

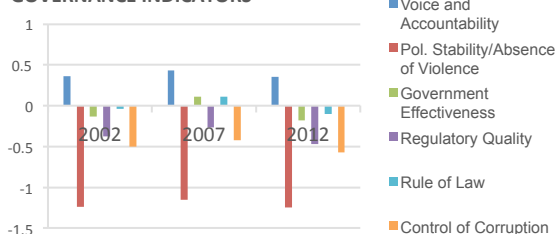
# Ujjivan Leading the Expansion of Gendered Individual Lending in India

## 1. Development relevance

**Economic and Poverty Context:**<sup>i</sup> With 1,2 billion people and the world's fourth-largest economy, India's recent growth (8% average GDP growth between 2009 and 2012) and development have been very impressive. However, growth fell to a decade low in 2013, caused by high interest rates, rising inflation, and investor pessimism. Investors' perceptions improved since early 2014 thanks to the reduced current account deficit and expectations of post-election economic reform. India's economy includes traditional farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Slightly less than half of the work force is in agriculture, but services are the major source of economic growth, accounting for nearly two-thirds of India's output with less than one-third of its labour force.

Despite its impressive economic development, India still faces many challenges. There have not been substantial gains with regard to economic freedom or governance. Massive investments will be needed to create jobs for the soon largest and youngest workforce of the world, as well as housing, and infrastructure. Each year, around 10 million people move to towns and cities in search of jobs and opportunities. The country's infrastructure needs are considerable. One in three rural people lack access to an all-weather road, and only one in five national highways is four-lane. An estimated 300 million people are not connected to the national electrical grid, and those who are face frequent disruptions. And, the manufacturing sector – vital for job creation – remains small and underdeveloped.

GOVERNANCE INDICATORS



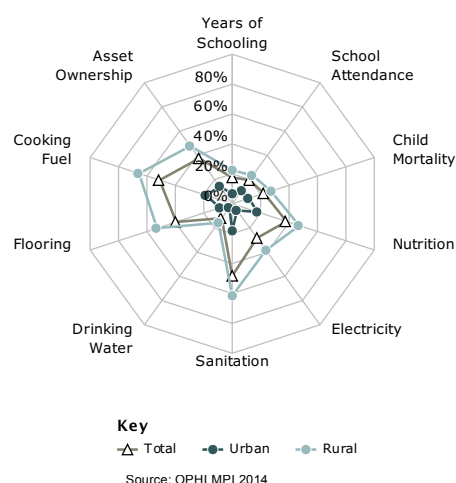
Population and Economic indicators	
Population (2012)	1'236'686'732
GDP growth (average: 2009-2012)	8,02%
Inflation (average: 2009-2012)	10,25%
Trade balance (% of GDP) (2012)	-1,23%
Foreign Direct Investment (net) (% of GDP) (2012)	0,5%
Net ODA & official aid received (% of GDP) (2012)	0,09%
Personal remittances (% of GDP) (2012)	3,7%
Economic Freedom Index <sup>ii</sup> (Rank among 185 countries)	120
Poverty indicators	
GDP per capita (current USD) (2012)	1'503
Gini Index (0= equality 100= inequality) (2010)	33,9
Multidimensional Poverty Index <sup>iii</sup> (1=poor 0=not poor) (2005-2006)	0,283
International (at 1,25 USD/day; 2010), national (2012) and rural poverty headcount ratio (2012)	32,7%; 21,9%; 25,7%

More than 400 million people in India – one-third of the world's poor – still live in poverty. Moreover, many people who have recently escaped poverty (53 million people between 2005-2010 alone) are still highly vulnerable to falling back into poverty.

Inequity in all dimensions, including region, caste and gender, need to be further addressed. Poverty rates in India's poorest states are three to four times higher than in other states. While India's average annual per capita income was USD 1'410 in 2011 – placing it among the poorest of the world's middle-income countries – it was only USD 436 in Uttar Pradesh and only USD 294 in Bihar, one of India's poorest states.

**Financial Sector Context:** While economic growth has been strong, financial inclusion remains out of reach for many people in India, not least for the country's 106 million urban poor. The penetration rate of financial services was at 35,2% in 2011, which is relatively high compared to other developing countries. 26% of the female population had an account at a formal financial institution (2011). 20% of the population had a

Percentage of Population MPI Poor and Deprived - India



loan from family or friends and 12% saved at a financial institution in 2010.<sup>iv</sup> However, while the Indian microfinance sector is relatively well developed, the market is dominated by group loan offerings.

