



4-2015

# Microfinance in South India: A Case Study

Arjun Bhaskar  
*University of Pennsylvania*

Follow this and additional works at: [http://repository.upenn.edu/wharton\\_research\\_scholars](http://repository.upenn.edu/wharton_research_scholars)



Part of the [Business Commons](#)

---

Bhaskar, Arjun, "Microfinance in South India: A Case Study" (2015). *Wharton Research Scholars*. 122.  
[http://repository.upenn.edu/wharton\\_research\\_scholars/122](http://repository.upenn.edu/wharton_research_scholars/122)

This paper is posted at ScholarlyCommons. [http://repository.upenn.edu/wharton\\_research\\_scholars/122](http://repository.upenn.edu/wharton_research_scholars/122)  
For more information, please contact [repository@pobox.upenn.edu](mailto:repository@pobox.upenn.edu).

---

# Microfinance in South India: A Case Study

## **Keywords**

Microfinance, Poverty, South India, Kerala

## **Disciplines**

Business

## **Comments**

Microfinance is a novel economic development tool aimed at alleviating poverty through financial inclusion, socioeconomic empowerment, and self-sufficiency. By virtue of a large and poor population, India is one of the largest microfinance markets in the world, and having recently confronted a fundamental moral question related to the mission of the field, presents an interesting area to study. Most press and research coverage focuses on microfinance in Andhra Pradesh due to a high microfinance penetration rate and recent events, but this paper aims to focus its study on the microfinance sector in the South Indian state of Kerala, distinct from the rest of India due to a unique cultural and regulatory environment relative to microfinance sectors in the rest of the world. This research is primarily structured as a qualitative survey conducted through travelling to rural villages in the state and interviewing officers, administrators, and beneficiaries to analyze competition in the sector, understand whether it is successful in its mission of poverty alleviation and empowerment, and compile a list of success factors that can be applied elsewhere. The central conclusion is that microfinance is highly culture and context-specific, with Kerala's communal culture and welfare state being key drivers for the sector's success. In this specific situation, the non-profit orientation and bank linkage models enable institutions to focus more thoroughly on their mission statements, as evidenced by their demand-led convergence model of attacking poverty through several different community development initiatives. This case study also presents an interesting angle on government involvement in the microfinance sector, as subsidies have fostered the sector's growth while simultaneously subjecting the sector to a high degree of political risk.

## **Microfinance in South India: a Case Study**

### **Abstract:**

Microfinance is a novel economic development tool aimed at alleviating poverty through financial inclusion, socioeconomic empowerment, and self-sufficiency. By virtue of a large and poor population, India is one of the largest microfinance markets in the world, and having recently confronted a fundamental moral question related to the mission of the field, presents an interesting area to study. Most press and research coverage focuses on microfinance in Andhra Pradesh due to a high microfinance penetration rate and recent events, but this paper aims to focus its study on the microfinance sector in the South Indian state of Kerala, distinct from the rest of India due to a unique cultural and regulatory environment relative to microfinance sectors in the rest of the world. This research is primarily structured as a qualitative survey conducted through travelling to rural villages in the state and interviewing officers, administrators, and beneficiaries to analyze competition in the sector, understand whether it is successful in its mission of poverty alleviation and empowerment, and compile a list of success factors that can be applied elsewhere. The central conclusion is that microfinance is highly culture and context-specific, with Kerala's communal culture and welfare state being key drivers for the sector's success. In this specific situation, the non-profit orientation and bank linkage models enable institutions to focus more thoroughly on their mission statements, as evidenced by their demand-led convergence model of attacking poverty through several different community development initiatives. This case study also presents an interesting angle on government involvement in the microfinance sector, as subsidies have fostered the sector's growth while simultaneously subjecting the sector to a high degree of political risk.

### **Keywords:**

Microfinance, Poverty, South India, Kerala

## Background

### *Definition*

Microfinance is a type of banking service that is provided to low-income or unemployed individuals who do not have access to typical banking services. Ultimately, the goal of the field is to give these individuals the opportunity to become self-sufficient and sustainably lift themselves out of poverty. Microfinance is a general term used to encompass a vast variety of financial services to serve the poor, such as microcredit, microsavings, microinsurance, and fund transfers. The two main mechanisms for the delivery of these financial services are: (1) relationship-based banking for individuals and (2) group-based models for several individuals to come together to apply for loans and other services as a team. The nine traditional characteristics of microfinance are portrayed by the SmartArt below:

### Traditional Characteristics of Microfinance



The value-add of the microfinance sector stems from the majority of formal banks not providing financial services to the poor, as it is more profitable and efficient to hold large loans and savings deposits with collateral. For example, it may cost over \$100 to collect a single \$100 loan, and it is certainly easier and more cost-efficient to deliver one loan of \$10,000 rather than ten \$1000 loans. Yet low-income families especially in rural areas need financial services to build their businesses and meet other necessities such as education and healthcare, and simple grants of aid are

not a sustainable mechanism for the economic development of a community. As a result, rather than the formal financial sector, the poor generally address their needs through informal relationships that possess serious limitations. Microenterprises are the most susceptible to fluctuations in commodity prices and illnesses due to malnourishment. The poor are also more likely to lose their money through fraud and mismanagement from money sharks demanding an unfairly high cost of funds through informal arrangements rather than formal financial institutions.

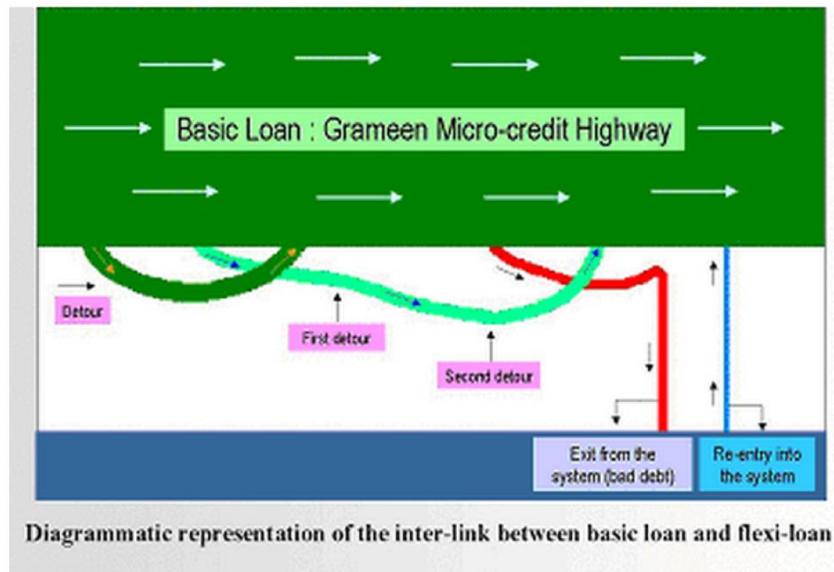
### *Microfinance Models*

A microfinance institution (MFI) is an organization that provides microfinance services, ranging from small nonprofit organizations to large commercial banks. The United Nations generally delineates these different models into two central approaches: the formal financial institutions approach and the community-based institutions approach. The formal approach focuses on building strong, stable financial institutions, which is the preferred approach when there are banks, MFIs, and/or financial cooperative/credit union networks interested in broadening their outreach to the underserved. Examples of prominent MFIs from around the world include Grameen Bank, BRAC, ACCION, Opportunity International, FINCA International, and SKS Microfinance. The community-based approach focuses on building informal community financial institutions and linking them with the formal financial sector either directly or through the creation of federations. India's informal self-help group (SHG) model that links to banks is a prominent example of this, which shall be elaborated upon to further detail later in this paper.

### *Grameen Model*

Microfinance is not a new concept. Small community-oriented microcredit operations have existed since the Franciscan monks in the 15<sup>th</sup> century. In the mid-1800s, Friedrich Wilhelm Raiffeisen founded the first cooperative lending bank to help the rural farmers of Germany.

