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# PREVENTION AND ELIMINATION OF BONDED LABOUR

## The potential and limits of microfinance-led approaches

Smita Premchander, V. Prameela and M. Chidambaranathan

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# Foreword

Millions of South Asian women, men and children are bonded to their employers, working for little or no wages because their earnings are retained in part or full to repay an outstanding loan. Many still work in agriculture, although bonded labourers are increasingly found in other sectors, including mining, brick making, textiles and domestic service. The victims of bonded labour tend to be drawn from the poorest and least educated segments of the population, from low castes and religious minorities – those who are vulnerable, excluded and voiceless.

Bondage often begins when a worker takes a loan or salary advance from his or her employer to pay for a large expense, perhaps a religious ceremony, a wedding or a medical bill. Or the advance may come from a labour contractor who finds employment for migrant workers in distant areas. Then the debtor, and frequently other family members, is obliged to work for the employer or contractor for reduced wages until the debt is repaid. Additional loans are taken out to meet essential needs and the debt mounts, creating a perpetual cycle of over-indebtedness and exploitation. Ever larger debts strengthen the employer's control to the point where basic freedoms are denied to the whole household; the debt can even be passed down to the next generation.

In 1998, the International Labour Organization (ILO) adopted the Declaration on Fundamental Principles and Rights at Work, which commits all member States to respect, promote and realize the elimination of all forms of forced labour, as well as other basic rights at work. Bonded labour is one manifestation of forced labour. As part of its response, the ILO provides technical assistance to countries to help them prevent forced labour, protect its victims and prosecute perpetrators; with donor support, it has undertaken several projects in South Asia that used integrated microfinance-led interventions to tackle bonded labour. This paper describes and analyses these efforts and draws out the lessons learned.

Since bonded labour results primarily from the inter-linkage of credit and labour markets, access for the ultra-poor to appropriate financial services is an important starting point, but it alone is certainly not a sufficient response. Experience shows that savings and credit groups used to deliver microfinance can be a useful platform for providing other essential economic and social services to poor households, strengthening their capacity to generate a livelihood and reducing dependence on their employer.

It is perhaps counter-intuitive to think that financial services can help poor and bonded workers who are already highly indebted, especially if loans are considered to be the main type of service available. However, the organizations that participated in these projects took a broader view, emphasizing individual, household or group savings in the first place, but also insurance, leasing and financial education, in addition to small loans for income generating activities. They had to experiment with product sequencing and design. They concluded that the provision of loans to households already in bondage – potentially enabling them to repay their employer debt - could act as a perverse incentive for employers to bond workers and should therefore be avoided; loans were most effective when provided as a component of prevention and rehabilitation efforts.

For high-risk clients with irregular and unpredictable income flows, it is vital to ensure that loans do not inadvertantly make them worse off, yet still find a way to balance repayment discipline with a recognition of clients' extreme vulnerability. How do organizations strike the right balance? A menu of financial and non-financial services needs to be developed to cater to the specific characteristics of families vulnerable to, in or released from bondage, with an initial focus on meeting their basic needs.

This paper, authored by S. Premchander V. Prameela and M. Chidambaranathan of the Indian NGO SAMPARK, documents the learning processes of the NGOs and microfinance organizations that experimented with different approaches to microfinance and bonded labour. It highlights the importance of adopting a holistic and integrated approach, including social, economic, political and judicial interventions at individual, household, community and higher levels. In making the paper available to a wider audience, we hope to stimulate broader debate and experimentation on how microfinance can most effectively contribute to ending bonded labour.

Caroline O'Reilly
Fundamental Principles and Rights at Work Branch
GOVERNANCE Department

Craig Churchill
Social Finance Programme
ENTERPRISES Department

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As the evaluation team of the India chapter of PEBLISA project, Sampark professionals had learnt several lessons relating to bonded labour projects, and also had the benefit of sharing these with staff of other PEBLISA chapters from Bangladesh, Nepal and Pakistan. The Sampark team then prepared two documents for ILO Country Office India, two documents which took on board experiences from all the countries in which PEBLISA was implemented:

- a guide to evaluation and impact assessment of bonded labour projects as training material for a broader audience; and
- a paper that consolidates the lessons related to bonded labour projects, from all the countries where the project was implemented.

The lead author of this report was invited by ILO, Nepal and Geneva to prepare a Project for the Elimination of Bonded Labour in Nepal (PEBLIN), which was intended to be a one-UN initiative under the Resident Coordination of the UN in Nepal.

Having conducted extensive research and discussions in these countries, the authors are privileged to have been invited to write this paper for ILO. The initial idea of reflecting on experiences relating to provision of microfinance to bonded labourers was that of Ms. Caroline O'Reilly, then the senior specialist on forced labour, and Mr. Craig Churchill. The discussions held with Mr. Julian Parr, the former Chief Technical Advisor of the PEBLISA project, Mr. Coen Kompier, international labour standards specialist in SRO New Delhi, Mr. Shengjie Li, then Director of ILO-Nepal, Mr. Uddhav Poudyal and Mr. Prakash Sharma, staff of PEBLISA's Nepal chapter, were very useful in shaping our views.

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We hope that this document provides a good analysis of the issues that emerge, concerning provision of microfinance to those in bondage, released from, or vulnerable to bondage, especially those emerging from ILO's PEBLISA project in South Asia. As these categories of people constitute largely the extreme poor, lessons from such programmes in Bangladesh, Nepal and India are drawn to enrich the analysis.

While expressing our gratitude to all those who helped us prepare this paper for a wide range of stakeholders, we the authors are responsible for the opinions expressed in the document.

Smita Premchander, V. Prameela , M. Chidambaranathan,
Bangalore, April 2014.

# Executive summary

In South Asia, bonded labour is found mostly among lower castes, indigenous peoples, minorities and migrant workers – groups that also suffer from discrimination and social exclusion. Traditionally, bonded labour was most prevalent in agricultural production systems based on sharecropping and casual wage labour but it is increasingly found in other economic activities such as: mining, brick making, stone cutting and carpet weaving; in rice mills, match factories and quarries: and in the commercial sexual exploitation of both adults and children. People in bondage are usually highly indebted to their employer. The debt results in pledging future labour for a few months, a year or longer periods; or may pass from one generation to the next.

As indebtedness is a characteristic common to all those who are bonded, the provision of microfinance services is potentially important for both the prevention of bondage and the rehabilitation of people released from bondage. This paper sets out to answer some key questions related to the role of microfinance in in this context. The first set of questions relate to targeting of microfinance to different subgroups in the population: those in bondage, those released from bondage, and those vulnerable to bondage. The questions concern microfinance products and services, and whether they need to be designed specifically for the bonded labour target groups, or whether commercial microfinance products would serve the purpose equally well. Finally, institutional arrangements are discussed, to consider whether the institutional forms that best serve the needs of the bonded labour target groups are the same as, or significantly different from, mainstream microfinance delivery organizations.

The paper considers the experience of using microfinance in various ILO bonded labour projects, especially its "Programme for the Prevention and Elimination of Bonded Labour in South Asia" (PEBLISA) which was implemented from 2006-2008 in India, Nepal and Pakistan. It also draws on the experiences of the ILO, as well as of other organizations such as PLAN international's "Freed Kamaiya Livelihoods Development Project" (FKLDP). The lessons for those vulnerable to bondage come primarily from two projects in Bangladesh: "Challenging Frontiers of Poverty Reduction" (CFPR) and "Chars Livelihoods Programme" (CLP), with additional experience from Bihar on government-initiated projects. The paper draws lessons that should help devise strategies to provide effective financial services in projects targeting the elimination of bonded labour.

A key question is whether targeting is ethical, feasible, effective and cost-efficient. Those who argue against targeting advocate macro strategies for poverty reduction. By contrast, targeting is often advocated for "equity", to ameliorate the condition of those who suffer extreme human rights violations. It is also argued that microfinance institutions often target the poor, especially low income women, because the poor are more disciplined in repayment.

Experience from ILO projects shows it is possible to target those in bondage through sectoral studies and community-based methods. A two-step targeting methodology is considered to be most effective, with geographical targeting preceding household selection. Community-based methods of household selection are favoured, including participatory wealth ranking, with one or two household surveys and validations.

People/households released from bondage may be identified using official systems and sources. The most difficult group to target is households/individuals vulnerable to bondage. They represent a subset of the "extreme poor". While several criteria are available for targeting the extreme poor, attempting to identify those among them who are (most) vulnerable to bondage is not considered worthwhile. As sustainable microfinance

requires scale to be cost-effective it is better to target the larger category of the extreme poor – which includes those vulnerable to bondage.

The ILO projects offered a range of microfinance products and services including savings, loans, microinsurance and land leasing. Other projects also offered grants, food, land and asset transfers, and stipends. The critical role of household savings cannot be overstated. Although the target clients often found difficulty in making compulsory uniform savings, voluntary and flexible savings attracted women (in particular) because it made the saving of smaller amounts easier. It also involved the whole household in saving, and gave women maximum control over the money saved. Although products and services should be tailored to the needs of the target group (and should be different to those offered to non-poor clients) it is not practical to further differentiate product lines according to individual client needs. This would risk creating rifts at community level, provide incentives for misinformation and be administratively complex.

Low-income households are highly vulnerable to shocks like the death of a family member, illness, loss of valuable assets or a disabling injury. Shocks can plunge households further into debt. PEBLISA tested different insurance products to cover such contingencies. Both research and experience show that the extreme poor struggle with the concept of insurance, and need support when making claims. There is also a gap between those risks that the extreme poor would need to "cover" with insurance, and the products available from commercial providers. This suggests a role for the state in providing health and crop insurance.

The products offered by commercial microfinance institutions are primarily for income generating activities. Few extend loans for other important needs that require large cash outlays such as health, education and social expenditures like marriage. Accessing high cost microfinance loans for those other important needs can lead families into long term bondage.

The paper goes on to consider if microfinance is an appropriate strategy for only the prevention and rehabilitation of bonded labour, or whether it can also be a valid tool for securing the release of bonded labourers. The latter essentially involves a debt swap. A high cost debt, which involves labour exploitation and high implicit or explicit interest rates, is substituted by a lower cost debt in which interest rates are low and repayment is more flexible. The employer would be repaid, but the worker remains in debt. It does nothing to correct the imbalance of power between worker and employer, and reinforces the primacy of financial capital. It also overlooks the illegality of the bonded labour relationship. The use of microfinance for securing the release of bonded labour is therefore not considered to be a tenable strategy.

The institutional arrangements for delivering microfinance are key to effective outreach and achieving impact. The study identified three approaches, in PEBLISA, for delivering financial and related support services: village banking (VB) and self-reliant groups (SRG) in Nepal, and self-help groups (SHG) in India. When compared to the Grameen model (the most widely known in the field of microfinance) all provided greater ownership, flexibility, profit and responsibility for the women beneficiaries.

When an intermediary organization facilitates access to microfinance that is provided by an external organization, it can concentrate on creating and building the capacity of member-based organizations at community level. But when the microfinance organization (MFO) itself is the intermediary it often takes on control and supervisory roles, and can compete with the member-based organizations for access to financial profit generated by the lending programme. Many donor agencies prioritize externally managed microfinance organizations rather than those managed by beneficiaries themselves. However, women need to develop their financial literacy and management skills both to help them manage

their household finances as well as to negotiate effectively with financial and other institutions.

Bonded labourers and those vulnerable to bondage cannot benefit from loan-based schemes alone. Given their depleted resource base they need cash, asset transfers, food subsidies and/or stipends before they can start to venture into commercial microfinancing programmes. Vulnerable families also need non-financial support: services like adult literacy training, subsidized health care and child care; support for sending their children to schools; and awareness-raising on social issues and rights. In the programmes considered here, beneficiaries were offered a range of support services: literacy classes; non-formal education for children; and business and vocational skills training for adults (with financial services). Skills training and enterprise support helped target groups initiate small businesses and improve their income earning capacity.

Concerted efforts to prevent bonded labour should concentrate on migrant labour in source districts. Here, microfinance and microenterprise services would help to alleviate the conditions that contribute to bondage by improving livelihoods in less developed areas and among extremely poor households. However, microfinance is only one strategy for livelihood enhancement. It must be linked with many other financial and non-financial strategies that help the extreme poor to attain sustainable livelihoods.

## List of acronyms

| | |
|---|---|
| AP | Andhra Pradesh |
| BLSAA | Bonded Labour System (Abolition) Act |
| BPL | Below Poverty Line |
| BRAC | Bangladesh Rural Advancement Committee |
| CARE | Cooperative for Assistance and Relief Everywhere |
| CASHE | Credit and Savings for Household Enterprises |
| CBO | Community Based Organization |
| CFPR | Challenging Frontiers of Poverty Reduction |
| CIDA | Canadian International Development Assistance |
| CLP | Chars Livelihoods Programme |
| DFID | Department for International Development |
| DICGC | Deposit Insurance and Credit Guarantee Corporation |
| FARR | Friends' Association for Rural Reconstruction |
| FINCA | Foundation for International Community Assistance |
| FKLDP | Freed Kamaiya Livelihoods Development Project |
| FRBL | Families Released from Bonded Labour |
| GB | Grameen Bank |
| GBFS | Grameen Bank Financial System |
| GVB | Grameen Vikas Bank |
| HDI | Human Development Index |
| HRCP | Human Rights Commission of Pakistan |
| IFP | French Institute of Pondicherry |
| IGVGD | Income Generation for Vulnerable Groups Development |
| ILO | International Labour Organization |
| Rs | Indian Rupees |
| IPEC | International Programme on the Elimination of Child Labour |
| IRCDS | Integrated Rural Community Development Society |
| JBY | The Jana Shree Beema Yojana |
| LIC | Life Insurance Corporation |
| MACS | Mutually Aided Cooperative Societies |
| MFO | Micro Finance Organization |
| MSSS | Madras Social Services Society |
| MUM | Mahila Upakar Manch |
| MYRADA | Mysore Resettlement and Development Agency |
| NC | National Committee |
| NGO | Non-Governmental Organization |

| | |
|---|---|
| NHRC | National Human Rights Commission |
| NPR | Nepali Rupees |
| NRSP | National Rural Support Programme |
| NUBL | Nirdhan Utthan Bank Limited |
| PKR | Pakistani Rupees |
| PAR | Portfolio at Risk |
| PEBLISA | Prevention and Elimination of Bonded Labour in South Asia |
| PRA | Participatory Rural Appraisal |
| RBI | Reserve Bank of India |
| RMDC | Rural Microfinance Development Centre |
| SAP-FL | Special Action Programme to Combat Forced Labour (ILO) |
| SC/ST | Scheduled Caste/ Scheduled Tribe |
| SCG | Savings And Credit Group |
| SEBL | Sustainable Elimination of Bonded Labour |
| SGSY | Swarnajayanthi Grameen Swarozgar Yojana |
| SHG | Self-Help Group |
| SIDBI | Small Industries Development Bank of India |
| SRG | self-reliant group |
| TISS | Tata institute of Social Sciences |
| TN | Tamil Nadu |
| VB | Village Banking |
| VC | Vigilance Committees |
| VDC | Village Development Committee |
| VSLG | Village Savings And Loan Group |
| WFP | World Food Programme |

# 1. Introduction

The promotion of fundamental principles and rights at work encounters a serious challenge in South Asia where bonded labour affects many of the poorest and most vulnerable workers. Across the sub-region millions of men, women and child workers are bonded to their employers, working for low or no wages because they are struggling to repay an outstanding debt.

The data for this study covers the ten years 2002–11. In this period the ILO estimates there were over 20.9 million victims of forced bonded labour globally (ILO, 2012); meaning that around three out of every 1,000 persons worldwide, at any given time, were trapped in jobs into which they were coerced or deceived and could not leave – encompassing aspects of human trafficking, sexual exploitation and what has been called “modern-day slavery”.

Women and girls are the greater proportion of the total – 11.4 million (55 per cent) women and girls compared to 9.5 million (45 per cent) men and boys. Adults are more affected than children. Seventy four per cent (15.4 million) of victims fall in the age group of 18-years and above. Children aged 17 years and below represent 26 per cent of the total (or 5.5 million child victims). Of the total number of 20.9 million in bonded labour, 18.7 million (90 per cent) are exploited in the private economy by individuals or enterprises. Of these, 14.2 million (68 per cent) are victims of bonded labour exploitation in economic activities such as agriculture, construction, domestic work or manufacturing.

The Asia-Pacific region accounts for the largest number of forced labourers – 11.7 million or 56 per cent of the global total, with a high (though unknown) proportion trapped in bonded labour (ILO, 2012).

In the most typical manifestation of bonded labour in Asia, a worker – usually an adult man – takes a loan or salary advance from an employer, labour contractor or landlord. The debtor is then obliged to work for the lender until the loan is repaid. The terms of the unwritten and interlinked labour-credit contract are heavily biased in favour of the creditor/employer. The worker usually continues to borrow additional sums to meet family needs, meaning the outstanding debt grows further, and this can lead to the worker and his/her family members being denied even basic freedom. In the worst cases bonded labourers are kept captive through violence or threats of violence. Family members of the debtor (women and children) may also be forced to work to repay the debt; often the labour of children is pledged to repay the loans taken by parents. Wage calculations for such workers are frequently at rates well below the prevailing market wage. Furthermore, women in South Asia are often excluded from financial decision-making and are thus doubly disadvantaged, being unable to influence the negotiation of loans yet having to bear the consequences through the resulting bondage.

Bonded labour perpetuates poverty. As adults are fully employed for long hours, children are engaged in animal grazing and domestic chores so are denied education and skill development. This results in low human capital at household level, perpetualing inter-generational poverty. By undermining labour productivity and human capital development, labour bondage hampers economic growth. Experience also shows that families in bonded labour are often unable to access mainstream poverty reduction programmes and formal systems of social protection.

Indebtedness and lack of physical and human assets lie at the root of labour bondage. Although there are laws against bonded labour in Nepal, Pakistan and India they are not well implemented. A high prevalence of bondage persists in many sectors. Even when labour is released from bondage in large numbers, their rehabilitation is far from complete.

Rehabilitation processes in these three countries suffer from: a paucity of provisions: lack of knowledge or apathy among implementing officials; lack of awareness; and lack of voice (among the labourers). While there is much to be done in implementing laws and getting official rehabilitation benefits to those entitled, there is a distinct role for microfinance in supporting release or rehabilitation. Further, as bondage affects the poorest of the poor, those who are vulnerable to bondage can also be reached by microfinance to stabilize their livelihoods. Hence financial services for the poor form an important element of an integrated strategy that seeks to eliminate and prevent such bondage.

This paper examines experience from several ILO projects that targeted those affected by bonded labour. These include three broad categories of people: those in bondage, those released from bondage who require rehabilitation support, and those vulnerable to bondage. The projects include PEBLISA (implemented in India, Nepal and Pakistan), Sustainable Elimination of Bonded Labour (SEBL) in Nepal and various initiatives under the International Programme on the Elimination of Child Labour (IPEC), particularly the Convergence Against Child Labour project in India that included support to bonded labourer families or microfinance activities for the ultra-poor. Experience outside the ILO is taken from the Freed Kamaiya Livelihoods Development Project (FKLDP) of PLAN International in Nepal (implemented from 2008 to 2012). FKLDP formed microfinance partnerships with the same partners, and based on the same principles, as ILO's PEBLISA project in Nepal. The lessons for those vulnerable to bondage come primarily from two projects in Bangladesh: Challenging Frontiers of Poverty Reduction (CFPR) and the Chars Livelihoods Programme (CLP): plus experience in Bihar from government-initiated projects. The paper elaborates on issues related to the design of financial products, and organizational forms for offering various financial services. It draws lessons in order to make recommendations to organizations that wish to use microfinance to address the problem of bonded labour or, more generally, to serve the needs of the most vulnerable population groups.

*Bonded labour arises not only from household poverty but also from social structures like caste stratification and its political and economic ramifications. To eliminate the problem we must address these larger issues.*

## 1.1. Causes and nature of bondage

Bonded labour arises through a confluence of complex inter-linked factors. Immediate "triggers" such as health emergencies, religious ceremonies, dowries, food shortages or the sudden loss of a job or an income earner, may oblige an impoverished worker to seek a loan or advance from an employer or labour agent. But factors such as: discrimination and social exclusion based on religion, ethnicity or caste; worker illiteracy and lack of access to information; employer monopolies on local financial and labour markets; and the dominance of social elites all play a role in transforming an economic transaction between a lender and a borrower into a mechanism of social control and subordination.

