MICROFINANCE *focus*

Together we learn

A monthly update on microfinance news and development

VOLUME – 2, ISSUE-1 September 2007

This issue: A Special issue on **Urban Microfinance**

Issue Articles:

- **Urban Microfinance** – efforts towards a lasting impact
- URBAN microfinance-Approach of **"we the People"**
- Urban Poverty Overtaking To Rural Poverty
- Role of technology in Urban Microfinance
- Challenges in Urban Microfinance- experience of **Bandhan**

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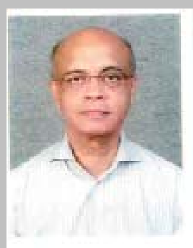
Leader's corner ……
Views on URBAN Microfinance
Mr. R. Srinivasan, CEO, Janalakshmi



…………Together We Learn…

MICROFINANCE
Focus **vol 2, issue 1** **September 2007**

IN THIS ISSUE

............Together We Learn...

From Our Desk

"It is estimated that the country will have more than 40% of its population in urban by the year 2030. While the number of rural poor decreased from 25.7 crores (257 million) to 19.3 crores (193 million) between 1991 and 2001, the number of urban poor actually increased from 5.2 crores (52 million) to 6.7 crores (67 million). Despite the large number of urban poor, most of them have little or no access to formal financial services, there is relatively little outreach of microfinance in major urban areas today…"[1]

Urban areas are bound to be centre of economic activities with a variety of micro enterprises. These Micro enterprises are more often relying on informal financial sources for their business and consumption loan. Informal sources are taking exorbitant interest ranging between 60% to 300 % annum. There is ample opportunity to provide loans through microfinance institutions comparatively at a lesser rate. They can enhance their profit through lower cost of capital and can build assets over a period of time by additional income.

Socio-economic backgrounds of urban poor people are different in various aspects than their rural counterparts. Apart from the problem of rapid urbanization, there is a huge need to generate livelihood opportunities for migrant population from rural areas. We have brought out an article on "URBAN MICROFINANCE – EFFORTS TOWARDS A LASTING IMPACT" which explains various aspects of URBAN Microfinance.

Urban Microfinance certainly needs a different approach than rural operations. The process and methodology should be built on the basis of client's needs and preferences. We are glad to bring real experiences on how to build such systems for sustainable operations in this issue. This real experience is shared by "we the People" a Delhi based microfinance organisation. Apart from these, we invited Mr. R Srinivasan to talk about Janalakshmi experience in our regular features "Leader's corner".

We have also focused that what are the key challenges for urban microfinance operations. Related to this issue, Mr. Chandrasekhar Ghosh, CEO (Bandhan, Konnagar) is sharing their organization's experience with Urban Microfinance. We tried to bring its changing scenarios, problems and opportunities of urban microfinance sector in the article "Urban Poverty Overtaking to Rural Poverty: India".
The role of technology is important in urban microfinance operations for efficient and cost effective operation. FINO has very good experience to impart technological innovation in many microfinance institutions in India. We tried to bring out theirs experiences also.

Overall, we'd like to generate an attention towards this fast growing urban microfinance through this issue. Hence we focused on various dimensions of urban microfinance. We hope that you will enjoy the issue and believe that it would be very useful for you

We greatly appreciate your feedbacks and suggestions to improve its coming issues. We hope that our readers support will continue with us. Happy readings!!!

---------- *Vikash*

[1] CARE, MSDF and ICICI bank, "A promise to Pay the Bearer – an exploration of the potential for Urban Micro finance in India", Microfinance India Publication

Article 01

URBAN MICROFINANCE – EFFORTS TOWARDS A LASTING IMPACT

By, Varda Pandey, Delhi School of Economics

MICROFINANCE – Urban poor cries aloud!!

The recourse to western capitalist ways of economic growth in the developing nations including those that are now only seemingly communist has also brought about Impoverishment to undergo a paradigm shift.

'Poverty' that is most popularly synonymous with economic deprivation is increasingly defining urban frontiers which continue to diminish its erstwhile rural habitation.

The present global urban population (3 billion) has already outnumbered the total world population in 1960, with cities being expected to total up to a staggering 550 by 2015. Cities of the developing world would therefore account for about ninety-five percent of the future world population growth expected to peak at around 9 billion in 2050. [1] The financial pulse of India – 'Mumbai City' – is alone estimated to house 33 million people with evermore challenging concentrations of penury - both economically and environmentally hard to sustain. With such a demographic makeup and the progressive urbanization of the geographies of the world the most sought after antidote to instantly mitigate the deprivations of Urban Poverty ought to be MICROFINANCE. Although the term was coined much later in the 90s in comparison to its convenient synonym 'Micro credit', the order in which they should be catered to the poor is just reverse. Micro credit can only be understood to be a subset of the larger field of microfinance that additionally accommodates savings, insurance and remittance services.

Microfinance as understood by its prefix – micro – is essentially the provision of financial services to the poor who are otherwise deemed unfit by the conventional banking network. The prefix although explains the size of a unit of commodity or service delivered (i.e. finance extended per household/individual) to be small, however it does not further propagate compensating the same with large volumes of the commodity or service being catered to the burgeoning demand from the urban poor. Urban microfinance has therefore not been as pervasive as its rural counterpart to capture the urban poor market comprising of 35-40% of population as per 2001 census of India with only a dismal 0.01% having banking relationships. The business strategy of volume-induced growth is however only a later realization proceeded by more fundamental roadblocks captured by the socio-economic composition of the urban poor.

The frequent hammering of 'liquidity constraints' taking their toll on the productive and consumptive needs of the poor reiterate the urgent demand for credit by those that are thrown out of the ambit of the formal financial services. As understood by the historical significance of the pursuit of Microfinance in rural areas, the unanimous boycott by the conventional banking avenues to cater to the demand for credit by the poor is largely driven by the seemingly irreparable information asymmetry between the poor borrower and the commercial lender. At the outset, it is a widely held belief that the poor bears a risk of default that labels him outright unbankable as per the wealth maximization principles of the commercial lenders. Although the widespread documentation of the informal channels of credit for the poor starkly brings out the callous ways of the ruthless moneylender who has power enough to exact interest as much as 300%p.a., it is ironical how the poor paying tenfold is assumed to be insolvent. This boycott of the formal financial sector for the urban poor is even more severe given his/her resource endowments, absence of identification proofs and weak community ties with his neighborhood.

The complex/elaborate documentations of retail banking for the illiterate costumer offer other deterrents to withdraw from the services of formal financial institutions. Additionally, commercial arrangements to counter the borrower-specific risk of default that primarily entail the extension of only collateralized loans is largely incongruous for the poor who do not usually have the 'guarantee mechanisms such as non-real estate-based collateral'.[2] The solution offered by institutional mechanisms like 'Social collateral' strengthened by the horizontal network of borrowers in the rural areas is however not a reliable retreat for the urban poor as large a proportion of them are migrants hailing from all around the country. Both joint liability and group lending models of the much celebrated Grameen Bank in Bangladesh cannot be as such replicated to the Urban Microfinance framework given the social and economic disposition of the potential borrower hailing from beyond the rural countryside.

Urban Poverty: a greater curse!!

To begin stating the sociological and economic distinctions between the rural and urban poor, the primary feature is the resource endowment that is instrumental in smoothening their liquidity needs. For the rural economy of India that largely remains agrarian, the resources (whenever at disposal) that can readily secure loans taken by the poor for both working capital and consumption purposes are essentially land holdings of the cultivators, standing crops, farm labor and agricultural equipments (including cattle). However the poor who migrate from the rural landscape to urban peripheries carry forward only the unskilled labor in them, which has no ready market for sale or to even offer as guarantee for meeting out their credit needs. Every element of their legal ownership i.e. village land for accommodation or cultivation is left behind to leave them with just an identity that further requires documented proof. With not even bare minimum at their disposal to manage survival, these fresh entrants to corporate ways of life are highly mobile and have no fixed or formal address which only add to the legal and service delivery constraints on accessing financial services. Moving over the preliminary identification troubles (both for the fresh migrants and the older unauthorized residents – 'slum dwellers') lead us to a different set of issues related to the predominant employment avenues of the urban poor. Majority of the population is engaged in salaried employment as opposed to the typically self-employed rural worker. Urban countryside that offers greater vicinity to industrialized regions guided by the omnipotent market forces entail far greater requisites for the establishment of a micro enterprise – elaborate documentation akin to formal credit channels, licensing requirements, greater working capital budgets due to higher cost of living. The apparent panacea for provision of financial services to the poor - Grameen Model – is a specific construct for the rural entrepreneurs that is a rare species in the urban frontiers of poverty and on the face of it would not be the methodology of interest for the largely wage earning urban poor. Another starkly visible feature of urban poverty that precludes the convenient recourse to the widely adopted Grameen banking is the transient nature of the urban poor. **Although the movement to job-prolific, market-guided urban areas is driven by a common motive for a higher quality of living across the rural migrants, the origin of movement is fairly diverse.** The pervasive group lending and joint liability methodology that works on the premise of community bonding, cultural homogeneity and mutual trust would appear to be fundamentally flawed for urban microfinance. The problem of obtaining collateralized credit which cannot be safely circumvented by the institution of 'Social Collateral' therefore calls for greater individual lending with loan cycle and repayment periods suited to the erratic wage earning of the poor borrower.

The cost structure of the institution extending microfinance to the urban and rural poor also reflects differences according to the nature of poverty being alleviated. The deterring transactions cost component of lender due to expenses on 'local presence' in the area of demand and efforts to infuse greater trust for the financial service provider is relatively assuaged incase of the urban customer base. This is because the foremost targeted slum settlements are often precariously spaced offering greater demand concentration. Also incase of individual lending practices the costs of building social capital i.e. additional staff retention schemes and training modules, are done away with. However other forms of expenditure such as provision of 'Smart Cards' as identity proof to the urban clients and skill training and capacity building for the de-skilled urban borrower deprived of an entry to the formal labor market are not lacking.

