



BASIX:

Microfinance is But a Part of the Solution

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I. Introduction – Wider or Deeper

BASIX, headquartered in Hyderabad, the state capital of Telangana in southern India, was the brand name of a group of entities with 6,000 outlets offering financial and livelihood promotion services throughout rural India. Besides providing microcredit, it was the largest distributor of micro-insurance and micro pensions in the country, a leader in financial inclusion and mobile payments, and a pioneer in fee-based agricultural and livestock enterprise development services. It was also a pioneer of energy and environmental services, including climate change advisory and the aggregation of micro carbon credits. In education, BASIX was the first institution to be funded by the National Skill Development Corporation, a public private partnership that supported vocational training for youths.

Operating initially in the province of Andhra Pradesh (before it became two states, Telangana and Seemandhra) and Maharashtra, BASIX had expanded since its establishment in 1996 to 26 states in India and seven countries in 2010 (Exhibit 1). Underpinning BASIX's operations was the idea that while providing access to credit for the poor was a good thing, it was not the be-all-and-end-all; it had to go hand-in-hand with services like training and capacity-building to lift the poor out of poverty.

Despite its impressive progress in poverty alleviation, raising funds to continue such work was increasingly challenging, as BASIX found when it sought to raise Rs 2.5 billion in capital from private equity investors in late 2010. Not only did the diffuse nature of its work make valuation complex (the standard method would have been to take the sum of its parts and add a premium for the synergies between the entities using the discounted cash flow method¹), but investors preferred simpler business models where the service/goods sold broadly met the same set of needs. One that met such diverse needs and spread across so many sectors was harder to figure out, as well as harder to scale up, making investment less attractive. Without scale it was hard to get capital; without capital it was hard to scale up.

As founder Vijay Mahajan contemplated his investment pitch to private equity investors, he wondered whether BASIX should sustain its current wide scope or consolidate to make a deeper impact. Since PE investors tended to focus on the financial returns, would BASIX's mode of operations have to change to become less experimental and more profitable?

The Start of BASIX

Germination of an Idea

It was as an undergraduate at the Indian Institute of Technology in Delhi that Mahajan developed an interest in rural development – one that became a full-blown passion while doing an MBA at the Indian Institute of Management in Ahmedabad. After graduating in 1981, he joined an NGO engaged in rural livelihood promotion.

In 1983, he founded PRADAN (Professional Assistance for Development Action), hiring young engineering, agriculture and management graduates with “technical know-how” like

1 In 2012 when the Ford Foundation decided to invest USD 2.5 million in Basics Ltd, the pre-money valuation agreed was USD 22.5 million.

himself to help link the rural poor with market opportunities in an attempt to boost their income and reduce their isolation. PRADAN was involved with projects in poultry production, mushroom production, carcass flaying and leather tanning, tasar silk rearing, and irrigation schemes. It was also helped form self-help groups (SHGs) and clusters or federations of SHGs.

It was at PRADAN that Vijay got his first lesson in the complexity of poverty alleviation. Too often the success or failure of village-level schemes was influenced by factors beyond the villagers' control. Even when these were addressed, small ventures floundered because funds intended for the business were often used to meet immediate needs. Since villagers had almost no access to formal credit, they turned to money-lenders whose interest rates (5-10% per month) plunged them deeper in debt. What they needed was reasonably priced credit, not just for investment but for daily consumption and emergencies.

After Vijay left PRADAN at the end of 1990, he spent several years studying what others in the field were doing in the area of poverty alleviation. In 1992, he met Christoph Koepfli of the Swiss Agency for Development and Cooperation, who commissioned a study on the rural non-farm sector. This developed into a nation-wide study under the auspices of the National Bank for Agriculture and Rural Development (NABARD). His work exposed the severe shortage of credit as well as the absence of support – such as training, product design, market linkages, market infrastructure and producer organisations – for rural producers.

In 1993, Jane Rosser from the Ford Foundation asked him to review how the Self-Employed Women's Association (SEWA) Bank in Ahmedabad could offer more credit to its members. The study opened Vijay's eyes to the merits of a microfinance bank and convinced him of the importance of savings as a funding vehicle. When he shared this with Rosser, she arranged for Vijay to visit Shorebank in Chicago, which used a holding company structure to put a mix of for-profit and non-profit entities together. From Shorebank,² Vijay learned that some activities might initially not be self-sustaining, such as those in community development and technical assistance, and needed to be subsidised.³ A non-profit entity within an overall commercial structure allowed the provision of subsidies and grants.

After a decade of experience working with NGOs and government agencies, to Vijay it seemed that these activities could in fact be offered for a fee and eventually become sustainable. While only a fraction of people who needed these services would be able to pay initially, over time that fraction would increase. Those soonest to break-even were tangible services like soil testing/recommendation of appropriate fertilizers, artificial insemination of cattle, and curative services for livestock. Advisory services were harder to charge for, but a commission could be charged to the input supplier. Institutional development services for the poor – forming groups and building capacity – took longer and were virtually impossible to charge for at the beginning, but ultimately input suppliers and providers of credit/insurance to the groups could be charged commissions to cover costs.

2 Shorebank closed in 2010 as a result of the global financial crisis but was not involved in subprime lending.

3 When these were provided by NGOs funded by either donor grants or government agencies, they were rarely sustainable as the latter were driven by other social concerns (there was no reason to make them sustainable).

In 1994, when Price Waterhouse was asked by the World Bank to carry out a study of “Financial services for the rural poor and women in India”, Vijay’s friend and MBA classmate Bharti Gupta Ramola, who was a consultant with Price Waterhouse, asked for his help. Over two years they investigated how poor households accessed credit from the informal sector, why banks were not providing any credit even when mandated to do so, and the trade-offs between access and sustainability. In the process they met with senior bankers and officials from the Reserve Bank of India and the Ministry of Finance, to discuss the potential ‘architecture’ to provide sustainable access to credit.

In 1995, with support from Rosser and the Ford Foundation, Vijay put together a team to carry out study visits to Bank Rakyat⁴ in Indonesia, Grameen Bank⁵ and BRAC⁶ in Bangladesh. Among the team members were Bharti, who later co-promoted BASIX and gave major design inputs; Vijay’s banker friend Anoop Seth, who later served as a key board member of BASIX; and V. Nagarajan, PRADAN’s auditor who later became BASIX’s auditor. From Bank Rakyat, they learned about different products, outreach channels and pricing. From Grameen Bank, group methodology and scaling through standardization. From BRAC, they saw how there was a need for a sub-sectoral approach to livelihood promotion, going well beyond credit. In order to be effective, loans had to be coupled with training in income-generating activities, as well as support to obtain quality raw materials and market linkages. For example, BRAC ran a bull station to improve cattle breeds for the farmers on its programmes/microfinance loans, as well as a dairy plant for milk processing and marketing. This “credit plus” approach had resulted in a 99% repayment rate among borrowers and a sustainable growth model.

The research and learning accumulated over those few years prepared the ground for a development finance institution that would become BASIX. It was unlike anything seen before in India, with elements drawn from all the different entities studied, to address the abject poverty in India that existing programmes had been unable to resolve.

Poverty in India and Alleviation Programmes in Place

According to World Bank figures in 2010, about 400 million people in India (32.7% of the population) lived on less than US\$1.25 per day (often referred to as ‘below the poverty line’).⁷ The prevalence of poverty was attributed to post-independence protectionist policies that had blocked foreign investment until 1991, the absence of property rights, an over-reliance on agriculture (60% were dependent on agriculture but it accounted for a mere 18% of GDP), a

4 Government-owned bank specialising in small scale and microfinance-style borrowing from and lending to its approximately 30 million retail clients through its over 4,000 branches, units and rural service posts in Indonesia.

5 Microfinance organization and community development bank founded by Dr Muhammad Yunus, who pioneered the concept of making small loans (microcredit) to the poor without collateral to build their own small enterprises, using a group-based credit approach (Joint Liability) as peer-pressure to ensure the borrowers repaid their debt and develop good credit standing.

6 BRAC is an international NGO based in Bangladesh that “bring together the poorest people in the poorest countries and teach them to read, think for themselves, pool their resources and start their own businesses”.

7 Note that this differs from the Indian government’s own estimate of 21.9% of its population, or about 270 million people, due to different definition of the poverty line.

high rate of population growth resulting in a surplus of labour, as well as the caste system⁸ which denied millions of Indians access to educational, ownership and employment opportunities, and punished them for “getting out of line”.

One of the first targeted government anti-poverty initiatives aimed at creating wage employment was the Rural Manpower Programme (1960). Others included the Food For Work Programme (1977), the National Rural Employment Programme (1980) and the Rural Landless Employment Guarantee Programme (1983). However, the assets created or repaired by these schemes (rural roads, water tanks, etc.) were low quality and did not last. They did little to move significant numbers of people above the poverty line.

A second wave of programmes aimed to boost self-employment, such as the Integrated Rural Development Programme (IRDP) which between 1980 and 1999 reached 56 million Indian households with loans and other services.⁹ However, elite capture, lack of sustainability of the activities funded, and sale for cash of the productive assets purchased through loans (sewing machines, milk cows) to fund consumption/emergencies made the programme less effective than envisioned.

The setting up of the Regional Rural Bank system in 1975 had created over 14,000 bank branches by the end of the 1980s. These were in addition to over 36,000 rural branches of commercial banks, and over 100,000 Primary Agricultural Credit Societies (PACS) or co-ops. Yet despite being one of the “most banked” amongst developing countries, 40% of India’s population still lacked “access to the simplest kind of formal financial services”.¹⁰

The advent of microfinance, made popular by US-educated Bangladeshi economist Muhammad Yunus, founder of Grameen Bank in Bangladesh, went some way to alleviate the problem through the provision of microcredit (very small loans) to low-income groups who had no access to formal banking services. In India, microfinance operated through two channels: (1) the Self Help Group (SHG) bank linkage programme, and (2) microfinance institutions (MFIs). Initiated by the National Bank for Agriculture and Rural Development in 1992, SHGs were typically formed by 10-20 women who contributed small amounts to a savings pool. After saving for six months, lending small amounts and maintaining accounts, they were eligible to be ‘linked’ to a bank, which opened a savings account and offered loans up to four times the groups savings, which members could use for income-generation activities.

MFIs were either NGOs, non-profit companies, cooperatives or non-banking financial companies. Unlike SHGs, which tapped funds from banks in the public sector, MFIs’ capital mainly came from private banks (on-lending), the Small Industries Development Bank of India (SIDBI) and foreign investors. The average loan for an SHG was less than Rs. 4,000 and for an MFI about Rs. 5,000.

8 As a result of the caste system, many of the rural poor lived in a state of mistrust and fear, with a low resistance to risk and terrified of indebtedness.

9 The IRDP exists to provide income-generating assets through a mix of subsidy and credit to those below the poverty line, and raise them above it by providing opportunities for self-employment.

10 Source: “Financial Inclusion: A road India needs to travel”, Reserve Bank of India, 12 Oct 2011.

Early BASIX

From the research and their experience, it seemed clear to Vijay and his colleagues that a 'new generation' poverty reduction entity was called for; one that would intervene on several fronts, i.e., integrating credit (financial capital), technical assistance (physical capital and infrastructure), social capital development (beliefs, values, social institutions, training), and institutional capacity-building (legal, political, economic engagement). There was, however, no blueprint, no precedent they could follow. From all the institutions studied, none represented exactly what Vijay had in mind. Somehow they had to cherry-pick the relevant bits and put it all together.

