



## **Growing Inclusive Markets**

Business Works for Development • Development Works for Business

CASE STUDY

South Asia • India

# **BASIX-Bhartiya Samruddhi Finance Limited (BSFL): A New Generation Livelihoods Promotion Institution**

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Sector • Microfinance; Livelihoods

Enterprise Class • Large Domestic Company



## Executive Summary

Bhartiya Samruddhi Finance Limited (BSFL)<sup>1</sup> is a flagship company of Hyderabad-based BASIX Group of institutions established in 1996. BSFL, founded as a Non-Banking Finance Company (NBFC), facilitates financial inclusion of low-income and poor groups by offering reasonable lines of credit along with savings facilities based on the principles of operational efficiency, financial viability and sustainable social value. Although begun on a credit-based approach to financial inclusion, BSFL shifted its operational paradigm to that of livelihood facilitator to meet more effectively the needs of its customers. In its current strategy, operational since 2003, BSFL offers livelihood related products and services through the strategic concept of ‘Livelihood Triad’ that comprises livelihood financial services (credit, savings, and insurance), agricultural and business development services and institutional development services for low-income and poor groups in rural and urban areas across multiple sectors of the economy.

In its service verticals, BSFL lays stress upon leveraging new technologies and uses innovative risk mitigation products, such as insurance products, catering to the vulnerabilities of its customers and their economic budgets. One of its key areas of expertise, acquired from a portfolio of innovations built over 14 years, lies in its practice of strategic interventions to enhance the economic productivity and to reduce costs for its customers engaged in various subsectors of the economy.

Its future strategy and growth lies in expanding its presence across rural and urban spaces. At present, BSFL has a customer base of approximately one million with 90% concentrated in rural areas and it plans to expand its base to 10 million by 2014 covering both urban and rural areas.

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<sup>1</sup> This case focuses on the work of BSFL primarily, and to a lesser extent on BASIX, the holding entity under which BSFL functions. ‘BASIX’ is promoted as brand and is the face of the group for the external world. BASIX and BSFL therefore have several linkages from a common founding mission to functional areas and strategic vision. BSFL is one of the implementing organizations of the larger holding structure, the BASIX Group. Along with BSFL, other entities in the BASIX fold are listed in Chart 1: Corporate Structure of BASIX, and are also briefly reviewed later in this section.



## Introduction

Influenced by a mentor at his alma mater IIM Ahmedabad (IIM-A) Professor Ravi Matthai<sup>2</sup>, Professor Ranjit Gupta and some others, Vijay Mahajan founded an NGO called PRADAN (Professional Assistance for Development Action) with Deep Joshi<sup>3</sup> in 1983. With some insights gained working with the rural poor through a project run by Matthai, Vijay felt that “*technical know-how*” is critical for the poor.

Another critical learning for Vijay, while working in PRADAN, was that the economically poor people lacked appropriate access to formal credit, and as a result the informal moneylenders held sway in the villages, who charged interest rates ranging between 5% and 10% per month, forcing the poor into a vicious cycle of servicing unending debts. Hence the capacity to accumulate savings among the poor never developed. Vijay realized that the poor needed proper and regular access to reasonably priced credit for purposes of investments in self-run enterprises, as well as for consumption and emergencies. After working in PRADAN for a few years, Vijay was convinced that technical knowhow and credit, as two inseparable components, will form the basis for a successful microfinance enterprise serving the poor.

Vijay’s analysis of various government schemes to reach credit and support to the poor led him to conclude that a new generation of development financial institutions with certain attributes is required (see Annex 1). As a result of his analytical findings, Bharatiya Samruddhi Investments and Consulting Services Ltd. (BASICS Ltd.) was established as a holding company in Hyderabad by Vijay in 1996 with the mission “*to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner...BASIX will strive to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis*”.

Vijay and his team created a complex operational and management structure, with BASIX as holding company (see Annex 2), along with registering two non-bank financial companies in 1997:

- *Sarvodaya*<sup>4</sup> *Nano Finance Ltd. (SNFL)*, aimed at small individual borrowers such as landless, marginal and small farmers and women.
- *Bhartiya Samruddhi*<sup>5</sup> *Finance Ltd. (BSFL)*, focusing on larger loans to commercial farmers and micro-entrepreneurs, including non-farm sector enterprises that generate employment opportunities for the poor.<sup>6</sup>

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<sup>2</sup> Ravi Matthai was the founder director of IIM Ahmedabad, a leading management school in India. He and Ranjit Gupta, another faculty member at IIMA, started the Jawaja rural development project in 1976.

<sup>3</sup> Then Program Officer with the Ford Foundation in New Delhi. Deep left Ford Foundation in 1986 and joined PRADAN full-time. Deep Joshi was awarded the coveted Magsaysay award in 2009 for his community work through PRADAN.

<sup>4</sup> Sarvodaya is a term in Sanskrit language and translates to uplift or awakening of all. The Sarvodaya Nano Finance Ltd. (SNFL) was sold by BASIX to a community promoted and managed trust in 2001.

<sup>5</sup> Samruddhi is a term in Sanskrit language and translates to prosperity.

<sup>6</sup> Pathak and Sriram, 2004



Indian Grameen Services (IGS) - an existing Section 25 non-profit company was included in the holding company with intentions to provide Technical and Support Services (TASS) to the borrowers<sup>7</sup>. The complex structure of BASIX is justified with the argument that livelihood promotion is indeed a complex task and therefore needs complex solutions.

BASICS Ltd. has a Governing Board of five members who represent a balanced mix of social development and finance professionals, besides academic and consulting experts. One of its Board of Directors' members is Vijay, along with Deep Joshi, Bharti Gupta Ramola, Anoop Seth and Joe Madiath. BSFL has a Governing Board of 11 members and Vijay is the Chairman of the Board. The Board looks at mission validation, compliance strategy, and periodic reviews of the progress on social and financial performance. The Governing Board lays down broad policies without being involved in the operational management. The Board meets every quarter and has set up committees to oversee specific functional areas such as audit, investments and human resources. While BASIX, as a group, offered other support services to its customers from inception, lending remains its day-to-day focus for a long time. However, with its innovative approaches, BASIX, together with its group entities, soon achieved a number of firsts for itself<sup>8</sup> (see Box 1).

**Box 1: Firsts' in BASIX<sup>9</sup>**

In 1996, BASIX was the first commercial microfinance entity in India.

In 1999, BSFL received the first non-farm micro-enterprise loan by Small Industries Development Bank of India (SIDBI) Foundation.

In 1999, BASIX received the first ever private commercial bank loan to a microfinance institution (MFI) from Global Trust Bank, and subsequently the first re-finance deal by the National Bank for Agriculture and Rural Development (NABARD) of India.

In 2000, BASIX raised a loan from a private sector bank in India (ICICI Bank Ltd.) for its agricultural lending portfolio, and in 2000 a loan from the Housing Development Finance Corporation (HDFC) for micro enterprise loans, both of which were the first of their kind. No other MFI on the Indian scene had such mix of investors, this combination of loans and equity, nor had any such organization made this kind of progress so early in its growth.

In sum, the BASIX team realized that the less enterprising and poor rural workforce required inputs beyond just credit. As a result, the strategy of microcredit was changed to livelihood support. Such a strategy envisioned a range of support services such as advising customers on

<sup>7</sup> Yet another important role for IGS was to operate as an experimentation and consulting agency. Besides earning some revenues through consulting, as the BASIX team knew that they would need a lot of experimentation to develop new products and processes, IGS, with development finance support from donors, could undertake such experimentations before mainstreaming the practices through BASIX's two NBFCs, by leveraging the commercial finance.

<sup>8</sup> Dichter, 2007

<sup>9</sup> Dichter (2007:11)



the appropriate use of pesticides to dairy farming to cotton crop cultivation practices to mitigating the risk factors in agriculture and allied areas to forming new organizational forms.

