swiss Government, launched Tajikistan's first Private Credit Bureau. Six Microfinance Institutions, four Commercial Banks, and the Association of Microfinance Organizations of Tajikistan became shareholders of Credit Information Bureau in Tajikistan, which is considered as a long-awaited component of the financial infrastructure and a crucial mechanism for expanding credit for people and small businesses.

With the bureau in place, Tajik financial institutions and other potential participants such as mobile operators and utility companies will have timely access to accountable and objective information on borrowers, which could allow them to reduce loan processing time and credit defaults and lend to more small and medium enterprises. As the next step, IFC will help Credit Information Bureau Tajikistan to select a technical partner and support its further development. This initiative is part of the Azerbaijan-Central Asia Financial Markets Infrastructure Advisory Services Project, funded by Government of Switzerland. Initiated by an IFC working group with representatives from Financial Institutions and Commercial Banks, National Bank of