Starting out in 1996 as a holding company, Bhartiya Samruddhi Investments and Consulting Services Limited (BASICS Ltd),¹¹ BASIX was set up with the personal equity (Rs 1.1 million) of Vijay Mahajan, Bharti Ramola and Deep Joshi, an MIT and Sloan School graduate and a programme officer with the Ford Foundation who had shared Vijay's vision from the start in his PRADAN days. From its headquarters in Hyderabad, BASIX undertook its first lending in June 1996, via a non-profit entity brought under the BASIX umbrella called Indian Grameen Services (IGS).

Established in 1987 by Vijay Mahajan, Deep Joshi and Sankar Datta, IGS engaged in technical and commercial services for promoting livelihood opportunities for rural producers. BASIX borrowed US\$250,000 at an annual interest rate of 1% from the Sir Ratan Tata Trust, the renowned Indian philanthropist, on behalf of a pilot crop lending programme. The loan was repaid successfully and the experience was used to launch commercial operations through a for-profit non-banking financial company¹² offering microfinance, Bhartiya Samruddhi Finance Ltd (BSFL) in 1997, focused on rural farm and non-farm sector enterprises. BSFL became BASIX's flagship company.

In 1997, BASIX had 15 staff and 12 customer service agents working on commission. Using various intermediary channels, BASIX experimented with different approaches in different sectors. It worked with agricultural produce market-yards, large-scale non-farm enterprises (such as sawmills and cotton seed multipliers), and even Rotating Savings and Credit Associations (ROSCAs), to lend out its funds. From 1997-99, BASIX managed to raise \$3.5 million from the Ford Foundation and Swiss Development Cooperation, at annual rates of 1% current interest and 7% deferred interest, contingent upon profitability, for a period of 10 years, to be used as equity and loans for BSFL. This "quasi-equity" was used to raise loans from foreign and Indian apex development lenders such as the National Bank for Agriculture and Rural Development, and the Small Industries Development Bank of India.

In mid-2001, BASIX successfully launched the Krishna Bhartiya Samruddhi Local Area Bank (KBS LAB) in Mahabubnagar. Microfinance companies were, by law, not allowed to take in deposits, so the founders were keen to become a bank as that was the only way they could

11 BASICS Ltd was the holding company of the whole BASIX group. This case uses BASIX as the unit of reference, unless a relationship with BASICS Ltd is specified.

12 A non-banking financial company performed functions similar to that of a bank but could not accept demand deposits; it was not a part of the payment and settlement system, and as such could not issue cheques drawn on itself. Deposit insurance facility of the Deposit Insurance and Credit guarantee Corporation was not available to depositors, unlike banks. Only authorized non-banking financial companies could take public deposits (not all were allowed to).

offer what they deemed the essential financial service: savings.¹³ As daily wage workers, the poor needed to be able to ‘smooth out’ consumption by setting aside money safely so that they did not have to borrow. Saving was therefore the key to greater asset accumulation and risk mitigation. A bank could offer insurance as well as credit and remittances – so it was the only way to offer “composite” financial services to poor people.

After years of discussion at various levels of government, the Reserve Bank of India¹⁴ and the Finance Ministry had finally agreed in 1996 to create a new category, the Local Area Bank (LAB), focused on rural areas¹⁵ in up to three contiguous districts.¹⁶ The minimum capitalization was set at 50 million rupees (US\$1.25 million).¹⁷ Only 10 of the 227 license applications were approved, and only six were finally awarded. Of these, only four were still operating in 2010, including BASIX’s KBS LAB. No new licenses would be issued as the government was now encouraging consolidation and mergers.

From 2000 onwards, the growth of BASIX was funded by developmental equity and commercial loans, e.g., equity from developmentally oriented investors/institutions led by the IFC (private sector arm of the World Bank), ShoreBank in the US, and Hivos-Triodos Fund of the Netherlands, as well as commercial loans from ICICI and HDFC, two of India’s top commercial financial institutions. These formed the backbone capital that was used as leverage for further loans from Indian commercial banks.¹⁸

At this point, financial services were the core of BASIX’s work. From its inception it had been involved in various developmental activities – e.g., making credit more accessible through smartcards that could be used in public telephone booths.¹⁹ It also worked closely with the Andhra Pradesh Dairy Development Cooperative Federation (APDDCF) to revitalize

13 An additional consideration was that deposits were the cheapest form of funding, which were available to banks but not to microfinance companies. Microfinance companies had to borrow from private banks etc., at a much higher cost of funds compared to deposit rates.

14 The Indian central bank

15 The concept of Local Area Bank was introduced in 1996 with a view to mobilize rural savings and make them available for investment in the locality of such banks. They were expected to bridge the gap in the availability of credit and strengthen the institutional credit framework in rural and semi-urban areas. They were required to finance the ‘priority sector’ that included agriculture and allied activities, trading activities, the non-farm sector, cottage & village industries, and small-scale industries. Their lending to this sector was to be minimum 40% of their net bank credit; lending to weaker sections was to be at least 25% of their priority sector lending (10% of net bank credit).

16 Average district population was 1.5 million

17 Later raised to Rs. 250 million.

18 In fact, for its own financial base, BASIX achieved a number of firsts: in 1999 Samruddhi received the first non-farm micro-enterprise loan given by the Small Industries Development Bank of India (SIDBI), and from Global Trust Bank the first ever private commercial bank loan to an MFI, and subsequently the first re-finance deal by the National Bank for Agriculture and Rural Development (NABARD). In 2000, BASIX raised a loan from ICICI Bank Ltd. for its agricultural lending portfolio, and in 2000 a loan from the Housing Finance Development Corporation (HDFC) for micro-enterprise loans, both of which were the first of their kind. Source: “The Challenges of Permanently Pioneering”, Thomas Dichter, Yale SOM / Development Finance Forum, 2009

19 The smart cards, usually built with finger-print technology for identity authentication purposes, and which could contain personal information, could be read by card readers in public telephone booths run by authorized kiosk operators. Borrowers have a one-time registration for these cards, and use them to borrow small sums of money using the telephone booths.

defunct bulk milk chilling plants to create a market for dairy farmers in the area. Its institutional development included helping the large NGO Association for Sarva Seva Farms (ASSEFA)²⁰ to re-structure its lending operations. But lending was the main day-to-day focus and BASIX was known largely for its microfinancing activities.

A Rethink in 2002

After five years of operations, an institutional assessment was carried out by BASIX's leaders in 2002 to understand what it was doing wrong or right. To their dismay, only 52% of its 3-year microcredit customers reported an increase in income, 23% reported no change, and 25% actually reported a decline. While the main reasons for these figures were (i) clients' unmanaged risk, (ii) low productivity in crop cultivation and livestock rearing, and (iii) an inability to get good prices from the input and output markets, it was clear that lending alone was inadequate to reduce vulnerability and get out of poverty.

While additional services would be necessary to promote sustainable livelihoods, they would add complexity and uncertainty to BASIX in terms of control, management, outcome, and most importantly its profitability. It had to choose whether to go down the comfortable route of providing conventional financial services that would help the poor to some degree, building volume and profit along the way (like other MFIs in Hyderabad such as Spandana and Share Microfin) or take the road less travelled by taking on other activities that would have greater impact on improving livelihoods but make the future more uncertain.

Given the choice between the conventional path and uncharted territory, staff were ambivalent about (and in some cases rejected) the livelihood promotion option. The COO, Viswanatha Prasad, who had an MBA and experience in conventional finance before joining BASIX, was not comfortable with this other type of work. While happy for it to carry on as a sideline, he did not like the idea of it becoming a mainstay; he wanted a tighter focus on the more orthodox area of microfinance – unlike Vijay, who was convinced that livelihood promotion was the way to go. In 2003 Prasad left BASIX, as did a number of other staff over the next two years, most of them for jobs at conventional banks to pursue careers in financial operations.

Vijay took over operations for two years before handing over to N.V. Ramana in 2005, a classmate at the Indian Institute of Management from 1979 to 1981. He had worked for over 20 years with ITC, India's top agri-business company, before joining BASIX in 2002.

The 2002 impact study had given Vijay the impetus needed to move BASIX towards an integrated, comprehensive approach to the complex livelihood problems of the poor, which he dubbed the "Livelihood Triad". Although all three elements had been within BASIX from the beginning, those outside financial services were not on an equal footing. Now they were equally important in the overall strategy.

20 ASSEFA (Association for Sarva Seva Farms) started in Tamil Nadu in 1969. Its aim was to enable formerly landless families to cultivate the land they had received through the Gandhian Bhoodan movement in the 1950 and 60s. Over the years, ASSEFA broadened its approach and spread across eight states in India. It now worked with close to one million rural families and aimed to make remaining in the villages a viable option for those who did not wish to migrate to the cities.

II. The Livelihood Triad

With the 2002 rethink, BASIS operational paradigm shifted to that of a livelihood facilitator to meet the needs of its customers. The Livelihood Triad strategy comprised livelihood financial services (credit, savings and insurance), agricultural and business development services, and institutional development services for low-income groups in rural and urban areas across multiple sectors of the economy (Exhibit 2). The rationale was that micro-credit was helpful for more enterprising poor people in economically dynamic areas, but less enterprising households needed to start with savings and insurance before they could benefit from micro-credit in order to cope with risks such as a breadwinner dying, cattle or crops failing, natural disasters or debilitating sickness. As Vijay Mahajan pointed out:²¹ “One stray incident can wipe out the net worth of a family.”

In remote regions, besides microfinance a range of agricultural and business development services were needed, but to be cost effective such services could not be provided to individual households; they had to be organized into groups, associations, cooperatives or producer companies. This would require the help of institutional development services. With this in mind, BASIS re-ordered its priorities, putting renewed emphasis on non-financial activities to improve the capabilities of the poor (see Exhibit 3) in line with its motto “Equity for Equity”.

Livelihood Financial Services (LFS)	Agricultural/Business Development Services (Ag/BDS)	Institutional Development Services (IDS)
Savings: Direct and as Business Correspondent ²²	Productivity enhancement through increase in yields or reduction in costs.	Individual level awareness, skill and entrepreneurship development, building solidarity and trust.
Credit: agricultural, allied and non-farm activities; loans for housing, water & sanitation, vocational training	Risk mitigation (other than insurance) – such as livestock vaccination	Formation of groups, federations, co-operatives, for mutual benefit of producers.
Insurance for lives and livelihoods – health, crop, livestock, micro-enterprise assets	Local value addition through processing – such as cotton ginning or milk chilling.	Accounting and management information systems, using IT
Money transfer, for migrant workers and Micro-pensions	Alternate Market linkages - Input supply, output sales	Building collaborations to deliver a wide range of services
Warehouse receipts	Diversification from farm to allied and non-farm activity	Sector and policy work – analysis and advocacy for changes/reforms

Table 1

21 “How to fix flaws in the present microfinance model”, The Economic Times, 12 Nov 2010

22 The Business Correspondent (BC) model of banking refers to a system where the BC is an entity that acts as a teller for the bank and carries out a range of transactions on behalf of the bank and is paid commissions for the services provided. BCs promote accessible branchless banking and the financial inclusion of a country’s poorest citizens.

