



Srinivasan Services Trust: Combating Poverty with Entrepreneurship

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By all measures, the Srinivasan Services Trust (“SST”) had been successful in helping villagers and farmers in rural India to eradicate poverty and experience an improved quality of life. As of late 2009, 473 villages had access to medical camps and better healthcare; more parents were aware of the importance of education and were sending their children to school; many families had been able to replace their thatched huts for secure brick houses; and an exponential growth in the popularity of self-help groups (SHGs) enabled members to enhance their income and access micro loans. However, for Ashoke Joshi, SST’s well-respected chairman, the accomplishments barely scratched the surface for creating greater economic viability within rural Indian society.

If villagers on average could earn an extra Rs. 100 (US\$ 2.2¹) per day using basic training and guidance from the SST team, he knew that there had to be a way to accelerate earnings with more sophisticated methods. Yet, given the unique circumstances and challenges facing the rural population across southern India, the question was how to tactically scale up SST’s results in order to accelerate earnings. Joshi believed new activities would bring value and growth beyond the current income-generating projects. But to achieve this scale, the women and farmers would need additional marketing, financial and managerial skills, not to mention funding, if they were to generate higher income and expand into national and international markets.

Fortunately, Joshi had the opportunity to bring in a team of MBA students through the MIT Sloan School of Management’s India Lab program. Looking at the options the MIT team proposed after five months of collaboration, he now wondered what road to choose and how to pursue it.

¹ For converting simplicity, exchange rate of Rs. 45 to US\$1 used throughout the case

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Microfinance

Definition and Background

Microfinance referred to the provision of small loans given to individuals and families living at the bottom of the pyramid, which, according to the World Bank, included those who lived on less than US\$1.25 per day. These loans were meant to be used to start up small enterprises to improve income and reduce poverty. Widely touted as the father of microfinance, Dr. Mohammad Yunus discovered during the 1974 famine in Bangladesh that US\$27 could radically change the lives of 42 people. This simple idea led Yunus to create the Grameen Rural Bank, which by 2010 had lent over US\$900 million to the poor in Bangladesh. A phenomenon prevalent in developing countries, microfinance spread to the poor neighborhoods of developed countries in the 2000s. In 2006 Yunus won a Nobel Peace Prize for his efforts in “economic and social development from below.”²

The primary purpose of microfinance was to serve the “under-banked” population of developing countries. Traditionally, this impoverished group had access to banks, but lacking collateral to secure loans, they had no access to credit lines from financial institutions. In addition, since banks incurred similar operating costs for holding small- and medium-sized loans, banks preferred to go for the larger loans that commanded higher interest income over all.

Microfinance institutions, known as MFIs, filled the void by providing basic financial services to the poor. As illustrated in **Exhibit 1**, the number of public (government run) and private MFIs has exploded over a 10-year period starting in 1997. The World Bank estimated that more than 7,000 MFIs served at least 16 million poor people in developing countries in 2010. The total cash turnover of MFIs worldwide was estimated at US\$2.5 billion, with vast potential for new growth.³

Sometimes dubbed “doorstep banking,” microfinance involved sending field officers to rural villages to loan out money (typically less than US\$100), with a three to five month repayment period. Interest rates were high, ranging between 15% and 40% of the loan amount.⁴

Microfinance in India

Between 1995 and 2010, microfinance spread quickly throughout India through two distribution channels: MFIs and SHG-Bank (Self Help Group) linkage programs. (See **Exhibit 2**.) Through the direct MFI model, individuals borrowed directly from the MFI and made weekly or monthly payments. SHG-Bank linkage programs, however, incorporated a much more dynamic approach that impacted daily village life and culture. The table in **Figure 1** illustrates the current state of microfinance in India.

² The Nobel Peace Prize 2006. (http://nobelprize.org/nobel_prizes/peace/laureates/2006/), April 2010.