## Market and Location Context

In order to improve the quality of life of the poor<sup>10</sup> and low-income<sup>11</sup> groups and spur social change, increasing their access to the mainstream institutional finance is seen as a major corrective step.<sup>12</sup> This approach has been termed as inclusive financial systems and financial inclusion, which is an important public good. In December 2003, the former UN Secretary-General Kofi Annan stated, *“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”*<sup>13</sup>

India has been severely challenged in delivering financial inclusion. Faced with internal challenges such as poverty, infrastructure and social order, the Indian State institutions were not strong or capable enough in resolving these issues due to weak delivery structures.<sup>14</sup> The Indian government’s efforts towards promotion of financial inclusion, despite policymakers’ best intentions, have always fallen short, and instead created anomalies in the market (see Annex 3). The Reserve Bank of India in Credit Policy of 1967-1968 recommended commercial banks to increase financing to the priority sectors - defined as agriculture, exports and small-scale industries. Lending targets of 40% and 32% of net bank credit were stipulated for domestic and foreign banks respectively, and within this, sub-targets of 18% and 10% respectively stipulated for agriculture and weaker sections.<sup>15</sup>

The nationalized public sector commercial banks in India, which were entrusted the leading role by the government in the 1970s and 1980s for lending to the poor with an aim to getting them out of the clutches of the informal moneylenders, lost interest in lending to the poor after the economic reforms and liberalization processes started in 1991. In the 1990s, the interest rates of banks were partially deregulated and therefore competition in the banking sector increased.<sup>16</sup> The International Fund for Agricultural Development (IFAD) report ‘Microfinance Sector: Issues and Strategy for Future Interventions’, inquiring into the reasons behind the low quantum of credit usage from formal institutional sources stated: *“While banks have been engaged in financing small borrowers, the manner in which this is being done can hardly be called satisfactory. The procedures are cumbersome, the staff unfriendly and the*

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<sup>10</sup> ‘Poor’ refers to those who fall under the income category of US\$1 a day.

<sup>11</sup> ‘Low-income’ refers to those who fall in the income category between US\$1-2 a day.

<sup>12</sup> Basu, 2006

<sup>13</sup> [http://www.unctf.org/english/microfinance/dakar\\_conference/](http://www.unctf.org/english/microfinance/dakar_conference/)

<sup>14</sup> Chesterman et al, 2005

<sup>15</sup> RBI, 2005

<sup>16</sup> Basu, 2006



*transaction costs high. Repeat loans, except for crop production, are rare, even for borrowers who have repaid fully. Furthermore, even though many of the loans extended to the poor by the public sector financial institutions are subsidized, their ultimate cost to the borrowers is high: factoring in out-of-pocket costs, payments to middlemen, wage and business loss due to time spent in getting the loan approved”<sup>17</sup>*

In the absence of a blueprint or set formulas to tend to the complex challenges of dealing with large scale poverty, an uncharted territory for Indian policy planners, they seemingly failed often in their judgments of implementation structures and required mechanisms. The planners also erred in their assumptions about the needs and capacities of the poor. Such governance failures to promote financial inclusion created a space for independent social innovators to fill the development needs of the rural poor. The Grameen Bank Bangladesh model of microfinance influenced several NGOs and civil society organizations in India. “*New microfinance approaches that combine the safety and reliability of formal finance with the convenience and flexibility of informal finance*”<sup>18</sup> emerged in India. The IFAD report cited above reasoned the growth of microfinance sector in India by arguing: “*The growth of microfinance initiatives and institutions over the past decade and a half must be placed in the context of overall developments in the rural credit scenario in order to comprehend the reasons for the emergence of microfinance products and their particular appeal to poor borrowers. One interpretation of the growth of the microfinance movement in India is that it developed as a direct result of and in answer to the failure of official attempts to address the credit needs of the poor; it is thus an articulated civil society response to the policy drift in the rural sector during the 90s.*”<sup>19</sup>

Therefore, the story of BASIX’s origination and evolution needs to be viewed within the context of the post colonial India and its governance and program delivery structures. Vijay believed that the NGO, as an organizational form, may not be able to access the commercial finance effectively. When exploring and accessing commercial finance by development organizations was still not a mainstream idea, BSFL was promoted as India’s first commercial microfinance institution (MFI) in 1997, as a NBFC. This led to several NGOs turning into NBFCs later on and the microfinance movement eventually grew and became established as an important market player, especially in the rural markets.

The concept of microfinance has also been seeing some healthy debates over models of micro-financing (see Annex 4). Examining the limitations of microcredit and ways to go beyond it, Vijay argued that “*microcredit by itself does work many times, and where it does, it does alleviate poverty to some extent, but such situations are mainly possible with the enterprising poor and in dynamic, high density (even if poor) economies.*”<sup>20</sup> In the Indian context, this insight was already an accepted wisdom among the state policy planners. Both the

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<sup>17</sup> Fernandez et al, 2003:9

<sup>18</sup> Basu, 2006

<sup>19</sup> Fernandez et al, 2003:5

<sup>20</sup> Mahajan, 2006



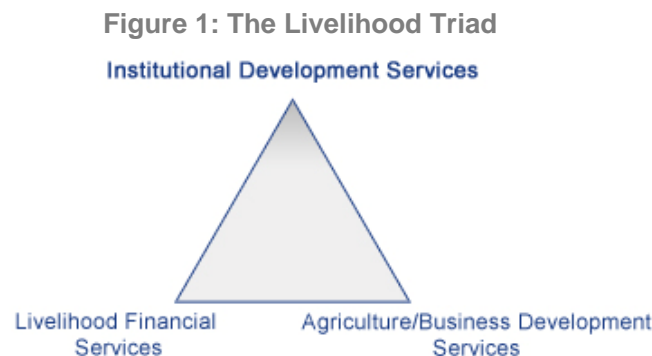
components – technical know-how through the government’s Extension departments, and credit through the scheduled commercial banks, were already offered to the rural poor by government schemes such as the Integrated Rural Development Programme (IRDP) since 1980. However, the delivery mechanism of the government schemes - besides being riddled with rent-seeking behaviours of government officials at various levels - also lacked quality and flexibility in terms of credit products and customer service.<sup>21</sup>

Although “*access to finance for the rural poor has improved somewhat over the past decades, the vast majority of India’s rural poor still do not have access to either formal finance or microfinance. Informal-sector lenders thus retain a strong presence in rural India.*”<sup>22</sup> Thus, BASIX found itself addressing financial inclusion in the context of governance failures and the poverty of the credit approaches.

BSFL, as an NBFC and livelihood promotion agency, is now among the world’s leading provider of integrated livelihood promotion services and has positively impacted the lives of close to a million poor and low-income people through its unique holistic approach to livelihoods promotion - which uses microfinance, micro-insurance, agricultural, business and institutional development services in a mutually reinforcing manner (see Annex 15). BSFL served over a million credit customers, two million insurance customers and half a million customers for agriculture and business development services as of March 2010.

## **BASIX-BSFL Business Model**

Based on the results of an impact assessment study on the BASIX operations in 2002, the BASIX-BSFL team shifted its focus to a more integrated approach of ‘livelihoods promotion’. They termed this new strategy the ‘Livelihood Triad’ - a triangle in which three kinds of functions have equal status (see Figure 1).<sup>23</sup>



<sup>21</sup> Fernandez et al, 2003

<sup>22</sup> Basu, 2006. Private equity investors see this as an opportunity and are interested in the sector as indicated by several private equity deals signed over the years in India.

<sup>23</sup> Mahajan, 2006



All the elements of the ‘Livelihood Triad’ had been in place since the beginning, but elements that had not been in the financial services realm hitherto did not receive as much focus within the institution. Vijay and his team decided to place them on an equal footing in the overall strategy and became ‘A New Generation Livelihood Promotion Institution’. The BSFL CFO Ramachandran shared that *“the deeply disappointing results led to a rethink about the reasons behind the failure and pinpointed to as being due to an unfulfilled need for a qualitatively higher order of services. This necessitated a shift in BSFL’s strategy away from microcredit programs with some technical assistance towards a broad based offering which included agricultural support services, institutional development services and insurance products against risk factors in conjunction with credit and became part of BSFL’s service offerings from 2003 onwards.”*<sup>24</sup> Since 2003, the business model of BASIX-BSFL operates along three main service lines of the ‘Livelihood Triad’.

The Livelihood Financial Services (LFS) includes:

- Savings<sup>25</sup>;
- Credit - for consumption and productive needs;
- Insurance - for lives and livelihoods;
- Commodity futures - to reduce price risk;
- Money transfer - for migrant workers;
- Commodity derivatives; and
- Financial orchestration - arranging funding from multiple sources.

The Livelihood Financial Services (LFS) are extended to poor and low-income households who are not financially included in the formal banks or insurance system. Two categories of people are covered under these income ranges – subsistence/landless poor and small and marginal farmers/non-farm micro-enterprises. By ‘disadvantaged’ BASIX refers to women, scheduled castes, scheduled tribes, and other underprivileged groups, minorities, physically and mentally challenged.