**Financial Partner:** Ujjivan Financial Services (“Ujjivan”) was founded in 2004 in Bangalore, India, as a non-banking financial company (NBFC). Its mission is to provide financial services to the economically active poor, enabling them to lead better lives. As one of the leading microfinance institutions (MFIs) in India, Ujjivan is driving financial inclusion among poor un- and under-banked women in urban and semi-urban markets. With 301 branches in 20 states, it has the widest geographical reach of any MFI in India. As of end of the fiscal year 2012-13, it was ranked as one of the largest (in terms of portfolio size) and most profitable MFIs in the country. Fortunately, the crisis in Andhra Pradesh in 2010-2011 did not affect Ujjivan.

At the onset of the project (March 2013), Ujjivan served more than 1,1 million clients, 96% of them through group loans. In addition to credit products, it also offers insurance products and financial education through its partner institution, Parinaam Foundation.

Ujjivan has received awards recognizing its commitment to organizational excellence, social performance and employee and client satisfaction. Ujjivan endorses the Smart Campaign, MF Transparency and Microcredit Summit Seal of Excellence.

## 2. Intervention approach and additionality

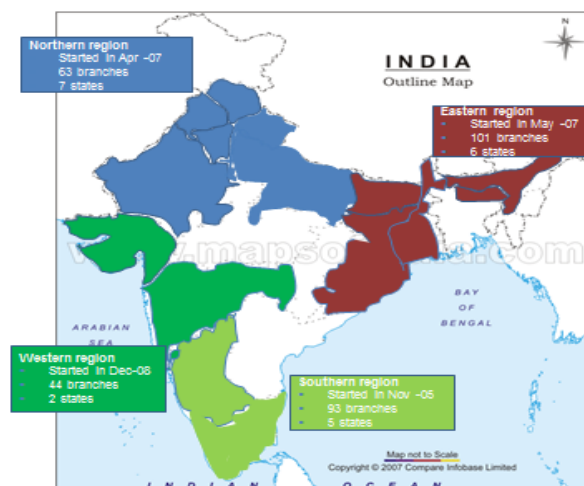
**Capacity Building Needs:** A growing number of female micro-entrepreneurs are reaching the point where group loan maximums are no longer sufficient to meet their needs. Most are unable to access individual loans due to factors such as access to collateral, business visibility, social and cultural norms and financial literacy. As a result, business growth is significantly constrained. For the financial institutions, the challenge lies in the misalignment between standard individual loan requirements and poor women’s ability to demonstrate their capacity to repay, limits set by the Reserve Bank of India on the percentage of portfolio that can be dedicated to non-micro loans, the lack of trained staff in the underwriting process, and the constrained debt funding in the wake of the microfinance crisis.

Despite these challenges, Ujjivan decided to introduce tailored individual lending (IL) products and accompanying financial education in order to accommodate client needs and provide female clients access to larger amounts of credit. Ujjivan piloted and adapted Women’s World Banking’s (WWB) individual credit methodology through 2012, but its IL portfolio represented only 4% of its total portfolio as of March 2013. Therefore, SCBF co-funded WWB’s technical assistance to Ujjivan in expanding its IL programme, with a particular focus on meeting the needs of women entrepreneurs. This covered (1) strengthening of institutional and staff capacity, (2) developing tailored credit products, (3) awareness building among staff and current and prospective clients about the importance of women-focused IL as an avenue to promote business growth and improve livelihoods, and (4) an exchange visit of the IL team to one of the leading MFIs in Colombia.

**Intervention Approach:** A diagnostic and market study in April 2013 revealed that the former IL programme could be best described as “Group Lending Plus,” as it did have clear differentiation between profiles of group lending and individual lending clients. Furthermore, size, terms, and loan “cycles” were not tailored to the needs and capacities of IL customers. This mismatch was the result of a loan analysis process that focused on document collection and verification rather than in-depth business analysis. Credit decisions were primarily based on compliance with institutional policy parameters rather than on an individual businesses’ credit needs or repayment capacity. The study triggered significant changes to the IL programme and resulted in an implementation plan for a pilot in selected branches, which included:

1. Develop and test a new IL structure. “IL Hub Branches” with the potential for significant growth and expansion were responsible for up to five smaller branches, identified as having less growth potential,

Finance Indicators	2010	2011	2012
<b>Penetration Rate for main financial services</b> (account at a formal financial institution, % age 15+)	n/a	35,2%	n/a
<b>CPIA Financial sector rating</b> (1=low to 6=high)	4	4	3,5
<b>Financial depth</b> (Domestic credit provided by financial sector, % of GDP)	71,9%	73,8%	75,9%



Partner financial institution (data in USD) Source: Mix Market		
	2012	2013
<b>Total assets</b>	248'952'611	n/a
<b>Gross loan portfolio</b>	207'442'404	269'275'380
<b>Total staff / women</b>	3'656 / 794	4'667 / n/a
<b>Total branches</b>	301	350

called “Spoke Branches.” An IL job description manual was developed to support the new organizational structure and clarify responsibilities.