However, the inception of the modern microfinance industry began in the village of Jobra in Bangladesh in 1976, with Muhammad Yunus establishing Grameen Bank in 1983. It is important to delve into the roots of modern microfinance to analyze and compare with any other program, as today more than 250 institutions on nearly 100 countries operate micro-credit programs based on the Grameen methodology. Borrowers of the Grameen Bank own 93% of the total equity of the bank, with 7% being owned by the Bangladeshi government. Grameen stopped soliciting and taking donor money in 1998, financing its credit program purely through existing deposits and loans from then onwards. Grameen Bank has 1,181 branches, works in 42,127 villages, and has a staff of 11,777. The total number of borrowers is 2.6 million, 95 percent of whom are women. The total amount of loans disbursed by Grameen Bank since inception is \$3.9 billion. Out of this, \$3.6 billion has been repaid, with the recovery rate standing at 98 percent. Grameen Bank provides three types of loans: income-generating loans (with an interest rate of 20 percent), housing loans (with an interest rate of 8 percent), and higher education loans for the children of Grameen families (with an interest rate of five percent). Grameen believes education is one of the major primary components for poverty alleviation, because education culminates in more competitive and skilled workers and sustainable improvement for future generations. Grameen provided loans for higher education covering tuition, living costs, and other school expenses to 466 students studying in medical and engineering schools and scholarships for an average of 3,700 high-performing schoolchildren.



The basic mechanism that Grameen has worked into its product design to reduce tension and maintain dignity among poor borrowers is the distinction between its basic and flexi-loan products. If borrowers cannot maintain a constant stream of payments for their loans, their loans are converted from basic to flexi-loans, thus exiting the highway (metaphorically represented in the diagram above) to a higher loan ceiling typically for between six months to two years while providing respite to borrowers before subsequent re-entry. This prevents negative group peer pressure on a member struggling to pay back a loan while facilitating collection through renegotiation rather than hounding someone who is unable to pay. However, Grameen surely must manage the relative percentage of these loans on its portfolio carefully, as they carry a substantial amount of default risk and incur costs by complicating the jobs of loan officers.

### *Impact Evaluation*

The World Bank estimates that there are over 500 million people globally who have either directly or indirectly benefitted from microfinance-related operations. Professor Yunus estimates that the average household income of Grameen Bank members is about 50 percent higher than the target group in the control village and 25 percent higher than the target group non-members in Grameen Bank villages, which he posits has caused a sharp reduction in the number of Grameen members

living Below the Poverty Line (BPL) at 20 percent compared to 56 percent for comparable non-Grameen members. Gina Harman, CEO of ACCION USA, claims that research has found that one ACCION loan has helped business owners create 2.4 jobs on average in the United States, with these same micro-entrepreneurs also providing wages above the minimum wage by 25% on average.

Yet this issue has evoked great controversy, as experts in the field such as Abhijit Banerjee and Esther Duflo of the MIT Poverty Action Lab and David Roodman of the Center for Global Development have found no statistically significant difference in poverty levels due to microcredit on a large, holistic scale after meta-analyzing data from hundreds of studies. Several critics also argue that Yunus' numbers are skewed due to sampling procedures and the majority of randomized controlled trials (RCTs) on Grameen members finding no substantial change. Rather than firmly confirm or deny due to the limitations of a case study relative to the more statistically powerful RCT, this paper will attempt to shed some light upon this matter within the microfinance landscape in the South Indian state of Kerala.

## Microfinance in India

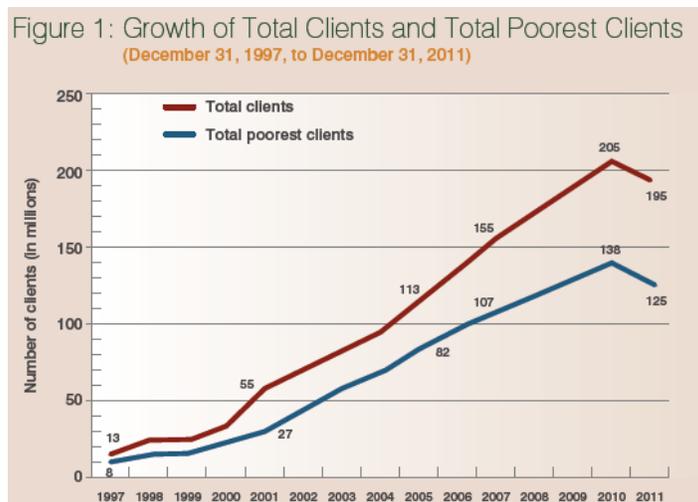
### *Self-Help Group (SHG) Model*

The dominant model of microfinance in India revolves around the “self-help group” (SHG). The Development Economics Capacity Building Unit of the World Bank defines SHGs as village-based organizations that focus on building the savings and credit, as well as the social empowerment, of female members. These groups perform three principal functions: (i) they act as an intermediary in transactions with the formal financial sector; (ii), they provide a mechanism for alternative (i.e., non-public) service delivery—such as contracting directly for training in agriculture or other vocational skills, healthcare, childcare, and educational services; and (iii) they serve as a platform for broader engagement by members in local civic affairs. This model is based off the group lending methodology pioneered by the Grameen Bank and is the most frequently used model of microcredit

used in other comparable communal societies as well, although individual micro-lending has seen a relative increase in recent years.

### *2010 Suicide Crisis*

The microfinance industry in India has undergone the most severe crisis in its 25 year history. The genesis of the crisis lies with approximately 100 suicides in Andhra Pradesh in 2010 linked to aggressive microcredit salesmen and loan collectors from private sector MFIs operating in the state. Interest rates were as high as 80 percent, borrowers were pressured by salesmen into taking multiple loans they could not possibly repay, and rumors of thugs harassing borrowers to repay loans on time circulated, with around 80-120 suicides being reported as directly linked to these microcredit loans. As a result, politicians in Andhra Pradesh issued a statement requesting that borrowers not repay their loans, plummeting repayment rates in the region from 98 to 5 percent. The Reserve Bank of India then stepped in to regulate the sector and passed regulations such as margin caps banning MFIs from charging over 10 to 12 percent off the operating margin they make off their loans. However, in the first half of FY2011, MFIs in Andhra Pradesh disbursed Rs 5,000 crore (\$1.13 billion) to borrowers; in the second half of FY2011, these same MFIs could only disburse Rs 8.5 crore (\$1.9 million). Thus, the crisis has reduced financing to the very poorest of India's citizens by 600%. Data from David Roodman of Harvard University demonstrates that on a holistic level, the crisis tangibly reduced the number of poorest clients globally being served by microfinance sector by over 10 million (with a little of this number being attributed to slight decreases in Bangladesh as well).



This crisis has ushered in abundant debate regarding the ethicality of profiteering off the poor. When private MFIs such as SKS Microfinance underwent Initial Public Offerings (IPOs), they essentially submitted to the objective of maximizing the returns of shareholders over the goal of microfinance to alleviate poverty, standing in contrast to the traditional double-bottom line of social business with both social impact and profit as dual objectives. This theme of the privatization of microfinance in India shall be touched upon later on in this paper during a review of the microfinance landscape in Kerala. This decrease in business in Andhra Pradesh has also caused private MFIs to search for more business in India's southern states like Kerala and Tamil Nadu, a phenomenon which will also be consequently discussed.

### Microfinance in Kerala

As per the government website on women in Kerala, Kerala has a high female literacy rate of 86.2%. However, in spite of this achievement, the conspicuous absence of women in the public domain is considered a paradox in Kerala's model of development and has drawn considerable attention over recent years. The female labor force participation rate has been as low as 15.9% and has decreased over recent years. Unemployment among females in the state is higher than that of males by 5 times in rural areas and 3 times in urban areas, with the unemployment rate in Kerala itself considered severe and 3 times above the national average. 15 lakhs of Kerala families are in poverty, with women and children being the prime victims of its negative socioeconomic effects.

