

Cost–Benefit and Usage Behaviour Analysis of No Frills Accounts

By Jayaram Venkatesan and S. Thyagarajan

Financial inclusion is the delivery of financial services at an affordable cost to the vast sections of disadvantaged and low-income groups of people who have, until now, been excluded. In the Mid Term Review of Policy (2005-06), the Reserve Bank of India exhorted banks to make basic no-frills savings accounts, either with nil or low balances, widely available to a vast section of the population in a transparent manner. By November 2008, of the 342 districts identified by State Level Bankers Committee, 155 districts were declared to have achieved 100 percent financial inclusion, and by the end of March 2008, 15,788,919 no-frills accounts had been opened. At this juncture, many parties felt it important to evaluate the financial inclusion drive and the implementation of the no-frills accounts by partner banks.

Therefore, the College of Agricultural Banking (CAB), RBI, Pune and the Centre for Micro Finance (CMF) at IFMR, Chennai honed in on a district in Tamil Nadu, Cuddalore, that in 2007 had been declared 100% financially included¹. This study was designed to analyse the results of the financial inclusion project in terms of **coverage**, by geographical and other parameters, **cost**, involved in opening of accounts and maintenance, and **transactional usage behaviour**, which would allow researchers to calculate the break-even point after which banks would begin to earn revenue.

Financial Inclusion Project Results :

The CMF/CAB study found that in the wake of the financial inclusion drive, 25.3 percent of households in Cuddalore remained outside the banking net in the garb of “unwillingness” to

open an account. This population accounted for around 47 percent of the households which did not have bank accounts prior to implementation of the project.² There were large variations in terms of reported willingness and unwillingness by the banks, indicating the seriousness, or lack thereof, with which different banks participated in the household survey work. Other than reasons such as distance from banks, one of the main reasons given by the unbanked populations for unwillingness was improper administration of the household surveys. These mistakes included incorrect or incomplete recording of the survey forms and inadvertent omission of households that had expressed willingness.

There were large variations in terms of reported willingness and unwillingness by the banks, indicating the seriousness, or lack thereof, with which different banks participated in the household survey work.

According to the branch managers who were interviewed by the study team, banks that adhered to the following procedures achieved 100 percent willingness:

1. Making announcements to villagers prior to arrival of bank staff that household surveys and account opening formalities would be administered.
2. Deployment of full-time special officers from outside bank branch who gave undivided attention to the project work.
3. Involvement of the panchayat presidents and Municipal Chairman.

Account Usage Behaviour:

In the opinion of the study team, the real success of the financial inclusion drive could be measured by the actual **quantity and quality of usage** of the newly opened no-frills accounts by those previously outside formal banking channels. Perusal of a sample of accounts collected by the researchers revealed that 72 percent of the accounts had zero or minimum balance even after one year of opening. Only 15

1. Report on Trend and Progress on Banking, 2007-08, Reserve Bank of India

2. Indian Bank, Booklet on Financial Inclusion Project in Cuddalore District

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Indian Politics: How Crises affect Voter Decisions

Michael Chasnow, Consultant, CMF

With the dates for national elections in India recently set for April 13 - May 16, I have become more sensitive to articles and papers that discuss voter tendencies (particularly within India). This morning I came across an interesting paper on voters' reaction to weather crises in India, and whether government responses to such crises affect voter decisions (courtesy of a blog by Chris Blattman, a Yale Political Science professor). With weather crises, it seem like incumbent provincial governments do lose votes after floods or droughts, but that these losses can be lessened if the government provides timely and well-documented relief aid. As the paper's authors (Shawn Cole and Eric Werker of Harvard, and Andrew Healy of Loyola-Marymount), put it:

"We find that voters do indeed punish politicians following adverse weather events, but that the degree of punishment depends critically on the quality of the ruling party's response: those distributing greater amounts of relief aid suffer smaller subsequent electoral losses."