BASIX re-organized its activities as per the three strategic areas of the Livelihood Triad. Its livelihood financial services were provided through BASIX's microfinance arm BSFL and its bank KBS LAB (see Table 1). Its non-profit Indian Grameen Services piloted agricultural and business development services and institutional development initiatives, which were funded by BSFL and KBS LAB (in addition to seeking grants for its action research) and ultimately transferred to BSFL and KBS LAB when a critical mass of activities developed in a given area. Essentially IGS acted as the experimental arm to test out concepts, programmes and activities (see video in Exhibit 4 on the "laboratory within a laboratory"). Once successful, they were rolled out by the commercial arms.

BSFL charged clients (who usually had loans with BSFL) Rs. 300 a year up front for the agricultural services developed by IGS, including soil testing, advice on improved seed and agricultural practices, and provision of market linkages for selected crops (e.g., cotton, potatoes) and veterinary support services for dairy.²³ KBS LAB provided technical assistance and support services for agriculture or business development. Field staff, in addition to their banking/financial services roles (i.e., savings collection and loan appraisal) informed and advised clients. The bank branches also worked with local producer co-ops, SHGs and NGOs to link clients with the institutional development services of BASIX in order to improve their capacity and management (see Exhibit 5 for details of other innovations).

Previously IGS had delivered (rather than simply piloting) technical and support services, but from 2003 non-financial services were offered jointly with the credit and insurance services by BSFL and KBS LAB. Non-financial services 'piggybacked' on existing delivery channels and staffing of financial services, avoiding the expense of employing additional staff. This integrated approach to financial and non-financial services was unconventional at the time. Its fee-based agricultural and business development services were offered in selected commodity sub-sectors where it had earlier worked – groundnut, cotton, red gram, soybean, potato, lac, tasar and milk. Non-farm business development services were also offered in clusters where there were a large number of producers engaged in the same activity, such as handloom weaving.

What differentiated BASIX from other microfinance institutions was its work in institutional development services. This had a far greater impact than that provided through direct credit, on which the payback was often difficult to measure. These spanned a range of activities that included building trust to boost interaction and transactions, organizing SHGs for savings and credit and subsequently federations of SHGs, organizing commodity producers' cooperatives and subsequently establishing federations, working with smaller NGOs in microfinance and livelihood promotion, providing technical assistance and IT for MFIs, training staff for NGOs and MFIs in livelihood promotion, developing sub-sectoral/regional/state-level livelihood enhancement action platforms, working with government programmes to improve their effectiveness (see Exhibit 6), and engaging in policy analysis and advocacy work in the field of microfinance and livelihood promotion.

The latter was probably the most challenging aspect of BASIX's work, but the founders knew that policy was what enabled (or disabled) whatever an organization did on the ground. To be successful, BASIX had to maintain contact with several levels of government officials, community groups and other stakeholders, be present in a number of well-chosen forums and

23 Source: "BSFL social rating report", Micro-Credit Ratings International Limited (MCRIL), May 2007

conferences, and marshal data as the basis of well-crafted arguments for reforming policies and regulations. Much of this was carried on by Vijay, Bharti and Deep, who already served on several government committees and working groups. Their interactions led to further growth in their network of influential contacts.

One example, the founding in 1999 of Sa-Dhan, an India-wide association of community development financial institutions, originated at a conference held by Women's World Banking, where Ela Bhatt of the Self-Employed Women's Association (SEWA), Vijay, and others felt the time had come to form a microfinance association. By 2010 Sa-Dhan had a client base of over 6.5 million. In other areas, however, changes in policy could require years of lobbying, such as getting the Reserve Bank's approval for setting up Local Area Banks in rural areas.

Learning by Doing – the Jharkhand lac experience²⁴

Action research lay at the heart of BASIX's operations, and it was regularly commissioned by external parties that wanted professional and reliable research done on a particular subsector. In 2004, for example, IGS conducted a study on lac production in the state of Jharkhand, with financial assistance from the Interchurch Organization for Development Cooperation. Lac is a resinous secretion of the *kerria lac kerr* insect used in pharmaceutical and food products, cosmetics, paints and varnishes, and Jharkhand accounted for 30% of world production. Demand, however, was erratic. Synthetic substitutes had been developed but a consumer preference for organic products was drawing new interest from the food and pharmaceutical industries.

In poverty-stricken Jharkhand, 75% of the workforce was in agriculture (accounting for only 12.5% of the state's GDP). In what was essentially a feudal society, caste prejudices and tribal affiliations prevailed. Historically, the tribal community in Jharkhand had cultured lac on Palas Ber trees, but due to indiscriminate deforestation and the vagaries of the weather at critical stages of the insect life cycle, lac production had been affected badly, and the loss largely borne by the tribal cultivators. BASIX was brought in to enhance livelihood options for the lac-producing families of Jharkhand.

BASIX studied the chain of supply, production and marketing of lac, examined the constraints, and identified bottlenecks, incentives and other levers for intervention. Incentives included the plentiful supply of host trees for the lac to latch onto, and the provision of training for farmers by NGOs and the Indian Lac Research Institute (ILRI) near the state capital Ranchi. Constraints included a lack of capital, unstable supply of quality brood lac (as seed stock), lack of technical support to improve production, lack of crop insurance in case of failure, and lack of market linkages to sell the lac produced.

The solution, in BASIX's view, was to make the lac sector more vertically integrated, linking all its components from production to marketing. From 2003, IGS and PRADAN tackled crop insurance to limit the farmers' risk, and came up with a loan and weather insurance product (through ICICI Lombard) using technical input from ILRI, which also helped them to set up a training programme for brood lac entrepreneurs organized as self-help groups. To standardize

24 Source: BASIX website and "The Challenges of Permanently Pioneering", Thomas Dichter, Yale SOM / Development Finance Forum, 2009

the product, BASIX worked out a simple five-step protocol for the lac farmer: i) pruning the host tree, ii) spreading the brood lac onto the tree, iii) inoculating to reduce disease, iv) putting nets over the lac, v) spraying. IGS initiated brood lac cultivation with ILRI and the Tribal Welfare Commissioner as a step to enhance quality and productivity, and the latter agreed to pay Rs. 250 to BASIX for every farmer it brought on board.

In addition to these production improvements and risk mitigation, on the government/policy front lac production was taken more seriously. Having achieved break-even in the second year of providing services to farmers in the Jharkhand lac project, BASIX went on to identify lac-rearing clusters in other forest/tribal areas in the states of Madhya Pradesh and Andhra Pradesh. In fact it was already engaged in sourcing brood lac from Madhya Pradesh, while providing training in improved lac rearing to tribal people from Andhra Pradesh. The plan was to eventually set up a national lac producers' company integrating the entire sub-sector from brood lac to processed lac exports. In this way, through an externally funded action research project, BASIX was getting paid to learn, establish new connections, deploy staff, and position itself in a new industry area.

III. BASIX in beginning 2010

By 2010 BASIX was heavily into livelihood promotion activities under the Livelihood Triad framework (Exhibit 7), with more entities under its umbrella. (Exhibit 8 shows the corporate structure), as follows:

Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS Ltd) – This was the holding company which invested equity and provided strategic direction to the group.

Bhartiya Samruddhi Finance Limited (BSFL) – registered as a non-banking financial company, this was the group's flagship company. Besides providing microcredit, BSFL offered agricultural and business development services to customers in the subsectors of dairy, cotton, groundnut, vegetables, lac, pulses, soya, mushroom, handloom and bamboo crafts, through 1,117 Livelihood Service Providers (LSPs) to over 590,000 registered customers (in 2010). BSFL also provided institutional development services to 50,000 SHGs and other producer groups, and 15 federations of SHGs and producer groups. BSFL also covered borrowers through a group insurance policy in partnership with Aviva Life Insurance Company India, and limited health insurance.²⁵ Also livestock insurance in partnership with Royal Sundaram Alliance Insurance, rainfall insurance, and micro-enterprise insurance (see Exhibit 9)

Krishna Bhima Samruddhi Local Area Bank (KBS LAB) – KBS LAB was a full-fledged microfinance bank that could take in deposits and do business as a Local Area Bank in the districts of Mahabubnagar in Andhra Pradesh State and Raichur and Gulbarga districts in Karnataka state. It focused on micro savings, micro credit, micro insurance, agricultural business development services and financial literacy.

BASIX Sub-K iTransactions Limited (Sub-K) – Sub-K started operations in December 2010 after a successful pilot in 111 villages in Andhra Pradesh to help people access financial

25 BASIX together with Aviva pioneered micro-insurance in India in 2002.

services by appointing service providers and banks at one end, and Basic Convenience Outlets (mostly kirana²⁶ shops) at the other to provide digitised services through a proprietary mobile technology-based platform. These included banking operations, NREGA²⁷ and other government payments, money transfers, utility payments and prepaid mobile top-ups. Sub-K received a first round of US\$1 million start-up equity from the Dell Foundation in 2009.

BASIX Krishi Samruddhi Limited (BKSL) – BKSL was designed for scaling up agricultural and business development services beyond BSFL areas, and create a supply chain for mainstream agro-commodities based on environmentally and society-friendly production. These fee-based services covered the entire life cycle of a farmer's business, from assistance with improved input procurement, to technologically improved production processes, to improved market access for their crops and other revenue-generating food products. BKSL worked across the entire value chain in livestock – cattle and poultry; in food crops – paddy, wheat, maize etc. and in cash crops – soya, cotton, groundnut, sunflower etc.

BASIX Consulting and Training Services Limited (BCTS) – A division of BASICS Ltd since 1996, BCTS was registered as a separate legal entity in July 2010. Drawing on BASIX's experience in microfinance operations and livelihood promotion, it offered consulting and advisory services to other institutions in India, including customized solutions to microfinance and financial institutions in terms of governance, management and operations, as well as in South and South East Asia, Pacifica and Africa.

C-Tran Consulting Ltd. (C-Tran) – C-Tran was engaged in energy services, environmental services, climate change adaptation, climate change risk mitigation activities and providing industry/infrastructure for local livelihoods.

BASIX Academy for Building Lifelong Employability (B-ABLE) – Started in 2009 and funded by the National Skill Development Corporation, B-ABLE focused on vocational training of youths in various demand-based areas (such as mobile phone repair, electronics repair, electrical wiring, surveyor assistance, bakery production) for lifelong employability. B-ABLE followed a partnership-based holistic model across the value chain: first a demand assessment/subsequent employment potential, curriculum development and training, after which students received certification and placement.

Group Affiliate: Indian Grameen Services (IGS) – A not-for-profit company, IGS engaged in action-research and design of new pro-poor livelihood intervention models for scaling up, such as identification of livelihood opportunities, design and development of financial and livelihood promotion products, and capacity-building support for micro-finance institutions and micro-enterprises. IGS managed a Livelihood & Microfinance Promotion Fund (LAMP) to support micro-finance, livelihood initiatives and community development financial institutions in India.

Group Affiliate: The Livelihood School (TLS) – was involved in knowledge-building and training of livelihood professionals in NGOs, government agencies, banks and MFIs. Trainees

26 Small neighbourhood retail shop

27 National Rural Employment Guarantee Act (NREGA) was a scheme that aimed to enhance the livelihood security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year to a rural household whose adult members volunteered to do unskilled manual work.

included people from civil society and community organisations, development and financial institutions, government departments, bi-lateral and multilateral donors etc. TLS also provided technical and advisory services to build knowledge on innovative livelihood promotion models, and encouraged formation of similar institutions in other countries.