³ Data Snapshots on Microfinance (<http://www.gdrc.org/icm/data/d-snapshot.html>), April 2010.

⁴ Case writers’ interview with Mr. Joshi.

Figure 1 State of Microfinance in India, 2010

Total number of MFIs	233
Client outreach	20,026,356
Portfolio outstanding (Indian Rupees in tens of millions)	12,027,000,000.65
Portfolio outstanding (USD millions)	2,559.07
Number of districts served	422

Note: Statistics on the sector are based on data self-reported by MFIs.

Source: Sa-Dhan, India's Association of Community Development Finance Institutions. (<http://www.sa-dhan.net/>).

Self-Help Groups Through the SHG-Bank linkage model, women formed groups of up to 20 individuals.⁵ Within the SHGs, women pooled together savings by individually contributing a small amount each week. After amassing savings for several months, the group borrowed money from MFIs, leveraging group savings as collateral, and distributing this loan amongst all SHG members. Typically unmarried, divorced, and destitute women were not eligible to participate in SHGs.

The concept of Self-Help Groups was more prevalent in South and South East Asia, and Africa, although it went by different names in other countries. In addition to the informal financial services, SHGs also acted as a knowledge-sharing platform on topics such as handicraft making, farming, healthcare awareness, and education.

Each village had several SHGs, which were rolled up into a federation. Each federation acted as a governance-committee made up of representatives from multiple SHGs. (See **Exhibit 3**.) At the federation level, members of the different SHGs shared best practices on the various microenterprises in which villagers were involved. Federations also acted as middlemen to the market and received commissions. Any funds raised by the federations, as well as bank loans made to the federation, could be lent out to SHGs.⁶

Demographics Four out of five microfinance clients in India were women, as historically Indian women were marginalized, and society had frowned upon women who worked. Those beliefs were rapidly changing as more women were setting up small businesses in order to supplement family income. Though microfinance was most common in rural areas, urban microfinance had also gained momentum: 25% of all microfinance borrowers came from towns and cities.⁷ Overall, the number of MFIs in India has been expanding steadily since the late 1990s.

⁵ Self-Help Groups primarily consisted of women. Male Self-Help Groups existed but were rare.

⁶ Case writers' interview with Mr. Joshi.

⁷ Information obtained from Sa-Dhan, India's Association of Community Development Finance Institutions. (<http://www.sa-dhan.net/>).

Srinivasan Services Trust

The Srinivasan Services Trust (“SST”) was founded in 1996 by Venu Srinivasan to further his family’s legacy of corporate social responsibility. His grandfather, T.V. Sundaram Ivengar, established the TVS Group in 1911 which, nearly 100 years later, had grown into a US\$4 billion conglomerate (in sales) of more than 30 companies employing 40,000 people. Two of those companies, the Sundaram-Clayton Limited and the TVS Motor Company, had been directed by the founder’s son, T.S. Srinivasan. Highly regarded in India and committed to service, these companies provided benefits such as education and healthcare for all of their employees.

The TVS Motor Company, the third largest two-wheeled manufacturing company in India as measured by sales,⁸ had been the flagship of the TVS Group with approximately US\$1 billion in sales in 2009.⁹ After Venu Srinivasan took over the Sundaram-Clayton Limited and TVS Motor Company from his father, he formalized the company’s social services arm with the mission to create self-reliant communities in impoverished rural areas of India through sustainable development models.

Headquartered in Chennai, SST was directed by Chairman Ashoke Joshi and his leadership team of five community directors, who managed approximately 130 field staff, including social workers, doctors, agronomists, veterinarians, and engineers. SST’s vision was to develop self-reliant communities by combining the skills and resources of the private and public sectors in economic development (including job creation), healthcare, education, maintenance of infrastructure, and environmental conservation. SST was not a money lending organization. (**Exhibit 4** summarizes SST statistics on its key operations.)