Thus, there is certainly more than sufficient demand in the state for the services of microfinance organizations aimed at alleviating poverty and empowering women.

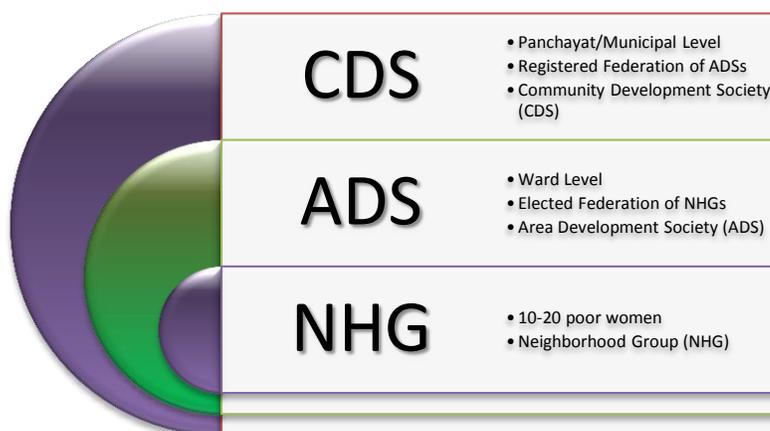
Through a 2.5 week research expedition to Kerala, a sample of 15 interviews with microfinance practitioners and beneficiaries and data collected directly from the field were obtained to learn more about the competitive landscape of microfinance organizations in the state and their respective organizational structures. Profiles of the most substantive ones are in the Appendix. None of these microfinance programs possesses a substantial online presence due to the rural communal aspect espoused by each of them, so interviews and field data were essential to learn about these aspects. The most prominent scheme is that of the government-championed Kudumbashree, followed by several caste-specific programs such as Shree Narayana Dharma Paripalana (SNDP), Nair Service Society (NSS), and Syrian Christian Churches. The disparity in market shares between Kudumbashree and these other players is deemed so significant that it was estimated to be 99-1 by most of the interviewees. Each of them also exclusively focuses on women, as they generally put their loans and credit towards productive uses for the entire family rather than alcoholism (Kerala interestingly possesses the highest rate of alcohol consumption in all of India as per the Kudumbashree District Director of Ernakulam) in most rural areas.

### *Kudumbashree*

Jointly launched by the Government of Kerala and NABARD in 1998 to eliminate poverty through concerted community action under the leadership of Local Self Governments (LSGs), Kudumbashree (“prosperity of the family”) is the largest multi-faceted women development agency in South Asia, facilitating the organization of the poor for combining self-help with demand-led convergence of available services and resources to tackle the multiple dimensions and manifestations of poverty, holistically. The program has 37 lakh members and covers more than 50% of the households in Kerala.



The three flowers of Kudumbashree's logo (above) represent its three key organizational pillars, namely economic empowerment, social empowerment, and women empowerment. The violet color represents female emancipation, while the green color represents prosperity.



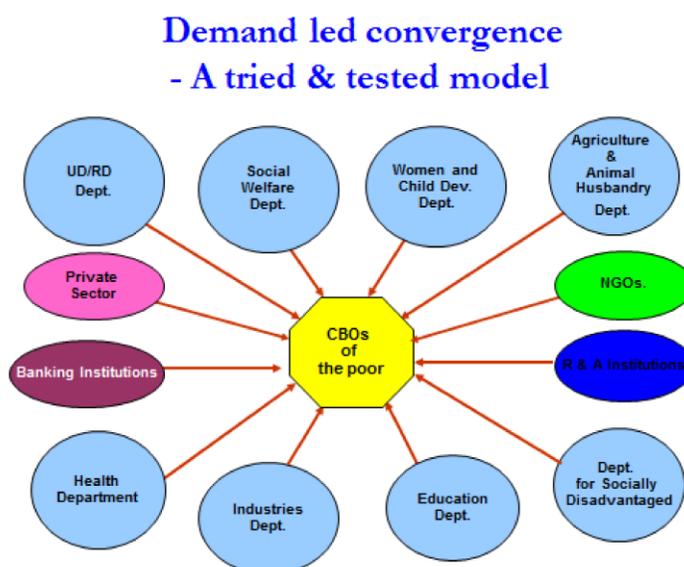
Kudumbashree is implemented by Community-Based Organizations (CBOs) of poor women, structured into NHGs, ADS, and CDS (explained in SmartArt info-graphic above).

The grassroots of Kudumbashree are Neighbourhood Groups (NHG in short) that send representatives to the ward level Area Development Societies (ADS). The ADS sends its representatives to the Community Development Society (CDS), which completes the unique three-tier structure of Kudumbashree. Today, there are 1.94 lakhs NHGs, over 17,000 ADSs and 1061 CDSs in Kudumbashree.

An innovative program introduced in the Alapuzzha Municipality in 1992 by the Local Administration Department of the Government of Kerala that empowered groups of urban poor

women to take up community-based action was an instant success and extended to all other urban areas in the state. In 1994, a replication was implemented in the Malappuram District, including all rural areas. These social experiments eventually gave rise to the state-wide Kudumbashree by the ruling Community party, which has grown to 3.9 million members.

### *Success Statistics*



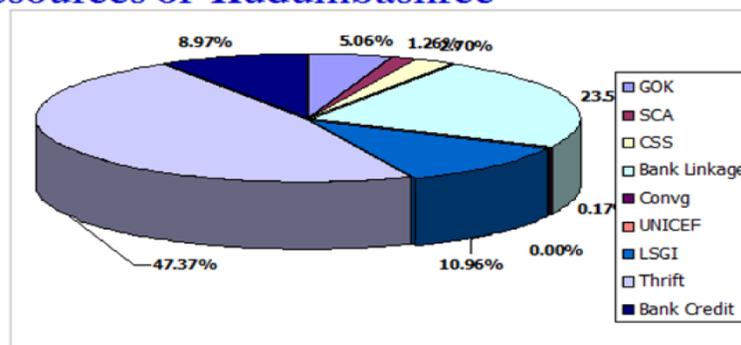
Poverty is a multi-dimensional problem, and similar to Grameen, Kudumbashree invests in other solutions besides microcredit to solve it, aimed primarily at the destitute who are not ready for financial services and the empowerment of women and children. This model is dubbed ‘demand-led convergence’ to demonstrate how Kudumbashree has invented and designed its programs around the problem and demands of poverty. These ancillary services provided alongside its microcredit and microdeposit (thrift) offerings are typically dubbed as ‘Microfinance Plus’ programs, each of which is considered highly successful as demonstrated by the following statistics:

- Mobilized a sum of Rs. 1688 crores as thrift and disbursed loans amounting to Rs. 4195 crores to the members of Neighborhood Groups.

- 150,755 NHGs graded under Linkage Banking Program, out of which 127,467 NHGs linked with banks and an amount of Rs.1140crores mobilized as credit.
- 25050 individual enterprises and 1757 group (with minimum 5-10 members) enterprises of women developed in urban areas.
- 3516 individual enterprises and 10620 group (with minimum 5-10 members) enterprises of poor women formed in rural areas.
- 225,200 Women cultivators in 46444 groups for collective farming 2009-2010.
- 11916 Joint Liability Groups formed.
- 570 group enterprises and 810 individual enterprises started under the Special Employment Program (Yuvashree).
- Ashraya-Destitute identification and Rehabilitation Project implemented in 909 Local Self Governments and 71,011 destitutes identified.
- 248 entrepreneur groups (Thelima) formed for the municipal solid waste management in urban areas.
- 'Buds' -31 special schools for physically and mentally challenged children set up under the leadership of the Local Self Government.
- 54669 Balasabhas (Children's Neighbourhood Groups) with 8.9 lakh children formed in urban and rural areas.
- Involvement of 55,959 tribal families with 3,998 NHGs under the Tribal Special Project.