Under the framework of livelihood promotion, BASIX had evolved a whole livelihood ecosystem which engaged with the poor in a way that built the skills and capacities of individual households and strengthened entire communities through institution and infrastructure building (see Exhibit 10). Although microfinance was its core, BASIX differentiated itself from other MFIs by offering an array of complementary services that enhanced the sustainability of the businesses²⁸ it funded. (Exhibit 11 illustrates its services for the dairy sector besides microcredit; Exhibit 12 shows policy-level interventions). Such a variety of offerings, however, called into question the ability to scale up.

Target Consumer Segment

Although approximately one in five of its customers lived on less than US\$1 a day, BASIX did not target them specifically; its primary customer segments were as follows:

The first customer group is the “poor” who are mostly wage labourers, owning perhaps 0.5-1.0 acres of land, and earning on average Rs 14,000 per year (roughly US\$280 per year with Rs 12,000 from labour at Rs 60-100 per day for a male, and Rs 2,000 from land). BASIX serves these customers through the SHG methodology, making loans of Rs 20,000 (roughly US\$400) to the group which then on-lends to its roughly 20 members. Group formation and ongoing meetings, savings discipline, and peer pressure play key roles in repayment.

The second customer group are the “marginal poor” who own 1-3 acres of land, and have an average annual income of Rs 24,000-36,000 (roughly US\$480-720). Here, BASIX relies on joint liability groups or JLGs. The loan (typically Rs.5,000-25,000 or US\$100-500) is given to an individual, but all 4-5 members of the borrower-formed JLG are jointly liable for its repayment.

*The third customer group are the “not so poor” who typically own 3-6 acres of land, and earn Rs 36,000-60,000 per year (roughly US\$720-US\$1,200). BASIX makes individual loans of Rs 20,000-50,000 (roughly US\$400-US\$1000) to these customers, often requiring collateral in the form of land title.*²⁹

28 In the Grameen model, in order to scale, the microfinance company offered just one simple loan product, which required equal weekly repayments over 52 weeks. This way, loan officers could physically collect all payments from a village with one weekly visit. Grameen dealt with collateral by requiring loans to be “guaranteed” by 4 other residents of the village under the joint liability model, which essentially relied on peer pressure to ensure high repayment rates. However, under this model it was not uncommon, for example, to find a multitude of cigarette shops in a small village, all funded through microfinance. In addition, with a weekly repayment cycle, the model entirely ignored the agricultural sector (where 60% of the population in India was engaged in), where the timing of repayment must match the harvest cycle. Hence, a modified model was required which addressed sustainability.

29 BASIX case study, International Institute of Research for Climate and Society, Columbia University, August 2004, confirmed by CEO Vijay Mahajan by email in November 2014.

Accordingly, BASIX did not set out to lend to the “destitute” nor the “better off”, but to serve the middle segments of the socio-economic landscape. These roughly corresponded to those of the population as a whole: 40% poor, 35% marginal poor, 15% not so poor (those living on less than US\$1 a day being the 40% poor segment).

Competition

BASIX was unique given the many activities and fields its different entities were engaged in. Consequently, it was difficult to say what industry it belonged to or name its competitors, (Exhibit 13). Perhaps closest to what BASIX represented was BRAC in Bangladesh, which also engaged in finance, developmental activities, education etc., but was not in direct competition since the two operated in different geographies.

People/Culture

The BASIX culture especially values the capacity to respond to opportunity. If any agency approaches BASIX to ask for help in a new realm or a new region, and is willing to pay for it, BASIX seeks to find a way to say yes, to assign the right people, and sees the experience as an opportunity to experiment and learn, while being of service to the poor and being adequately compensated. – N.V. Ramana³⁰

One of the greatest strengths of BASIX was its people. Because of the way it recruited, oriented, trained and managed its people, it had become increasingly popular as an employer; only 1% of applicants actually being hired. The kind of people who were attracted to BASIX tended to be budding social entrepreneurs – people who were ambitious but who wanted to use their aptitude and energy to serve a social purpose. The majority of field staff were agents rather than formal employees of BASIX, paid on a commission basis. The basic commission was Rs 3,500/month (equivalent to the minimum wage). With an incentive based on outreach and quality of portfolio, the average pay was usually more than double the minimum wage.³¹ Conditions of work, salaries and leave were on a par with banks and major companies. BASIX provided statutory benefits (Provident Fund, Employee State Insurance), insured staff against loss of cash in transit and accidents, and paid maternity and paternity leave.

A Personal and Professional Learning and Review (PLR) was introduced in 2002, to allow staff to identify personal and professional learning needs through self-assessment, interaction with colleagues (a sounding board of junior colleagues, peers and supervisors) and an appropriate action plan. The two-day exercise conducted twice a year for all staff in an off-site location culminated in a session with the Human Resources team. It gave staff a chance to say what they needed and wanted, and to hear how they were perceived, boosting motivation, commitment and candour as well as a risk-taking appetite.

BASIX's working culture fostered openness, flexibility, willingness to admit mistakes and thus to embrace risk and to be innovative. A valued attribute within BASIX was the capacity to handle ambiguity (e.g. proceeding without knowing what the outcome would be; evolving

30 Source: “The Challenges of Permanently Pioneering”, Thomas Dichter, Yale SOM/Development Finance Forum, 2009

31 Since 2006, Livelihood Service Agents (LSAs) with good work record of at least 3 years were eligible to become regular employees as Livelihood Service Representatives (LSRs). Source: “BSFL social rating report”, Micro-Credit Ratings International Limited (MCRIL), May 2007

to suit its clients' needs). Given the complexity of BASIX's operations, people had to take on multiple responsibilities; there were no formal job descriptions, as Vijay Mahajan noted:

*We don't know from one week to another whether we're doing the right thing, in terms of specific methods. However, we are surer of the livelihood triad strategy and absolutely certain of the mission, which is promoting sustainable livelihoods for the poor. About methods, we are not afraid to admit we may be wrong or we do not know fully yet how to do it.*³²

(See Exhibit 14 SWOT analysis of BASIX)

IV. Challenges

Getting People and Getting the Right People

Human capital was one of its biggest challenges, particularly staff retention, like many knowledge-based industries in India. BASIX employees often worked long hours with a lot of travelling involved, as confirmed by S. Ramachandran, Senior VP for Livelihood Triad Operations, a chartered accountant who had been with BASIX since 1999:

*The physical exhaustion among the Livelihood Service Agents – they average 1200 km in a month on a motor-bike; and the same is true for the field executives. This affects their health and indeed there have been some road accidents.*³³

BASIX employees were attractive to other companies given their training. Mid-level employees could apparently attract 2.5 times their salary elsewhere. The expanding scale resulted in a lot of new people being hired who might not have "imbibed" the ethos of BASIX. Interviewed by Micro Credit Rating International Ltd (M-CRIL) in India, staff revealed that they regarded BASIX as a stepping stone to higher paying jobs in banks or insurance companies. As Anoop Seth, a board member, observed:

*While our core values of commitment, competence, service and austerity are intact, we should be aware that our younger staff are looking for early personal growth and monetary enhancement.*³⁴

Raising Capital Post-Andhra Pradesh Crisis

In 2010, BASIX suffered from the fallout of a crisis over microfinance companies that erupted in the state of Andhra Pradesh, originating in the Krishna district in March 2006, when alleged malpractice, including usurious interest rates, resulted in the offices of Spandana and Share (two of India's largest MFIs) being raided and 57 branches being shuttered, along with those of other smaller MFIs. A law enacted by the state in October 2010 which aimed to rein in harassment of borrowers, banned MFIs from the doorstep of their customers, lengthened the loan recollection cycle from one week to one month, and required lenders to

32 Source: "The Challenges of Permanently Pioneering", Thomas Dichter, Yale SOM Development Finance Forum, 2009

33 *Ibid.*

34 *Ibid.*

get government approval to give a second loan to the same borrower. These led to a slump in loan recoveries and a halt in bank funding to the sector.

The problem began when borrowers took on too many microfinance loans from a sector flush with cash (in a similar manner to the bigger subprime problems in the US) and could not repay at the effective 30% lending rates of the MFIs. Even in its early days microfinance was not cheap, but its practitioners were careful. Programmes which ran as non-profit activities had also charged 30% interest to cover capital and outreach to poor women across dispersed areas, but there was a gradual approach to extending credit. More recently, however, Indian microfinance programmes had turned into for-profit companies and raised a lot of capital from private banks, private equity, foreign venture capital players, specialised microfinance funds and high net-worth individuals.³⁵ MFIs became embroiled in an intense competition to lend, often to the same borrowers. As the sector expanded, its high interest rates came under scrutiny, especially when the founders of the largest MFIs – SKS, Share and Spandana – were seen to be raking in a fortune through initial public offerings.

One of the reasons why MFI interest rates were so high was because their cost of funds was high, as many of them could not take in deposits. For example, when the prime lending rate was about 9%, the cost of credit delivery and collection of payment added about 5% each, and provisioning for bad debts and capital adequacy requirements added another 1%-3% each. In BASIX case, having KBS LAB that could take in deposits helped the funding situation. Yet it too suffered as loan recoveries plunged (certain politicians in Andhra Pradesh encouraged borrowers to halt payments) and banks refused to on-lend to MFIs. The capital which BASIX needed desperately to expand its programmes became scarce.

V. Conclusion: Which Path?

Given the upheaval in the MFI sector, many players put on hold their plans to raise funds through IPOs and began exploring other avenues. While an IPO had not been on BASIX's horizon, it too had to search for alternative sources of capital now that bank loans had dried up. The plan was to seek Rs 2.5 billion from PE investors, but would they be attracted to such a diffuse organization, where customization not standardization was the watchword?

How should BASIX position itself going forward – concentrating on a few activities so that it could scale up and achieve economies of scale? This would help attract capital and pay for talent, but it might curtail its innovative culture as things became more “packaged” and fewer new avenues were explored. Following the Andhra Pradesh fiasco, many MFIs were following in BASIX's footsteps to develop livelihood services, with the potential to create a new subsector in the development industry: livelihood promotion institutions. Was this better than “putting all your eggs in one basket”? Should BASIX continue on the path of research,

