

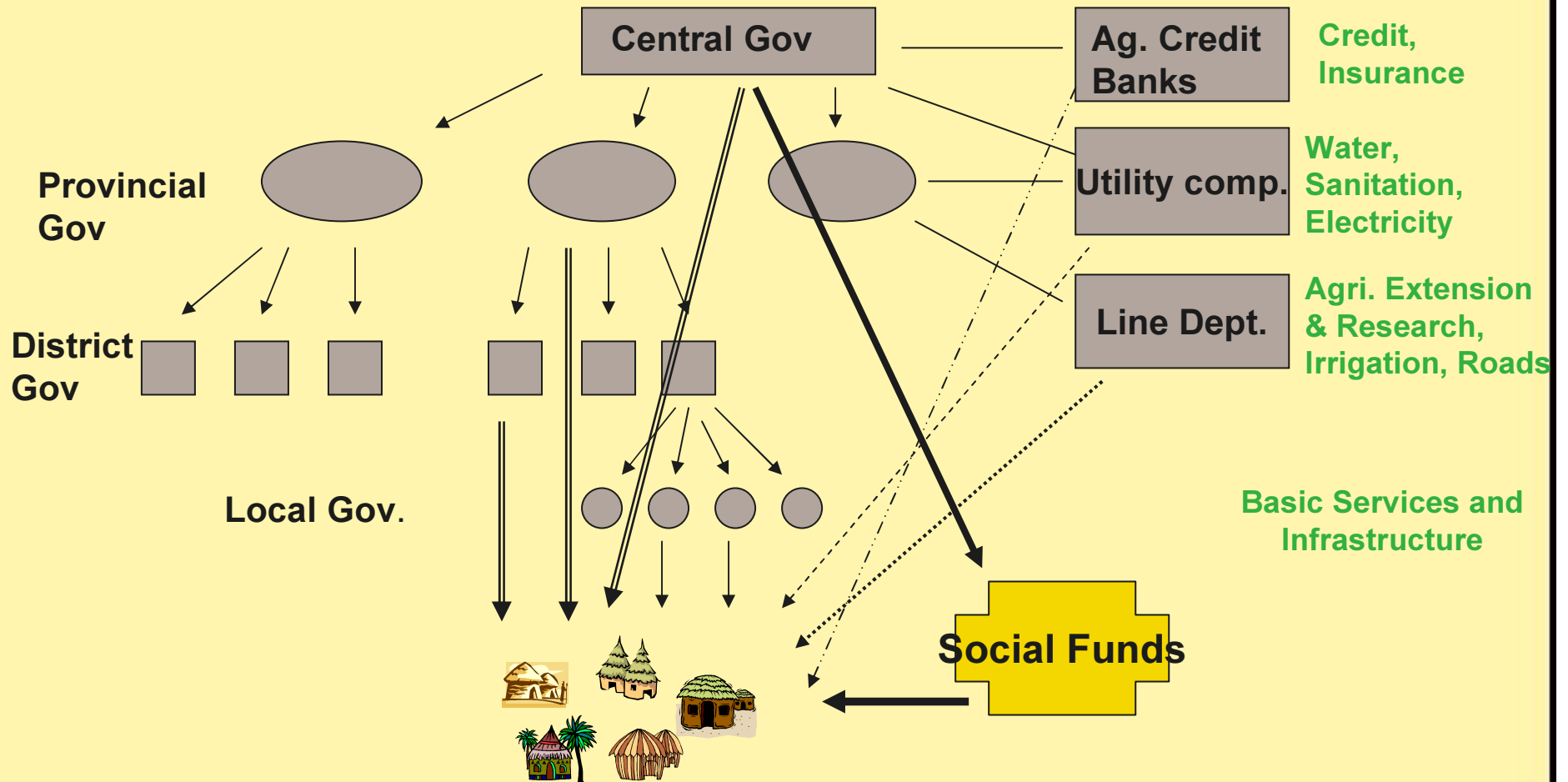
COMMUNITY-DRIVEN INNOVATION



The Power of Voice and Scale

Adolfo Brizzi, World Bank
Stockholm, December 9, 2008

The typical development organigram...