Beyond the low-income market segment, BSFL also provides loan products to micro-enterprises and small farmers. Products are also designed for commercial enterprises and big farmers (see Figure 2). Loan products vary for these segments based on their financial status and range from loans through Self Help Groups (SHGs) to individual loans through Joint Liability Groups (JLGs) to individuals loans offered on collateral security (see Annex 5).<sup>26</sup>

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<sup>24</sup> The wisdom of BSFL’s strategy is corroborated by several studies on the agrarian crisis in India which have shown that increasing agricultural credit alone cannot resolve the crisis; that credit by itself will not increase productivity; that increasing investments in agriculture can actually be detrimental resulting in unproductive asset formation; that agricultural growth by itself may not sustain rural population; and that it is falling yields and market prices which have led to the crisis (Sriram, 2008).

<sup>25</sup> Operated in three districts through RBI Licensed KBS Local Area Bank, another entity in the BASIX Group.

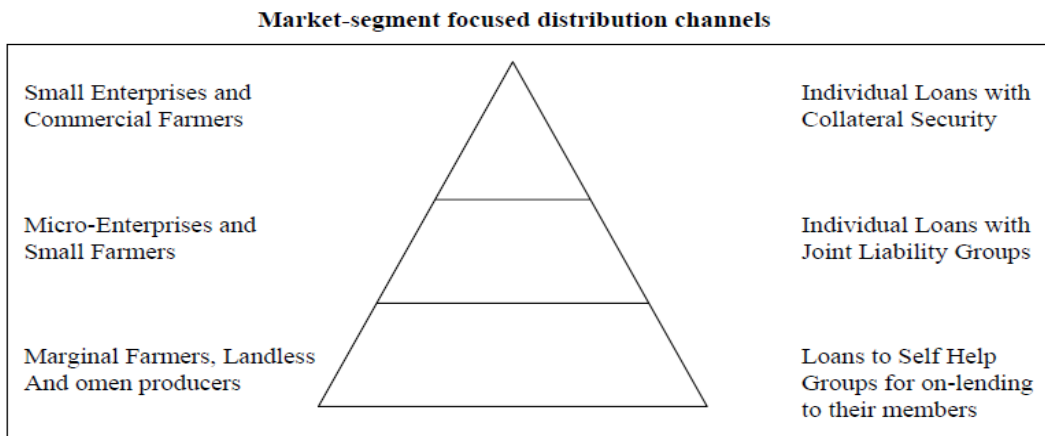
<sup>26</sup> Interest rates on the loans are higher than in other MFIs and defaults are not tolerated (Datta and Nilakantan, 2004:31).





Loans are disbursed over a period of time and repayments are scheduled to occur on a monthly basis.

**Figure 2: Segmentation of BSFL Customers**



Source: BASIX Internal Document

Predominantly, three channels are utilized for reaching out to potential loan applicants: SHGs and SHG federations (for loans to landless women), Joint Liability Groups (JLG) (for loans to individual farmers, and non-farm micro-enterprises and direct loans to growth micro-enterprises. Apart from making loans, these distribution channels and financial services staff are also leveraged for offering non-financial services that form part of the Livelihood Triad - agricultural/business development services (Ag/BDS) and Institutional Development Services (IDS) - explained below (see Annexes 6 and 7). The 'Livelihood Triad' services thus have an integrated and single operational infrastructure through which all the three service verticals may be accessed.

**Box 2: Loan Appraisal Process**

The process of appraisal of a loan application usually consists of an evaluation of the economic capacity of the borrower in terms of usage capacity and the ability to repay a loan. A typical loan application is scrutinized by a loan committee composed of the Unit Manager as the Chairman and one or two field executives. The field executive makes a presentation to the committee regarding the applicant's proposal about various elements such as the soundness of the proposal, sources of income, employment position in the family, family investments and sources of investment, family's past credit records, nature of technical and financial assistance required from BSFL, proposed repayment schedule and the recommendations of the field executive on the loan application. The appraisal report by the field executive also presents an assessment of the risks involved. In case of rejection of a proposal, reasons for the rejection are provided to the loan applicant. Exclusion criteria apply only to those who are engaged in harmful activities.<sup>27</sup>

<sup>27</sup> Nilakantan and Datta, 2004



Along with microcredit in the Livelihood Financial Services (LFS), micro-insurance is also provided for mitigation against different kinds of risks - such as accidents, disability, health, life, weather, group coverage (for the entire family), livestock and crop - pertinent to the context.<sup>28</sup> Such insurance instruments are offered through channel partners like formal banks and insurance companies (e.g. Aviva Life Insurance).

Initially, all borrowers were covered by a group life insurance policy by Aviva for 1.5 times more than the loan amount borrowed during the loan period. On a one thousand rupees policy, the price initially was set at Rs. 8.61 (US\$0.18) in 2002. The number of insured grew to 50,000 in 2004 and to 100,000 in 2005, with the premium reduced to Rs. 6.89 (US\$0.15) and Rs. 3.98 (US\$0.08) respectively.<sup>29</sup> Eventually, coverage was extended to spouses, and later health insurance policy at very affordable premium rates was offered through a tie-up with Royal Sundaram Insurance Company. A unique feature about the insurance products is that a customer could pay the premium in small monthly installments along with their loan repayments.

Within the 'Livelihood Triad', financial services are based on interest on loans, and premiums on insurance, while the other two service verticals – Agricultural and Business Development Services (Ag/BDS) and Institutional Development Services (IDS) are fee based.

The Agricultural and Business Development Services (Ag/BDS) include:

- Identification of livelihood opportunities;
- Productivity enhancement;
- Market linkages - input supply and output sales;
- Local value additions; risk mitigation (non-insurance); and
- Diversification from farm to non-farm activity.

Agricultural and Business Development Services (Ag/BDS) focus on improving productivity and income, while mitigating risks and reduction in costs of production. Customers engaged in activities in subsectors like dairy, cotton, pulses, lac, soybean, mushroom, vegetables, groundnut, handloom and bamboo crafts are provided with technical support from the subject matter experts (from 141 Livelihood Service Providers (LSPs) in 2007-08 to 499 LSPs in 2008-09 respectively<sup>30</sup>). BSFL levies a fee of Rs. 450 (US\$9.65) per annum for these services, inclusive of service tax.

The Institutional Development Services (IDS) include:

- Individual level awareness;
- Skill and entrepreneurship development;

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<sup>28</sup> Insurance customers fall into two categories – those who receive health and life as an add-on under micro credit programs and those who opt only for insurance coverage without credit. Under the LFS vertical, insurance customers are therefore distinguished from micro credit customers although both are under the same vertical.

<sup>29</sup> Gunarajan, 2007

<sup>30</sup> BASIX, 2008a; 2009a



- Building solidarity and trust;
- Formation of groups, federations, cooperatives, mutual benefit associations of producers;
- Capacity building of institutions formed;
- Accounting and management information systems, using IT;
- Building collaborations to deliver a wide range of services;
- Performance management systems;
- Sector and policy works for policy reforms.

Institutional Development Services (IDS) encourage customers to be organized into groups and other institutional forms for mutual benefit and cost effectiveness. BASIX IDS are based on the belief that to promote a large number of sustainable livelihoods it is necessary that rural producers/users come together to develop better bargaining power at the marketplace. This becomes possible through increased access to savings, credit and insurance; increased access to commodities (fertilizers, pesticides and water); increased access to sell produce and value additions; and increased access to better know-how and new technology. The fee for IDS varies and starts from Rs. 1,200 (US\$25.73) per annum, leading to higher amounts with the nature of the institution formed.

Hence, BASIX Institutional Development Services (IDS) are geared towards building institutions that achieve a high stake in their negotiating ability in the marketplace. They are assisted up to a stage whereby they become sustainable and able to withstand on their own. All necessary capacity building is extended to evolve effective institutions to take care of the livelihood promotion needs of its members. Once fully developed, the relationship shifts from that of receiver/provider to that of equal partners.

