Microfinance and Blue Ocean Strategy : A Case Study of YVU, Manipur

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Abstract

There remain a wide gap between the need and delivery of finance for the poor. The poor need finance for building assets and also for economic security. There is a huge untapped market at the bottom of the pyramid. The barrier to the untapped market is accessibility. Organisations can adopt the Blue Ocean strategy to unlock the uncontested market. To understand how it happened in Manipur, a Case Study of YVU, Manipur is undertaken. The paper examines how YVU in the due course adopted the four strategic framework of the Blue Ocean Strategy – eliminate-reduce-raise-create. The paper highlights how the strategic moves helped unlocked the uncontested market, blue ocean – the mass customer based, not served by the conventional financial institutions and underserved by the existing microfinance institutions in Manipur.

Introduction

There remain a wide gap between the need and delivery of finance for the poor. The poor need finance for building assets and also for economic security. But accessibility is the problem. Even when it is available, it is too late or not sufficient. There is mismatch between the supply chain characteristics of the conventional financial institutions and the economic need characteristics of the poor. The conventional institutions need that borrowers have stable income, the credentials and collateral. That means the poor is not qualified to meet the financial need for building their assets. It is like chicken and egg situation. The poor needs finance for asset building to attain economic stability but finance is not accessible unless there is proof for economic stability. According to Kim (1995), the bigger problem is the accessibility, not the affordability. The low income group do not have alternatives. They borrow from what ever sources available even though at much higher rates than the market rates. So in the economic environment the bottom of the pyramid is untouched and unorganised. The unorganized sector provides opportunities for innovative solutions. At the bottom of the pyramid, there are uncontested markets or blue oceans.

Problem of the Research

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the untapped market is accessibility. Organisations can adopt the Blue Ocean strategy to unlock the uncontested market.To understand how it happened in Manipur, a Case Study of YVU, Manipur in undertaken.

Literature Review

The trends over the last ten years have demonstrated that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. The blue oceans at the bottom of the pyramid are bankable. The issue is accessibility and timely delivery. The conventional supply chain is long and time consuming. Responsive channels capable of timely delivery are called for. That is how community banks, NGOs and grassroots savings and credit groups around the world have shown that microfinance is the blue ocean strategy. Microfinance is emerging as one of the most effective poverty reducing strategies.

Besides fulfilling the social objective of poverty reduction microfinance is emerging a viable and sustainable business opportunities. Microfinance institutions integrate the communities to their operations. By attracting the client base and expanding services they have great potential for growth. Only about 2 per cent of world's roughly 500 million small entrepreneurs are estimated to have access to financial services (Barry, Armacost & Kawas,1996). So the challenges are exploring the blue oceans, and microfinance can be the next growth story. The other challenge for the institutions is sustainability. There exist demands for credit by poor and women at market rates, but the challenge is the economy of scale. The enterprise should be able to reach the critical volume of transaction for the financial operations to become self sustaining. Microfinance should reach the vast majority of potential customers. It is already seen that the conventional channels of financial institutions cannot reach the majority. The need is to explore the alternatives – the informal way. So provide short term capital to small businesses in the informal sector and expand using the principles, standards and modalities proven to be effective by conventional practices. There is the need to marry the informal way in the supply chain with the best practices of operations from the conventional financial institutions.

To be successful the financial intermediaries need benchmarking their performance criterion. They need capacity building though efficiency. It is about serving the bottom of the pyramid in the economy so continuous cost reduction is a must. Microfinance institutions have competitive advantage of small transaction costs achieved through adaptability and flexibility of operations (Ghate & Das-Gupta,1992). So there are ways. One of the ways is sharing resources. Information as a resource can be shared through centralisation. Cost reductions can be achieved through simplified and decentralized loan application, approval and collection processes, for instance, through group loans which give borrowers responsibilities for much of the loan application process, allow the loan officers to handle many more clients and hence reduce costs (Otero & Rhyne,1994). The people at the bottom of the pyramid do not have alternatives when they need finance. They do not have back up. So, timely delivery is essential. The financial intermediaries need information capacity to assess the needs and timely delivery. The delivery should be on time otherwise the finance may not be used for the stated purpose. Then there could be repayment problem. So the other performance criterion is speed.