- Under the special Gender Self Learning Programme active participation of 50,220 resource persons and 2.2 lakhs NHGs ensured. Launched SreeSakthi Portal which is exclusively for women to participate in active discussions on various issues related to them.
- Functioning of Kudumbashree MIS, the first of its kind in India.
- Sales from monthly market and festival fairs 2010-11(Till Nov) 14.15 Crores.
- Political Empowerment of Women - In 2010 alone, 11,773 women candidates contested Panchayat elections and 5485 of them won the elections.

**Resources of Kudumbashree**



| Rs. In Crores |       |       |              |       |        |        |        |             |         |
|---------------|-------|-------|--------------|-------|--------|--------|--------|-------------|---------|
| GOK           | SCA   | CSS   | Bank Linkage | ConvG | UNICEF | LSGI   | Thrift | Bank Credit | Total   |
| 60.00         | 15.00 | 32.00 | 278.81       | 2.00  | 0.05   | 130.00 | 561.82 | 106.36      | 1186.04 |

The Excel pie chart above quantifies Kudumbashree's distribution of resources amongst its different programs. It is notable that the majority of its loans are 'Bank Linkage' loans, meaning that Kudumbashree merely serves as an intermediary between the SHG and the commercial bank, with the bank taking on the majority of the credit risk. This credit model qualifies Kudumbashree as an 'informal communal financial institution', under the World Bank's designation of MFIs.

## Primary Research

I traveled to Kerala to meet with Kudumbashree Mission and the beneficiaries to get first-hand information about its operation, understand the successes & challenges and, to see a few success stories in the field. Interviews were conducted with officers and administrators of Kudumbashree Mission in rural and urban areas and also with District Mission Coordinator and State Mission Representative. I also got an opportunity to visit the annual Christmas Bazaar (Trade Fair) coordinated by Kudumbashree in Ernakulam, which gave me a glimpse of the actual products and services offered by Kudumbashree members from all over the state. I was also able to meet and talk to several beneficiaries who were at the fair. The following sections summarize the interviews and discussions.

### Meeting with Kudumbashree Mission at Muvattupuzha, Kerala

*Meeting Date:* December 19, 2013

*Meeting Place:* Office of the Local Government , Muvattupuzha

*Participants from Kudumbashree:* Valsa Paulose, CDS Chairperson,

Nissa Asharab, Head of Social Welfare Standing Committee

Anees Baburaj, CDS Vice Chairperson

#### *Interview Summary:*

Muvattupuzha is a municipal town (small city) situated 27 miles east of Kochi, in Ernakulum District. It has a population of about 30,000 spread over 5 square miles.

Kudumbashree Mission is set up by the Government of Kerala for absolute poverty alleviation and, social and economic empowerment of women. It has been operating successfully since 1998. The mission operates at district level supported by a state organization. It provides training and financial support to Self Help Group (SHG) based Community Organization Network. The

Kudumbashree community organization has a three-tiered structure with its top tier anchored in the Local Self Government (LSG). The three tiers are:

- Neighbourhood groups (NHGs): Groups of 10 to 20 women from the same neighborhood from the basic structure
- Area Development Society (ADS): Federation of NHGs within a ward of the local self government group (LSG) like Panchayat, Municipality and Municipal Corporation. In Kerala, Panchayats are very small cities or villages, Municipalities are medium size cities and Municipal Corporations are big cities.
- Community Development Society (CDS): Federation of ADS within the LSG and are Registered as Society as per the Indian laws.

There are 28 ADSs and 135 NHGs operating in Muvattupuzha and there are more than 1000 people involved in the NHGs. In Kerala, there are not many people belonging to the BPL and also it is very hard to determine the income level of poor people. So Kudumbashree Mission let the NHG members determine the eligibility based on what they know about the people in their neighborhood and their need, income and social status. They all have to be of similar status socially and economically to work together as a team. Typical businesses operated by micro-entrepreneurs in Muvattupuzha locality are Restaurants, Bus Services, Taxi Services, Waste Management, Food Service & Catering and Agriculture.

The NHG members pool money and deposit in the bank. NHG members can borrow money from the deposited money from the group and repay it as per the agreement with the group. In addition, the group can borrow from a certain banks using a Kudumbashree arranged loan program called Linkage Loan. NHGs with qualified projects can get 50% of the budget as subsidy from Kudumbashree. In addition, after six months of successful operation, NHGs can get rewards

equivalent to 25% of the project budget from Kudumbashree. For successful NHGs, Kudumbashree also provides interest free loans to purchase machinery, building improvements, etc.

Most of the loans are paid back in a timely manner. Sometimes if a member is not able to pay back the loan on time due to hardships, NHG will work with the person to make alternate schedule for payments. For the group loans, the default rate is almost zero.

The biggest challenge in Muvattupuzha is to get people to sign up for the NHGs. People in this part of India are well educated and most of them have a job, business or income from agriculture, so they do not need much assistance from Kudumbashree Mission or other similar programs. The Government of India has instituted a job guarantee program for the unemployed people, which in a way competes with Kudumbashree when people are not interested in running a business or doing group projects to generate income.

#### Meeting with Kudumbashree Mission at Valakom Gramma Panchayat, Ernakulam District

*Meeting Date:* December 20, 2013

*Meeting Place:* Valakom Grama Panchayat Office

*Meeting Participants:* Ambika Krishnan, CDS Member

Nisha Sanjeev, Accountant for the Kudumbashree Mission

*Interview Summary:*

Valakom is a Gramma Panchayat (a village in rural area) situated about 22 miles to the east of Kochi in Ernakulam District. Its population is about 16000 spread over an area of 9 square miles.

In rural areas like Valakom, most of the projects are in the agriculture and farming sector and hence the Kudumbashree programs here are mostly customized for that sector. Kudumbashree Mission started operating there from year 2000 and is very successful. There are 4000 families in the

Panchayat. And there are 2300 women participating in Kudumbashree programs through 122 NHGs and 14 ADSs. 1700 of them are in BPL and the rest are APL.

The members of the NHGs pool the money equally based on what the poorest person in the group can afford. Individual members of groups of members can borrow from the pool. For larger amounts, Kudumbashree Mission facilitates loans from banks and also provides a subsidy. The bank typically charges 9% interest. The Kudumbashree Mission funds 5% of this and hence the Kudumbashree beneficiaries pay only 4%. After 6 months of successful operation, micro-entrepreneurs can avail INR 35,000 revolving credit with no interest from Kudumbashree Mission. If the company is successfully operating, it does not have to return the money.

Kudumbashree supported businesses in Valakom are Tailoring (individual or groups), Goats, Cows and Poultry businesses (individuals or groups), Catering Services, Coconut Oil production and Agriculture. Most of the women in the programs are very motivated and are very successful. They have many successful businesses in tailoring where people are able to make over INR 1000 per day. They also have a group making bricks out of clay and selling all over the district and a business which produces coconut oil for exporting.

70% of our NHG members have high school diploma and the remaining 30% have Bachelor's degree or higher. Kudumbashree has a Group Farming Program in which a group of people from one or more NHGs form a group called Joint Liabilities Group and do farming in available and useable land in the Wards of the Panchayat. Kudumbashree helps them with the knowhow for efficient farming and financial aspects of the project. They do monthly trade fairs and festival events like Onam Bazaar and Christmas Bazaar to enable the micro-entrepreneurs to sell their products and get visibility.