One of SST’s founding principles was to motivate rural communities to take full ownership in sustaining their economic development. Often SST’s field staff spent up to one year building trust with the local residents and village elders before setting up formalized programs to improve local livelihood. These programs would first help women and farmers form SHGs and then SST would facilitate regular meetings to educate and monitor members’ contribution to and utilization of collective savings. After a SHG reached relative maturity as measured by its cumulative savings, record keeping, and consistent loan repayment, SST helped the villagers initiate and scale up income generating projects (“IGPs”) using loans from local banks. These IGPs enabled the villagers to augment their daily farming income by participating in activities, such as soap manufacturing, silk making, basket weaving, baking, or producing banana chips. Once SST’s services were familiar to villagers in an area, those from nearby villages often originated contacts directly and requested SST’s assistance.

⁸ “India shining: Auto sales continue to zoom in April 2010”. Moneycontrol. 2 May 2010. (http://www.moneycontrol.com/news/business/tvs-motor-april-vehicle-sales-rise-28-pct_455122.html). Accessed June 2010.

⁹ TVS Motor Company, *Annual Report 2009-2010* (<http://www.tvsmotor.in/news.asp?id=229&yr=2010>).

Rapidly expanding from 206 villages in 2008 to 700 villages by the end of 2010, SST's outreach spread across four Indian states: Tamil Nadu, Karnataka, Maharashtra, and Himachal Pradesh. (See **Exhibit 5.**) SST contributed to the formation of 1,715 bank-linked SHGs representing 27,385 families, which together comprised 30,611 bank accounts and loans of Rs. 15.84 crores (US\$3.5 million).^{10,11} On average, the IGPs provided villagers extra daily income of Rs. 100 (US\$2.2) compared to less than US\$1 originally; some successful entrepreneurs increased their income by Rs. 500 (US\$11.1) per day, contributing to savings of thousands of rupees annually. The villagers could reinvest these savings into new business prospects or education for their children. Many families aspired to send their children to boarding schools in larger cities, which would enable them to pursue more lucrative careers than those available in the villages.

Two Flagship Villages: Padavedu and Thirukkurungudi

Among hundreds of villages whose SHG activities were facilitated by SST, two villages in the state of Tamil Nadu, Padavedu and Thirukkurungudi, stood out as models of excellence. Over the past decade, SHGs had proliferated in these villages, engaging in a diverse array of IGPs. (**Exhibits 6** and **7** illustrate examples of IGPs.)

In Padavedu, villagers generated extra income from activities such as milk production, mushroom cultivation, pottery, and silk weaving, as well as hand manufacturing of palm leaf products, banana fiber products, incense, soap, and disinfectant products. The total annual budget for SST's operations in Padavedu in 2009 was Rs. 24.9 million (US\$552,889), which was supported by three sources: SST's internal funds of Rs. 5.9 million (US\$130,000), government funds of Rs. 17.9 million (US\$398,444), and community funds of Rs. 1.1 million (US\$24,444).

In Thirukkurungudi, villagers generated extra income from rice and banana agriculture, milk production, banana chips production, bakeries, paper products, and manufactured products from banana fibers, as well as plastic bags and covers made from rexene materials. The total annual budget for SST's operations in Thirukkurungudi was Rs. 16.5 million (US\$366,667) with Rs. 4.3 million (US\$95,556) from SST's internal funds, Rs. 12 million (US\$266,667) from the government, and Rs. 200,000 (US\$4,444) from the community.

Expanding Beyond Current Operations

After SST's evident success in SHG formation and rapid expansion into new village clusters, Joshi felt that the organization needed a new strategic direction to move forward. Though the villages experienced first-hand the power of economic development, IGPs introduced by SST faced sales and marketing constraints: the villages relied almost entirely on SST for finding new buyers, and the

¹⁰ SST, *Annual Report 2009*.

¹¹ A unit in the Indian numbering system equal to ten million.

primary distribution channels were local markets. Once a person's daily additional income generated by IGPs reached Rs. 100, it rarely grew beyond this threshold.