Microfinance institutions are also financial institutions. The difference is the scale and target market. The market is at the bottom of the pyramid. The resources can be raised through the conventional approaches. The formal sector institutions have access to broader resource-base and high leverage through deposit mobilization (Chriseten, Rhyne & Vogel, 1994). This can be learning from the conventional financial institutions. The resource can be broaden through savings, accessing capital markets, loan funds and institutional development approach. A logical way to tap capital market is to securitize There is atleast one such attempt in Ecuador. BancoSol of Bolivia issued a certificate of deposit which is traded in Bolivian stock exchange. In 1994, it also issued certificates of deposit in the U.S. (Churchill, 1996). The Foundation for Cooperation and Development of Paraguay issued bonds to raise capital for micro enterprise lending (Grameen Trust,1995).

Savings facilitates feasible lending operations. Studies have shown that poor operating in the informal sector do save. Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner (Barry, 1995). The savings makes the financial institutions credible to the shareholders. The savings satiate demands for financial services and sustainability. Location, rate of return, liquidity and security are conductive to successful savings mobilization (Chriseten, Rhyne & Vogel, 1994).

To move up the value chain microfinance institutions can explore the joint venture option by forming joint venture with formal sector financial institutions. This can allow the formal and informal sector to focus on their respective target markets and competencies. The formal financial institutions can provide funds in the form of equity and the microfinance institutions can extend savings and microfinance facilities. Microfinance institutions can be intermediaries between borrowers and the formal financial sector and on-lend funds backed by a public sector guarantee There are also alternatives. NGOs can offer commercial banks ways of funding micro entrepreneurs at low cost and risk, for example, through leveraged bank-NGO-client credit lines. Banks make one bulk loan to NGOs and the NGOs packages it into large number of small loans at market rates and recover them (Women's World Banking,1994). Another possibility is refinance. The formal sector can refinance loans made by the informal sector. This creates resource and room for financial discipline. The setting creates win-win situation. The formal sector gets opportunity and motivation to exercise financial discipline over the microfinance institutions.

Once the microfinance institute engage in deposit, it becomes financial intermediaries. Like conventional financial institutions, regulations are required for order and uncertainty reduction. Because basically the formal characteristics of the micro finance institute and the conventional financial institutes are the same. The differentiating factor is the scale. The microfinance institutions can be subjected to minimum capital requirement and capital adequacy ratio. The regulations should take into consideration the characteristics of microfinance operation, especially the informal characteristics and the scale, otherwise the operations could become unviable. The government can establish an apex body/organization that can engage development and regulate the microfinance enterprise. Such an apex body can lend credence to the microfinance movement in the country. Microfinance is an idea whose time has come. It is at the growth stage. So the government need to be the catalyst. It is emerging so the government need to adopt a check and balance approach while regulating.

According to Kim and Mouborgne (2005), blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Blue oceans are largely uncharted. They crafted a four action strategy framework called the *eliminate-reduce-raise-create* grid. The grid pushes organisations not only to ask the following four questions in the four actions framework but also to act on all four to create a new value curve:

- Which of the factors that the industry takes for granted should be *eliminated*?
- Which factors should be *reduced well below* the industry's standard?
- Which factors should be *raised well above* the industry's standard?
- Which factors should be *created* that the industry has never offered?

The framework has been used to analyse what and how YVU eliminated, reduced, raised and created factors to tap the blue ocean at the bottom of the pyramid.

THE YVU CASE STUDY

The Organisation

Youth Volunteers' Union (YVU) was formed as a voluntary organisation in 1970 by a group of 5 youths. It was established to assist flood affected area in Thoubal, one of the districts of Manipur and its adjoining villages. Later YVU started functioning as a social activist group against corruption and social injustice. Later on with the help of public contributions, it established at Thoubal a public library-cum-information centre, organised youth festivals, literary meets, constructed playgrounds and encouraged games and sports. Inspired by all these social works, it got itself registered as a NGO under Society's Registration Act XXI of 1860 in the year 1970.Thereon, YVU like other NGOs, started developmental works and construction of community infrastructures and assets. Later on it started collaborating with both national and international funding agencies. The first being EZE Germany, for a period of twenty years -- 1982 to 2002. YVU took up developmental programmes in association with the finding agencies for sections of the society. It also laid emphasis on building self sustainability of the community.

The activities of YVU at present are spread over fifty six villages benefiting more than one lakh people. In the last 38 years of service, YVU faced many constraints. Starting from just one district, the organisation now covers six districts out of the nine districts of the state. There are challenges of locational disadvantage, uncertainty climatic conditions and lack of government support. However the stakeholder played positive, acting as change agents in the lives of the poor. The challenges provide learning opportunities and enlarged vision.

