

WHAT WORKS: UJJIVAN'S DUAL APPROACH TO MICROFINANCE

Innovative solutions for
delivering financial services
in urban India



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Foreword

What Works: Ujjivan's Dual Approach to Microfinance is part of a series of cases conducted by the Centre for Micro Finance at the Institute for Financial Management and Research. The purpose of the case studies is to identify innovative practices among MFIs operating in the urban space, particularly strategies for broad basing their clients, financial services offered, and community involvement. The study presented in the following pages provides an in-depth look at how Ujjivan integrates a strategic approach to overcome operational challenges in the urban space. Information on the case studies of other MFIs included in the series is available by contacting the Centre for Micro Finance in Chennai, India. The Centre's web site is ifmr.ac.in/cmfi.

Overview

As more entrepreneurs enter the microfinance market, the lessons learned from some of the recent players become useful in the decision-making process. Even if a microfinance institution (MFI) enters the market for socially responsible reasons, the long-term viability of the microfinance program is eventually determined by its profitability. Determining cost and revenue drivers is vital to ensuring that resources are appropriately allocated, costs are fairly assigned, and pricing strategies accurately reflect profitability goals. Once a MFI is convinced that the net operating margin of microfinance products is viable, the challenge becomes growing the volume so that net income as well as outreach and impact are also significant.

Ujjivan's target market posed a unique set of challenges for the company. Its intended customers are urban, low-income women who are salaried or self-employed. To carry out its mission of providing a full range of financial services to these customers, Ujjivan faced three fundamental challenges:

- » **Developing a range of products that truly meet urban customers' financial needs.** Many MFIs, in rural and urban areas alike, expect the poor to use microcredit primarily as an income generation tool. As a result, these organizations are unaware of the true usage of credit extended to the poor, particularly to salaried women, who often require loans to supplement their incomes for a variety of purposes, including making home repairs, paying school fees, medical expenses and lease payments, planning social and religious functions, and repaying high-cost debt to moneylenders.
- » **Establishing groundwork for when group-based lending is no longer viable in the urban environment.** As loan sizes increase to meet urban women's increasing demand for housing or children's higher education, the group guarantee mechanism may no longer apply; a woman's peers may be unwilling to cover a loan of Rs. 15,000, for example. As a result, when a specific ceiling is reached—that is, the point at which group members will refuse to guarantee upwards of a given loan size—the need for individual loans naturally arises.
- » **Difficulties managing distribution and operational efficiency in an urban setting.** The tasks of sourcing and managing human resources—particularly field staff—finding space for meetings, and establishing conveniently located branches while reducing costs to achieve efficiency, are increasingly more difficult in rapidly changing cities. Operating in an urban environment places various strains on the company's resources, while growing demand pressures the MFI to resolve these issues to serve as many clients as possible.

Currently, few MFIs in India have been able to address these challenges in the urban context. There-

Jyothi started a home-based vegetable business to cater to friends and locals in her neighborhood. With a business loan from Ujjivan, she has been able to expand her business by buying larger volumes of stock. She now can benefit from a turnover of approximately 3 days, where she buys Rs. 4,000 worth of vegetables and earns nearly Rs. 4,300 by selling to locals. Therefore, Jyothi earns an average income of Rs. 100 per day, which she is reinvesting in her business. Her daughter, 18, is still in school, and Jyothi places a great deal of importance in sending her to school, which costs about Rs. 150/month. In order to cover all other household and business related expenses, Jyothi's husband, a worker who recycles waste oils, continues to borrow from local moneylenders. The amount of his borrowings remains unclear, since the subject is not discussed with Jyothi. She is committed, however, to doing the best she can for her family, along with help from Ujjivan. Jyothi is considering taking a larger loan to help further expand her business.



fore, Ujjivan has decided to design its own solutions, under the aegis of the Grameen Bank¹. Though Ujjivan will operate as a Grameen replicator, the company is working to adapt the model to the conditions of poor urban women in India. This partnership has allowed the company to focus its efforts on day-to-day operations while designing products to fit its customers' needs and lifestyles. In addition, Ujjivan's promoters have been keen to work through India's homegrown model of micro-finance by lending to self-help groups (SHGs). The resulting solutions employ a two-fold market-led approach, drawing on the financial expertise of the company's promoters and business partners, and taking advantage of modern-day retail banking technologies to enhance Ujjivan's business.

Introduction

MOTIVATIONS

The idea of Ujjivan came out of the need for a MFI to serve the low-income population in urban environments. Many of the urban poor may be more affluent compared to their rural counterparts, but they still have trouble accessing financial services. In spite of the large network of bank branches and ATMs that exists in cities, many of the urban poor find their financial needs largely unmet. This can be attributed to such circumstances as a lack of documentation, irregular incomes, and a degree of discomfort in visiting banks. From the banks' point of view, the customers are often not viewed as profitable, given the small scale of their transactions. In fact, the poor in cities often feel forced to rely on informal credit from moneylenders that can demand interest rates as high as 10% per month.

Given that most MFIs have concentrated their operations in rural areas, Ujjivan views the untapped urban market as an opportunity to expand and make profit. In 2004, a group of former bankers joined with various microfinance professionals and experts to develop a company that combines successful models in microfinance with technologies and efficiencies in modern retail banking. In collaboration with Grameen Bank, Ujjivan will pilot its model in Bangalore, and expand to serve the poor in cities across India within three years. Ujjivan aims to "provide financial services to the economically active poor, to enable them to lead 'a better life.'"

THE URBAN MARKET

From various sources of market research, Ujjivan's estimate of India's urban population consists of 106 million people, which is just over 10% of the country's population. The urban market is expected

¹ A pioneering MFI in Bangladesh that has attracted worldwide attention because of its innovative and highly successful group-based lending program.

to grow to over 600 million by the year 2030, with the urban poor making up a significant portion of this growth². Scarce access to microfinance by the urban poor presents a significant challenge. There are many MFIs active in rural India, but a limited number operate in urban areas. According to the 2001 census of India, the poor in Bangalore are estimated at 2.28 million within the city's total population of 6.5 million³. Not surprisingly, the urban poor comprise 35-40% of the population, but only 0.01% of them have banking relationships. This can be difficult to understand, given that the urban market contributes to 62% of India's GDP. Thus, there is a considerable need to address this segment, given the lack of attention from mainstream financial institutions and most NGOs and MFIs. Even if Ujjivan only targets economically active poor women in Bangalore, about 20% of the city's estimated poor, the company will be attempting to serve approximately half a million clients.

FORMING UJJIVAN'S STRATEGIC FRAMEWORK

Ujjivan formed a relationship with the Grameen Bank to help explore India's microfinance environment, while benefiting from the teachings of the sector's pioneering institution. Having a productive relationship with this important stakeholder, as a Grameen replicator, would enhance the company's reputation as a new MFI. This reputation would improve leverage in urban marketing campaigns and be an asset in relationships with government officials and financiers. At the same time, Grameen would benefit by having its model successfully adapted to India's urban environment.