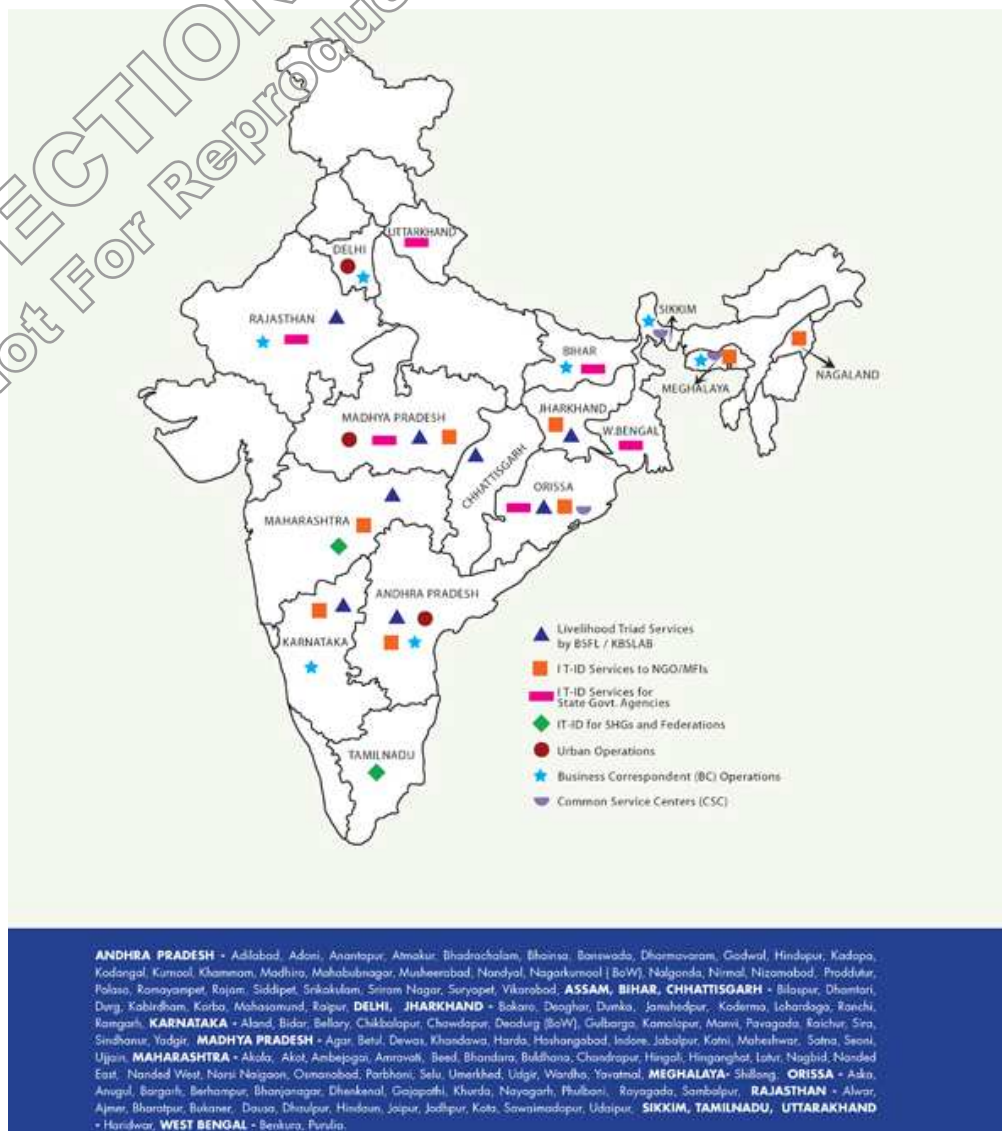
35 For example, US-based Unitus, a microfinance accelerator with a venture capital approach, committed to SKS, BSS, Grameen Koota in Karnataka and Bandhan in West Bengal. The \$10-million Bellwether Microfinance, jointly promoted by Gray Ghost Microfinance Fund, the Hivos-Triodos Fund and the former CEO of Bank of America Arun Duggal, was also investing in equity and debt of MFIs. There were also the loan guarantee funds of the Grameen Foundation and Deutsche Bank. Source: “Little drops make ocean: Microfin is big biz now”, *The Economic Times*, 29 Aug 2005

exploration and customization, despite the uncertainty for its people, its bottom line, and most importantly its funding?

Or was there a third way – to sell itself as an organization unlike any other in India, with the ability to spot a need and find a way to fulfil it? One such way would be to use BASIX as a holding company to identify potential investments and grow them to a point (among the top three of an industry) where they could be independent. Should BASIX become an incubator, with a shared distribution network on the ground and pooled resources (technology, capital, key HR) in the holding company deployed throughout the group? Which was most suitable for a unique organization? Which option would make it most attractive to investors and yet allow it to meet its business and social objectives?

Exhibit 1

BASIX's Outreach



NB: Common Service Centres (CSC) are last-mile rural access points equipped with Modern IT infrastructure, broadband connectivity, and national programs could be effectively delivered through an IT and web-enabled network that is managed by trained entrepreneurs. Such access points can drive tremendous synergies to Government's developmental initiatives in the areas of education, agriculture, health and rural development.

Source: BASIX

Exhibit 2

The Livelihood Triad Strategy



Source: BASIX

Exhibit 3

BASIX Logo – Vision and Meaning



The BASIX Logo is a visual representation of our ideals and our ideas. Inspired by the Chinese Yin-Yang, it symbolizes BASIX's commitment to better the livelihoods of the poor by harnessing the power of the prosperous. The circle represents our Mother Earth, half in darkness (Blue), half in light (White). The circumference symbolizes our environment, omnipresent and all embracing, a reminder that the creation of prosperity (Samruddhi) must be sustainable for all within the circle. The Blue represents the poor who do not have the opportunities of the prosperous. The white circle within the Blue symbolizes the inherent hope that arises from the talents and aspirations of the poor that BASIX recognizes and seeks to act upon. The White represents the prosperous but pallid half of Mother Earth, the half that we believe can benefit from the vigour of the Blue. The lines, visible in the White, represent our efforts to join Blue and White in a harmonious and holistic mode. We strive to achieve this cohesion by the fluid and sustained movement of capital, technology, institutions, markets, policies, and human resources. The BASIX motto "Equity for Equity" reflects the aim to use capital (financial, human social and natural) to work towards equality of opportunity.

Source: BASIX

Exhibit 4
IGS – Livelihood Promotion Services



A video on the work that IGS did: <http://www.youtube.com/watch?v=rOoJaLQaZpA>

Source: BASIX website

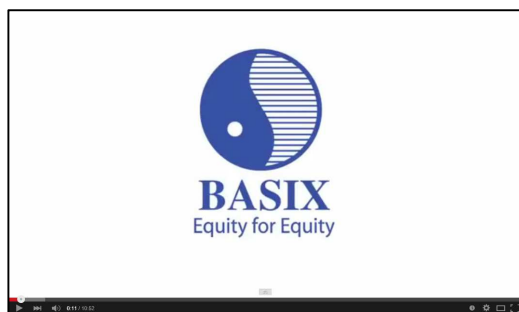
Exhibit 5***KBS LAB – Providing Livelihood Financial Services***

As a bank, KBS LAB incorporated many of the lessons of microfinance from around the world and added a number of innovations of its own, such as the “doorstep service” to reach those not serviced by formal financial institutions. Savings were collected at the customer’s workplace or home by Micro Savings Assistants (MSAs), using a hand held computerized device which would record the amount saved and issue a printed receipt. Customers could access their accounts at any of the branches of the KBS LAB, and opening and maintaining accounts was made easier using simplified forms and having photo ID machines on the bank premises. Software for banking operations was custom designed for BASIX by a small Bangalore software company, and all bank branches were connected via satellite link. A link-up with the National Commodities and Derivatives Exchange provided a continuous digital display of commodity prices to allow farmers coming into the branch to see prices in real time.

Collaborative arrangements with other private sector companies also enabled KBS LAB to offer money transfers (through the ICICI Bank), life insurance (with Aviva Life Insurance Co), livestock insurance (with Royal Sundaram Insurance Co) and rainfall-indexed crop insurance (with ICICI Lombard Insurance Co). KBS LAB was the first bank in India to offer this type of rainfall-indexed crop insurance. As the insured had bank accounts, premiums could be deducted directly. Also, given that the RBI required banks to “Know Your Customer” (KYC), the prior documentation of the insured person’s age, address, nominee, etc., enabled faster claim settlement.

KBS LAB used several lending methodologies, ranging from the classic solidarity group/Joint Liability Group lending to individual lending. In 2004, with SIDBI funding, a mobile bank was launched by KBS LAB, offering full banking services – another first in India.

One of KBS LAB’s successes was in Kodangal, where there were many Self-Help Groups (SHGs) and shepherd societies (being a sheep rearing area). These groups, formed earlier by the government, were now saving as groups with KBS LAB. KBS LAB also provided crop loans, with an 11-month term to be paid in two instalments, and with no collateral required. The average loan size was Rs 5,000 to Rs 10,000 (US\$110 to US\$220), with a maximum size of Rs 50,000 (US\$1,100). The total loan portfolio in Kodangal was 40% non-farm, 30% agri-allied (livestock etc.) and 30% agriculture, with 17% of the loans to women’s groups. KBS LAB was also experimenting in new fields in Kodangal, such as with lending to other existing local groups such as bore-well user groups, developing a common marketing system for pulses (a kind of legume); and trying to figure out a way to do sheep insurance (a much bigger challenge than for buffalo or cows, due to the larger numbers of animals involved and the difficulty in identifying sheep individually).



http://www.youtube.com/watch?feature=player_embedded&v=DUPeR3LS0

Source: “The Challenges of Permanently Pioneering”, Thomas Dichter, Yale SOM / Development Finance Forum, 2009, video from BASIX website.

Exhibit 6***Institutional Development Services – Working to Improve the DPIP in Rajasthan***

In BASIX's institutional development services work, it often worked with the government, which was the biggest livelihood promotion agency. In 2000, the World Bank and the governments of three states (Madhya Pradesh, Andhra Pradesh and Rajasthan) decided to launch the District Poverty Initiatives Programme (DPIP) but by 2003, however, the project had stalled in Rajasthan, and BASIX was called in to help.

Rajasthan was the largest state in India, with 10% of the landmass and 56 million people. About 60% of the land was arid or semi-arid and only 1% of the water in India was found in Rajasthan. Agriculture represents one third of the state's GDP, with manufacturing representing 22% and services 40%. However, the majority of the work force was in agriculture, with low productivity and significant seasonal out-migration of labour.

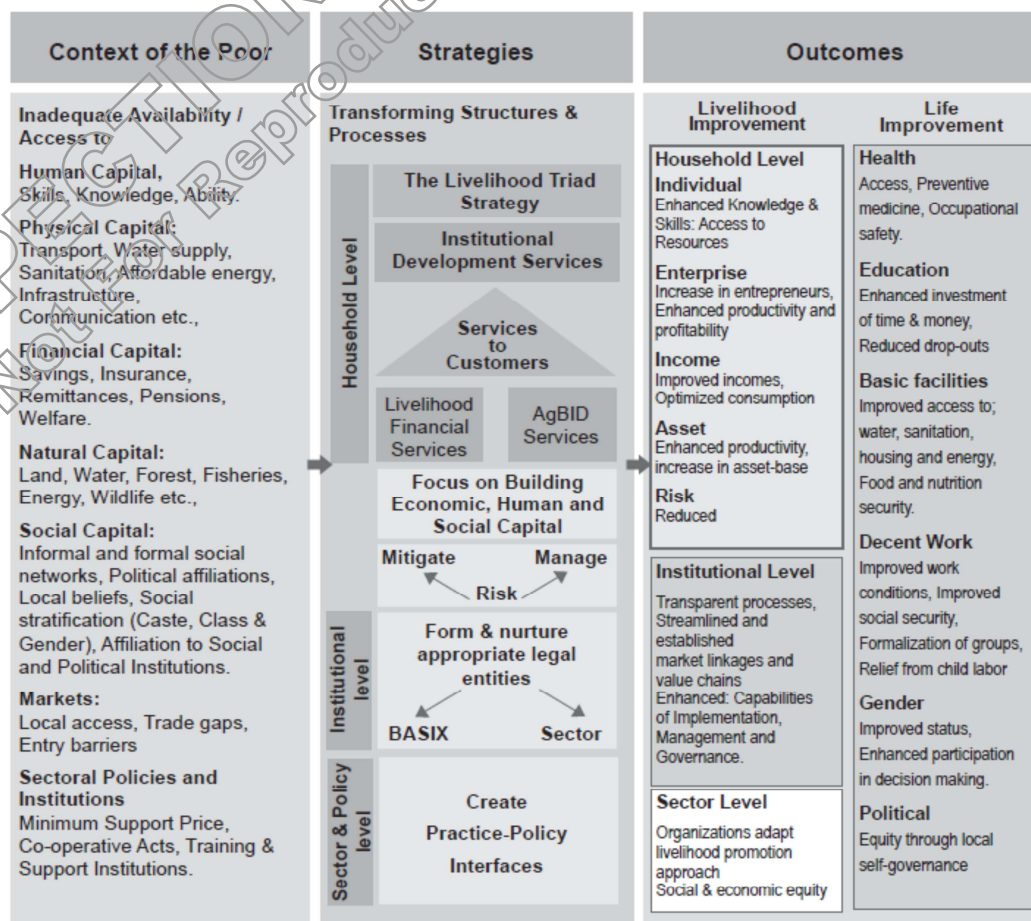
The DPIP project aimed to improve the levels of economic activity, productivity and income among families in over 7,000 villages in seven districts and was implemented through NGOs that were supposed to create and train Common Interest Groups (CIGs), which in turn would select and implement projects of economic and social benefit, including community infrastructure building and income-generating activities. However, after a few years, there was very little progress in the project. Many of the local NGOs contracted to promote the CIGs were themselves in disarray in part because the government was slow to pay them their fees, and very little of the intended loans under the project had been disbursed. By late 2003, the project was effectively at a standstill.