Creating a compelling Blue Ocean Strategy

YVU launched Women Credit and Thrift Project (WCTP) programme in July 1996. The organisational structure is given in ANNEXURE (1). Through the programme YVU started microcredit in Thoubal district. Gradually it covered Imphal East District, Imphal West district and Kakching Subdivision of Manipur. The WCTP programme focuses on Microfinance. The concept Microfinance is new in Manipur. Before 1996 few organisations ventured in microfinance, but failed because they were not microfinance organisations in the true sense of the term. So WCTP is one of the pioneers in Microfinance in Manipur. The launch of WCTP programme on microfinance is the compelling blue ocean strategy. Microfinance programme of YVU is popularly known as WCTP. It is a viable alternative as the moneylenders charge exorbitant rate of interest and conventional credit institutions don't bank with the poor. WCTP has been making the poor bankable.

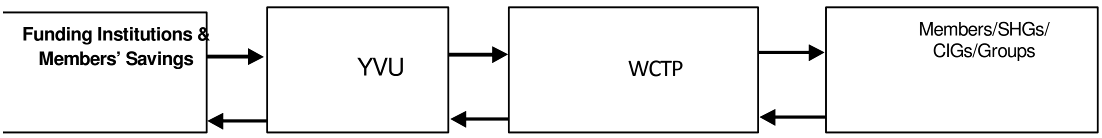
YVU in due course aligned itself to the Blue Ocean Strategy through eliminate, reduce, raise, create strategic moves. The strategic framework is also called the *eliminate-reduce-raise-create grid.* The grid pushes companies not only to ask all four questions in the four actions framework but also to act on all four to create a new value curve. In the process YVU has differentiated itself.

Eliminate and change: YVU started its activities as a Social Activist. How YVU changed itself through elimination can be understood by highlighting the various activities it undertook in the last four decades. In the first decade it focused on prohibition, immoral trafficking, drive against corruption and developmental works. The organization targeted the Government departments to clean corrupt practices. It established a Public Library-cum-Information Centre at Thoubal. Besides, the organization also undertook developmental activities like construction of playground, organising games and sports, youth festivals and literacy meets etc.

It was in the second decade that YVU changed course. Now it focuses on development works. The organization initiated creation of community infrastructure and assets. It started taking interest on irrigation works and agriculture development. It also concentrated its focus on economic upliftment of the poor. The third decade also saw the continuation of the development programs. It undertook rehabilitation programs for people in the Thoubal district affected by Dams – *Ithai* Dam *and Loktak* Project. It was in the third decade that YVU detected the blue ocean - bankability of the poor. It got the idea of microcredit. So in July 1996 YVU launched WCTP programme to undertake microcredit activities. So YVU discovered the bankability of the poor through microcredit.

In the fourth decade YVU saw opportunities in partnership with donor organization/institution for the development programmes of weaker section. WCTP focuses on microfinance. It witnessed growth phase (ANNEXURE (II)). WCTP eliminated the need for the borrowers to have stable income, the credentials and collateral. The elimination created accessibility for finance. The poor is qualified to meet the financial need for building their asset. It is based on the fund base development approach. It is a watershed decade for the organization. YVU now realize the opportunity that poor is bankable and micro finance is the blue ocean strategy. During the Year 2006-07, credit flowed to the tune of Rs.68.51 million, touching the lives of 3114 poor and needy, creating self employment and sustainability. The Figure (1) depicts the supply chain.

Figure (1): Fund Flow



Reduce: As WCTP is one of the pioneers in microfinance, its initial competitors were the unorganized sectors – moneylenders, relatives and other sources. Even then there were many microfinance institutions in other parts of the country and even international organisations. They are not the real competitors for the time being because they are not accessible to the potential customers of WCTP. So the real competition is coming from the unorganized sectors and micro-finance institutions in Manipur.

The introduction of credit and thrift opportunities has given momentum to WCTP. YVU has been striving for empowerment of the poor and marginalized through its service. WCTP realised that major hurdle for finance to the poor is the formal channel. The paper work and formality scare away the poor borrowers. It psyches out the people at the bottom of the pyramid. Further, the process consumed time and energy of the prospective borrowers. The formal channel greatly increased the required number of visits for the borrowers. So the formal channel increases the time cost, energy cost and psychic cost. WCTP reduced the formal channel to the bare minimum. The move reduced the following cost of financial accessibility for the borrowers – time cost, energy cost, and psychic cost. Time cost, energy cost and psychic cost of the formal channel are barriers to banking at the bottom of the pyramid.