Ujjivan

BUSINESS STRATEGY

Ujjivan has implemented a short-term strategy allowing poor women to access newly available financial products and services. First, the company conducted market research in potential communities in order to understand urban customers' profiles, needs, and current alternatives to obtaining financing. Second, it provided financial incentives for locals from the targeted communities to join Ujjivan as Customer Relations Staff (CRS), helping the company to make inroads into the urban market, particularly in slums. Next, Ujjivan developed its pilot initiative, which focuses on adapting the Grameen and SHG models to the urban environment in Bangalore. Once successful, the company's operations will be replicated throughout India. Ujjivan will roll out operations to two new cities annually from April 1, 2007 onwards, including to metropolises such as Mumbai and Delhi, until a country-wide network is achieved. In the medium term, by the company's sixth year of operation, Ujjivan aims to expand its client base to over half a million poor women.

ORGANIZATIONAL STRUCTURE

Legal Structure

In 2004, when Ujjivan was first conceived, it was incorporated as a finance company. Ujjivan's promoters quickly realized, however, the urgency for a Non-Banking Finance Company (NBFC) license from the Reserve Bank of India (RBI), in order to commence operations as a MFI. There are few MFIs in India registered as NBFCs, since many companies find it difficult to meet the RBI's capital requirements. Once an organization receives its license it will not be permitted to accept public deposits until at least two years of profitable operation are maintained and a positive rating is obtained from a microfinance credit rating agency.

2 Supriti, Sharon and M Barnhardt, Ramesh Ramanathan. *Urban Poverty Alleviation in India: A General Assessment and a Particular Perspective*. 2002.

3 *2001 Census of India*. Office of the Registrar General, India.

In the case of Ujjivan, however, the company raised over Rs. 28 million domestically, including Rs. 7 million from the Bellwether Fund, India's first microfinance investment fund, and Rs. 27 million from overseas investors, totaling Rs. 55 million in available capital. In 2005, after the company obtained sufficient funds to meet the RBI's capital requirement, Ujjivan's promoters applied to become an NBFC, and received the license in a record time of 48 days, fastest of any MFI in India⁴.

OPERATIONS

Areas covered

Ujjivan has opened branches and established an administrative office in Bangalore. Its first branch in Koramangala opened for business in November 2005—close to one week after the RBI issued the company its NBFC license. The Koramangala branch office services customers in South Eastern suburbs of Bangalore city. Given that many of the company's target customers reside in this locality, Ujjivan plans to relocate its permanent office to this first branch. In January 2006, the company's second branch office opened for business in Yeshwantpur, a northwestern suburb. The third branch opened in March, also in northwestern Bangalore. Currently, each branch serves as a field office where staff members are responsible for all customer interaction, including selling and servicing.

Mobility is an issue with which the company is struggling. The nature of slums, where many of Ujjivan's customers reside, is that they are often pockets of small communities within a larger suburb. Even when branch offices have been established in central locations, it may still be challenging for field staff, as well as clients, to commute between the branch and a settlement. In Koramangala, for example, there are approximately eight or nine slums, which are an average distance of five kilometers from Ujjivan's local branch. The distance is too far for CRS members to walk, but too short to take a bus, since buses do not frequent such a short route. This is one of the distributional challenges the company seeks to solve.

Customers

Microfinance in India has focused largely on women. Research shows that women invest a larger portion of their incomes in the household and family well-being, particularly in the well-being of their children. Women also prove to be more financially responsible and have more effective peer pressure mechanisms, which leads to better repayment performance. For these reasons, Ujjivan's target market in Bangalore is comprised of both salaried and self-employed women. In the informal economy, women are often employed as housemaids or cooks, whereas in the formal sector, they might work as factory, hospital, office, or hotel workers. Women also find work as incense stick and cigarette rollers. Alternatively, self-employed women are primarily small shop owners or vendors. Ujjivan will also focus on hawkers and produce traders. Though many of these individuals are struggling without access to financial services, they typically lie at the upper end of the urban poor spectrum, earning Rs. 2,000-7,000 per month. Ujjivan does not intend to cater to the "poorest of the poor" segment, since



Anitha, 23, is a tailor who has recently decided to open a petty shop at her residence. Prior to borrowing from Ujjivan, Anitha and her husband, a manual laborer, had multiple loans outstanding from a local moneylender at a 10% flat interest rate. When Ujjivan came to her neighborhood, Anitha joined a group with her peers, and became eligible for a business needs loan. With savings of Rs. 1000, Anitha borrowed Rs. 3000 from Ujjivan to purchase a phone currency box that costs Rs. 4,000, which has expanded her business considerably at the shop. Her loan term is for one year, and she is currently making monthly repayments of Rs. 384.

⁴ "Clients," *The Bellwether Microfinance Fund Home Page*.

the company feels that the destitute have more pressing needs than access to microfinance. Instead, the typical profile of an Ujjivan customer, a poor working woman in Bangalore, is as follows:⁵

According to the company's market research, the reasons that the urban poor borrow range from family needs, such as housing and schooling, to business requirements, such as working capital⁶.

Without many options for obtaining financing, the poor often take loans from moneylenders, chit funds, and pawn brokers, paying heavily for their lack of options⁷. Ujjivan has discovered that 98% of salaried women borrow from moneylenders 77% of the time, and

Household Monthly Income	Rs. 5,100
Household Size	5
Number of Children	2
Earning Members	2
Number of years in Bangalore	12
Number years at present home	6
Number of years at present occupation	8
Semi Pucca Housing	65%
Rented Housing	80%
Married	90%

77% of self-employed women borrow from money lenders 90% of the time. It is obvious that these individuals lack decent options in obtaining financing, explaining the huge potential for growth for MFIs that serve the urban poor.

Products & Services

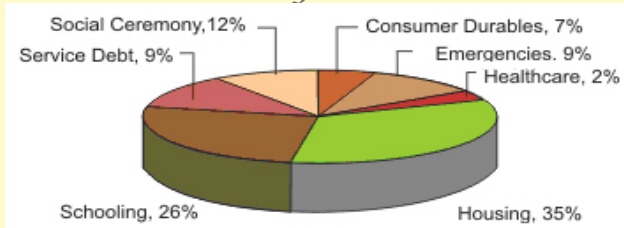
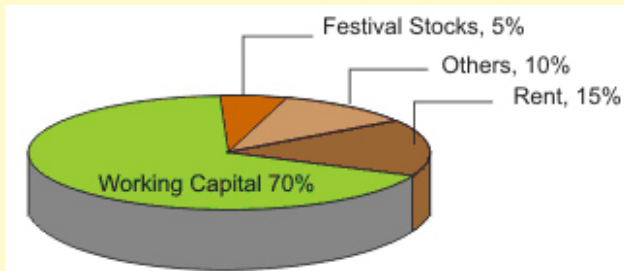
In response to poor working women's financial constraints, Ujjivan has developed two basic credit products to meet both family and business needs. Given that many low-income women in Bangalore work as maids, factory workers, or support staff in various industries, they require credit for household expenses that their salaries often do not cover, such as home repairs, children's school fees, festivals, medical expenses, and even servicing existing debt to moneylenders. For this purpose, Ujjivan has created Parivara Sala, which is a family-needs loan ranging from Rs. 5,000-7,000. For self-employed urban, poor women who earn their income by selling fruits, vegetables, and flowers, or by running small shops, the company designed Vyapara Sala to expand their clients' businesses. With amounts from Rs. 3,000-7,000, this loan is to be used as a working capital loan to acquire things like push carts and sewing machines. After the second loan cycle, a business loan may be used for a broader array of uses, including vocational training. Both loans are promoted to clients based on attractive interest rates, lack of a security requirement, life insurance, minimum waiting time, and promise of bigger future loans for good customers. What is unique about Ujjivan's approach to credit is that clients must show the field officer that they have a specific purpose for the loan, even those seeking credit for family needs.