Joshi believed that the villagers' risk-adverse inclinations prevented them from being truly entrepreneurial and generating higher margins. While recognizing the benefits of expanding beyond current operations, villagers were hesitant to attempt riskier business ventures outside the safety net of support provided by SST, which yielded low yet steady income. They preferred to only pursue IGPs with an assurance of nominal profits, no matter how low the margin. "We know we could probably be charging more in a different village, but we want to stay with what we know," one woman SHG member admitted.

However, the lack of profitability of current IGPs along with missing market linkages, weak pricing power and villagers' risk aversion, called for SST to seek new resources to help the high-potential SHGs expand their efforts beyond the current boundaries. After all, SST's ultimate goal was to eradicate poverty through the creation of self-sustaining enterprises.

Lack of Profitability

While the SHGs and farmers were content with nominal profits, they clearly recognized the potential for higher profits and expressed their interest in learning how to increase earnings. The India Lab team found that the lack of profitability was a result of SHGs both lacking an understanding of value-based pricing, pricing a product based on what the customer values or is willing to pay, and having low pricing power due to the commodity nature of their products. Typically a nominal 10% to 15% margin in the form of wages was added to non-labor costs, such as raw materials, transportation, and depreciation of equipment. Thus, if it cost an artisan US\$1 to produce a flower pot, he or she would earn US\$0.01.

However, this cost-based pricing had many flaws as these SHGs often failed to account for all the costs involved in the production, especially those that were subsidized or procured at a discount thanks to favorable policies. As a result of treating government-subsidized space, raw materials, training programs, and certain equipment as "freebies", these SHGs would price their products at a premium to an "artificially" low cost basis.¹²

The banana fiber production in Padavedu was an example of the cost accounting flaws that resulted in low profitability. Since the mid-2000s, SST had engaged members of this SHG in a three-part, government-funded training program on how to use the spinning machine to extract banana sheet from fiber and make small products, such as baskets, tea trays and jewel boxes, as well as large products, such as sofa sets. Free and abundant raw materials were locally available after annual banana harvest. SST helped to find markets, ensure product quality and transport the products.

¹² Many of the producers relied on free raw materials from around the villages, such as banana leaves discarded after harvest, and flexible labor hours of the group members.

Labor requirements varied based on the number of orders and the time of the year. Orders were communicated once a month and were split into processes based on a certain group's specialty, such as removing fiber, preparing, and making products. The production was organized as a cluster of 20 SHGs spread across the Panchayat¹³ and seven additional groups in another Panchayat, totaling 260 members producing over 30 different office appliances and household furnishing products. Instead of calculating labor costs based on market rates per person, the SHGs simply "allocated" 10% of total costs to labor.

Twenty spinning machines were required during the year. Each machine cost Rs. 3,500 which was depreciated over five to six years. The forest department provided the building that acted as a hub where raw materials and finished products were stored free of charge. The finished products were transported by buses and sold in the cities. The villagers believed that unvarnished products with natural colors were generally preferred in the market. Because of the commodity nature of the products, however, the banana fiber producers were afraid to raise prices fearing that the customers might go elsewhere to look for cheaper products.

Had the banana products' IGP been equipped with the understanding of value-based pricing, it could have taken into account its cost advantages, such as subsidized production space, government-sponsored training, SST-assisted internal communication, access to free raw materials and flexible labor, to demand fairer wholesale prices. More specifically, instead of pricing the banana fiber products at a premium to the actual costs incurred by the SHG members (e.g. 100 rupees per day), they should have considered adding on the cost advantages that may have seemed like freebies to the SHG but carried a market-value greater than zero (e.g. space rental fee, machinery depreciation, etc.). Making this calculation would allow them to ultimately charge a higher price, and consequently achieve a higher profit margin.