Limitations of a public sector development monopoly

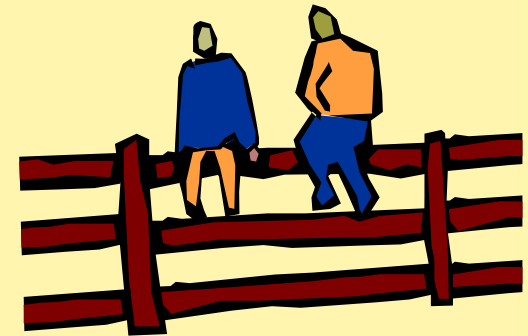
- Mostly supply-driven and top-down
- Serious coordination issue among multiple Government programs
- Local innovation and home-grown solutions are inhibited
- Poor public sector performance in delivering services
- Imbalance between supply and demand
 - ☛ Poor people are seen as “beneficiaries”, not clients
 - ☛ Dispensing favors rather than facilitating access to services by the poor
 - ☛ Accountability is upwards rather than downwards
 - ☛ Entrenched vested interests
 - ☛ Lack of competition, i.e., doubtful efficiency



Where is the private sector ?

The private sector is on the fence

- Crowded out by public sector, policy restrictions, red tape
 - Not interested in poor, uneducated, dispersed producers
 - Poor infrastructure and rural investment climate
 - Lack of scale and quality (norms and standards)
 - High transaction costs, risky business and low returns
 -or it came, but no competition and too easy to collude (farmers with no bargaining power)
- ⇒ Private sector generated limited community innovation





Putting people first

How to make the public sector and the private sector more efficient and accountable in the absence of competition ?

How to encourage community-based innovation ?

Need to recognize:

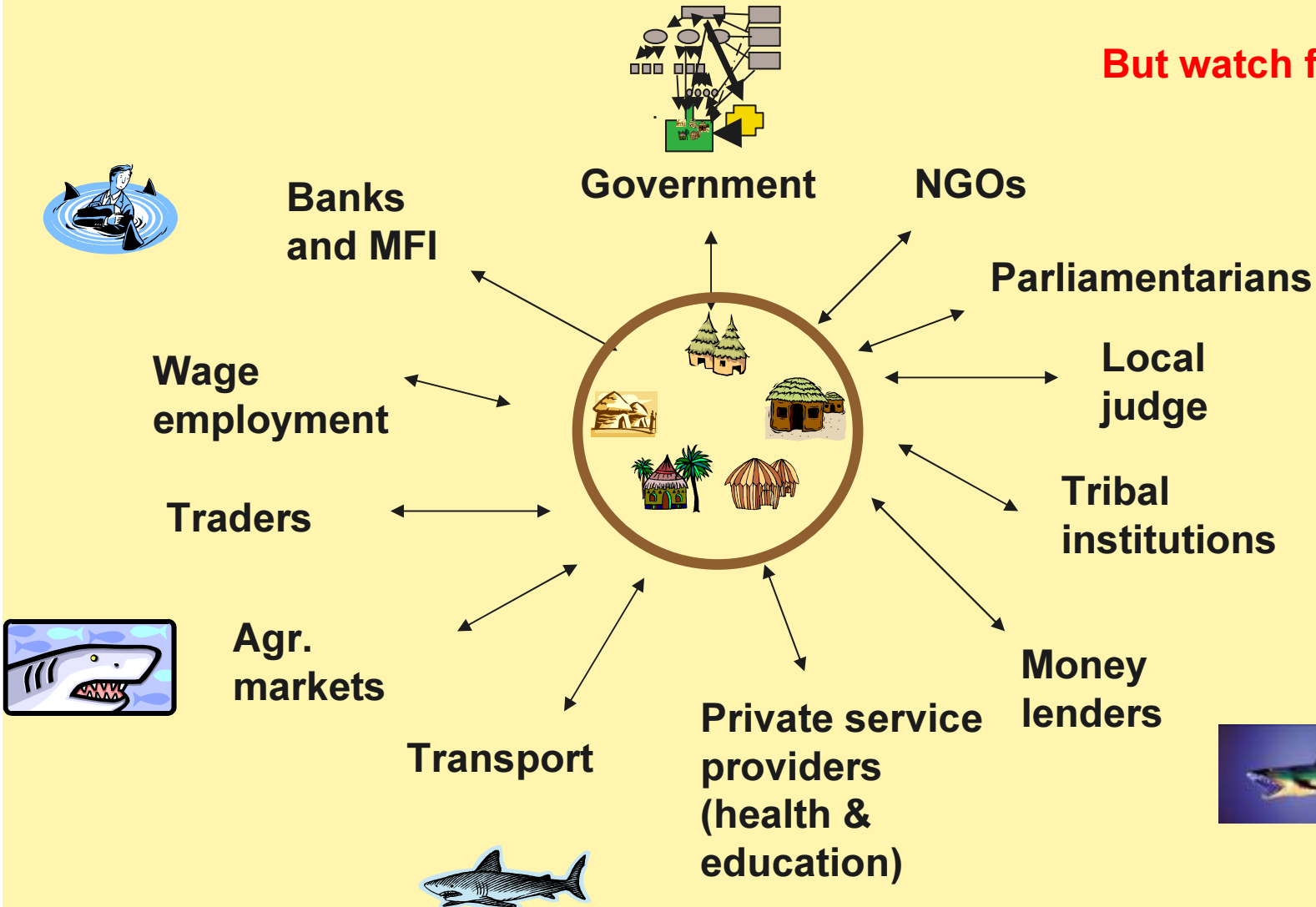
- Government is not all there is in the life of a poor community
- Government and markets can fail
- Build on communities own capacity too get out of poverty
- Start from the demand side. But difficult if communities remain disorganized
- Innovation: necessity is the mother of ingenuity, but barriers to opportunities need to be removed
- Organize and reach scale as a way to reduce transaction costs
- Develop social accountability tools and demand for good governance at the community level