The emergence of new forms of bondage is closely related to the increasing precariousness and informality of labour markets, and to massive seasonal labour migration. In India informal workers constituted around 92 per cent of the total workforce in 2004–05 (NCEUS, 2007). There was also a high congruence between this segment of the workforce, and 77 per cent of the population with a per capita daily consumption of

below Rs 20[1] (US $0.50) termed "poor and vulnerable". The number of persons belonging to this group increased from 811 million in 1999–2000 to 836 million in 2004–05. While numbers in other South Asian countries are not well researched, the prevalence of informal workers, and their high levels of poverty, creates a high vulnerability to bonded labour. In a context of chronic underemployment and irregular employment in both the agricultural and non-farm sectors, the bargaining power of unorganized workers is effectively zero, and they have little choice but to accept such forms of exploitation.

Factors influencing the existence and severity of bondage are given in Figure 1.

Figure 1. Factors influencing incidence and severity of bondage

| Factors that increase vulnerability | Factors that decrease vulnerability |
|---|---|
| ■ Villages are remote | ■ Villages are close to markets |
| ■ Surplus labour is available | ■ There is a shortage of labour |
| ■ Economy has low degree of monetization – the labour market is less developed | ■ Households have higher incomes and more resources |
| ■ Households have few resources and low income levels | ■ The economy is monetized, with more opportunities for wage labour |
| ■ Members of households have low skills and are illiterate | ■ Members of households are literate and have marketable skills, so they can negotiate better wages and working conditions |
| ■ Household members have migrated due to lack of jobs, leading in higher vulnerability of both the migrant workers and those left in rural areas | ■ Workers are organized and have a collective voice |
| ■ Workers are unorganized and have no bargaining position or power | |

The imposition of bondage is a deliberate strategy on the part of employers to ensure a cheap and docile labour force. "Vulnerability", defined as the limited ability of individuals and households to deal with risk, tends to push people into bondage. While it is bad for all workers, it is women and children that suffer most. Given their vulnerability, those in bondage perceived advantages in committing their labour, as it seems to have some risk reduction for them, such as assured work. Ironically, therefore, those in debt-bondage perceive both advantages and disadvantages of debt-bondage. The employers, on their part, claim that loans are demanded from them, as a necessary market condition. The perceived advantages and disadvantges of both employers' and workers' perspectives are depicted in Figure 2.

[1] Exchange rate taken as Indian rupees 40 per US dollar, the prevailing rate in 2012.

**Figure 2. Perceived Advantages and disadvantages of debt-bondage**

| | Perceived Advantages | Disadvantages |
|---|---|---|
| **Worker perceptions** | ■ Workers have access to loans<br>■ Workers pay lower interest rates on loans, than borrowed from money lenders<br>■ Workers are assured work, even in lean seasons<br>■ Workers will receive shelter and food | ■ Employers pay lower wages than typical market rates<br>■ Employers often pay wages in-kind, not in cash<br>■ Workers' debts can accumulate over time<br>■ Workers cannot leave the job for higher paid work elsewhere<br>■ Worker and family mobility is restricted<br>■ Family members and children may become bonded too |
| **Employer perceptions** | ■ Employers will secure skilled labour year-round in agriculture, rice mills, brick kilns etc.<br>■ Household help is assured by using family members of workers | ■ Competition between employers (to secure labour) drives up the loans advanced<br>■ Employers pay out large sums of money before seasons start<br>■ Workers may abscond without repaying advances |

Some workers with access to this form of loan consider it a safety net: it is sometimes the only way for them to obtain lump sums of money. They prefer to offer their labour as security in the absence of house, land or other physical assets; and it is also a means of staying "connected" with an employer. The link between the labour and credit markets is undoubtedly a source of servitude but in the context of large-scale unemployment the population also perceives an advantage. Nonetheless, workers are conscious they are at a disadvantage in a system which is biased against them – and towards the employer/lender.

*Bonded labour is perceived as both curse and blessing. Workers cannot access loans elsewhere and are assured of work. Employers need a promise of repayment through labour if the debtor cannot pay back cash. The enormous structural inequities usually remain unchallenged, even though well recognized in academic discourse.*

Similarly, employers do not accept that "by extending advances" they create bondage. They believe they can access labour only if they pay advances, especially when they use migrant workers. They claim that advances are necessary to secure labour. It is therefore important to distinguish between situations in which extending loans to workers creates bondage, and when it does not. In both Nepal and India there is a strong tendency to recruit migrant rather than local labour: the former is more vulnerable and easier to retain in bondage.

According to the ILO Forced Labour Convention, 1930 (No. 29) forced labour is all work or service for which the worker has not volunteered him-or herself, and which is performed under the threat of a penalty. The 1956 Supplementary Convention Against Slavery[2] defines debt bondage as the combination of a credit and a labour contract in

[2] The full title is the Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery. Its article 1(a) defines debt bondage as the status or condition arising from a pledge by a debtor of his personal services or of those of a person under his control as security for a debt, if the value of those services as reasonably assessed is not applied

which the value of labour services, as reasonably assessed, is not applied towards the liquidation of the debt (e.g. only interest is repaid by the labour provided, but the principal is never repaid) or if activities are neither defined nor limited (e.g. the labourer is required to work at any time of day or night).

The national laws and definitions of bonded labour in the three countries are presented in Figure 3.[3]

**Figure 3. National definitions of bonded labour**

| National law | Definition |
|---|---|
| Bonded Labour System (Abolition) Act, 1976 (amended 1985), India<br><br>Bonded Labour Act, 1992, India; Bonded Labour System (Abolition) Rules, 1995, Pakistan | Bonded labour in India and Pakistan is defined as a system of forced labour caused by a debt or by social custom or obligation, under which a debtor loses freedom of movement, and/or freedom to look for alternative employment, and /or is subjected to a reduction in wages and/or to product prices less than the minimum or market rates. |
| Bonded Labour Prohibition Act, 2002, Nepal | Bonded labour in Nepal covers the Kamaiya system of agricultural labour bondage that is transferred through generations. This may or may not include debts, but usually involves members of the family losing the freedom to work elsewhere, or get minimum or less than market wages. It also includes other forms of traditional bondage in agriculture, e.g. Haliyas, Haruwas, and Charuwas.[4] |

In India, debt bondage, as per the Bonded Labour System (Abolition) Act (BLSAA) occurs when a loan/advance from an employer results in the worker being in the following situation:

- fully or partly forced to work for the employer until he/she repays the debt incurred; and
- is not paid the minimum wage; or
- forfeits the freedom to change the employment/means of livelihood; or
- forfeits the right to move freely throughout the territory of India; or
- forfeits the right to sell the product of his/her labour at market value.

In Pakistan, bonded labour is defined as the loss of freedom (by a person or his/her family) to change employment, or work for low or no wages for a person who has extended loans or another economic consideration (Bonded Labour System Abolition Act, 1992). In Nepal, the law when enacted covered the Kamaiya type of bonded labour, yet includes a provision to cover all types of bonded labour, with the Haliya and other types of bonded labour currently being the focus of concern.

towards the liquidation of the debt or the length and nature of those services are not respectively limited and defined.

[3] Further details of the national laws and ILO Conventions are included in Annex 1.

[4] These are agricultural labourers, including those ploughing the land (usually adult men), and those taking cattle for grazing (usually children from the age group of 4 to 14 years).

In India, despite the long-standing legal prohibition of bonded labour (Bonded Labour System (Abolition) Act promulgated in 1976 and amended in 1985) the practice is still widespread. So-called “neo-bondage” mechanisms have largely replaced the more traditional forms of long-term attachment of labour in feudal agricultural systems (Breman, 1996). Neo-bondage exhibits some striking differences with the bondage of the past. It tends to be time-bound to a season or fixed period, not indefinite as in the past; the credit-labour contract is exclusively economic, lacking any element of the former paternalistic social protection provided by the landlord; the contract is most often concluded through a labour intermediary; and migrant labourers are particularly affected (Breman 2007a; 2007b; Lerche 2007; NCEUS 2007: 105-107; Srivastava 2005). While wage advances are undoubtedly a means of profit extraction by the employer they can also be seen to put a degree of power into the worker’s hands. He or she can use it as a means of bargaining with competing employers, and the worker can even walk away when a better opportunity arises. A wage advance can provide some degree of income security, albeit at a very low level, in an environment in which contract enforcement is weak, unemployment rife and social protection non-existent (Guerin et al., 2007).

Although most prevalent in traditional agricultural production based on sharecropping and casual wage labour, bonded labour also operates in other economic activities such as mining, brick making, stone cutting, carpet weaving as well as in plantations, rice mills, match factories, quarries and for the purpose of commercial sexual exploitation. The phenomenon of bonded labour is also emerging in the construction sector and in the realm of domestic labour and security services. Mostly, it occurs in the informal, unregulated and unorganized parts of the economy.

Bonded labour has persisted in various sectors in Nepal, Pakistan and India with new forms emerging as the country economies undergo complex transitions resulting from globalisation. Bonded labour is in total breach of international conventions and agreements these governments have signed.

As bondage is usually underpinned by indebtedness to the employer, microfinance interventions have been perceived as offering a possible solution to the problem.

Further, rehabilitation measures provided under the law are inadequate to secure sustainable livelihoods for released bonded labourers. The Bonded Labour Act in India provides for a payment of Rs 1,500 ($ 38) immediately on release from bondage, with an additional Rs 20,000 ($ 500), over time, for asset building and rehabilitation. Similarly, when bonded labourers were released by an Act in Nepal (in 2001) the rehabilitation package consisted of land transfers (five kathas[5]), timber towards building homes and a cash grant of Nepali Rupees (NPR) 10,000 ($ 154)[6]. As rehabilitation measures have not traditionally been successful (with only one-time grants) long term microfinance linkages may support a sustained pathway out of poverty for freed bonded labour households. For those who are vulnerable to bondage and whose livelihoods are precarious, microfinance may offer ways of protecting and promoting livelihoods. These are some of the questions this paper addresses: exploring the relevance and potential impact of microfinance on the prevention and elimination of bonded labour.

[5] Five kathas is equal to c.0.3 hectares.

[6] The exchange rate was 65 Nepali Rupees per dollar.Pak

## 1.2. Methodology

This paper draws upon the experience of several ILO projects addressing bonded labour, in which microfinance was part of the overall strategy. These included PEBLISA in India, Nepal and Pakistan, and some of the projects implemented by ILO's International Programme on the Elimination of Child Labour (IPEC).

Numerous ILO reports and other documentation were studied, supplemented by field visits and interviews with key informants in Nepal, particularly the field staff of the projects' implementing partners. ILO project staff and partners from Tamil Nadu provided additional information. Interviews with selected beneficiary households, especially in Nepal and India, provided updates and client perspectives.

The authors also identified microfinance-related lessons from non-ILO projects that specifically targeted bonded labour, such as the Freed Kamaiya Livelihoods Development Project (FKLDP) project of PLAN Nepal. However, people vulnerable to and in bondage are among the poorest members of the community. They have characteristics in common with vulnerable groups more generally i.e. with little or no land, few assets, poor education and no access to formal credit (Mukhopadhyaya et al., 2008). It is now recognized that commercial microfinance by-passes the poorest and the extreme poor need to be targeted specifically if they are to benefit from such schemes. Experience from one of the first and largest programmes for the extreme poor, Challenging Frontiers of Poverty Reduction (CFPR), implemented by Bangladesh Rural Advancement Committee (BRAC) (and its various replications) have therefore also been considered as a source of lessons for this paper. Other relevant experiences from DFID and CARE projects have also been reviewed, looking particularly at using microfinance with the most vulnerable groups.

The paper is, however, constrained by the depth of information available on impact. It has also been difficult to attribute particular impacts to microfinance – reflecting the complex multidimensional and time-bound projects investigated.

## 1.3. Key assumptions and questions regarding microfinance and bonded labour

The expectation that microfinance is a key intervention for preventing and eliminating bonded labour is predicated on certain assumptions. First, since debt bondage is based on a loan or advance provided by the employer, it is assumed that alternative sources of credit, and/or additional savings mobilisation by the household, will reduce the employer's monopoly on the local financial market. At the same time, credit-supported microenterprises or other livelihood activities can enable poor families to diversify their income sources, and also break the employer's monopoly in the local labour market. Furthermore, for workers in the informal economy (who are largely unorganized) microfinance serves as a convening forum. Savings and credit groups (SCGs), also known as self-help groups (SHGs) in India, provide a vehicle to bring workers together, and provide complementary non-financial services such as awareness raising, skills training and information about human and labour rights (Daru et al., 2005). Based on these assumptions, group-based microfinance was introduced in several ILO projects to prevent and eliminate bonded labour.

This paper addresses some key questions regarding the relevance of microfinance and its application in the context of bonded labour. These are:

- **Targeting**: Can microfinance interventions target those affected by bondage, and is such targeting useful and effective?

- **Product menu and design**: The paper analyses various microfinance products offered by projects working with bonded labourers and extreme poor households, in order to assess their relevance in addressing the productive, protective and consumptive needs of target groups. The differences between these products (developed specifically for families vulnerable to bondage and for those used by the NGOs/MFOs for mainstream clients) are discussed. The performance indicators for extreme poor and mainstream clients are also analysed. A key question is whether bonded labourers should ever "buy themselves" out of bondage, and if so, under what circumstances might this be justified.

- **Institutional arrangements**: The paper analyses different institutional arrangements used at the community level: self-help groups, Grameen-type groups, self-reliant groups and village banks. The institutional form of the implementing partner is also examined i.e. whether it is a facilitating NGO doing capacity building work, or a microfinance providing organization. The advantages and disadvantages of different institutional types and different microfinance methodologies are analysed. The question of whether this vulnerable group should be served exclusively (as opposed to being integrated into mainstream microfinance programmes) is considered.

## 2. Targeting

Targeting involves the provision of services to a subset of a larger population. Those services aimed at helping a specific group of people, especially when resources are limited, seek to isolate their target group to maximize the effectiveness of their interventions. The opposite school of thought considers targeting to be wasteful of resources – that addressing a subset of the most vulnerable households means discriminating against others who may well face the same or similar problems. They advocate for more general programmes for poverty reduction, thus saving the time and cost of targeting.

### 2.1. Why target?

There are a number of questions about targeting: "Is it necessary and should it be undertaken at all?" "Is it fair to distinguish among the poorest categories, and give asymmetrical benefits?" "Would it not be better to invest in the upliftment of all the poor, rather than focussing on supporting particular households affected by bonded labour?"

The arguments for targeting are twofold. The first is a "moral" or "equity" argument based on the assumption that those who are bonded or vulnerable to bondage are worse off than the moderate poor and, in addition, suffer from serious human rights violations. This group therefore needs immediate attention and should not be required to wait for changes in the macro environment to benefit them. The second is a "practical" or "efficiency" argument, based on the understanding that there are millions of people in bondage, and that specifically targeting them helps to better understand their situation and to design more effective policies and programmes which will enable long term elimination of the problem.

A third reason posited for targeting the poorest in microfinance interventions is related to loan repayment performance. The claim is that the poor are easier to discipline, and therefore targeting them is good for achieving a successful microfinance programme in terms of loan repayment and programme sustainability (Mathie, 1998). With this perspective, targeting becomes fully justified.

The opposing school believes that targeting is extremely time and cost intensive, and that money spent on targeting would be better invested in increasing the outreach of programmes to cover a larger number of beneficiaries. As bonded labourers are a subset of

the extremely poor, working with the broader category may be sufficient to reach bonded households. Another argument against targeting is that it can be open to abuse, with those people and households best able to access information acting quickly to appropriate the available benefits by claiming eligibility through their supposed membership in the "target group". This is reported to have occurred in both India and Nepal.

Finally, researchers and development practitioners caution against overemphasis on working with only those households in extreme poverty or vulnerability. Given that these vulnerabilities arise from systemic and structural market, infrastructure and social failures, they cannot be removed by household-based interventions alone, but need transformative processes related to social, political and growth processes as well (Matin, 2006).

In general, large organizations work with disadvantaged groups as part of a specific agenda. ILO's mandate is to promote decent work, and there is therefore a specific rationale for it to target those in bonded labour as part of its global efforts to achieve decent work for all. More generally, organizations with a mandate to work with the extreme poor consider accurate targeting crucial to the success of their programme (Mukhopadhyaya et al., 2008).

## 2.2. Targeting criteria and methods

There are three subgroups for interventions to tackle bonded labour:

- Those who are actually in bondage;
- Those who have been freed from bondage, but are not yet rehabilitated, and may be at risk of becoming bonded again; and
- Those who are vulnerable to bondage due to their poverty and other family characteristics.

Targeting typically involves several stages.

- **Geographical targeting**: Typically the first step is to identify geographical areas known to have higher concentrations of people vulnerable to bondage. ILO projects often worked in the most remote villages with a higher prevalence of bonded labour. CFPR, BRAC selected districts that the World Food Programme (WFP) had previously identified as having high levels of food insecurity, and focused on the poorest villages and hamlets. FKLDP, Nepal, selected districts with the maximum concentration of freed Kamaiyas and then considered all those given (government) FK cards as eligible to become project beneficiaries. Geographical targeting is also the starting point for projects like the Chars Livelihood Programme (CLP). CLP only works on small islands called chars, which are remote and difficult to reach. While the men are often migrant workers, the women on these island communities are particularly vulnerable as they are trapped – unable to move or settle on the mainland. They are also lacking the most basic services like sanitation, healthcare and education.
- **Selection of households**: The second step is to select the more affected, while excluding the less affected households. Two broad approaches can be used. The first relies on classifications already made by government such as: identification cards given to bonded labourers or Below Poverty Line (BPL) cards given to poor households in India: or cards given by the Government of Nepal to freed Kamaiyas (as above). The second is independent identification/selection, by projects, using community-based methods. The methods used by CFPR are shown in Figure 4.

**Figure 4. CFPR steps for selecting the extreme poor**

- Geographical targeting
- Participatory wealth ranking
- Household survey by project field staff
- Verification by the field manager
- Selection, with written comments of the staff

The criteria for selecting households vary across projects. For example, extreme poor households tend to share certain demographic and socio-economic characteristics with the general poor, such as large family sizes, high dependency ratios, household heads with low or no schooling, and lack of land assets. However, compared to the general poor, the extreme poor are more likely to be casual wage labourers, have a higher incidence of widows as heads of households, fewer working days per year and a greater burden of chronically ill and disabled persons in the family. Profiling the target group in this way can help to construct an accurate targeting method.

In Bangladesh, CFPR uses criteria for both inclusion and exclusion in order to focus on the extreme poor households they target. The Income Generation for Vulnerable Groups Development (IGVGD) programme, implemented by BRAC, used the following selection criteria for its food aid based microfinance programme:

- Those who are chronically poor and at times have to go without food;
- Widows, young women with young children abandoned by their husbands;
- Households who have suffered some major shock in the recent past such as severe illness, accident, death (usually of the male household head) or a large expense such as marriage.

Thus most programmes working with the extreme poor use a combination of geographical and household targeting. The criteria used by the Chars Livelihoods Programme in Bangladesh reflect this type of targeting, and are listed in Figure 5.

**Figure 5. Targeting criteria of CLP, Bangladesh**

- Char Household: Resident for more than six months in a village which has been classified by CLP as an island char.
- Landless: Absolutely zero decimals of land ownership including homestead land, and having no access to agriculture opportunities including share cropped land and land to be inherited under Bangladesh law. (Households renting homestead land are still eligible.)
- Lacking livestock: Selected households have no more than two goats/sheep, ten fowl and one shared cow.
- Unable to access credit: Have no loan outstanding from any microfinance or credit programme.
- Asset/income-less: Are not receiving cash or asset grants from any other asset transfer programme.
- Participation: The target households are willing to attend weekly group meetings, participate in a livelihoods programme and show how the asset shall be cared for.

In PEBLISA, targeting was based on the understanding that debt bondage is linked to poverty which is, in turn, closely linked to: the lack of ownership of assets (particularly land); and to the social community to which the victims belong (a majority being from

SC/ST[7] communities in India (Mishra, 2001). The targeting methods were different for the three subgroups:

- **Those released from bondage**: These households can face complete destitution after their release. In the Nepal and Pakistan chapters of PEBLISA, former bonded labour families were previously living with landlords, and were largely from the agricultural sector, while most of those in India were living in their own homes or in the premises of the owners' rice mills. So when they were released, they often lost their homesteads. In Pakistan they were shifted to camps. In Nepal many settled in government lands. In India most were provided immediate support by the NGOs that secured their release, at least to make their old dilapidated homes habitable. This group of released bonded labourers can usually be identified by official cards which entitle them to certain rehabilitation benefits.

