SANGHAMITHRA

A MFI WITH A DIFFERENCE

OCCASIONAL PAPER – 1

Sanghamithra Rural Financial Services
No.612, 1 'C', Main Road,
Domlur Layout,
Bangalore-560071,
Karnataka-India.
Ph: 080-25354708
E-Mail: info@sanghamithra.org

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SANGHAMITHRA – A MFI WITH A DIFFERENCE
ARE SHGS ONLY FINANCIAL INTERMEDIARIES?
January 04, 2007 BY
Aloysius P. Fernandez

This article is about Sanghamithra, a MFI promoted by Myrada. However, the first part will dwell briefly on the concept of SHGs or self help affinity groups for the following reasons: a) Sanghamithra is the only MFI which lends exclusively to SHGs as groups and not to individuals in groups; this translates into one loan to the SHG, leaving the group to decide on the purpose and size of individual loans to the members and b) the concept of what a SHG is and what its functions are, differ as much as the descriptions of an elephant made by the famous five blind men or women; this has important implications for Sanghamithra. Hence it is necessary to explain what Sanghamithra and Myrada mean by SHGs.

SHGs -The Concept:

The Trend towards Reductionism: Most of the literature on the SHG movement originates from Financial Institutions and focuses on the Bank SHG Linkage programme where credit provision and repayment rates find centre place. The SHGs are reduced to their role as financial intermediaries. Many of the Banks have been forming SHGs; interaction with these Banks indicates that the sole objective is to use SHGs as financial intermediaries. Even a well-documented study entitled “Self Help Groups in India, A study of the lights and shades”[1] which deals with SHGs in a more holistic manner than most studies, starts with the statement “…SHGs represent a unique approach to financial intermediation”. Understandably, Banks provide glowing reports of their burgeoning loan portfolio to SHGs and the high repayment rates; they are recognised and awarded for the amount of loans disbursed and the high rates of repayment[2]. The role that 3.2 million SHGs have played to promote *“financial inclusion”* of the poor has been highlighted in recent papers, but this once again

[1] EDA Rural Systems Pvt. Ltd

[2] High repayment rates of course can be manipulated. The experience of this writer is that repayments to Banks are made in several States like UP by the leaders who control the groups; these leaders control the Bank loans to the SHG and savings of the members and are providing loans at high rates of interest (over 60%) both to so called SHG members as well as to outsiders; in effect the leaders have become moneylenders. There is also a wide spread practice in several Bank branches (and also in MFIs) of giving a second loan from which out standings of the first loan are withheld and credited to repay the first loan. Hence reports of high repayment rates are to be taken with a large spoon of salt. It also needs to be pointed out that this situation in the SHG emerges because there was little or no effort to build the capacity of all the members to build and manage an institution.

confirms the understanding that the primary role of SHGs is to be financial intermediaries. It is the role of the NGO not the MFI to identify self-help affinity groups of the poor and to build their institutional capacity and the confidence and skills of their members to manage finance and to influence change at home and in society. This role of NGOs, however, is downplayed in papers and articles about micro finance either because it was not given importance in the first place when SHGs were formed or because the potential for "empowerment" that SHGs have is secondary to their role as financial intermediaries. There are references to their "empowering" potential in many reports; but as this is more difficult to quantify, it tends to get relegated. Finance comes first. A Balance Sheet is far easier to "sell" than a report on empowerment, which is considered to be *"soft"*. Sanghamithra, it must be noted, includes indicators related both to financial management as well as to social change in its assessment of SHGs prior to extending credit.

Economists are associated with and inadvertently lend support to this understanding of SHGs. While economists have a similar understanding as that of Bankers and tend to assess SHGs by their performance in finance intermediation, they go one step further. They want to know whether the loans have resulted in an increase in income. Hence they expect SHGs to take steps to add value and scale to products and to establish marketing linkages. Because of this bias they do not give importance to loans given for so-called consumption, which includes health, education and food; they tend to view SHGs as instruments that are appropriate only to "smooth over consumption needs" and perhaps to support part time income generating activities. A spin off of this focus is the push to encourage all members of an SHG to take up one activity as this provides scale and helps to make support services, including marketing, viable. There is enough of evidence to show that: (i) these common activities need constant support from Government or NGOs, without which they collapse. (ii) Most of the loans given by SHGs are for income generating activities .In the first year or so the number of loans given for consumption averages around 25%, though the amount averages around 20%; but this percentage falls over the next three years; in fact if it does not fall, questions should be raised about the effectiveness of the support services provided and the investment made in the area where credit is being disbursed which are required to create options and potential for credit off-take (iii) The size of each loans to members range between Rs.10,000 to Rs.20,000 within three years which is adequate to start a fair sized income generating activity; and (iv) the SHGs give 5 to 6 loans to many individual members over a period of 4 – 6 years, totalling Rs.50,000 to Rs.70,000 to one member. Hence Sanghamithra, by extending loans to SHGs can play a major role in mitigating poverty.