The need for a new organigram

But watch for sharks !



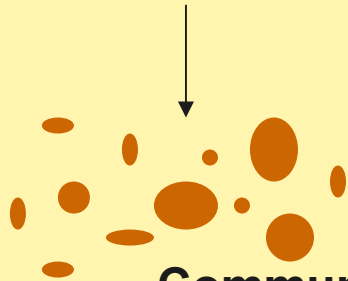


Where are we coming from: a dysfunctional model

**Dominant, Inefficient
Public Sector**



Public Sector



Communities

**Sharks and
intermediaries
of all sorts**



**Private
Sector**

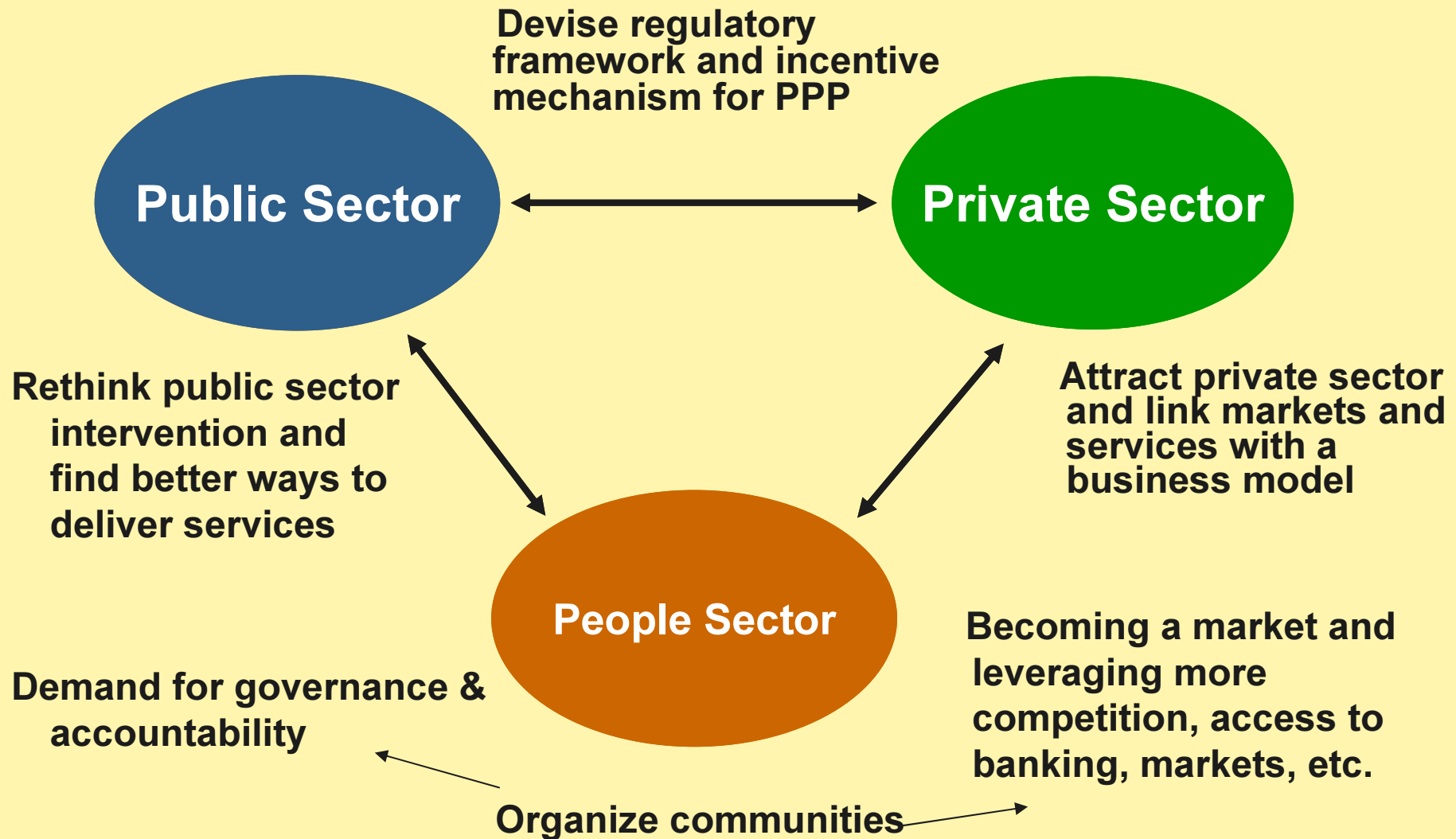
**Disinterested Private
Sector**

High transaction costs

**Disorganized smallholders
and groups**



We need a new model: PPP with a “P” for people





THE PEOPLE SECTOR

Hypothesis: The supply side (both public and private) cannot be made more efficient in helping the poor unless it's in the context of an organized demand side

Principle: Help communities help themselves