- **Those in bondage**: These groups can be identified through community discussions and household surveys. The concentration of bondage in certain economic sectors facilitates this process. Bonded labour in the agricultural sector can also be identified through SHGs and other village-level forums. Yet bonded labourers are often difficult to reach. For example, rural migrant labourers who become bonded in urban construction work or offshore fishing can be identified through research in their home villages, but are very difficult to locate at their work locations.

- **Those vulnerable to bondage:** This is the largest group, and the most difficult to distinguish from the broader category of the extreme poor. By definition, those who are extremely poor and asset-less have only their labour to pledge against debt. They are the most vulnerable to bondage. The CFPR programme found that many of the women selected were either beggars or working on the homesteads of landlords in return for food.

PEBLISA identified those in bondage, and vulnerable to bondage, using the methods listed in Figure 5. Baseline surveys were first undertaken to identify the poorest and most vulnerable households. The findings provided insights that helped the project shape its targeting methods and intervention strategies. Community-based surveys in the selected villages helped to identify the families that had members in bondage. Household surveys complemented these processes, or were an alternate strategy for identifying those in bondage.

A sector-based approach was also used, focusing on employers in sectors known to have a high prevalence of bondage. For example in Tamil Nadu discussions were held with employers in rice mills and brick kilns to increase awareness of bonded labour, and to evolve strategies to eliminate it. In Andhra Pradesh discussions with landlords tried to secure the voluntary release of bonded labourers.

[7] SC/ST – castes which are included in Schedules of the Constitution, whereby reservations are granted to these castes for education and government services.

A survey of strategies for targeting the poor, across 23 microfinance practitioners globally (Mathie, 1998), showed that poverty targeting strategies included:

- Ways of identifying and reaching the poor;
- Ways of attracting the poor; and
- Ways of excluding and discouraging the non-poor.

To a greater or lesser extent, all these components must be in place for effective targeting.

- **Ways of identifying and reaching poor**: Geographic targeting involves identifying the areas where the poor are located. Other effective means are:
  - Using government statistics and other secondary sources e.g. census data, BPL cards (India) or FK cards (Nepal);
  - Adopting local and subjective methods including participatory/peer wealth ranking on the basis of community-defined criteria, and community mapping;
  - Using objective indices or project specific assessments (housing indexes, means-testing, household expenditure surveys, etc.);
  - Undertaking detailed individual household interviews using Poverty Assessment Tools.

> *Those who receive government benefits are often non-poor and elites, while the ultra poor are excluded. Official targeting is known to be inaccurate.*

- **Ways of attracting the poor**: This can be done by removing constraints and promoting "self-targeting" among the poor. Some microfinance providers require members of SHGs to do compulsory savings. This rules out those whose earnings are extremely low or erratic, but by relaxing this rule and allowing voluntary savings the poorest can be attracted. Other strategies allow group guarantees for loans (rather than requiring individual collateral);[8] and others design microfinance products with low transaction costs and low interest rates, that are small in size and for varying purposes (to suit the needs of the poorest).
- **Ways of excluding the non-poor**: This can be done through both self-exclusion and eligibility criteria. Certain features of product design such as small loan size, high interest rate, and the high opportunity cost of frequent group meetings, will discourage the non-poor from joining self-help groups. The non-poor can also be excluded by the application of strict selection criteria such as observable housing characteristics, maximum levels of income and assets, or other appropriate locally determined criteria.

Targeting remains tricky however, especially when those identified are to receive grants. Inclusion errors result in inefficiencies by giving intended benefits to those who are better off than the

[8] Group guarantees can also exclude the poorest since other group members are likely to exclude them from the group because they are perceived as high risk.

targeted beneficiaries. Exclusion errors leave out those who should have been included according to the targeting criteria. Project implementing agencies that extend significant grants to the ultra poor, such as the CFPR and the CLP programmes in Bangladesh, have to apply rigourous targeting methods to prevent both inclusion or exclusion errors.

## 2.3. Challenges of targeting bonded labourers

Targeting mediated by local government structures is often inefficient. This is especially true of poverty reduction and bonded labour rehabilitation programmes. Studies in India and Bangladesh show that those who hold eligibility cards are usually not the families most deserving of the intended official support (Mukhopadhyaya et al., 2008; Matin, 2006). When a formal eligibility card is linked to a benefit it creates a premium on acquiring that card. Those households that can afford to purchase eligibility cards do so, and thus secure the benefit; while "deserving families" are side-lined and excluded. It can also become a "largesse" to be distributed by politicians and elites to their supporters and constituents. Furthermore, when programme success is predicated on participatory methodologies, the officials tend to accept rather than challenge favouritism shown by local leaders, in order to facilitate the implementation of such programmes.

*Targeting demands time and resources. Yet, it is essential for projects which address specific issues and groups such as bonded labour and the extreme poor.*

Similarly, community based methods for identifying bonded labourers and the extreme poor are equally fraught with difficulties. Villagers need to understand the rationale for the selection of just a few among the many poor households. Most may expect to be selected to receive benefits, and resist the application of specific criteria whether related to extreme poverty or other aspects such as bondage. Special efforts are needed to identify those categories of workers who tend to be "invisible" – for example those working long hours or working in private homes, and migrant labourers who are absent from their home villages for many months at a time.

There is also a case for educating the community on bonded labour issues. Economic and caste inequalities overlap, resulting in the extreme exploitation of the caste categories lower in the hierarchy. The practice of bonded labour has been so deeply embedded in social and cultural systems that farmers have not seen it as an illegal practice. Its unfair ramifications were therefore difficult to explain to the perpetrators. Even those who are in bondage often consider the demands made on them by their employers as "normal", even when they encroach on personal freedoms. There has been, and there remains, very little prospect of successful and complete "self-identification" in the case of bonded labourers.

Brick kiln and rice mill employers in Tamil Nadu were able to recognize the problem but still found it difficult to conceptualize the separation of labour and financial markets. They pointed out the practical difficulties in attempting to do this. Their fear of being typecast as "bad employers" prevented some from voluntarily participating in these programmes; but others did participate in order to improve their image and receive guidance for improving their wage and accounting practices, and to find alternatives to bonded labour.

*Cohesion between stakeholders is critical for accurate community based identification of the most vulnerable.*

Community-based targeting has some prerequisites to be effective. Targeting needs to be understood as an external agenda; so securing local participation in targeting calls for local "buy-in". BRAC's CFPR programme makes a special effort to explain to villagers why it wishes to identify the absolute poor and destitute households. It also invests in

educating members of SHGs so that the extreme poor are accepted into these groups and can get support from their better-off peers. The relationships between the community and the external agency, between local households, and in community cohesion are all important for effective targeting. Thus, to some extent, its success depends on the pre-existence of social capital even before the intervention commences.

## 3. Product menu and design

During the early years of microfinance practice (in the early and mid-1980s) group formation, collective savings and loans were found to be important means of support to the rural poor. The understanding of thedifferent categories: poor, moderate poor and extreme poor, was not well-articulated. As development discourse debated who benefits most from project interventions by international donors and governments, reviews and evaluation studies began to generate evidence that landed groups benefit most from land-based interventions, and those closest to government benefited most from official interventions. In loan-based programmes it is the (less) poor and moderate poor who benefit most as they have higher savings and loan capacities as well as the time needed to comply with participatory conditions (like group membership and meetings) that NGOs/MFOs often required.

There has been growing recognition that microfinance attracts the higher socio-economic groups, with the poor often not able to access and make use of the products and services offered. Only later has microfinance discourse generated sub-categories: less poor, poor, moderate poor, extreme poor (the final group variously named the extreme poor, the poorest of the poor or hard core poor). Likewise, programmes and products designed specifically to suit the needs of the poorest and the most vulnerable are a relatively recent phenomenon.

*Development programmes have only very recently perceived the ultra poor as needing special attention, and as a category that cannot benefit from commercial microfinance practices.*

In the early years of microfinance in India, many NGOs experimented with different products. Products were developed through trial and error, with NGOs learning from the financial behaviour of their clients, and adapting products and services to their needs. Later, the Grameen model proliferated in many Asian countries, while in India an alternate mainstream model developed out of development banking and NGO experience: the local SHG-Bank linkage model developed with NGO-bank-government partnerships. While a range of products and processes has been developed over time, the Grameen model has dominated discourse and practice in the field, primarily because of its simplicity, scalability and risk-covering attributes.

Some key questions that arise in the context of microfinance for bonded labour are:

- Which products and services have been offered to bonded labour and other extreme poor target groups?
- What kind of products and services are most suitable for this target group?
- Should products for the bonded labour and mainstream clients be differentiated?
- Does serving this client group call for different performance indicators?
- Should microfinance be offered for release from bondage?

## 3.1. Products offered through bonded labour and extreme poor projects

A wide range of microfinance services offered to extreme poor and bonded labour target groups including:

- Grain banks
- Compulsory savings
- Flexible savings
- Loans for different purposes
- Micro insurance
- Micro leasing
- Asset/cash transfers, food subsidies and stipends

### *3.1.1. Grain banks*

Extremely poor households often find it difficult to make ends meet, and do not have cash to save. They also face scarcity, and understand the need to build a buffer for lean times when they lack food. To help them create a buffer, develop a savings habit and demonstrate the importance of pooling small savings of individual families, NGOs and projects use savings “in-kind” as a first step. PEBLISA deployed a “fist of rice” programme: each group member contributed a fistful of rice to the common kitty. This collected grain was then available for borrowing during periods of food shortage. Similar programmes were developed by agencies like the Rural Development Trust (RDT) in the late 1980s, and in the 1990s by organizations like GRAM and PRADAN.[9]

> *Grain banks can be useful for ultra poor and in non-monetized contexts. They do not increase creditworthiness with formal banks and MFOs.*

This savings method works well in the initial stages of group formation with the poorest, and can achieve three objectives: (i) enabling non-cash savings; (ii) demonstrating benefits of collective action; and (iii) providing a pool of grain for use in periods of food shortage. It is also useful for those extreme poor living in remote and non-monetized economies, making it easier for them to save from their wages when paid in kind rather than in cash.

There are also difficulties in replicating grain banks. Storage of food grain requires both space and a solid vessel to keep grain safe from rats and other pests. Theft of a portion of grain is easier than cash (many cash savings groups keep a locked cash box with one member and the key with another till the next group meeting). Over the last 25 years villages have become increasingly integrated in the monetized economy and even the poorest have access to some cash.

[9] GRAM (Gram Abhyudaya Mandali) and RDT (Rural Development Trust) are both located in Andhra Pradesh, and PRADAN’s (Professional Assistance and Development Action) project is locating in Jharkhand, India.

The value of grain savings systems is decreasing, especially in non-tribal regions. Furthermore cash savings often provide eligibility for participation in a variety of development activities supported by NGOs, MFOs and banks; and SHGs almost everywhere have moved to cash savings. Grain banks are now used mostly as seed banks and for food security in remote regions, rather than for microfinance purpose.

### 3.1.2. Compulsory savings

In compulsory savings schemes the sum contributed each week, fortnight or month is decided by the group or mandated by the facilitating NGO or MFO. In PEBLISA, group members had the freedom to change the savings rate after discussing the issue among themselves. The savings were collected by the MFO, deposited in the branch offices of the bank, or left with the group for rotation as loans. Banks usually provide 6 per cent interest on savings.

*Low initial savings requirements help ultra poor groups to survive. Uniform amounts per member ease management – a useful practice when most members are illiterate.*

In PEBLISA, members had access to their savings for income generating investments and other activities; but many NGOs do not allow such access and use the savings as a guarantee for loans. For example, an amount double or four times the savings of the group is extended as a loan to the group, which is then divided equally between members or taken as per the need of individuals[10]. Initially banks in India extended group loans on the same basis, but later they delinked loans from savings. Indian banks do not insist that groups deposit their savings in a bank account, but require each group to have a bank account that should have saved and loaned savings to members for over 6 months. Many bank officers review these lending practices to assess group discipline. Thus, while compulsory saving is judged to improve group savings discipline and capacity, SHG loans from the banking sector are not contingent on the banks controlling members' savings[11]. This provides benign access to formal sector loans in India, while allowing groups to have access to and control over their own funds.

*Tribals, scheduled castes and the ultra poor (in high risk of bondage) need longer to settle financial and social processes in their SHGs; and greater flexibility and more intensive capacity-building to become creditworthy.*

### 3.1.3. Flexible savings

PEBLISA encouraged savings at the household level. The project provided "dump boxes" in which household members could deposit small change from time to time. The dump box is a physical box – like a piggy bank – given to each member of the SCG[12]. The

[10] This was the practice in CARE's CREDIT project in Jharkhand and the CASHE project in Odisha, where all the savings were deposited with the NGOs, who then used savings as guarantees to extend loans.

[11] This practice varies across India and Nepal. In some cases banks require groups to deposit all their savings; and in other cases groups can retain a part or all their collective savings for loan rotation according to women's own preferences.

[12] A tin box with lock and key was provided, an advance over the traditional clay piggy banks which need to be broken to access the savings.

system allows members to save at their own pace. The dump box was opened every month or fortnight, and each woman could keep the money for household use, or deposit it in the group savings account. In this way, cash savings could be kept within the household, or pooled as group savings. This flexibility made it easy for women to save smaller or larger amounts, and did not bind them to a minimum mandatory amount.

In Nepal, the Nirdhan Utthan Bank Limited (NUBL) encouraged personal voluntary savings, urging members to save whenever they had some surplus. A member could open a personal voluntary savings account with a minimum of Rs.10 ($0.25). In group meetings, members could make voluntary savings deposits and also withdraw these as and when needed. NUBL later replicated this practice in the FKLDP (implemented by PLAN Nepal from 2008 to 2012). The experience in Pakistan was similar with women being active savers. The project allowed withdrawals from savings, mostly to meet emergency needs, thus reducing vulnerability and preventing further indebtedness.

These flexible savings practices were an advance over compulsory savings practices which are followed in most microfinance programmes requiring a fixed and equal amount of savings being brought in by all group members every week. They offered women the opportunity to prioritize personal and household needs (over contributing to the group fund) as necessary. Flexible savings have been introduced by many NGOs/MFOs working with extreme poor women. While they provide the poor with a chance to retain membership of microfinance programmes, the NGOs/MFOs themselves may fear negative consequences. External agencies such as donors and banks may perceive groups which exercise flexibility as less disciplined and more risky. Consequently they viewed these NGOs/MFOs as less efficient or less attractive as recipients of external funds. The case of three such NGOs is described in Figure 7.

**Figure 7. Flexibility helps retain poor clients**

In 1993 the Rural Development Trust in Anantapur, Andhra Pradesh, India, started women's self-help groups to promote empowerment. Scheduled caste and extreme poor women could not save as much as men. While men's groups saved up to Rs.100 per month, women were permitted to save as little as Rs.1 per week in order to form SHGs, attend meetings, and benefit from the trainings and empowerment inputs provided by the Trust.

In 1998, FARR, an NGO working with fisherwomen in remote areas of Kerala, found that its clients were not able to bring the mandated amount of Rs 5 per week to group meetings. They lowered this amount to Rs 2 per week and the women managed to save half a rupee every other day, bringing this amount to group meetings. FARR was at that time given revolving loan funds by a wholesale lending organsation (Friends of Women's World Banking). The lending organization viewed FARR as "lagging behind" other NGOs whose savings were growing faster and whose loan portfolios were larger.

In 2005 Sampark, an NGO working with SHGs in Koppal district of Karnataka, India, found that poorer scheduled caste groups could save smaller amounts less regularly (compared to groups with predominantly higher caste members). Invariably banks rated such scheduled caste groups lower, making it difficult for them to access bank loans. Sampark found that the poorest scheduled caste groups invariably perform worse than the general castes on standards set by commercial microfinance (Premchander, 2010).

In these examples (Figure 7) each NGO persisted with its work and continued to bear the higher cost of outreach to the poor. Thus it is not only flexibility in the product itself but also the type and higher cost of the service provided to the poorest which has to be accommodated in any project that seeks to reach the bonded, and those vulnerable to bondage.

Apart from flexibility in the amount saved per week there is also choice in whether savings are retained with the individual, or contributed to the group. The ILO projects gave

group members this choice (whether to save at household or group level) and this led to significant achievements (including among the poorest families as indicated in Figure 8).

**Figure 8. Savings mobilized by PEBLISA**

In 1993 the Rural Development Trust in Anantapur, Andhra Pradesh, India, started women's self-help groups to promote empowerment. Scheduled caste and extreme poor women could not save as much as men. While men's groups saved up to Rs.100 per month, women were permitted to save as little as Rs.1 per week in order to form SHGs, attend meetings, and benefit from the trainings and empowerment inputs provided by the Trust.

PEBLISA in India, Pakistan and Nepal helped to organize nearly 9,000 beneficiaries into 639 SHGs that saved a total of $146,602, and availed of loans of $ 612,555. Access to the beneficiaries own and external resources was enhanced significantly by the project. The average savings per household was $16, and the average loan was $68. In India a further disaggregated analysis was possible for the three target groups. The total savings was lowest for the bonded labour category at Rs 991 ($ 25). Those who were released had slightly higher savings capacity at Rs 1105 ($ 28); and those vulnerable to bonded labour, who had not been in bondage, had the highest at Rs 1578 ($ 39).

A third variation relates to the frequency of savings – from weekly savings (in the Grameen model), to fortnightly (in Nepal) and monthly in some variations of SHG linked banking in India. In Bangladesh, especially with urban poor, innovations were introduced by SafeSave and CARE by way of daily savings collections. These were collected from the homes of clients by staff of the MFO, thus offering a "doorstep" service. They were reported to be very successful, increasing savings rates of the urban poor significantly. Daily savings are more useful in urban areas, as urban households (however poor) tend to have some cash-flow on a daily basis.[13]

"Contractual savings" are a further individual product introduced for continuous saving towards a specified need like marriage or the purchase of an asset. The poor pay the MFO until they have saved the targeted amount. Conceptually, this is very different from mandatory group savings. The former is an individual savings product, while the latter facilitates access to the group; and also provides eligibility for loans. "Contractual saving" is an individual arrangement while group savings represent more of a social contract contributing to social as well as financial capital.

Thus a wide range of savings products have been developed and many have been used for the bonded labour target groups. Flexibility has proved critical to building the savings habit. Allowing individual and group savings to build up at uneven rates has helped the poor to retain their group membership. Women's access to and control over their own savings is the key factor behind the success of such flexibility. It also met their needs and preferences, as evidenced in PEBLISA (see Figure 9).

[13] Indian banks have offered Pigmy services for a number of years – traditional door to door collection of savings for all customers (regardless of income levels).

**Figure 9. Application of savings to own needs**

PEBLISA in India, Nepal and Pakistan allowed women to use their own savings for granting loans. Impact studies of the project found that 89 per cent of respondents in Tamil Nadu and 45 per cent in Andra Pradesh availed loans from Self-Help Groups. Similarly in Nepal 70 per cent of members borrowed from their group savings. The "saved amount" was rotated more than three times during the project period in India, and 30 per cent of loans were used to repay moneylenders and employers. In Nepal, 39 per cent of beneficiaries used their loans (from savings) for starting small businesses; 36 per cent used loans for household expenses (consumption) and 13 per cent to purchase buffaloes and for farming. In Pakistan, too, savings played a vital role in coping with emergencies and economic shocks.

The experiences of CLP and CFPR in Bangladesh, and Sampark in India also validate the importance of savings. In CLP, as the Chars are remote, commercial microfinance organisations do not set up offices in these areas. In the absence of formal financial services, the voluntary savings of the Village Savings and Loan Groups formed by CLP are critical for meeting their small loan requirements. In CFPR, which is mostly on mainland areas, BRAC's microfinance programme offers savings and loan services, yet the extreme poor prefer own savings to loans, opting for lower indebtedness. In Sampark's cooperatives, which have over 11,500 members, women's savings form 50% of the total loans they take, and as they keep the profits from the credit operations, the cooperatives have become fully financially viable, creating higher self-reliance than would have been possible if they had depended only on bank loans.

### *3.1.4. Loan products*

PEBLISA offered a wide range of loan products to group members, which included:

- **Loans from group savings**: Loans are extended from group savings to individual women members, and are referred to as "internal loans". They can be used for any purpose.

- **Emergency loans**: Group savings are limited by the capacity of members to save; hence poor and extreme poor groups fix lower amounts – sometimes as low as Rs.1, 2, or 5 per week. Thus the amount collected is also very small, certainly inadequate to meet the needs of all members.