Since 2003, through the IDS wing, SHGs and other rural institutions are facilitated through group meetings, trainings and exposure visits.<sup>31</sup> These examples and other experiments that BSFL is engaged in demonstrates the deep reflection and openness to learning that goes into BSFL's product and service lines to make them viable and valuable for the customers. In sum, BSFL provides various risk management products to its customers and, as Sateesh, Head of Insurance in BSFL puts it, *"there are two problems that a rural customer potentially faces: dying too early or living too long. Insurance covers the risk of early death. In future, micro-pension plans will take care of those who lead long lives."*

## **FINANCIAL MODEL**

On average, BSFL earns almost 85% of its total revenue from livelihood financial services (i.e. credit); around 6% from insurance, the Business Development Services (BDS) contribute a share of 5%, and the Institutional Development Services (IDS) around 4%. The financial model typically has inflows in the categories of interest income (interest rates vary between 18% and 24%), processing fees (3% of loan amount), cash security (10% of loan amount) and insurance products and BDS (2%), (see Annexes 8, 11, 14 and 15). Major

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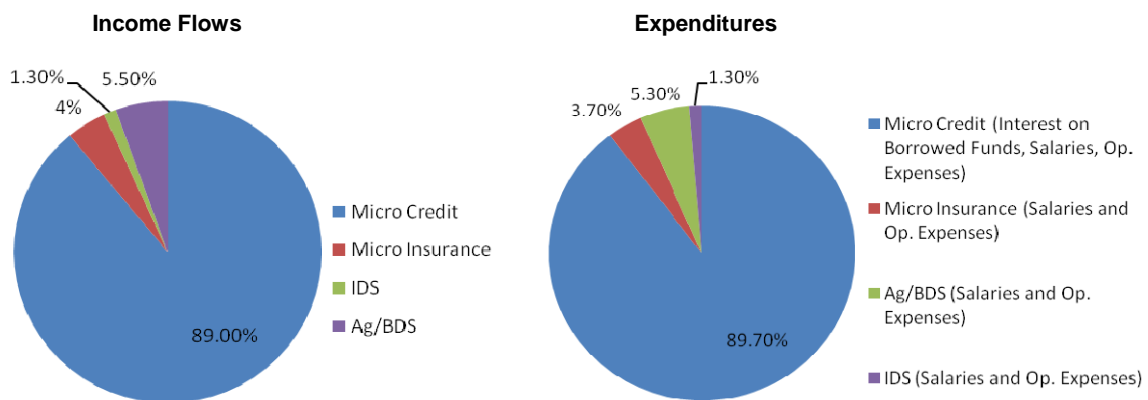
<sup>31</sup> BASIX, 2009a



outflows in the financial model typically is routed through interest paid on loans to creditors (12% of total outflows), operating costs (14-15%), bad luck and write-offs (1%) and 2.5-3% return on investments to investors (see Pie Chart 1).<sup>32</sup>

Growth in Ag/BDS and IDS service verticals reveals that the strategy shift from a credit centered operations to a diversified basket of services is paying off for BSFL, and that its various services have a good scope for growth (see Annexes 11 and 14, and Pie Chart 1 below). Unaudited accounts as of September 2009 showed that income from operations doubled (Rs. 0.5 million – US\$10,718<sup>33</sup>) compared to the same period (Rs. 0.25 million – US\$5,359) in 2008<sup>34</sup>.

**Pie Chart 1: BSFL Income Flows and Expenditures (2008-09)**



Source: BASIX Internal Documents

Support from donor institutions helped BSFL in the initial years. Initial capital for BASIX was in the form of concessional loan commitments totaling US\$14.88 million for the years 1996-2002, funded by a large group of Indian donors such as Sir Ratan Tata Trust<sup>35</sup> and SIDBI, foreign donors like the Ford Foundation, the Swiss Agency for Development and Cooperation (SDC) and the Canadian International Development Agency (CIDA) to name a few.<sup>36</sup> However, this was not adequate and Vijay had to reach out to commercial financiers for scaling up. He succeeded by leveraging a mix of development and commercial financing. In 2001, BSFL raised its initial equity (Series-A) from the International Finance Corporation (IFC), Shorebank of USA, Hivos-Triodos Fund of Netherlands, and the HDFC and ICICI in India. A track record in improving its financial viability, which is endorsed by ratings from

<sup>32</sup> Interview with BSFL CFO Ramachandran

<sup>33</sup> The UN January 2010 exchange rate of US\$1 = Rs. 46.65 is used.

<sup>34</sup> BSFL Unaudited Financials, September 2009, BASIX.

<sup>35</sup> Sir Ratan Tata Trust is a philanthropic trust promoted by the Indian business conglomerate Tatas.

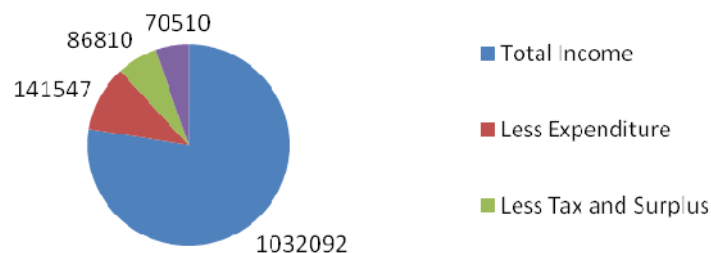
<sup>36</sup> DiLeo, 2003



agencies like CRISIL<sup>37</sup>, helped BSFL in securing commercial financing in March 2009 in its Series-B funding round (see Annex 13).

BSFL CFO Ramachandran noted that, “*through well designed products and services that remove the quantum of risks that plague the poor, in tandem with advisory services, which build their marketability and success, BSFL helps the wealth creation process of the poor. In turn, BSFL ensures the viability and sustainability of its own services at rates of return pre-negotiated with equity investors*”.

**Pie Chart 2: BSFL Profits (2008-09) (INR '000)**



## Constraints and Strategies

Vijay and the management team members at the BASIX Group were committed from the outset to learn from the ‘field’ for improving their products, processes, and business practices and to demonstrate the success of their model of livelihoods promotion to the policymakers and others (see Annex 16). In 2002, BASIX commissioned an independent research agency Indian Market Research Bureau (IMRB) to conduct an impact assessment of its work, which highlights its self-reflective approach and the emphasis on improving performance. The impact assessment of BASIX credit operations was carried out with both experimental and control groups to isolate the impact credit.

With the IMRB study results, Vijay realized that BSFL’s primary focus on lending was proving inadequate in reducing the vulnerability of their clients and in shifting them out of poverty. Consequently, Vijay and the management team at BSFL faced a crucial choice about the future direction of BSFL and other BASIX Group entities.

*“The tension around this issue – to go down the orthodox microfinance road or not – was brought out by the OLE<sup>38</sup> process and continued to build from 2001 until 2003. In a nutshell, the choice was between opting to provide financial services that would to a degree help the poor, and to do it straightforwardly and professionally, building volume*

<sup>37</sup> CRISIL is India’s leading Ratings, Research, Risk and Policy Advisory Company and is world’s fourth largest rating agency.

<sup>38</sup> Conducted by the Organizational Learning and Excellence (OLE) Division in BASIX.



*and profit along the way, or opting for something more complex, messier, infinitely harder to manage and control, but which had a chance (whether 50/50, 20/80, or 90/10, no one could say) of making much more of a difference”.*<sup>39</sup>

The results from the 2002 impact assessment study revealed that only 52% of its three-year plus microcredit customers reported an increase in income while 23% reported no change, and another 25% reported a decline. Analysis of the survey results showed the following factors at play: (i) clients’ unmanaged risk; (ii) low productivity in crop cultivation and livestock rearing; and (iii) inability to get good prices from the input and output markets.<sup>40</sup> This study had given Vijay the impetus needed to move past his ambivalence about what he wanted BASIX to be and helped him to move less hesitatingly towards what had been in a sense his natural inclination from the beginning – an integrated, comprehensive approach to the complex livelihood problems of the poor (see Annex 17).

In a number of pilot initiatives/project interventions, BSFL has engaged with local villagers and introduced new mechanisms to alleviate their hardships, if not altogether eradicate their poverty. The Swiss Development Corporation (SDC) financed a three-year Rs. 9.9 crore (US\$2.12 million) livelihood promotion initiative, to support incubation of projects under the livelihood triad strategy. The pilot projects were undertaken to better understand and serve the economically poor communities across the outreach of BSFL and across subsectors like dairy farming, soybean and green fodder cultivation and fishing (see Annex 20). Proposals for these incubation projects were invited by BSFL from its field teams at the Unit level (see Annex 7), which were supposed to identify areas in needs of intervention and devise intervention strategies.



Picture 1: SHG meeting in progress

The project interventions worked with certain strategies, some of which tended to recur regardless of differences in subsectors, regions and so on (see Strategy Matrix on the next page ). A strategic aspect of these interventions involved identification of crucial livelihood needs, significantly organizing affected groups into self help or cooperatives structures to instill group norms and coordination (see Picture 1). Group meetings and coordination provided an avenue for pooling of financial resources,

building of social capital through trust and sharing of tasks beneficial to the group.