Raise: From microcredit, WCTP has moved up the value chain to Microfinance and the product ranges are more (ANNEXURE IIIA and ANNEXURE IIIB).. In due course WCTP increased the value of its offering. Few of its products are even better than what the conventional financial institutions offer. It focuses on timely credit support for income generation, self employment and sustainability. WCTP raised certain factors well above the competitors' so customers won't have to make compromises: reduction in cycle time of loan delivery, information systems, human resource management and organisational flexibility.

WCTP raised the benchmarking through computer based MIS paying greater attention, when compared with the competitors, and human resource management. Branch offices generate daily, weekly and monthly report. The reports are consolidated at the Head Office. The MIS is at the evolutionary stage. WCYP has installed Matrix Software of JAVA SOFTECH. The system was installed with the objective of cost efficiency and timely decision at the operational and strategic level. The process of transferring data to the new system is on. YVU launched a website: www.yvuthoubal.org in September 2005. The site facilitates suggestions and comments for improvement.

WCTP has put emphasis on human resource management and productivity. The emphasis of training is on the following aspects: microfinance, management skills, human relations, public relations, and empowerment. It has in-house training through orientation and workshops. Director and senior staff attend training programmes organised by institutes in the country. WCTP has reward policy. Incentives are given based on the performance. Penalties are also imposed. It is based on the following: non achievement of targets, negligence, non compliance of system and procedure, and irregularity of attendance. There are staff welfare provisions like Retirement Benefit Plan, Mediclaim for self and spouse, and Personal Accident Benefits

Creating new sources of value: WCTP created risk fund, started Social Security Schemes product (ANNEXURE IV). It collects one percent of the total amount of the loan released. In the event of unfortunate incident that shall incapacitate the laonees to repay the fund is used to discharge the payment obligations. In addition, the scheme covers the loanees by covering the hospitalization expenses due to accident and others. The scheme covers for a period of one year or closure of the loan account whichever is earlier. For the subsequent year, the collection is 1% of the outstanding principal amount. The amount collected is parked at the fund till the expiry of the year. Any unclaimed amount after the validity period is transferred to a fund titled "Risk Fund Account". The fund is to offset any loss on the loan account. It is transferred through Income and Expenditure Account. The risk fund is used for the following claims – accident, fire accident at the business site, nature calamities. Such schemes are new in the micro-finance industry of Manipur. Such innovative scheme established its reputation and enhanced its brand value.

WCTP is rated. It is a source for winning public confidence and trust. Further, it promotes transparency. The Micro-Credit Ratings International Ltd (M-CRIL), the global rating agency, rates WCTP on critical performances. EDA – Rural Systems Pvt Ltd, Gurgaon, specialised in microfinance development, took impact assessment of WCTP's micro credit services, and Credit Rating Information Services of India Ltd. (CRISIL) conducted capacity assessment of WCTP. YVU-WCTP was the finalist, in the Microfinance Process Excellence Awards (MPEA) 2006 – an initiative of ABN AMRO Bank and PLANET Finance.