Meeting with Kudumbashree District Coordinator, Ernakulam

*Meeting Date:* December 21, 2013

*Meeting Places:* Trade Fair location and District Mission Office at Ernakulam

*Meeting Participant:* Ms Tanie Thomas, District Coordinator

*Interview Summary:*

Kudumbashree is the biggest women organization in Asia comprising of over 40 million women participating through 250,000 Neighborhood Groups (NHGs). Its main objective is poverty alleviation. It is a “women only” program as women are considered to be better at savings than men and also they face more hardships in poor families. Kudumbashree organization is not part of the local government, but works in coordination with local governments. The Government of India has set up a National Rural Livelihood Mission to coordinate the poverty alleviation programs all over the country. Each state has a Nodal Agency to accomplish this goal. Kudumbashree is the Nodal Agency for Kerala. Kudumbashree gets 50% of its funding from Government of India and 50% from the Government of Kerala. It also gets some funding from UNICEF for the children’s programs like BUDS School. Loan programs are set up with the local cooperative societies and banks which are community based financial institutions to provide banking services. These loans are generally provided to groups only and are called Linkage Loans. There are also Enterprise Loans available to individual entrepreneurs. Loans paid back on a timely basis and recovery rate is almost 99%.

Kudumbashree provides two kinds of training for the program beneficiaries. The first one has two parts: (a) General Orientation Training (GOT) which provides an orientation to Kudumbashree and its programs and (b) Entrepreneurship Development Program (EDP) which provides basic training related to good business practices like book keeping and skills training based on the business need. The Mission also helps micro-entrepreneurs to incubate their business and provides hand-holding for up to 3 years. Kudumbashree’s market share is close to 99%.

### Kudumbashree Trade Fair visit and Discussion with the Micro Entrepreneurs

I visited Kudumbashree's Christmas Bazaar (Trade Fair) at Ernakulum with the help of the Distr. State Mission Representative, Ms Kavitha, gave me a tour of the stalls exhibiting the goods produced by Kudumbashree micro-entrepreneurs from different parts of the state and helped me to have discussions with the micro entrepreneurs at the stalls. There was an impressive list of items like consumer goods, health products, food products etc.. Some of the products are even exported to other countries. Kudumbashree helps the sales and marketing effort of the beneficiaries by providing them funding and a platform to exhibit in national and international trade fairs. Recently, some of micro-entrepreneurs had participated in International trade events in Bangladesh, Dubai and Shanghai, China. A "Kudumbashree" brand is getting created for the goods sold and services provided by micro-entrepreneurs. In addition, field level sales teams are also formed to do door-to-door selling.

### Meeting with Kudumbashree Beneficiary in Neduvathoor Panchayat

*Meeting Date:* December 23, 2013

*Meeting Place:* Neduvathoor

*Participant:* Bindu Bhargavan, Kudumbashree Member

*Interview Summary:*

Neduvathoor is a village located in Kollam District, southern Kerala. It has a population of about 24000. I got a chance to talk to Bindu Bhargavan, one of the beneficiaries of Kudumbashree, who has been involved with Kudumbashree for 2 years. She has been involved in businesses like Poultry, Mushroom Farming , Pickle Making and Chapathi (Indian Bread) Making.

As per the Kudumbashree guidelines, Bindu is member of a Self Help group of 6 women called NHG. Based on the skills of the group members, they decided on starting the businesses. Kudumabashree provided them the training needed to start and operate a business. They also helped

them open a bank account to deposit the money they pool for the group and also to secure loan from the bank.

Kudumbashree programs are very successful and well managed in most cases. Bindu pointed out an isolated case in which the program was not running effectively when a group was not working well together because the members have different income levels. The poorer people in the group will be more motivated to work harder and make profits while the people with higher income may not work as hard. This created teamwork issues within the group causing their business to fail.

As per Bindu, Kudumbashree changed her life completely. She was able to take care of a family of 4 with the profit she made from the businesses. Before working with Kudumbashree, a woman from a rural area with very limited savings like her could not even think of starting and running a business. With the support from Kudumbashree Mission, she became more confident and independent. She also understood the power of a cooperating group of women to start and run their own businesses by pooling their small savings and making use of available subsidies and bank loans. Kudumbashree also provided her training in accounting, book keeping, banking and the process required for securing a loan for starting and running a business. Now she is a successful micro-entrepreneur managing several small businesses.

### Analysis and Conclusions from the Field Interviews

One of most interesting observations during the interviews was that everyone associated with Kudumbashree is very happy and motivated in what they are doing. This is true for the Mission employees, the beneficiaries met in rural areas and all the micro-entrepreneurs I met in the large trade fair. This by itself is a clear sign that the program is immensely successful. There are plenty of data available to validate the successes in addition to the interview responses.

Based on the interviews and discussions, I believe the following are the reasons for its success:

1. It is organized as an entity supported by and working in conjunction with the government, but is not part of the government itself. This structure helps it to avoid government bureaucracy, while at the same time, getting the financial and infrastructure support from the government. It also does not have a pure profit making objective or religious mission like other private MFIs.
2. Unlike other MFIs, Kudumbashree is able to provide government subsidies and low interest loans to help micro entrepreneurs financially
3. The peer selection process for the members of the NHGs ensures better team work and productivity. The NHG structure and member selection process ensures that only people from the same neighborhood with similar social and economic status form the group.
4. The high repayment rates of the micro loans are attributable to the community culture of Kerala and the structure of the NHGs. People do not want to be isolated in their community because of loan default.
5. The high literacy rate and high position of women in the Kerala Family are also key factors in the success of Kudumbashree. Even in rural areas, NHGs have high percentage of women with college degree. The higher level of education makes it easy to train the NHG members in basic business administration and further skills development.
6. Since the ideas for micro entrepreneurship are originated at grass root level and not imposed by the Mission, the entrepreneurs are more motivated to make their business more successful. This also makes it possible to have different projects in rural and urban areas based on the people's skill sets and the market potential.
7. Kudumbashree has an excellent training and mentoring program for its members to help them start and succeed in their businesses

8. Kudumbashree also supports the members in sales and marketing of the products services of its member entrepreneurs by trade fairs, festival markets and enabling branded products and services

The main challenges faced by the Mission are the following:

1. Political activism during election times creates short term team work issues when the members of the NHGs, CDSs and local government leaders belong to different political parties.
2. In some parts of the state, Kudumabshree finds it difficult to attract members because the socio- economic status of the people is already good enough.
3. There are Government social programs which provide job and wage guarantee for the unemployed. For people who are not motivated to manage their own businesses may prefer to go for such social programs instead of Kudumbashree.
4. When the NHG members are not selected as per the guidelines of similar economic status and goals, there are possibilities of team work issues and failed operations.

A final observation is that as more and more Kudumbashree members become economically self-sufficient, they may move out of Kudumbashree programs. Will Kudumbashree shrink in size or will it continuously redefine itself with newer goals and more innovative programs? Based on its successful model for social and economic empowerment, I am sure the latter will be the future.

**Interview with Ms. Tanie Thomas, Kudumbashree Mission District Coordinator, Ernakulam District, Kerala**

*Meeting Date:* December 21, 2013

*Meeting Places:* Trade Fair location and District Mission Office at Ernakulam

Arjun Bhaskar: Why does Kudumbashree limit access to its programs to women?

Tanie Thomas: Kudumbashree's main objective is poverty alleviation. Typically women and children face more hardships in poor families. Women are also better at savings than men. By involving women, Kudumbashree is also able to reach most of the poor households when many other large government programs could not.

Arjun Bhaskar: Is Kudumbashree organization part of the local government?

Tanie Thomas: No, it is not part of the local government, but works in coordination with the local government. In Kerala, the Grama Panchayats (or local government at village level) are very strong. They have the power, authority and mandate to alleviate poverty.

Arjun Bhaskar: How many members or participants are in the program?

Tanie Thomas: Kudumbashree is the biggest women organization in Asia comprising of 39,000,000 women participating through 250,000 Neighborhood Groups (NHGs).