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<sup>39</sup> Dichter (2007:15)

<sup>40</sup> Mahajan, 2006



Figure 3: Strategy Matrix

		STRATEGIES				
		Adapt products and processes	Invest in removing market constraints	Leverage the strengths of the poor	Combine resources and capabilities with others	Engage in policy dialogue with government
CONSTRAINTS	Market information	Revised to trial strategy to serve rural market	Organised SHGs and cooperatives to educate rural folk	Provides market intelligence and linkages	Leverage existing value chain for poor	Rural market sensitive products and services
	Regulatory environment	Supports RBI financial inclusion goals	Eliminated exploitation in value chain	Bargain with state agencies on prices, rights etc		Work with state governments
	Physical infrastructure	Re-established units and demo centers in many states	Coordinate with state coops, banks and private players	Utilise their resources to outcote - eg green fodder		
	Knowledge and skills	Trainings and exposure visits	Field visits by UPAs regularly to give information	Awareness about cost effective eco products	Inputs from international and domestic expertise	Provide knowledge on what works in rural poverty
	Access to financial services	Reps, liquidity capital and international orgs	Provide credit with insurance products	Formed SHGs and other clubs for savings	Partnerships with banks	

For instance, in the case of the fishing community of Bargi dam in Madhya Pradesh, the group was able to bargain for better prices, with private contractors and the concerned government agency, for their catches. Other strategies were the elimination of middlemen traders, enabling poor and low-income workers to move up the value chain, and the reduction of costs through technical assistance, credit or collateral assistance. By providing credit at reasonable rates to soya farmers at pre-harvest times and through collateral linkages with



Picture 2: Azollo Culture for Green Fodder Cultivation

government and private warehousing outlets, the beneficiaries substantively reduced their dependence on traders, who under-priced their produce and charged high interest rates. Technical assistance was provided by BSFL - for instance, Azolla culture seeds slips and training free of cost - for growing green fodder and this in turn reduced or eliminated the need for buying expensive fodder for dairy farmers (see Picture 2). This meant a significant cost reduction for dairy farmers. Another instance of cost cutting was seen in



the promotion of press mud (ecological and low-cost alternative) (see Picture 3) to revitalize soil, over abused by chemical fertilizers.<sup>41</sup>



Picture 3: Press Mud for Soil Enrichment by Farmers

Yet another intervention pertains to the provision of alternative livelihoods in non-farming such as tailoring for women (see Picture 4), and as a means of support in lean periods. In order for these to be successful, BSFL had to engage through negotiations with appropriate stakeholders - be it markets (vendors and manufacturers in the tailoring project case) or State (State government agencies in the case of fishing community). Such a strategy improved the market access for beneficiaries, ensured better valuation of their produce, and ultimately built their self confidence and esteem.



Picture 4: Livelihood Alternatives to Farming

The case of the BSFL, and the whole of BASIX Group, thus highlights the learning, vision and strategies adopted by its founder and collective organizational experience in handling the intricate issues of livelihood promotion among the poor in view of their low socio-economic profile and weak shock-absorption capacities. The evolution of BSFL, and other entities of BASIX, should occur amidst the challenges of finding the right balance between varied development approaches, resources and appropriate returns for commercial capital deployed.

## **BASIX-BSFL Stakeholders and Value Creation**

<sup>41</sup> Obtained from case study documentation done by BASIX on SDC-LTF Project. A list of projects is provided in Annex 20.





## VALUE CREATION FOR RURAL INDIA

*In the sleepy village of Sujatanagar, in Khammam district of Andhra Pradesh, the field team of BSFL successfully encouraged seven dairy farmers to form a producer group, to engage in farming of green fodder for animals. Located close to Kothagudem and Bhadrachalam towns, there is demand for milk throughout the year, so dairy farming is the main source of livelihood for most inhabitants in Sujatanagar. However, the shortage of nutritious and affordably priced animal fodder has been forcing the landless and marginal dairy farmers to exist on subsistence for several years and constrained their growth. The large farmers' dependence on dairy is comparatively less as they usually have crop residues to manage the animal feed, but the landless and marginal farmers have no such choices and have been buying dry paddy grass, which not only was expensive but also affected the milk yield per buffalo and the health of the buffalos<sup>42</sup>.*

*BSFL has been operating in the area since 2001, providing microcredit to farmers and others and had 250 credit accounts in the village. Visiting Sujatanagar regularly, the BSFL team understood well the problem of dairy farmers there and, as part of the Livelihood Triad Strategy, motivated farmers to form a producer group to engage in fodder farming as an entrepreneurial venture. The BSFL field team provided farmers with advice and assistance in locating the land, technical support for cultivation of two varieties of green fodder farming, an exposure visit to Buffalo Research Station in Venkataramannagudem, as well as credit support of Rs. 70,000 (US\$1,500). Producer group members were excited and put in the hard work necessary to make the venture successful.*

*After harvesting, the venture ensured continued supply of fodder throughout the year to all the producer group members. The cost of cattle-feed, which was coming to Rs. 1040 per month (US\$22.30) earlier, came down to Rs. 675 (US\$14.47) per month post BSFL's intervention. Also, green and nutritious fodder helped in increasing the milk production by almost a liter a day per buffalo, generating additional revenue of Rs. 18-20 per buffalo per day, and Rs. 1,000-1,200 per month (US\$22-27). There was also surplus fodder, which was sold to other dairy farmers in the village. In the first year, a total sale of surplus fodder came to about Rs. 40,000 (US\$857), generating further additional revenue of Rs. 5,700 (US\$122) per member for the producer group. Further, this local venture saves their costs and time spent in travelling long distances for procurement of fodder from outside the village.*

*With hard work of farmers, both the farmers and BSFL team declared the venture as successful and subsequently demand for BSFL team and their support in Sujatanagar has gone up, as several other dairy farmers, who did not show interest in the venture earlier, started lining up for help in joining the existing producer group or forming a separate group. Some farmers also sought support in engaging in*

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<sup>42</sup> Dairy industry is mostly rural-based in India, and with approximately 110 million tonnes milk production in 2008-09 and growth of 4% per annum, India contributed about 15% of the total global milk production and has been the world's largest milk producer for some years (Ramteke, 2009). The projected demand for milk in India by 2010, 2015 and 2020 is 120, 140 and 170 million tons respectively (Ramteke, 2009). In 2008-09, the cattle and buffalo population in India was about 180 million and 85 million respectively, which too is the largest in the world (Ramteke, 2009). However, there is a shortage of 30% fodder for domestic animals (Ramteke, 2009). Due to the growing population, the availability of agricultural land in general is shrinking, and the land for grazing and fodder production, which is only 9% of total agriculture land, too is getting constricted (Ramteke, 2009).



*green fodder production individually in their own land. Besides the farmers, the BSFL field team is happy with the overall outcomes of the intervention.<sup>43</sup>*

The above anecdote is an example of the triad strategy through which the rural customers, in this case the landless and marginal dairy farmers, have successfully improved their incomes, reduced costs and increased their productivity. The unique mix of credit with support services is likely to make productivity and income increases more sustainable for rural customers.

After almost 14 years of operations, as of March 2010, the customer base across BASIX group companies was over 1.5 million, and the group had helped support the livelihoods of over a million poor and low-income households in the agriculture, allied and non-farm sectors by extending microcredit worth over Rs. 20,000 million<sup>44</sup> (US\$428.80 million) cumulatively.<sup>45</sup> BSFL, with close to a million customers, is the largest entity in the BASIX structure (see Annex 15). With over 739,581 active loans to women, BSFL has a good portfolio quality with high repayment rates at 98.6% and is present in 21,163 villages spread across 14 states as on March 2010<sup>46</sup> (see Annex 22).

An interesting trend emerging in BSFL's loan structure is the move towards funding non-farming micro-enterprises in rural areas. Borrowing in this segment is slightly more than 50% of total lending (see Annex 10). Total loan amount was Rs. 19 million (US\$0.41 million) and Rs. 37 million (US\$0.79 million) in 2008 and 2009 respectively. Of this total, 51% and 55% of loan amount was given to non-farming enterprises. Agricultural loans of all types amounted to 25% of the total amount of the lending. This reveals that BSFL is in tune with the ground reality of rural livelihoods scenario wherein rural farming is not sustainable for supporting much of the workforce. In fact, only 40% of the rural workforce is engaged or can be absorbed in agricultural activities.<sup>47</sup> So BSFL is experimenting in high value creation for the rural workforce by providing credit to non-farming entities in order to deploy credit productively instead of sinking purely in the non-performing assets or diminishing returns' sector like agriculture alone. The alternative in the absence of BSFL would likely have been migration to metros, or in worst case scenarios, stagnation and social unrest. BSFL has thus provided a constructive outlet for the rural non-farming population.

