

MICROFINANCE IS MORE THAN CREDIT

It has made great strides to improve the lives of the poor



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The orderly aisles of Metro, the German wholesaler, seem a world away from the villages and slums of the poor people we serve at SKS Microfinance. But our collaboration with Metro, along with other high-quality partners, is giving them access to

quality goods and services that help improve their lives. (http://www.metrogroup.de/servlet/PB/menu/-1_12/index.html)

At Metro, shelves filled with a huge variety of goods line its spacious warehouse in Hyderabad. Aisles are filled with the trappings of middle- and upper-class life: running shoes, treadmills, imported fruit, refrigerators and air conditioners. Indeed, an SKS member who owns a small kirana shop visited Metro said, “This place is not for me.” Another Kirana shop owner said, “It has AC (air conditioning). I’ve never been in AC! AC is only in the hospital!”

But within Metro is a special SKS-designated storeroom filled with products destined for *kirana* shops owned by SKS borrowers. Through a pilot program launched early this year, Metro is supplying hundreds of products – from Colgate toothpowder to Nescafe packets – to 95 *kirana* shops in the Hyderabad area. This partnership brings the choice, convenience and affordability of Metro to SKS members owner of *kirana* stores, as well as their customers.

Microfinance has been highly successful in distributing small loans to the poor to start income-generating work, from raising a cow to selling vegetables, which helps break the cycle of poverty. Now at SKS we are using our far-reaching microfinance network among 4.5 million members across 19 states to empower the poor through other means besides credit. Our partnership with Metro is just one example.

Many SKS members have taken loans to open kirana shops as their micro-enterprise. They normally have to trek to the local market or bazaar to buy goods to stock their stores. This usually involves a long commute, time-

consuming haggling and higher costs associated with the smaller quantities that poor people tend to buy.

Our partnership with Metro streamlines that whole process. Metro delivers goods straight to select SKS *kiranas* every week, saving our members time and commuting costs. Our borrowers select goods from a special inventory list geared toward SKS *kiranas*. They benefit from the cost reduction that a wholesaler provides, just as a middle-class consumer who buys in bulk would, and the Metro-supplied products supplement the *kirana*’s original inventory with a wider selection.

We don’t believe we are creating new demand among poor Indians but rather, that we are catering to an unmet demand that already exists. And even if the demands of the poor are being met, they usually have to pay a “poverty premium”, meaning higher prices for everything from water to consumer goods. Our collaborations with partners like Metro give our borrowers access to quality goods and services at fair prices they deserve.

To watch this in action, I recently visited some of our members’ *kirana* stores in south Hyderabad. The store was located on a narrow lane and we squeezed onto the storefront to watch while an SKS field assistant scrolled through an inventory list. He consulted with the proprietor, a 50-year-old man named Aijaz Hussein, then placed new orders from Metro via mobile phone. SKS’s role is to provide credit to purchase goods and the *kirana* owner pays back our field assistant each week.

Mr Hussein runs the store but his wife, Naseem Unnisa who is “maybe 40” is the one who has borrowed SKS loans to open the store, since we only loan to women. Mrs Unnisa stood near Mr Hussein. She wore a black veil so that only her eyes were visible.

Mr Hussein’s orders from Metro have grown from Rs 1,945 at the beginning of the program to Rs 12,044 in July. He used to spend two to four hours to buy goods at the local market so Metro’s weekly deliveries are a big convenience for him, he told us. And he estimates that his costs are 10% lower because of Metro’s price discounts.

This is just one way that SKS is tapping the enormous potential of our extensive network among the poor. Big



players have great difficulty reaching this vast market at the bottom of the pyramid that they would like to serve. Meanwhile, SKS is looking at a host of ways to leverage our distribution channel.

We've had great success with a micro-insurance product through Bajaj Allianz that we offer to our borrowers. We initially talked to our borrowers and found that they wanted insurance policies with weekly installments of Rs 20. Most large insurers would scoff at these tiny payments and look for higher, less labor-intensive returns elsewhere. But Bajaj Allianz designed a credit product that offers exactly what our borrowers wanted. Those small payments of Rs 20 do add up. SKS launched insurance with Bajaj Allianz about nine months ago and today we have 1.8 million clients. (www.bajajallianz.com)

There is tremendous potential when a big company like Bajaj Allianz comes forward and meets us halfway in serving the needs of the poor. And because insurance penetration in India is sadly still a tiny percentage, we feel we are making progress in giving Indians access to this important social safety net that, unfortunately, is still reserved for middle- and upper-class Indians.

I should emphasize that we don't just partner with anyone. At SKS we do significant due diligence on products to ensure that they are in the best interests of our customers. We make sure our partners are aligned with our goal of empowering and serving the poor.

When we were developing a pilot program to distribute solar lanterns we looked at several companies offering different products. Only about half of India has access to reliable electricity. The poor suffer from the adverse effects of dim and dirty kerosene lamps. Access to safe, affordable, sustainable lighting is a priority for the poor. So we took three different solar lighting products and let a small group of borrowers test them for a week. They came back to us with their feedback about durability, ease of use, lighting quality and affordability. After more consultations, we decided to partner with D.light, a Delhi-based start-up that happens to be run by an entrepreneur who knows first-hand about the hazards of kerosene. Sam Goldman, chief executive of D. Light, worked for several years in Benin where his neighbor's son was badly burned from spilled kerosene. (www.dlightdesign.com)

Trust and respect between SKS and its members, built up over years of relationship-building, is a major reason for our success. We do our best to maintain this critical and invaluable relationship with

our customers and know that to bring them poor quality products is a disservice to them and our mission. Customers are never under any obligation or pressure to buy these products. In fact, I consider our third-party partnerships to be ones more of awareness-building than marketing. After we have vetted products, our field assistants (who meet with our borrowers weekly in any case to distribute loans and collect payments) explain the products and allow members to touch and feel them. SKS borrowers decide for themselves if the product makes sense for them.

Several other collaborations are in the works, including a tie-up with Airtel and Nokia to offer mobile phones to our customers. We launched this pilot in Andhra Pradesh last summer and have so far financed 50,000 phones. Communication is vital to modern society and in India, this hinges on mobile phones. Think of the business and work time lost if you didn't have your mobile phone — not to mention the support and knowledge from being in touch with relatives and friends. Not surprisingly, the feedback from our mobile phone partnership has been positive. Now we are working on scaling up so that more of our customers can benefit from the seemingly simple act of dialing a phone to connect to someone. www.airtel.in (www.nokia.co.in)

Access to clean drinking water is one of the most grievous problems in India. More children in India die of diarrhea and water-borne ailments than any other disease. But poor people in remote villages with contaminated water sources or depleted wells have little choice in what they drink. Thus, we are also testing a pilot program for water purifiers made by Hindustan Lever to give access to this most fundamental human need. (www.hul.co.in)

One thing to clarify is that we are not in the business of making other goods and services like phones or solar lamps. Our core competency is finance. Through our partnerships, we merely provide finance our customers can use for products from Metro, Bajaj Allianz, Airtel, Nokia, D.light and others. They are the specialists in consumer goods and logistics, mobile phones and sustainable energy; SKS is not.

Yet linking with experts in various industries allows us to better serve the poor.

Micro-credit has certainly made great strides in helping improve the lives of the poor. But by forging synergies with high-quality partners we are creating a whole greater than the sum of its parts. The promise of microfinance is even greater when we do more than what we could do alone. ■

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