The villagers, nonetheless, hoped that they could raise prices and that experienced members within the groups could go outside to look for new ideas, attend exhibitions, and bring in new customers.

Foregoing potentially higher margins by failing to achieve scale through aggregation, on the other hand, was another problem. The banana fiber producers being an anomaly, SHGs were not typically organized around particular activities but rather around personal connections, and there was little aggregation and sharing of best practices to enhance market intelligence and collective power to demand fair pricing of their products.

¹³ A South Indian political unit representing a district .

Missing Market Linkage

Asked what their hopes were going forward, nine out of ten SHGs claimed they needed more customers and organized marketing efforts. Many of the SHGs in Padavedu and Thirukkurungudi sold their products in their own communities or relied on SST to find customers in nearby cities. Although many SHG members recognized the importance of finding new customers, few SHGs if any, SHGs had designated personnel for marketing and sales; the typical marketing and sales process involved individuals carrying products in small batches for door-to-door selling in distant markets. Most of the women were content to focus on production and were generally hesitant to venture out into new markets.

For example, the members of the incense-making SHG in Padavedu were engaged in a buy-back program, in which the supplier-buyer provided raw materials such as sticks, clay and powder. The women worked together three or four hours a week in the afternoon to hand-manufacture four bundles a day (with a bundle consisting of 1000 incense sticks). The finished goods were repurchased for Rs. 17 per bundle every 15 days. As a result of the buy-back program, these women were not able to learn new and more sophisticated skills, had little understanding of their customers' needs and preferences, and, in turn, had difficulties identifying new buyers, particularly ones with higher willingness to pay. While the elder members of the SHG were more content with the status quo, the younger, better educated members wanted "to see more and learn more."

Although linking these producers to the right market was a key issue facing SST, the staff did not have the market knowledge required to expand producers' markets. Furthermore, because SHGs pursuing similar IGP's were not aggregated, the scale of individual production was often too small to entice buyers beyond producers' immediate geographical areas.

High Risk Aversion

The third concern the India Lab team found was a general risk aversion among the villagers. Rather than reinvesting profits back into existing businesses, villagers involved with part-time IGP's were content with the extra daily income of approximately Rs. 100 to invest in their children's education. The more entrepreneurial members, on the other hand, lacked the financial and strategic knowledge needed to identify opportunities to scale up their activities; they were deterred by vague ideas of the risks and benefits growth options might entail. Rice farmers in Thirukkurungudi, for instance, were reluctant to start manure production and micro-irrigation infrastructure because they were not sure whether there would be sufficient demand once the production level increased to recoup their investment. In addition, instead of organizing a group of farmers to command more favorable wholesale prices from the middlemen, farmers preferred to maintain the status quo of individually negotiating prices for fear of losing their individual contracts.

Investors were also risk averse. Since SHGs and federations were not recognized as legal entities, non-government sponsored banks were reluctant to lend above a certain limit, which was generally

Rs. 500,000 (US\$11,111). To lower their own risks as lenders, even social lenders and business incubator such as IFMR Capital and IFMR Ventures, required SHGs to adopt the legal status of Mutual Benefit Trust (“MBT”), producer company, or cooperative before disbursing funds to ensure legally-enforceable liability.¹⁴ Furthermore, although SST had been highly successful at training, monitoring, and disciplining IGP s, outside investors were in general suspicious of an NGO’s ability to fund financially sustainable village-level enterprises.

Drivers for Scaling Up

After spending time in Padavedu and Thirukkurungudi, the India Lab team identified three key drivers for scaling up IGPs: 1) aggregation, 2) enterprise building, and 3) access to financing. With these drivers in mind, the team developed several options for SST to consider.