Before Ujjivan even begins lending, however, the field staff is encouraged to discuss savings with potential clients who have formed themselves into groups. Because Ujjivan is now an NBFC, it is prohibited from mobilizing public deposits. To help familiarize their clients with formal financial services, the company has developed tie-ups with local banks so that field officers can show a group of potential clients where the nearest branch is, how to open a savings account, and how to continue depositing funds. The CRS member suggests that each individual in the group contribute a minimum of Rs. 20 per week to the group's joint savings account for approximately three months. In addition, before group members can receive a loan, they must make a security deposit, which is 10% of

5 "Customers," *Ujjivan Financial Services Home Page*.

6 Ibid.

7 A chit fund is where a group of individuals pool together a predetermined amount of money at fixed periods; the number of people and number of periods are the same. At the end of each week, for example, the group's leader will hold an auction and bid for the amount of money in the pot. The winner of the auction is the person who bids the lowest amount. This process continues each period, and the winning bid amount is split among the members who did not win the auction, which determines the individual contribution during that week. In the end, the winning bidder receives the full pot.

*Reasons for borrowing by the urban poor:***Family Needs****Business needs**

the desired initial loan amount, which is to be deposited in a local bank with the assistance of Ujjivan. At the bank, the group's funds will earn interest of approximately 3.5%. Once the sufficient deposit is achieved, a credit officer will help the group withdraw its funds from the local bank. The full amount of the group's savings is returned to its members, and only then will Ujjivan begin disbursing loans. The inherent design of this procedure is to instill financial discipline in clients, particularly in those who have no previous experience with formal banking institutions.

In terms of interest rates, the company charges 1.25% per month on loan cycles that are 16, 24, or 48 weeks. The general tenure of the loans can vary and last up to one year. In

addition, the company has structured the products in such a way that, even though interest is serviced monthly, repayment of the loans can be daily, weekly, or monthly based on customers' cash flow situations. Typically, self-employed clients, such as vegetable vendors, make weekly deposits, and salaried customers, like factory workers, repay monthly.

Another example of how Ujjivan has followed a market-led approach, designing products around customers' needs, is included in loans Rs. 1,000 for emergencies only, repayable over 20 weeks. The company guarantees that funds for emergencies will be disbursed within 24 hours, but it is often the case that if a customer visits the branch in the morning, she will receive funds that same evening. In the past, logic has dictated that the poor will continue to do business with moneylenders, in spite of the increasing presence of MFIs, due to the local lender's ability to meet the needs of clients around the clock, particularly when unforeseen events occur. In effect, Ujjivan's emergency financial support imitates, if not replaces, high-cost local moneylender loans for situations such as a child's sickness or loss of work.

Traditionally, MFIs have viewed poor people's needs for financial services as credit for small enterprises. Today, it is commonly accepted that the poor, like their wealthier counterparts, need a variety of products and services to meet their needs. Ujjivan's

"However prevalent, the mostly informal financial services currently available to the poor have serious limitations in terms of cost, risk, and convenience. Moneylenders generally charge extremely high interest rates on loans. Buying supplies on credit is far more expensive than paying cash. Rotating savings and credit associations (ROSCAs) usually offer little flexibility in the amount or timing of transactions. Lastly, formal financial institutions may not offer financial products that are appropriate to the needs of the poor."

—World Bank Consultative Group to Assist the Poor, Annual Report, 2004

promoters have realized the importance of developing and providing a range of financial products and non-financial services to meet their clients' needs. Within the next two years, once its initial products are firmly in place, Ujjivan plans to expand its product offerings to include housing and higher education loans available to those customers in good standing with the organization. Ujjivan is also working with an insurance company to offer a health insurance scheme, which will be a mandatory product bundled along with all other offerings. The company believes, however, that microfinance is simply one important part of empowering the poor. By partnering with local organizations, Ujjivan's promoters will support community development activities, particularly those NGOs providing vocational training and other services that will help clients expand their businesses or learn new skills.

Distribution Channels

Ujjivan's operational process begins with field officers visiting slums, and other areas where the poor live, to conduct initial surveys on potential clients. They gather information on age, location, income, occupation, education, length of residence in the slum, and etc. Once the company has identified clients with whom it would like to work, the women are invited to attend a projection meeting. At this initial meeting, Ujjivan's branch manager informs residents about the company's objectives, products, policies, and procedures. After the projection meeting, the branch manager informs potential clients that CRS member will be returning to the area in a few days, and those who are interested in attending can self-select into groups of five. Since many of the poor have had little education, basic training is required for all potential members to assure complete understanding of the rules and procedures of the group lending and credit systems. The compulsory group training (CGT) is conducted by a CRS member over six days, for one hour each day. On the final day of training, the Ujjivan branch manager administers an oral examination; this 'group recognition' test (GRT) is simply a conversation between an Ujjivan employee and the group to ensure that each member of the group understands her re-

MODELS OF MICROFINANCE

The basic idea of microfinance loans is to replace physical capital with social capital for use as collateral. Within the social networks that are formed by individuals or by outside organizations, such as NGOs or MFIs, 'joint liability' refers to group members' mutual responsibility for each others' payments. There are many MFIs in India replicating the famed Grameen Bank's joint liability group (JLG) model. The benefits of this model for the company include tighter control over clients through monitoring standardized systems and procedures, a superior forecast of the need for funds relative to other approaches, and the ability to use a less-qualified staff, since the system is already set in place. During the weekly meetings, the members deposit savings through the MFI, and also take loans, which are given out only for specific purposes and must be approved by Grameen. Though the MFI maintains the savings and loans accounts of its clients, the groups themselves are responsible for guaranteeing loans to their members, accepting joint liability, raising emergency funds, and accepting the fact that no member of the group will be able to take out a new loan if even one member is in arrears. In addition, the responsibility of appraising fellow members' loan applications and ensuring that members make regular savings deposits and loan repayments is taken on by the group. Effectively, Grameen's JLG model has been tried, tested, and evolved over a period of almost 30 years and ensures that financing reaches each individual member of the group on merits. The MFI plays an active role as well, which will contribute greatly to the performance of groups. Ujjivan has chosen to start working through this approach, under the aegis of the Grameen Bank, which will provide the company with technical guidance and training.