The last link in the delivery system: For Government by and large**,** SHGs are the final link in the official delivery chain: Government officers do not really bother to understand an SHG. They work within a framework, which has no place for SHGs as independent institutions of the poor, except to be the last link in their delivery system. Someone remarked that they are comfortable in relating with individuals but not with independent institutions of the people. Their system and culture rejects or cannot relate with a peoples institution which has its own agenda, mission and vision. They talk about participation but mean that SHGs should participate in Government contracts such as running ration shops or mid day meals scheme etc. The strategy of participation which, if I am not mistaken, originated from the Marxist dialectic to empower the poor, is reduced to a demand for statistics related to trainings given, or whether PRA exercises have been conducted – which in most cases completely miss the relationships of oppressive power and the latent causes of potential conflict The initial burst of such activities given by Government to the SHGs is newsworthy and attracts distinguished guests. But nearly all such initiatives "turn out to be short-lived and non-viable, with unrealistic margins and problems of managing cash flows and supplies from a somewhat notoriously non-transparent system" to quote from the study referred to above (EDA Rural Systems Pvt.Ltd.). The committed Officer who spoke much about "people's participation" is transferred and the activities wind up. There are also competing interests which supported by the culture that "the successor does not continue what was started", engineer their collapse. Sanghamithra, on the other hand recognises the SHG as an independent institution which is much better equipped to decide on the purpose and size of loans to its members, on repayment schedules and to make adjustments where urgent and unexpected pressures make it difficult for instalments to be returned on schedule.

Deliberate Confusion as regards the nature of "groups". The scenario is further muddled since every other MFI claims to be lending to "groups", because, in the Indian scenario, if you lend to groups, you are "legitimate". But what are "groups"? Even those MFIs - who summon all the borrowers within an area (often around 50) for a meeting, from which none can leave unless all have paid the instalments due - claim that they work with "groups". Other MFIs approach a well functioning SHG formed by other NGOs, select three or four members (the MFI later claims that they have "volunteered"), and after a brief introduction of the rules of the game, disburse loans to each one separately; they claim that they have formed "groups". Subsequent meetings focus almost entirely in repayments and on disbursing further loans once again to individual group members. There is no input in institutional capacity building for the SHG as a whole. This approach has created several conflict situations, since many SHGs have been broken as a result of this approach. Sanghamithra, on the other hand, approaches the SHG as it exists, whether it is formed under Government programmes or by NGOs and, if it qualifies, lends to the group (not to individual members) leaving the SHG to decide on the purpose and size of loans to individual members. This does not break up a SHG. This approach is consonant with the SHG Bank Linkage Programme, which is promoted by official institutions throughout the country.

THE Myrada and Sanghamithra concept of a Self Help Affinity Group (SAG)[3] as a financial intermediary

[3] When Myrada started working in 1984 - 85 with Affinity groups, which emerged when the Cooperative Societies broke up, they were called Credit Management Groups with the focus on management. When NABARD provided Myrada with an R&D grant in 1986-87, the name was changed to Self Help Groups (SHGs). When in early 2000, Myrada discovered that SHGs were being formed on the basis of external criteria and provided with credit just after formation with little or no institutional capacity building, it changed the name of its groups to SHGs (or Self-help Affinity Groups) in order to stress the ***"affinity"- relations of trust and mutual support-*** which binds the members together. However, in this paper the groups will be called SHGs.

Up to this point in the paper, the focus has been on the understanding of SHGs, which dominates current thinking particularly in the government and financial institutions. This understanding is limited to the SHGs as financial intermediaries or implementers of programmes and schemes, which is considered to be too limited to reflect the nature and purpose of an SHG. However since this paper is expected to focus on Sanghamithra an MFI which lends exclusively to SHGs, it will be necessary to look at the SHGs from the perspective of financial intermediaries after a caveat that this function does not reflect their entire raison d'etre.