The paper I discuss above focuses on crises related to weather. On a broader level, I wonder whether the current financial crisis will negatively affect Congress in the upcoming elections. The government is definitely trying to react to the crisis both on the national level. For instance Congress has passed two fiscal stimulus packages in December 2008 and Jan. 2009 that combined amount to 3% of India's GDP, and has expanded the national rural employment scheme (NREGA). As this Reserve Bank of India (RBI) paper details on page 9, there have been several relief packages across the past 12 months:

"These fiscal stimulus packages, together amounting to about 3 per cent of GDP, included additional public spending, particularly capital expenditure, govern-

percent of the accounts had a balance of more than Rs. 100, leaving 85 percent of the new no-frills accounts essentially inoperative. One of the most important reasons for inoperation seemed to be lack of awareness among households about savings and about the uses of no-frills accounts or even the purpose of opening the bank account and obtaining the passbook. They were under the impression that having the bank passbook might enable them to government assistance schemes or result in a loan from the bank at a later stage.

Cost and Break-even of No-Frills Accounts:

Based on interviews and inputs provided by various branch managers in Cuddalore, the cost of opening a no-frills account (excluding the fixed cost at the branch) was estimated to be Rs. 50.45 per account. The cost of maintenance of a no-frills account or the cost of transaction in such accounts was estimated to be Rs. 13.40 per account. At current levels of transaction and average balance, the research team calculated that the partner banks could break-even on the maintenance costs if transactions were carried out, but not if the no-frills accounts were opened but not used. The percentage of no-frills accounts operating had to improve significantly for no-frills accounts to break-even all the costs.

Recommendations:

Key recommendations from the study include:

- Financial awareness has to both precede and accompany account opening.
- A tolerance limit for unwillingness may be fixed as an acceptable criterion for declaring a district as 100 percent financially included.
- Some of the best practices employed by banks and branches that achieved 100 percent willingness should be documented by banks and disseminated to other partner entities.
- This study should be viewed as a starting point in reviewing bank costs associated with the drive. Banks should conduct more intensive

studies to examine the costs of both opening and maintaining accounts and break-even scenarios.

Smart Cards for the Delivery of Government Benefits: Fad or Here to Stay?

By Doug Johnson

Governments around the world are increasingly experimenting with innovative ways of delivering government benefits (Bankable Frontier Associates, 2006). One such solution which has achieved prominence in recent years is the use of biometric-enabled smart cards and smart card readers. In Germany, smart cards are now used for tracking individual claims and storing medical information for all 71 million legal customers of health insurance in the country. In Malaysia, the government has gone one step further by rolling out a national smart card ID which simultaneously serves as a driver's license, ATM card, credit card, and repository of sensitive medical information. China has unveiled similar plans to introduce a national smart card ID for all its citizens.

This case study evaluates and documents a pilot project to use smart cards to deliver government benefits by technology company FINO in the state of Andhra Pradesh. In 2007, FINO, in collaboration with the state government of Andhra Pradesh and several partner banks, launched a project to deliver payments from two large government programs – the National Rural Employment Guarantee Scheme (NREGA) and the Social Securities Pensions Scheme (SSP) – via a system of smart cards held by end beneficiaries and agents equipped with smart card readers located in villages. The FINO scheme represents the first large scale use of smart cards for the delivery of government services in India's history.

The analysis reveals that, the smart card payment system resulted in greater convenience and empowerment for beneficiaries and reduced fraud at the back end. With the smart card payment scheme, beneficiaries spend fewer days waiting for payments to become available and less time waiting in line at transaction points for their payments to be processed. In addition, anecdotal evidence suggests that the use of smart cards, by ensuring that payments to female beneficiaries are delivered to the beneficiaries themselves and not their husbands or brothers, has resulted in increased women's empowerment. Further, limited evidence suggests that the smart card



Steps Involved in Disbursement: 1. Agent inserts beneficiary's card 2. Beneficiary fingerprint is read 3. Agent gives cash to beneficiary 4. Receipts are printed and signed

system has reduced levels of fraud in NREGA and SSP by a) identifying fictitious beneficiaries during the enrolment stage and b) by making it more difficult for NREGA supervisors to over-report work done.

The last half of this report describes FINO's plans to offer savings accounts to beneficiaries using the smart cards and investigate the potential for other additional financial services or government benefits to be delivered as well. Due to the current extremely low levels of access to savings products by NREGA workers and SSP pensioners, the analysis predicts that the addition of savings products is likely to have significant impact on the financial inclusion of beneficiaries. However, no other suitable services were found which could relatively easily be delivered via the existing payment system.