2. Implement and test the adjusted credit process. IL Hub Branches gained more responsibility in terms of credit assessment and making credit bureau checks one of the first criteria of risk assessment. Newly trained IL-Credit Officers at the Hub Branches ensure proper risk analysis of clients’ businesses.
3. Increase outreach through promotion (campaigns and incentive systems) among eligible group loan clients who had received at least two loans and have a growing business in order to “graduate” these clients with increasing credit needs to IL.
4. Start “open market client”<sup>1</sup> acquisition through promotion of the adjusted IL products. Loan amounts and collateral requirements of the existing IL business and livestock products were adjusted to make them more attractive.
5. Pilot and evaluate a new marketing strategy.
6. Strengthen loan assessment and decision skills as well as develop and pilot effective time and portfolio management to ensure better client service and portfolio control. Staff training materials were reviewed and strengthened. 565 staff were trained in the revised IL methodology; 80% of whom were new IL staff. Existing staff took the “IL Refresher Training (RT)” and new staff took the “IL Induction Training (IT)”, a comprehensive four-week training that included classroom and in-field training.

Category of Staff / Training received	Total	
	IT	RT
Loan officers	283	67
IL-Pogram Managers	42	9
IL-Credit Officers	55	0
IL-Area Managers	21	0
IL-Regional Business Managers	0	6
Others	50	32
<b>TOTAL</b>	<b>451</b>	<b>114</b>

**Additionality:** With its focus on individual lending, this project aimed to benefit not only Ujjivan, but also to contribute to the growing trend in the Indian microfinance sector towards product diversification. In an increasingly competitive market, more financial institutions are motivated to introduce and scale IL programs in order to be more attractive to new and existing clients. As Ujjivan is an influential market leader, this project will hopefully motivate other MFIs in the Indian sector to adopt similar IL programs.

### 3. Results achieved

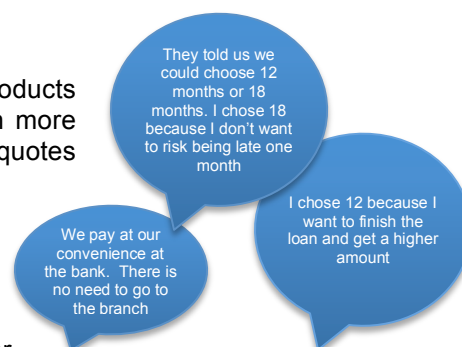
#### 3.1. Client level

The product adjustments – e.g. to terms and amounts of the existing IL products (business, livestock and housing improvement loans) – have resulted in more flexible and demand-driven products, which clients appreciate, as the quotes exemplify.

Before the onset of the project, Ujjivan applied a graduation system according to the loan cycle. For example, the first loan an IL client received was always the minimum amount of Rs 40’000 or 50’000 depending on the region; the second loan was always Rs 60’000 etc. Now clients can obtain a first loan of Rs 75’000 or 1 lakh (or even a smaller amount if requested) if they have the repayment capacity and their investment plan justifies the amount.

Collateral requirements, one of the major barriers women micro-entrepreneurs face in accessing credit, have been lowered and alternative collateral, e.g. household or business assets with high personal value, have been suggested and are subject to final approval by Ujjivan’s IL management. Furthermore, collateral is now only requested for loan amounts greater than Rs 75’000 (approximately USD<sup>2</sup> 1’273), whereas it used to be required for any loan of Rs 60’000 or more. Also, family members are eligible to become guarantors.

Education loans to cover school fees have also been made available to IL clients, whereas previously they were only available to group lending clients. To date, the loans disbursed have primarily been used as working capital to diversify products and in some cases to expand or make business upgrades (e.g., painting, new shelves etc.). Under the pilot project, the majority of clients were running commercial activities, such as operating small stores or cloth businesses.