Sanghamithra lends exclusively to SHGs, after it assess its performance as a peoples institution which has several functions, one of which is finance management. As far as lending to groups is concerned, there are basically two approaches a) lending to individuals in a group; the group acts mainly as a pressure group for repayments; all decisions regarding purpose and size are made outside the group by the MFI's staff and therefore must be known before loans are given to each individual member; this is the Joint Liability model of which there are different shades and b) lending to the group, as a group; in this case only one loan is given to the group (after an assessment of its performance as an institution) which then decides on the purpose, size, repayment schedule etc. This makes the SHG a genuine "financial intermediary". The locus of decision making is shifted to the group; this provides the members with the opportunity to develop the skills to negotiate, to decide on what is manageable and feasible, to impose sanctions where required and to adjust repayment schedules if circumstances make the previously agreed to schedule impossible to follow. The freedom to borrow for any purpose and at any size as well as the locus of decision making, which is the SHG meeting, ensure a level of transparency which helps to keep the members "honest".

The latter is the SHG model of a financial intermediary which Sanghamithra and Myrada promote; it reduces paper work and other transaction costs as well as provides a "field school" for members to grow in confidence and management skills and finally to network to protect their interests. The provision of credit, therefore, is not the only major objective; more important is to develop the members' skills to manage finance (savings, credit and insurance). The ideology underlying this approach goes beyond "teaching the poor to fish", since even if they know how to fish, they cannot reach the river; there are several hurdles –social, political, economic – all supporting relations of power that prevent them from reaching the river. Even when they get there they find that the rights to fishing are captured by the powerful who will not "hand over the stick" as some of my PRA friends naively expect; the stick has to be taken away[4]. Myrada and Sanghamithra believe that power plays a critical role both in keeping people in poverty (or returning them to this state after temporary project interventions) as well as in liberating them from the poverty cycle. Neither goodwill nor market forces

[4] The history of the emergence of SHGs – between 1984-1988 in Myrada shows that they did not emerge primarily to borrow money; it was the management of money by the SHG that was important as an instrument of empowerment and not its provision – which came initially only from savings. They were part of a strategy which resulted from Myrada's position that "it was not enough to teach people to fish, when they cannot reach the river". The obstacles in the way have to be overcome through building confidence, promoting skills and by the power of organised institutions working together.

The reference to suicides, draws attention to another function that the SHGs provide - the social space constructed by the members promotes relations of mutual trust and support. In a in the Telegraph, Pratap Bhanu Mehta, (President, Centre for Policy Research) points out the following:" Surveys done in districts with high farmer suicides suggest that they were pretty much on their own. Most people, including their own family members, did not have intimations of the depth of their economic problems or suffering. As they are drawn into wider and more extensive chains of dependency on outside forces – the state and the market – structures of cooperation within villages begin to weaken. But perhaps the most dramatic illustration of the kind of anomie facing most farmers is this: the lack of a real associational life in which they can participate and be recognised." The SHGs built on relations of mutual trust and support provides farmers with this support.

will help the poor to reach the river; the former is symbolic, the latter is exclusive, it places hurdles in the way, as it is based on economic power which is unequal and exclusive. The SHGs are civil society institutions of the poor and have the potential to implement policies that claim to promote financial, social and economic inclusion – they are inter-related and intertwined; one cannot be achieved without the others.

Apart from the strategic role that SHGs play as generators of "power" which supports their efforts to invest their loans in livelihood activities which they can manage, the SHGs also provide ample space for members to cope with the diverse patterns of dryland agriculture and the unpredictability of the produce; this diversity and unpredictability are not accommodated by the standard sizes of loans and repayment schedules provided by Banks. SHGs allow rescheduling of repayments in genuine cases where crops have failed and are willing to use their profits to write off genuine defaults.

To return to the SHGs role as financial intermediaries, there are five pillars on which this function is built:

i.) The strengths of the poor are recognised and they are encouraged to build on these strengths.[5] Prominent among these strengths are: a) the willingness to save regularly (even to make "sacrificial" savings) if provided with a safe place and assured of ready access, and b) the ability to sustain a group provided it is based on affinity which in turn requires an existing network of relations based on trust and mutual support which fortunately still exists in our country and which today is referred to as "social capital". This organisational and social space then is based on affinity. It exists before the intervention of an external agent like an NGO. The NGO's role is to help the group to build on this base so that it can manage new and diverse activities which it chooses to undertake. This is where the need for institutional capacity building of the SHG enters the equation.

ii.) An environment which recognises peoples initiatives of self help and builds on it; for example when groups decided to save and lend they were free to decide on the purpose and size of loans and on the repayment schedule. When the Bank SHG linkage programme started in 1992, the RBI and NABARD accepted these

[5] This is a clear departure from the traditional approach to identify peoples needs as an entry point.

basic feature they did not require the groups to lend only for asset creation or specify that loans had to be of a particular or "viable" size; they did not even require (against their legal experts' advice) that the groups had to be registered, provided they functioned as all registered bodies are expected to. This is gradually being recognised as the most significant breakthrough in the financial sector anywhere in the world in support of micro finance for the poor through official institutions. While International Financial Institutions talk of the need for such initiatives, locally or home grown initiated sectoral initiatives receive little recognition.

