A key and almost axiomatic belief in our work on creating access to financial services is that almost all regions of India possess a set of economically viable occupations (such as buffalo rearing, running a rural provision store, fruit and vegetable vending and engaging in simple home-based craft) that even the very poor can almost immediately engage in without the need for any specialized inputs or skill building. Since these occupations essentially rely on public goods (such as public grazing lands) to provide raw materials and “in-home under-employment” to provide labor, at the margin they have very high rates of return—well in excess of 100 percent per annum (Helms and Reille 2004).

An important guiding principle is that the only input required to leverage these sets of economic opportunities is access to basic financial services, which include savings, credit, insurance and tools for risk management. This is in contrast to the view that access to financial services can impact poverty alleviation only if accompanied with other complementary inputs, typically training and skill development interventions. For example, micro-loans (typically amounts less than USD 250 per household), in a region as poor as the Mirzapur District of
Uttar Pradesh, can allow families, too poor to afford even two meals a day, to start with extremely low-skilled occupations such as buffalo rearing and gradually reach a level where they can afford minimal meals and withdraw their children from the workforce for attending school. Even where the micro-loans are not used to finance new income generating activities but to refinance higher cost debt, this immediately releases new resources for the household to finance existing consumption or incremental production activities. Micro loans also provide an important source of liquidity to meet fixed commitments (such as school fees) despite income flows being extremely seasonal.

The pathway to universal financial services access

IF ONE ACCEPTS the premise of the centrality of “access to finance” in providing a pathway out of poverty for several households, then the first challenge to be addressed would be how such access may be universalized with every individual being able to avail a basic set of financial services. To provide this access, the following steps appear necessary (Mor 2006):

1. Development of a network of community based financial institutions, which have the ability to provide these financial services. This network of institutions could include Cooperative Banks, Non-Banking Financial Companies (NBFCs), local bank branches of commercial banks, Civil Society Organizations or Producer Cooperatives, as the case may be. The requirement is that these institutions are able to develop operating models that draw on local information and operationalize sufficiently low cost structures that make the business of serving the poor sustainable over the medium term. Within India, the belief is that a network of over 200 such entities, each with the capability to serve a million households, would be needed (Ananth et al 2004).

2. The participation of one or more main-stream financial institutions that are willing to partner with these entities to provide:
   - Financial resources for on-lending: ICICI Bank’s Partnership Model is an example of a financing model that uniquely leverages the local presence of these entities with the ability of the bank to diversify risk and provide wholesale lending funds in large quantum.  
   - Access to equity capital for growth.
   - Direct links with capital markets as the entities mature (www.gfusa.org/programs/india_initiative/grameen_capital_india/).
3. Creation of an enabling environment that can support the continued growth in the number of entities that make up this network in India. The following steps have thus far been taken in India in this pursuit:

- Creation of Venture Capital Funds engaged in the task of identifying and providing equity finance, and mentoring new entrepreneurs desirous of creating such entities. This combined with Takeout Finance where a bank is prepared to automatically partner with a successfully created entity and permit it to repurchase the equity invested by the Venture Capitalist (VC) at a pre-agreed minimum rate of return to the VC. Once the process of creation is successfully completed, mezzanine equity of the type provided by ICICI Bank’s Partnership Model referred to earlier is a cheaper and a more appropriate source of equity for successful entities relative to equity capital being provided by VCs.
- Creation of specialized institutions such as the Centre for Micro Finance (CMF) at IFMR (www.ifmr.ac.in/cmf) and the Centre for Insurance and Risk Management (CIRM) IFMR (www.ifmr.ac.in/cirm) and the Centre for Innovative Financial Design at IFMR (www.ifmr.ac.in/cifd) to provide research and product design capabilities both at a basic level and at an advanced level.
- Launch of FINO, an Application Services Provider (ASP) that seeks to provide front-end (smart card, point-of-sale terminals), back-end (banking software, performance management and reporting, MIS) and information services (credit bureau) to these institutions (www.fino.co.in). This architecture of technology ASPs enables micro-banking operations to enjoy the same transaction quality and cost as is the case with a large bank.
- Launch of MicroFinanceJobs.com to provide access to human resources to these entities so that their expansion is unconstrained (www.microfinancejobs.com).
- Regulation that permits the use of business correspondents for extending access to basic banking operations.