The full case study can be found online at http://ifmr.ac.in/cmfcasestudies/Johnson%20_%20SmartCard.pdf

Microfinance Researchers Alliance Programme (MRAP)

By Knowledge Management Team

CMF has launched a research capacity development initiative called the Microfinance Researchers Alliance Program (MRAP), funded by the Ford Foundation. MRAP's mission is to bridge the gap between practice and research, and also to provide a platform where researchers can share their research and learning. The microfinance sector in India has experienced tremendous growth in the past decades but the research community has not been able to keep stride. MRAP intends to improve the prospects for individual researchers to benefit from the research being conducted by others in the community, and for research to integrate with practice. MRAP is guided by two key objectives:

- i) Providing long-term, intensive research capacity building support to researchers in their early- to mid-career with strong research potential.
- ii) Providing a common online platform for a

wider range of researchers through which researchers can share information about current research and issues affecting the microfinance sector

Launch of MRAP

The Microfinance Researchers Alliance Program was launched on November 14-15, 2008 in New Delhi. Over thirty five Indian scholars applied for the programme, of which twenty were invited to attend the meeting. The candidates selected to join the programme bring diversity in academic disciplines such as economics, social work, regional development, finance, entrepre-



Participants in MRAP design a sample survey instrument as part of the inaugural workshop on February 21, 2009

neurship, management, anthropology and organisational behaviour, and are associated with premier institutions like IIT-Kharagpur, University of Delhi, University of Baroda, Sa-Dhan and National Institute of Rural Development.

Vijay Mahajan, Chairman of BASIX, delivered the inaugural speech in which he presented a succinct overview of the history of microfinance and rural development in India. Other eminent speakers present at the event include Dr. Nachiket Mor, member of Board of Governors of IFMR, Justin Oliver, Executive Director of CMF, Annie Dufflo, Research Network Director at Innovations for Poverty Action (IPA) and Malcolm Harper, Professor Emeritus, Cranfield University, who encouraged the candidates by presenting topical research issues, detailing existing research.

Benefits to MRAP Participants

It is envisaged that MRAP participants will benefit from workshops, research seminars,

and exposure visits that CMF will organise to support researchers in undertaking relevant, focused and quality research. Workshops will include research methodology and data collection and analysis techniques. Each participant will conduct research in partnership with a microfinance institution, thereby gaining exposure to the processes and results of practice in the microfinance sector. Additionally, MRAP will provide opportunities for researchers to share their research and engage in dialogue on current issues through a common online platform.

Launch of E-Library and E-Platform

CMF has launched the MRAP E-Platform (<http://ifmr.ac.in/cmfmrap>), a common online platform for researchers working in the field of microfinance. This website primarily promotes discussion among microfinance researchers as well encourages collaboration. In conjunction with the E-Platform, CMF has launched the Microfinance E-Library (<http://ifmr.ac.in/cmfeibrary>) as a resource for desk research. Currently, it contains over 300 research articles linked to the site in a user-friendly presentation.

First MRAP Workshop

The first MRAP workshop was organised for the selected participants on February 21-22, 2009 in Chennai. The agenda for this workshop was on training researchers to identify relevant research questions and techniques to design rigorous survey instruments. CMF Executive Director Justin Oliver and Programme Heads Amy Mowl and Lakshmi Krishnan presented on these topics and also engaged in discussion with the participants. Amy discussed "developing a survey instrument" which included various facets like defining the research objective, deciding which modules to include in questionnaires, drafting modules to ensure they met objectives and were coordinated, and designing layout. She also talked about ethical practices that researchers should adopt while conducting a survey. Lakshmi's presentation focussed on the research methodologies employed in weather insurance experiments.

MRAP's Value to the Sector

MRAP stresses on "knowledge partnerships" between researchers and microfinance practitioners to bridge the chasm between practice and research in India. The programme will build a strong network of Indian researchers working on various issues in the sector and assimilate individual knowledge into a sector-wide knowledge base.