iii.) Self-sustaining institutions which set their own agenda and mission - the SHGs in this case. They provide the members with a launching pad to gain confidence, skills and power to promote their interests. The members may decide to dissolve the group or to re-engineer the group; many groups in Myrada have done so after 6 years. Members are free to leave and to relate directly with financial institutions when they feel confident to do so. The groups are encouraged to federate if and when they decide that they require strength in numbers to change oppressive relationships, to lobby Government or private institutions or to influence public policy or to provide or manage services -like purchase of inputs in bulk, provision of marketing information and linkages and access to technical support. The Community Managed Resource Centres that have emerged in areas from which Myrada has withdrawn are an example of the potential role that such federations can play.

iv.) NABARD's strategy (and financial support) for hundreds of independent SHG Promoting Institutions and millions of SHGs which are self managed (and have the potential to be self sustaining) and which, above all, can cope with the tremendous diversity, risks and irregular income pattern in the rural areas which still depend largely on dryland agriculture and wage labour. Together with this support for capacity building, NABARD launched the SHG-Bank Linkage Programme in 1992 and systematically monitored its progress since then, providing additional support where required to support its spread all over the country and removing administrative hurdles where they emerged.

v.) Administrative/transaction costs incurred by MFIs lending to SHGs to manage the credit programme is reduced as a result of lending to the SHG as a group. For example only one loan is given which reduces paper work. Sanghamithra which has lent to about 11,000 SHGs (of which 60% are in Myrada projects) has only 35 credit managers.

Before concluding this part, it is necessary to describe what Myrada and Sanghamithra mean by "institutional capacity building"[6]. This is necessary as it is so often forgotten,

[6] The Capacity Building Modules include: 1. A structural analysis of Society; 2. Analysis of Local Credit Sources; 3. Self-Help Affinity Group – A concept; 4. How a meeting of the Community Based Organisation is conducted; 5. Communication; 6. Affinity; 7. Vision Building; 8. Organisational Goals;
9. Planning, Resource Mobilisation, Implementation, Monitoring & Evaluation (PRIME); 10. Rules and Regulations; 11. Responsibilities of Group Members; 12. Bookkeeping and Auditing; 13. Leadership; 14.

given scant importance or reduced to the minimum. It is not a session where "experts" address a few hundred people; it is not a meeting led by MFI staff. It involves several participatory sessions with all the members of one or at most two SHGs After years of trial and error, Myrada brought out a training manual for Institutional Capacity Building of SHGs. It has 24 modules which can be collapsed into 14 spread over a year and a half and repeated when required. Of course the initial capacity building makes this a high cost strategy. This is often criticized even by leading MFI leaders. They do not seem to realize that their education was high cost and even more highly subsidized. Unless this investment in SHGs is made, one may achieve a limited degree of financial inclusion- like opening a Bank account – but social inclusion and "market inclusion" will still remain elusive. The mechanisms of the financial system reflect the market which is exclusive. To expect a financial system to be inclusive therefore is unrealistic. Other factors need to be brought into play – policies, supportive implementing systems and pressure from below. Policies are relatively easier to put in place; but the implementing system is also exclusive (except where there is enlightened and effective leadership which is in increasingly short supply); hence for policies to be implemented even partially it requires pressure from below –this the empowered SHGs can provide.

The concern to cut costs required for capacity building is intriguing, as it does not seem to apply across the board. The micro finance world does not seem to bother about the costs incurred for conferences which are supposed to be "learning events" for the micro finance promoters. A CGAP estimate of the cost of the 120 microfinance conferences held in 2005 (Micro credit year) covering travel, hotel and per diem amounted roughly to $30 million; this excluded the cost of 55,000 staff days involved in organising these conferences. Yet prominent development agencies are reluctant to invest in the capacity building of the poor. Even when there is adequate provision like in the SGSY programme which provides Rs.10,000/- to train each SHG, hardly a fraction of that amount was spent on the SHG. Most of it went toward organising large gatherings of SHG members addressed by prominent politicians, to purchase vehicles and provide infrastructure for Government related training institutes. Training for SHGs was reduced to a one day gathering of a hundreds of women where they were addressed by Government officials and politicians.

Any programme therefore that reduces SHGs to financial intermediaries or the last link in the delivery chain, which fails to invest in the institutional capacity building of each SHG or which imposes on them a standard pattern of savings, lending and repayment undermines the basic structure of an SAG. It slots them as financial intermediaries because it does not permit them to be anything else.