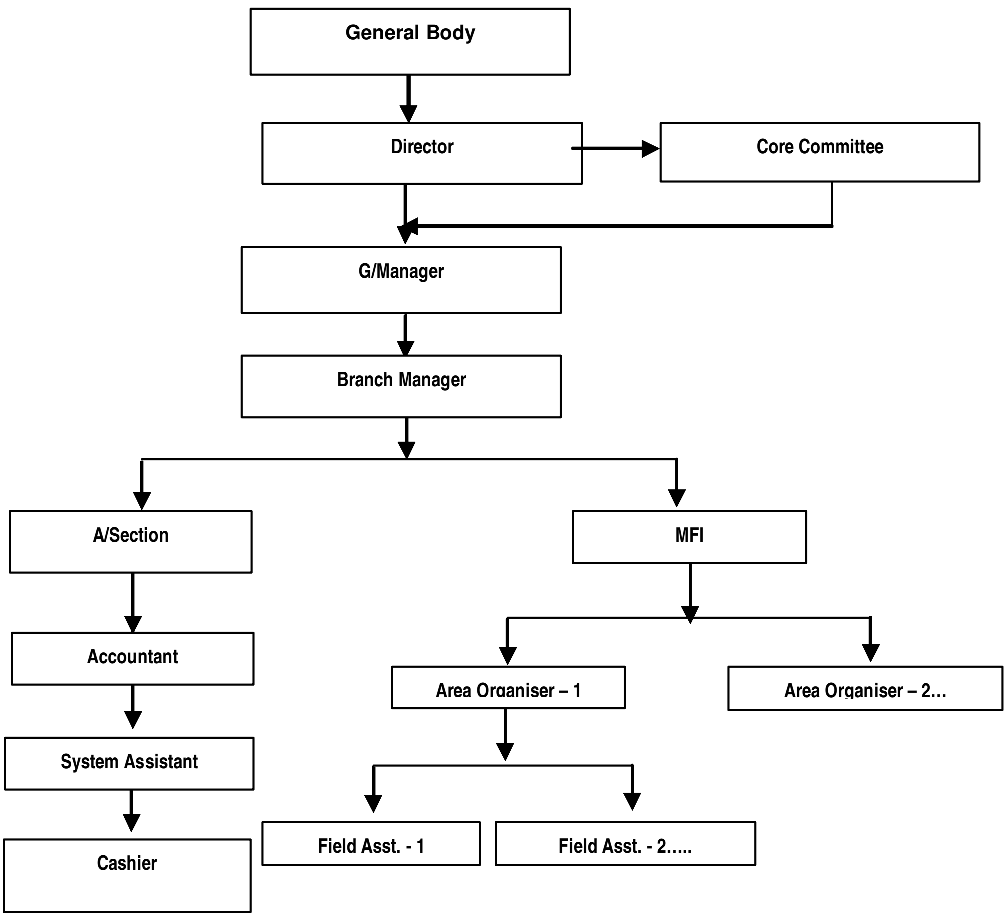
There is referral arrangement with Birla Sunlife Insurance Company Ltd (BSLI). The arrangement provides insurance benefits to the members. WCTP's involvement in microcredit and thrift practices has already crossed one decade. WCTP spent 1.5 lacs and developed a community centre at Thoubal Wangmataba village. It was created solely with the own fund of WCTP, and no external support was taken. The centre is used for community functions and meetings for the development works of the area. WCTP proposes such activities in the pipeline for the future. The social activities generates favourable image for the concern.

Conclusions

So YVU in the due course adopted the four strategic framework of the Blue Ocean Strategy – Eliminate, Reduce, Raise and Create. It created WCTP that focus on microfinance. WCTP eliminated the need for the borrowers to have stable income, the credentials and collateral. The move created accessibility of finance to the bottom of the pyramid. WCTP reduced formal cannel to the bare minimum. The reduction reduced time cost, energy cost and psychic cost of borrowing. Then WCTP raised the product ranges — giving choices to customers. It focuses on timely credit support. WCTP raised, compared with competitors, the benchmarking of MIS, human resource management and organisational flexibility. Further, WCTP created new sources of value through risk fund, rating by rating agencies and social concept. The eliminate-reduce-raise-create strategic moves have differentiated WCTP from the conventional financial institutions and micro finance institutions in Manipur. Differentiation is fundamental for sustainable competitive advantage. It has helped unlocked the uncontested market, blue ocean – the mass customer based, not served by the conventional financial institutions and underserved by the existing microfinance institutions in Manipur.

ANNEXURE I

Organisational Structure of WCTP



Organizational setup: WCTP has Board of Directors. Besides the Board of Directors there are committees for understanding critical issues of microfinance. There is Project Advisory Committee (PAC). It has seven members. The committee is empowered to monitor implementation of SIDBI-SFMC project and SIDBI-SMFC-Capacity Building Grant fund utilization. It is the highest decision making body for SFMC projects. It facilitated development of new product like Cash Crop Loan. Such products have increased the accessibility of microfinance. The WCTP Core Committee is chaired by Director. General Manager as convenor, and Manager Head Office, Account Officer (Head Office), Branch Managers and Field Officers of each branch are also the members of the committee. The committee is empowered to take decision on day to day functioning and implementation of decisions regarding loan, loss provision, grants of the laonees, and write-off of interest for NPAs, one time settlement of loans, review of branch performance and NPAs of WCTP.

There is Branch Core Committee (BCC). It is chaired by the General Manager. Head office representatives, Brach Manager, Field Officer and Area Organizer of each branch are members. Branch Manager is the convenor and arranges meetings as per the needs of the branch. The committee is the second highest staff level committee and is empowered to sanction loans. The committee look into the affairs of asset management, NPA loans, and other operational matters delegated by the management.