Microfinance Researchers Alliance Program

<http://ifmr.ac.in/cmfmrap>

<http://ifmr.ac.in/cmfeibrary>

ment guaranteed funds for infrastructure spending, cuts in indirect taxes, expanded guarantee cover for credit to micro and small enterprises, and additional support to exporters. These stimulus packages came on top of an already announced expanded safety-net for rural poor, a farm loan waiver package and salary increases for government staff, all of which too should stimulate demand.”

Voter theory, and the paper discussed in the 1st paragraph on weather-related crises, demonstrates that crises typically result in the incumbent government losing votes. In the Indian context, it seems like government aid programmes can help mitigate these losses, particularly with weather-related crises. Will this idea hold with the financial crisis? Has the incumbent government’s package provided visible relief to distressed voters (such as food aid would after a flood)?

As the financial crisis by nature is more abstract than a flood that destroys the crop for a year, I am not sure how voters will react to government relief programmes. These relief packages are more indirect than food aid or direct government benefits, and accordingly I am not sure if voters will feel the affects of aid in the same way. Regardless, it’s fun to think about . . .

March 4, 2009

<http://www.indiadevelopmentblog.com/2009/03/indian-politics-how-crises-affect-voter.html>

Phoning It In: Using Cell Phones to do Daily Consumption Surveys

By Anup Roy and Emmerich Davies

In early 2006, the Centre for Micro Finance (CMF) collaborated with Village Welfare Society (VWS), one of the oldest micro finance institutions in West Bengal, to conduct a study on the impact varying repayment frequency would have on a client’s ability to repay their loan as well as their consumption and investment patterns over a loan cycle. During the third phase of the study, started in 2008, clients were randomly assigned to either a weekly repayment group or a 5-weekly repayment group.³

In addition to influencing repayment and investment behaviour, the CMF research team believed that changing repayment schedules would lead to different patterns of consumption and savings over the course of a repayment cycle. To test this hypothesis, CMF undertook a daily consumption study (DCS) that contacted 200 clients every alternate day for a month to record their consumption and expenditure patterns over a 48 hour cycle.

Why Phones?

The DCS in 2008 was essentially a replication of a similar study by CMF conducted in 2006; however this prior survey was done in-person. Although the survey in 2006 was short – on average 25 minutes – the rate of attrition among respondents was high for such a small sample size, running at 7 percent, as they tired of daily surveys. Looking to improve on this, the research team discussed other ways that could be

used to retain respondents while preserving the detail a daily consumption survey requires. Ideas that were considered included offering respondents incentives to participate, administering the survey on alternate days to ask about the previous 48 hours, and using phones to contact respondents. Eventually, the team settled on surveying respondents on alternate days using mobile phones since it provided a higher degree of flexibility that physical visits did not. Surveying on alternate days meant that the respondents could be contacted in

a phased manner, thereby allowing the team to reach a greater number of respondents in the process. Moreover, respondents could be contacted at almost any time of the day and were not restricted by surveyors’ travel time. This also meant that the team could reach the respondent’s husbands to account for any discrepancies in consumption that might have arisen.

Details of Surveying with Mobile Phones

After a brief two-week pilot that was conducted with four clients with a perfect response rate, the survey was scaled up to 200 respondents. The team administered the survey in a phased manner to two groups of a hundred respondents each, with each group being contacted on alternate days over a period of seven weeks. Each respondent was offered the option of taking two pre-purchased CDMA phones, one for the client and one for her husband, locked with a pre-determined service provider. In total, 350 phones were distributed, 200 to respondents and 150 to husbands. To ensure that respondents complied with the survey and returned the phones at the conclusion of the survey, they were offered Rs.5 for every call answered by them or their husband, deliverable upon return of cell phones at the end of the survey period.

Benefits and Pitfalls

Although using phones to survey clients raises additional costs on top of traditional survey costs, we believe there were offset by savings elsewhere. Surveyors did not have to spend time travelling to and from the field, thus eliminating travel costs and time, an important consideration when surveying in urban, traffic-ridden Kolkata. With this time saved, surveyors could reach a greater number of clients and fewer surveyors were hired to conduct the survey.