The aforementioned notion brings us to the most important need of the urban poor – skill training and capacity building - that would enable him to sustain access to credit and bring about the fulfillment of the larger objective of financial sustainability of the microfinance provider. A case in point would be **Confederation of Indian Industries' Skill development initiative launched in October 2004 in order to make "India the Skills Capital of the world"**. Training herein is output-driven and globally benchmarked and aims to make the beneficiary a part of the global workforce. Target groups are specifically the young, school drop outs who are willing to channelise their energies in income earning avenues – they are the demographic dividend that is tapped to put India on the global skills map. The directory of skills imparted under the CII initiative include among others construction (basic carpentry, plumbing, painting & decorating skills etc.), motor vehicle engineering, hospitality (basic food preparation and food service skills), hair dressing and beauty therapy.

Methodologies to be applied: No Best Practice for all contexts

As the urban context is fairly distinct from its rural counterpart as elaborated above, the methodology applied for credit extension calls for greater flexibility and modifications to the standard group lending and joint liability framework principally applied across all rural landscapes of the world.
The group lending model as built up under the Grameen movement in Bangladesh is believed to be a well suited arrangement for the rural poor who plays the dual role of a borrower and peer monitor. Since the social fabric of the village to be serviced does not undergo changes for long periods the social network and local information advantage of the poor inhabitant is capitalized for a more cost effective lending methodology. **Going only by the theoretical logic of the group lending model however the 'true'[3] practical application of this methodology has been lacking even in the rural areas of Bangladesh.** The client-base of the rural lending programme that is individually believed to be unbankable proves their creditworthiness by arranging themselves into solidarity groups that guarantee mutual (implicit) insurance[4] to all its members. The revolutionary notion of the poor borrowers having to monitor each other's repayment capacity and imposing social sanctions in case of default took the micro credit providers of the developing nations by awe. **The over-riding complacency on reduced transaction costs and a low default ratio concealed the far greater costs to be incurred on 'Group Formation' and building Social capital that would enable the 'Joint Production'[5] of credit.** A portion of the real resource costs of the lender incase of individual lending is now transferred to the borrower's side captured by the 'costs of consent' as the resource cost of establishing the group's superstructure. Regular group meetings, inducing financial discipline preferably through voluntary savings and social bonding are practices that call for implicit or explicit cost to borne by credit groups themselves, building up the primary level of solidarity. Costs at the end of the lender would be on account of secondary level of solidarity built up via creating, supporting and aligning with credit groups.
Given the above backdrop, analyzing the social and economic viability of the joint liability mechanism for Urban Microfinance would be akin to 'playing football on a cricket field'. **The culturally heterogeneous urban poor, some of whom are deprived of even the meager income for daily existence to begin with cannot be expected to bear even a fraction of the solidarity costs.** All those engaged in labor of some kind (domestic servants, taxi drivers, hawkers, rickshaw pullers etc.) are away from the place of residence for most of the day making regular communication and group meetings impossible. **Weak social connectedness among the urban poor also diminishes any kind of group effort that may earn them credit on support of joint liability and mutual trust.**
Credit in this case can be provided to individual lenders with options such as purchasing a portion of the shares of a microfinance institution, making deferred payments for the training imparted to raw labor of the poor and imposing compulsory savings to be apportioned to guarantee future loans, selling savings services to those with voluntary savings. Individual lending relies on mechanisms for self-selection and self-incentivisation mechanisms. The essential requisite for this lending technique (like the group lending model) would comprise of 'Local Presence' in the region at the inception stage to preclude any risk of default by means of social bonding between the loan officer and potential client. Solidarity between the borrower and the lender would fairly ensure the selection of motivated and sincere individuals for credit extension and further incentives such as lifelong access to credit can be instrumental to guarantee high repayment rates.
Besides the problem of creditworthiness, **legitimate identity issues can be tackled by the lender issuing identity cards or smart cards carrying the personal details of the screened borrowers** which would also help the urban poor at large to avail any other public or private services offered with his credit history documents and smart cards validating his identity.

Organizational and Operative framework: MFI's transition to Private Commercial entities

To incentivize the poor with long lasting financial services at his disposal, there needs to be financial sustainability at both the borrower's and lenders' ends. Although we understand that the lending institution's financial sustainability is explained by the repayment rates and capital cost recovery of its business (dependent largely on the financial discipline of its clients), it is additionally accounted for by its own organizational operative structure. Discussing the feasible mode of operation to accommodate the 'right' lending technique it would further be required to build around the operative frame work and effective organizational structure that brings about the optimal blend of autonomy and regulation.

Operative aspects of Urban microfinance constitute the micro credit interest rates charged to cover all costs including financing and inflation, raising finance for day to day expenses as well as scaling up activities, recruiting field staff and more importantly framing retention strategies. Addressing the issues of interest rates we dwell upon the following observation.

'Subsidized interest rates generally benefit only a small number of borrowers for a short period. Interest rate subsidies are an inappropriate use of donor or government funds because they distort markets and can encourage rent-seeking. Programs that target specific populations with subsidized interest rates have generally suffered low repayment rates, institutional dependency, and limited growth.' **Making sense of micro credit interest rates, DONOR BRIEF No. 6, September 2002, CGAP**

The above words are only a comprehensive expression for the perils of subsidized finance from donors of the developed world and the direct production of inclusive finance from the meddlesome developing country governments. The prime mover behind the 'act of charity' from the donors and governments of the world to provide finance to the unbankable population of the world is their negligible purchasing power to afford credit at market determined interest rates little realizing that the same set of people pay manifold as 'haftas' as penalty for an illegitimate identity. Market determined interest rates are only a fraction of obligations attributed to the informal credit markets, therefore affordability that has been projected as the roadblock for the poor to access formal services is only a myth. **With a burgeoning urban demand for microfinance (only 5% of the total micro credit reaches urban India) and an unoccupied playing field and competition in the form of only the informal credit providers, it is an apt opportunity for the retail financial institutions of the private sector to capitalize on large volumes and higher per unit costs vis-à-vis their business with regular urban clients.** There is greater room for hiking interest rates to cover the high transaction costs as well as those incurred to retain the motivated field staff for the higher attrition rates in cities in favor of more gratifying and lucrative jobs in financial sector. Private commercial institutions can effectively engage with partner NGOs for a share in their expenses incurred to impart skills and training to the 'unprepared' urban poor for his/her entry to the labor market.

We could alternatively make do with a **quasi-commercial setup** by allowing for a diversified stake in the Microfinance Institution of a commercial bank (for its expertise on financial management and interest rate structures), NGOs (for capacity building activities as well as sensitizing urban poor for greater financial discipline) and representatives of the target group to share in the monetary success of the MFIS brought about in part by their growing demands for credit. A part the initial capital for the operation of the MFIS can be contributed by the bilateral and multilateral donor organizations as well as the country specific governments which would guarantee them a portion of the stake too so that the regulatory activities within their jurisdiction are effectively binding. Though the stakeholders of the MFIS would not all be thoroughly commercial, treatment of the institution as a whole in terms of tax payments and corporate governance would be like a Non Bank Finance Company. With the operations on the financial aspect of the MFIS under the control of commercial financial institution we can expect innovation and greater flexibility for the design of saving and lending products that suits the cash flow patterns of the urban poor to minimize defaults and suit the respective needs of the professionally diverse urban population. The profitable lending of the microfinance provider operating under the financial expertise of a private player can in turn be capitalized to raise additional finance from capital markets and expand its stake to private investors. This would further stimulate the 'massification'[6] of the microfinance institutions that would profitably sustain themselves to add to its poor clientele and enable the existing ones to graduate to higher financial avenues. Banco Compartmos, a, Mexican MFIS launched in 1990 initially funded by grants from donors and governments is a case in point. After moving its operations as a regulated finance company in 2000 it undertook its maiden bond issue in the Mexican markets in 2002. it went on to gain authority by the central government to operate as a full service bank in 2006 and completed a landmark initial public offering of its stock that was 13 times oversubscribed. The diversified stake of the MFIS had a minority representation by private investors who benefited along with target group of borrowers, both richer by the dividend amount distributed out of only a third of the total finance raised. A major proportion was invested in the to finance the existing activities and expand operations of Compartmos NGO.

Role of governments must be redefined to exclude them from the direct provision of credit to the poor at subsidized rates only to add to the mounting nonperforming assets of the developing economy. Interest rate ceilings on MFIs and target lending programmes of the scheduled commercial banks is a disincentive that work to the detriment of the financial sustainability of these institutions. **Commercial banks that face a negative interest rate spread with imposition of administered rates and MFIs that eventually die down with cumulative capital losses further diminish possibilities of sustainable lending programmes for the poor who remain debt-trapped in perpetuity.** Governments should therefore keep away from the natural forces of the market and effective financial management of the private financial entities and take responsibility for maintaining a conducive regulatory environment for easier market entry and foster competition to provide sustainable microfinance. **Urban microfinance that would naturally be nurtured under the effective guidance of free market calls for the government to maintain macroeconomic stability by adopting appropriate monetary and fiscal policies and promoting greater capital investment for 'profitable development strategies'.** MFIs should under the legal and regulatory frameworks of the state be permitted to sell savings products to the both the rural and urban poor who are habitual of voluntary savings, to allow them to generate internal finance for its operations and extend secured loans – Bank Rakyat Indonesia is an enlightening precedent.