Apart from credit and technical assistance, BSFL encouraged institution building – such as producer groups - and further enabled marketing and sale of surplus produce, while also developing interest in several other farmers, who stayed away from the intervention in the first instance, towards BSFL. Such interventions take time, effort and expertise in managing rural and farming issues. BSFL is able to intervene effectively because of the triad concept and its past experience in interventions.

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<sup>43</sup> This anecdote draws from BASIX publication – 'Innovations: Putting Ideas into Action' (2009).

<sup>44</sup> BASIX website.

<sup>45</sup> BASIX website.

<sup>46</sup> BSFL Profile in BASIX website.

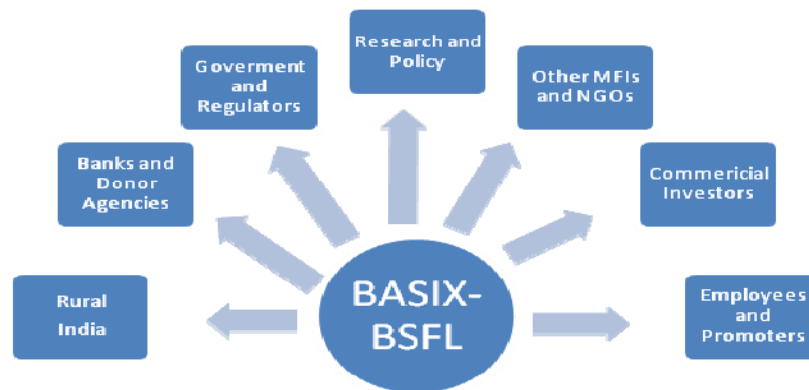
<sup>47</sup> Sriram, 2008



BSFL plans an impact assessment study in 2010 to evaluate its impact on rural lives in both qualitative and quantitative ways. However, although not comprehensive, a preliminary assessment is now possible through existing indices, such as the repayment rates, customer outreach rates and amount of lending for the years 2007-2009. Repayment rates of loans have tended to be in the high 90s for BSFL, indicating that its disbursements have been sound and that their clientele are also financially viable (see Annex 21). Secondly, customer outreach rates are only growing in all its service lines. Geographic coverage is also on the increase year upon year. Thirdly, the amount of lending is higher in non-farming category and for women; both in total amount of lending and 'in terms of volume of lending' (see Annex 12). Women mostly avail of general purpose loans and through groups such as Joint Liability Groups. In terms of impact on poverty, these indices show a declining workforce in agriculture and resultant increase in non-farming rural population is well supported by the credit and other program services of BSFL.

Another important indication is the inclusion of women who tend to be most vulnerable in times of crisis and this can be construed as another positive check on poverty. By increasing its reach every year, the impact of BSFL, in conjunction with these other statistics on poverty, can only be positive in the sense that it may be minimizing it through creation of alternative livelihoods and supporting vulnerable populations like women in rural areas.

**Figure 4: BASIX-BSFL Value Map**



### **VALUE CREATION FOR BANKS AND DONOR AGENCIES**

BSFL has established constructive relationships with channel partners, NGOs and other civil society organizations, and state agencies. Apart from state and regulatory support for BSFL, financial institutions like banks also began to play a supportive role<sup>48</sup>. Banks like ICICI Ltd.,

<sup>48</sup> The growth story of MFIs from dependence on concessional grants to enterprises that are capable of raising equity capital from markets, speaks to the viability and value proposition of MFIs in the Indian context.



for example, found ways to partner with MFIs and minimize their exposure to risks setting new pathways and allowing equity strained MFIs to function in initial phases.<sup>49</sup>

Initially, ICICI Bank found that the risks of lending to MFIs were relatively high, and in order to cover risks ICICI moved away from organization-based lending model and towards direct loan contracts with MFI customers. ICICI Bank imposed a First Loss Default Guarantee (FLDG) – here the MFI exposes itself to the first 10%-20% of loan defaults for instance - and an overdraft facility to cover the MFI's capital requirement<sup>50</sup>. Apart from providing tier 1 or tier 2 capital adequacy, in recent times banks like ICICI Ltd. have provided overdraft facility for MFIs to cover their capital constraint (see Annex 19).<sup>51</sup>

However, much credit has to be given to Vijay, the prime mover and actor in BSFL, and the BASIX Group. Vijay successfully mobilized his personal, academic and professional contacts to give shape to BASIX Group with all its entities. Besides Deep Joshi, the head of PRADAN and Vijay's long time friend and colleague, Vijay also roped in Bharti Ramola Gupta (a fellow classmate of IIM-A), who was and still working with Price Waterhouse, as co-promoters of BASIX and other entities.

In 1995, Vijay leveraged his connection with the Sir Ratan Tata Trust, established through a consulting assignment for the Trust, and managed to generate a start up loan<sup>52</sup> of US\$250,000 at a nominal interest rate of 1% per annum for a pilot crop lending operation to run through his non-profit entity Indian Grameen Services (IGS). This pilot operation was run successfully and led to the formation of BASIX's, as well as India's first commercial microfinance company Bhartiya Samruddhi Finance Ltd. (BSFL).

Ford Foundation has consistently supported Vijay Mahajan and BASIX. Similarly the Swiss Agency for Development Cooperation (SDC), for whom Vijay engaged as consultant earlier, has also been a consistent supporter of BASIX and its activities. In 1997-1999, BASIX borrowed a US\$3.5 million loan for a period of 10 years from the Ford Foundation and the Swiss Development Cooperation - payable contingent upon it being sufficiently profitable, and to be used as equity and loans for BSFL. This quasi-equity was used to raise loans from foreign banks (Standard Chartered Bank, CORDAID, ABN AMRO Bank) and Indian apex development lenders such as NABARD and SIDBI. Both Ford Foundation and SDC have generated tremendous learning on rural economic development through their support to BASIX, which they have used in other developing countries.

## **VALUE CREATION FOR GOVERNMENT AND REGULATORS**

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<sup>49</sup> Ananth, 2005

<sup>50</sup> Citing ICICI Bank's partnership experience with Share Microfinance in India, Ananth (2005) argues that securitization of MFI loan portfolios will be most effective in removing capital constraints and in facilitating MFIs access to the capital markets.

<sup>51</sup> Ananth, 2005

<sup>52</sup> The loan to IGS by Sir Ratan Tata Trust was its first ever loan in its 60 year history of running philanthropic programmes.



With a much broader vision of contributing to poverty alleviation and livelihoods promotion, Vijay realizes the limitations of one institution (BASIX) working towards the objective. “*At no conceivable growth rate can BASIX address even a fraction of India’s livelihood promotion challenge, says Vijay. The country needs twelve million new livelihoods a year due to increase in the labour force, apart from enhancing incomes of about 50 million households who are working but poor.*”<sup>53</sup>

Most importantly, the rural economy and the households are not the target of the economic stimulus policy of governments post-liberalization and hence the rural economy, and particularly the farming community, has been sidelined largely in economic growth schemes of the government, except in times of grave crises. Therefore, effective intervention by organizations like BSFL in the rural and urban economy fills a much needed gap that successive governments have been unable to do. The goal of financial inclusion is also served by BSFL through its livelihood promotion services. In this sense, BSFL is working towards financial inclusiveness in a deeper way.

### **VALUE CREATION FOR COMMERCIAL INVESTORS**

BASIX/BSFL adds value to the portfolio of investors with an interest in sustainable growth. Although BSFL’s value proposition has been slow to be appreciated, its financial viability is proving to be an attractive feature for potential investors. Investor shareholder details of BSFL reveal that Bharatiya Samruddhi Investments and Consulting Services at 41.9% and IFC at 17.6% are the largest shareholders as of March 2009 (See Annex 13) after divesting some of their shares. New investors like Lok Capital LLC, Aavishkar Goodwell and SIDBI have bought shares. Dividend to the tune of Rs. 163 lakh (US\$0.35 million) was declared by BSFL.<sup>54</sup> In 2008-2009, the dividend declared by BASIX was 17.8% up from 13.8% in 2007-08 (see Table 1 and Annex 8).