- Government failures
- Market failures



Rationale: Poor people have a huge untapped potential

- For public sector - Largest voting bank
- For private sector - Largest potential market for products and services



THE PEOPLE SECTOR

Strategy:

- Gaining **Voice**
- Reaching **Scale**

How:

1. **The software:** Organize institutions **OF** the poor (vs. institutions **FOR** the poor)

2. **The hardware:** Put productive assets in the hands of poor people and provide opportunities for income generation

⇒ Needs both - voice is of little use if nobody listens





The software

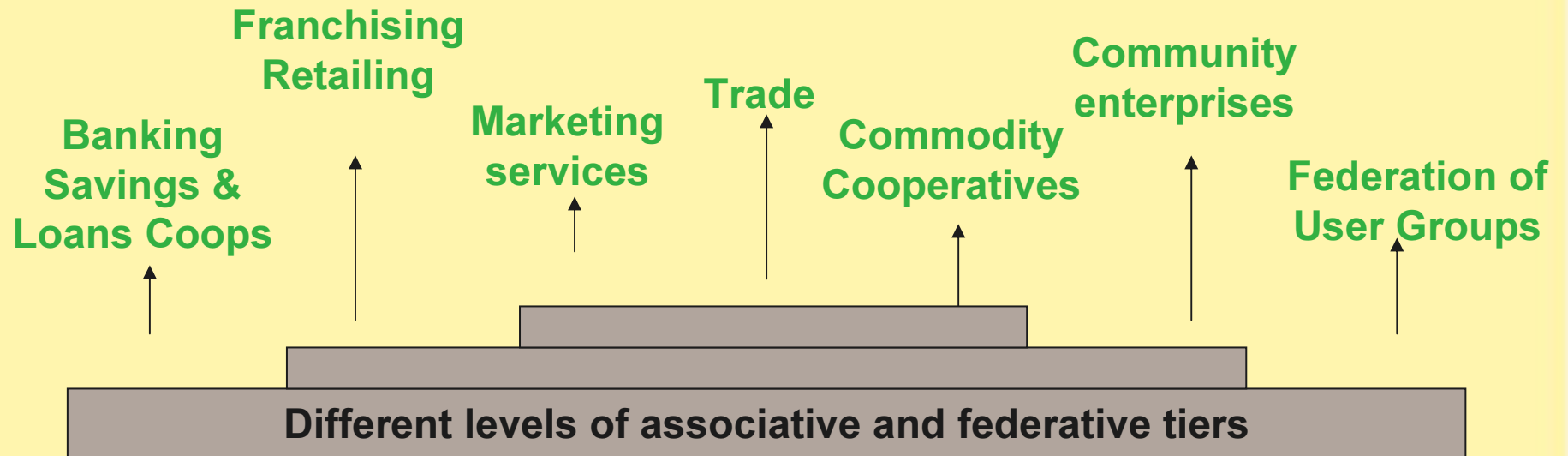
Social Mobilization and Institution Building