Regulatory and supervisory functions of the government can alternatively be outsourced to an 'apex agency' constituted of financial experts recruited from both the public and private sector that would better monitor the actions of the microfinance providers in the light of both socio-economic development and commercial viability. Running an analogy with the operations of NABARD for the upliftment of agricultural finance, a principal body likewise could be empowered to address the capital deficiency and refinancing needs of the Urban MFIs.

A sound organizational framework would also be ensured in part by requisite technical support from Aid agencies such as World Bank and UNDP on aspects such as finance, hands-on experience supporting retail level institutions and influence governments to promote pro-poor financial sector development. They can support for 'interest rate liberalization' by documenting the adverse effects of administered interest on poor people (victimized by rent seeking loan officials) and advocating for micro credit interest rates for total capital cost recovery. To foster greater autonomy, donors can choose to channelise grants to public retail lenders only if they are independent of any government control and are committed to a sustainable performance.

Concluding Remarks

Doing well by doing good: the New Microfinance Paradigm

As documented by the comprehensive review of existing microfinance literature, microfinance industry is believed to belong to the **'institutions paradigm'**[10] whereby the success of a lending programme for the poor depends on its institutional viability. This approach developed a diagnosis for the failed rural lending programme in course of the three decade long history of microfinance and claimed the following principal conclusions:

1. institutional sustainability was key to successful provision of financial services to the poor,
2. Financial self sufficiency was a necessary condition for institutional sustainability.

The above ideology is adequately conflicted by the **'welfarist'**[11] approach that argues that MFIs can achieve sustainability without achieving financial sustainability. They support donations as socially responsible equity that does not call for a necessary monetary return and advocate only for a 'banking for development' arrangement with a prime concern for poverty alleviation. Contrary to the commercially sustainable perception of cost recovery, welfarists emphasize on the depth of outreach of microfinance to reach the poorest of the poor with success being measured by social metrics.

For the case of Urban Microfinance I rest my argument on a **hybrid ideology** that attaches foremost priority to financial sustainability which once acquired in full can enable a gradual accommodation of the welfarist concerns and extend finance to poorer communities.

Endnotes

1. Rana Dasgupta "Planet of Slums" *Harper's Magazine - June 2004*
   Slums, cities, religions, poverty, inequality

2. Thierry van Bastelaer (2000) "Does Social Capital Facilitate the Poor's Access to Credit? *"A review of the microeconomic literature – social capital initiative*
   Working paper no. 8

3. True in the sentence implies that most microfinance programmes in Bangladesh that should have extended credit in a group lending framework against the Social Collateral of the borrower groups instead made loans against the future incomes of the individual borrowers that determined their weekly repayment capacities and subsequently ensures low default ratios.

4. Implicit Insurance – the borrowers within each group insure each other against the risk of any default in that if any one member is unable to pay back, the rest of the group takes up the responsibility to meet his obligation. Such an arrangement is implied by default under the joint liability approach.

5. Joint Production – members of solidarity groups do not merely exchange resources or assets as participants in a market do. Rather, individuals form groups to create assets that they could not produce individually. Therefore, the objective of group formation is joint production of a "collective good".
   - Quarterly review, (October 1996) Centre for Research into Economics & Finance in Southern Africa

6. Massification – is a word adopted from Spanish that the industry uses to denote rapid scaling-up. This word suggests that such growth has a sustained, increasing, and positive impact on poor people.

7 & 8 - Institutionist and welfarist approaches can be referred to in the,
"Microfinance: A comprehensive review of the existing Literature", *Journal of Entrepreneurial Finance and Business Ventures Vol.9 issue 1, 2004, pp.1-26*

ARTICLE –O2

Stimulating Small Businesses for Sustainable Livelihoods of Poor through Urban Micro-Finance

By, *Ajaya Mohapatra,* CEO, WTP

Rationale for Urban Micro-finance emphasizing on youth

One in three of the World's poorest people is Indian. India is a huge country of 1.1 billion people and poverty remains on a staggering scale — over 400 million people in India live below the internationally agreed poverty line (living on less than US $1 per day) and 855 million on less than $2 per day.[2] Each year over one million women and children die due to lack of health care. Only 10% of the whole Indian Population does enjoy some level of social protection, while 950 million are still excluded. In India, merely 5.1 million persons are covered under micro-health insurance schemes mainly of employees in the organised sector or their families.[3]

[2] Ending Poverty in India, DFID, 2007
[3] Workshop Report, ILO, May 29-31, 2006

According to the Census of India 2001, the urban population is over 280.5 million that accounts for nearly 28% of the country's total urban population. At the same time, the growth in urban population over the decade (1991-2001) is 31.13%. As per UNFPA's the State of World Population Report 2007, India is getting urbanized at a faster rate than the rest of the world. The report also states that 28.7 % of India's area is urban, as against the global average of 48.7 per cent. The growth rate of urban areas was 2.3 per cent in 2005, as against the world average of 2 per cent.

Several studies conducted by the Census of India, the United Nations, and the Government of India reveal that the urban population in India is increasing faster than rural population. India is projected to have almost half of its population in urban areas in 2030. In the same year, the percentage share of India's urban population to the global urban population is expected to grow to 12.39% which suggests that one of every eight urbanites in the world will be living in India.[4]

As per the planning commission estimates, in 1996-97 the urban poverty line for India was Rs.353 per capita per month. This equals approximately Rs.21,180 per household per annum. The Census of India 2001 indicates that 51% of the urban poor, i.e. 36 million out of 70 million are living in slums. According to the planning commission estimates in 1993-94 reveals that 32% of the total urban population were poor. There is an increasing contribution of the urban sector to national income. In 1950-51, it was estimated that the urban sector contribution to India's GDP was only 29%, which had increased to 47% in 1980-81.[5] According to IFMR, the urban market contributes to 62% of India's GDP.[6]

It is also important to note that Youth (15-34 years) constitute over a third of India's total population, i.e. 33.7% in 2001. As per the NSSO data, of the 309 million youth in India in 1999-00, only 59% (181 million) formulated part of the labor force. Of these, 173 million were actually employed while the balance (7.6) million were unemployed. Proportion of unemployment is highest amongst the youth in India and specifically urban males across all age groups. Around 60% of the urban youth (15-29 years) were unemployed in 2004.[7]

Therefore, it is pivotal for a country like India to address the issue of rapid growth of urbanization viz-a-viz poverty, social security and youth unemployment. In order to address this issue there is a need for the planners and policy makers to think of alternative source of employment for promotion of sustainable livelihoods for the bottom of the pyramid. It is evident that there are limited number of jobs available in the government, private and public sector which is restricted to the educated lot only. At the same time, the informal economy in India is growing at a faster rate. In India, the informal economy is still on the rise, regrouping to this day 93% of the whole labour force. The informal economy workers, who contribute to 63% of the GDP, still cannot benefit from the additional wealth they have contributed to generate.[8] Approximately, 89% of the workers in the informal economy are women, whose contributions appear invisible to state planners and policymakers.[9] Against this backdrop, it is important for the union and state governments to formulate enabling policy and regulatory framework to strengthen its informal economy for inclusive growth by creating self-employment opportunities and enabling micro-entrepreneurships among the poorer sections of the society through micro-finance, to address the issue of poverty and ever growing youth unemployment in the country. World over, more than 60% of over 60000 respondents felt that self-employment would be the most effective method of escaping poverty.[10]

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[4] Supriti (et.al.) "Urban Poverty Alleviation in India" Volume 1: A General Assessment and a Particular Perspective, Bangalore: Ramanathan Foundation 2002

[5] Malik, U.C. "A Profile of India's Urbanization Problems and Policy Issues." In Urban Problems and Policy Perspectives, Bhargava Gopal (ed.) New Delhi: Abhinav Publications, 1981.

[6] Reaching the Other 100 Million poor in India, Centre for Micro Finance, India 2006.

[7] NSSO-NSS 60th Round (Jan-Jun'04)

[8] Ending Poverty in India, DFID, 2007.

[9] Reaching the Other 100 Million poor in India, Centre for Micro Finance, India 2006.

[10] World Development Report, 2005.

According to CGAP[11], poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face. Even the most rigorous econometric studies have proven that microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to micro-insurance, poor people can cope with sudden increased expenses associated with death, serious illness, and loss of assets. Access to credit allows poor people to take advantage of economic opportunities. While increased earnings are by no means automatic, clients have overwhelmingly demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. Many studies show that clients who join and stay in programs have better economic conditions than non-clients, suggesting that programs contribute to these improvements. A few studies have also shown that over a long period of time many clients do actually graduate out of poverty.

Scope of urban micro finance

As per Census of India 2001, the urban poor comprise around 35 to 40% of the population, but only 0.01% of them having banking relationships.[12] While rural areas account for up to 95% of current microfinance outreach in India, its cities are completely un-served.[13] In spite of large network of bank branches and ATMs that exist in cities, many of the poor find their financial needs largely unmet due to lack of documentation, regular incomes, and a low degree of comfort in visiting banks for transactions. As a result, urban poor feel forced to rely on informal credit from moneylenders who demands interest as high as 10% per day from borrowers. In urban areas, lack of access to basic services and productive inputs, trading space for vendors, and skill and livelihood training further pushes the poor into poverty, in spite of their status as an essential component of the country's workforce.[14] Informal credit helps the poor to manage cash flow, particularly unexpected expenditure. Supply of this credit ranges from the infamous money lenders, pawnbrokers and relatives. The informal market offers the urban poor access and convenience. However, they pay a high price to borrow from many of these sources and end up being indebted for long period of time.[15]

In most of the world, the entrepreneurial ambitions of poor people are blocked by lack of access to credit. More than 80% of people in developing countries currently lack access to formal financial services.[16] In the informal sector, entrepreneurship is emerging as an option. Yet first generation entrepreneurs face a challenging environment due to lack of adequate funds, few entrepreneurs in the informal sector are able to sustain successful business. Without the finances and the right skills, sustenance level businesses with a vision rarely cross the 'informal sector' barrier to be integrated into the economic mainstream.