BASIX was contracted by the Rajasthan government to rehabilitate the DPIP project, specifically to convert CIGs to SHGs, to train them and local NGOs, and to begin disbursements of the DPIP loan funds – work that aligned perfectly with BASIX's Livelihood Triad approach. The DPIP consultancy contract was worth Rs 9 million (about US\$ 200,000), with one third covered by the World Bank and the rest by the state government. The contract not only provided the funds for working staff, it also enabled BASIX to deepen its understanding of the grassroots in Rajasthan and to sharpen its sub-sector research work.

Source: "The Challenges of Permanently Pioneering", Thomas Dichter, Yale SOM / Development Finance Forum, 2009

Exhibit 7

Framework for Livelihood Promotion



BASIX utilizes financial, human and intellectual capital to work towards bringing equality of opportunity and social justice

Context of the poor

Livelihoods of the poor are affected by inadequate access to human capital, physical capital, financial capital, natural capital, and social capital. The poor neither have knowledge of markets, nor have means to form and maintain institutions. They often face policies that hinder improvement in their livelihoods and lives.

Contingency approach to livelihood promotion

BASIX has adopted the contingency approach to livelihood promotion, wherein, it firstly identifies the bottlenecks that constrict the income generation capability of a livelihood activity; thereafter, it designs and provides products and services that address each constraint. These services enable poor households to earn more and to improve lives. Thus the services it offers are contingent upon the needs in a given situation of the poor.

Multiple strategies and synergistic working

We at BASIX believe that income and lives of large numbers of poor households can be enhanced by systematically implementing multiple strategies at household level, institutional level and at sector or policy level. These strategies can come to fruition only through synergistic working of people, policies and processes.

Nurturing institutions, mainstream capital and human resources

In order to effectively carry out its mission of promoting sustainable livelihoods, BASIX has built and nurtured many different institutions under its own umbrella, and within the sector. Each of these institutions works to achieve specific designed purposes within the domain of livelihood promotion and they are incorporated into suitable legal forms. Since inception, our institutions have attracted mainstream capital and human resources to carry-out various livelihood promotion interventions.

Engagement with policy making

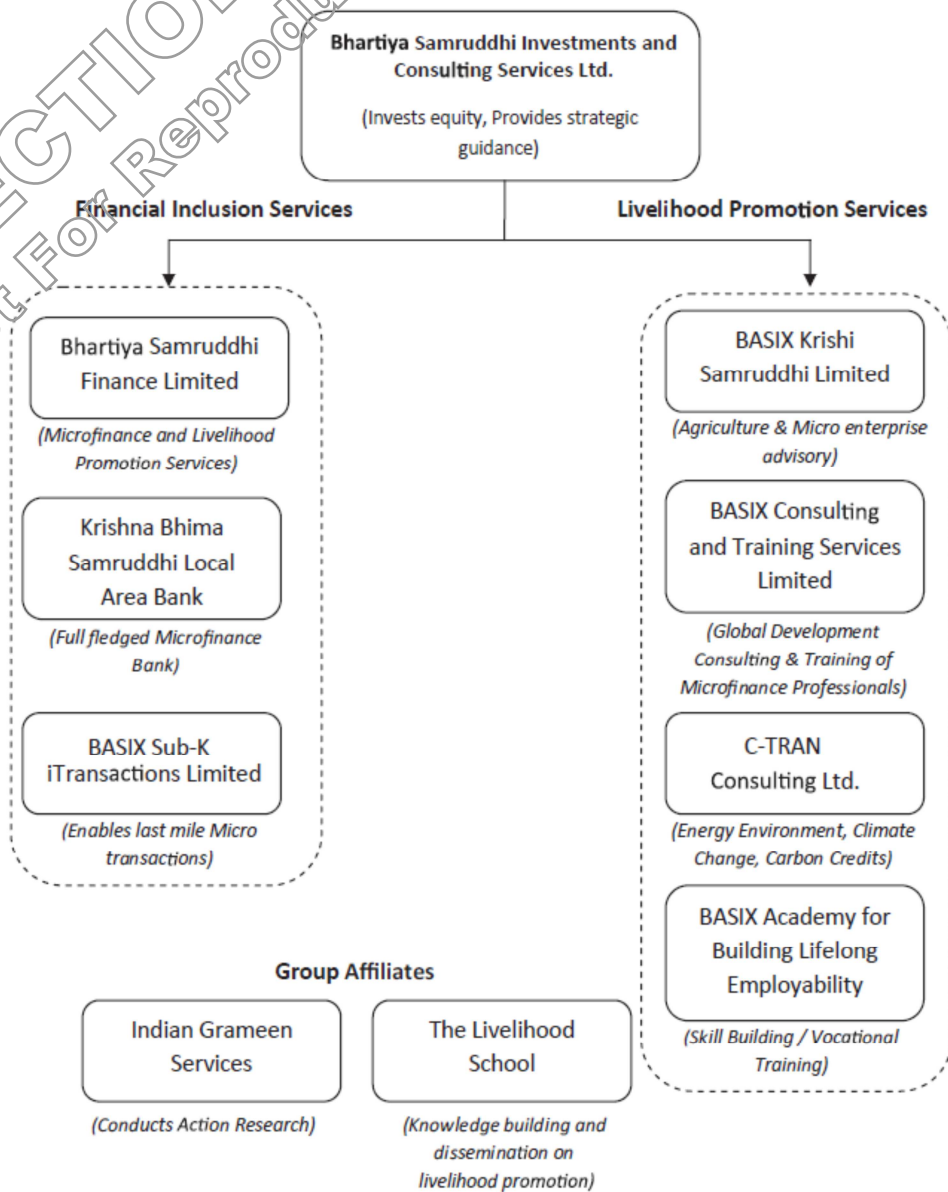
BASIX engages in policy research and advocacy work, as a necessary complement to its mission of livelihood promotion. Our efforts involve undertaking studies, working in advisory capacity in various state or national level committees, participation in formal policy for a of the government and sectoral bodies, association with sectoral institutions for creating awareness and disseminating knowledge among stakeholders. The areas we have worked in can be broadly grouped into rural livelihoods and micro-finance, infrastructure and energy-finance.

Outcomes

BASIX strategies of providing financial services, technical services and institutional development services at the doorsteps of the poor, focus on building economic, human and social capital of households. Our services are oriented towards increasing volume of production and price of output, reducing costs and mitigating and managing risks involved in life and livelihood activities of the poor.

Source: BASIX Annual Report 2010-2011

Exhibit 8
BASIX Corporate Structure in 2010



Source: BASIX Annual Report 2010-2011

Exhibit 9

The Operations of Flagship BSFL

BSFL used a wide variety of delivery models, including Self-Help Groups (SHGs), SHG Federations, Mutually Aided Cooperative Societies (MACS), Rotating Savings and Credit Association (ROSCAs), Joint Liability Groups (JLGs), and individual lending. JLG was its main model for intermediation. A JLG consisted of five persons, grouped on the basis of economic sector – agriculture, dairying or non-farm. The sector-based approach supported similar cash flows at the same time, as a basis for building trust and a realistic check on the credit amount. Grouping by sector also enabled the provision of Ag/BDS services in some areas by BSFL field staff, trained to be Livelihood Service Advisors (LSAs) in addition to handling financial intermediation.

BSFL Loan products

Type of loan	Farm and allied	Non farm	General Purpose Loan
Clientele	JLGs/Individuals	JLGs/Individuals	Women JLGs/ SHGs/Federations
Description	Crop, agri-allied, agri investment, agri-allied non dairy loans	Micro-enterprise Growth enterprise loan	
Loan Amount (Maximum)	Crop loan - Rs25,000 Agri-allied - Rs50,000 Other - Rs50,000+	Micro enterprise - Rs50,000 Other loans: Rs50,000+	Women JLGs - Rs10,000 Other loans - Rs50,000+
Term (months)	11 – 36	24 – 36	18-36
Repayment	Cash flow based monthly, quarterly, six monthly	Cash flow based monthly	Cash flow based monthly
Interest rate	21%	24%	12% - 24%
Interest type	Annual, declining		
Other fees	2% Loan Processing Fees (LPF) + 12.36% (of LPF) service tax		
Cash security	10% of loan amount (except for women's JLG GPL)		

Unit (branch) offices were located in district towns, operating from 3-4 km from the unit office up to a 30 km radius, though some urban lending to women's groups started within the district towns. Lending to a new village was approved by the Unit Loan Committee chaired by the Unit Head. Once the village was approved, village meetings were organised to explain the mission of BASIX, work done by BASIX in nearby villages, and to introduce the different services offered by BASIX. These meetings facilitated interaction of the unit staff with villagers and helped to assess the needs of potential clients and explore possible interventions. BASIX ensured that clients had an existing business (except for women clients accessing a General Purpose Loan (GPL). Interactions with clients were primarily through group meetings handled by the LSA – at the village level, usually at the house of one of the group members. Financial procedures and transactions would mostly take place here. The LSAs completed loan applications with each individual client and within 15 days, applications would be processed and disbursements made by cheque from the Unit office. Clients would be informed of the day and time to come to the Unit office to sign for the loan cheque. In case of default, there were clear guidelines to staff not to misbehave or force clients to repay loans. LSAs were advised to use peer pressure, and, if this did not work, to inform their supervisor. Follow up of overdue borrowers was done by more senior staff.

BSFL credit covered all sectors: farm and allied loans, nonfarm loans and general purpose loans (GPL). Farm, allied and non-farm loans were primarily to JLGs. GPLs were for women's groups – JLGs and SHGs. BSFL policy was that not more than 50% of portfolio should be Agri-allied loans to promote diversification of the rural economy into the non-farm sector and to diversify portfolio risk. Loan amounts started at around Rs8-10,000 (\$200) and were mostly up to a maximum of Rs50,000 (\$1,110), with terms from 1 year up to 3 years for longer term, larger investment loans. Repayments were geared to cash flows and seasonality in agriculture, in consultation with each client. Credit for agricultural investment were repayable in 2-3 instalments in a year. Repayment of other loans were in

monthly instalments, (or quarterly for goat/sheep rearing). Interest charged was around 21% on farm and allied loans, 24% on non-farm loans. Clients also paid a 2% loan processing fee and a 10% cash security on all loans except general purpose loans to women JLGs. Clients who took agriculture and business development services (mainly linked to loans for dairy animals or crop) paid Rs300 for a year.