Arjun Bhaskar: How are the participants identified for the NHGs? Are they all in the BPL classification?

Tanie Thomas: The original plan was to include just women in the BPL. Since there are not many people below poverty line in Kerala as defined by government, Kudumbashree now do not take into consideration BPL / APL classification for identifying the participants. The poor people in the neighborhood for participation are identified by the community itself and it is working well.

Arjun Bhaskar: Since the participants in the NHGs are poor people, I would think the money they can pool for the loans are also very little. Does Kudumbashree Mission have any programs to provide larger loans to the participant(s) when the micro-entrepreneur(s) come forward with a good business plan?

Tanie Thomas: Kudumbashree Mission is not a bank or a financial institution and hence it cannot provide any loans. But the Mission has set up loan programs with the local cooperative societies and banks which are community based financial institutions to provide banking services. These loans are generally provided to groups only and are called Linkage Loans. There are also Enterprise Loans available to individual entrepreneurs.

Arjun Bhaskar: Are all the loans used for starting or expanding small businesses by the participants?

Tanie Thomas: The purpose of the Mission is to alleviate poverty and help its members overcome financial hardships by helping each other out. 50% of Linkage Loans are in fact used for consumption purposes like marriage related expenses.

Arjun Bhaskar: Are all loans paid back on a timely basis? What is the recovery rate?

Tanie Thomas: Loans are paid back almost always. The recovery rate is like 99%. The community based organization helps in recovery because the defaulters will lose their social standing.

Arjun Bhaskar: How is the Mission funded?

Tanie Thomas: The Government of India has set up a National Rural Livelihood Mission to coordinate the poverty alleviation programs all over the country. Each state has a Nodal Agency to accomplish this goal. Kudumbashree is the Nodal Agency for Kerala. Kudumbashree gets 50% of its funding from Government of India and 50% from the Government of Kerala. It also gets some funding from UNICEF for the children's programs like BUDS School and Bala Panchayats that Kudumbashree has recently undertaken.

Arjun Bhaskar: Many of the micro-entrepreneurs may not have prior experience in managing any business. Do you provide any training to them?

Tanie Thomas: Certainly. We have two kinds of training for the program beneficiaries. The first one has two parts: (a) General Orientation Training (GOT) which provides an orientation to Kudumbashree and its programs and (b) Entrepreneurship Development Program (EDP) which provides basic training related good business practices like book keeping. GOT is for 2 days and EDP is for 3 days. These are mandatory training for all participants. The second one is skills training for the people who need training in the specific skill required for the business.

To manage the training effectively for this large number of people, we follow a "Train the Trainer" approach. We have 400 microenterprise consultants available for training others. For skills training, we get the help of advisors from outside organizations – both public and private.

Arjun Bhaskar: Do you provide any kind of marketing and sales support to the micro-entrepreneurs?

Tanie Thomas: At this time, we do not have direct stores or online sales for selling the goods from the micro-entrepreneurs. We conduct three large Trade Fairs every year which typically runs for two weeks. Micro-entrepreneurs can set up stalls in the trade fair and sell directly and get additional customers. We have even sent a few of them for international trade fairs. In addition, we do organize trade fairs during important festival times like Onam (Kerala's main festival which is celebrated for 10 days), and Christmas & New Year.

Arjun Bhaskar: What are the other microfinance institutions in Kerala? What is the market share for Kudumbashree?

Tanie Thomas: Religious and Community based organizations like the Churches, NSS and SNDP have microfinance programs. Some political parties have also their programs like Janasree Mission. There are also private for-profit microfinance organizations.

Arjun Bhaskar: How does Kudumbashree differentiates itself from the other MFIs you mentioned? What is its market share?

Kudumbashree is better organized and managed. We have a very good training and mentoring program. Especially the skills based training is very unique. We also help micro-entrepreneurs to incubate their business and provide hand-holding for up to 3 years. Our market share is close to 99%.

Arjun Bhaskar: That is really great! What are the main challenges that Kudumbashree faces?

Tanie Thomas: We have a very smooth operation in general. But during the elections to local governments, at times there are disputes and differences of opinion among the members of the Neighborhood Groups and CDSs. This is because Kerala is a very politically active state where almost everyone participates in the political process. Once elections are over, everyone is back to the cooperative mode of operation.

Arjun Bhaskar: What are the other innovative programs you have in Kudumbashree to help the poor?

Tanie Thomas: We have several programs like the following:

- Asraya Project: This for the identification of destitute, elderly and the poorest of the poor people, and to help them with the basic necessities like food, clothing and shelter. We also get charitable donations for funding this project.
- Balasree: This program is to identify and help poor children
- Yuvasree: This is a Loan-cum-Subsidy scheme to help men and women in 18 – 40 age groups.

I will provide you some publications about Kudumbashree and its programs from our office.

Tanie Thomas: Will you be interested in meeting the Kudumbashree members who are exhibiting in the annual trade fare here in Kochi?

Arjun Bhaskar: Certainly. That will be of immense help.

At this time Ms Thomas introduces me to Ms Kavitha, who is from the State Mission whose responsibility is to coordinate the trade fare. Ms Thomas had to leave for some important meeting.

Ms Kavitha accompanies me for a tour of the stalls exhibiting the goods produced by Kudumbashree micro-entrepreneurs from different parts of the state. There is an impressive list of items like consumer goods, health products, food products etc... Some of them are so successful that they have even gone for international trade fairs.

**I also got a chance to ask the following questions to Ms Kavitha during the tour.**

Arjun Bhaskar: Are such trade fairs restricted to big cities like Kochi?

Kavitha: In rural areas there are fairs every month. They are smaller in size and are organized for the Kudumbashree groups in that locality.

Arjun Bhaskar: Is Kudumbashree helping with any marketing strategy for micro-entrepreneurs?

Kavitha: We were not doing that initially. Now we are trying creating a “Kudumbashree Brand” for the goods produced by our micro-entrepreneurs. In addition, we are trying create groups who can do field level sales. We also enable successful micro-entrepreneurs to expand their markets outside the state and also internationally. We fund them and provide them a platform to exhibit in national and international trade fairs. Recently, our micro-entrepreneurs have gone to exhibit in Bangladesh and Shanghai, China. These were so successful that we are considering sending a few of them to Dubai for the next big trade event there.

Arjun Bhaskar: Does Kudumbashree operate any branded stores? Do you have an e-commerce site for sales?

Kavitha: Unfortunately, we are not there yet. There are discussions within the leadership team about these now. May be we will have something set up in the near future.

## **Meeting with Bindu Bhargavan, Kudumbashree Beneficiary at Neduvathoor Gramma Panchayat**

*Meeting Date:* December 22, 2013

*Meeting Place:* Neduvathoor

*The meeting was conducted with the help of a translator.*

Arjun Bhaskar: How long have you been involved with Kudumbashree?

Bindu Bhargavan: I have been involved with Kudumbashree for the last 2 years.

Arjun Bhaskar: What kind of business have you started with the help of Kudumbashree?

Bindu Bhargavan: With the help of Kudumbashree, I am involved in the following businesses:

- Poultry
- Mushroom Farming
- Pickle Making
- Chapathi (Indian Bread) Making

Arjun Bhaskar: How did Kudumbashree Mission help you in setting up and running these businesses?

Bindu Bhargavan: As per the Kudumbashree guidelines, a group of 6 women including me formed a self help group called NHG. Based on the skills of the group members, we decided on starting the businesses. Kudumbashree provided us the training needed to start and run a business. They also helped us open a bank account to deposit the money we pool for the group and also to secure loan from the bank.

Arjun Bhaskar: Are your businesses profitable?

Bindu Bhargavan: Certainly. I am able to take care of a family of 4 with the profit I make from the businesses.

Arjun Bhaskar: How do you summarize the benefits of working with Kudumbashree Mission?