According to the Economic Census 1998[17], banks and financial institutions directly financed only 2.8% of enterprises, while 1.9% had received finance linked to poverty alleviation programmes. Thus a total of only 4.7 % of all enterprises, rural and urban received any form of formal finance. As per the estimate by the Nayak Committee[18], the tiny sector received only 2.7% of its working capital requirements from formal institutions. Obviously, the proportion of the micro/informal sector would be even smaller, since 'tiny' itself was defined as having investments up to Rs.5 Lakhs, which is far large than most informal urban enterprises. Satin— one of the MFIs working in Delhi estimated that the total population of Delhi and the National Capital Region (NCR) is at 20 million. The number of people living below US $2 is approximately 2 million.[19]

Thus, providing urban micro financial services can be a tremendous opportunity, given the gravity of the prevailing situation, existing demand and expanding market. However, it is also evident that the dynamics and challenges in the urban environment vis-à-vis micro finance are unique and distinct

[11] http://www.cgap.org/portal/site/CGAP/menuitem

[12] Reaching the Other 100 Million poor in India, Centre for Micro Finance, India 2006.

[13] http://www.msdf.org/priorities/MSDFIndiaMicrofinanceFINAL.pdf

[14] Reaching the Other 100 Million poor in India, Centre for Micro Finance, India 2006.

[15] Supriti (et.al.) "Urban Poverty Alleviation in India" Volume 1: A General Assessment and a Particular Perspective, Bangalore: Ramanathan Foundation 2002

[16] http://www.msdf.org/priorities/MSDFIndiaMicrofinanceFINAL.pdf

[17] Central Statistical Organisation. Economic Census-1998, New Delhi: Government of India, 1998.

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from rural areas. As per the market research done by WTP, it is evident that a very few MFIs are working in Delhi slums and resettlement colonies, whereas demand for micro-finance is at an ever growing scale.

WTP's Urban Micro-Finance Strategy

Rationale: In light of the above, it was a strategic decision for 'We The People' (WTP) to initiate a pilot project for its micro-finance operation in the slums and resettlement colonies of Delhi and NCR. It is due to the fact that there are ample opportunity, expanding market and huge growth potential for micro-finance in this region for promoting sustainable livelihoods and micro-entrepreneurship among poor. Secondly, comparing with the market demand, a very few MFIs are working in Delhi. Third, organisation is headquartered in Delhi and being a start-up MFIS, there is always a resource crunch at the beginning, thus integration and optimum utilization of limited human, financial and physical resources available with the organisation both at the head office and branch level is pivotal for effective planning, implementation and monitoring the programme for better outputs. At the same time, WTP can afford to experiment and innovate by taking a few risks at the initial stage. Further it can learn and improve upon, to develop a well defined operational strategy, accounting and MIS systems and procedures for urban micro-finance to up-scale elsewhere in the country.

However, it was a challenge for WTP either to adopt one of the micro-finance models, best suitable to WTP's areas of intervention or to develop a model by its own, keeping in view the ground reality. Hence, the organisation carried out market research in a few slums and resettlement colonies of Delhi and NCR, in order to understand ground realities, profiles of customers, needs and present source of financing. After an in-depth analysis, expert advice and pre-testing of various models, WTP decided to implement the 'group guarantee' model. That's how WTP evolved a unique micro-finance model specifically for urban areas, viz. "People Group Model". The fundamental principle based on which this model works is the 'group guarantee'. This means all the members of the people group provide mutual guarantee for each other and are jointly liable to repay the loan amount, in case one or more members of the group fail to do so. While working on the concept of group model, WTP has enabled customers to build the financial, physical as well as social capital in terms of group cohesiveness, extending support to each other, building confidence among the women and youth, develop business networking, etc. This process has created a social network in the local community and assisted in identifying right candidates for becoming a member based on their past credit history and credentials in the community. Thus, it helped the organisation to choose the genuine applicants, reduced risks and minimise the operational costs to offer better services to its customers with a competitive rate of interest. In this endeavor, the mentoring and advisory support received from Indus Knowledgeware, an end-to-end micro-finance business solutions company has been immensely valuable.

Genesis of WTP: WTP came into existence as a not-for-profit social venture organisation to provide institutional, financial and business development services, and to integrate socio-economic objectives with innovative business propositions and revenue flow mechanisms to promote equitable economic growth and sustainable human development in harmony with nature. Moreover, it stimulates social business enterprises through public-private partnerships for promotion of sustainable livelihoods and micro-entrepreneurship development among the under privileged people especially women and youth.

Operational features: Under the 'People Group Model', the members before availing loan, form a 'people group' of not exceeding 5 persons (male/ female separately) well known to each other and live in the same mohalla to run their businesses either individually or in their respective group, build assets, stabilize consumption, and shield themselves against risks, that are the essential elements of micro-finance. However, each borrower is entitled to receive individual loan and has the freedom to decide her/his business. At the same time, needs to repay the loan at an individually capacity in the 'People Centre' meeting.

Eight people groups from the same locality forms a 'People Centre'. These groups opt for one of the repayment options either in equated weekly, fortnightly or monthly instalments. Each 'People Branch' consists of 3200 borrowers that consist of 80 people centres. The functional structure of the branch includes a branch manager, one accountant, a MIS officer and 4 field officers. Each field officer is responsible for initiating, processing, and recovering loans from around 800 borrowers.

Products & Services: Keeping in mind, needs of the customers, WTP designed three innovative financial products viz. "*Subh-Arambh*" (start-up loan), "*Sukh-Samridhi*" (business expansion loan) and "*Swabalambi*" (micro-entrepreneurship loan) in order to stimulate small businesses by enabling customers to move from subsistence enterprises to become micro-entrepreneurs for creating additional employment, wealth and improve standard of living. While in the first year, the borrower can choose from any one of the two loan products (i.e., Rs.5000 or Rs.10000) to use it as working capital under *subh-arambh* and repay the same in 52 weeks/ 26 fortnights/ 12 months, as the case may be. As a start-up loan, the borrower has the liberty to use this amount either to start a tiny business or add to her/his existing business. Upon successful repayment of the first loan, s/he is entitled for a higher loan ranging from Rs.15,000-25,000 under *sukh-samridhi* , as a first stage entrepreneur. However, the customer can even settle her/his first loan well in advance, any time after 6 months, without paying any interest for the remaining period. Similarly, the customer can be further graduated to become a hi-flier to avail loan under *swabalambi,* ranging from Rs.30,000-50000 to expand her/his business to a greater height. One of the important features of *sukh-samridhi* and *swabalambi* is that for exceptional clients who have created strong track-records with WTP are entitled to take loan individually without a group guarantee.

The basic philosophy that guides WTP's work is to 'turn job seekers to become job creators by stimulating social business enterprises. Group mentoring and monitoring support, business oriented skills and services (BOSS) training and insurance for lives of the borrower and the spouse are the essential services offered by WTP to its customers on a regular basis.

Areas covered: WTP started micro-finance operation as a pilot project in the slums and resettlement colonies of East Delhi, having its first branch in Trilokpuri that covers urban pockets of Kalyanpuri, Trilokpuri, Kalyanbas, Khichdipur, Tcamp, Vinod Nagar and Kondli. Strategically, WTP decided to start its operation in Trilokpuri for being a centrally located Branch having a close proximity of around 2-3 kilometers from these pockets. Therefore, it is easier for the staff to monitor and track the business performance of customers and provide mentoring support on a regular basis.

Customers: WTP so far provided loans to more than 100 borrowers of Rs.1 million in a span of just two months with a repayment rate of 100%. The average age of the borrowers is around 33 years, essentially the youth population and the ratio between male and female borrowers is 50:50. WTP's customers includes mostly tiny traders including fruit and vegetable traders (either wholesalers or *Readywala*[20]), beauty salon, readymade garment shopkeepers, small transporters like Auto drivers, *dhaba*[21] owners, roadside hawkers, repair shops, internet parlour, grocery shops, vehicle spare part traders, etc.

Funding for the initiative: WTP started with a start up capital of Rs.100, 000 as promoter's contribution in 2006. Its first source of term-loan for the micro-finance programme came from the HDFC Bank who disbursed Rs.1million in July 2007. HDFC Bank has a great source of inspiration for the organisation who has believed in the philosophy, work and approach of WTP towards micro-finance.

Lessons learnt, challenges and ways forward

While initiating its micro-finance work in both rural and urban areas, WTP has learnt that micro-finance in the urban areas are quite distinct from the rural ones. In urban areas, a large percentage of the poor people migrate from the villages in search of employment opportunities. For years, either they live in slums or resettlement colonies as tenants. A large proportion while working on the trade develops skills and got separated from their employer to start a tiny business of similar types. It is evident that in Delhi around 90% of WTP's customers applied for financial support either to invest in

[20] Readywala: A person sells different fruits/ vegetables on the street, in a hand pulled four wheeler-rickshaws with a flat wooden bed.
[21] Dhaba: A dhaba is a roadside food establishment.

the existing business or to start similar petty business by their own. Thus, in urban areas people have basic minimum skills to start a business.

It is evident in Delhi that most of the borrowers were largely interested for institutional and financial support services rather than business development services. Whereas in rural areas, women groups prioritized business development services as their foremost agenda as compared to financial services. It is due to the fact that unlike urban areas, business opportunities in the rural areas are limited and a very few 'people group' members had requisite skills to start a business. Thus, these members either urged for enabling support to start a business by building/enhancing their vocational and business oriented skills or requested for a viable business proposition in order for them to start a business.