Why then is it claimed that Sanghamithra is Different?
Several references have already been made to features of Sanghamithra's strategy which are different from what is accepted as prevailing practices. No doubt Myrada's

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Conflict Resolution; 15. Collective Decision Making; 16. Common Fund Management; 17. Self-Assessment; 18. Group Graduation; 19. Linkages with other Institutions; 20. Building Credit Linkages; 21. Federations; 22. Credit Plus; and 23. Analysing Gender Relations in the Family and Community 24.CMRCs own approach impacts, to some extent, on Sanghamithra efforts to sustain these “differences”, since about 60% of the SHGs linked to Sanghamithra are in Myrada’s projects where similar strategies are pursued. Besides, Myrada staff are on Sanghamithra’s Board which helps to guide its functions. However, it is foreseen that as Sanghamithra expands its operations outside Myrada’s project areas these differences may gradually give way to prevailing practices as the Board’s influence alone may not suffice to maintain them. The following paragraphs describe briefly certain structural/organisational features which were incorporated in Sanghamithra’s design. This was done with the hope that the so-called “differences” would continue to be a feature of Sanghamithra’s operations even after Myrada’s influence declines.

Sanghamithra was promoted by Myrada and incorporated as a not-for-profit company in February 1995 under Section 25 of the Indian Companies Act of 1956.

Why was it promoted? Around 1993- 1994, feedback received by Myrada indicated clearly that in spite of the sustained efforts of NABARD to promote the SHG Bank Linkage, several Banks were reluctant to go ahead. Myrada alone had thousands of well functioning SHGs who could not access credit from the Banks. Hence it was decided to start a financial institution that could fill these gaps when and where they occur. This is one major difference. Sanghamithra was conceived to fill in gaps left by the lack of response from Banks. In several areas, after the Banks realised that Sanghamithra had filled these gaps and done it successfully, they came forward to lend to groups; in such cases Sanghamithra withdrew, but conveyed a clear message that it would re-enter if the Banks did not respond adequately in future.[7]

In keeping with this policy, Myrada continues to urge the Banks to lend directly to groups even in areas where Sanghamithra had links with SHGs due to gap filling. Myrada also trained hundreds of Bankers with NABARD’s support with the objective of promoting the SHG Bank Linkage Programme. The objective of Sanghamithra is not “to grow and grow” Year on Year by 100-160 % as some NBFCs aim to; but to ensure that the SHGs received a line of credit easily and quickly, whatever the source. Hence – briefly – Sanghamithra does not compete with the Banks but creates competitive conditions. The SHGs are free - and encouraged by Myrada - to choose between the Banks and Sanghamithra. This helps to ensure that both the Banks and Sanghamithra provide quality service at competitive rates.

Why a separate entity? Could it not have been a part of Myrada and function as a NGO/MFI? Sanghamithra was promoted by Myrada as a separate entity mainly because Myrada realised that it’s own supporting financial and organisational systems, the culture of its staff and the criteria it adopts to assess progress and performance were not appropriate to manage a Financial Institution. Secondly, Myrada, both by the nature of if activities as well as because it is an NGO, cannot aim to “earn” or to make profits that support its programmes and staff. It has to rely on donors -national and

[7] For evidence of this practice please refer to the Impact Study conducted by Ms.Girija Srinivasan and available with Sanghamithra on request. It is referred to in the book *“Sanghamithra - An MFI with a Difference”* by this author.

international. An MFI, however, has the potential to earn or to make surpluses on its core activity which can be used to meet its administrative costs and even invest in expanding its programmes. Myrada therefore decided to keep these two institutions separate.

Of the NGOs which tried to manage both development and large micro finance programmes in one organization, some found that the micro finance sector took over and started driving the organizations priorities and influencing its culture. At the end of the day, a profit and loss account with a healthy bottom line, looks more convincing than a report on empowerment. The performance of the micro finance sector which has the potential to be self-reliant is a more powerful driver than the pressure to raise and spend donations on development programmes. It is only understandable that NGOs, particularly the professionally driven ones, find it more fulfilling to earn their upkeep – through micro finance activities – rather than to depend on donors, be it Government or private. As the saying goes: “if your hand is in another persons pocket, you have to walk along with him/her”. NGOs which have no religious or political agenda (or are not extensions of Corporates) feel uncomfortable in this situation. Several other NGOs with micro finance programmes found that they could not get a grip on the performance of the micro finance programme as far as transaction and other costs were concerned, since cross subsidisation could not be avoided easily.