  In addition to encouraging savings, NGOs with early experience of microfinance, e.g. MYRADA, contributed Rs 5,000 ($ 125 ) as a Revolving Loan Fund to each group, not only to augment group capital but also to build women's leadership, management skills and social capital. Many government programmes in India have adopted this approach. PEBLISA in Tamil Nadu and Andhra Pradesh contributed Rs 2,000 ($ 50) and Rs 5,000 ($ 125) to each group as an emergency fund (for use by members). These were later repaid by borrowers and kept in reserve for other eventualities. CARE India pegged the emergency loan fund at Rs 2,000 ($ 50) in its Odisha CASHE project. The loan repayment period was flexible in all these emergency loans.

  However, some programmes, like the Chars Livelihoods Programme in Bangladesh, do not provide seed fund to its Village Savings and Loan Groups, believing that seed money creates the wrong incentive for joining groups, and would put group funds at risk of being appropriated by influential non-members.

  In remote villages, such seed funds become a necessity as most extreme poor do not have individual savings; immediate access to loans even from landlords and local money lenders may not be available in times of emergency. (See the example in

Figure 10.) Thus seed funds provide a protective purpose, and also enable women to learn money management.

**Figure 10. Savings retention for emergency needs**

CARE's CASHE programme in Odisha was implemented by Friends Assocaition for Rural Reconstruction, Parivarthan and B'MASS NGOs. Most collected group savings as a guarantee for extending loans. In the initial stages of the programme, groups deposited all their savings to take loans. As the programme required loans to be used for 'productive' purposes, women took loans for income generating activities leaving no balance with the groups for consumption or emergency needs. In one village a four-year old boy fell into a well and villagers needed immediate cash to take him to hospital. They checked with five SHGs in nearby villages, and none had kept any savings. The child could not be taken to hospital and died. A few such incidents brought the issue to the fore and, on the recommendations of a mid-term review (Sampark, 2003), CARE's partners changed the policy. Subsequently the partners contributed Rs 2,000 ( $ 50) to each group as an emergency fund which could be accessed by women in case of a crisis.

- **General loans**: In Nepal NUBL clients were eligible to take general loans after completion of the compulsory group training and group recognition test. Clients chose their income generating project based on their own knowledge of the local market, competition, viability of the enterprise etc. and submitted loan applications in the meetings. In the PEBLISA supported areas business skill development trainings were usually linked with the loan. The first loan was usually a maximum of $300 but could be up to $375 if borrowers requested loans for purchasing cows/buffaloes for milk production. At the time of loan disbursement each client was required to contribute 5 per cent of the loan amount as a compulsory group saving. Subsequent loans were for higher amounts with the highest being $750 in the fifth loan cycle. NUBL in Nepal also offered other loans, as shown in Table 1.

**Table 1. Range of loan products offered by NUBL Nepal**

| Each year | Maximum loan size (rupees) | Loan term | Annual interest rate | Repayment frequency |
|---|---|---|---|---|
| Seasonal agricultural loan | 3 000 ($75) | 1 year | 20% | Weekly/fortnightly |
| Seasonal business loan | 10 000 ($250) | 6 months | 20% | Weekly/fortnightly |
| Tube well/ sanitary loan | 3 000–6 000 ($75–150) | 2 years | 20% | Weekly/fortnightly |
| Housing loan | 50 000 ($1 250) | 2– 6 years | 18% | Weekly/fortnightly |
| Microenterprise loan | 100 000 ($2 500) | 1–3 years | 18% | Weekly to quarterly |

- **Seasonal agricultural/business loans**: These loans were used mostly for purchasing agricultural inputs (chemical fertilizer, seeds etc.), and for running seasonal businesses like purchasing and selling vegetables, paddy and wheat in local markets. In NUBL Nepal they were also made available during special festival seasons when there is a high demand for animals such as goats and buffaloes.

  All loans by NUBL were unsubsidized. This was different from the practice in India where bank loans offered to bonded labour groups were the same as those offered to SHGs with member incomes below the poverty line. These loans carried a 25 per cent to 50 per cent subsidy when enabled though the PEBLISA project.

The National Rural Support Programme in Pakistan (NRSP) also offered loans to freed Haris of amounts varying from $20 to $90, with a service charge of 20 per cent on declining balances. The project achieved a repayment rate of 91 per cent. Most loans were for livestock and small enterprises, and most women borrowed more than once. The story of one exceptional entrepreneur is given in Figure 11.

**Figure 11. Meni Bibi freed bonded labourer and micro-entrepreneurship award winner**

Meni Bibi and her family was one of the 750 families of bonded labourers freed by the Human Rights Commission of Pakistan (HRCP). They were resettled in camps in Hyderabad. Unfortunately, the camps provided little opportunity for gainful employment and as Meni Bibi, like many other Haris, had few marketable skills, she had no steady income and was forced to work for extremely low wages in the nearby fields. In 2002, when NRSP began working in the Hyderabad camps with PEBLISA support, Meni Bibi attended the introductory meetings with social organizers and learned about Self-Help Groups. Subsequently Meni Bibi and six other women formed a group. The group members joined the NRSP programme and started saving small amounts regularly – typically Rs.10-15 per month. In order to increase her family's income Meni Bibi decided that she should purchase a goat. She then applied for a loan of Rs.3000 ($75) in her Self-Help Group meeting. Her group members agreed to provide a collective guarantee that Meni Bibi would not misuse the loan and would return it in the agreed 8-month period. The loan was processed and in December 2002 Meni Bibi received her Rs.3000 ($75).

She spent Rs.2000 ($50) on a goat and Rs.300 ($8) on medicines for her husband and younger son. With the remaining Rs.700 ($18) she opened a shop selling sweets, lentils, flour and other basic necessities. Her income from the shop was less than that from her daily wage labour but had the advantage of providing steady, off-season income (when farm labouring was not available). When the cotton harvest started in September, Meni Bibi and her family migrated in search of work to Shahdpur district, some 145 km away. But before leaving the camp she informed the NRSP project staff of her plans and promised to repay her outstanding loan. She sold her goat for Rs.2,700 ($68) and returned this amount to her Self-Help Group before departing for Shahdpur. This amount was returned to NRSP. Meni Bibi kept her promise to return the balance from her wages, sending Rs.400 ($10) on September 15, 2003 and the the balance of Rs.300 ($8) a few weeks later.

Meni Bibi's story demonstrates that the majority of Self-Help Group members who left camps in search of work, and have plans to return, are willing to respect whatever commitments they made with the project or their group members (who form an important facet of their social safety net).

For her honesty (and her commitment to members of her Self-Help Group and the Project's Social Organizers) 55-year-old Meni Bibi received one of eight Global Micro- Entrepreneurship Awards and a cash prize of US$300. She used the prize money to buy more livestock and was hoping to apply for the land lease product being offered by NRSP.

The Pakistan project also set up a national-level Bonded Labour Fund to extend loans to bonded labourers. The concept was new and poorly understood among the target audience. Uptake was very low. ILO closed the project in 2006.

- **Official loans and subsidies**: In India, savings of SHGs were supplemented by government loans for asset purchases (e.g. for cows) by a central government programme called the Swarnajayanthi Grameen Swarozgar Yojana (SGSY). The scheme was to support households living below the poverty line to come out of poverty. It provided bank loans which carried a government subsidy.

  SGSY is the Department of Rural Development's (Government of India) flagship scheme for poverty reduction. It is a self-employment scheme for the poor and is implemented through self-help groups (SHGs) comprised of 10 to 20 women (of whom at least 70–80 per cent should be below the official poverty line – BPL). The selected groups are supported to start an income generating activity (chosen from specified activities short-listed in each administrative "block" in a district).

The scheme involves a loan from the bank to the group, to enable members to buy an income generating asset, for example a cow or buffalo, or to start a business such as tailoring. The loan is matched with an equal subsidy for BPL groups and where members have a disability. The total sanction can be up to Rs.25,000 ($625) per person, with a subsidy that can range between 30 to 50 per cent of the total loan amount (Government of Odisha, 2005). Other departments provide schemes offering subsidies ranging from 10 per cent to 75 per cent.

**Figure 12. Impacts of enterprise loans in Tamil Nadu, India**

PEBLISA ex-post impact research (March 2008 in Tamil Nadu, India) found that most SCGs (96 per cent) formed under PEBLISA had been sustained – continuing regular savings and providing credit, insurance and welfare based activities. A total of 196 old SHGs continued their activities; and 62 new groups were operational with total funds amounting to $78,375 (which they continued to use for household, emergency and investment purposes). The income generating activities incuded fishing, renting-out pump sets, sheep and goat rearing, charcoal making and embroidery. Many small businesses, started by women as groups and individuals during the project period, had survived and some had expanded their operations. New businesses had also been started by SCG members using internal loans, linkages from government or financial institutions and ILO credit lines.

In 2011, the Ministry of Rural Development (in India) replaced this scheme with the National Rural Livelihoods Mission. The new scheme emphasized the building of people's organizations, with a large revolving loan fund for community based groups (or federations of groups). The subsidising of loans has been stopped to prevent rent-seeking behaviour, and replaced with interest subvention, which involves offering reduced interest rates as a reward for on-time repayments.

### *3.1.5. Micro Insurance*

Low-income households are highly vulnerable to economic shocks caused by unforeseen events such as the death of a family member, illness, loss of valuable assets, or a disabling injury. Different insurance products have recently been introduced by microfinance agencies to cover such contingencies.

PEBLISA provides a wide range of microinsurance products for the bonded labour target group. In Tamil Nadu, India, the Life Insurance Corporation (LIC) provided group insurance for SHG members. PEBLISA introduced this product to members (who accepted it in high numbers), and later expanded coverage to include all target families of the two implementing NGOs. The impacts continued well beyond the project period, as evidenced in Figure 13.

**Figure 13. Impacts of insurance, PEBLISA, Tamil Nadu, India**

Insurance cover provided by Tamil Nadu NGOs continued, and expanded even after the project closed. In March 2008, MSSS catered to 55,000 clients under LIC's Jana Shree Beema Yojana insurance programme, and IRCDS reached out to more than 10,000 clients. Of the 65,000 clients, 8,757 were PEBLISA participants. About 15,000 children received educational scholarships under this scheme (of whom 2,457 were from PEBLISA participant families), receiving Rs 29,48,400 ($ 73,710). A parliamentary committee studied the success of the MSSS model; drawing lessons for replication.

In Nepal NUBL recognized the need for financial services that address clients' needs for risk management. It introduced two specific insurance products:

- **Micro-life insurance** products were introduced in India, Pakistan and Nepal. In February 2003, NUBL began collaboration with the National Life & General Insurance Company (a formal insurance company). Initially the product was designed with technical and facilitating support from the Centre for Micro-Finance and was piloted in four branches for two years; then introduced through 24 branch offices. This scheme provided the women microfinance clients, together with their husband and parents, with the opportunity to purchase a life insurance policy which covered both natural and accidental death (with the latter compensated with double indemnity). The product was to be renewed annually. The details of the package are given in Table 2.

Table 2. Premiums and benefits of Micro–Life insurance in Nepal

| Premium | Payout in case of Natural death | Payout in case of Accidental death |
|---|---|---|
| Rs.70 ($2) | Rs.10 000 ($250) | Rs.20 000 ($500) |
| Rs.140 ($4) | Rs.20 000 ($500) | Rs 40 000 ($1 000) |
| Rs.280 ($7) | Rs 40 000 ($1 000) | Rs.80 000 ($2 000) |

NUBL made the life insurance a composite product in the FKLDP project: the premium covers both the life of the client and the loan. Upon the demise of a woman NUBL receives the insurance money, deducts loan dues from the deceased member, and then gives the balance to the family. While this provision protects the MFO/bank from a loan loss in case of death of a client, it hides the fact that the client ends up paying the premium for her life as well as the loan guarantee. The latter should in fact be paid by the credit-granting organization, and shows the kind of practices that MFOs can institute in the absence of understanding, and of a strong collective voice (among women). This practice, started in about 2009, has now become the norm, whereby most MFIs have made it mandatory that the client takes a life insurance cover for taking a loan from the MFI, with the MFI having the first right over the insurance amount.

In Pakistan microinsurance was introduced to households in camps where freed haris were resettled. The policy covered hospitalisation expenses of up to Pakistani Rs.25,000; and compensation for accidental death or permanent disability arising from accidental bodily injury worth up to Rs.50,000 ($1,250). The annual insurance premium for both these products was Rs.250 ($6).

Adamjee Insurance, the largest insurance company in Pakistan, only extended services into rural areas after large banks and oil and gas companies contracted it to provide employees' insurance. Adamjee encountered three important barriers: people did not understand the concept of insurance premiums; previous experience had led to mistrust of insurance among villagers; and a large field team was needed for good management and client relationships. The company then partnered with NRSP and the Aga Khan Rural Support Programme AKRSP – large NGOs with extensive rural outreach and good relationships with rural households. They conducted research on health, medical needs and existing health infrastructure, and devised insurance products that were low cost, met local needs and were administered by trusted NGO contacts. This helped the company reach remote and poverty stricken desert areas of Pakistan.

The insurance products were varied and covered livestock, medical and life insurances. Some were sold, as in Nepal, where clients had to pay the full premium. Others had elements of subsidy. In India official government subsidies allowed them to be offered at low premiums.

Thus targeted savings, loan and microinsurance products help households cope with the lump-sum needs resulting from unpredicted economic shocks and emergencies, while improving the results of the MFO's existing credit and savings portfolios.

- **Livestock insurance** was provided by NUBL in coordination with the Deposit Insurance and Credit Guarantee Corporation (DICGC). This product was compulsory for first-time members borrowing to purchase milking buffaloes/cows. Members were required to deposit 3 per cent of the loan amount upfront as a livestock insurance premium. If an insured animal died, 80 per cent of the loan amount was given back to the borrower as compensation.

Insurance products for the bonded labour target groups may be subsidized, as in India, or provided on commercial terms, as in Nepal. Households need insurance for life, crops and livestock but the most critical for this group is health insurance, which is offered least. While insurance is an important protection need of the extreme poor, products in this area are still in the relatively early stages of development. Few innovative products have yet achieved scale except for group insurance products offered with official support, especially in India. As stated earlier, MFIs in India require clients to take lie insurance along with the loans, so that in the case of the death of a borrower, the insurance amount is first applied to loan recovery, and the balance handed over to the family members of the deceased.

### *3.1.6. Micro leasing*

When bonded labourers are released, their most critical needs are housing and homestead land. These are provided by government in South Asian countries where rehabilitation is considered a state responsibility. The employers who held workers in bondage are rarely punished and are never required to pay towards the rehabilitation of released bonded labourers. PEBLISA in Pakistan and SEBL in Nepal experimented with micro leasing. In Pakistan, the landlease was to facilitate house construction while in Nepal it was for joint farming. This has also been done in CFPR, Bangladesh, which tested joint leases and farming, but later also introduced leases for individual farmers. In the first two cases leases were issued in the name of households or groups; but in Bangladesh this was difficult so the facilitating organization (BRAC) leased the land on behalf of beneficiary households. In subsequent years it was possible for many women beneficiaries to take or renew the lease themselves.

*People released from bondage are completely without assets and need urgent rehabilitation measures.*

In Pakistan 403 plots were leased by freed bonded labour families. Three-quarters of the plots were 3 marla[14], big enough only for house construction The loan amount was Pakistani rupees (PKR) 2,500 ($ 26) for a 3 marla plot and PKR 11,000 ($ 116) for a 15 marla plot[15].

Micro leasing is recognized as useful in the rehabilitation of those released from bondage. In Nepal and Pakistan thousands of freed agricultural labourers were not given

[14] Marla is a traditional unit of area in Pakistan. The marla was standardized under British rule to be equal to 30.25 sq. yards, 25.29 sq. metres, 272.25 sq. feet, 0.00625 acre, or 0.05 kanal.

[15] The currency exchange rate was 95 Pakistani Rupees per dollar in 2012.

land, or properly rehabilitated. Financial products for land lease and housing could have an important role to play in their economic and social recovery.

### 3.1.7. Asset transfers

On the premise that those in bondage, recently released, or vulnerable to bondage have very few assets, extending grants for augmenting their asset-base can be very useful. This may include land or other productive assets like cattle, or capital to set up enterprises such as shops.

PEBLISA in India offered grants as official support to released bonded labourers. The Bonded Labour Act in India provides for Rs 1,500 ($ 38) immediately on release, with an additional Rs 20,000 ($ 500) provided in due course for asset building and rehabilitation. Similarly, when bonded labourers were released, by an Ac of law, in Nepal in 2001, the rehabilitation package consisted of land transfers (5 kathas[16]), some timber to build homes, and a cash grant of Nepali NPR 10,000 ($ 154). This aid was not available to many, as implementation of the law has been tardy in both India and Nepal, creating the need for additional livelihoods support.

As part of the ILO PEBLISA partnership, NUBL provided skills training to 527 women (291 ex-Kamaiyas and others were from vulnerable groups). The training was in livestock production: pigs, goats and poultry. Each family was provided with a piglet, a goat or 50 day-old chickens. Small sheds were made for these animals, and two bags of cement were given to build the walls.

This support in India or Nepal acknowledged that those recently released from bondage were completely asset-less and had no skills other than those they were bonded for e.g. farming and paddy husking. They needed to be resettled before they could rebuild livelihoods, hence first needing grants rather than loans. One good practical example of this was in Tamil Nadu where released bonded labourers were not only provided with the official assistance packages but also additional official support built on advocacy and networking by ILO project partners. This is described in Figure 14.

In India grants were also provided to the vulnerable persons below the poverty line. They were eligible for the SGSY scheme support from central government, and could benefit from grants equal to the loan amount. (Beneficiary groups must also operate effectively according to banking norms provided specifically for this support.) In India 300 SHGs supported under PEBLISA raised SGSY grants equivalent to $34,900, and another $88,477 through other government schemes that support the poor.

[16] Five kathas is equal to 0.3 hectares.

**Figure 14. Rehabilitation finance for released BL in Tamil Nadu, India**

> Through the PEBLISA project, of 24 bonded labourers released in Tamil Nadu, India, 23 took up IGAs that yielded an earning of about Rs.60 ($2) per day: yet they were not fully rehabilitated and lived on the edge of hunger. Twenty two families received Community Certificates from the Governmnet entitling them to official support. Using this support and their existing skills they have started a new rice mill (along with a number of vulnerable families). The 22 families have received sanction orders to construct free houses under the group housing scheme, with Rs.748,000 ($18,700) from the central government's Tribal Welfare scheme. The local NGO partner of the ILO project supported the group to develop the business idea, prepare a business plan, and lobbied with officials to channel all of the funds granted for their rehabilitation.

In addition to those products offered by PEBLISA, further products have been tested with extreme poor households including asset transfers and stipends. The CFPR programme, implemented by BRAC in Bangladesh, offers asset transfers to the extreme poor through a choice of enterprises including livestock production and small businesses. Women are given training to ensure they can manage the selected enterprise; and support services are also provided. Over a two-year period the women join a microfinance organization providing mainstream financial services. The asset transfer is accompanied by a stipend, given weekly, that covers subsistence until the asset begins to yield income. Some CFPR clients get asset transfers while others, presumably less poor, get soft loans. In the latter case stipends help to maintain savings discipline. This may extend from three months to a year, or even 18 months, depending on the enterprise selected.

Similar products are offered by the DFID supported Chars Livelihood Programme in Bangladesh. Here, cash and asset transfers are made to the extent of Taka 15,000 ($250), and further support is given by raising the level of the ground, where the house is to be constructed, to reduce the risks arising from river erosion and annual flooding. These products and services help women to graduate from poverty faster, as immediate food and nutrition needs are taken care of, and loans are deferred till such time as the women are able to afford them.

These experiences from PEBLISA and other projects highlight the problems of those with a completely eroded asset base. Those in or recently released from bondage need grants and asset transfers for land, housing, agriculture, or cash. Those who are vulnerable to bondage, yet have at least subsistence level incomes, can use small loans for income generation and asset creation.

The wide range of products offered in the four categories of savings, loans, insurances and transfers have been described. The question now is if target groups need differentiated products, or whether they their needs can be adequately met by commercial microfinance products. The following reveals different answers for utilising savings, loans and insurance products.