Needs and aspirations of customers in rural and urban areas are different. Hence, it is pivotal for the organization to develop a strategy based on geographical parameters.

We have learnt that business mentoring is one of the key elements for a successful start-up venture. Indus Knowledgeware therefore has been a friend, philosopher and guide as well as great source of inspiration and motivation as a mentor for WTP in this endeavor.

The risks in the urban areas are comparatively higher as compared to rural areas due to large migratory population and the existence of slums (which can be demolished at any given time, specifically in the context of Delhi). In light of the above, WTP had developed a unique urban micro-finance model, to address these issues.

Hiring of the field staff from the same locality with past experience of working in the NGO sector with good track record paid a rich dividend to the organisation. It had enabled to build a strong rapport with the community, select the right candidate for loan, ensured community guarantee and monitoring, and build confidence among the borrowers.

Transparent systems and producers for identification, selection and disbursement of loans with strong MIS, accounting and HR system are very important for a successful urban micro-finance programme. This has enabled the organisation to win the confidence of the customers and created valuable borrower base for a long time.

For a start-up MFIS like WTP, it is always a challenge at the beginning to raise capital for its micro-finance programme, even though it has a well equipped MIS, HR and accounting system, operational strategy, professionally run and managed organisation.

At present, it is a challenge for WTP to bridge the demand-supply gap. The organisation is witnessing an ever growing demand for the loan from the customers to start or expand their existing businesses in Delhi. However, due to limited capital base, WTP is moving at a very steady pace. Raising more capital to meet the demand is the need of the hour.

WTP has envisaged becoming an end-to-end micro-entrepreneurship solutions provider for the lower income groups in order to promote inclusive growth.

Leader's corner

Urban Microfinance and approach

An Interview with Mr. R Srinivasan, CEO, Janalakshmi

[Microfinance focus brought ***Mr. Srinivasan to*** *talk about Janalakshmi experience with urban microfinance .He communicated to Microfinance focus's* ***Vikash Kumar****]*

Excerpts:

MFF: What urge you to start microfinance operation which is specifically urban centric?
Mr. Srinivasan: Urban sector was neglected compared to the rural sector and new challenges presented themselves.

MFF: What is your clients profile and which target segment you are working?
Mr. Srinivasan: Our target segment is the sub-prime sector i.e., any person in the urban sector who for any reason, does not have access to bank finance. Our client profile consists of SHGs, MGGs, and individuals.

MFF: What model would do you think can work best in urban areas and what is your experience? We would like to know more about experience with individual lending?
Mr. Srinivasan: We believe that the trend would be towards individuals lending, although group lending would be important for some more time. Janalakshmi is following this approach. We do recognize, however, individual lending involves greater credit risk. We are gearing ourselves to meet this situation by adopting top class procedures and processes.

MFF: We would be interested to know of technological application for providing cost effective service? Especially we would like to know your technologic innovation with FINO and its impact?
Mr. Srinivasan: We believe that we cannot reach any significant scale of operations and lending without access to state of the art technology which would stand using good stead in the years to come. We have teamed up with FINO to establish a top class CBS (Core Banking Solution) namely. FLEXCUBE and we have also teamed up with other institutions to secure various aspects of our front end and back end technology strategy. We are certain that we cannot fulfill our high ambitions without introducing implementing state of the art technology.

MFF: What are the key challenges you experienced with Urban Microfinance Operation?
Mr. Srinivasan: Key challenges in the Microfinance sector:

a. Automation e.g. the mobile phones as payment devices.
b. Establishing proper processes / systems
c. Using existing related network to reach more clients.
d. Credit assessment
e. Offering products segmented by urban micro finance clients
f. Leveraging the resources of the mainstream financial sector.

MFF: What do you think future prospect of Urban Microfinance in India?
Mr. Srinivasan: The future for urban microfinance is very bright anybody entering this field should establish best practices in every aspect of their operation. This is vital.
MFF: What are the client preferences in terms of financial services in urban areas? And how Janalakshmi is trying to meet clients demand and preferences?
Mr. Srinivasan: Currently client preferences are in the field of simple lending provides to meet daily needs and emergencies. Janalakshmi endeavor is to meet there needs as well as more specific needs like education loans and housing loans. It will be our endeavor to provide all products/ services that are required by the urban poor.

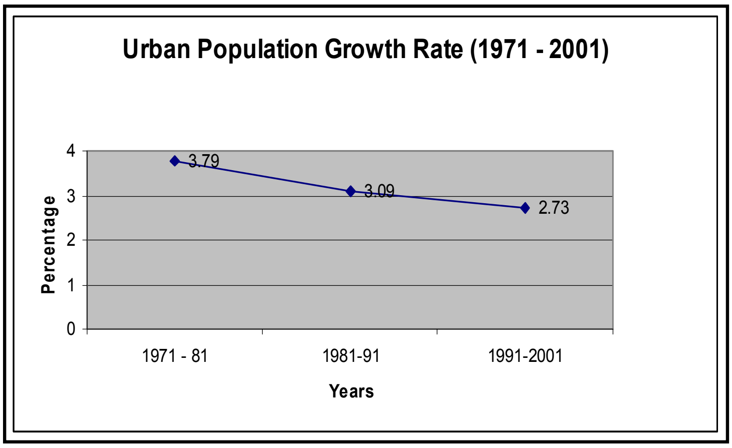
ARTICLE –03

Urban Poverty Overtaking To Rural Poverty: India

Perwinder Singh Bhatia, Associate researcher, IIM-B

Poverty in India has been the focus of many debates and policies for decades. Most of this focus has been on rural poverty issues, but urban poverty being as prevalent as it is today, seeks equal attention.
This study shows the major indicator of 'Urban poverty', how it is racing towards the rural poverty; now the days many rural people are taking interest to the cities with expectation of higher income and establishing our own businesses, indicated the migration rate which is increasing day by day and the Indian legal system is not revealing the sustain progress of work in the management of slum areas people and migration rate, which creates number of other problems to the urbanization. The people are not getting assured places, employment and any push support from the urban development authority for their livelihood.

One famous quote given by the Mahatma Gandhi says – "India Lives in the Villages", even now we have 27 percent urban population and if we compared it to the global average it is 47 percent and an Asian average it is 36 percent (Joint report: CARE,MSDF and ICICI bank). It indicated, India's growth towards the development is relatively slow and even urban population is getting down since last three decades (Graph). Source[22]



If we look at the last three decades of urban and rural poverty growth then in the urban part it revealed negative results.

25% of the country's poor live in urban areas
31% of the urban population is poor[23]

There are three main categories of urban poor which leads to urban poverty: the unemployed and laid-off workers; migrants; and, the chronic poor including the three 'No's' (no ability to work, no savings and no relatives to depend on) (DFID, 2004). In addition, there are other groups of displaced farmers, non-farmer displaced people from the process of urban renewal, and vulnerable and excluded groups such as street children, beggars and women and children that are trafficked.

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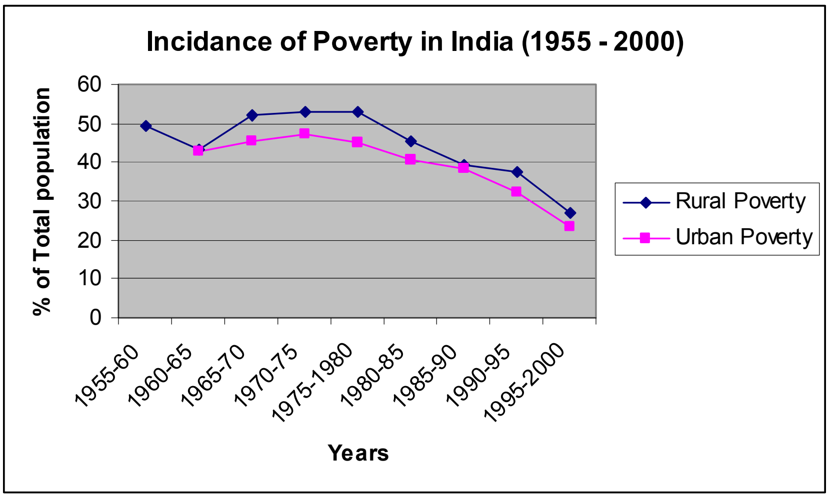
22 http://www.nationalstrategyforurbanpoor.org/yashada/html/urban_poverty/u_p_home.htm
23 http://finance.indiamart.com/india_business_information/rural_urban_migration_population_india.html



This graph stated that whereas 52.4% of rural and 46% of urban population were poor in 1970-75, in 1995-00 these came down to 27.1 % and 23.6% respectively. However, what is alarming is that while the rural poor population dropped from 261.3 million to 193.2 million during Source[24]

The cited period, the numbers of urban poor rose from 60 million to 67 million in the same period, despite a drop in percentage terms. These numbers highlight the rapid rise in the migration of the rural poor to urban locations.

Out of the1.02 billion people in the country, 307 million (or 30%) were reported as migrants by place of birth. This proportion in case of India (excluding J&K) is slightly more than what was reported in 1991 (27.4%) (Census, 2001).

Major triggers for urban poverty:

Migration: Rural to Urban

The migration of labor and business oriented people from rural to urban areas is an important part of the urbanization process in developing countries. As per of the NSS -1999-2000 about 27 percent of India's population were described as migrants and definition says 'they must have attained the migrant status of living away from home more than 60 days in the preceding ten years. By the same definition, it was calculated that 16.3 million males and 1.4 million females were migrants from rural to urban areas in connection with employment. In which 32% were self employed, 49% regular employment, 16% work as casual labour and 3% search for employment. (R. Shavan, 2007). And if we look at it one decade before then on an average 20.5 million people in India (30% of national urban growth) moved from rural to urban areas in the1990s. In the following some issues are not answerable yet:

- To what extent is internal migration a desirable phenomenon and under what circumstances?
- Should governments intervene and if so with what types of interventions?
- What should be their policy objectives?