There is also another reason for keeping these two institutions separate and it has to do with the different images that they project related to poverty**.** Many NGOs which undertook development programmes have also become involved with Micro Finance – they call themselves NGO/MFIs. The mission that they projected as NGOs was one related to poverty eradication/alleviation, which involves programmes where the NGO does not make a profit or earn an income. Their MFI operations however, project another image – one of an income/profit-making organisation. Added to this is the perception that their interest rates are high and that they use “strong arm” methods to ensure repayments. Their lack of transparency fuels these negative reactions; for example, several NGO/MFIs do not disclose the source of their funds, the costs of intermediation and the utilisation of profits. Several NGOs which are closely held family Trusts continued to remain so even after taking up micro finance activities which makes it difficult for others to support them when problems arise as a result of practices in their micro finance activities. Briefly, the “halo” that the NGO tends to wear does not rest well on an income/profit making organisation. The solution is to separate their NGO activities from the Micro Finance programme and to decide what legal form they want the Micro Finance Programme to take.

Operational and Financial Sustainability of Sanghamithra: In order to throw some light on the strategy adopted to achieve financial and operational sustainability by Sanghamithra, a few comments are required. Sanghamithra’s policy to lend to groups as groups – which in practice means that it gives one loan to the group after assessing its performance – helps to cut transaction costs incurred and to reduce the time required in developing and approving individual loan applications and sanctions to individual members. On the flip side of the coin is the time and investment required to identify and train SHGs; this surely adds to the cost. However since the SHGs are not just financial intermediaries, but much more, as explained above, this is an investment that helps to build a sustainable livelihood base. The MFI cannot be expected to carry these costs in its early years. It ought to do so from its surpluses, if it adopts this strategy and is concerned about the poor.

Briefly, there are three sets of activities involved in Myrada/Sanghamithra's micro finance strategy, all of which do not have the potential for financial and operational sustainability; these activities are clearly identified and managed separately. These sets are: i) activities required to identify affinity groups; this is the role of an NGO with experience in participatory methods and institutional building. The major obstacles to this approach is the Government's practice of profiling "beneficiaries" who must be included in the programme and asking them to form groups even though they may not want to work together and in many cases even have competing interests. Myrada involves people in a village to identify the poor and after introducing the SHG approach based on affinity of the members, requests the poor to form groups of their choice. All these activities require to be subsidised and hence donor funds are required. ii) The second set of activities is institutional capacity building of the affinity group; once again this needs to be subsidised usually by an NGO or Government, though people do share some of the costs. iii) The third set comprises activities undertaken in advancing credit and managing repayments; this set of activities can become self-sustaining within a short time. Sanghamithra restricts itself to the third set of activities. Part of its surpluses are invested to promote in the first and second set. However, it must be said that raising funds from donors and Government to identify affinity groups and to build their institutional capacity is becoming increasingly difficult.

Why did Myrada promote Sanghamithra as a Not for Profit Company if the intention of the promoters was to demonstrate profitability and sustainability?

There was sharp criticism of this choice between 1995 and 2000 since a not-for-profit company was expected to function less professionally than a for profit one. Myrada and Sanghamithra proved that this assumption is not valid. A non-for profit company like an NGO can operate as professionally as any and should endeavour to do so. Proof of this is that Sanghamithra was able to meet all its financial and operational costs in the third year of operations and has continued to do so yearly. However, there are clarifications that need to be factored into this scenario which Sanghamithra made clear from the beginning: i) it would lend at effective interest rate (including all costs of processing loan applications) of around 14% declining; ii) it would endeavour during the first few years to mobilise grants as well as loans from Banks is such a mix that it would keep the cost of credit around 4%. This would reduce the pressure to grow too fast in order to achieve financial sustainability. However, after breaking even, it would allow interest rates to gradually reflect the actual costs of borrowing from Banks. It was able to keep cost of borrowing to below 4% till 2004. However the cost of borrowings has risen to 7.5% which will require a revision of its lending rates in 2007 and alongside steps to improve efficiencies. However, even the anticipated revision will keep interest rates to around 16%- 17% declining which is much less than the prevailing rates of major MFIs/NBFCs. However, if Banks continue to keep their rates lower in the SHG Bank Linkage programme, Sanghamithra will have to prove that it can provide better quality services at the doorstep if it is to remain competitive. Having said this, the answer to this query as well as to others related to issues which will be discussed below lies possibly in a mix of the following factors which were identified by Professor M.S.Sriram.