Bindu Bhargavan: It changed my life completely. Before working with Kudumbashree, a woman from a rural area with very limited savings like me could not even think of starting and running a business. With the support from Kudumbashree Mission, I became more confident and independent. I also understood the power of a cooperating group of women to start and run their own businesses by pooling their small savings and making use of available subsidies and bank loans. Kudumbashree also provided me training in accounting, book keeping etc., needed for running a business. Now I am also very familiar with banking and the process required for securing a loan.

Arjun Bhaskar: Are you aware of situations where the Kudumbashree programs are not working effectively? If so, what may be the reasons?

Bindu Bhargavan: Kudumbashree programs are very successful and well managed in most cases. I have heard of isolated cases where the programs are not running effectively. Sometimes it is political issues like when the CDS leadership and NHG members belong to different political parties. I also heard that one group is not working well because the members have different income levels. The poorer people in the group will be more motivated to work harder and make profits while the people

with higher income may not work as hard. This creates teamwork issues within the group and their business will fail.

Arjun Bhaskar: Thanks for sharing your experiences with Kudumbashree. I appreciate your help and wish you all the best with your businesses.

## **Meeting with Kudumbashree Mission CDS Team at Muvattupuzha, Kerala**

Muvattupuzha is a municipal township situated 27 miles east of Kochi, in Ernakulum District. It has a population of about 30,000 spread over 5 square miles.

*Meeting Date:* December 19, 2013

*Meeting Place:* Office of the Local Government, Muvattupuzha

*Participants from Kudumbashree:* Valsa Paulose, CDS Chairperson,

Nissa Asharab, Head of Social Welfare Standing Committee

Anees Baburaj, CDS Vice Chairperson

*The Kudumbashree Mission CDS team could not converse fully in English, so I had to get the help of a translator for this interview.*

Arjun Bhaskar: Could you please give me an overview of Kudumbashree Mission and how it operates?

Valsa Paulose, Anees Baburaj: Kudumbashree Mission is set up by the Government of Kerala for absolute poverty alleviation and, social and economic empowerment of women. It has been operating successfully for the past 15 years. The mission operates at district level supported by a state organization. It provides facilitation, training and financial support to Self Help Group (SHG) based Community Organization Network. The Kudumbashree community organization is a three-tiered structure with its top tier anchored in the local self government (LSG). The three tiers are:

Neighbourhood groups (NHGs): Groups of 10 to 20 women from the same neighborhood from the basic structure

Area Development Society (ADS): Federation of NHGs within a ward of the local self government group (LSG) like Panchayat, Municipality and Municipal Corporation. In Kerala, Panchayats are very small cities or villages, Municipalities are medium size cities and Municipal Corporations are big cities.

Community Development Society (CDS): Federation of ADS within the LSG and are Registered as Society as per the Indian laws.

Arjun Bhaskar: How many ADSs and NHGs are in operation in Muvattupuzha?

Valsa Paulose: We have 28 ADSs and 135 NHGs operating in Muvattupuzha.

Arjun Bhaskar: How many people are participating in the Kudumbashree programs through the NHGs?

Anees Baburaj: We have more than 1000 people involved in the NHGs.

Arjun Bhaskar: I read that only people belonging to the BPL category are eligible to participate in Kudumbashree's NHGs. Is this correct? How are people classified into BPL and APL?

Valsa Paulose: It is true that only BPLs could participate in the NHGs till recent past. In Kerala, there are not many people belonging to the BPL and also it is very hard to determine the income level of poor people. So Kudumbashree Mission let the NHG members determine the eligibility based on what they know about the people in their neighborhood and their need, income and social status. They all have to be of similar status socially and economically to work together as a team.

Nissa Asharab: The BPL – APL classification is based on annual income of the family. The Government of India has determined Rs 27000 as the cut off income level. The government of Kerala has a different set of criteria for BPL classification based on property & home ownership, education etc. Kudumbashree members mostly fall under the Kerala BPL classification.

Arjun Bhaskar: Thank you. I am very impressed with the peer group selection process that you have instituted. What are the typical businesses operated by micro-entrepreneurs in this region?

Valsa Paulose: In Muvattupuzha, most of the businesses are in one of the following categories:

- Restaurants
- Bus Services
- Taxi Services (Car and Auto Riskshaw)
- Waste Management
- Food Service & Catering

In addition, many people in the rural wards are engaged in agriculture.

Arjun Bhaskar: How successful are these businesses?

Anees Baburaj: Most of them are very successful. Amrita Food Service is an excellent example. They operate a catering service supplying nutritious food to schools, which is very popular with school children. There is also one group running an IT business which is very successful.

Nissa Asharab: I also know of a couple of well run restaurants under the Kudumbashree program.

Arjun Bhaskar: How do the NHGs fund their projects? Do they get loan from Kudumbashree?

Valsa Paulose: The NHGs pool money and deposit in the bank. NHG members can borrow money from the deposited money from the group and repay it as per the agreement with the group. In addition, the group can borrow from a certain banks using a Kudumbashree arranged loan program called Linkage Loan.

Arjun Bhaskar: Does Kudumbashree Mission provide any additional financial support or incentives to the NHGs?

Valsa Paulose: NHGs with qualified projects can get 50% of the budget as subsidy from Kudumbashree. In addition, after six months of successful operation, NHGs can get rewards equivalent to 25% of the project budget from Kudumbashree. For successful NHGs, Kudumbashree also provides interest free loans to purchase machinery, building improvements etc.

Arjun Bhaskar: What is the maximum amount of loan and subsidy allowed?

Valsa Paulose: The cap on the individual loan is Rs 200,000 and group loan with at least 5 members is Rs 500,000. The subsidy amounts are capped at 35% for the individual loan 50% for the group loan.

Arjun Bhaskar: Are the loans paid back on a timely manner? Based on your experience, how many people default on the loan?

Valsa Paulose: Yes, most of the loans are paid back. Sometimes if a member is not able to pay back the loan on time due to hardships, NHG will work with the person to make alternate schedule for payments. For the group loans, the default rate is almost zero.

Anees Baburaj: The government once in a while comes with programs to write off loans to poor people especially in the agriculture sector. When such schemes are announced, people will not pay back the loans. The defaults are mostly restricted to such cases.

Arjun Bhaskar: What are the challenges for Kudumbashree in Muvattupuzha?

Valsa Paulose: The biggest challenge is to get people to sign up for the NHGs!

Anees Baburaj: People in this part of India are well educated and most of them have a job, business or income from agriculture. They really do not need a lot of help from Kudumbashree Mission or other similar programs.

Nisha Asharab: The Government of India has instituted a job guarantee program for the unemployed under the Mahatma Gandhi Rural Employment Guarantee program scheme. Under this program unemployed people are provided jobs and wages by the government. This in a way competes with Kudumbashree when people are not interested in running a business or doing group projects to generate income.

Arjun Bhaskar: That is very interesting. I got a lot of information from you. Thank you so much for your help.

## **Meeting with Mr. Gopakumar, SNDP Union Secretary, Chathannoor, Kollam District**

*Meeting Date:* December 23, 2013

*Meeting Place:* SNDP Union office at Chathannoor, Kollam District, Kerala

SNDP is the popular acronym for the organization named Sree Narayana Dharma Paripalana. It is a community organization set up in Kerala by the followers of the Saint and Social Reformer Sree Narayana Guru. Sree Narayana Guru was instrumental in reducing the social disparities of the people belonging to the various castes in the Hindu society in Kerala. He spread messages like “One Religion, One Caste and One God”, and “Get Freedom through Education; Unity is Strength”. SNDP is a very influential community based organization operating at grass root level in Kerala. They also run several educational institutions, hospitals and senior homes in the state. SNDP has a very popular and successful microfinance program in the state.