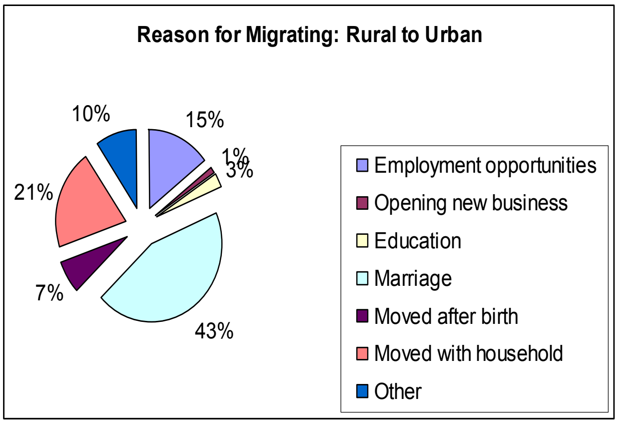
So that, in general migration restrictions is not desirable. We also need to identify some data issues and research topics which merit further investigation. (Somik V. Lall et al, 2006). Some are the major reasons for migration to the cities are as follows:

- Better employment opportunities
- High wage rates (Annexure – 1)
- Family strategies sending young adults to the city, and investing in a potentially remitting child

[24] http://www.nationalstrategyforurbanpoor.org/yashada/html/urban_poverty/u_p_home.htm

Reasons for migration (during last decade)

Total migrants by last residence (0-9 yrs)…….. 98.3 million



[Source: Census, 2001]

***Remittances*:** the migration phenomena have become central component of rural household income and other source of income. It include: the extent to which remittances provide net gains to rural households; ways in which remittances are spent; and, whether systems be devised to support investment activities from remittance funds. For the longer term there is an issue of whether flows will diminish over time, as ties between rural and urban households get weaker (DFID, 2004).

Retail boom in fruits and vegetable:

There is one study conducted in US has established increasing poverty in states where Wal-Mart has expanded operations. But in India, not a single independent study has examined the impact of organized retail on 12 million small shopkeepers, 40 million hawkers and 200 million small farmers (Sharma, 2007). There has been no scientific and economic analysis to ascertain the ecological, economic and social costs to the nation of increased organised retail activity (especially loss of livelihoods for small retailers, hawkers and farmers). Worse, not a single empirical study by an independent institute examines the impact of organised retail on poverty-stricken India.

Uses of IT services and machines in place of labor

Use of information and communications technologies (ICTs) will impact labor market outcomes in developing countries. On one hand, since ICTs are a new and rapidly growing economic sector, creating an ICT industry can generate vast employment opportunities. At one level, automating production can displace labor[25].

And some more prevailing reasons are:

1. Informal markets, land and housing market is exploitative and has several negative impacts.
2. Informal settlements on marginal land (along river-banks, railway lines, and steep slopes and on or near garbage dumps) and these are prone to be natural and man-made disasters, that status is illegal.
3. Lack of basic infrastructure such as piped water, electricity, wastewater disposal and solid waste collection by government agencies and organizations, (They have to purchase these in informal markets, often paying much more than higher-income groups) (Urban Poverty Alleviation, *Paper*, 2002).

Initiatives in alleviating urban poverty:

Since independence, Indian policy-makers are focusing on rural development in response to Gandhi's call that "India lives in its villages". This focus was also justified by the fact that agriculture is subject to high risks from dependence on nature. In response, urban poverty was sidelined because the urban poor were seen as people who had greater access to opportunities in dynamic urban systems and were therefore exposed to less serious uncertainties. The choice made was to address the graver ill first.

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[25] http://www.idrc.ca/panasia/ev-70650-201-1-DO_TOPIC.html

However, urban poverty could not be ignored for very long as urban centers and poverty within them grew. The National Commission on Urbanization recommended that the government adopt an integrated approach to address poverty in rural and urban areas. This was because rural and urban economies are interdependent and failure in any one sector will cause failures in the other sector. While the change in approach is an improvement that reflects the growing urgency of urban poverty, funding for urban poverty still lags behind the magnitude of the problem.

According to the National Commission on Urbanization, the share of municipal expenditure of the overall government expenditure (sum of centre, state, and local) was only 8% in 1960-61 and fell to 4.5% in 1980- 81. Over the same period, the urban population rose from 16% to almost 24%. As urban poverty grows, policymakers must understand that its cause is not simply unchecked rural poverty, but other causes as well (India together, 2003).

If we see on some major activities which are using by urban poor for livelihood in which first and far most important activities comes in mind is micro enterprise. Micro-enterprises of the poor provide valuable services to other poor and higher-income groups. Regulatory frameworks and market structures often restrict and hamper providers of such micro-services. For example, in the prepared food industry, instead of recognizing that the market comprises a wide spectrum stretching from high-end restaurants and precooked-packaged food to street-side food vendors, regulations in many cities exclude and discriminate against the lowest and most vulnerable end of the market. This is an unexplored area and considerable action research through pilot projects may be needed to develop its potential (Urban Poverty Alleviation, 2002)

Microcredit as an expected best tool for supporting micro enterprises and improving livelihood conditions in which some intervention strategies has been extremely successful around the world and even in the rural areas of India. NGOs around the world have led the campaign to expand banking services to the poor. There are many successful examples of microcredit programmes in rural India, but few have had a specific focus on urban India.

Most of the NGOs and other programmes facing one problem with urban microcredit programmes is that they focus too-narrowly on self-employment (India together, 2003). This too may be an outgrowth of the success of microcredit in rural areas. Self-employment is a logical path in a less populated, non-industrialized rural area. But urban areas offer population concentrations that can support industry and organised employment. According to Vijay Mahajan, while it may be true that some poor people do want to be self-employed, a "majority of poor people, particularly the poorest …want steady wage-employment…"

Mostly, urban programmes have been hesitant to get into this line of business directly, fearing the poor cannot repay. This fear of non-repayment has resulted in the design of programmes that give loans only when the capital is used to generate repayment capacity directly. But the uses for loans borrowed by the urban poor vary widely and include more reasons than income generation. The Paradigm Group study found that credit taken in slums was most often for health, social ceremonies such as marriages and housing (Table).

Loan used in slum areas

Purpose	Percentage	Average loan amt (Rs.)
Health	22.65	6130
Social ceremonies	19.95	16408
House construction/repair/advance	19.84	12506
Asset creation	12.44	9031
Household	12.32	2603
Education	7.28	3374
Trading/business	2.58	6742
Travel/visiting	1.64	1375
To pay interest of loan/release mortgage	0.82	3485
Difficulties/problems	0.47	2821

Source: India together (2003)

The government of India categorized it into three parts: Suprit, Barnhardt and Ramanathan – reflected in three waves housing, welfare and credit & employment, which are started between the periods of 1950 to 1980. Some more programmes are like Nehru Rojgar Yojana (NRY), Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP) and Urban Basic Services for the Poor (UBSP). After the implementation of these programmes, it revealed urban poverty is still thought to be a by-product of rural poverty (CARE et al)

At last but not the least, the main issues concerning the urban poor are how to improve livelihoods, provide appropriate access to services and increase the effectiveness of social protection schemes.

India needs to develop a deeper understanding of urban poverty and a solid platform for upcoming generation. Even today, as you have seen in the above paragraphs urban poor less treated than rural poor and one popular opinion wrongly believes that urban poverty is caused solely by migrants from rural areas only, who come to cities and cannot find work as easily as they had imagined due to many reason like literacy status. It is not surprising that since demographic and income data are incomplete, social data is even more scarce. This may cause policy makers to treat urban poverty as a single problem, either the result of rural-urban migration or as solely an economic problem. The urban poor should not be treated as a homogeneous group. The urban poor could be classified into destitute households (living below the poverty line and requiring social security schemes) and families with marginal incomes and minimal skills (capable of ensuring self-employment with support from the government). And need to make a strategic plane according the classification of society and the community. The classification brewing out of a deeper understanding of the context of urban poverty will result in programmes that are tailored to the specific needs of each group.

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[26] *This report has been adapted entirely from "Urban Poverty Alleviation in India : A General Assessment and a Particular Perspective" (2002), with permission. Authors: Supriti, Sharon M Barnhardt and Ramesh Ramanathan. Publishers: Ramanathan Foundation, 565, 3rd Block, RMV Extension, 2nd Stage Bangalore 560094. ISBN 81-901511-1-8*

Article 04

Role of technology in urban microfinance and approach of FINO

Ms. Ankita Jakhetia, Corporate affairs, **FINO**

Introduction

To open the discussion on urban microfinance it will be apt to quote Mr. Aloysius P. Fernandez Executive Director, MYRADA "It is not enough to teach people to fish when in most cases they cannot reach the river."

According to a 1998 publication by Paul B McGuire, John D Conroy and Ganesh B Thapa, 2.5 crores poor households in India required Rs. 15,000 crores over nine years until 2005. In a study conducted by Mahajan and Nagasri the demand for credit was found to be Rs. 9,000 per annum per household among the urban poor. In the Paradigm Group survey, average credit availed by each household was approximately Rs. 10,071 per annum in Urban India. By one study, the source of more than 93.5% of credit is from the informal sector, where interest rates are often very high. The formal banking sector provides only 0.8% of the total credit.

People in Urban areas do smoothen their consumption expenditure in face of uncertain streams by their savings in reserve. But apart from savings people in urban areas need access to convenient, liquid, safe deposit services which are protected against inflation. There is great need for retail financial services – Cheque cashing, money orders, short-term loans, remittances, insurance saving accounts and other services that promote asset accumulation.