"Legally Myrada could not invest in the equity of Sanghamithra. Therefore, capitalising the project would have been difficult as a for-profit entity. The people who conceived this institution were people who had spent a lifetime in working in the non- profit sector and therefore did not want to invest their personal resources in this company, as they were not looking for returns in any way. No external private investor would be interested in investing in a demonstration model, unless of course, the larger plan was to rapidly grow in this direction in the future. Following from the above, funding was sought from developmental rather than commercial sources both for capitalisation and growth. Donor money could only flow in to not-for-profit entities. Sanghamithra was incorporated with zero equity – the liability of the entity limited by the guarantee provided by the promoter members as against investment of even a token amount of capital. Keeping it as a not-for-profit entity avoided a possible strategic drift in the future, where the organisation having tasted early success wants to grow rapidly as a proper financial institution, thus losing the initial developmental orientation. The basic objective of Myrada was only to demonstrate and encourage existing players to participate in banking with the poor; not create parallel systems". Prof.M.S.Sriram, IIM, Ahmedabad in Building Bridges between the Poor and the Banking System

Expansion Strategy: One repeatedly hears the demand that MFIs should expand into remote and neglected areas. Sanghamithra does not wholly agree. Sanghamithra's expansion strategy in remote and neglected areas is tied to the existence of SHGs in the area and to investment from other sources in these areas focused on mitigating poverty. It does not expand into remote and neglected areas where no investment is being made to promote all round development or where no SHGs exist. This approach is based on the understanding that while credit may be critical in many cases it does not suffice in most as a trigger for the family to come out of poverty and stay there. It needs to be supported by major investments in these backward areas, in all round development either through Government programmes, preferably where Multilateral or Bilateral agencies are involved since this assures some degree of continuity, helps to improve the delivery systems considerably and to introduce mechanisms that raise efficiency and productivity. If these major programmes are not operational, the second choice is to expand to areas where NGOs are promoting all round development as well as SHGs. This all round investment helps to open potential sectors (both on farm and off farm), which the SHG members can exploit with the credit and other institutional support that the SHG provides. To provide credit in remote and neglected areas where there is no development investment is not an effective strategy to eradicate poverty and if provided surely will not reach the poor.

There is also increasing evidence from an analysis of the loan patterns of the SHGs in Myrada's projects, that investment in dryland agriculture (in which SHG members are involved) is decreasing. Hence for Sanghamithra's programme to be effective in mitigating poverty, investment is required alongside to upgrade infrastructure and storage, to diversify and add value to agricultural products, to improve quality of soils, to promote skills and linkages, to provide adequate electricity and water, to reduce the risk of investment by SHG members in on farm activities and to equip young people from poor families with non-farm livelihood skills which are marketable. It is only within this context, that credit supply can be an effective trigger to eradicate poverty.

As far as investment required to reduce risk is concerned, apart from bringing in institutions to provide insurance, one example of another type of initiative may help. When Myrada realised that the SHGs were giving large number of loans for dryland agriculture, Myrada took up a major watershed management programme in the same areas which reduced the risk of this investment; crops in these treated areas can now withstand a gap in rainfall of about 15 – 20 days; previously a gap of 7 – 10 days had reduced productivity considerably.

A Single Source Agency: Does Sanghamithra have to become the single-source agency for all financial services? There is a trend for MFIs to get involved with a variety of financial services particularly savings, loans and insurance. Since Sanghamithra's focus is only to provide credit, can this be called a minimalist approach? Is it necessary for Sanghamithra to take on all functions**?** MYRADA/Sanghamithra's view is that it is not necessary. Other institutions more qualified and experienced can undertake these functions. Further, an MFI could compromise its core functions by attempting to undertake too many. Sanghamithra, for example, brought in Birla Sun Life which came up with a good life insurance product

> The need to invest in off-farm livelihood skills is a priority. An emerging issue is the increasing evidence that marginal and even small farmers especially those in dryland areas no longer find agriculture a worthwhile occupation. Most of the youth of these families are out-migrating for non- farm jobs. Only the older generation is left behind to attend to the fields or to over-see lands leased out. As a result, the potential for growth of credit in agriculture especially for marginal and small farmers in drylands is limited. For example, a recent analysis of the purposes of loans given by 238 SHGs in Myrada's projects - all in rural areas - during a one year period (2003- 2004), showed that out of a total of 5,880 loans (amounting to Rs.26,280,230) advanced to 3558 members during one year (2003-2004), 1,574 loans were for agriculture (27%) amounting to Rs.6,568,397 (25%). Animal husbandry accounted for 457 loans (8%) amounting to Rs.3,131,854 (12%). **All other loans were for non-farm activities**. The average amount lent for agriculture was Rs.4,173 which was the lowest when compared to averages of all other purposes except consumption (Rs.2,915).

that appealed to SHG members; it was decided that this service could well be performed by Birla Sun Life. The Company relates directly with people's institutions in areas where Sanghamithra is lending. The administration required to support the insurance policies is carried out by the Community Managed Resource Centres (which earn a commission) and not by Myrada or Sanghamithra. Similarly several insurance agencies have been brought in to cover animal insurance. Health insurance is now being explored. Mobilising and managing savings, as already mentioned, is a service managed by the SAGs themselves. Sanghamithra is looking forward to a situation where it can legally mobilise savings; if the SHGs, as a result of their interaction with

Sanghamithra, have confidence that their savings will be safe if invested in Sanghamithra, it will be time to shift gear and perhaps morph into a different avatar.