- **Groups organized around a strong common purpose (savings & loans, joint economic activities)**
- **The nature and the quality of the initial grouping determines the graduation model**
- **Strong inclusion and (self) targeting methodology – Mutual trust against risks of elite capture**
- **Scale creates a market and leverages access to banking, microfinance, agr. markets, insurance, service providers (crowding-in).**
- **Social agendas (disabled, HIV/AIDS, domestic violence, alcoholism, caste)**
- **Foundation for local governance and accountability.**





The graduation model



Affinity-based
Savings and Loans



Activity-based
Assets/marketing



Resource-based
**Irrigation,
Watershed, forestry**



The hardware

Creation of productive assets

- ☞ Use grants or micro-credit to put productive assets in the hands of poor people
 - ☞ Use income generating activities and group inter-lending as a way to demonstrate creditworthiness of poor groups
 - ☞ Own savings plus income from assets will leverage and crowd-in financial service providers
 - ☞ Give communities access and management authority over natural resources (land, forest, fisheries, water)
- ⇒ People sector gives a meaning to pro-poor growth i.e. A growth generated by poor people





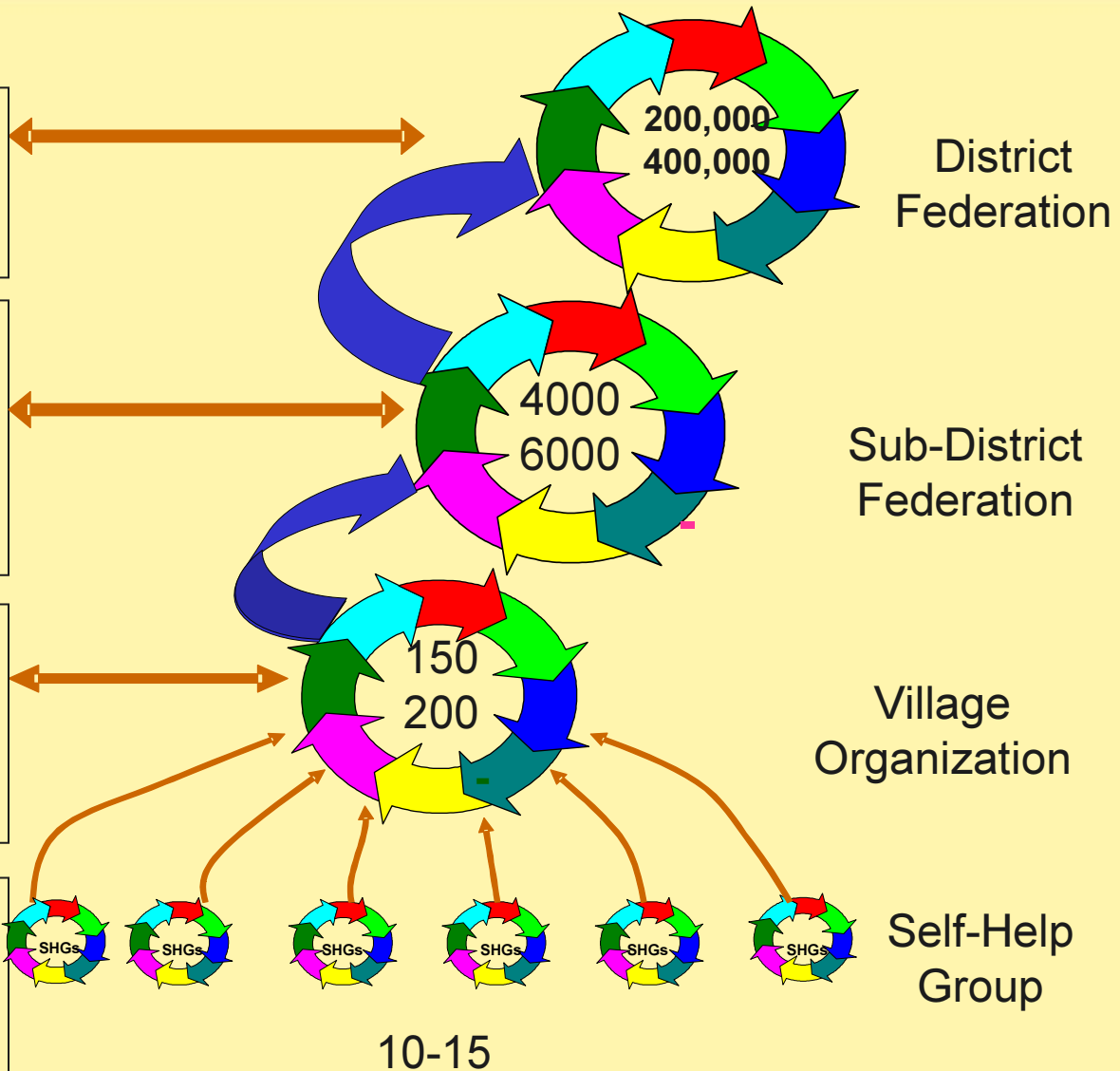
Andhra Pradesh: self-help groups federation model