Lessons Learned

The initial goal of using mobile phones to conduct surveys was to reduce attrition and surveyor costs while increasing the speed and accuracy with which the surveys were conducted. In all these regards, using mobile phones proved to be a success. Over the entire period of the survey, only 6 calls were missed by clients who had travelled out of town. Despite the tremendous success of the survey, it may not be possible to replicate it in other contexts. Monitoring to ensure that clients retained their mobile phones was interlinked with surveying them, and as such was done at no additional costs. Moreover, phones

“Eventually we settled on surveying clients every other day using mobile phones as it provided us with a greater level of flexibility that physical visits could not.” - CMF Research Team

³ Between 2006 and 2008, VWS changed their standard loan product from a 44-week loan tenure to a 45-week loan tenure. To accommodate this, we changed our treatment group from a monthly (4 weekly) to a 5 weekly repayment cycle.

were locked CDMA phones, thereby reducing the potential to use the phones for purposes other than the survey.

Providing a small, cumulative incentive to clients to answer calls was probably the biggest factor that contributed to the near-perfect levels of participation. Surveys that seek to use mobile phones need to keep these concerns in mind while designing surveys. In particular, scenarios where regular monitoring of the use of the phones (through daily calls for example) is not possible, it is difficult for surveyors to minimise attrition among respondents since there is no other interaction between respondents and surveyors. Additionally, having pre-paid phones meant that if respondents ventured beyond the Kolkata area, they would not be reachable as roaming facilities were disabled on the phones. This eliminated the cost of the phone call but it also meant that there could be a minor loss of data. Accordingly, surveying a population that is highly transient may intensify the problem of consistently reaching respondents.

The full study is available online at http://ifmr.ac.in/cmfpolicy_memos/1.VWS.pdf

Microfinance: From Research to Practice

Report on the recent conference hosted by the Centre for Micro Finance and the College of Agricultural Banking (CAB) on January 16-17, 2009.

The conference took place on CAB's campus in Pune and was titled, "Microfinance: From Research to Practice." The objective of the conference was to facilitate interaction among prominent microfinance practitioners, bankers, policy makers, and researchers who are conducting field experiments in microfinance. The conference was organised around five technical sessions, each featuring microfinance research as a focal point.

The *Enhancing the Impact of Microcredit* session featured preliminary results from CMF's impact evaluation of Spandana's microcredit programme. The study provides an understanding of the effects of a microfinance programme at the household level and the usage of financial services in particular, which could lead to better financial services product design and the development of complementary non-financial services interventions at the household level.

The *Financial Inclusion* session included presentations that explored the results of the financial inclusion drive exhorted by the

RBI by using evidence on usage. The studies, conducted in Gulbarga district of Karnataka and Cuddalore district in Tamil Nadu, two districts that claimed 100 percent financial inclusion, revealed that in both districts a significant part of the population either remained "unbanked" because they didn't understand the need for a savings account or have been opened under the NREGS to collect wages.

The session on *Financial Literacy* included a study that aims to understand how MFI clients understand their loan contract and exactly what it means for an MFI client to be informed by assessing whether they know the terms of their loans, which aspects of their loan terms are important, and what are the implications for regulation. The presentations by representatives from the Punjab National Bank and the Union Bank of India were about how bank branch employees aimed to help inform clients about difficult-to-understand products, such as insurance or savings accounts and other financial products.

The *Optimizing microfinance distribution channels* session saw the presentation of two research studies: the first attempts to understand factors that drive household insurance demand and whether access to rainfall insurance might help households mitigate the risk of major income shocks; the second seeks to understand whether distributing insecticide treated nets for free or bundling with a microcredit loan and spreading costs over time increases take-up and improves health outcomes as well as the effect these ITNs can have on repayments and debt absorbing capacity of clients.

The *Emerging issues in the microfinance sector* session saw discussions centered on the various issues that have accompanied the boom in access to credit, among which were the recycling of debt, the need for management information systems to improve, and for a credit information system that could provide a fuller picture of where borrowers have taken out loans so that microfinance institutions do not overburden borrowers with credit. The other issue was

the growing competition which is predicted to prompt product and service innovations as MFIs will cater more to client needs.