Growth-Growth-Growth – Y on Y is not Sanghamithra's mantra; the size of its loan portfolio is not the major driving force or measuring stick. True, Sanghamithra has to achieve and maintain a certain size in order to achieve operational and financial self-sufficiency; this took ~~it~~ 3 years from the date it advanced its first loan. Now that this stage is reached, and has been sustained till 2006, it can resume focus on its original goal to be "not the sole one and not the biggest but perhaps the best". It would like to contribute to setting standards in good practices. A portfolio of Rs.60 crores outstanding may not make it a 'big' organisation, but it can still prove to be an effective one and promote similar MFIs in other areas. Over the past four years, Myrada and Sanghamithra supported the Urban Programme with the understanding that it would hive off once it stabilised. This has happened in 2006. The Sanghamithra Urban programme has now registered as a separate not for profit company called *Janalakshmi Social Services*. Similarly Sanghamithra established an Office in Gulbarga in 2006 with the intention of hiving it off as an independent financial institution within 5 years. Plans are afoot to set up a Fund Management Company which will, among other things, coordinate and supervise the various Sanghamithras. There is no doubt that this came about solely because it was born as, and continues to be a *'Sister Concern'* of Myrada which has constantly promoted fully decentralised project units and does not believe that the emphasis on scale is appropriate in every field. However, this influence extends only to providing the parameters for lending and growth; it does not compromise on the other banking practices needed to make it a self-sufficient organisation as long as it chooses to remain in the sector.

High Growth targets – which tend to exclude the poor who cannot respond fast enough, high interest rates- which coupled with a short repayment schedule makes most dryland agriculture activities non-viable, and harsh measures to ensure repayment – which put MFIs in the same box as many private finance companies - together tend to project an image of being anti-poor. MFIs would do well to re-assess their strategy if it is driven by these indicators. It will also help their image if they keep salaries and operational costs at a lower level compared to for profit institutions, if their interest rates comparable to the Banks, if profits are ploughed back to strengthen the programme or peoples capacities to absorb more credit, if strong arm methods or threats of any kind or violence to get repayments are scrupulously avoided, if they disclose all the terms and conditions of the financial services offered, including the source and costs of funds and utilisation of surpluses. A working marriage of financial sustainability and social objectives is possible provided there is enlightened management and constant monitoring.

The present scenario in the MF Sector (driven to a large extent by sources which are from or have their roots abroad) can be described by the following analogy: The MFI is a **train**, programmed abroad and pushed to go faster and faster (growth). New carriages are attached (credit, savings, insurance, etc.). There are ticket inspectors (rating experts) who walk through the train, concerned only about whether the ticket is correct; they have no time or interest to look outside the window. The train driver is someone who has seen a lot of trains pass by and always felt that given a chance, (s)he would make a much better driver – in most cases (s)he was running a popular hotel on the platform (an NGO in close touch with people and their needs) - and so (s)he knows how many people to expect on the train, how much of food and drink is required. In some cases (s)he is the Station Master who has experienced the power of stopping trains and letting them go even if (s)he has never driven one (Government Officers with authority but little experience in the financial sector who are put in charge of micro finance companies). But once in the driver's seat they have no clue about what the signals (the ratios that indicate the health of an MFI) mean as they flash past. The Manual of Instructions, supporting the corporate objective demands an increase in the speed of the train. After all, it has to make many trips back and forth – to earn enough to be a viable (sustainable MFI) route. But once again the train drivers cannot read the curves in the line and they do not know when and how much to slow down and when to accelerate. Some wagons – the lower class ones – get derailed (the MFI's too rapid growth results in increasing NPAs and opening of branches without adequate support). There is little maintenance and no upgrading of the track (Capacity building of MFI staff and the constant upgradation of supporting systems are usually given last priority); yet faster speeds are encouraged - Station to Station (MFI growth YoY, QoQ,); there is little or no attention to or concern for the impact this has on the passengers – who are thrown around and often fall off, especially those in the general/unreserved and lower class compartments (the poor) where the supporting system of protective railings and "hand hold" straps are missing (in the credit alone-minimalist approach).

Aloysius P. Fernandez
Founder Chairperson
Sanghamithra Rural Financial Services
January 04, 2009

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