However, unlike Bangladesh, India is not limited by the success of only one approach to microfinance. In fact, one of the country's largest NGOs, the Mysore Resettlement and Development Agency (MYRADA), along with the National Bank for Agriculture and Rural Development (NABARD), paved the way for the homegrown model of self-help groups (SHGs). As with JLGs, individuals from similar backgrounds come together to form groups. With SHGs, however, the groups can be much larger in size with at least 20 members. A NGO or MFI may form the groups, or the groups may come to an organization from an existing rotating savings and credit group (ROSCA). The process of a group officially linking to a MFI begins with the SHG members making regular savings contributions, which may be kept with the group leader or banked. Next, members individually borrow from their groups, and the interest rates and loan terms are decided on within the groups themselves. Though banks and MFIs may lend to SHGs at reasonable rates, the group may lend to its members at a fixed rate of 2-3% per month. At some point, the SHG opens a savings account in the group's name, either at a bank or MFI, in order to qualify for a loan. Once the bank or MFI disburses a loan to the group, the SHG will use the funds to supplement its own for on-lending to its members. Since the group as a whole is responsible for repayments, the MFI's transaction costs are significantly reduced. According to the top MFIs in the country, many of whom lend to SHGs, one of the most important features of the model is that it works within the parameters of India's complex legal and regulatory framework. Given the success of this domestic approach in empowering women, in particular, Ujjivan has chosen to work with SHGs as well as Grameen groups.

sponsibilities in taking out a loan, including details about the loan, such as the interest rate, premium, loan cycles, other product offerings, and group guarantee.

Once the group passes the test and is recognized by Ujjivan, each group elects a leader from among its members, and, in turn, one of the five group leaders is elected leader of the Center. The responsibilities of the group leader include checking on attendance at weekly meetings, payments made, conduct of meetings, loan utilization, and exploring any problems among group members. The Center leader has similar duties, but also works to resolve major problems that may arise within individual groups. Transparency is continually emphasized by Ujjivan in all aspects of its business in order to share the company's goals with customers and to assuage any suspicions within or outside the community. This same principle also helps group members deal with family pressures. Husbands are even permitted to openly listen to meetings or to watch business transactions within the Center. The goal of both women in these leadership positions, who are the intermediaries between the MFI and individual customers, is to keep groups together and to make sure that members have sufficient support.

One of Ujjivan's key innovations is based on how the company has combined the front-end of its operations, implementing the Grameen model in Bangalore's urban setting, with a back-end of modern retail banking operations. This means that credit reaches Ujjivan's customers in a much more efficient, systematic way. Once a loan is approved by an individual's group, center, and CRS member, the request is processed from Ujjivan's branch office's credit department and is sent to the operations division at the administrative office, where the loan is formally approved and a limit is set. Next, original and duplicate copies of the customer's loan card, which contain information on repayment schedule and amounts, are sent to the local branch office. Along with the loan cards, the operations department informs the branch of how many loans have been approved, and sends a check for the total amount to be disbursed. The branch cashier cashes the check, and the individual loans to be disbursed are either sent with the CRS member to be given out during the next Center meeting or retained at the branch office for a customer to come and collect.

Given that most of Ujjivan's CRS team is female, there are additional security concerns to consider within the distribution channel. For example, if there are five women in a Center who are approved for loans of Rs. 5,000 each, the CRS will have to either walk or take a two-wheeler to the meeting carrying Rs. 25,000. This situation can be a dangerous one, particularly since locals in the community will be aware of who the CRS member is, and the timings of the Center meeting. En route, it is possible that various problems may arise, including harm to the CRS member or theft. Given these scenarios, Ujjivan has devised another system, in which the CRS member delivers the duplicate copy of loan cards to customers, which will list a designated time and day for the client to visit the branch collect her loan. The company's emphasis on customer care is seen throughout this process. For example, it is each branch's implicit goal not to make any customer wait more than 20 minutes during her visit. In addition, the branch manager will take time, even if only a few minutes, to have a conversation with the client about her current situation, what the loan will be used for, how it should be repaid, etc. Lastly, before the customer leaves, she receives the loan in cash and the original copy of the loan card, while the branch retains the duplicate.

Once a woman receives a loan from Ujjivan, to ensure that she is using credit for the stated purpose and maintaining a good repayment record, she conducts a loan utilization check with a CRS member and group leader. The visit is usually scheduled for two weeks after the loan is disbursed to determine how the individual has made use of the money as well as the percentage of the loan amount remaining.

Another way in which Ujjivan is distinguishing itself in the market is by combining the benefits of both Grameen and SHG models as effective delivery mechanisms. The Indian SHG-Bank linkage model is the largest microfinance program in the world, with nearly 1.5 million SHGs comprising

close to 20 million women who borrow from banks or MFIs through groups. Unlike traditional MFIs lending to SHGs, however, Ujjivan has chosen to take a more active role in its contact with SHG members, as opposed to relying only on the NGO animator or group itself. Though the company does provide an annualized linkage charge to NGO partners for bringing groups to Ujjivan, it is important to make sure these SHGs are of high quality and that members have thorough training and understanding of financial discipline. For this reason, the company sends CRS members to work with SHGs in training and also requires that the group maintain proper records, including details of savings, lending, and attendance, for at least 6 months before becoming eligible for a loan. This documentation is part of Ujjivan's strategy in laying the groundwork for developing a long-lasting relationship with groups, particularly as members graduate out of group lending. Once this occurs, it will be important to have well-maintained and accurate records on individual members' credit histories. Thus, Ujjivan decided to expand its outreach by getting involved with SHGs, particularly since the company was continually being approached by NGOs forming and working with these groups. Currently, Ujjivan is working with approximately 25 groups and two NGO partners; the company is expecting to develop this network significantly as it moves forward with operations in Bangalore. What sets the company apart from other MFIs taking part in this same model, however, is the promoters' specification that groups must lend to members at the same interest rate offered to them by Ujjivan, which is the same rate charged to Grameen groups: 1.25% per month.



—By joining hands, women are finding greater freedoms. (Picture credit: CARE India)

Scalability

The challenge before the promoters of Ujjivan is to innovate ways of initiating, processing, and recovering loans, through Grameen groups or SHGs, by working with the commercial sector given its strength in achieving scalability. As with many MFI entrepreneurs, Ujjivan's promoters are aware that the company's operations will be testing the feasibility of the Grameen and SHG approaches in India's urban settings. Samit Ghosh, Ujjivan's CEO, is confident that the JLG model, in particular, will translate well in the Bangalore pilot, particularly since the Grameen Bank will be assisting with technical support. As to what extent and how delivering microfinance to the poor through group-based lending is scalable, MFIs' overseas and domestic experiences have shown that, with a market-led approach and genuinely efficient operations, there is no reason why Ujjivan cannot achieve capacity building and economies of scale. In fact, providing financial products and services through groups will help reduce the company's risk, given joint liability, and will be critical as Ujjivan plans its expansion within Bangalore and across India.