It is expected that with these three broad strategies it should be possible to scale the access to finance quite rapidly. In the case of ICICI Bank in India, operating with this three pronged approach, it has catalyzed the creation of over 100 micro finance partners and in three years has been able to go from USD 1.2 million in micro-loans extended to about 20,000 clients to over USD 522 million being provided to about 3 million clients in a three-year period (www.icicibank.com and Anand 2006).

Addressing other missing markets

FINANCIAL SERVICES for the poor have long been considered a “missing market” owing to the information constraints that characterize it. Once the “access to finance” challenge has been overcome through the mechanism described in the previous section (and even while it is in the process of being overcome), the belief is that most of these households would be able to come up to a minimum level of subsistence. A basic premise of the first phase of work described earlier, is to let individuals choose a set of activities based on their capabilities and the context in which they operate and focus exclusively on the rapid universalization of the provision of financial services. However, it is very likely that such households would continue to be poor and therefore vulnerable to even moderate levels of
systemic shocks to their economic environment (Khanna 2006). This is when “missing markets” in other services for the poor start to become important. These may be in several areas including skill building, quality control and productivity improvement.

In our view taking clients to the next level of economic activity needs a much more concerted effort and one that builds on the fact that a large population of economically active poor now have access to basic financial services and have “revealed” their preference for certain activities. The challenge is to build effective linkages to mainstream markets. For example a majority of microfinance clients are engaged in dairying. Given this, any intervention in dairy productivity enhancement, while being consistent with a bank’s business objectives, also provides access to such services to those clients that have already indicated their willingness to undertake this activity. Along the same lines, it may now be possible to think of other interventions that, while not being distortionary, improve value realization within the occupations that individuals are already engaged in. The fact that clients are willing to pay for these value-added services by taking loans provides a powerful signaling device to providers. Traditional models of technical assistance and livelihood development are unable to resolve whether the phenomenon of clients not paying for the services delivered is due to affordability constraints or lack of perceived value.

Towards this goal of addressing missing markets for livelihood services to clients, one promising strategy appears to be to complement the existing work of MFIs in financial services access with supply chain strengthening for various activities that the same client group is engaged in. One such architecture is being innovated by the IFMR Trust’s Network Enterprises Fund (www.ifmrtrust.co.in).

IFMR Trust is creating a series of specialized “Network Enterprises” (NEs), which will be able to improve producer realization within specific value chains. Network Enterprises will be prioritized in areas that can add targeted services to the livelihood that clients are already engaged in. Each of these NEs will address specific supply chain problems and ensure adequate supply of finance by making available to banks opportunities for structured debt.

There are other opportunities for MFIs to positively impact client livelihoods. A couple of these are detailed below:

1. Developing carefully structured partnerships between grass-roots organizations and large companies so that at terms of trade that are fair, inputs such as commodity marketing and hedging services, cattle feed supply and fruit and vegetable procurement services can be provided to the clients of these grass-roots organizations.5 Once again, the belief is that clients will be willing to pay for these services if the links to price realization are directly apparent. The scalability of micro-enterprises of micro finance clients is often limited by credit constraints faced by the individuals/enterprises higher in the value chain. Business models to provide finance to Small and Medium Enterprises on a very large scale might serve to increase the market potential of the entire chain.6

2. Working closely with micro-finance institutions (MFIs) and other grass-roots organizations on health and productivity interventions that are paid for directly or indirectly by the MFI’s client. Examples of interventions in this category include distribution of smokeless cooking ovens, treated bed nets and iron pills to cure anemia. While these have been viewed as important interventions for several years, the mechanism of distribution through MFIs has the advantage of being able to meet financing requirements to pay for these interventions as well as leverage the high frequency of client contact that MFIs enjoy.