## 3.2. Differentiated products for the extreme poor

The differences between products for those in commercial microfinance programmes and those who fall under the category of extreme poor, arises from product design and product delivery. The underlying assumption is that bonded labourers are among the poorest of the poor, or extreme poor, whereas clients of commercial microfinance services are better off, with a higher asset-base and with higher loan absorption capacity. Table 3 analyses the differences in the products for the two groups:

Table 3. Financial products for bonded labour and better-off households

| For bonded labour/ extreme poor households | Mainstream clients |
|---|---|
| Flexible savings | Mandatory fixed savings |
| Savings retained with groups for their use | Savings collected by NGO/MFO where regulations allow |
| Loans from group savings: efficient and cheap for all clients, especially the extreme poor, who may have resistance to taking external loans | Useful for all clients (but often in mainstream MFOs of the Grameen type) savings are collected by the NGO/MFO, and loans are given by the organization |
| Revolving Loan Fund for Emergency Needs – useful for the extreme poor as they have no savings and many emergency needs. So it works as a safety net | This is often not provided by mainstream MFOs who may have a variety of loans on offer; but they rarely leave a fund at the group level. Programmes such as CFPR allow members to withdraw their savings when they need. |
| Micro insurance here needs to be supported by grants, as the extreme poor are not able to pay full risk coverage | Microinsurance products are structured differently (with higher pay-outs and higher premiums) as the paying capacity of clients is higher |
| Official loans with subsidies are very important to the extreme poor as the subsidies help to build the asset base | Only loan products suffice; the families may not need subsidies |

An important aspect of PEBLISA's client-sensitive design was the multiple credit system put in place by the implementing partners. Group members, according to their needs, could access three different types of credit: consumer loans, emergency loans, and productive loans for income generating activities (IGAs). In Nepal, NUBL offered more differentiated products, some catering to the needs of those who were members for over two years and had increased their incomes substantially.

Extreme poor households, for instance the ones in bonded labour, were usually without an adequate asset base. They also had a very low capacity to save and to absorb credit. Access to flexible products helped them continue as members of groups. In India they were able to access mainstream microfinance as part of the official support programme for the poor. This was also provided in Nepal where NUBL offered a wide range of financial products and services. The targeted groups were also offered a range of support services such as literacy classes and education for children.

While special products may be needed by the extreme poor they are not always easy to administer, especially by a programme that caters to a mix of clients. Variation of terms according to type of enterprise, size of loan, or poverty level of family can be difficult to manage.

## 3.3. Variation according to type of enterprise

*Differentiating financial products on the basis of type of enterprise, size of loans, or poverty level of households is difficult to operationalize. A standard product is administratively easier and less divisive in its social dynamics. Yet the extrme poor find it difficult to create assets based on non flexible loans.*

In 2001 in Bangladesh the Proshika microcredit programme set repayment periods according to the enterprise selected. Those who borrowed for shops and other small businesses that yield daily income had to pay back in monthly instalments. The logic for this was that those who earned daily incomes could repay in monthly instalments spread over a year. By contrast, those who had cows or invested in agriculture would only earn

incomes from these enterprises at six month intervals. They needed a repayment holiday and longer repayment schedules spread over 18 months. However, clients thought differently. Those with small businesses perceived the need to build working capital, and to capitalize and grow their small businesses. They often mis-stated the purpose of the loan to the NGO. By declaring that they used the loan for agriculture or cattle they too could benefit from the balloon repayments over longer repayment periods. Clients of CARE India's CREDIT programmes in remote tribal villages in Jharkhand also pointed out that monthly repayment instalments deplete the working capital of businesses like shops, leaving little stock in the second half of the year, and reducing sales and earnings. Thus, differentiating products by enterprise type is a strategy that does not succeed, and creates incentives for misreporting (see Figure 15).

Figure 15. Product variation by type of enterprise

As we walked through the village to see Zarina, who had bought a cow, we came across Fatima, who was busy frying 'pakodas' in a small shop near the road side. She quickly wiped her hands on a cloth and came out when she saw us. We sat on a bench outside her shop and asked her about the business. "I earn well" she said, "I have good sales". On further enquiry, we found that the enterprise she had declared for loan purposes was a cow. When I asked her why, she explained that by stating that she has taken a cow she gets to repay only once in six months. If she discloses her shop she will have to repay once a month, as per the normal pattern of the organization. She explained: "In fact, if I pay them once a month how can I buy enough raw material to increase my business, and how can I keep sufficient income for the family?" We are both the same level, Zarina and I. As she gets to pay once in 6 months I should also be allowed to do that. So I showed the loan for a cow. Now I can expand my business too.

In 2003, Sampark, an NGO with microfinance operations in Karnataka, India, discussed a similar proposal with its SHG members. Although savings were accumulating, the poorer groups and members had low savings due to low and irregular incomes. Thus savings were useful for meeting emergency needs but not for buying substantial assets like goats and cows. The poorest were keen to invest, but cows and goats needed at least six months to yield incomes. Therefore Grameen-like loans (which require consistent weekly instalments) were not appropriate. Commercial loans designed on the Grameen model proved too expensive for the poorest; they opted not to take them. In order to offer a suitable product, smaller loans with balloon repayments and longer repayment periods were proposed. Loans up to Rs. 5,000 would be repayable in three six-monthly instalments over 18 months, while loans over Rs. 5,000 would be repaid in weekly instalments over a year. However, women felt that this system would discourage people from taking larger loans. They thought it would encourage them to take small loans from the NGO, and augment these with additional sums from other sources, in order to benefit from the better terms of the smaller loans. The women wanted all loans to be paid with the same repayment period, preferring one standard product over two years because it is easier to understand and administer. Women also thought that such product differentiation would create differences among members, and negatively affect group cohesion. For this reason, the product differentiation according to loan size was never operationalized.

*Grants and transfers are best offered to bonded labour and other ultra poor target groups from programmes completely different from mainstream microfinance programmes.*

There was also the question of financial discipline. Microfinance programmes have generally found that regular, small repayments help maintain higher repayment rates than longer schedules with less frequent repayments. For instance, repayment rates on weekly or monthly instalments are likely to be higher than those on six monthly repayments; but this belief has never really been analysed, and few studies offer a clear comparison of repayment rates based only on repayment schedules.

The lesson drawn from this analysis was that it is hard to differentiate between different categories of the poor on the basis of type of enterprise or size of loan, and to design completely different financial products for each.

### 3.3.1. Variation according to poverty level of household

In order to design differentiated microfinance products for the poorest and the less poor, Sampark conducted a detailed participatory exercise with SHG members to identify the poorest households in the villages covered. The rate of interest was to be lower and the repayment period spread over three years, with quarterly or six monthly instalments. The intention was not disclosed upfront; women were just invited to participate in a poverty ranking exercise. Even without knowing what benefits would accrue, there was competition to show high poverty levels. There were acrimonious fights about which assets were to be counted (namely land, tractors, TVs, two wheelers) and whether size of family was to be factored in. The standards evolved and varied so much that standardisation across groups and villages posed a challenge.

In BRAC's CFPR programme in Bangladesh, community based participatory wealth rankings have evolved as reliable exercises. There is however concern that the process is distorted when people know benefits will accrue to those identified as extreme poor – with increased competition, and poor households exaggerating poverty levels.

Sampark could not introduce a new product to its range if it discriminated among households on the basis of poverty. This would have caused too much of a rift among those members who considered themselves equally poor; it would have reduced social cohesion among groups. In BRAC, the products introduced were completely different and managed outside the microfinance programme, at least for a year. The CFPR programme offers asset transfers to the extreme poor, and after a two year period of supporting them with enterprise management and income generation, clients are formed into groups, integrated with and transferred to the mainstream microfinance programme.

Such processes show clearly that while it is possible to include households in special programmes it is difficult to have the same programme offer different products to different types of households. It is administratively difficult, and erodes the social capital that group processes create.

### 3.3.2. Differentiated insurance products

Loans for income generating enterprises are only a small part of the demand for financial services in low income households. Although they help, to some extent, to smooth consumption[17] and build assets, they do not reduce substantially a household's vulnerability or exposure to risks. In theory, therefore, microinsurance is viewed as a service that can, like microfinance, benefit the poor by reducing vulnerability; and benefit the MFO by increasing earnings. However, in practice, there are challenges in serving low income markets that require innovation in product design, marketing and delivery mechanisms (Brown and Churchill, 1999). A large number of poor households do not understand the concept of insurance or a premium, and are not able to see it as a cost of risk coverage to be paid annually in perpetuity. Large NGOs, banks and MFOs have

[17] Loans are often not used for business purposes, but rather for consumption. To smooth consumption is to avoid hungry periods.

offered innovative products to deal with this problem (as indicated in Figure 16) yet these are not replicated by others.

Figure 16. Innovative savings products to buy insurance

Sewa Bank was one of the first women's cooperative banks in India to introduce microinsurance. The New India Assurance company appointed Sewa Bank as an agent for the sale and management of a range of products including medical cover for illness and accidents, and life insurance. Annual premiums ranged from Rs 50 to Rs 75 ($ 1.25-1.5). In order that clients could buy this product Sewa Bank advised women to save in instalments until they had Rs.500. This money was placed in a fixed deposit in the Bank which then paid out premiums directly from the interest on that fixed deposit. This helped women to understand both the concept of a premium, and the process of making payments towards a principal they could retain.

SEWA Bank came up with another innovation. This allowed old and better off clients, who did not need to save towards a fixed deposit sum, to make a one-time fixed deposit of Rs 500 ($ 12.5). The interest would cover future insurance premiums. Since its introduction in the mid-1990s the premium has increased, products have diversified, and SEWA Bank has continued to offer a fixed deposit calibrated to meet these premium outflows. This example, though well known, has not been extensively replicated nationally or internationally.

Another major issue with micro insurance is the mismatch between demand and supply. Research in India has shown that the greatest demand is for health insurance (for medical expenses) but supply is biased towards life insurance (Veith, 2008). Crop and animal insurance are also in demand, and supply is also inadequate – leaving the poor's newly acquired livelihood assets at risk. Finally, the poorest (frequently the most illiterate) need training to understand claim procedures and form filling, plus support for filing claims etc. Evidence (from India) shows that companies try to reject, rather than accept and disburse, claims. This erodes trust.

*Flexible and small savings and loans are costly for the MFOs to offer. Donor support is needed for serving the bonded labour target group and ultra poor.*

### 3.3.3. Summary

A common feature of all programmes reviewed for this paper is that small loans are valued as much as small savings. The preferred size of first loans is less than $50 (sometimes as low as $20). In most cases, microfinance offered by MFOs is the first formal loan taken by a family – whether the family has just been released from, or is in bondage, or is vulnerable. Small loans carry lower interest and principal obligations, and are easier to repay. They provide a family with its first experience of a formal loan, and familiarises them with loan systems and repayment discipline; initiating them to formal microfinance at low risk.

*Small savings and small loans are low risk methods of gatting bonded labour target groups to use microfinance.*

There are however geographical considerations. When people are placed in degraded environments, or "less favoured areas" where the agricultural productivity is low and there are few off-farm income earning opportunities, the difference between the extreme poor and the less poor may be marginal. There may be little justification for differentiated financial services.

## 3.4. Differentiated performance indicators

A frequent concern in offering microfinance to the extreme poor (such as bonded labourers or those vulnerable to bondage) is whether these services affect the MFO's financial sustainability. The microfinance industry has developed rigorous benchmarks for sustainability, but these standards may be diluted when the client base is poorer.

*Repayment discipline is non negotiable for a good microfinance operation. Donors enable this by offering cash stipends and/or food transfers to ultra poor households, or direct subsidies to the mainstream microfinance programmes.*

PEBLISA was implemented mostly through NGOs, or MFOs who were willing to serve the target clients. The NGOs adopted benchmarks used by MFOs offering "commercial" or "financially sustainable" microfinance. They did not have standard staff-to-client or staff-to-loan ratios on which MFO sustainability would be determined. Instead, in the initial phase of PEBLISA (in all countries) the programme was implemented by NGOs who assessed the needs of the client group, and designed products to suit these needs. This process was therefore used in all the projects in India, Nepal and Pakistan, and was the foundation on which PEBLISA's microfinance products could be made flexible and more appropriate for bonded labour and vulnerable households. This experience is demonstrated by the experience of CFPR in Bangladesh (see Figure 17).

Figure 17. Higher staff ratios to reach ultra poor

The CFPR programme of BRAC, which works with the extreme poor, provides support for survival, skills training, asset transfers, monitoring, literacy and health support. This requires intensive monitoring at household level as well as motivation and group formation. Due to intense service delivery and capacity building inputs, the staff-to-client ratio of the programme can vary from 1:50 to 1:100, as compared with 1:400 in the commercial microfinance programme of BRAC. This cost is supported by donors which enables members to progress (over one or two years of support) to BRAC's mainstream microfinance groups and services.

Thus, the staff-client ratio was not monitored for PEBLISA's partners. Staff productivity is a standard that is relevant only for commercially focused MFOs, and can be applied to this group only after they have graduated to commercial microfinance. Only one partner, the NUBL in Nepal, was profit oriented. NUBL implemented a less commercial model for the PEBLISA target group (called the Self-reliant group model). It was different from their Grameen model. Further evidence is available from CFPR, where the staff to client ratio is maintained at 1:80 to ensure that each extreme poor beneficiary gets full attention from the field staff till she graduates to a diversified income that allows her to access commercial microfinance services.

NUBL's work highlights the point that the staff-client ratio for extreme poor clients has to be much higher than for commercial microfinance. It has to be supported as the poor cannot bear the costs of their own development until they can afford market participation.

SafeSave was one of the first organizations to experiment with small and flexible savings products in Bangladesh, especially in urban areas. It offered a doorstep collection service for savings as small as one or two Taka. In its initial years the organization found that a programme based on just small and flexible savings could not become profitable. Poor households saved up to 200 to 300 Taka and then withdrew the funds for use. Only a

few wanted to take loans; and first loans were small, typically about 500 Taka. Loans of this size added more to costs than to profits. The SafeSave experiment (which was financed by a donor agency) showed that a flexible savings service alone could not sustain an MFO; and that loans were needed to make profits, and that these loans had to be large if costs were to be covered.[18]

The portfolio quality, on the other hand, continues to be relevant. PEBLISA's experience showed that the extreme poor were good re-payers, with repayments over 90 per cent in all cases. This was in part due to the motivation, capacity building work and follow-up by the facilitating NGOs and MFOs.

Some projects provided support to families in order that they could adhere to the financial discipline of the MFO. For instance, the Pakistan PEBLISA project provided food aid for six months so families could generate savings. The CFPR and IGVGD food support or stipends, given for periods varying from one to two years, ensured that families were able to meet their savings and loan repayment obligations in mainstream financial programmes. CFPR even provides an interest subsidy to extreme poor families, but this amount is paid to the mainstream microfinance programme so that performance and discipline of families does not fall. IGVGD needed $198.5 per beneficiary to provide food rations, trainings and interest subsidies to make the programme work. CFPR takes much poorer women, and provides more services until the women graduate from poverty. This costs about $448 per beneficiary.[19] These costs are considered modest by most donors, as reflected in continued support of donors (such as DFID, CIDA and AusAid) to CFPR for over 12 years, from 2002 to 2014.

## 3.5. Can the poorest graduate to commercial microfinance?

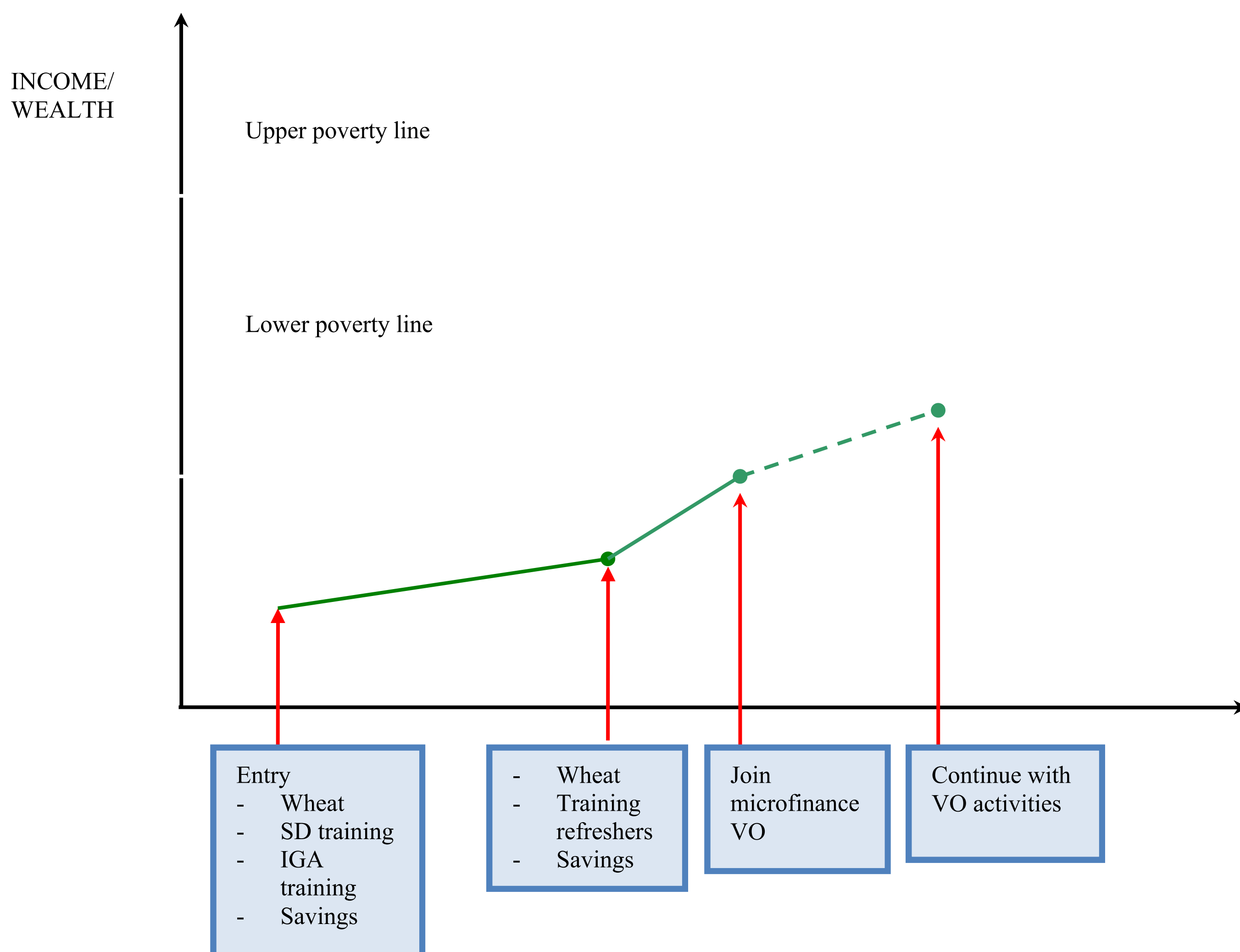
Bonded labour and those vulnerable to bondage, need different microfinance services to extreme poor clients of commercial microfinance providers. In due course, however, should these groups graduate to the next level and stop needing the additional support? Under the IGVGD programme, BRAC provided two years of support with stipends, skills training and detailed follow up. This is described Figure 18.

[18] Based on the authors' discussion with Safesave and its donor, PLAN Bangladesh in Dhaka in 2001.

[19] A recent review of CFPR showed that the cost of asset transfer programmes for the extreme poor varied from $345 to $448 per client; and that of loan based support from $76 to $243 (Young, Johnson and Premchander, 2008).

Figure 18. The idea of building ladders: The IGVGD model

Between 60 per cent and 65 per cent of those who joined the microfinance programme continued their membership for over three years (Yasmin, 2012). The CFPR programme provided only one year of asset transfer and clients were then expected to take




credit from mainstream sources. Over 60 per cent of women accessed such credit after graduation. The IGVGD experience also retained 60 per cent to 65 per cent membership over a three year period (Yasmin, 2012); and in the Tamil Nadu and Nepal PEBLISA projects, SHGs continued to function for two years after project completion (with the facilitating NGO providing continued support).

The more vulnerable households need a different type of support, and for longer periods. Extreme poor households take time to graduate out of poverty and become part of the “market” for microfinance services offered on a commercial basis. Such a progression is not a linear one. It is interrupted by the ups and downs of everyday life, and by shocks. During this transitional phase, when the clients join and begin to make use of commercial microfinance, soft products and other supports are needed.