The company's roadmap begins with its 18-month pilot project in Bangalore, which has been in operation since November 2005 and is expected to continue through March, 2007. Ujjivan's goal is to achieve 12 branches in Bangalore city with a target outreach of 25,000 women. Ideally, the company wants to establish an outreach of 500,000 women by its sixth year of operation. Lastly, while Ujjivan strives to operate a viable business, break-even in the third full year of operations, and provide investors with a target 15% return on equity (ROE) over a 5-year span, the company's fundamental goal is to "provide financial services for customers to enable them to be free of poverty within five years of starting their relationship with Ujjivan."⁸

In terms of competition, there are a growing number of MFIs operating in urban India. Sanghamithra, a MFI created by MYRADA, has expanded into the urban space from its mostly rural

operations by creating an independent urban unit in Bangalore. The Sanghamithra Urban Program (SUP) has been in operation since 2000, and follows the SHG model closely. In 2006, the SUP will be absorbed by a new organization named Janalakshmi, which is being promoted by Sanghamithra's Vice-Chairman. Janalakshmi will have an exclusive focus on Bangalore's sub-prime sector, which includes those individuals who socio-economically lie between the poorest of the poor and those with access to formal credit. The SUP/Janalakshmi, like many others, has developed a partnership with ICICI Bank, India's largest private bank, to individually lend to fruit and vegetable traders in the city. Spandana, one of the fastest growing MFIs in India, based in Andhra Pradesh, is another MFI that has recently started operations in Bangalore. However, while most organizations are only now expanding into Bangalore, Ujjivan's advantage is that it has been operational since the end of 2005, and has already acquired over 1,665 group members. Of these 1,665 Ujjivan customers, nearly half are active borrowers.

Ujjivan at a Glance (as of April 2006)

Total # of branches	3
Total # of active groups	260
<i>Grameen</i>	235
<i>SHGs</i>	25
Total # of members	1,665
<i>Grameen</i>	1,175
<i>SHGs</i>	490
Total # of active borrowers	786
# of loans outstanding	786
Amount of outstanding credit	Rs. 3,664,206
Rate of recovery	100%
Total # of staff	59
<i>Branches</i>	41
<i>Head office</i>	18
PAR (30 days, 60 days)	100%

Furthermore, what sets Ujjivan apart from its competitors is its unique product bundling. When a customer takes out a loan from the company, she not only receives money to put towards a specific use, but can take advantage of a variety of features included with the credit product. As described above, she can access emergency funds, which are often available within 12 to 24 hours. In addition, Ujjivan offers customers' children a scholarship for school fees. By paying Rs. 100 per month, a client's children will receive tuition coverage of Rs. 3,500 per child in grades 8 through 12. Via its partnership with the Life Insurance Corporation of India, the company also offers life insurance coverage to clients for an annual premium of Rs. 100, providing a woman and her husband each Rs. 50,000 in coverage. This distinctive bundling service puts forward the option for Ujjivan's customers to improve their lives in a holistic sense, from providing opportunities for their children to protecting themselves and their families from unforeseen circumstances.

It is known that many poor working women currently rely on the un-organized market, including chit funds, moneylenders, family, and friends for credit or savings facilities in times of need. As competition amongst lenders intensifies and the microfinance market in Bangalore matures, not only is outreach expected to increase, but there will also be substantial product innovation based on the necessity of allowing customers' needs to drive the business.

FUNDING FOR THE INITIATIVE

Currently, although Ujjivan is open to various financing models, the company has relied on private investors. The company has raised Rs. 25 million of Authorized Capital, which is divided into 250,000 shares of equity at Rs. 100 each. Since its initial round of fundraising, which resulted in Rs. 24.31 million, Ujjivan's investors have been mainly the promoters' friends and associates, who include prominent figures in the financial and information technology sectors. The principal investor, however, has been the Bellwether Microfinance Fund. (See "*The Bellwether Microfinance Fund*")

In Ujjivan's second round of raising funds, the company has attracted numerous domestic investors, giving Ujjivan an additional Rs. 8.7 million in domestic capital. Given the company's total capi-

tal of Rs. 33 million and the expected demand of additional Rs. 33 million, Ujjivan's promoters are working through foreign direct investment (FDI) channels, including NRIs, foreigners, and institutions overseas, to raise the remaining Rs. 33 million needed. Recently, in addition to the Bellwether Microfinance Fund, Ujjivan has received financing from the Michael and Susan Dell Foundation as well as Unitus, an American microfinance equity fund. The principal advantage for the company from receiving funding through private equity is that there is no immediate need to pay interest. The implications of this carefully chosen strategy are that the institution is aiming to build its capacity from the beginning as well as planning to have access to more than enough capital support, even before Ujjivan breaks even in its first three years. Ideally, the promoters want to pay dividends, ranging from 10 to 15 percent, after the company's third full year of operations, which will be the end of the fiscal year in 2008. Overall, however, the overarching aim for Ujjivan is to launch an initial public offering (IPO) during the fiscal year of 2009-10, following its first three years of profitable operation.

THE BELLWETHER MICROFINANCE FUND

In order to help MFIs expand their programs and possibly transform into formal financial institutions, two microfinance professionals came together in 2004 to establish India's first and, as of now, only microfinance investment fund. The Fund's objectives emphasize coupling the availability of equity or quasi-equity investments in the first few years of a MFI's operations, along with operational support and supervision, to support an institution's outreach to financial markets and transformation into a viable, regulated business. Bellwether's promoters decided from the onset to pinpoint a few MFIs that meet the fund's investment criteria and take a significant equity position in these institutions in addition to providing varied and tailor-made debt. Some of the attributes which potential MFI partners must possess include a focus on the poor; a sustainable business model; ambition to scale up; innovative distribution channels; experienced management; strong debt servicing ability; and the capacity to generate returns on equity. To achieve its goal, the Bellwether Fund will intermediate linkages with mainstream financial institutions and capital markets through its product offerings, using risk capital as its main financial instrument.

Since it began operating in 2005, Bellwether has disbursed investments to six Indian MFIs, including Ujjivan. With an initial equity investment of Rs. 7 million, amounting to a 26% stake in Ujjivan, the fund classifies the nature of its investment as common equity in a start-up MFI. Bellwether chose to work with Ujjivan not only because the company meets all of the fund's investment criteria, but because the fund's promoters believe in supporting promising start-ups who show promise in their plan of providing financial services to the poor in microfinance-deficient areas, such as India's cities.

In terms of the company's financial performance and indicators, it remains too early to tell how Ujjivan has progressed since its first loans were disbursed in January 2006. Initially, however, it is likely that the arrears rate will be 0%, while the returns on equity and investment are negative, since the promoters expect operating at a loss in the company's first few years. Once Ujjivan achieves its goal of breaking even in 2007-2008, a dramatic turnaround is expected.