- 2 from each sub-district Federation
- Interface with markets
- Franchising and Insurance
- Maintain MIS/IT systems

- 2 from each Village Organization
- Supports VO / audits VOs
- Links w. Governments
- Link w. financial institutions
- Links w. markets and private companies

- 2 from each Self-Help Group
- Support SHG
- Manage credit lines/grants to SHG
- Social action/village development
- Marketing/identifies jobs for youth

- **Savings and loans**
- Monitoring group performance
- Micro-credit planning
- Household investment plans





The power of voice and scale

Self-Help Groups formed in all villages of AP

> 9 million rural women organized in:


- 809,800 SHGs
- 34,850 VOs
- 1,098 Sub-Districts Organizations
- 22 District Federations



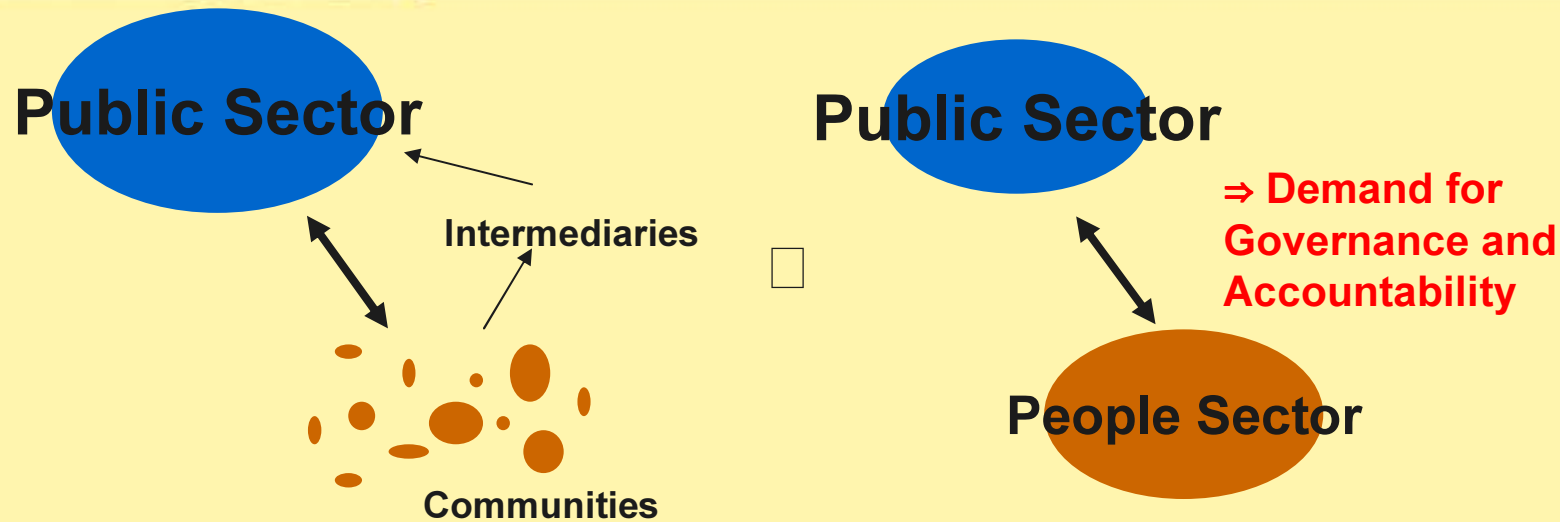
- Reaching >90% of rural poor (some 45M people)
- Own funds (savings + interest earned on inter-lending) : \$ 790 M
- Cumulative credit from formal institutions since 2000 has exceeded \$ 2.7 B in 2007
- Repayment rates in excess of 95%
- FROM: not daring to enter a bank branch
TO: having become one of the best clients.
It also revived the rural banking business



