

Leader's corner

Microfinance Institution: Challenges for start up

An Interview with Dr. Kalpana Sankar, CEO, HAND IN HAND

Dr. Kalpana Sankar has specialized in poverty assessment, participatory assessment of Self Help Groups, NGOs, participatory rural appraisal, gender-differentiated impact, developing monitoring tools and indicators and preparation of manuals / guidelines on gender issues .Dr. Kalpana has handled several international missions from Rome, China, Vietnam, Ethiopia and Maldives and received special commendation from United Nations Office for Project Services, Bangkok. She has trained high level delegates from the Ministry of Agriculture, South Africa and Ministry of Rural Rehabilitation Department, Afghanistan on microfinance. She has been a consultant to UNDP, UNOPS, Wetlands International and Christian Aid. She has authored various publications and manuals on child labor, microfinance, and self-help groups

*Hand in Hand is currently involved in implementing an Integrated Community Development Project for poverty reduction with five interconnected and interdependent sectors. Hand in Hand is currently active in 12 districts in the Indian state of Tamil Nadu as well as in the Union Territory of Pondichery. Her rich experience of development sector must be helping **HAND IN HAND** for achieving its mission and shaping a unique integrate model for holistic and sustainable development.*



*Microfinance focus brought **Dr. Kalpana Sankar** to talk about challenges for start up microfinance institutions as well various contemporary aspects of microfinance. She speaks to Microfinance focus's **Vikash Kumar**.*

Excerpts:

Microfinance Focus: What urged you to start Microfinance operations?

Dr. Sankar: HAND IN HAND was working with child and bonded laborers in the initial years HAND IN HAND realized that this problem could be tackled only if there is an integrated approach for poverty reduction. Most of the children engaged in labor were from the weaving community and the parents were often heavily indebted to usurious moneylenders. As a means to get the families out of the clutches of moneylenders, Hand in Hand set up a second pillar – the Self Help Group and Microfinance Programme – and offered micro-loans at 12% diminishing interest rate in order to enable families to get out of their indebtedness.

Microfinance Focus: What are the challenges you are facing / have faced as a start-up microfinance institution?

Dr. Sankar: Recognition from the Government institution is the biggest challenge we faced and we are still facing. In Tamilnadu, recognition from Government authorities has become necessary for establishing linkages with banks. Government has stopped giving approvals to new NGOs. We are working with the Government in three districts although our operations have been extended to twelve districts.

Resistance from existing NGOs who perceived us as a threat was also a major problem.

Microfinance Focus: What are the ways to go ahead with these obstacles?

Dr. Sankar: We are associated with the Government in all the poverty reduction programs and over a period of time. I am sure our services would be recognized by Government agencies.

Nearly 13 million families are below the poverty line and we explain to other NGOs that we can hardly reach out to 10% of the targeted group and there is immense scope and space for everybody.

Microfinance Focus: What are the key measures you have taken to get the foundation of your institution right (strong)?

Dr. Sankar: Recruiting the right personnel with passion and dedication has been the biggest achievement of HAND IN HAND. We never compromise on our principles/non-negotiable. I attribute this phenomenal growth to God's grace and the support of our trustees. Role of Mr. Percy Barnevik, our mentor and major donor, who is an International business leader, has contributed in a big way.

Microfinance Focus: What model do you think can work best in this geographical region?

Dr. Sankar: Our hybrid model which has taken the best features of Grameen and state funded Mahalir Thittam is ideally suited for TN.

Microfinance Focus: What are the key management principles that you have plasticized to optimize the services of "HAND IN HAND" and bring together useful lessons from numerous MFIs worldwide to help managers strengthen the performance of their units, branches or institutions?

Dr. Sankar: Recruitment and training of HiH employees ("consultants") to be sent to other states or Countries, Meeting the Demands on the receiving end: NGOs and governments as the role of Government (national or local) may differ from country to country.

Although we are an NGO, we apply modern business practices to achieve high level of productivity and quality and try to hold the overhead costs below 5%. It also means that we have high demands on our partners, that we measure performance and that we demand results

Microfinance Focus: What is your client profile? Do they come from poorest of the poor section?

Dr. Sankar: We have focussed on the most disadvantaged people: illiterate, Dalits and extremely poor. 85% would belong to the poor and very poor category.

Microfinance Focus: How are you innovating or developing the products in response to the needs of HAND IN HAND'S clients? What are the key measures that you are taking up for cost effective delivery of products?

Dr. Sankar: We build on practical experience in the field and have focussed in enterprise and job creation. In less than 3 years we have got 35,000 family enterprises up and running and presently the rate is 3-4,000/month. It would not have been possible without customisation and meeting the needs of people.

Microfinance Focus: What are the Human resource challenges you have faced and how did you tackle these challenges?