CAPITAL-CURRENT STATUS & FUTURE PROJECTIONS (RUPEES MILLION)						
	10.31.05 (E)	03.31.06 [^]	03.31.07 [^]	03.31.08 [^]	03.31.09 [^]	03.31.10 [^]
Capital	24.3	66.0	66.0	66.0	66.0	66.0
Reserves	(3.4)	(9.0)	(15.0)	(13.0)	6.0	60.0
Total	20.9	57.0	51.0	53.0	72.0	126.0
* Cumulative — [^] Projected						

For successful MFIs, risk management is a daily part of business, particularly given the array of risks inherent in operations from credit risk to fraud risk. The main idea of risk management is that risk levels should be directly proportional to expected returns; for MFIs, the tendency is to prefer less risk and, therefore, less return.⁹ Controlling and reducing a MFI's exposure to risks, nevertheless, remains a constant priority. The MFI's managers are experienced with managing credit risk as well as portfo-

9 Bructt, Till. "Four risks that must be managed by microfinance institutions."

lio-at-risk (PAR), by cash-flow management and diversifying the portfolio with various product and services. There are business risks to consider as well, particularly those that are client-related. First, by encouraging groups to open savings accounts and by achieving a 10 percent security on loans, the company is providing a service while gaining a form of collateral in kind. In addition, though they allow for flexible repayment schedules according to clients' cash flows, Ujjivan's promoters have insisted on servicing interest on a monthly basis to reduce any gaps in the maturity of assets with liabilities. By also requiring that customers have lived in an area for at least five years prior to joining an Ujjivan group, the company is mitigating a risk thought to be common in cities—that urban workers who may be bad credit risks will escape repayment by migrating back to rural villages. The joint liability mechanism itself within customer groups helps to lessen credit and transaction risks as well.

Critical Partnerships

Since microfinance remains only one factor in the equation to alleviate poverty, Ujjivan's promoters feel that partnering with NGOs is a good way to leverage the company's resources in order to achieve its mission of making lives better for the poor. By working with local organizations, focused on a vast array of issues from childcare to education, Ujjivan can benefit from associating with the great roles these NGOs play in terms of capacity building for clients. For example, Outreach India is one of Ujjivan's partners that runs a schooling program for children of construction workers and laborers in Bangalore. Similarly, the Parikrma Foundation runs schools for poor children and orphans in the city in addition to providing healthcare, clothing, etc. At the same time, the NGOs, who often are purely social welfare minded, benefit from the MFI's business skills that will help both organizations achieve shared goals.

Overcoming Constraints and Expanding Opportunities

Ujjivan, founded by a group of former senior bankers, is the culmination of over two decades of experiences developing financial and micro financial markets. Nevertheless, the range of challenges before the company was considerable, given the need to address problems of a start-up as well as adapt to the changing needs of urban clients. To achieve success in terms of addressing the economic needs of low-income women and achieving profits, the organization has devised its own way of resolving its constraints:

- » **SUCCESSFUL PRODUCT DEVELOPMENT:** The realization that many MFIs, particularly those beginning to operate in urban areas, have not met the larger demand for financial services by the poor for household use has led Ujjivan to develop an entirely separate loan product, which is to be used exclusively for family needs. Though salaried and self-employed women are eligible for this loan, Ujjivan has found the product particularly appreciated by salaried women. By conducting thorough market research and developing a new product that is less supply-driven and more responsive to client needs, Ujjivan has established a loan product for women that no longer have to take credit under the pretense of working capital. Both salaried and self-employed women have the flexibility to choose between a family or business loan, which also helps the company keep track of the needs and uses of credit. These records will be particularly useful in the future when clients begin approaching the company for individual loans.

The end result is that low-income women no longer have to turn to money-lenders to obtain funds for reasons not related to income generating activities. Ujjivan has identified early on the importance of designing products based on client needs and preferences not only for achieving portfolio diversification but also for increasing client loyalty and retention.

UJJIVAN'S KEY INNOVATIONS		
Services	Resources / Logistics	Management
<ul style="list-style-type: none"> • Successful product development • Adapting distribution models 	<ul style="list-style-type: none"> • Hiring local staff • Overcoming space constraints • Employee incentives & training 	<ul style="list-style-type: none"> • Operational efficiency • Governance & leadership • Integration of resources from corporate partners • Corporate culture • Full self-sufficiency/profitability

- » **ADAPTING THE MODELS:** In 2001, the Grameen Bank revolutionized the way it conducted its microfinance operations by developing its model into a market-led system, known as “Grameen II.” This new approach offered customers a new range of products to meet the diverse needs of Grameen’s target market. The result was that clients used the services of the informal sector and other MFIs less and less. Just as the famed Grameen Bank evolved, its replicators, including Ujjivan, have had to face the challenge of adapting the “model” to meet the needs and demand of the poor in new areas. As noted by Stuart Rutherford, founder and chairman of SafeSave, the move from the “plain vanilla,” classical Grameen model with its relative simplicity, and associated limited options for clients, such as time-opportunity cost of frequent meetings and pressure to borrow, to a more market-led approach is likely to be immensely challenging for most.^{10, 11} While Ujjivan continues to work with a technical advisor from the Grameen Bank during implementation of the model, the company’s management is working to adapt product and delivery system design to the needs of poor women first in Bangalore, and, ultimately, across urban India.

A recent example of how Ujjivan is tailoring the model was the reduction of the number of groups required to form a center, given that it can be challenging to accommodate a group of 50 women for meetings on a regular basis. By reducing the number of groups from ten to five, the company has found a much more manageable model, which is also beneficial to clients since women can meet in each others’ homes with this small group size.

Similarly, as increasing numbers of local NGOs approach the company about on-lending to SHGs, Ujjivan’s strategy for this separate business had to be adopted as well. As operations progress during its pilot project in Bangalore, the company will discover when and under what conditions the GRAMEEN and SHG models are suitable. In the case of SHGs, it is probable that this business can meet the needs of more fragmented communities with a diverse array of opportunities and needs for financial services. By working more closely with its NGO partners and the groups themselves, Ujjivan can further develop its SHG business by adapting the model as much as possible to provide customized solutions based on the company’s understanding of local conditions. Thus far, the company has adapted the model to meet its needs as well those of its clients by requiring that SHGs lend to their members at the same reasonable interest rate Ujjivan charges to the group as whole. This is one step the promoters have taken to ensure that the SHGs do not charge a higher per month flat rate, which often marginalizes poorer members.

10 SafeSave is a registered cooperative in Bangladesh, established in 2002, which provides savings and credit to the inhabitants of slums at their doorstep, operating on the presumption that poor people can and do save, but simply lack frequent opportunities to store savings in a safe, accessible manner.