It took 8 years to get here



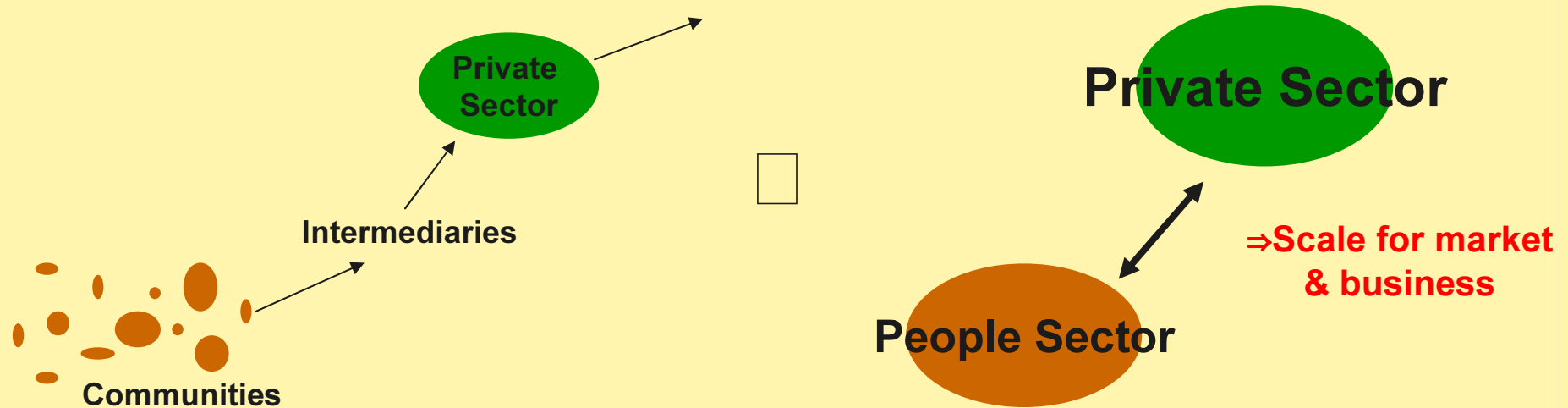
The power of voice and scale vis-à-vis the public sector



- Foundation of local governance and social accountability
- Increased participation and inclusion in Village Council meetings
- New tools and mechanisms: self-identification of the poor (village wealth ranking), score cards to evaluate Gov. programs, social audits, expenditure tracking
- Co-management of Gov. programs: mid-day meals, scholarships for girl students, safety nets and pensions, better targeting
- Representation: SHG members getting elected in local governments
- Accountability shifts downwards rather than upwards



The power of voice and scale vis-à-vis the private sector



- Business at the bottom of the pyramid (BOP): organizing the tail-end of the value chains.
- Transforming a large pool of poor people into vast untapped markets with much reduced transaction costs
- Enhances private companies' ability to access BOP markets (both as consumers and producers) through dealerships and partnership
- Federations operate the retail end of the value chain, particularly backward integration through village procurement and service centers including commission agents