**Table 1: BASIX’s ROA and ROE (2005-2010)**

	2005-06	2006-07	2007-08	2008-09	* 2009-10
<b>Return On Assets</b>	1.9%	2.1%	2.0%	1.9%	3.9%
<b>Return On Equity</b>	6.2%	11.2%	13.9%	17.8%	32.7%

Source: BASIX Internal Document

The improvement in BSFL’s capitalisation adequacy, along with a long-term bank loan facility of Rs. 1.5 billion (US\$32.15 million), has increased its CRISIL rating from Stable to Positive in May 2009.<sup>55</sup> It indicates that CRISIL views BSFL as stable with small earnings and comfortable assets situation with the potential to scale up. When compared to other MFIs, the asset holdings of BASIX, valued at US\$100 million and more than 3,000 staff members,

<sup>53</sup> Dichter (2007:24)

<sup>54</sup> BASIX, 2008a

<sup>55</sup> [http://www.crisil.com/Ratings/RatingList/RatingDocs/bhartiya-samruddhi\\_08may09.htm](http://www.crisil.com/Ratings/RatingList/RatingDocs/bhartiya-samruddhi_08may09.htm)



is the highest.<sup>56</sup> Although it has fee based services, the cost of BASIX services is priced higher than the services from other MFIs and that may explain the low returns on assets and equity compared to other MFIs.

### **VALUE CREATION FOR MFIS/NGOS**

BSFL was established in 1997 after amassing considerable field experience and extensive research on issues related to microfinance and livelihoods promotions, and with an intention to achieve scale in the microfinance business through a combination of development and commercial finance. Though there are several organisations in India that engage in microfinance activity at a relatively small scale with limited regional focus within a non-profit structure, BSFL (and BASIX as a group) in a way moved the microfinance sector purely from the realms of non-profits to for-profit corporate structure. As a result, several NGOs have turned into for-profit entities and now operate microfinance business commercially, and some have even surpassed BSFL in scale - in terms of number of people served and size of loan portfolios, and as well as private equity investments.<sup>57</sup>

In India, there were about eleven private equity (PE) deals worth US\$143 million in the microfinance institution (MFI) sector between January and October 2009, against eight deals worth US\$61 million in the same period in 2008. The MFI sector in India doubled outreach every year and saw a growth at a CAGR of 105% annually since 2004, is seeing more private equity investments.<sup>58</sup>

### **VALUE CREATION THROUGH RESEARCH AND POLICY**

BSFL/BASIX with a focus on field experiments in various sectors have built up a storehouse of proven knowledge about what works and what does not work in the promotion of livelihoods (see Annex 9). Such a database of knowledge also facilitated BASIX to participate meaningfully in policy dialogues in government, private institutions and other relevant forums.

Impact of the triad strategy is also perceived in several ways, although quantitative measurements are not available yet. Project experimentations, apart from economic value creation, have bestowed upon BSFL customers' social acceptance, knowledge of financial processes involved in banks and insurance services, self-confidence, social capital and an ability to grow and work in groups for individual as well as group benefits. BSFL/BASIX experimentation also identified problem areas in projects such as group togetherness, state policies and support and other factors that may emerge over time.

### **VALUE CREATION FOR EMPLOYEES AND PROMOTERS**

BASIX employees are provided opportunities and a growth path from the positions of Field Executive and Customer Service Associate to higher positions, and are given training and

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<sup>56</sup> MIX, 2009

<sup>57</sup> MIX, 2009

<sup>58</sup> Balakrishnan, 2009



exposure on a regular basis. Almost 78% of the workforce reported receiving either external or internal trainings.<sup>59</sup> Women, as a proportion of the total workforce, are about 11%. Total workforce is around 5,058<sup>60</sup> and retention rate is fairly high. As of March 2009, employees held approximately 3% of total equity in BSFL.<sup>61</sup>

Promoters of the BASICS Ltd. and the group entities, like Deep Joshi and Vijay Mahajan, have carved a name for themselves as successful social entrepreneurs; enjoy professional recognition and a place in several policymaking circles in India and overseas, such as the planning committees in the national and state government and by those in the field. Deep Joshi was awarded the Ramon Magsaysay Award 2009 and Vijay Mahajan was recognized for lifetime achievement with the HSBC Access Award for contribution in the area of microfinance and livelihoods promotion. Vijay Mahajan's contributions, as social entrepreneur, are also recognized in international forums such as the World Economic Forum, where he was appointed Co-Chair of the Global Council on Social Entrepreneurship in 2009.

## Results

### ECONOMIC IMPACT

Ms. Rama K., the Group Vice President (Organizational Learning Division), articulated the approach and impact of BASIX in the following words:

*“The approach of BASIX is designed in a way that it addresses the key factors that act as constraints in the livelihood promotion efforts of the poor. The needs are met in such a manner that it is a sustainable solution both for the organization itself as well as the people it works with. The business model is to do business with the poor in a way that benefit both the company as well as the poor. It is a win-win situation for both stakeholders. The approach of BASIX can be very well reflected in the motto “Equity for Equity”. By this it means that BASIX aims to address the issue of social equity through raising financial equity. The aim is to promote conditions of equity in a businesslike manner so that it can be scaled up resulting in larger inclusion. By wealth generation, BASIX refers to two stakeholders - itself and the clients. One of the focus areas of the 2010 impact study is understanding the different factors affecting wealth creation, and the lessons learnt are to inform future BASIX’ strategies.”*

Under the Livelihood Financial Services (LFS), which offers credit and insurance products, BSFL has over half a million customers. BSFL has over half a million fee-based customers for its services like IDS and Agricultural/Business Development Services as of March 2010. The customer base in the three verticals is not mutually exclusive and a customer availing

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<sup>59</sup> BASIX Triple Bottom Line Report, August 2009

<sup>60</sup> BSFL website,

[http://69.89.31.196/~basixind/index.php?option=com\\_content&task=view&id=40&Itemid=54](http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=40&Itemid=54), accessed on 08.03/2010.

<sup>61</sup> BASIX, 2009a



services in one vertical use other verticals, the Ag/BDS one in particular. Although, the verticals are not bundled together, BSFL does encourage its customers to make use of other verticals as appropriate to their requirements. Usually different verticals of the BSFL livelihood triad contribute towards customer acquisition, retention and revenue generation in a mutually reinforcing manner.

Total number of customers for BFSL services number 1 million. The customer base for other services, BDS and Insurance, is expanding at more than double the rate from 2008-09. From 103,000 customers in 2008 for BDS, the customer base in 2009 hovered around 260,000. Around 250,000 borrowers from the livelihood promotion services (credit services) were women and this means that half of the total borrowers of credit were women as of March 2009. From 30% of total borrowers in 1999-2000, the number of women customers has steadily grown in numbers to constitute half of total borrowers. That BFSL is gender sensitive, and therefore can have an impact on women in its core service lines, adds value to BSFL's livelihood promotion strategies.

With respect to growth in Ag/BDS vertical, dairy producers registered in increasing numbers, compared to crop and non-farming customers in 2007-2008 (see Annex 18). In 2008-2009, non-farming with a huge increase, and agriculture, showed almost equal number of customers availing this service. However, in absolute numbers, allied services showed the maximum number of enrollments for Ag/BDS services, with approximately 134,000 customers in 2008-2009, and had doubled its growth from the previous year. This is a good testament to the value proposition created by the Ag/BDS vertical.

The IDS vertical is slowly growing with a customer outreach of 46,000 and revenues of Rs. 4.2 million as of March 2009, compared to 25,000 customers and revenue of Rs. 3.9 million (US\$83,601) in 2007-2008.<sup>62</sup>

A 2007-2008 survey by BSFL on overall customer satisfaction revealed an acceptance of services like Ag/BDS by customers even though initial enrollment was not done on their own initiative. After using the services, most elected to retain the services but suggested areas for improvement. BASIX Management acted on the weaknesses revealed by this survey and the results of subsequent surveys by the internal audit team indicate a steady improvement in satisfaction levels. BASIX is planning to integrate a Progress out of Poverty Index (PPI) into its Management Information System (MIS) so that changes in the poverty status of its clients can be tracked. This forms a high agenda items as part of its Social Performance Management (SPM) function which has been introduced into the organization in 2006.

By offering a triad of services, BSFL has successfully identified a gap in livelihoods promotion and filled that gap. While a triad strategy is proving to be helpful, there is a cost attached to it in terms of annual fees for customers, and care must be taken that the triad strategy is applied where needed and to those customers who will benefit the most from it. If

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<sup>62</sup> BASIX, 2008a; 2009a





BSFL standardizes the triad as a standard package, this could lead to an imposition on those customers who may need credit only or any one of the vertical services alone. So the converse of an unsuitable triad strategy must also be avoided by BSFL. Sensitive to this aspect, BSFL therefore offers a flexible mix of three verticals based on customer needs. Further, standardization and scalability issues present risks and opportunities and customer feedback will be an important determinant in deciding the right mix of services.