Arjun Bhaskar: Could you give me an overview of SNDP’s Microfinance Program?

Gopakumar: We have one of the most popular and successful microfinance programs in the state. There are two main goals for our program. The first is to help women belonging to the poor families of SNDP to secure better financial status and independence. The second is to spread Sree Narayana Guru Swami’s vision and message to everyone. We have groups of 12 to 20 women joining together as a Self Help Group (SHG) under the guidance of the local SNDP Branch Office. One Branch office can have several such SHGs. Each SHG will have an elected Convener. The groups meet in a member’s house every week on a rotating basis. Every week, members pool their savings by depositing a small amount like Rs 10 each. The deposit amount varies depending on the financial situation of the members of the group. Everyone belonging to the same group deposits the same amount. The money collected is deposited into the bank next week. This helps the saving habits of the SHG members. Members also get Rs 4000 as dividend every year. SNDP arranges for bank loans for the SHGs to start and run small businesses. Typically loans are used for starting businesses like tailoring, poultry, livestock, handicrafts, food products etc.

Arjun Bhaskar: How many people are enrolled in the microfinance program?

Gopakumar: We have about 2,000,000 women enrolled in 120,000 self help groups. This is a very powerful because this many people meet every week to build and enhance the teamwork and unity and, spread Sree Narayana Guru’s message of “Unity is Strength”. No other organization has this many meetings.

Arjun Bhaskar: What happens in such weekly meetings?

Gopakumar: SHGs are trained to conduct the meetings in a professional manner. Attendance and minutes of the meetings are always recorded. In addition to pooling the week’s savings for deposit, the members discuss the previous week’s progress and challenges and the plans for next week. SNDP Branch Secretary attends all the meetings and is available to guide and moderate the discussions.

Arjun Bhaskar: How much money can be borrowed as loan?

Gopakumar: The maximum loan amount is limited to 4 times the savings deposited in the bank. It is capped at Rs 1,000,000.

Arjun Bhaskar: What is success rate for repayment of loans? Does SNDP have any liabilities if any loan is not repaid?

Gopakumar: The success rate is 100% for repayment. In the event of a default, SNDP does not have any liabilities. The liabilities stay with the bank.

Arjun Bhaskar: What is the secret behind this success?

Gopakumar: I would like to say that the unity and teamwork of the SHG members are the main reasons for the success. SNDP Union provides excellent organizational support needed for the successful operation of the businesses. In addition, it oversees and monitors the business operations and proactively recommends any remedial actions when needed. Another reason is that we do not provide individual loans or consumption loans which have higher risks.

Arjun Bhaskar: What are the other microfinance institutions operating in Kerala?

Gopakumar: In Kerala, Kudumbashree and SNDP are the major microfinance institutions. The Church started it first for the Christian community. It is not very popular here because Christian community is generally well off and hence do not need microfinance support. Private MFIs like SKS are also not popular here because of the huge success of Kudumbashree and our microfinance program.

Arjun Bhaskar: How does SNDP microfinance compare to Kudumbashree?

Gopakumar: Both SNDP Microfinance and Kudumbashree are very successful in Kerala and have similar principles of operation. Unlike Kudumbashree, there are no political influence and related problems in SNDP's microfinance operations. In addition, we actively mediate and minimize conflicts within the SHG members. The biggest advantage of Kudumbashree is that they are able to provide subsidies to the business owners. Also, our program is limited to members of SNDP and who are willing to join as SNDP members.

**After the meeting with Mr. Gopakumar, I got a chance to speak with Mrs. Beeda Kumar, one of the beneficiaries of the SNDP Microfinance program.**

Arjun Bhaskar: How long have you been involved with SNDP's microfinance program?

Beeda Kumar: I have been involved in this program for one year.

Arjun Bhaskar: How many members are in your Self Help Group? What kind of businesses they do?

Beeda Kumar: There 15 people in our group. We are involved in different businesses like tailoring, handicrafts, cashew nuts etc.

Arjun Bhaskar: How much money do you deposit every week?

Beeda Kumar: We deposit Rs 20 per week.

Arjun Bhaskar: Do you have a loan? How much interest do you pay?

Beeda Kumar: I have a loan for Rs 10,000. I pay interest at the rate of 1% per month.

Arjun Bhaskar: What is your monthly income from this business?

Beeda Kumar: I make around Rs 12,000 per month.

Arjun Bhaskar: How does SNDP microfinance program benefit you?

Beeda Kumar: I have to take care of two small children and hence do not want to take up a full time job. SNDP microfinance program helped me to start a business which provides me flexible hours and good income. SNDP helped me secure a loan to fund my business. The branch office supports me with accounting, banking etc.

## Bibliography

- David Roodman. “Akula vs. Yunus: Commercial Microcredit = Just Profit or Unjust Profiteering”. Microfinance Open Book Blog. *Center for Global Development*. September 28, 2010. <http://www.cgdev.org/blog/akula-v-yunus-commercial-microcredit-just-profit-or-unjust-profiteering>
- Deutsche Bank Research. “Microfinance in Evolution: an Industry between Crisis and Advancement.” September 13, 2012. <https://www.db.com/cr/en/docs/Microfinance-in-evolution.pdf>
- Dean Karlan. Yale University Professor of Economics. “Innovation, Inclusion and Trust: The Role of Non-Profit Organisations in Microfinance.” *MIT Abdul Lateef Jamil Poverty Action Lab (J-PAL)*. January 2014. <http://www.povertyactionlab.org/publication/innovation-inclusion-and-trust-role-non-profit-organizations-microfinance>
- Kenneth Downey and Stephen J. Conroy. University of San Diego. “Microfinance: The Impact of Nonprofit and For-Profit Status on Financial Performance and Outreach”. <http://www.econ-jobs.com/research/35795-Microfinance--The-Impact-of-Nonprofit-and-For-Profit-Status-on-Financial-Performance-and-Outreach.pdf>
- Kudumbashree. 2005 Statistics Manual. Hardcopy.
- Microfinance CEO Working Group. “Over-indebtedness in Mexico: its effect on borrowers”. <http://www.finca.org/files/2014/05/Over-Indebtedness-in-Mexico-Its-Effect-on-Borrowers.pdf>
- Muhammad Yunus. *Banker to the Poor*. 1999.
- Peter W. Roberts. Emory University. “The Profit Orientation of Microfinance Institutions and Effective Interest Rates”. *World Development* Vol. 41, pp. 120-131, 2013. Accessed via Elsevier. [http://goizueta.emory.edu/faculty/socialenterprise/documents/profit\\_orientation\\_of\\_microfinance.pdf](http://goizueta.emory.edu/faculty/socialenterprise/documents/profit_orientation_of_microfinance.pdf)
- Raj M. Desai and Shareen Joshi. “Collective Action and Community Development: Evidence from Self-Help Groups in Rural India.” Development Economics Capacity Building Unit, World Bank. July 2013.
- Roy Mersland, R. Oystein Strom. “Microfinance Mission Drift?” *World Development*, Volume 38, Issue 1, January 2010. Pages 28-36. ISSN 0305-750X. <http://dx.doi.org/10.1016/j.worlddev.2009.05.006>.
- Scott Gaul. “Defining responsible financial performance: the role of profits”. *MIX Market*. May 2011. <http://www.themix.org/publications/microbanking-bulletin/2011/05/microfinance-profits>
- World Bank Consultative Group to Assist the Poor (CGAP). “CGAP Reflections on the Compartamos Initial Public Offering”. <http://www.cgap.org/publications/cgap-reflections-compartamos-initial-public-offering>
- Muhammad Yunus. “Banker to the Poor: Micro-lending and the battle against world poverty.”
- Muhammad Yunus. “Creating a World Without Poverty: Social Business and the Future of Capitalism.”
- The World Bank. “Social Funds: Microfinance.” <http://go.worldbank.org/J19ZS718P0>