BSFL's effective interest rate to JLGs and individual clients worked out to 30.6% on average, including loan processing fee and the effects of a 10% cash deposit. With some variation depending on the loan term and amount, the standard rate was around 27.3% on GPL, 28.6% on crop loans, 28.5-31.1% on allied loans and 32.2% on non-farm loans, with interest on loans to larger group intermediaries (SHGs, cooperatives, federations) lower. BASIX benchmarked its interest rates with other service providers and its cost of operations. Its approach was to charge a 'fair rate', whilst providing a 'competitive rate of return' to investors.

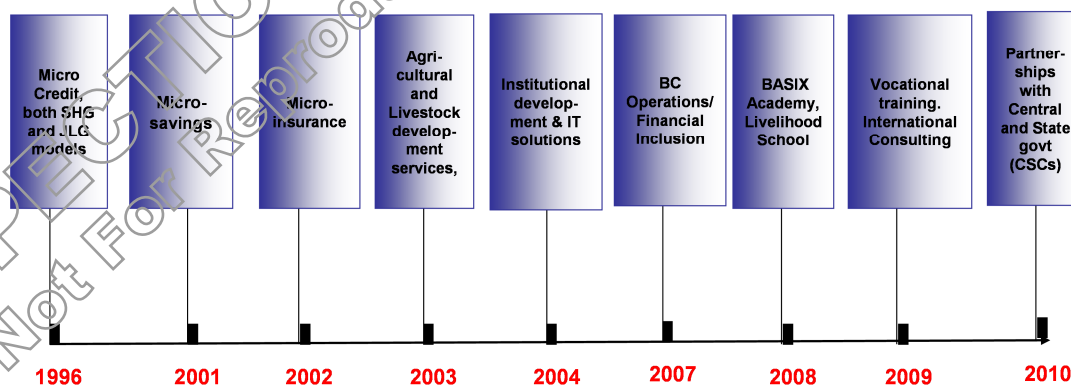
BASIX placed considerable emphasis on developing insurance linkages that catered to clients' main areas of vulnerability, provide simple procedures with low-cost premium, and systems for careful screening of claims and quick payouts. With links to three different insurance companies for different policies, BASIX carried out all the intermediation tasks (including screening of claims and transferring the payouts). Insurance services covered risk to lives and health of clients and spouse, and the more challenging area of livelihoods (not only livestock, but agriculture – based on a rainfall index, and microenterprise – including assets in semi-permanent premises common in rural areas). Loan/Life and health insurance was mainly through group policies that cover client and spouse, aged 18-55. This insurance was compulsory and loan linked for group clients (JLGs and SHGs). Clients paid the life (Rs 4/loan amount of Rs 1,000/year) and health insurance premium (Rs 77/person/year) in instalments along with their monthly interest payments. In case of client death, the life insurance (1.5 times the loan amount) was first used to clear outstanding loan amount, and the balance paid to the nominee. Health insurance covered critical illness (fixed benefit of Rs 1,000 permanent total disability up to Rs 25,000) and hospital cash benefit (up to Rs 1,500). Livestock insurance covered the value of the animal (up to a maximum of Rs 20,000 for a "productive animal" and Rs 5,000 for "other animals"). Weather index insurance was designed to extend cover to at least the input costs of the crop insured. 90% of BSFL clients had life and health coverage. Field staff were expected to guide clients on insurance claims and BSFL had a toll-free telephone helpline in place. There was a system for processing claims before forwarding a consolidated list to the insurance company. Claims would be verified separately by facilitators paid by the insurance company which would then transfer payment to BASIX, which in turn transferred the funds electronically to the Units, for payment to clients. This facilitated reasonably speedy pay-outs – aimed to be within 30 days of application.

BASIX offered a similar package of products and services through KBSLAB with the addition of different savings products as part of normal banking services, including the Samruddhi Daily Deposit scheme in which street vendors could deposit as little as Rs20 (under \$0.50) daily.

Source: "BSFL social rating report", Micro-Credit Ratings International Limited (MCRIL), May 2007

Exhibit 10

Pioneering Path of BASIX



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NB: BC Operations refer to Business Correspondent (BC) model of banking. A BC is an entity that acts as a teller for the bank and carries out a range of transactions on behalf of the bank and is paid commissions for the services provided. BCs promote accessible branchless banking and the financial inclusion of a country's poorest citizens.

Source: BASIX

Exhibit 11 ***BASIX in the Dairy Sector***

BASIX Group : Livelihood Opportunities in Dairy

Our Dairy Products Line

Dairy is a sub-sector wherein a large number of our customers earn their living. This fact brought forth through a sub-sector study conducted by IGS, is in sync with common understanding that the poor find greater opportunities of livelihood and livelihood enhancement in the dairy sector: therefore, tend to prefer dairy activities while diversifying their livelihood portfolio.

Outreach

Building on these experiences, BASIX has developed a strong line of fee-based livelihood promotion products for the poor involved in dairy activities. These products are designed to provide them credit and insurance, business-development services and technical and support services which are all consolidated through our institution development services.

Outcomes

Our services have successfully linked dairy farmers to markets - reduced input costs and fetched higher prices for their produce. These service products have helped to change practices of our customers and led to improved productivity of their animals. Through our extension services, we have worked to reduce risks to health and lives of animals. Our insurance products help the poor to sustain their livelihoods in times of personal and natural disasters. Last but not the least, the economically active poor utilize our credit products to enhance their livelihoods further.

We present below a description of various interventions undertaken by various BASIX group entities in the dairy sector, which have significantly affected

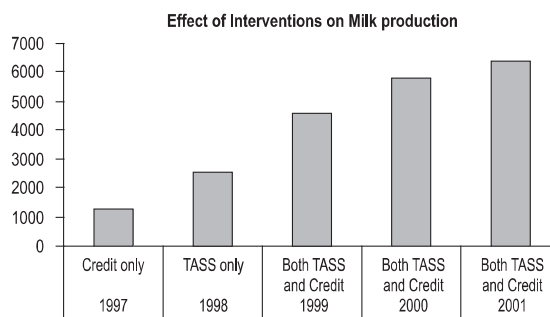
- Livelihoods of customers of BSFL and KBSLAB;
- Influenced practices of state owned dairy institutions such as APDDCF;
- Influenced practices of other organizations; government led initiatives and NGOs;
- Enabled knowledge transfer to practitioners and academics alike.

Our Synergistic Practices

Three-way collaboration

Our involvement with the dairy sub-sector deepened during a three-year period of collaboration of IGS with the Andhra Pradesh Dairy Development Cooperative Federation (APDDCF) and the Milk Producers Cooperative Society (MPCS) at Wanaparthi. The intervention carried out by these three ultimately led to a significant rise in milk production, therefore enhancing the incomes of local dairy farmers leading to improvement in their lives.

Outcomes Rise in production



Milk-chilling centers revived

As a result of this collaboration, the ailing milk-chilling centre at Wanaparthi owned by APDDCF was successfully revived.



Boost in credit business

The technical and support services provided by MPCS turned out to be the most critical inputs that enhanced livelihoods of participating farmers.

IGS experienced a 100% return-rate of its credit and also a big jump in demand for its credit services from other farmers. Learning from this intervention we went on to develop the first ever fee-based dairy services product for the poor.

Encouraged by the results of this intervention, BASIX and APDDCF decided to extend their experience and went on to revive 28 milk chilling plants in Anantapur, Kadapa, Kurnool, Mahaboobnagar, Nizamabad, Medak, Adilabad and Srikakulam districts.

What did BASIX do with this experience?

Since 2001, BSFL has extended the strategy of working with cooperatives to the neighboring states of Maharashtra and Orissa as well.

BASIX quickly moved on to other areas where dairy was already a livelihood activity and started interventions there. However, we did not limit ourselves only to creating exact copies: keeping with the contingency approach, we remained open to adopting strategies appropriate to prevalent situations.

Alternative Livelihood Context

Groundnut Cultivation to Dairy Activity

People in Anantapur District frequently experience drought, which was seriously affecting the returns from groundnut cultivation. Realising that livelihoods of groundnut farmers there were at risk, BASIX embarked on a series of initiatives to let farmers explore new livelihood opportunities so as to enhance their income.

Strategies

Groundnut: In the years 2001-03, IGS carried out action research to ensure higher returns to around 1,350 groundnut farmers. It facilitated input linkages for good quality seeds and output linkages with wholesalers. Preventive pest management and local value addition was also experimented with improved production methods were recommended by International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and Acharya NG Ranga Agricultural University (ANGRAU). This action research revealed that livelihoods of farmers could not be sustained merely by concentrating on a single crop, other livelihood options also needed to be explored.

Dairy: Therefore, in 2003-04 an action-research project AP was taken up, wherein 270 farmers belonging to Kalyandurg Mandal of Anantapur district were encouraged to take up dairy as an alternate livelihood activity. IGS encouraged the officials of a non-operational milk cooling center of (APDDCF) to train local youth to carry out quality tests of milk at the door step of dairy farmers. It set up a milk collection route, provided fodder management and other veterinary services as a result of these efforts, quality of milk was maintained, milk-yield went up and animal health improved. After about six months of such efforts, IGS started providing credit and livestock insurance services to farmers. The resulting increase in income further motivated farmers to take up dairy as an alternative activity.

Outcomes

Milk collection which was a mere 60 liters per day during the first two weeks rose to 120 liters from the third week onwards. The 400 liter capacity plant proved insufficient in a short time, hence, a bulk cooling plant of 1,500 liter capacity was set-up and an additional plant of 5,000 liters added thereafter. Similar interventions are planned to be taken up in other mandals of the district.

Farming households in Kalyandurg now have a consistent source of cash-flow. They earn between 1000 and 3000 rupees every month from their dairy activity. During drought, they neither send their animals to neighbouring areas nor to slaughter-houses. Which was a practice prior to BASIX intervention.



Strategies

Creating a new value-chain

In 2003, KBSLAB, worked with farmers in Mahabubnagar to link them with an emerging value-chain promoted by Reliance Dairy Foods. Unlike in the case of the intervention with APDDCF where revival of a milk-chilling centre was the focus, this intervention required creation of a three-tier dairy value-chain consisting of village-level pooling points, bulk milk cooling centres, and dairies.

Reliance built its chain using a combination of corporate and cooperative structures. All three tiers of the collection system were administered by franchisees. The franchisees provided buildings and staff while Reliance provided equipment for the pooling points, cooling centres, the management information centre and trained the franchisees and staff their use. A network of Reliance field-staff supervised and supported the three tiers. The team from KBS bank, with its strong rural finance and community organizing capabilities, worked-out a system of grouping people into village-wise producer groups, established milk-routes, provided financial services, agriculture, business and institutional development services.



Outcomes in favour of poor



Over 2000 farmers started selling milk to Reliance. As a result of receiving technical support and financial services from KBS Bank, productivity of animals increased, farmers could sell three litres of milk a day instead of the two litres they sold before the intervention. They got ` 20–26 per litre by selling the milk to Reliance in place of ` 16–18 by selling it to other buyers. Members of producer groups organized by KBS bank have easier access to credit at 18% interest as against 21% charged by others.

Many of these dairy farmers now bank with KBS bank on a regular basis and take advantage of the bank's savings, insurance and credit services. Members continue to use agribusiness development services delivered by KBS bank.