Presentations from the conference are available at http://ifmr.ac.in/cmfp/seminars_conferences/CAB2009/2009_cab_conf.html

A Closer Look at Consolidation: The Sonata – Jeevika Acquisition

By Akhand Tiwari and Michael Chasnow

As credit in financial markets tightened in late 2008 and early 2009, many microfinance sector leaders predicted that consolidation will occur within the sector. For instance, in an article dated November 25, 2008 in the Mint, SKS founder Vikram Akula stated that "In the current environment, capital is flowing to quality and this is affecting the small and medium MFIs (microfinance institutions). Banks are lending only to large MFIs. We are in a strong position. We are holding discussions with MFIs who are facing strain and helping them by taking over their clients."

Whether it is increasingly difficult for smaller MFIs to find funding sources is difficult to verify. However, underscoring Akula's latter point, the microfinance sector has been witness to two acquisitions recently. The first occurred in August 2007, when Allahabad-based Sonata Finance Private Ltd. purchased the loan portfolio of Jeevika Livelihoods Support Organisation, a Jabalpur-based livelihood non-profit. The second acquisition occurred in the fall of 2008, when Annapurna Financial Services acquired Maxwealth's loan portfolio for Rs.193 million (approximately \$400,000). Sonata and Annapurna are both clients of Bellwether, a private microfinance equity fund based in Hyderabad.

Given the increasing prevalence of acquisitions, and predictions that such acquisitions will increase in frequency and size, CMF resolved to take an in-depth look at one of the recent acquisitions to learn more about the process and the challenges that MFIs confront during integration. Thanks to Sonata's generosity with their time and openness, CMF staff spent a full week meeting with staff in both Allahabad (Uttar Pradesh) and Jabalpur (Madhya Pradesh), and met with clients in Jabalpur whose loans were transitioned from Jeevika to Sonata. This article gives a sneak-peek of the recently concluded case study delves into the Sonata acquisition and integration process.



Delegates enjoy a technical session at the conference

SUSTAINABILITY OF SHGs CMF-NABARD CONFERENCE November 1, 2008

Guidelines for the SHG-bank linkage programme were first issued by NABARD and the Reserve Bank of India (RBI) in 1992, but the concept did not gain momentum until the end of the decade. In the movement's nascent stages, SHG promotion was organised mainly by NGOs, but as the concept gained popularity, many state governments took on an intermediary role.

The movement's initial success has attracted considerable attention from a wide range of stakeholders and some SHGs have become vehicles for other development objectives including the financial inclusion agenda of the Central Government. The advantages of aggregation and social capital are key factors that attract such actors to SHGs. However, there are quality and sustainability issues of the SBLP that still need to be addressed. One concern is that the target base approach and profit motives ignore the quality of the SHG entities themselves. Also, the approach lacks an enabling environment that can drive and expand the scope of livelihood options for SHGs.

Recognizing such key quality and sustainability concerns and questions at the heart of the SHG movement, the Centre for Micro Finance at the Institute for Financial Management and Research, Chennai and NABARD jointly organized a conference to facilitate discussions, share experiences and debate among various SHG stakeholders.

The conference was designed around four major themes -

- The trend and progress of SHGs
- SHGs as Sustainable Entities – Scope and Possibilities
- Up scaling and deepening the SHG movement- Issues and Challenges
- Issues and Challenges in Financing SHGs

The conference aimed to address these issues by bringing together practitioners, promoters, and regulators. Also, it aspired to discuss actionable solutions that could make a significant impact on the operation of SHG programmes on the ground.

Loan Portfolio Buyout versus Full Acquisition

There is a large distinction between the acquisition of a microfinance loan portfolio, whether not-for-profit or for-profit, and the acquisition of a for-profit entity, such as a Non-Banking Financial Company (NBFC). The primary difference is that purchasing the loan portfolio of a microfinance institution, as in the case of Sonata acquiring Jeevika's portfolio, is not monitored too closely by the Reserve Bank of India (RBI) although it has oversight of the transaction. On the other hand, if an NBFC acquires another NBFC, regulatory scrutiny would be similar to any other company to company acquisition for which regulatory steps would include:

- Public notice of acquisition – RBI and other regulators would have 30 days to review the acquisition to decide on its legality
- Need to file with the Registrar of Companies
- New NBFC licensing for the combined entity; NBFC licensing typically takes several months