The available sources for financial products for the poor clusters in urban areas are:

- **Credit Societies:** The number of credit societies estimated in Mumbai is over a hundred
- **Co-operative Banks:** There are on an average two co-operative banks in every slum area of Mumbai
- **Nationalized Banks:** Some nationalized banks have branches in some slums
- **Private Banks:** There are no private banks catering to this segment of society directly
- **Informal loans:** There are community loan lenders in almost all localities

Some of the major challenges which intermediaries (Local Financial Institutions)
Face can be summarized under the following headers:

The supply dilemma:

The exclusion of large numbers of the urban population from the formal banking sector may be for several reasons from the supply side:

(a) Persons are un-bankable in the evaluation/perception of bankers
(b) The loan amount is too small to invite attention of the bankers
(c) The person is bankable on a credit appraisal approach but supporting the accounts and expanding branch network is not feasible and viable
(d) High transaction costs particularly in dealing with a large number of small accounts
(e) Lack of collateral security

(f) Inability to evaluate and monitor cash flow cycles and repayment capacities due to information asymmetry, lack of data base and absence of credit history of people with small means
(g) Human resources related constraints both in terms of inadequacy of manpower and lack of proper orientation/expertise
(h) Adverse security situation prevailing in some parts of slums and other such localities

The demand dilemma:

There are several reasons for the urban poor remaining excluded from the formal banking sector:

(a) High transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses
(b) Lack of awareness and lack of social capital
(c) Non-availability of ideal products
(d) Hassles related to documentation and procedures in the formal system
(e) Easy availability of timely and doorstep services from money lenders/informal sources and
(f) Prior experience of rejection by/indifference of the formal banking system.

Role of Technology

Technology can play a vital role in addressing the following concerns:

1. **Fraud Proof Authentication**

Biometric based systems can help in customer identification without any requirement for a PIN / password as in traditional channel delivery systems.

2. **Foolproof Identity**

Biometric De-duping can ensure that there are no duplicate identities created for the same customer.

3. **Offline Transaction**

Smart card based systems can provide a highly secure off line transaction platform to run any application thereby saving on the costs associated with on line systems.

4. **Shared Infrastructure**

Technology systems can be integrated easily with existing on line channel delivery systems like ATMS, Kiosks, Point of sale etc.

5. **Shared Demographic Data**

Technology based processes ensure that there is one time collection of demographic data for a particular customer.

6. **Low cycle times**

Electronic infrastructure cycle times associated with product features like fund transfers, Cheque/Demand draft clearing and settlement are greatly reduced.

FINO value proposition

Financial Information Network and Operations (FINO) systems have been developed with a perspective of being an "Independent sectoral resource" offering low cost last mile distribution model. The solutions are on offer on a utility model "Pay as you use" concept. FINO's solution is a comprehensive solution, which encompasses three key components**:**

1. **Core Banking System (CBS)** component, which is built as a shared back end-banking engine that provides accounting, MIS, reporting and monitoring facility for all asset and liability products that the micro sector requires. The core component comprises of three sub units viz. Channel interfaces, Product Engine and Data Repository, enabling centralized data processing and data management of remotely captured transactions in the field.
2. **Distribution Component** that enables "offline" data capture from end user specific unique, biometric enabled hybrid multi-application Smart Cards. These smart cards can hold up to 15 different types of end consumer relationships (Savings, Loans, RD, FD, and non financial relationships such as health & life insurance products etc.) on a single card.

   In the field, these cards can interact with various offline channel enablers like biometric enabled Point of Transaction devices (POT), Mobile POS/PDAs etc. and existing mag-stripe based on-line networks of ATMs, PCs, POS and Kiosks. Captured end consumer field data is periodically transferred to a centralized location using connectivity options like PSTN (GSM/CDMA options are being planned).
3. **Credit Bureau Component** which enables creation of knowledge base and financial credit worthiness, credit rating profile of the end user.

As can be seen by the growing emphasis of the government on the financial inclusion and the varied needs of this sector, we now know that the rural economy has immense potential. The total demand for micro-credit around 300,000-crore. A part of this is currently met by moneylenders and the informal sector. MFIs account for only 10% of the required funds. Also there are 3161 MFIs operating in India and 90 percent of these serve less than 10,000 members. Only 2% of the MFIs reach out to over 100,000 members. In the coming years MFIs are targeting to reach out to more people to show them way out of poverty and to trigger a bout of entrepreneurship at the micro – level.

Technology is certainly a way to scale up operations of MFIs and reduce costs simultaneously. Today operational costs account for 8% of the cost of finance. Field staff takes time and money to reach out to the members. FINO smart card technology platform can help banks, MFIs and other institutions cut operational costs by one-third and save time too.

At present, 15 MFIs are live on the FINO platform. In South, Grasso, Janalakshmi, MYA, Krushi, MMFL , MAS, Kathir, Navchetna, Mahasemam, DIG Capstone, Sharada, In East, KAS Foundation, Awareness, BISWA, In West, MAS Financial services, Hindustan Co – operative and In North, SEIL. Also, Union Bank of India, Indian Bank, ICICI Bank, Corporation Bank, LIC has added few more branches and increased mandate apart from their current work with FINO. Banks are looking at individual loans, group loans apart from the normal savings product. HDFC Bank wants to bring its 2,500 groups on the network. Soon, Punjab National Bank also should also start using the Fino platform. Government of Andhra Pradesh have also become active and loaded the remittance product on the card in Karimnagar. We have uploaded around 230,000 customer accounts on the FINO smart card till date.

Here are the few Stories on the MFIs and the Banks, we are working with and how FINO technology has enabled them to achieve scale, increase reach, lower cost and made a difference in our clients lives.

KAS: KAS started with a small client base but grew at a fast pace, working today with over 25,000 self-help groups with an average of 18 members per SHG and 43,000 joint liability groups with an average of five members per JLG. Due to the large size of operations, it was no longer possible to operate with excel spreadsheets or small software MIS programs to run the operations and maintain the required degree of financial discipline and transparency. Hence, a strong need was felt to provide the direction and automate all its operations. Then, the FINO platform provided them the advanced banking and front-end technologies such as Smart Cards and biometric Point of Sale (POS) terminals and also the opportunity to introduce Core Banking Solution connecting all its offices. Since, then the KAS Foundation has been able to touch the lives of 700,000 people.

Janalakshmi: The technology solution designed by IBM and FINO facilitates online and offline transactions at affordable cost while reducing paperwork in the bidding process for traders at Safal outlets. With FINO smart cards, traders now have anytime access to the trading floor without having to carry cash and/or resort to expensive loan arrangements through money-lenders.

Sewa Bank: FINO installed and maintains the Core Banking System (CBS) which had been architecture for SEWA Bank based on I-Flex application & HP hardware. Banks like SEWA Bank face challenges in developing the required skill set to engage technology vendors & also have capital constraints. Consequently, most of such banks deal with small time solutions provider which limits the banks growth, product offering & customer services. FINO sees its role in acting as a technology provider for such banks with its ability to engage leading technology vendors to provide a robust technology system for banking needs of banks targeting the Micro customer.

UBI: The solution deployed by FINO will enable UBI to offer Savings account and Loan account services to the rural market. With these smart cards, UBI's rural customers will now have access to doorstep banking with an array of financial & non-financial services at the customer's disposal. UBI has been known for its commitment and dedication to offer innovative Banking solutions to its customers. With this association, UBI can touch the lives of many un-banked customers.

CONCLUSIONS:

1. Technology helps in developing low cost platform to enable last mile distribution. LFI have access to application service provider based model and hence majority of capital expenditure is converted into affordable operational expense.
2. Credit Analysis based on past records would differentiate various customers and their needs to offer them the distinct financial products for their benefits.
3. Ensuring that LFI comply with regulatory norms and scale their operations.
4. Technology provides easy access and quick response to the customers through the available offline on the field transactions.

Experience and learning

Bandhan and experience with URBAN microfinance

- Mr. Chandra Shekhar Ghosh, Founder & CEO, Bandhan

Bandhan began as a Capacity Building Institution in 2000 .The organization however shifted to direct credit delivery system in July 2002. Spread over 19 districts in West Bengal, 6 districts in Assam, 2 districts in Tripura, 1 district each in Bihar ,Jharkhand and Orissa , Bandhan is now reaching out to 6,83,254 poor women across its 399 branches with its head office based at Salt Lake, Kolkata.
It's cumulative disbursement & loan outstanding stands at Rs. 4950.73 Million and Rs. 1887.16 Million respectively. The organization ensures hundred percent female memberships. With its core product-micro loan, Bandhan initiates changes in the households of its women beneficiaries.
Loans are utilized in various income generating activities which also include various micro enterprise work. Credit is extended for agriculture, zari work, embroidery, animal husbandry, agriculture, crafts work, small cottage industries, small trading, rice husking, vegetable selling, horticulture, fishing, poultry, pottery, manufacture of surgical instruments, small services, small businesses and the like.

There are interesting variations observed across a rural and an urban branch. Our urban members are much more cognizant about different aspects than our rural members. Majority of them are already involved in an income generating enterprise of their own. The Adaptability Quotient is therefore high amongst these members. They are very much aware about what they are going to do with micro credit. Adaptability is however low amongst our rural members.

- A developed market for the products and services of the members is also pivotal. Our urban members have a readied market at their disposal than the rural members. An underdeveloped rural market is one of the most binding constraints of our rural members.
- The urban areas are densely populated. Larger outreach is thereby accomplished within a short duration of time and a short area. The rural scenario, however poses a different picture as our rural members' dwellings is widely distributed. The groups are therefore scattered thereby imposing a cost factor on the organization.
- Urban members demand a much higher loan size than our rural members.
- Urban offers larger and varied scopes for loan utilization of the members. The rural members, on the other hand, have to stick to some fixed type of income generating activities.