Commercially viable livelihood intervention

The success of the dairy industry in Mahabubnagar shows that profit orientation of a commercial company need not be incompatible with the interests of poor. Reliance has brought into focus aspects of viability and break-even time of interventions into focus. By making franchisees build infrastructure and employ most of staff, this model makes it possible for Reliance to operate this value-chain with little capital and running costs. Franchisees are responsible for delivering the product to the next stage in the chain, thus spreading the risk among many when things go wrong.

**Transfer of
Knowledge for
scaling up dairy
activity**

Transfer of knowledge gained on the ground has become an important aspect of our work. BASIX has been replicating its experiences not only through its own IGS, BSFL and LAMP fund but also through other organizations and programs. People from government services, NGOs, and profit making institutions are taken on visits to Wanaparthy, and Anantapur to have a view of successful livelihood promotion interventions.

**The Livelihood
School****Building knowledge about dairy as a livelihood activity**

BASIX is known for its work on the ground and for disseminating its knowledge. To carry out its mission further, it has also been involved in building knowledge about livelihood activities and livelihood related domains.

The Livelihood School registered as a society, has documented many dairy interventions in the form of case-studies. These are being used as resource material for different programs including for the livelihood promotion modules of The School, for induction courses within BASIX and also to train students at the BASIX Academy for Livelihoods and Microfinance Practice (B-A-LAMP). Institutions such as XIMB, St. Xavier Institute of Social Sciences (XIIS) and Tata Institute of Social Sciences (TISS) have also used some of these case studies as their classroom teaching material.

**Case-Studies for
livelihood promotion
education**

The School has developed a training program on Livestock based Livelihood Promotion with a significant coverage of the dairy sector. It has carried out studies of the dairy sub-sector in Uttarakhand in 2006 and Chhattisgarh in 2010. In 2008 it undertook an assessment of the impact of a dairy intervention by ATI in Uttarakhand.

**Consultancy
Services in dairy as
a livelihood activity**

BASIX Consulting and Training Services started working on a project with the Women Development Corporation (WDC) in Bihar. WDC had mobilized women into self-help groups and federations in the entire state. BASIX Consulting created the institutional infrastructure to support the dairy activities of these women's groups and federations.

Basix Consulting Services has provided technical assistance and carried out studies, assessments, research on farm and non-farm sectors in India and abroad. Since inception it has undertaken about 20 assignments involving various subsectors including dairy. It has recently embarked on an assignment to provide the triad services to dairy sector in Fiji.

B-ABLE

B-ABLE is working in partnership with State Institute of Capacity Building (SICB) of Sikkim state government has launched courses in horticulture, dairy management, animal husbandry and piggery management. Right now about 130 students are enrolled in the first batch of these programs.

Source: BASIX Annual Report 2010-2011

Exhibit 12

Policy Work by BASIS

Since its inception in 1996, BASIS had been engaged in policy research and advocacy work, as a necessary complement to its direct work of livelihood promotion. The objective was to influence public policy, so that the livelihood mission of BASIS could be achieved indirectly as well, through the growth of the sector, to reach a larger number of poor people. This work also enabled BASIS staff to keep abreast of the cutting edge issues involved in development and livelihood promotion on a continuous basis. BASIS policy efforts involved:

- Undertaking studies in development finance, livelihood promotion and related fields.
- Working in an advisory capacity in various State or National level Committees in the field of development finance and livelihood promotion.
- Participation in formal policy fora of government and sectoral bodies.
- Continued association with sectoral institutions for creating awareness and disseminating knowledge among stakeholders.

Government/Sectoral/International bodies	BASIX involvement
<i>Ministry of Urban Development & Ministry of Housing and Urban Poverty Alleviation</i>	Vijay Mahajan was invited as a Member of the Experts Sub-Committee on “Urban Poverty and Slums” constituted by the National Development Council which was headed by the Secretary, Ministry of Urban Development and the Secretary of Housing and Urban Poverty Alleviation. He contributed a paper titled “Triple Constraint on Urban Livelihoods – Skills, Space and Services”.
<i>Ministry of Housing and Urban Poverty Alleviation</i>	Vijay Mahajan was a Member of the Committee constituted by the Ministry of Housing and Urban Poverty Alleviation under the Chairmanship of Shri S Sridhar, CMD of National Housing Bank. The mandate of the committee was to suggest ways of strengthening and upscaling the lending mechanism for small home loans to the informal sector including exploring setting up of a dedicated micro-finance company with focus on micro-housing finance. The Committee proposed a comprehensive set of recommendations in a report submitted in June 2010 that were currently under consideration by the government.
<i>Ministry of Textiles</i>	Vijay Mahajan was nominated as member of Working Group on Handicrafts Sector set up by The Planning Commission to formulate the 12 th Five Year Plan [2012-2017]. Anoop Kaul represented Vijay as a member of BASIS. The Ministry of Textiles which also included the Department of Handicrafts, accepted in principle, the idea of inviting MFIs to finance artisans/craftsmen/weavers who had been deprived of bank finance for the past 60 years. The Working Group also decided to secure Planning Commission’s approval for granting interest subsidy of 5% on loans given to all those financed by Banks and MFIs.

<i>Ministry of Rural Development</i>	Vijay Mahajan was appointed as a Member of a Committee Chaired by the then Honorable Cabinet Minister of Rural Development which conceptualized the National Rural Livelihoods Mission. He was also invited to give his suggestions on improving the NREGA Scheme.
<i>Ministry of Agriculture</i>	The Secretary sought BASIX's ideas on how micro insurance could help farmers. The Managing Director of NABARD and other senior functionaries from various Ministries, including Finance, were part of the roundtable discussions.
<i>Insurance Regulatory and Development Authority (IRDA)</i>	Vijay Mahajan served a 5-year term as IRDA Member. In his last year, he served on the IRDA Committee on Policyholder Protection, chaired by Shri Sridhar, former MD of Life Insurance Corporation of India. During his 5-year term, Vijay Mahajan contributed to the formulation of Rural and Social Sector Obligation for insurance companies, rolling out of the Microinsurance Guidelines, 2004 strengthening of the disclosure requirement by insurance companies to potential policy holders, and rationalization of Unit Linked Insurance Policies. In addition, he participated in licensing decisions of nine life and seven non-life insurance companies.
<i>Pension Fund Regulatory and Development Authority</i>	BASIX provided advice on the New Pension Scheme, some of which had since been accepted.
<i>Government of Rajasthan</i>	BASIX proposed the concept of Rajasthan Mission on Livelihoods, which was accepted by the Chief Minister and implemented over the last seven years. Vijay Mahajan was the Principal Advisor. The mission was funded by both the State Government and UNDP and implemented by the BASIX team. The Government had since decided to institutionalize this project.
<i>Government of Gujarat</i>	BASIX was engaged by the Secretary, Rural Development Department, Government of Gujarat, to draw up a plan for livelihood promotion in the State. The plan was then launched as Mission Mangalam with an outlay of Rs 95 billion for the next four years.
<i>Government of Sikkim</i>	Vijay Mahajan was appointed as Member of the Sikkim State Knowledge Commission set up by the Government of Sikkim. As part of its work in Sikkim, the State Government signed an Agreement with B-ABLE to set up 16 Vocational Skill Centres in the State to impart skill training to rural youth.
<i>Consultative Group to Assist the Poor (CGAP)</i>	Vijay Mahajan was the Chair of CGAP, an international agency created to promote access to financial service by the poor around the globe. In a recently held meeting, G-20 countries adopted a resolution to include financial inclusion as one of their core themes and CGAP was designated to act as the technical secretariat to provide technical assistance to the Group in this regard. CGAP also played a leading role in a global initiative to develop a framework for ensuring client protection in the micro finance industry.

Source: BASIX Annual Report 2010-2011

Exhibit 13*Some of the Competitors of BASIX Companies*

<i>BSFL</i>	<i>SKS, Spandana, Share, Asmitha, Bandhan and a few local MFIs</i>
<i>Sub K</i>	<i>FINO, Eko, Integra, SAVE, Geo Sansar</i>
<i>B-ABLE</i>	<i>ILFS -Skills, Centrum, AISECT</i>
<i>BKSL</i>	<i>Access Development Services, CSR arms of fertiliser companies</i>
<i>CTRAN</i>	<i>Ernst & Young, Pricewaterhouse, TERI</i>
<i>IGS</i>	<i>Access Development, Vrutti, ALC, NGOs like BAIF, DHAN Foundation</i>

Source: BASIX

Exhibit 14***Strengths, Weaknesses, Opportunities AND Threats (SWOT) Analysis of BASIX***

<i>Strengths</i>	<ul style="list-style-type: none"> • Process-driven - using IT to reduce operation costs and improve monitoring • Robust IT systems that enabled innovation and effective solutions, like VITRAN for cash management • Risk mitigation - both for itself and for its customers (providing technical and support services helped its customers perform better, so its loans would be repaid, providing insurance also helped its customers to maintain their livelihood and repay their loans on time • Culture of innovation and learning, a good training ground • Strong leadership at various levels • Wide range of financial products and other services designed to cater to different market segments, ability to provide customized solutions • Mechanism for testing and market feedback on new business activities • Synergies from experimentation in new initiatives and transfers within the BASIX group • Structured for performance - performance pay contributed as much as 33% of total remuneration. More importantly recognition and promotion dependent on performance • Wide network of last mile touch points like CSCs (IT kiosks) etc. • Wide geographical coverage in a large country like India, even in the remotest locations • High employee satisfaction • Strong industry partnerships and goodwill • Pioneer in attracting mainstream capital to the sector - good reputation
<i>Weaknesses</i>	<ul style="list-style-type: none"> • Capitalisation and lower returns • Many different and diffused activities that may appear to make the company look unfocused - lost potential in collaboration of the various segments and distribution networks, given the diversity of activities as well as regions • Uncertainty • HR - getting people and getting the right people • Absence / partial presence of leaders at all levels - local or middle management leaders not systematically groomed. • HR systems and processes strong but not well implemented • Brand positioning and value were not focused upon - being the pioneer in almost all aspects, BASIX faced more difficulties than others but managed to extract no “toll fees” for building the road for the later ones. Did not monetise first-mover advantage - “gave it away”. • Overall strategies did not percolate down to the staff at grass root. So the connect / bonding/ passion slowly faded. • Conflicts of interest and possible cannibalisation amongst so many different entities within BASIX could cause difficulties in

	<p>collaboration. Each entity needs to find it worth the while in terms of meeting its own goals while working as a BASIX TEAM. Need a framework for collaboration.</p> <ul style="list-style-type: none"> • Loss of key person - approach of Vijay Mahajan's retirement. None to match his entrepreneurial abilities, so Basix will miss having a "chief entrepreneur" more than a CEO.
<i>Opportunities</i>	<ul style="list-style-type: none"> • Huge untapped market • Scale - experience gained from doing certain activities well could enable BASIX to scale quickly • Huge potential in the last mile touch points, for creating a pervasive distribution network connecting all the villages of India • Strengthen incubation capacities to churn out many more viable ideas in the social enterprise space – e.g. incubate new enterprise for three to five years, then allow each entity to grow at its own pace to reach top three in the industry segment it occupies, not just in size but also in terms of operating parameters
<i>Threats</i>	<p>i) Government regulation – e.g. Andhra Pradesh for MF business, changing stance of RBI and GoI on financial inclusion which had impacted Sub-K</p> <p>ii) Subsidised services by government - even though much poorer quality and less available, these depressed the market e.g. vocational training for B-ABLE and agricultural extension services for Krishi.</p> <p>iii) Competition's more focused efforts giving better returns - attracting capital and people</p>

Source: BASIX