*Bonded labour and ultra poor target groups take one to two years to graduate to mainstream microfinance programmes – a pathway that is not linear and requires donor support.*

## 3.6. Microfinance for release from bondage

In 1997, early micro credit programmes found that poor women took loans from their SHGs to release their husbands from bondage. The NGO documented this only at the time of assessing the impact of credit (Premchander, 1997). As there were no rights based approaches at that time, and consciousness of legal means for releasing people from bondage did not exist, this was viewed as a positive impact. It is a private measure for buying themselves out of bondage, with no recourse to state provisions, rights based approaches to poverty reduction.

The practice of bonded labour is illegal. In countries where PEBLISA was implemented, it might be expected that governments would actively seek to eliminate bondage through identification, release and rehabilitation support. The official route would be:

(1) Work with district vigilance committees to identify and release bonded labourers;

(2) Let the law take its course in punishing those guilty of bonding workers;

(3) Organize immediate relief and a long-term sustenance fund for the rehabilitation of those released; and

(4) Support the released households in selecting and starting economic activities that can provide future sustenance through self-employment.

The Bonded Labour (Liberation) Act allows any third party that finds bonded labour to make a complaint to the District Magistrate. The District Magistrate is then responsible for examining the case and according punishment to the accused (including the imposition of fines and imprisonment). The bonded labourer(s) should be released with immediate effect and are not liable to pay any of the debt that is said to have led to bondage. The government is also responsible for giving an immediate grant to meet urgent needs, and another larger grant to rehabilitate those released.

Yet, this simple linear route (identification, release and rehabilitation) is rendered difficult in South Asian countries by the confluence of social and structural factors that perpetuate bonded labour. While the legal route is the ideal, the reality is that bonded labour is spread across several sectors (from agriculture and agriculture-related activities, to manufacturing; and mostly in informal businesses). This makes it difficult to identify and release them. As many employers are powerful, locally, and have preferential access to the state, confrontational measures are likely to alienate both the state and the employers (who are important stakeholders of ILO). Confrontational measures are considered as imbued with the risk of eroding ILO’s tripartite approach. ILO’s attempts to involve employers in discussions have led to suggestions of changing the recording systems of loans and wages, but there is little evidence as yet of reduced incidence of bonded labour resulting from these measures.

Projects with external interventions, like PEBLISA, bring new approaches that aim to revitalize existing structures and augment local capacities to prevent and eliminate bonded labour. In PEBLISA’s Tamil Nadu chapter, women’s federations began the identification of bonded labourers but found that the labourers themselves were not willing to come forward, fearing a backlash from their employers (especially in the agricultural sector). If project staff asked those in bondage to identify themselves the project had to ensure action at the sub-divisional and district levels. Given that these projects were time-bound, and no continued support was guaranteed beyond the short period for which the implementing partners were hired (less than two years in all cases), a strategy that needed long term continued support could not be sustained.

It is for these reasons that PEBLISA relied heavily on a strategy of extending microfinance services to those bonded, released from bondage, and those vulnerable. Reaching those households vulnerable to bonded labour helped establish prevention as a priority; and microfinance provision was a key strategy for prevention as well as rehabilitation.

The use of microfinance to prevent bondage seeks to eliminate the major cause of bonded labour – indebtedness and low income. By enabling households to meet emergency and consumption needs (and enabling investments that augment assets and incomes) microfinance is a mechanism that provides a safety net as well as a path out of poverty to the vulnerable households.

The extension of microfinance to release bonded labour, however, is not in the same category. It involves a debt swap where a high cost debt, one that involves labour bondage, is substituted by a lower cost one, where interest is low and repayment is flexible. However, there are several arguments against using group loans to release bonded labour.

To begin with, bonded labour, released through a proper legal process, establishes clearly the boundaries where illegal practices start. It also increases awareness, and provides an enabling environment that will prevent future bonded labour. Extension of microfinance to release bondage completely covers up the fact that the practice is illegal; it endorses the practice.

Second, when a household takes loans and buys itself out of bondage, the debt is just transferred from the landlord to the group. It does not change the basis of the feudal relationship, but reinforces the primacy of financial capital.

Third, when SHG credits are provided for members to release bonded labour, the money released to SHGs goes to the employers of bonded labourers. This improves the cash flows of landlords and further indebts the poor; while the benefits of collective savings or revolving loan funds goes to the employers rather than in providing safety nets and assets for the poor. Evidence of the positive impacts of microfinance on lenders is also seen in Bangladesh (Fernando, 2006).

There are other aspects of a microfinance led strategy that can benefit employers more than bonded labour families. For instance, in Andhra Pradesh the PEBLISA project provided a seed capital fund of about Rs.17,000 ($425) to an employers' association, ostensibly to enable them to loan money to the labourers in the case of emergencies. This strengthened the position of the landlords and disempowered the bonded workers; whereas channelling the fund through the workers' associations or SHGs established by the project may have provided a more equitable and empowering approach. The employers also "captured" other benefits such as: loans for agricultural inputs; knowledge of integrated pest management; and farm technology exposure visits. This use of project resources, intended to benefit the poorest, risked exacerbating underlying structural inequities.

Furthermore, a preoccupation with "mainstream" microfinance precepts such as "absorption capacity" can result in unequal access to project finance. For instance (again in Andhra Pradesh) the capital contributed to the employers' group was Rs.17,000 ($425) whereas SHGs received only Rs.5,000 ($125) per group. The money for employers was released far more speedily than to the SHGs. The experience shows that existing structural inequalities can unwittingly be reinforced by external interventions, even those with good intentions.

A further concern is that a focus on microfinance for prevention can result in overlooking the situation of those actually in bondage. Indeed, in both Tamil Nadu and Andhra Pradesh chapters of PEBLISA, only very few families were released from bondage. The eight villages in Andhra Pradesh with vigilance groups also had several

youth in bondage. The project did not reach out to them specifically as the route prioritized for release was through SHG loans. In Tamil Nadu too, the project secured the release from bondage of only 19 people (over two years), but did reach a much larger number of those vulnerable[20] (Premchander et al, 2006).

One rationale for extending loans from SHGs to women (for releasing family members from bondage) is that of swapping a high cost debt for a low cost one (Churchill and Guerin, 2004). In 2006, as PEBLISA in India was completed, loans taken by bonded labourers, vulnerable families and those released from bondage were compared, as shown in Table 4.

Table 4. Loans from SHG

| Loans from SHG | BL | | FVBL | | FRBL | | Total | |
|---|---|---|---|---|---|---|---|---|
| | AP | TN | AP | TN | AP | TN | AP | TN |
| Availed no. (%) | 17 (29.8) | 17 (77.3) | 56 (51.4) | 220 (88.4) | 16 (47.1) | 29 (100) | 89 (44.5) | 266 (88.7) |
| Not availed no. (%) | 40 (70.2) | 5 (22.7) | 53 (48.6) | 29 (11.6) | 18 (52.9) | 0 (0) | 111 (55.5) | 34 (11.3) |
| Total | 57 (100) | 22 (100) | 109 (100) | 249 (100) | 34 (100) | 29 (100) | 200 (100) | 300 (100) |
| Total loan amnt Rs ($) | 108900 ($2723) | 124000 ($3100) | 163100 ($4078) | 1268000 ($31700) | 380000 ($9500) | 143000 ($3575) | 310000 ($7750) | 1535000 ($38375) |
| Av loan Rs ($) | 6406 ($160) | 7294 ($182) | 2913 ($73) | 5764 ($144) | 2375 ($59) | 4931 ($123) | 3483 ($87) | 5771 ($144) |

Although the percentage of members taking loans was lowest in the bonded labour category, the average loan amount given to this category was the highest. This was the case in both states: Rs 6,406 ($ 160) in Andhra Pradesh and Rs 7,294 ($ 182) in Tamil Nadu. Loans to bonded families may have been high because they took them to release members from bondage or alternatively to pay off high interest loans from money lenders (TISS, 2006).

Strategies based on microfinance for release of bonded labour pose important ethical questions. They absolve the state of its responsibility for release and rehabilitation, and place this responsibility in the hands of those who have been "wronged". It reinforces existing structures by putting resources back in the hands of the employers/perpetrators of bonded labour. It detracts from the need to build capacities of state, NGO and other stakeholders to prevent the practice and enforce the law, offering an easier palliative in the form of microfinance.

Therefore, we conclude that access to microfinance services is a viable and beneficial strategy for the prevention and rehabilitation, but it is not tenable for securing the release of bonded labour.

[20] The project objectives and indicators, as stated, did not include the release of people from bondage.

## 3.7. Addressing the need for livelihoods finance

One of the most important and vulnerable groups in need of livelihoods finance is those released from bonded labour but not yet rehabilitated. In Nepal, thousands of Kamaiyas suffered because they were ejected from the landowners' lands, and had no housing, work or food. Official rehabilitation support took over nine months to materialize. In this period families had to construct dwellings on road sides, and their earnings were limited to casual wage labour and support from civil society organizations. In India too, official policy pledges support for rehabilitation but this often takes time to be sanctioned. Thus released families often need interim support to carry them through this difficult period from release to rehabilitation. Mainstream microfinance accords a clear preference to loans for generating cash incomes, as the organizations depend on rapid cash turnover. Loans are usually small. They start at $20 and go to $750 or more (but only over longer periods).

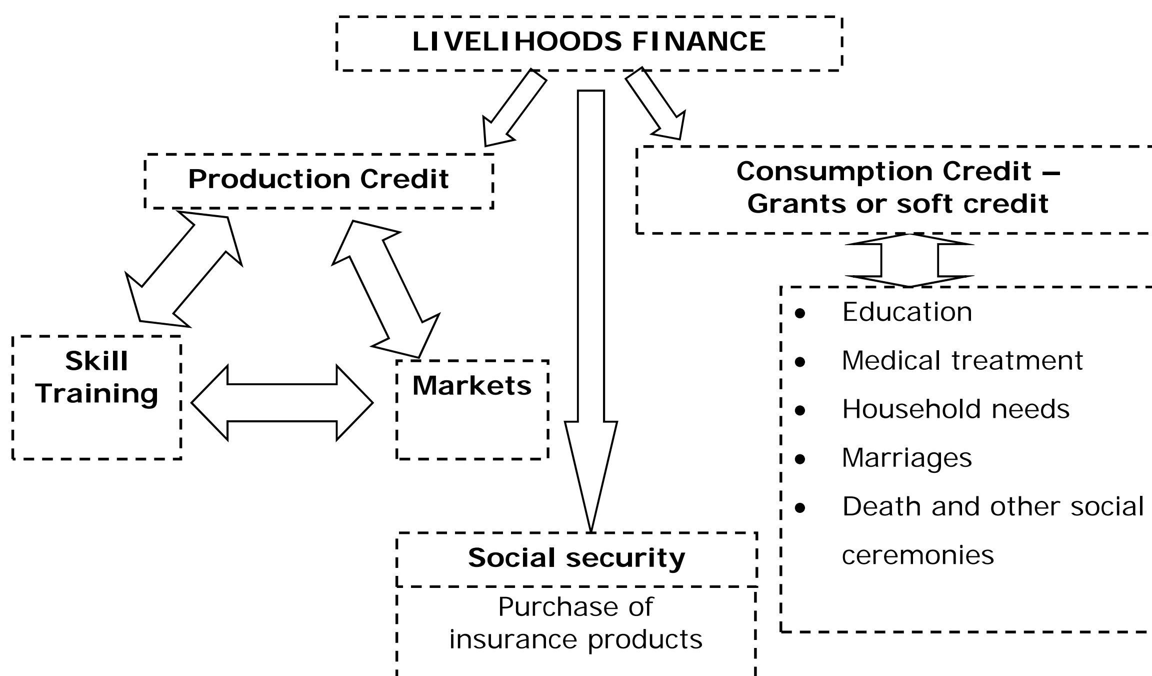
*The need for loans among extreme poor households (to meet social expenditure) is rarely met by microfinance programmes. This keeps households dependent on high cost informal finance, often accompanying labour bondage.*

Do such loans meet the needs of the bonded labour target group? These families do not have any cash reserves to pay medical expenses, buy food or provide education for their children. These expenses are not directly income generating; they will yield a "return" only over a period of time. Most mainstream microfinance organizations, however, do not allow their loans to be used for what they term "consumption". Some do allow groups to retain their own savings for meeting such needs, but create a disincentive for retention of savings by groups by offering loans based on the size of the savings deposited with MFOs. While some MFOs provide emergency funds, this is the exception rather than the rule.

Another important need is social expenditure for marriages, child birth and naming ceremonies, death functions and religious festivals. Most MFOs and banks do not extend loans for social expenditure, so vulnerable families tend to use local informal sources like moneylenders and employers for these purposes. The loans can be very large, especially for marriages, creating indebtedness for two to five years for several persons in the family. Although this reality is acknowledged, MFOs consider the risk of social loans too high to bear. Yet unless these needs are accepted as valid and addressed by formal microfinance, the poor will continue to be vulnerable to exploitative informal finance.

Microfinance products need to address varying livelihoods needs as depicted in Figure 19.

Figure 19. Livelihoods finance needs




Credit products for the extreme poor must cover consumption needs including food, education, medical care and social expenses (like birth, death and marriage ceremonies) as well as production needs. They need to be offered on terms appropriate for the extreme poor, preferably as stipends and grants, and be linked to skills training in market-related vocations. Vulnerable households also need insurance for life, medical care, accidents, their assets and crops. The linkage of SHG members with insurance can become much stronger as comprehensive insurance schemes are developed specifically for this segment of the population. Thus microfinance must address both protectional (from shocks and risks) and promotional (income generating) needs of the poorest households. There is growing recognition, however, that the priority is asset transfers or grants for asset creation. Microfinance loans are not their top priority: cash grants, food grants or subsidies, and insurance come higher (Premchander, Chidambaranathan and Kaul, 2010).

*Bonded labour target groups need both "protectional" and "promotional" finance. Mainstream microfinance usually offers only the latter, and that too often at a cost too high for the ultra poor to benefit from.*

# 4. Institutional arrangements

The institutional arrangements through which microfinance is delivered are intimately linked to the products offered, and have a major influence on their ultimate impact on beneficiaries. This section examines the institutional arrangements at two levels: first, the community level organization that serves as the medium for reaching individual clients: and second the organization that provides the financial services, or the linkages to these.

## 4.1. Models at the grassroots level

In PEBLISA, financial and other support services were provided through groups of 20 to 30 women. These groups were organized according to three models: Village Banking

(VB) and Self-reliant groups (SRG) in Nepal, and Self-help Groups (SHG) in India. As the first two are variants of the Grameen Bank model this is also described below.

### 4.1.1. The Grameen model

The Grameen model has five members in a group, and up to eight groups come together to form a centre[21]. Each group has a leader, and group members take joint liability for loan repayments. The centre meets once per week, when the MFO staff collect their savings, disburse loans and update their books. The groups and centre do not share any profits or responsibility for book keeping; the MFO manages all finances and keeps the earnings from the financial operations. Other salient features of the model are:

- Members receive loans on a staggered disbursement pattern. Two members get loans in each of the first two months, and the group leader in the third month (popularly known as the 2:2:1 pattern);
- Larger loans are provided in subsequent loan cycles (based on the performance of members in the previous cycles);
- These are collateral-free loans, but group guarantees are a “must”;
- Five per cent of the sanctioned loan is deducted to form a group fund;[22] and
- The loans are provided with annual repayment cycles – with 46 tp 50 weekly instalments.[23]

Among PEBLISA partners, only NUBL replicated the Grameen model. In Banke district, NUBL also tested the SRG model, considered to be more flexible and appropriate for PEBLISA clients (Dahal, 2005).

The Grameen model has been replicated widely, yet the most widespread model in India is the SHG-Bank linkage model (which is discussed later).

### 4.1.2. The village banking (VB) model, Nepal

In the classic model a village bank retains members’ savings which are then its source for loans. A VB village bank has its own president and treasurer who manage the bank and the internal accounts. The model was introduced by FINCA. It has been used extensively in Latin America and, more recently, in Africa, Asia and Eastern Europe.

[21] A variation used in BRAC, Bangladesh is the concept of a village organisation (VO), which typically has 20 to 30 women members, the equivalent of a Grameen Centre. In India, the size of an officially acceptable Self Help Group is 20, while the term Village Organisation is used for a collective of the SHGs in a village.

[22] Members often resent this. The Nepal ILO project reported that this feature of Grameen model created antagonism towards the programme. This is not surprising as members’ savings are collected, and a portion of loan is demanded as a contribution – thus exchanging members’ own no-cost capital with high cost loan funds.

[23] In Nepal, MUM and NUBL had modified this practice to fortnightly repayments following the challenges posed by the conflict situation in Nepal.

In Nepal, PACT introduced this model in 1999/2000 under its Women's Empowerment Programme. They were called savings-led village banks. They used only internal resources, with no access to external capital.

**Figure 20. Rekha Village Bank in Banke district, Nepal**

> The Rekha group had a total savings of NPR 22,000 ($ 338), with interest earnings of NPR 2,200 ($ 34). The group can lend between NPR.2,000 ($ 31) and NPR 4,000 ($ 62) per member. Members took loans for electricity connections, purchasing food or buying medicines. The savings were not sufficient to meet the needs of the members. There was no access to external loans because the facilitating NGO (MUM) did not yet have a commercial microfinance programme, a necessary condition for taking loans from MFOs. The group is situated in an inaccessible area, MUM was the only organisation that reached the group.

The key features of village banking are:

- Each group has an elected Executive Committee (Chairperson, Treasurer, Controller and Secretary) with clear roles and responsibilities.
- The village bank accounting system comprises: savings and loans books, attendance and payment sheets, cash control and summary transaction sheets, income statements, balance sheets and loan statistics forms.
- Each group adopts rules for the safe handling of money (including guidance on: managing money before, during and after banking days; specifying who carries money to the commercial bank; and rules for opening the cash box outside banking hours etc.).
- Banking days are once a fortnight.
- The cash boxes have three locks (with the keys handled by three members of the executive committee).
- Members must be willing to undertake economic activities (microenterprises)
- Loans are provided for a maximum of six months.
- Interest is deducted upfront.
- Dividends are calculated and distributed twice a year.
- Executive committee members maintain all the accounts on their own.
- Village banks primarily rely on the internal account, from the members' savings, for their initial lending activities.

**Figure 21. Flexible loans from Village Banks**

> Ram Kali Chaudhury used her first loan of Rs.3,000 ($ 75) to buy three goats (at Rs.1,000 each). These bred, and then she had six. She sold one for Rs.4,000 ($ 100). The second loan of Rs.1,500 ($ 38) was used for household consumption. The third time she borrowed Rs.5,000 ($ 125) to buy a male buffalo for ploughing. She has leased land, cultivates it, and shares the produce equally with the landowner. Ram Kali Chaudhury has improved her standard of living significantly since she joined the group. Due to marriages in the family she has delayed repayment on some instalments, but will repay slowly. The village bank allows flexible repayments. This allows her to match inflows with outflows more easily than if instalments were fixed.

This model was latero piloted by Mahila Upakar Manch (MUM) in PEBLISA in Nepal. Thirty nine groups were provided with flexible repayment loans. Some of these groups were constituted as village banks to enable them to continue as sustainable community-based microfinance organizations. Eight village banks were established through three village development committees in Banke district. Discussions held with two village banks in December 2007 indicated that they were still operating after the project closed, and were managed by the local women themselves (with some on-going support from MUM staff and volunteers).

**Figure 22. Small loans for emergency needs**

Iswari Khatri is not in good health. She returned to Banke after working in India for six years as an agricultural labourer, and in Saudi Arabia as a domestic worker for five years. She had spent her earnings of NPR 60,000 ($ 923) on medical treatment for her husband.

She is now a member of the two year old Rekha group formed by MUM, Nepal. She took a loan of NPR 1,000 ($ 15) for her husband's treatment, at two per cent interest per month, and cleared the loan over a period of 3 months. After 2 years of saving at Rs.15 per meeting (twice per month) her total savings in the group were NPR 765 ($ 12). Iswari's husband continues to be ill. She has 3 decimals of land, and a buffalo which gives 2 litres of milk (earning NPR 32 or $ 0.5 per day). Of the NPR 960 ($ 15) she earns from selling milk each month, Rs.500 ($ 7.5) is spent on her husband's medicines. Her son who is 21 years old earns sporadically and sometimes gives her money for the medicine but nothing towards food. Iswari continues to save in the group as it is her only source of loan for medical expenses.

There were several challenges when promoting village banks:

- Former Kamaiyas and vulnerable households have very low literacy and empowerment levels. Teaching them about accounting systems and banking activities was challenging.
- MUM's active technical support to groups was needed for (at least) one or two more years, but this was not possible after the project closed.
- Though MUM had committed to retaining its social mobilization staff in the village development committees after the end of PEBLISA, this was not possible due to insufficient resources.
- At times, Maoist rebels prevented local organizations from conducting meetings and other activities which made forward planning very difficult.