Voice and Scale for Innovation

Procurement Centers (PC) and Trade

- Reduce transaction costs between dispersed farmers and the market (1 PC for 5/6 villages)
- Ensure better terms of trade through farmers networks and product aggregation
- Collective buying of products and managing PC as trade platforms
- Used as franchises for agri-businesses
- Coverage: 300K families; 3,493 PCs; 84 Commodities; \$70 M turnover in 2008
- Developing a network of low-cost service providers and paraprofessionals: Barefoot Botanists, Book keepers, Quality Controllers,... i.e. jobs
- Public and private agencies use PC to outsource or retail services
- Further integration of PCs through an IT structure will facilitate access to a much greater market (domestic and international)



Partners include:

- Markfed (Largest State Agriculture Cooperative)
- National Dairy Development Board
- ITC Ltd (Agribusiness Multinational) for Turmeric, Chillies & Neem
- Olam International (Largest Exporter of Cashews)
- Agrotech Foods Ltd. (Multinational- refined oil)
- Ayurveda Companies for medicinal plants





Voice and Scale for Innovation

Youth Employment

SHG federations offer:

- Large pool of easily identifiable unemployed youth
- Substantial economy of scale for training and recruitment through one entry point
- Credibility that provides moral guarantee
- Low transaction costs for employers (SHG federations as temp agencies and job placement centers)
- Academies being established in each district for customised training (English, computer skills, soft skills)
- Substantial amounts of remittances going back to villages
- 150,000 jobs provided thus far
- Greatest demand from: security sector, retail, services (health centers, repair shops, restaurants), basic IT/computer skills (data entry), construction.

Main partners/employers:

McDonalds, Dell, Microsoft, Pizza Hut, Bajaj, Tata, Wipro, HDFC Bank, Reliance)





Voice and Scale for Innovation

Smart Cards for Banking and SS benefits

- Issues: financial exclusion of the poor, high transaction costs for the banks, lack of product differentiation, inefficient social security schemes (transparency, targeting, disbursement delays)
- Each VO forms a Customer Service Provider group to identify the beneficiaries of Gov. SS programs, calculate the benefits (pension, wages), prepare payment lists, fill the forms, etc..
- Commercial banks (under MOU with the Government) train the CSO and provide the financial infrastructure (mobile phone, smart cards, card reader, printer).
- Beneficiaries receive payments from banks through their branchless CSO and make contributions
- Pilot: 6 districts, 2,272 VOs, 780,000 people enrolled
- Opportunities: shift the whole SHG banking to smart cards and branchless banking





Voice and Scale for Innovation

Community Managed Life/Disability Insurance Scheme

- VO: collects premiums from SHG members, fills forms, reports claims
- Sd fed.: verifies claims and documentation, recommends payment, trains VO
- District fed.: Maintains the MIS, issues certificates of insurance, makes payments, link up with Insurance Comp. for re-insurance, web-based claim transaction, training.

Leveraging economy of scale & group insurance.

- Claim processing time reduced from 4 weeks to 1 week. Fed. provides immediate relief within 24 hrs. Low administration cost \$0.22/policy.
- >8 million SHG members insured (market of 30 M).
- Premium collected \$17.5M. 85% transferred to insurance companies who hold 100% of the liability. 15% for processing cost and reserves
- Large growth of the re-insurance sector.
- Opportunity to access large SHG market through franchising and retailing insurance policies at least cost.
- Organization and scale for last mile retailing
- Livestock insurance scheme is currently being piloted



Voice and Scale for Innovation

Reaching out through ICT

- Sri Lanka “IT Shed”: Communities’ web portal
 - Winner of 2008 Manthan Award on ICT & Digital Content for Development (E-Enterprise and Livelihood)
 - Communities post aggregate info on available products (quantity, norms, specifications), & pool of job seekers.
 - Private sector establishes business linkages directly with federations
 - By March 2009, 1000 villages linked to IT Shed
- Training village youth on computer skills and basic ICT (Cisco IT Essentials)
- ICT provides quantum leap away from collusion of intermediaries to increased market access and competition for large-volume low-cost products and jobs
- ICT reduces digital divide and helps villages become a market rather than ICT just as a source of information