<sup>1</sup> „Open-market” clients are new clients that have had no prior relationship with Ujjivan.

<sup>2</sup> Exchange rate applied Rs to USD 0,017.

### Client Case Study:

Maniyamma is a 39 year old business women and mother of two children (14 and 12 years old). She lives with her husband in Bangalore, where they have lived in the same rented house for more than nine years.

A number of years back, Maniyamma joined a group of women who had access to small group loans from Ujjivan. After receiving a multiple group loans, Maniyamma, like many clients of Ujjivan, was interested in expanding her business and diversifying into new areas. With this in mind, five years ago, Maniyamma and her husband decided to start a catering business to be run out of their home. This was the only source of income for their family. They started small – providing snacks to friends and neighbours – but saw an opportunity to expand their business. Maniyamma asked for an individual loan of Rs 75'000 (USD 1'229) for working capital to buy a new refrigerator.

With the loan, she was able to grow her business. Today she has around five fixed companies to which she delivers lunch each day. With Ujjivan's support, she was also able to open a bank account that allows her customers to pay on a weekly basis for the lunch packages.

Maniyamma's profitable and growing catering business has enabled her to improve the living conditions of her family and to pay for her kids' education.

### 3.2. Partner financial intermediary level

The results for the six pilot branches are presented in the table (IL portfolio as of April 30, 2014).<sup>3</sup> All quantitative targets (see projections in table) were reached and an evaluation after the six-month pilot in March 2014 revealed significant progress:

- Greater internal awareness of the IL program and recognition of its strategic importance
- Strong relationship with customers, clear product explanations and consistently good service contribute to client satisfaction
- IL loan products are now more tailored to meet client needs and repayment capacity as a result of eliminating loan cycle requirements, which set maximum and minimum loan amounts and inflexible repayment schedules.
- Loan assessment and approval processes strengthened thanks to improved business and financial analysis by loan officers, credit officers and managers
- Groundwork for expansion to open market customers is underway. The initial steps taken to promote IL products to new clients were limited and primarily based on referrals from existing clients. Continuous support and development of promotion strategies will be needed.

Pilot Hub & Branches	Loan officers	Outstanding Portfolio IL (Rs)	# Active IL Clients	PAR > 30 days (IL)	No of IL loans disb.	Amount disbursed (Rs) - IL	Avg. IL loan amount (Rs)	Productivity (Avg. # of IL loans disb. /month by LO)
Chandra Layout Hub (4 branches)	6	53.189.974	1.224	0,18%	643	41.948.000	65.020	18
LR Puram Hub (2 branches)	4	25.168.761	495	0,09%	323	22.426.000	68.441	13
<b>Total Pilot</b>	<b>10</b>	<b>78.358.735</b>	<b>1.719</b>	<b>0,15%</b>	<b>966</b>	<b>64.374.000</b>	<b>66.089</b>	<b>16</b>
<b>Projection</b>	<b>9</b>	<b>61.185.934</b>	<b>1.386</b>	<b>0,50%</b>	<b>1.071</b>	<b>60.860.000</b>	<b>56.825</b>	<b>20</b>
<b>Compliance</b>	<b>111%</b>	<b>128%</b>	<b>124%</b>		<b>90%</b>	<b>106%</b>	<b>116%</b>	<b>81%</b>

Key performance indicators	March 2013 (start of project)	March 2014 (end of project)	Growth
<b>Total active clients</b>	1'006'052	1'297'131	29%
<b>Number of active IL clients</b>	17'401	28'393	63%
<b>Share of IL clients / total clients (%)</b>	1,7%	2,2%	27%
<b>Women clients IL</b>	100%	100%	
<b>Total portfolio outstanding (Rs)</b>	11'259'973'668	16'172'677'132	44%
<b>IL loan outstanding (Rs)</b>	460'150'463	1'132'000'000	146%
<b>IL Loan outstanding (USD)</b>	7'684'513	18'904'400	
<b>Share of IL portfolio / total portfolio</b>	4,1%	7,5%	84%
<b>PAR&gt;30 days (IL)</b>	0,53%	0,42%	
<b>Average loan size IL (Rs)</b>	26'444	39'869	51%
<b>Average loan size IL (USD)</b>	442	666	
<b>Productivity Indicators</b>			
<b>Loan Officers</b>	113	191	69%
<b>Caseload of Loan Officers (# active IL clients)</b>	145	148	2%
<b>Average # of IL loans disbursed by Loan Officers / month</b>	11	15	36%