Drivers for Scaling Up

Aggregation One of the central axioms behind microfinance and SHGs was the concept of aggregation. Pooling resources across individual borrowers and SHG members effectively established joint liability, allowing formal lending institutions to fund previously credit-starved villagers. Case studies from Andhra Pradesh, a neighboring state, suggested that geographic clustering of SHGs into federations could centralize functions such as procurement, inventory management and record-keeping, as well as marketing and distribution.¹⁵ In the case of milk production, for example, eliminating multiple points of sales and accumulating volume to satisfy bulk demand of distant buyers raised milk producers’ pricing power and profitability.¹⁶ IFMR Ventures, found that formalizing aggregation in the legally liable forms of MBTs or producer companies strengthened financial discipline, lowered operational risk, and paved way for capacity building.

Enterprise Development NGOs such as SST played an important role in rural economic development by identifying IGPs with demand and profitability potentials. It provided training to SHG members – from financial literacy to technical know-how – so that villagers could sustain operations without further hand-holding.

Many IGPs, however, were part-time in nature and participants were hesitant to invest in higher value-add processes without guaranteed demand. This had traditionally hindered the participating SHG members from graduating from commoditized and localized production. For example, members of one SHG group in Padavedu devoted only three hours a day to making banana fiber products. “We don’t want to put in more effort or buy complex machines without knowing there will be more orders at the end,” one member said. To overcome these hurdles, Hand-in-Hand (“HiH”), another Chennai-based NGO, had developed activity-based enterprises as units for capacity building.¹⁷ In one village,

¹⁴ Case writers’ interview with IFMR Capital.

¹⁵ Access, *Microfinance India: State of the Sector Report* (2008).

¹⁶ Case writers’ interview with IFMR Ventures – Dairy Network Enterprise.

¹⁷ Case writers’ interview with Hand-in-Hand Micro Finance Limited.

HiH organized SHG members into a MBT to focus on making eco-friendly bags full-time. By linking these products to the export market, HiH was able to motivate SHG members, de facto employees of the MBT, to clarify what they hoped to earn and develop organizational processes around marketing and sales. More importantly, the market linkage provided by HiH mitigated risks for SHG members who made more investments into their productions.

Access to Funding In India, funding available to rural economic development had witnessed enormous growth. This in part was fueled by government requirement for public and private sector banks alike to dedicate 40% of their lending to needy “priority sectors.” As of 2008, with an outreach of more than three million SHGs and cumulative loans of over Rs. 20,000 crores (US\$4.4 billion), the SHG-Bank linkage was the dominant delivery model in Indian microfinance.¹⁸

But increasingly, for mature SHGs, the current bank loan cap of Rs. 500,000 (US\$11,111) had proven insufficient as growth capital. According to the RBI Basic Statistical Return of Commercial Banks, as of 2007, the overall gap between rural financial needs and what banks were distributing was US\$6 billion.¹⁹ Furthermore, as explained by India’s renowned research institution IFMR, in a well-functioning financial system, transferring risk in a systematic way and ensuring the supply of liquidity could enable village enterprises to effectively scale up their operations through well-managed aggregation and capacity building. OUTREACH was among several prominent NGOs that had started microlending in order to access diverse funds from grants, banks, and apex financial institutions for SHG lending.²⁰

Joshi and his team fully understood the significance of these drivers for scaling up and knew of initiatives oriented around these drivers at other NGOs. But how these drivers should be balanced with SST’s own purpose and mission became a more critical issue in contemplating the options the India Lab team laid out.

Strategic Options for SST

Convert to a MFI While most NGOs like SST had been content to link SHGs to banks, some had started lending directly to SHGs. Widely studied cases of NGOs such as OUTREACH, SHARE, and SKS identified many advantages of converting to a commercially-driven MFI, usually in the form of a non-banking financial corporation (“NBFC”).²¹ SST, however, was solely involved in training SHG members in financial discipline and linking them to local banks. If SST were to convert and begin lending directly to villagers, not only would it gain access to funds from a range of microfinance wholesalers and donors, it would shield SHG members and farmers alike from onerous

¹⁸ N. Srinivasan. India Microfinance Summit: The Poor First (November 11, 2008), page 31. SAGE Publications India Pvt Ltd: New Delhi, 2009.