*Village banks gave women access and control over their savings but without external capital loan funds remained small. Donors in Nepal favoured the Grameen model over village banking.*

Village banks only used women's savings as the loan fund. Although this was a limitation it still provided benefits (Figure 23). And although MUM has since received a license for financial mediation it is yet to function as a fully-fledged MFO because external agencies did not consider village banking a safe investment.

### *4.1.3. The SRG model, Nepal*

In the second phase of PEBLISA's Nepal programme, NUBL, an existing microfinance organization, was approached to offer credit to the groups that MUM (as an NGO) could not provide. The groups were in Banke district, a politically sensitive area during the period of armed conflict. MFOs suffered: many rural branches were shifted to the district headquarters; looting was reported from the field collection centres; loan

repayment rates were compromised; and membership growth stagnated. In this context, the Grameen Bank model was criticized for various reasons including its over-emphasis on credit services and repayment discipline, lack of attention to savings and emergency loan products and limited efforts to provide non-financial services such as business skills development.

In an attempt to counter these shortcomings NUBL developed the Self-reliant group model which combines features of Village Banking and the Grameen system. It consisted of the following steps:

- Identification of the extremely poor households through PRA techniques;
- Group formation with 20–40 like-minded women;
- Election of a four-member executive committee – Chairperson, Secretary, Treasurer and Alternative Treasurer;
- Training (by NUBL) of committee members on savings and credit policies, book-keeping, accounting, preparation of financial statements and report-writing;
- Compilation of loan requests of members (by the Executive Committee) and submission of a request to NUBL for wholesale lending fund; and
- Provision of lump sum by NUBL for lending-on to SRG members.

A group could borrow up to twenty times the amount of its savings deposited with the bank. Groups provided loans to members for emergency or income generating purposes. The repayment schedule wass variable, ranging from bi-weekly to quarterly instalments, depending on the nature of the investments made. NUBL loaned the wholesale amount to groups at an annual interest rate of 18 per cent (calculated on a declining balance) and reimbursed 3 per cent of this during the annual closing of accounts if the groups paid back on time. Groups then further lent this money to the members at 24 per cent. The margin maintained by groups provided for basic operating costs, loan loss and other expenses. Many groups were able to make a net annual profit which was distributed as dividends among members. The model was piloted by NUBL in Banke district, and was later replicated in Plan Nepal's FKLDP project.

Key beneficial features of the self-reliant group model include:

- **Profit sharing**: the sharing of any surplus made (at the year-end closing of accounts) is a benefit that does not exist in the Grameen system;
- **Feeling of Ownership**: self-reliant group executives and members take pride and satisfaction from handling banking transactions themselves;
- **Capacity building**: is the executive committee transacts all self-reliant group operations in the presence of members, everyone gets to learn about the accounting system, lending policies etc.;
- **Bi-weekly meetings**: bi-weekly meetings reduced operating costs and minimized risks (like physical threats, the theft of cash) in Nepal's conflict situation
- **Membership growth**: women villagers are less suspicious of self-reliant groups than of outside bankers. Nobody is antagonistic when other villagers urge them to join the programme (which is owned and managed by the villagers themselves).

On the downside, the model demands a level of commitment and skill in leadership and account keeping, and requires more expenditure in the initial years (for social mobilization and capacity building).

*Banks, cooperatives, trade unions and the government have all adopted the SHG methodology to provide loans and grants to poor households. Ninety per cent of SHGs in India are women's groups.*

NUBL has since been invited to scale up and replicate this model by some of its donors, e.g. Plan Nepal.

#### *4.1.4. SHG bank linkage and cooperatives, India*

India's cooperative movement and development banking sector have both embraced self-help groups as a way of reaching the poor and extreme poor. As the SHGs have become more accepted in India they have been used by cooperatives to organize grass-root organizations – forming SHGs as enterprise groups among members who pursue the same trade; then federating these into cooperatives.

Similarly, development banks in India have used SHGs to channel credit to BPL households; and trade unions have adapted the model for linking their members to banks, insurance companies and government for loans, insurance products and grants.

*The SRG model requires women to deposit their savings with the microfinance organization to avail loans, so women lose interest earnings. In return they can obtain loans of up to 20 times their savings. The interest on loans is lower than the Grameen model –to allow SRGs to keep a profit margin in lieu of loan supervision.*

In India, a SHG is defined as a group of 15-20 people with a common goal of socio-economic sustainable development; discussing their problems and resolving them through participatory decision making. Women's SHGs typically pledge to informal rules, open a bank account in the group's name, select two to three leaders and conduct savings and credit activities. They meet once every week/fortnight/month depending on the region and the facilitating NGOs preferences. In the initial years of SHGs in India, groups were required to deposit their savings in banks, but now this is not essential. The creditworthiness of a SHG is determined by a well-developed system of group grading.

Thus, in India, a SHG is viewed as not only a savings and credit forum, but also one that facilitates women's empowerment. SHGs have access to both subsidized and unsubsidized credit from banks. SHGs can also be members of cooperatives and take credit from these.

### 4.2. Comparing group models

The experience of organizing different types of groups in Nepal and India provides many lessons. The pros and cons of the different types of groups are compared in Table 5.

Table 5. Features of different microfinance models

| Features | Grameen model | SRG model | Village bank model |
|---|---|---|---|
| Cost of loans to members and margin of retention | Members pay 24% p.a. group retains only 4% | Members pay 24% p.a. group retains only 9% | Members pay 24% p.a. group retains all 4% |
| Benefits to MFO/ NGO | Increased interest | Reduced costs of operation | None, NGO must cover its own costs through grants |
| Degree of autonomy | Least, as external agencies run the operation | Medium | Highest, as there are women member managed groups |
| Ease of operations | Easiest for external agency, has full control | External agency has a major role | Women take leadership, and need capacity building, especially if they are illiterate |

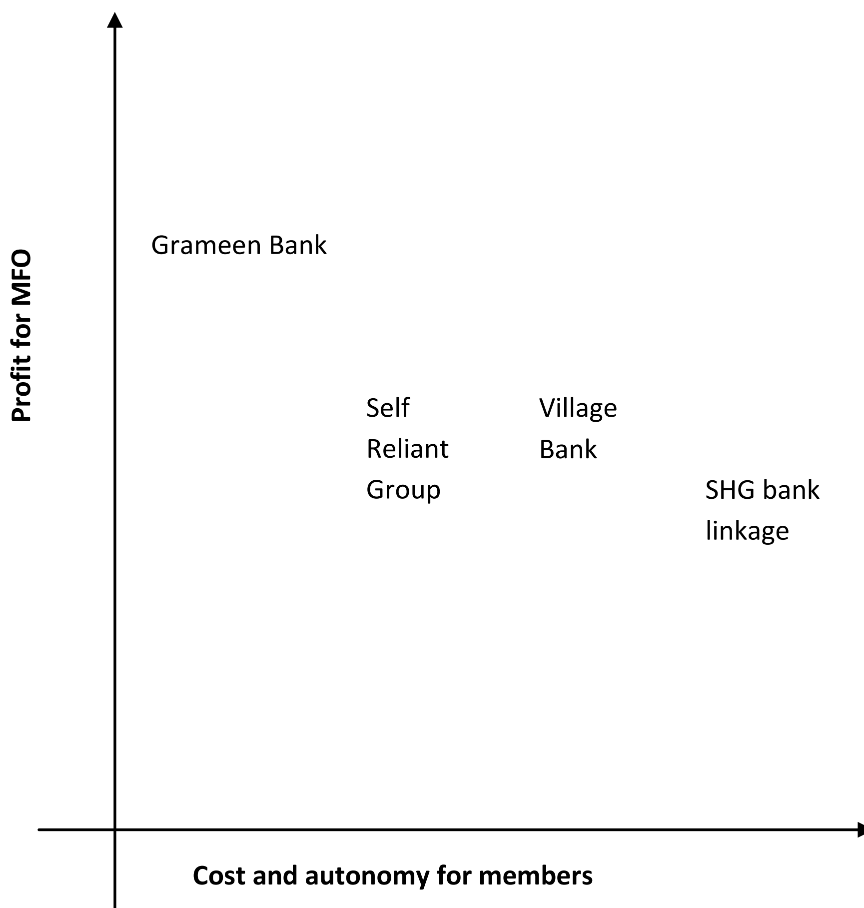
Thus the self-reliant group model is in the middle of the spectrum between the Grameen model and village banks. The Grameen model is MFO-centric and gives no financial returns to women, while the village banks are initially difficult for women to manage. NUBL considers that the self-reliant group model is: easier for account-keeping; more appropriate for low volume financing; and less risky in the long term. With time, both discipline and attendance would stabilize, and the loan taking capacity is expected to increase; while wholesale lending would reduce the need for staff and supervision. NUBL estimates that a branch with Grameen type groups needs eight staff, but the self-reliant group approach needs five.

Experience with self-reliant groups suggests that about 60 per cent to 70 per cent of the women members take loans, compared with over 80 per cent in the Grameen model. The loan size is also a little less at about NPR 7,000-8,000 ($ 108-123) in a self-reliant group model, and nearly NPR 12,000 ($ 185) in the Grameen. The Grameen model takes two years to break even, while the self-reliant group model takes three years. NUBL has adopted an intensive coverage strategy, especially the hills region, to minimize the cost of outreach and maximize profits from lending.

In the Indian model of NGOs facilitating SHG Bank linkage, the SHGs created are introduced to banks and supported to qualify on banking credit standards. This enables them to take loans directly from the banks at 12 per cent interest, to lend-on to members. As these groups are often subsidized, the SHGs usually have to repay only a potion of the total amount sanctioned under the official scheme[24]. This is the most predominant model for working with the poorest of the poor in India, and acknowledges the reality that commercial microfinance does not reach the extreme poor in India (Ghate, 2007). This model was adopted by all but one of the implementing partners of PEBLISA in India. That partner worked through cooperatives. An analysis of the four models (their advantage to the members and the MFO) is given in Figure 24.

[24] There are several departments offering subsidies and the total subsidy for a group may vary from 10 to 75 per cent.

Figure 24. Comparing grassroots microfinance models




The microfinance delivery model adopted at grassroots level is key to realising impacts for programme beneficiaries. Neither scale nor empowerment can be achieved in short term interventions. Experience shows that by creating strong groups, with decision-making and financial control in the hands of the members, both social and financial benefits will accrue. Such a strategy takes longer as members need time to learn complex group management skills and to build social cohesion, responsible leadership and mutual accountability.

*Short term projects for bonded labour target groups are not able to complete the learning and capacity building cycle for strong member-based organizations.*

However, most interventions for bonded labourers are of quite short duration. Furthermore some donors favour interventions (for bonded labour target groups) based on education, health and skills development rather than microfinance. Given these strategic biases and time constraints, the favoured strategy is to invite established MFOs to provide microfinance to project clients, adapting their services to meet specific needs.

PEBLISA's experience also challenges the commonly accepted belief that only commercial microfinance organizations can provide both scale and sustainability. Linking SHGs to banks can do this as well; as can cooperative formation.

*"Facilitator" NGOs leave microfinance profits with member groups, and depend on grants to cover their operating and capacity-building costs. By contrast MFO and NGO "MF providers" cover their costs through interest and other earnings.*

*Cooperatives are member based organizations, wherein this conflict of interest does not exist; they receive more national than international support, and have grown more slowly than commercial MFOs.*

## 4.3. Models of microfinance delivery organization

Microfinance organizations either deliver financial services, or provide a link between service providers and the community. In the PEBLISA countries, four were facilitator organizations (three of them in India) and three were direct providers of finance with viability as their priority (one each in Nepal, India and Pakistan).

Experience in Nepal showed that the facilitator organization found it difficult to sustain operations beyond the project period, but the for-profit banking organizations could sustain and expand. Even when the facilitator organization adopted the commercial model it lacked funds for promoting women's empowerment agendas such as spreading awareness of women's rights and developing leadership.

In India, member-based organizations were promoted for building second and third level structures at block and district levels. This established voice and leadership among the women. The programmes were working at a larger scale within a more positive enabling environment (than in Nepal) – key factors contributing to establishing member-owned organizations. Being large and well-funded also helped two religious organizations in Tamil Nadu to find sustained funding for their development work. Later lessons from PEBLISA, particularly those on promoting and federating groups, and enabling these groups to engage with microfinance, were replicated by other organizations working in the tsunami affected areas of Tamil Nadu.

In Pakistan, the National Rural Support Programme (NRSP) is working as an implementing partner to the ILO. NRSP is Pakistan's largest development NGO and holds the country's largest microfinance portfolio (with 94,001 active loans as of 31 December 2004). NRSP developed a safety net programme providing access to microcredit, savings and an innovative land lease initiative. Through this scheme, over 400 families received land with titles. The project also built community schools, which improved literacy and education of children. Facilitating organizations were able to bring both financial and social gains to bonded labour clients.

NUBL was the key organization in Nepal offering microfinance services to clients, and became a partner to PEBLISA's second phase. NUBL was founded as an NGO in 1991 and later emerged as a specialized MFO, forming a bank by 1999. ILO's PEBLISA project offered enterprise training and other support to the bonded labour target group – the ex Kamaiyas. In December 2007 NUBL was the largest MFO in Nepal, and has retained that lead. The organization has experimented with the self-reliant group model that allows the sharing of work, profits and responsibilities between the bank and the women's forum. NUBL introduced enterprise trainings to enable women to reach markets and expand businesses. The organization is not only sustaining itself but has also raised funds, subsequent to PEBLISA, to continue work with the bonded labour group e.g. the Freed Kamaiya Livelihoods Development Project sponsored by Plan Nepal.

The examples demonstrate that commercial and social objectives can be combined in organizations able to sustain and scale up their work; and many continue to work with bonded labour groups and those in extremely vulnerable situations.

## 4.4. Key institutional issues

There are three key institutional issues when using microfinance to prevent and eliminate bonded labour:

- What is the best way for bonded labour groups to graduate from small sums of money to credit that is delivered by commercially viable organizations?
- If an organization extends credit to especially disadvantaged groups (such as bonded labour) how should its performance be evaluated?
- If an organization takes the form of "facilitator", is it easy for it to transit to a for-profit form, and vice versa?

These issues merit discussion to enable organizations (that seek to provide microfinance to bonded labour or vulnerable groups) take more informed decisions about the organizational form they should adopt.

### *4.4.1. Graduation to mainstream credit organizations*

Typically, bonded labour and extremely vulnerable clients first access funds in the form of grants or soft loans to improve their livelihoods. It is assumed that, after an initial phase of needing grant based support these extreme poor households would "graduate" to using commercial credit.

"Graduation to mainstream operations" needs to be looked at with reference to local contexts. In Bangladesh, where BRAC-CFPR operates alongside the mainstream microfinance programme of BRAC, the extreme poor found it difficult to comply with the expectations of the microfinance organization in their demand for credit. The extreme poor wished to depend more on their own savings, borrowing less frequently and in smaller amounts than mainstream microfinance programme borrowers. Being a highly vulnerable group, they also needed supervision for a two year period, which is longer than the support provided by the first grant-based programme. It helped, therefore, that the same parent organization (BRAC) houses both programmes. Dialogue and coordination between the mainstream and microfinance programmes was far easier than if the two had been completely different organizations.

In India, the "mainstream" constitutes the government and the banking sector. The SGSY scheme already links groups to banks, thus mainstreaming them from the outset. The subsidy to BPL groups is given only once; from the second cycle onwards groups are expected to take unsubsidized loans from banks. However, there is no monitoring of how many groups do this. As the SGSY scheme is fraught with difficulties (due to inherent corruption) a very low percentage of SHGs survive (EDA, 2006; Premchander and Prameela, 2007). When banks provide unsubsidized credit to SHGs it is mainstreamed from the beginning. Therefore "graduation" takes place right at the start. This credit is flexible – payable over three years at an interest rate of eight to twelve per cent per annum.

The third option available in the "mainstream" is high cost credit offered by private NGO/MFOs – usually at 18 to 24 per cent per annum, and payable (usually) within one year in weekly instalments. This is the most stringent credit, often the last option of the poor in remote areas. As providers of this credit facility also seek financially profitable areas, they are spread thinly over "less favoured areas". Therefore from both demand and

supply perspectives it is the official schemes that target the poor best, followed by the unsubsidized credits offered through the banking sector (Premchander et al., 2009).

The situation is not the same in Nepal where official subsidies are few, and coverage of the banking sector is low. Private organizations like MUM, and NGOs, have greater relevance. Donor and official support is biased towards commercial credit delivered through the Grameen model. Organizations like MUM have not been able to raise funding for the specific needs of the bonded labour target group, except for a short period as an implementing partner to ILO's PEBLISA project. In Phase 2, even PEBLISA prioritized a commercially viable MFO, and MUM was allowed to support only those vulnerable markets that NUBL found unprofitable to service. NGOs that work with vulnerable groups need to be supported with grants. Without grants the work with vulnerable groups will remain unviable and they will not be reached by organizations that seek to have only profitable branch operations.

### *4.4.2. Analysing financial and social performance*

The new paradigm of microfinance prioritizes financial performance and sustainability over outreach, as scale and sustainability is considered necessary for financial services delivery. Following this paradigm over the past decade and a half, donors have directed grant funds to private MFOs. With equity and loan money flowing in as well, these organizations could grow rapidly. However, they also began to pursue highly profit-oriented operational strategies, going to the extent of setting extremely high interest rates and following coercive repayment practices (Shylendra, 2006). Alongside this trend, questions about poverty outreach and impact have been raised. The concept of a "double bottom line" has emerged, emphasising a balance between poverty outreach and the financial sustainability of the providing organization – for example through the development of concepts such as social performance management (Microfinance Gateway, 2008; Sinha, 2006).

Although these concepts are new for the private MFOs proliferating in South Asian countries, the banking sector (at least in India) has long followed principles of development banking. For instance, the Regional Rural Banks were established with the aim of balancing costs and outreach. They extend non-subsidized credit in ways that make it low cost for the poor but profit making for the bank. Such beneficial microfinance, accompanied by non-financial inputs, resulted in significant social and political empowerment, as seen in Figure 25.

**Figure 25. Financial and social benefits**

Balamani, wife of Durai, belongs to Aayalur village in Thiruvallur Block. She belongs to a very poor SC family. She worked as an agricultural daily wage labourer and her husband is physically challenged. She married-off her only daughter with her meager income. She belongs to the Alli Savings and Credit Group (SCG) promoted by the ILO/PEBLISA project. She used the affordable micro credit facility available to members of the SCG, and set up a petty shop business in her village. She was an active member in the group and was instrumental in the collective actions taken by them to obtain drinking water and a cemented road to her village. Although there was tough contest for the post of Panchayat president in the recent elections, people appreciated her service for the village and chose her as their new Panchayat president. In her new role she is keen to deliver corruption free services to her people and give priority to solving women's problems.

However, the benefits of cooperatives and development banking are not yet fully recognized at policy level, and do not attract donor funding (which would enable them to better service the microfinance needs of the bonded labour target group and the ultra-poor).

*The decision about models of microfinance delivery organizations should be discussed and taken at the beginning of a project intervention.*

### 4.4.3. Shifting from one model to another is difficult

The Nepal experience shows that once groups are formed by one NGO under one model, it becomes difficult to transfer them to another organization and another model. This loyalty develops for many reasons:

- In most cases the women have never been organized before, and it is their first experience of coming together – discovering the potential of collective work and forming mutual bonds. This process builds loyalty to the organization that first brings them together.
- The NGO that organizes them also provides the training staff. The women become attached to them as mentors, which is difficult to transfer later to another set of staff.
- Members develop comfort levels in the management of one model, usually the one first introduced, and it is not easy to change to new modalities and another set of management and accounting standards.

*Bonded labour target groups would benefit most from grants in the intial stages, and later, from subsidized low cost credit from member based organizations.*

Therefore, the decision about which type of organization to promote needs to be taken once, and pursued throughout a project's duration. Changes in model become difficult for the implementers and, more so, for the target groups. In India, many NGOs changed their institutional form from a charitable society to a non-banking financial company – a transition many found difficult. Many continued to have three or four types of organizations in order to take grant and loan funds – to operate one institution with a charity motive and another with a profit motive.