## **SOCIAL IMPACT**

BASIX measures its performance through a set of 25 parameters covering economic, social and environmental indices and report as the Triple Bottom Line Reports<sup>63</sup>. Although the impacts of its social, economic and environmental interventions are not quantified yet. Nevertheless, there are some assessments that have been carried out and these shed some light on the impact on its customer base. BASIX carried out Social Indicators Project (SIP) during 2006, 2007 and 2008. These studies mostly capture information on social profile of the clients such as Client Profile; Client Awareness on Products & Services; Household Wellbeing; Women Empowerment; Accessibility to services; Occupational Assets and Living Conditions; Financial Services; Enterprise; Changes in Agricultural Income; Housing and Household Information. The social parameters indicate the level of outreach amongst underprivileged, minority and women along with poverty status.

In 2007, almost 60% of rural customers were non-poor (i.e. earning between US\$1-2 per day) and 15% earned above US\$2, with 24% of its clients belonging to poor or very poor categories. Social groups hailed from Scheduled Castes/Scheduled Tribes (SC/ST) (22%), minority (12%) and 49% from other under privileged groups. Of the total number of customers, 47% were women in 2007 vs. 54% in 2008, thus registering an increase in women clientele. In 2008, the other under privileged groups including all the categories – SC/ST, Minority and OBC – constituted 37% of total customers (510,381). As of August 2009, women customers constituted 60% of its total customer base (776,176), and other under privileged groups constituted 40% of total customer base (see Table 2). The data from these three years show an increase in women clientele and a sharp decrease in clients from other under privileged groups in 2008 and a small increase in 2009. At present, other under privileged groups represent roughly 50% of the client base, whereas in 2007, they represented more than three quarters of the total client base.

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<sup>63</sup> **Outreach Parameters:** No of villages and town wards; No of active credit customers; No of insurance customers (excluding Cr Plus Life and Health); No of active AGBIDS customers; New customers acquired less those dropped out; **Financial Parameters:** Outstanding Rs cr. at the end of the month; NPAs as % of total assets; Return on Assets % pa on annualized basis; Operating expenses as % of total income; Other than Credit income as % of total income; **Social:** % of SCs/STs/OBCs Customers, % of Women Customers, % of Landless; % of Credit Customers in SHGs/Coops/PGs; Number of Trainings and Exposure for Customers; **Environmental:** No of customers to whom System of Rice Intensification (SRI) was offered –YTD; No of customers to whom IPM, biopesticides, vermicompost, pressmud etc was offered - YTD; No of customers to whom using solar lighting/heating/other alternative energy sources was sold/offered; No. of farmers of bio-mass/bio-diesel plantation financed; No of customers to whom drinking water/sanitation products were offered; **HR:** Total number of Human Resources (HR); % of women HR; % HR who left; Total HR positions approved as per Budget, but not filled - Gap %; Total % HR who went for internal/external training or exposure visits.



**Table 2: BSFL’s Social Impact (2007-09)**

<b>Customer Categories</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Income Group 1 (\$1 or less per day – Poor/Very Poor)	24%	-	-
Income Group 2 (\$1-\$2 per day – Non Poor)	60%	-	-
Income Group 3 (Above \$2 per day)	15%	-	-
Women	47%	54%	60%
Backward Communities (SC/ST/OBC)	75%	37%	40%

*Source: BASIX Internal Document*

The Social Indicators project conducted in BASIX in 2007 indicated some positive changes in the quality of life of its clients. Around 66% reported that their sense of well-being improved over a period of one year. About 48% reported that their savings levels have increased. Around 66% reported increase in profitability levels in their enterprise. Roughly 68% reported increased capacity to repay debt compared to the previous year. About 43% of women customers reported that their participation in decision making related to enterprises increased.

### **ENVIRONMENTAL IMPACT**

On environmental issues, BSFL has been exploring possibilities for sustainable agricultural practices in various subsectors such as cotton, soybean, groundnut, pulses and vegetables<sup>64</sup>. All these services are offered either through the Ag/BDS or the IDS verticals and documented in BASIX’ Triple Bottom Line Reports. Apart from these activities in supporting the environment, BSFL is also engaged in solar energy promotion and marketing through its units in rural areas<sup>65</sup> and is experimenting, along with solar energy companies, on appropriate usages and other promotional activities.

In Orissa and Vidarbha region of Maharashtra, BSFL has introduced nutrient management practices with rice farmers, in order to reduce the usage of chemical fertilizers. Similarly, bio-pesticides application in vegetable crop is another intervention for reducing chemical application. In dairy, BSFL units are initiating green fodder crops and grasses cultivation in farmers’ fields, so that dairy farmers’ dependence on concentrate feed would be reduced for enhancing milk production. While quantifiable results on the value of these activities are not yet assessed, these initiatives however demonstrate BSFL’s commitment to environmental sustainability.

<sup>64</sup> Through its Ag/BDS and/or IDS, BSFL distributed bio-pesticides, press mud, vermicompost and so on to approximately 50,000 customers, as on September 2008 and to 62,000 customers, as on August 2009 (BASIX, 2008b; 2009b). In 2008, 909 bio-mass and bio-plantations were financed and 109 customers were provided with alternative sources of energy, such as solar heaters and lanterns, whereas in 2009, 638 bio-mass/plantations were financed. Around 1000 customers were provided with water sanitation products in 2008 and 2009 respectively. System of rice intensification was offered to 1295 customers in 2009.

<sup>65</sup> BASIX, 2009a



## Growth Strategy and Future Outlook

BSFL's integrated livelihood strategy has paid off as seen in its growing customer base for various services. Many of the borrowers accepted insurance products, such as group insurance or limited health insurance offered by BSFL's channel partners like Aviva Life Insurance and Royal Sundaram. The triad is not packaged as a bundled service for customers. Eventually, some amount of integration between the three verticals may happen due to market demand.

According to Ramachandran, future service/product offerings will encompass micro-savings, micro-pensions and micro money transfers to serve the needs of the customers. As a growth strategy, BSFL will considerably strengthen its financial and social value proposition by serving urban customers. Additionally, this could also help reduce costs for existing customers. With scaling up, group or individual discounts or incentive-based discounts can also be offered. While the economic viability of BSFL undoubtedly shows growth and future potential, the quantum of work undertaken by BSFL to build its business proposition spans more than a decade of experimentations in multiple sectors of the economy.

BSFL had long been held back by capital inadequacy to scale up operations. The primary focus on combining financial viability with social impacts explains the slow growth so far. Conversely, without scaling up, BSFL could not increase its social impact. Scaling up will present challenges in terms of complexity, time and efforts, as BSFL's triad strategy is utilized to maximize the benefits to customers on a sustainable basis. However, BSFL's, and the BASIX Group's, knowledge base of poverty contexts, combined with expertise in resolving implementation and management issues, will differentiate BSFL from its competitors, once it is able to scale up. BSFL's ability to scale up has improved since March 2009 and March 2010 after securing commercial equity of US\$10 million and US\$26 million respectively. Backed by a combination of development finance and private equity, BSFL appears in a strong position to deliver on its agenda of social impact, while operating within the framework of a profitable business enterprise. With a new CEO and MD, Sajeer Viswanathan at the helm since January 2010, BSFL's image as an organization which has developed leadership beyond its founder, will undoubtedly increase and thus add to its appeal in the eyes of potential investors in the capital markets.

Basing its performance on social and environmental indices, BSFL demonstrates its social entrepreneurship credentials with its commitment to sustainable value creation. The depth of value creation and distribution that BSFL has generated is appreciable in terms of knowledge gained from social innovations in the field and its efforts in the dissemination of such knowledge. The lack of such a knowledge base, or roadmap, in effectively dealing with large scale poverty has long been a bane for the India policymakers in the past. The effectiveness of the livelihood triad strategy implemented by BSFL/BASIX, while leveraging a combination of development and commercial finance, could offer valuable learning to other MFIs and social entrepreneurs.



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## WEBSITE

- BASIX website, <http://www.basixindia.com/>



## Growing Inclusive Markets

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The case was completed in April 2010 and released in 2011.

The information presented in this case study has been reviewed by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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Design: Suazion, Inc. (NJ, USA)

For more information on Growing Inclusive Markets:

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