However, there are a lot of challenges that an MFIs like Bandhan faces in the urban areas. Bandhan's management team accordingly works out strategies to combat these challenges.

Migration is rampant in the urban areas of Kolkata. The chief causes of migration are that some of the members are involved in seasonal jobs. Once their job tenure is over, they go back to their places. Family dispute can be another determining factor for the migration of women to other places. Migration can pose as a real problem for MFIS like Bandhan which cater significantly to a larger section of the urban population.
Genuine identification of the members is sought by asking them to produce voter identity or ration cards. This in turn ensures appropriate selection of our members. If the member on any ground fails to produce her identification papers, her landlord is requested to act as her guarantor which the landlord readily agrees.

Majority of Bandhan's urban members dwell in colonies upon which the level of political intervention is the highest. Consequently, a lot of political related problems do arise which the Management Team has to counteract. Also during festivals, there is always a high chance for forceful appropriation of money by the local clubs, political parties and the like.

Bandhan has adopted some strategically important measures to combat competition in the urban branches. Bandhan chooses to work in areas where overlapping is not eminent. However, if some MFIs commence work in areas where Bandhan is already operating, Bandhan tries to enter into a consensus with those particular MFIs. It's the organization's objective to ensure that the credit culture is not distorted owing to unhealthy competition amongst the MFIs. It also organizes regular forums with the different MFIs to work upon unanimously decided options for the betterment of MFIs members in totality. However, it should be also added that there is a lack of legal forum for the co-ordination of all MFIs.

NEWS SECTION: RECENT DEVELOPMENTS IN MICROFINANCE

➡ Microfinance India Investment Fair to Be Held October 9, 2007

ACCESS Development Services has announced the first Investment Fair in Indian Microfinance to be held on October 9, 2007 in New Delhi, India. The Investment Fair will run alongside the annual India microfinance conference scheduled for October 9-10, 2007 also in New Delhi.

The investment fair is designed with the objective to promote both debt and equity investments for the Indian microfinance sector. It will bring emerging MFIs from all over India face to face with investors who are keen to invest in Indian microfinance, one of the fastest growing microfinance markets in the world. A technical panel on Investment in Indian Microfinance will feature speakers Geoff Davis (UNITUS), Vikram Akula (SKS Microfin), Blaine Stephens (Mix market), Vineet Rai (Aavishkaar Goodwell), Caitlin Baron (Michael and Susan Dell Foundation) and Mark Stoleson (Legatum Capital).

Read more: http://www.microfinancegateway.org/files/42477_file_MF_India_Investment_Fair.pdf

Source: Access development service

➡ Citibank India Launches Biometric ATMs for Lower-Income Clients

Citibank India hopes to reach out to the lower-income population in India with its new Pragati accounts and biometric ATMs, which operate with thumb impressions. The bank has started two pilots in Hyderabad and Mumbai and already has more than 3000 Pragati account holders. In addition, the bank has sought permission from the Reserve Bank of India to install 20 new biometric ATMs across the country.

PS Jayakumar, head of global consumer group for Citibank in India said, "Our sales force will go and seek out people in the low-income categories. They will speak the local language. They will reach out to people who do not walk in to a Citibank branch since it looks intimidating."

Apart from the Pragati bank account and its microfinance loans initiative, Citibank has tied up with the Indian School of Microfinance for Women to conduct workshops to educate customers. Citibank currently has over 250,000 active microfinance clients and plans to reach 750,000 customers by the end of 2008 through deposit accounts and loans.

Read more: http://www.online.citibank.co.in/

Source: The Hindustan Times

Morgan Stanley Creates Microfinance Group Dedicated to Serving MFIs

Morgan Stanley has announced the formation of the Morgan Stanley Microfinance Institutions Group (MFISG), the first time that an investment bank has established a group dedicated to serving microfinance institutions (MFIs). The group will provide a wide range of investment banking services to MFIs, networks and other market participants. The services will range from debt and equity capital to corporate advice, risk management, foreign exchange and derivative products. It will also structure and distribute microfinance investment funds.

This initiative builds upon two successful international capital market transactions arranged by Morgan Stanley, the BOLD CLOs of 2006 and 2007, which have placed close to US$210Mln in seven currencies with 33 MFIs in 15 countries.

Ian Callaghan, the head of MFISG said, "We believe that MFIs are no different to other financial institutions in having a wide range of needs. What we have done is to form a group which can transact at levels relevant to these institutions, as well as the networks and other key players involved in the microfinance industry. We will also be looking to satisfy the interest of our clients in investment opportunities in microfinance."

Read more: http://www.microfinancegateway.org/files/43258_file_MFISGAnnouncement07Sep07.pdf

Source: Morgan Stanley

Global Conference Explores Impact of Technology, Credit Information on Access to Finance

International Finance Corporation (IFC), a member of the World Bank Group, and the Consultative Group to Assist the Poor (CGAP), in collaboration with Visa International held a global conference called Next Generation Access to Finance: Gaining Scale and Reducing Costs with Technology and Credit Scoring, on September 17-19, 2007 at World Bank headquarters in Washington, D.C. The conference highlighted technologies used by pioneering organizations in the financial services industry, including microfinance organizations, to reduce costs and reach new customers.

Read more:
http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=A9D5EEFF45F9924E85257359005B0E7C

Source: IFC

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Resource Link of this month

URBAN poverty resource centre

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTURBANDEVELOPMENT/EXTURBANPOVERTY/0,,contentMDK:20234743~menuPK:478480~pagePK:148956~piPK:216618~theSitePK:341325,00.html

Research Report

The nation-wide study on expanding microfinance delivery to urban India, jointly sponsored by CARE, ICICI Bank and the Michael & Susan Dell Foundation

http://microfinanceindia.org/Docs/Urban%20Microfinance.pdf

Articles

Microfinance in the Urban Environmental Development Perspective

www.unep.or.jp/ietc/focus/Microfinance-interlinkages.doc

Microfinance - a sustainable tool for urban poverty alleviation

http://www.socialenterprise.net/pdfs/MicroSustainPovFIN.pdf

Microfinance in Urban Settings

http://siteresources.worldbank.org/INTLACREGTOPPRIVSEC/Resources/MicrofinanceinUrbanSettings.ppt

Urban poverty
http://www.sscnet.ucla.edu/issr/csup/
Urban Poverty and Vulnerability in India

www.dfidindia.org/pub/pdfs/**urban**.pdf

For Urban Microfinance Specific Investment Fund

The Michael & Susan Dell Foundation

To know more about: http://www.msdf.org/priorities/MSDFIndiaMicrofinanceFINAL.pdf

The Bellwether Fund

To know more about: http://www.bellwetherfund.com/

NB. List is just indicative, not exhaustive

ABOUT MICROFINANCE FOCUS

Microfinance Focus is unique kind of initiative for the microfinance sector. We are Passionate about using microfinance as a tool for promoting sustainable and holistic growth. Microfinance Focus is fortunate to have some of the most talented people assisting spread ness of microfinance knowledge and awareness. Our team includes specialist researchers, livelihood expert, operation and project veteran experts, trainers and facilitators.

The Advisory Board is a national group of experts specializing in various aspects of microfinance, micro enterprise and development sector. Our advisory board consist a group of experts in Micro insurance, Risk management, SHGs, livelihood promotion, micro enterprise development and management information system. The Advisory Board provides ongoing assistance to the Team on issues of policy, management, quality up gradation of our publication "Microfinance Focus" and leadership guidance.

Vision

To evolve as aknowledge and communication hub with a major focus on Micro finance for holistic and sustainable development in India.

Mission

To promote microfinance and micro enterprise development and its sound practices in India.

Objectives

- The purpose of the "MICROFINANCE FOCUS" is to address the social and business aspects of microfinance development, and to play a promotional role for fulfilling the larger goal of poverty reduction and livelihood enhancement.
- The communication channel (MICROFINANCE FOCUS) will play a catalyst role to attaining targets of millennium development goal (MDG) of UN.
- The purpose of this monthly is to inform about various developments from the field of microfinance world and engage in an open dialogue with different stakeholders of this sector.
- The magazine will seek to further an integrated approach to the work with various microfinance, micro enterprises development institutions, educational institutions, government departments, international body, company and research organizations whose primary focus is on microfinance development.

Focus issues

- Micro, Small and medium enterprise development
- Management aspects in microfinance
- Capacity building and training
- Microfinance research
- Micro franchising
- Micro insurance
- Livelihood finance
- Advocacy on policy issue
- Technical assistance and computer application in microfinance operation

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How to access previous issues

- If you are Member of **Solution Exchange's MF community**, you can directly download our previous issue from its community update.

  Link to solution exchange community:
  http://www.solutionexchange-un.net.in/subscribe/index.php?comm=MF

- Alternatively you can download it from the website of "**Microfinance gateway**".

Vol1, Issue 12 http://www.microfinancegateway.org/content/article/detail/42948
Vol1, Issue 10 http://www.microfinancegateway.org/redirect.php?mode=link&id=41586
Vol1 Issue 9 http://www.microfinancegateway.org/content/article/detail/40219
Vol1, Issue 8 http://www.microfinancegateway.org/content/article/detail/39225
Vol1 Issue 7 http://www.microfinancegateway.org/content/article/detail/39450
Vol1 Issue 6 http://www.microfinancegateway.org/content/article/detail/39449
Vol1 Issue 5 http://www.microfinancegateway.org/content/article/detail/37769

- Or you can write us at : vikashkumar12@gmail.com

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.........Together we learn..........