### 4.4.4. Strong facilitation is needed

All of the successful experiences related in this paper have one thing in common; they are implemented by NGOs and facilitating organizations with strengths in infrastructure, staff, management, training, monitoring, capacity building of local organizations, and in building partnerships with national and international organizations.

Decisions about the form organizations take (at grassroots and the second level) are key to achieving impact. They dictate the approach of external intervening agencies. Those emphasising empowerment invest more in local capacity building, and devising strategies that retain financial control and benefits among the women themselves. Those that prioritize institutions tend to invest more in building the capacity of external agencies and becoming financially sustainable intermediaries. Experience with bonded labour and extreme poor households shows it takes a long time for them to be absorbed into mainstream commercial microfinance programmes. Therefore initial steps to empowerment and inclusion must begin with creating small but powerful forums at the grassroots level, and prioritising member-based organizations over externally-managed ones.

# 5. Lessons and conclusions

Integrated support to livelihoods is the primary need of families that are in bondage, newly released from it, or vulnerable. One of the elements of this integrated strategy should be microfinance.

Our recommendations for using microfinance strategies, products and institutions for bonded labour target groups, based on this review, are elaborated below.

## 5.1. Financial strategy

The strategy for creating sustainable access to financial services for bonded labour groups and the ultra poor needs to include:

- **Financial literacy and management**: The key to sustaining impact of a time-bound project lies in creating local capacity to access and manage finance. Women need to: understand the implications of different savings and credit products; be able to make informed decisions about management of their own money; and forge solid relationships with financial institutions.

- **Appropriate savings products**: Extremely poor and vulnerable households are not able to save regular fixed amounts, and need flexibility in saving-amounts and frequency. Further, they benefit more from individual, household level savings than from group based schemes.

- **Appropriate loan products**: Loan products for the extreme poor must differ from commercial microfinance loans (which tend to carry high interest rates, fixed one year repayment schedules, weekly instalments and no repayment holidays). By contrast, households vulnerable to bondage need: low interest rates; repayment schedules linked to actual income flows; and instalments that are fortnightly, monthly, quarterly or six monthly.

Many MFOs provide only one loan at a time. PEBLISA showed that vulnerable families can benefit from two or more loans at the same time, for different purposes and with different repayment schedules. For instance, an emergency loan with a flexible repayment schedule may be needed even if an earlier enterprise loan is not yet fully repaid.

Each lending agency must strike a balance between encouraging savings as a means of building members' independence and empowerment, and as a means for them to access loans. It also has to arrive at an appropriate size of loan: one that is large enough to enable extreme poor households to build assets and overcome poverty, but avoids the debt becoming too large and impossible to repay.

- **Loan utilization monitoring and support**: As poor families have many competing needs for cash, they may divert loans intended for income generating activities for meeting urgent household needs. In other cases, the economic activities may not do as well as expected. In order to ensure that loans are well utilized, and that any enterprise problems are solved quickly, the facilitating NGO/MFO needs to provide loan monitoring and enterprise support services.

- **Microfinance benchmarks**: When commercially oriented MFOs provide money to vulnerable groups they need to recognize that these groups may be slower to repay, and require greater flexibility; so the way organizational benchmarks, like portfolio at risk (PAR), are set may also need modification. A better approach, therefore, is to encourage linkage of the extreme poor to government-backed programmes that

provide grants and loans on soft terms. Such programmes benefit from incentives and subsidies that reduce their costs and make outreach to the bonded and extreme poor possible.

- **Micro insurance**: Poor families need a wide range of risk cover to reduce their vulnerability. In India, such coverage was available, with life insurance, educational support and livestock insurance organized through public organizations and with low premiums. In Nepal, NUBL provided a range of insurance products. The lesson from PEBLISA is that, before turning to private insurance companies, vulnerable families should be linked to all existing official social protection measures and programmes to which they are entitled.

- **Sustainable financial linkages**: In the countries covered in this review, there is a large presence of mainstream banking organizations which cater to the needs of the government target groups for bringing them above the poverty line through official support and subsidies. For instance, PEBLISA in India was very successful in garnering official resources for subsidized loans and grants. These are more appropriate for the extreme poor than commercial microfinance offered on more stringent terms by private MFOs. This option exists in India, but is limited in countries like Nepal where the official banking sector has not yet made inroads into finance for the rural poor, although cooperatives do offer some services on better terms than private MFOs.

## 5.2. An integrated approach

A microfinance strategy should be formulated as part of a broader integrated strategy against bonded labour, which needs to also consider the following issues.

- **Prevention strategies are not discriminate**: When microfinance is used for prevention, it must target ALL those who are vulnerable, and not just those who are vulnerable to bondage. Drawing a distinction between these two categories is not easy or cost effective. Moreover, microfinance benefits from scale – so covering all vulnerable families together makes better sense than addressing only some of them who are vulnerable to bondage.

Figure 26. Asset creation for released bonded labourers

> In India, official support includes Rs.1,000 ($25) as an immediate cash grant and Rs.19,000 ($475) for asset creation. In Nepal, the package consists of 0.3 hectares of land, 35 cubic feet of timber and a cash grant of Rs.10,000 ($250). Prioritisation of land and other asset creation is necessary for long term poverty alleviation of households trapped in debt bondage.

- **Enabling decent work**: To begin with, “release” is not necessarily the best option for all those in bonded labour. In some cases, there are possibilities of working with the employers to improve working conditions and wages, and thus eliminate the elements of bondage, rather than obliging a relocation of workers to a different place and new employment. Under PEBLISA, several large farmers in Andhra Pradesh did release agricultural labourers bonded to them, while in Tamil Nadu rice-mill and brick-kiln owners accepted in principle the need to separate loan accounts from wage payments (although this was not acted upon during the life of the project). The lesson is that microfinance organizations have to be mobilized to provide a supplementary source of credit to workers, so that their dependence on employers is reduced. This can only work if microfinance supply is forthcoming on terms acceptable to those in or vulnerable to bondage. Given that, currently, there exists a clear mismatch between demand and supply of formal microfinance, employers

continue to fill the gap and bondage persists (despite the laws and regulations against it). The separation of credit and labour markets thus needs to be accomplished both through policy changes, such as strict regulations de-linking debt and employment contracts, and microfinance supply on reasonable terms

- **Release and rehabilitation**: In extreme cases of bondage, the only way out is release through legal means. While certain NGOs and activists in India resort to the confrontational approach of taking police action to release bonded labourers, PEBLISA followed an alternative approach of engaging with various stakeholders to identify, release and rehabilitate them. This required creating awareness, understanding and cooperation among many actors, primarily NGOs, the state and workers.

  Regardless of the way release is secured, rehabilitation assumes importance if those released are not to fall back into bondage. In such rehabilitation, the first need is resources for immediate survival, namely housing and cash. Official packages for immediate relief and rehabilitation differ in India, Nepal and Pakistan, but all include assistance for housing and an initial cash grant. Microfinance, being loan based assistance, can only be the next step of assistance, though savings services can be offered almost as soon as families are released.

- **Institutional structures and approaches**: Working with ultra poor families is a specialized field for which specific institutional capacities are needed. NGOs that facilitate decent work or release from bondage need different skills from those who offer microfinance, which itself requires specialist skills and organizations. NGOs need not become "providers" of microfinance, but can just as well opt to be "facilitators" of access and links to financial organizations like banks, cooperatives and private MFOs. They need to be able to provide (or link to) complementary services such as adult literacy, health and enterprise support. Very few NGOs have expertise in all three areas (social, financial, and enterprise) so they need either to build up their own capacities or to network with other specialized organizations

**Figure 27. Non-financial impacts of PEBLISA's integrated approach**

Pakistan

The research studies and workshops sensitized government officers about the conditions of bonded labour, thus creating motivation to address the problem. The project linked the beneficiaries to the government's schemes in the health and education sectors. The Legal Aid Service project was approved and houses were constructed by the Bonded Labour Fund Directors. Two units for legal aid services were set up at the province level. The National Coalition against Bonded Labour was formed. A major development was the activation of the National Committee (NC) for the supervision of the activities undertaken under the National Policy and Plan of Action. The NC has provided a useful platform for constructive dialogue between provincial governments and the representatives of the Brick Kiln Owners' Association.

At the community level, 12 community primary schools were opened and teacher absenteeism was reduced due to effective monitoring. The programme reduced the vulnerability of beneficiaries to diseases and expenses on medicines. Health camps were conducted, benefiting 23,610 patients. Confidence levels of beneficiaries increased and they themselves expressed that they felt empowered. By February 2006, 73 per cent of them possessed national Identity Cards as compared to only 12 per cent before the project. Fifty three per cent of them registered as voters and many voted in the local body elections in 2005.

**India**

At policy and instituional levels, the project created awareness about bonded labour issues amongst bonded labourers, employers, government officials and public. The government recognized that bonded labour exists in various sectors including agriculture, rice mills and brick kilns. The project created a platform by forming employers' and workers' associations to discuss and negotiate bonded labour issues. Judiciary, police and government officials brought issues of bonded labour into the limelight. Trade unions embraced the issue of bonded labour and trained workers on their rights. In TN, 82 representatives from five National trade unions participated in a workshop and formed the Joint Action Council, to collectively address the issue of bonded labour.

At the community level, most children of school going age were motivated to attend schools. The school drop out rate reduced from 30 to 15 per cent in all the schools of the 8 villages in AP. Children's retention rate in school increased from 70 to 85 per cent. In AP, 90 bonded labourers and in TN 24 bonded labourers were released. Many employers were convinced to release bonded labour voluntarily. In the 8 project villages of Ranga Reddy district, AP, 194 adults learned reading and writing, and numeric skills. There were significant health impacts. The infant mortality rate reduced from 30 per cent to 15 per cent. People using safe drinking water increased from 30 to 40 per cent. The percentage of respondents following good sanitary practices increased from 15 to 35 per cent. Families were involved in raising kitchen gardens of vegetables, and leafy foods consumption increased from 10 to 40 per cent. People who understood the disadvantages of some social customs increased from 20 to 50 per cent. About 45 per cent families understood the ill effects of the dowry system. Respondents reported signficant reduction in alcholism. Six child marriages were stopped by persuasion and interaction. In TN, in 2006, women were already taking on more leadership roles. By March, 2008, 49 PEBLISA participants contested in elections to local bodies, of which 29 were elected. Out of 29, 28 of them are women members. Two per cent of them reported that the level of vulnerability to bondage had reduced. More children were going to school. Seventy four per cent of the beneficiaries expressed that there was no wage discrimination between women and men.

**Nepal**

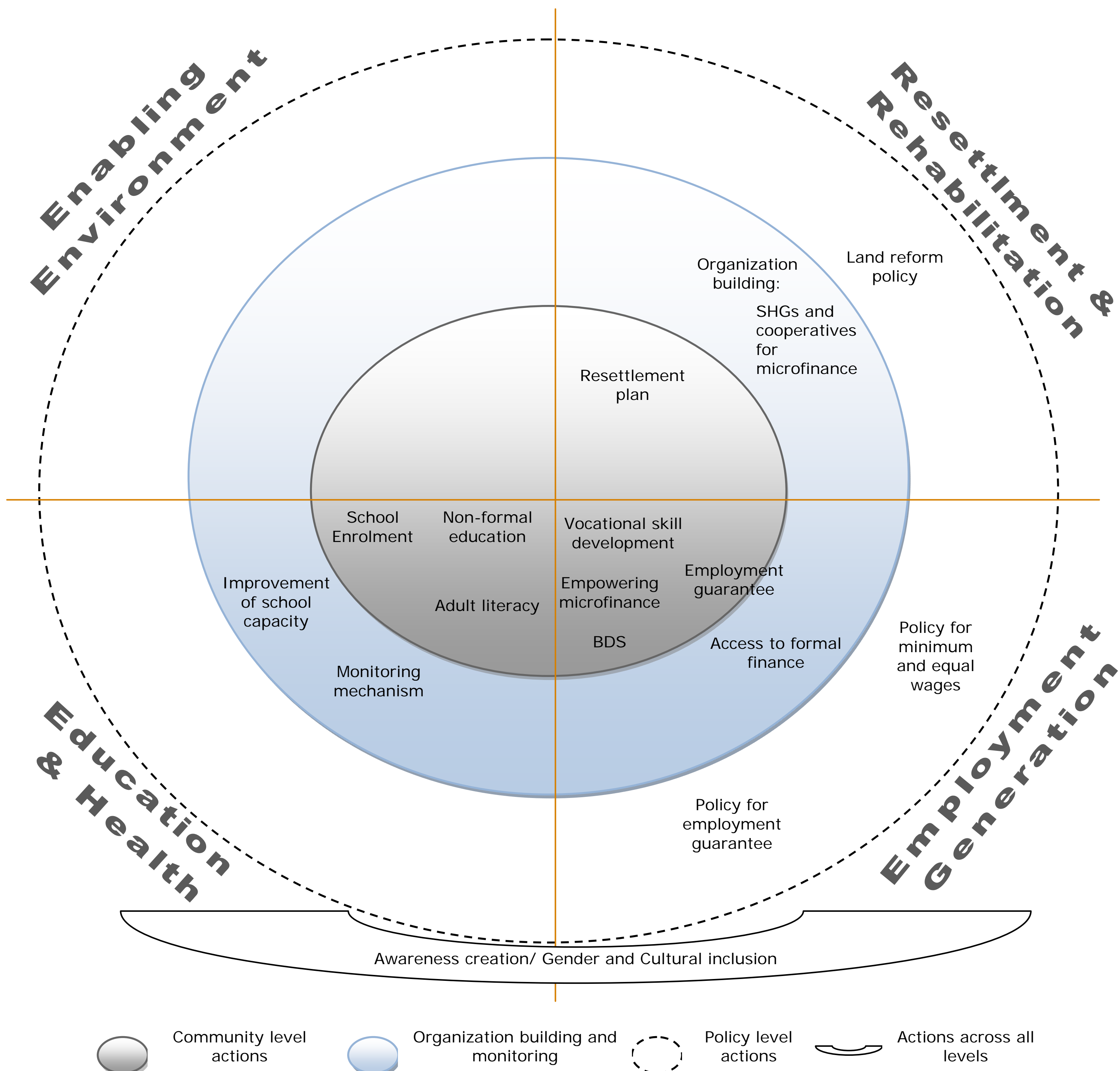
ILO's support in earlier years was critical in the official enactment of the legislation banning bonded labour. Studies conducted by ILO collected information about the types of bondage and number of those bonded, and created awareness of the issue among a wide range of organizations in Nepal.

At the community level, the project provided knowledge about safe drinking water. The incidence of beneficiaries going to Sadhu, Guruwa and witch-doctors for treatment decreased. Reduced alcoholism. Forty seven per cent of them were aware that "employing bonded labour is illegal". Ninety four per cent of the beneficiaries claimed their level of confidence increased in dealing with people and solving problems. Ninety two per cent of them reported that the level of vulnerability to bondage had reduced. More children were going to school. Seventy four per cent of the beneficiaries expressed that there was no wage discrimination between women and men.

These projects integrated bonded labourers with those vulnerable – the extreme poor. There was no differentiation. Similarly, except in one or two cases, groups were not formed exclusively of released bonded labourers (although those released in large numbers with similar needs did warrant separation.) In Nepal, ex-Kamaiyas were members of SHGs alongside members from other vulnerable households. BRAC's CFPR programme adopted both options, forming exclusive groups of extreme poor women (in areas where numbers permitted) and integrating others (in villages where only one or two are selected for existing microfinance groups). Integration is useful in dealing with the overall issue of vulnerability to poverty (within a specific area), and allows for intensive coverage. This improves efficiency and increases impact. Integration, and the building of local organizations, helps articulate the issues of the poor and the issues of those in or vulnerable to debt bondage. It ends the isolation of the most marginalized.

The projects also highlight the need for a range of inputs to prevent and eliminate bonded labour. Figure 28 shows an integrated and multi-layered strategy for the prevention and elimination of bonded labour.[25]

Figure 28. An integrated strategy for prevention and elimination of bonded labour in Nepal




[25] This approach has recently been proposed as the way forward in Nepal. Issues of those bonded, released from bondage and not yet rehabilitated, and those vulnerable to bondage are taken on board together. Operationalizing this approach will need multi-stakeholder involvement, including a joint programme of key UN agencies; and a time period of at least five years.

A multi-pronged approach is needed for the elimination of bonded labour, of which microfinance is an important part. An integrated approach would involve four broad areas of intervention: creating an enabling environment, resettlement and rehabilitation of those freed from bondage, education and health support, and employment generation.

**Policy level actions** and interventions involve discussions with a wide range of stakeholders to amend and align policies, to address implementation challenges, and to monitor the status of bondage at national level. The second level of work is **creating organizations and institutions** that will have the capacity to reach out to those in bondage, to enable them to attain decent work and improved livelihoods. They will also monitor the prevalence of bonded labour, the progress towards its removal and the rehabilitation of those affected. All these actions converge at the **community level**, with strategies directed at the household levels to enable all household members to access their basic rights and entitlements including education for children (girls and boys) and adults, market-oriented vocational skills training, and better capacities to negotiate and attain decent work through employment or enterprise.

Other programmes for the extreme poor incorporate several elements that go beyond the provision of micro-financial services, as illustrated in Figure 29. The extreme poor may need asset transfers, subsidies and/or stipends before they can graduate to commercial microfinance. Those who are vulnerable to bonded labour, and therefore a little less poor than those in bondage, may be able to use commercial microfinance.

Figure 29. Ultra poor need more than microfinance

The IGVGD programme addressing needs of the ultra poor in Bangladesh offers food rations, basic IGA/skills training, small savings services, and credit from the second year. The CFPR prorgamme offers all these plus health, literacy and legal support. Both programmes offer integration with savings and credit groups, and links with other social forums of BRAC to create necessary social networks and linkages.

**Gender and cultural sensitivity** must be integrated in strategy. Cultural institutions should become active in transforming their own communities and increasing inclusivity. The targeting of women (as SHG members) does not automatically imply that women’s concerns are taken on board or that a project is working effectively towards gender equality. Women’s representation in all forums created by a project may be more important; and strategizing inputs around women’s issues (like reducing the gender-wage gap, reducing domestic violence, increasing men’s acceptance of women’s increasing ownership of assets and women’s mobility). These have the potential to change women’s position in society and provide them with greater access to political space.

**Organization building** is critical. It improves representation, provides a voice and creates social capital. The form of organization may vary according to the national and local context, but the greater its autonomy the more a grassroots organization benefits the people themselves. However, the financial sustainability of the NGO/MFO competes with the sustainability of community organization so strategies are needed to provide a balance. For instance, in Nepal the self-reliant group approach is positioned between the Grameen model which privileges the NGO, and the village bank, which privileges the community organization.

Enabling the extreme poor to make a sustainable move out of poverty requires a long time. ILO’s PEBLISA project suffered from the lack of a mid to long term approach, with partners given contracts for a little as six months or a year. The

implementing partners require longer time frames if they are to effectively share the project objectives and work towards the desired outcomes. This is particularly important where microfinance is a component because applying flexible approaches, adapting products and processes to the target group households, and building capacities of different stakeholders needs time and assured commitments. The IGVGD programme in Bangladesh had a two year time frame for moving vulnerable families to secure earning levels. The CFPR programme provides one year of intensive support for asset building, but the link and support through the microfinance programme continues. The long duration of this programme helped generate lessons for addressing the needs of the poorest, for devising appropriate strategies for asset transfer and microfinance linkages, and for providing effective health, legal and educational support.

A long term strategy will focus on migrant labour in source districts for it is here that microfinance and microenterprise services will help alleviate the conditions that contribute to bonded labour. Improving livelihoods in less favoured areas among extreme poor households is the only long term way out of bondage.

For livelihood enhancement, microfinance is only one of a number of strategies. It requires state and civil society involvement – both acting in tandem and offering financial and non-financial strategies for the extreme poor. The purpose is to attain sustainable livelihoods to stay out of bondage and other forced labour situations. It is necessary to not only implement laws but also to change mind sets to make the practice of bondage unacceptable

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**Enterprises Department**

Social Finance Programme

Tel. +41 22 799 6410

Fax. +41 22 799 6896

sfp@ilo.org

www.ilo.org/socialfinance

**Governance and Tripartism Department**

Fundamental Principles
and Rights at Work Branch (FPRW)

Special Action Programme
to Combat Forced Labour (SAP-FL)

Tel. +41 22 799 63 29

Fax. +41 22 799 65 61

forcedlabour@ilo.org

www.ilo.org/forcedlabour

**International Labour Organization**

Route des Morillons, 4

CH – 1211 Geneva 22, Switzerland

www.ilo.org