ANNEXURE II

Productivity / Effectiveness: WCTP has grown at 54.62%; loan disbursement, 37.61%and recovery, 81.38%compared with the previous year. The total loan disbursed has grown from Rs.49.78 to Rs. 68.51, growth of 37.61%. Amongst the products, the General Loan has grown the fastest, closely followed by Demand Loan (Table 4).

Loan Portfolio Status

Item	2005-06	2006-07	Growth (%)
Number of Loans	2014	3114	54.62%
Total Loan disbursed (Rs. million)	49.78	68.51	37.61%
Loan Recovered (Rs. million)	43.82	56.38	28.66%
Gross Loan Outstanding (Rs. million)	25.85	37.98	46.92%

ANNEXURE IIIA

Loan Products: The range of products available and with WCTP and their outreach during the year 2006-07are the following:

Loan Products

PRODUCTS	GENERAL LOAN	MONTHLY LOAN	PERSONEL / CONSUMPTION LOAN.
Purpose	Small shops, hotels, small mfg. units and vendors	Animal husbandry, weaving, small household industries,	Education, Hospitalization marriage etc.
Loan term/ Duration	6-12 months	12-24 months	12-24 months
Loan size	Rs. 1,000 – 25,000	Rs. 5000 – 25,000	Rs. 5,000 – 25,000
Eligibility	18-60 years age group	18-60 years age group	Grade IV state Govt. employees
Target clients	Marginalized and poor	Marginalized and poor	Very small salary class
Charges/Int. Rate	22.80% p.a (declining)15–18% p.a (declining) for disable/ widow and SHGs.	27% p.a (declining) 18 -21% p.a (declining) for disable / widow/ SHgs	27% p.a (declining) 18 -21% p.a (declining) for disable/ widow / SHgs
Penalty charges	3 – 6% on the outstanding amt. if not paid on time	3 – 6% on the outstanding amt. if not paid on time	3 – 6% on the Outstanding amt. if not paid on time
Repayment policies	Daily	Monthly	Monthly
Membership fee	Rs. 100	Rs. 100	Rs. 100
LLP/Group fund	1% of the loan amount	1% of the loan amount	1% of the loan amount

ANNEXURE IIIB

Saving Products: The saving products include Compulsory Savings, Voluntary Savings Deposits (Recurring Deposits, Daily Recurring Deposits (*Emoinu* Recurring Deposits – ERD) and Fixed Deposits. Its customers have access to Mediclaim, Accident, Life Insurance. Doorstep collection facility is provided to the regular depositors. There are penalty for premature withdrawal. Each of the savings products have specific target market segment. The Fixed Deposit (FD) and Savings offer higher interest rates than the banks.

Saving Products

Products	Instalment	Frequency	Interest Rate	Withdrawal Policy
VOLUNTARY SAVINGS				
1. Saving Deposits	Minimum Rs. 5 and no maximum limit	Daily/ weekly/ monthly	5% p.a	Any time
2. Recurring Deposits	Rs. 100 - 500	Monthly	9% p.a	5 years term but, But premature withdrawal is accepted in emergency cases
3. Daily Recurring Deposits (ERD)	Rs. 10-100	Daily	4% -6%	5 years term but, premature withdrawal is accepted in justifiable circumstances
4. Fixed Deposits	No. fixed amount	One time	10% p.a (3 yrs. & above)	Premature withdrawal is accepted but, has to loose compounded Interest and other facilities.
COMPULSORY SAVINGS				
Security deposits from the loanees	15% for 1st loan and 10% for subsequent loan of the loan amount	Every loan	5% p.a	Not allowed till complete repayment of loan. but, Withdrawal accepted in emergency cases.

ANNEXURE IV

Social Security Scheme Products

Particulars	Benefits
All Loanees **INTERNAL ARRANGEMENT**	i) Medial expense reimbursement up to Rs. 12,000/- per annum. ii) Fire of work place – grant upto Rs. 6,750/- iii) Death – grant upto Rs. 12,500/-
ERD Depositors & Fixed Deposits of Rs. 25,000/- & above **Scheme with ORIENTAL INSURANCE COMPANY Ltd.**	i) Accidental Hospitalization – grant up to Rs. 1.00 lakh. ii) Accidental death/to tal disablement – grant up to Rs. 4.00 lakhs iii) Partial disablement, loss of one eye/leg/arm etc – grant up to Rs. 2.00 lakhs.

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