Reasons for Partnership

Chief Executive Officer Anup Singh and Chief Financial Officer Rakesh Dubey of Sonata stressed the importance of synergy in making the acquisition decision. As Mr. Singh framed it, "What would be the key benefits of working together be? Does the acquisition make sense for both parties?" They outlined several benefits they envisioned from the partnership:

- Base for expansion: Sonata was thinking about expansion into Madhya Pradesh (MP), and now could use Jeevika's base in Jabalpur, MP to grow a business there. The acquisition would allow Sonata to skip steps in the growth process, such as creating a presence in villages and getting good staff on the ground.
- Building out senior management team: Sonata, established in 2006, is a relatively young organization that needs to add strong people to senior management. Mr. Ashish Gupta, the founder of Jeevika, and current Chief Operating Officer (COO) at Sonata, would bring a valuable skill set to Sonata and bring expertise in Madhya Pradesh.

Mr. Gupta, the founder of Jeevika and current Chief Officer of Operations for Sonata, outlined the benefits of the acquisition from Jeevika's perspective.

- Operations support: Jeevika was relatively new in microfinance, as they began providing loans in June 2006. Joining a group with about 10 years of experience, Sonata's management

team worked at Cashpor prior to starting Sonata, would be very helpful. When faced with challenges that would have been new to Jeevika, the Sonata team has often confronted these problems earlier.

- Funding: Jeevika's NGO status limited its ability to receive funding, particularly if it wanted to expand its microfinance operations rapidly. By becoming a part of Sonata, Jeevika would receive NBFC status as well as gain Sonata's experience in fundraising, which would enable Jeevika's microfinance operations to grow more quickly.

Challenges and Accomplishments

As Mr. Dubey explained, "Merging the balance sheet is not a problem, the difficulty lies in merging operations". Early after the acquisition, the new Sonata Madhya Pradesh operations (formerly Jeevika) adopted Sonata's accounting practices, but merging product and operational practices has taken more time. There are variations in product characteristics, such as repayment schedules, and in the use of management information systems to track repayment and the addition of new clients that still exist. It was thus necessary to evaluate the Sonata and Jeevika loan products and operations. Interestingly, Sonata plans on taking positive attributes from the Madhya Pradesh and Uttar Pradesh operations to create an improved and



Meeting with clients whose loans were transferred from Jeevika to Sonata

integrated end-product. For instance, senior management decided that Jeevika's 47-week repayment schedule, which takes into account holidays, worked better than Sonata's 50-week repayment schedule. Moreover, Sonata plans to incorporate Jeevika's loan repayment policy, which requires weekly repayment installments should be multiples of Rs.25 per Rs.1000 of loan. This makes the calculations easy for clients as well. For example a client can easily find out the amount of repayment if her loan is Rs.5000 with this kind of system which will be 5 times of 25.

On the financial side, the acquisition has yielded positive results for Sonata. Since the acquisi-

tion in August 2007, Sonata's loan portfolio has increased from Rs.7 crore to Rs.42 crore, a 600% jump, and the Madhya Pradesh operations have been quite profitable as well. This success has enabled Sonata to think more ambitiously about their future growth prospects, and their ability to extend into new areas to provide financial services to the poor.

The Sonata-Jeevika acquisition, being the first in the country, could be a learning case for various players in the microfinance sector. It demonstrates that similar visions of two merging organisations can be beneficial. In addition, it shows institutions investing in MFIs, such as private equity firms, that acquisitions can help consolidate their portfolios and possibly add value. For non-profit or for-profit organisations that no longer wish to continue their microfinance operations, the deal demonstrates that non profits can sell their loan portfolios, thus getting an easy exit option.

Interview with Justin Oliver, Executive Director of CMF

By Satyarupa Shekhar

Justin is the Executive Director of the Centre for Micro Finance. He joined CMF in July 2008 but the Knowledge Management Unit recently grabbed the opportunity to get to know him better.

Why did you join the Centre for Micro Finance?

Before I came to India, I'd known about CMF for several years because it has done such excellent work in microfinance. I think that CMF has a unique capability and the mission to tackle the issues that are most basic, relevant, and pressing to the sector. So when the opportunity for joining CMF arose, I took it.