Dr. Sankar: Getting qualified people and attracting professionals from the corporate sector is a problem and we are still having that problem. We need to recruit and train people. We have a big demand for people with higher degrees and, throughout the year, we have built up our internal training capacity, including the newly inaugurated training centre in Kancheepuram. The training is not limited to technical matters and fieldwork; even more important for these people joining from other NGOs, companies, and universities, is to bring them into the unique **HAND IN HAND** culture and the value system that we stand for.

Microfinance Focus: How would an MFI be an important structure for poverty alleviation, women empowerment and employment generation?

Dr. Sankar: The Indian economy has prospered rapidly in the last few decades. However, there has been a limited impact from the rising GDP on the 750 million people living in the rural areas of the country. In spite of major developments in the industrial and service sectors, most of the rural population is still occupied in agriculture, which is heavily dependent on seasonal monsoons. Today, about 300 million Indians live on less than \$1/day. To fully exploit India's potential and improve living standards for all parts of society, a mass-mobilization of the downtrodden population into productive and sustainable jobs, mostly through self-employment and entrepreneurship, is required.

Lack of access to financial services is recognized worldwide as one of the main reasons for the poor not being able to move out of poverty. To improve the economic condition of the marginalized sections of society, the biggest challenge is to transform the social and economic structures that reinforce economic subordination. In this endeavor, the MFIs make financial services available for women who have been excluded from the spread of the formal banking sector. After three decades, the Self Help Group movement has proven that the poor women are bankable and that given the right tools, they can improve their own living standards and contributes to India's growth. Our program targets women and we reach out to families through women.

Microfinance Focus: We would like to get your view on macro perspective of present situation of MFIs in India on their implementation and performance? And its contribution on development?

Dr. Sankar: The challenge for NGOs and MFIs is to achieve their own financial self-sufficiency without transferring all the overhead costs to their poor clients. They need to ensure sufficient investment to provide diversified livelihood options and employment creation by optimizing existing resources through timely credit, technical inputs, skill training and knowledge transfer. It is crucial to arrive at the right trade off between the needs of the poor and the sustainability of the MFIs.

Microfinance Focus: Now we would like to draw your attention toward recent developments in Indian microfinance sector and very obvious!! We would like your opinion about the proposed bill on microfinance. How will it impact Indian microfinance sector?

Dr. Sankar: The State has an important role to play by providing a policy based on the proposed bill and providing a legal framework to create an enabling environment within which MFIs can work together on a cooperative and coordinated basis for eradicating poverty. For instance, within the framework of macro policies and strategies, the MFIs can complement government efforts, especially at the meso and micro level.

Microfinance Focus: It may be a repetitive question, but in the wake of hot discussions, we would be interested to know your view, which is currently going on in international arena about the commercialization of microfinance. This discussion is heated because of spectacular success of COMPARTMOS (a Mexican MFI) IPO. However there is always a

debate on what should be a MFIs objective whether it should follow much on social objective or on sustainability, what do you think about commercialization aspects in microfinance?

Dr. Sankar: Charity is gradually becoming a negative connotation in the present age. Whether it is the individual, the SHG or the NGO, donors and financiers expect them to be self-sustaining in the shortest possible period of time. A self-reliant organization, which focuses on constant cost cutting and development, has become the acceptable norm rather than the exception. HiH understands this scenario very well and is working to become fully free of dependence on donors. But **HAND IN HAND** is also very clear about not burdening the poor with the entire cost of credit and can proudly say that it is one among the very few NGOs which offer credit at 12% *diminishing* interest (almost like banks) and absorbs most of the social costs in the process.

Microfinance Focus: We'd like to hear a little more about your own social entrepreneurship Experiences, learning and challenges?

Dr. Sankar: HAND IN HAND has tried out few successful pilots, but I feel that we should attach paramount importance to more innovative pilots and capacity building of functionaries of these enterprises and managers of these programmes to create strong scalable enterprises. The challenge is to concentrate on the weakest link in the chain of enterprise creation and analyze each activity to ensure maximum value addition. This requires a clear understanding of the market dynamics of each line of activity and considerable capacity building of the various stakeholders of the programme.

Family based micro-enterprises established through loans from SHGs seem to be most successful experience from IFAD implemented Women's development project and they are able to reap the benefit of their hard work combined with cheaper access to finance. Therefore the need of the hour is to promote incubation centers in the areas of food processing, textiles, vegetable cultivation etc. Women need ideas in terms of expanding their business and skill training to become successful business entrepreneurs. HAND IN HAND is focusing on family based Agri and non-Agri enterprises. HAND IN HAND is investing on business development consultants to help set up medium size enterprises and focus on corporate linkages for providing jobs to their family and people in the neighborhoods as they expand.

Microfinance Focus: What message you would like to give to those individuals who wish to start a venture in this sector?

Dr. Sankar: They should be able to provide timely credit at affordable cost in a transparent manner.