The belief in all these cases is that in order to provide these “goods and services” at a scaled level and to actually deliver value to both ends of the supply chain, highly competitive and large entities would be required which would seek to link small rural producers and service providers with some of the largest markets in the world. MFIs represent an important customer aggregation channel but may not be effective as a multiple services provider.

Conclusion

In the preceding paragraphs it has been argued that there exist a set of market-based approaches that have the potential to address poverty on a scaled basis. At the heart of this approach is building universal access to financial services as a starting point. It is suggested that such access is best provided in a commercial and sustainable manner through creative partnerships between banks and a network of local financial institutions. The information gained from observing the unconstrained livelihood choices of clients, the scale of financial access created and the implementation capability of local financial institutions then provide the unique opportunity to conceptualize well targeted livelihood enhancement interventions for this population. The belief is that interventions that build systematically on an “access to finance” component and subsequently include an “access to markets” component have the potential to provide large positive income shocks. The appeal of this approach is that it is fundamentally rooted in a commercial proposition both for the participating client as well as for the service providers. Therefore, the promise of scalability is higher than in traditional grant-led livelihood development programs.

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A more comprehensive version of the article with a complete list of references is available at WBI’s Business, Competitiveness and Development website: www.devandbiz.org.
Lessons learned

ONE KEY LESSON from this project shows that health and non-health-related organizations and individuals can be motivated to participate in health-related social responsibility activities. In presenting an effective proposal to a prospective SR partner, it is essential for the partner to understand that the partnership is mutually advantageous.

The impact of Takamol’s SR activities has been enhanced by its relevance to the various components of the Takamol integrated model, which provides a mutually-reinforcing structure for SR at the community, governorate, and national level.

Stakeholder benefits

THE TAKAMOL PROJECT has mediated a range of successful health partnerships in Egypt. In these partnerships, each stakeholder reaps benefits. For example, in the case of Barclays Bank Egypt, the people of the urban poor area have benefited from a clean, well-equipped clinic that provides quality care.

Meanwhile, Barclays has benefited through its exposure to new potential clients, through contributions that have been efficiently and effectively used and had measurable impact. In addition it has an enhanced reputation as a socially responsible business.

 Everybody wins!

THE VALUE CREATED for all parties when social responsibility programs are implemented is enormous. The Takamol project has successfully started a trend that an increasing number of businesses and individuals are now following. At a recent CSR conference in Cairo, Barclays Bank Egypt’s Finance Director made it very clear why his organization became involved in CSR with the Takamol project, and why others should also. In summarizing he simply stated, “because everybody wins!”

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References

Endnotes
2 Centre for Micro Finance at IFMR in Chennai, India (www.ifm r.ac.in/cmf) is engaged in the task of researching this carefully. Data on the Indian micro finance market are hard to come by. One estimate puts the demand for these basic micro-loans with an average size of no more than USD 200 per loan at over USD 20 billion annually in India with close to 100 million households without access to these loans.
4 ICICI Bank has recently tied up with three venture capital funds to extend seed capital to start-up microfinance institutions. These three funds include,Bellwether Microfinance Fund (www.bellwetherfund.com), Avishkar-Goodwill Fund (www.avishkaar.org), and Lok Capital fund (www.lokcapital.com).
5 One such example is the partnership between ICICI Bank and Spandana, wherein, with the help of the Bank, Spandana negotiated with different cattle-feed companies for improving the yield of buffaloes and therefore the income of poor households. For more details refer http://ifm r.ac.in/cmf/newsletter/CMF-EOMF-01.pdf.
6 IFMR has set up the Small Enterprise Finance Centre (SEFC) (www.ifm r.ac.in/sefc) to overcome the limited and untimely access to finance for SMEs.