11 Rutherford, Stuart. “The Poor and their Money.”

» **DISTRIBUTION DIFFICULTIES:**

- » **Hiring/retaining staff:** *In the urban environment, hiring and retaining field staff is a challenge for MFIs, given the demanding nature of the position. Ujjivan, like other MFIs, requires that a field officer, known as Customer Relations Staff (CRS) have passed Class 10 or equivalent in school, have good numerical abilities, and be fluent in a local language, such as Kannada or Tamil, with a working knowledge of English. The company also limits their field staff to locals in the communities where the company is serving. There are obvious reasons for this condition, such as existing relationships with potential clients and familiarity with their financial behavior; however, this added requirement means the pool of qualified individuals is much smaller. Ujjivan has also found that, particularly in a cosmopolitan city like Bangalore, most young men who have recently finished their schooling prefer to work in an office environment, or at a job that is more glamorous than field work. As mentioned, working in microfinance is a very labor intensive commitment—*

one that requires passion as well as sensitivity to the poor and their needs. By hiring additional female field staff, Ujjivan has found qualified individuals who are typically an important element in building a corporate culture that supports outreach to women. In fact, female staff members have the potential to significantly expand Ujjivan's outreach to female clients, thereby increasing the company's client base and potentially enhancing its financial performance. Nevertheless, it remains too soon to generalize just yet about how male or female CRS members will succeed at field work in and around the city.

- » **Space constraints:** *A challenge that may seem trivial, initially, concerns the difficulty of accommodating a large number of women during group meetings in urban areas. In a city, where open space is often a set premium, finding a location to accommodate a center meeting, comprising of 10 groups of five women each, on a weekly basis creates some difficulty for Ujjivan. In addition, the location of these meetings must be somewhere that is convenient to as many members as possible, particularly since women often have less free time than men do and may be less mobile. In order to ensure that a sufficiently large space is available and conveniently located, Ujjivan branch managers are currently working with local schools, health centers, and community centers that may be able to make space available for group meetings by either donation or charging Ujjivan rental fees.*

- » **OPERATIONAL EFFICIENCY:** In response to the challenges of reducing costs and increasing effective use of technology, Ujjivan has decided to designate a central office in Bangalore for processing, administration, and technology. The company uses “the factory concept” for

At each weekly meeting, all group members and leaders first recite the Customer Pledge, followed by the CRS reciting the Staff Pledge.

CUSTOMER PLEDGE

*We will use the benefits of our loans to eliminate poverty
We will repay our loans promptly
We will save regularly for our family
We will educate our children
We will stand by our group in good times and bad
We will work to build a long and mutually beneficial relationship with Ujjivan
God is a witness to all our acts and deeds.*

**STAFF PLEDGE**

*We will work with poor women towards eliminating poverty
We will work without discriminating caste, creed or religion
We will be truthful in all our activities
God is a witness to all our acts and deeds.*

the centralized processing of all data recording, transaction processing, preparation of reports, and storing documents. Ujjivan's managers are aware that the highly efficient operation, technology, and processes

“We at Ujjivan deal with money belonging to people and more importantly, belonging to poor people. They trust us and place great faith in our honesty. Therefore, it is crucial that we take their trust seriously. Their needs are our responsibility. Our honesty is their guarantee.”

—**Ujjivan Mission Statement**

characteristic of a modern retail financial institution are necessary for capacity building and achieving economies of scale. As a result, operational support is readily provided to those working on front-end operations, including standardization, an efficient and scalable processing centre, and all the facilities needed for data entry; processing transactions; maintaining customer records; checking service quality; and control systems for auditing. Furthermore, Ujjivan recruits operations staff through a careful selection process to ensure that these individuals have the commitment and passion needed to work in a microfinance environment.

From the promoters' experiences, Ujjivan has designed a unique model that integrates core group-based business operations with community development activities through financial and NGO partnerships. At the same time, the company plans to develop its success by building on the following factors:

- » **GOVERNANCE AND LEADERSHIP:** Successful urban microfinance initiatives are designed and governed by cross-functional teams of operations, finance, human resources, information technology, field staff, etc. At the same time, the role of senior leadership cannot be overlooked, particularly at Ujjivan. In addition to the company's founders, including CEO Samit Ghosh, Ujjivan's Board of Directors includes many prominent figures in the sector, such as Viswanatha Prasad, former CEO of India's first regulated MFI, Bharatiya Samruddhi Finance Limited (BASIX) and Bellwether's current fund manager. Ujjivan also has an advisory group of individuals, such as Jaithirth Rao, CEO of Mphasis, one India's leading information technology firms, and Vijay Mahajan, a leader and pioneer of microfinance in India who founded two large and successful organizations, Pradan and BASIX. The roles these individuals play within Ujjivan are to not only support a long-term, solid commitment from the company to the community, but to attract greater commercial investments in microfinance domestically and internationally. Having someone like Mr. Mahajan advising the company attracts the attention of investors and high-quality talent in the sector. Ujjivan's leaders, directors, and advisors are jointly instrumental in obtaining involvement and commitment from business and banking partners. These individuals associating with an urban microfinance initiative improves Ujjivan's reputation and further adds to the perception of the urban microfinance market's viability.
- » **STRATEGIES THAT USE CORE CORPORATE RESOURCES:** On its own, and through its relationship with the Grameen Bank, the Bellwether Fund, MSDF, and Unitus, Ujjivan has a wide array of business resources available, including expertise in group-based lending, tie-ups with local NGOs for community development, and local facilities in Bangalore suburbs. The company's urban initiative will blend these core business resources with community relations and community stakeholder resources, as summarized in the table on the following page.
- » **CORPORATE CULTURE:** The company's emphasis on loyalty to customers, colleagues, and employees themselves cannot be overstated. This idea is reinforced by teamwork, where the organization is non-hierarchical and not unhealthily competitive. Ujjivan's leaders readily accept constructive criticism for the company's collective development, due to the belief that teamwork achieves better results than that of an individual. In addition, the company's prac-

UJJIVAN'S RESOURCES FOR MICROFINANCE		
Core Business Resources	Community Relations Resources	Community Stakeholder Resources
<ul style="list-style-type: none"> • Expertise and core competencies • Products and services • Training • Employees, including CRS • Three branch offices, with the goal of opening an additional nine 	<ul style="list-style-type: none"> • Relationship building • Partnerships with local NGOs 	<ul style="list-style-type: none"> • Expertise in finance and economic development • Information (through group mechanism) • Relationships in the communities among group members • Leadership • Assets, such as a group savings account

tics are always in full compliance of India's complex legal regulations governing the sector. Though transparency is another critical aspect of the organization, particularly in terms of dealings with customers and business partners, Ujjivan is adamant about business confidentiality. Senior management plays a large part in ensuring these values are upheld by themselves, employees, customers, and partners.

- » **EMPLOYEE INCENTIVES AND TRAINING:** Building a successful MFI requires more than product development and pricing; an agile and efficient staff is needed, where the MFI knows the skills needed, hires qualified individuals, creates a work environment that promotes commitment, and offers competitive compensation. For their work of targeting new customers, forming groups and centers, verifying loan proposals and documentation, providing feedback for new products based on customers' demands, monitoring loan utilization, and maintaining good relationships with customers and the local community in general, field staff need proper incentives to ensure their optimal performance. Ujjivan recognizes this fact, and views its human resources as strategic partners in executing their business and an agent of change in order to transform the livelihoods of the poor. As a result, the company currently offers a compensation package that includes a fixed salary of Rs. 2,500-2,800 plus fixed and variable incentives. In addition, the company offers an Employee Stock Option Plan (ESOP) for all employees. Ujjivan seeks to align its employees' goals with the company's by providing its staff with an ownership stake through an ESOP. The company's promoters have not held back in their desire to share wealth creation among employees and directors who have helped build the company.