Since March 2013, the outstanding IL portfolio almost tripled from Rs 460,1 million (USD 7,6 million) to Rs 1,132 million (USD 18,9 million). Ujjivan's individual client base grew by 63%. The IL program serves 28'393

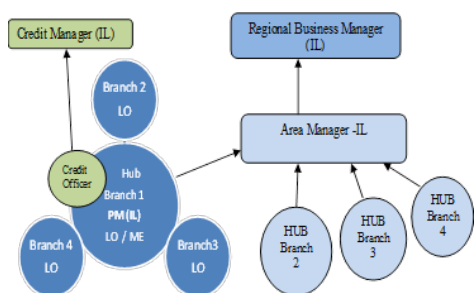
<sup>3</sup> Note: Number of active clients refers to total individual loan clients that have an outstanding balance. Number of IL loans disbursed refers to the number of IL loans disbursed during the six-month pilot period.



active clients with a PAR of 0,42% as of March 2014. The IL portfolio has grown consistently and represents 7,5% of Ujjivan's total portfolio (March 2014).

Monthly disbursements grew from 1'445 (as of March 2013) to 2'862 loans (as of March 2014). Productivity of loan officers (measured by their caseload) has not changed significantly, as many new IL loan officers have been hired and trained during the project period. By March 2014, Ujjivan had 191 loan officers trained and deployed, a substantial increase compared to the 113 as of March 2013. The average caseload has grown slightly from 145 to 148. However, experienced loan officers (those that have worked with Ujjivan for a year or more) can manage more than 260 outstanding loans at any given time.

The project has also resulted in improvements in the Credit Committee (shown at left), composed of the IL-Programme Manager, IL-Credit Officer, Manager of Group Lending Portfolio and the Relationship Officer for Group Lending. Loan officers present their loan assessment to the Credit Committee (based on an assessment of a client's character, business, credit worthiness, repayment capacity and credit history), who further discusses and analyzes the case before either approving or rejecting the loan or requesting additional information from the client.



The roll out of the IL Hub and Spoke Model (depicted at left) which worked successfully in the two hub pilot branches is being rolled-out to other branches. By March 2014, eight hub branches are operational and another 19 are in process of adopting the model. Thanks to this model the IL methodology and management capacity have been strengthened at the branch level. For example, loan officer productivity has increased and average loan application turnaround time has been reduced to 10 days. Changes in the branch layout have helped ensure privacy for clients and staff, e.g. including separate areas for group lending and individual lending teams, cashiers and public space.

Several promotional activities have been implemented, including monthly center meetings and group gatherings, in order to motivate eligible group loan clients to graduate to IL. In addition, a campaign called "Paravathana" was launched to raise awareness of IL within Ujjivan through rewarding and recognizing excellent performing individual and group loan officers as well as branch managers. These efforts have further contributed to the growing importance of the IL portfolio within the institution.

#### 4. Lessons learned and further challenges

The essential success factor was that Ujjivan management took the risks of changing substantially its IL programme. The monitoring and evaluation plan, which included frequent field visits to the pilot branches and weekly virtual meetings with the project team, helped to mitigate potential risks associated with IL expansion. Furthermore, the exchange visit to the leading Colombian MFI allowed Ujjivan to gain exposure to best practices in IL and institutional management.

During the intervention, Ujjivan decided to shift from a group lending driven organization to one that offers a wider range of products to a broader client base. This decision was in part motivated by the success of the intervention as well as increasing competition and general trend towards product diversification in the Indian microfinance sector. This strategic decision means that Ujjivan will scale its IL program from 26'000 clients to almost 200'000 over the next three years. At the end of this period, IL clients will represent approximately 8% of total client base and 35% of total portfolio. This growth will require significant efforts in terms of change management, capacity building and internal controls. With SCBF's support, the groundwork for success and future expansion have been established.

<sup>i</sup> Sources of information on the Indian economic and poverty context section: <http://www.worldbank.org/en/country/india/overview> and <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html> (retrieved 23.06.2014).

<sup>ii</sup> Heritage Foundation, 2013 Index of Economic Freedom, <http://www.heritage.org/index/ranking>.

<sup>iii</sup> Oxford Poverty and Human Development Initiative (2014) Global Multidimensional Poverty Index Databank. OPHI, University of Oxford.

<sup>iv</sup> <http://datatopics.worldbank.org/financialinclusion/country/india> (retrieved 23.06.2014).