What was your background in research prior to joining?

I was previously in Ghana, as the Country Director for Innovations for Poverty Action, another global research organization focused primarily on the finances of the poor. Prior to this, I worked at the Brookings Institution in the Foreign Policy department, and before graduate school I worked in strategy consulting for private equity firms. I also spent two years in Mauritania with the Peace Corps working with microfinance institutions and small enterprises.

How would you compare and contrast Africa's microfinance sector to India's?

The Indian microfinance sector is more mature

in many ways than in West Africa, in that microfinance has been here for longer, and the scale is much greater. For instance, the biggest MFI in Ghana had 60,000 loan clients while in India there are more than a hundred MFIs with more than that many clients, and several with more than a million! In India, the high population density, high repayment rates, and the rigid models employed have worked in favour of MFIs and they have been able to scale up their operations fairly efficiently. But in West Africa and elsewhere in the world, it is recognized that the poor need savings facilities, perhaps just as much as they need credit – in India, very few financial institutions that serve the poor directly can accept savings.

Can you explain why Randomised Control Trials (RCTs) are a useful methodology?

The real value of a Randomised Control Trial is that it allows you to determine which results or impacts are directly attributable to the thing – the product or the intervention – you'd like to know about, independent of all of the other factors that may be affecting the people involved. This is why it's the only method that's accepted for determining whether or not a medicine are safe and appropriate for treating ailments. For me, figuring out how to reduce the poverty and inequality in the world is just as important, and years and years of guessing about what works hasn't yet resulted in a lot of knowledge. Using rigorous methods is the best way for policy makers to get that knowledge.

Practitioners find rigorous research useful because it provides information on their operations and impact that they would have a lot of difficulty getting elsewhere. It's also particularly useful because it can be a very fast and efficient way for them to determine their own internal best practices – especially product features and marketing methods. Normally, MFIs decide what products to offer and how to market them based on their historical practices and what others are doing, and make some changes in hopes that it will work better. With a RCT, an MFI could try out multiple products or processes all at once, and learn about their relative merits which would save them time and money.

How do you hope CMF research will impact the microfinance sector?

I expect CMF research to have broad impacts on the way financial services reach poor people both globally, and specifically within India. We have a variety of different studies that should be useful for different people, from several groundbreaking studies that are looking at the basic impacts of microcredit on poor people's lives, to studies that examine specific products

or features, to short case studies that look deeply into a specific issue such as the use of smart cards or acquisitions in the industry. We saw a great example of the impact of our research last month: we've been examining the "100% financial inclusion drive" promoted by the RBI in selected districts around the country. Within a week of presenting them our results, the RBI issued a circular on the subject with recommendations to improve the programme, which is likely to impact literally millions of people. We're looking forward to continuing to work with the RBI on this.

What, in your opinion, are the major research areas in microfinance that require additional study in India?

There's a lot that needs to be done. One particularly pressing area is the role of competition in financial services for the poor. It's not clear yet whether competition will put any pressure on interest rates, or whether MFI's just compete on services, loan sizes, or for different target markets. Nor is it clear whether competition necessarily increases access to financial services for the poor, or whether it just encourages MFI's to move up-market to the less-poor. CMF would like to look at these issues.

Another area that I think it would be worth researching is the transaction costs of all sources of credit and savings, formal and informal. I think we would find that informal sources of credit exist alongside formal sources simply because they cater to very different requirements, and we have a very incomplete understanding of this.

What CMF research projects are you most excited about and why?

I'm excited about all of them and am not going to play favourites! Seriously, each of our 30 or 40-odd projects is examining a different issue and trying to answer an important question.

Regarding results, I think the findings that are just coming out from the study with Spandana are particularly interesting. We observed that the mere presence of the MFI in a neighbourhood led to a 30 percent increase in the number of new businesses created per year, on average. We also found that it increased average household spending on durable goods dramatically, and decreased spending on things like alcohol, paan, and smoking. It may indicate that the presence of credit (and presumably liquidity) gives people an increased seriousness about what they spend money on – maybe you could call it hope. We're looking forward to exploring this further.



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