In terms of training, CRS candidates are put through an intensive classroom and field training to enable them to understand the job, customers, environment, and the company's business practices. This means that, in addition to compensation, Ujjivan's staff also has the opportunity to acquire functional skills, industry knowledge, and leadership training, which can be further developed as individuals graduate to higher positions.

- » **FULL SELF-SUFFICIENCY/PROFITABILITY:** As a NBFC, Ujjivan has been set up as a profit-making venture. The goal is to generate a return on assets equivalent to returns expected in the private sector, without subsidies. Those MFIs that have already achieved this goal have certain features in common, including higher real interest rates as well as lower average salaries compared with per capita GDP.¹² These are factors that are largely within the control of the company's managers, including those who manage credit and human resources. As Ujjivan develops operational efficiency, achieving full self-sufficiency will depend on the promoters' commitment to this goal. This commitment will be illustrated as the company sets interest rates, controls costs, and manages its staff.

Conclusion

While Ujjivan's team has already overcome significant challenges in providing banking services to Bangalore's poor working women, growth and success will bring additional challenges.

- » **STAYING ON TRACK:** While Ujjivan continues to expand its range of products and services aimed at Grameen groups and SHGs, it has also begun thinking of offering products to individuals, as mentioned. In addition to servicing group graduates, Ujjivan's promoters are looking to target individual vegetable vendors and workers in the garment industry, which employs possibly the largest number of women in the state of Karnataka. A majority of these employees work in factory settings. According to official statistics, there are 788 garment manufacturing units in Karnataka, of which 729 are in Bangalore. The total number of garment workers in Bangalore is 146,835, of which 103,039 are women.¹³ These figures do not include casual and contract workers. Given this large market of women who are working in sub-standard conditions, earning an average of Rs. 8 per hour, Ujjivan is looking to provide financial products and services to them to help supplement their low incomes.

However, due to high turnover in the industry and lack of strong information and/or social bonds, women working in the factories are often unwilling to guarantee their peers and friends under a group-based lending scheme. For this reason, Ujjivan will need to consider offering individual loans to this market, while somehow instilling the same sense of financial discipline achieved through group trainings and meetings. As the company moves forward, it will be critical that the Ujjivan stay on track with its goal of implementing financial structures that allow poor women to access available, untapped capital through groups, at least initially, such as Grameen or SHGs. Once the company has proven its viability and sustainability in the medium term, it may be better suited to offer diversified products, including individual loans, to a broader economic spectrum of women.

- » **MARKETING:** In light of the increasingly competitive market for microfinance in Bangalore, Ujjivan needs to continue an aggressive marketing effort to customers. Some branch employees observe that competitors may have more employees per branch, and that larger competitors regularly have people out on the street talking with customers about its offerings that do not require as much time and work, in terms of regular attendance of group meetings, for example. Although this issue affects Ujjivan's credit operations much more than savings, it is important that the company remain strong in all areas, especially as it rolls out housing and education products, in order to maintain its market position and profitability.
- » **EMPLOYEE INCENTIVES:** Despite the generally positive perception and effects of a staff incentive scheme, there are some negative effects to consider as well. The negative effects can include a problem of mission, where field officers shift their focus away from small, poor-focused lending towards relatively well-off clients in order to increase their incentives. There is also the possibility of erosion in the MFI's portfolio quality as field staff respond to incentives by offering larger loans or being less thorough in their evaluation of loans. Other potential drawbacks include less teamwork, an increasingly risk-averse field staff, a decrease in intrinsic motivation, higher operating costs, as well as the fact that incentive schemes do not reward overachievement. In general, the problems which may arise as a result of offering employee incentives are a result of flaws in the incentive scheme's design. Therefore, for Ujjivan to mitigate these information problems, the company may consider adjusting minimum require-

13 Charan, Sahana. "Garment factory workers deserve a better deal."

ments, weights allocated to performance indicators, as well as better and more frequent communication with its CRS team about incentives. The company's goal must be to create a work environment that promotes employee commitment. As Ujjivan moves forward, the company will have to face the challenge of designing and re-designing staff incentive schemes that succeed in improving motivation and productivity, particularly in terms of achieving greater financial performance, portfolio size, portfolio-at-risk, and even client satisfaction.

Even before its operations began, Ujjivan faced a number of constraints in India's urban areas. Given the diverse array of customers in cities, Ujjivan knew it would have to develop products that would match working women's actual use of credit. Once money is in the hands of borrowers, loan use can become difficult to track, particularly since funds are shifted around through household expenditures. The organization overcame this challenge of monitoring loan use by working with field staff recruited from target areas, who have better access to information, in addition to conducting thorough, independent market research. The company's loan utilization check was also designed to follow through on the use of loans disbursed. Although Ujjivan has partnered with the Grameen Bank to conduct its operation as a Grameen replicator, it has developed a separate SHG business as well. These two approaches to delivering financial services to the poor not only expand the company's outreach but serve various market segments. Still, Ujjivan's promoters realize that a time will come when group-based lending models are no longer suitable for customers, particularly as women improve their situations and require larger loans. For these reasons, the company is continuing to adapt these models by following a customer-driven approach, and working closely with field staff to anticipate the future needs of clients that are ready to graduate out of groups. Ujjivan has overcome various distribution and operational difficulties relating to staff and space constraints by designing effective incentives and taking advantage of local resources within the communities which the company aims to serve. By focusing on creative solutions and always keeping clients in mind, Ujjivan has positioned itself as a major player in India's urban market for microfinance.

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Centre for Micro Finance

The Centre for Micro Finance will help improve the life of the poor by:

- » Systematically researching the links between access to financial services and the participation of the poor in the larger economy.
- » Participating in maximizing access to financial services and its impact for the poor through:
 - » Research on micro finance and livelihood financing
 - » Research-based policy advocacy
 - » High-level training for practitioners and institutions
 - » Strategy-building for Micro Finance Institutions.

While the microfinance sector has been growing rapidly with the focus largely on growing outreach, there is an urgent need to fill some gaps in the practice and in the understanding of microfinance in order to maximize and accelerate the impact of its growth. The Centre does not posit that microfinance is the sole response to poverty alleviation. However, it does believe that relaxing the credit constraint for the poor, even the extremely poor, can produce a positive impact on their lives and that providing complementary financial services can have a great impact on the reduction of poverty and vulnerability. The Centre also believes that the impact of microfinance can be maximized if other contextual constraints that prevent poor households from participating in the mainstream economy are simultaneously addressed.

The approach the Centre wishes to take in its research and advocacy role is to continue to propagate the prior while simultaneously and continuously seeking to update it and inform it through rigorous research. In order for research to influence action, it is also critical to create an environment where researchers and practitioners constantly interact and exchange information and ideas. The Centre for Micro Finance aims to achieve its objectives through research, training, and strategy-building for MFIs through its MFI Strategy Unit (MSU).

Institute for Financial Management and Research

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