¹⁹ Reserve Bank of India Basic Statistical Return of Commercial Banks 2007. (<http://www.rbi.org.in/scripts/statistics.aspx>) Accessed April 2010.

²⁰ Ajay Tankha, “Self-Help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact,” prepared for ICCO and Cordaid, The Netherlands (August 2002), page 32.

²¹ Raven Smith, “The Changing Face of Microfinance in India,” submitted to the Fletcher School of Tufts University, (2006), page 5.

banking procedures and restrictions. Often, villagers felt harassed by a bank's bureaucracy, paperwork, and strict loan caps.²²

And there were other advantages. SKS, the most widely known and commercially successful MFI, had been able to tap global capital markets and, in the process, gain access to export demands and institutional support for capacity building. SKS's partners ranged from premier financial institutions like Barclays to the MIT Poverty Action Lab, both of which had contributed funding, financial and operational expertise. Having financial flexibility and access to liquidity would enable SST to more effectively collect data, disseminate information, and foster knowledge-sharing across its SHGs. The microlending model could also be highly scalable, especially when leveraging IT platforms in remote regions as was done by Madura Micro Finance. Since the mid-2000s, Madura had reached 400,000 households through a local classifieds newspaper, more than 150 audiovisual training enabled centers, and a monthly video-based news program.²³

But the downsides to this option were far from trivial. First, converting to a microlending body would involve significant organizational changes and system updates. Re-orienting its existing 130-member team would be costly and disruptive. Second, although many NGOs operated under the assumption that access to finance naturally led to aggregation and enterprise development, SST had followed a more holistic approach to organizing IGP; it often developed trust with a village by first engaging in conservation, education, health, and sanitation efforts. Lastly, as the CSR arm of the TVS Group, SST's resources and efforts spanned across many aspects of rural development besides IGP. Properly siloing a for-profit microlending practice from those in conservation, education, health and sanitation would be logically challenging and counter to TVS's set-forth directive for SST as its CSR arm.

Continue NGO Status Instead of converting to an MFI, SST could retain its NGO status and continue to rely on bank linkage in the short run. To harness the three drivers of aggregation, enterprise development and access to funding, it had the following options:

a. *Build SST Capacity to Act as Agent / Middleman for SHG Products.*

Given that SHG members were willing to aggregate their products and build capacity but feared the risk of uncertain demand, a hands-on approach for SST would be to act as a single-purchaser and distributor, effectively filling in the missing linkage to new markets. In villages where individual SHG artisans lacked (1) the necessary volumes to sell to large stores or retailers and (2) the proper training to market and distribute at attractive margins, a potential role for SST would be to aggregate handicrafts from each producer and negotiate as the middleman with buyers. Since SST would buy the products upfront and remove the risk of uncertain demand, this arrangement could encourage

²² Case writers' interview with IFMR Trust.

²³ Case writers' interview with Madura Micro Finance Ltd. Company website (<http://www.maduramicrofinance.com>)

SHG capacity-building by investing in machines or training to add more value through complicated designs.

On the other hand, this approach would make SST not just a hands-on, but a hand-holding entity. Some experts believed it would take “six to eight years of continuous nurturing and handholding of women members by Self Help Groups and their federations … [for them] to come out of object poverty.”²⁴ Others found prolonged hand-holding to be detrimental to SHG’s growth and eventual self-governance; HiH for example “graduated” mature MBTs to handle their own marketing and sales after six to eight months.²⁵ As SHG members became accustomed to operating “risk-free,” production efficiency and financial prudence were compromised. They would also likely remain uninvested in marketing and distribution skills, further handicapping their role to merely producing on demand.

Second, SST itself lacked more sophisticated marketing capabilities and would require additional staff to find new markets and negotiate terms favorable to SHG members. Furthermore, the financial and logistical challenges of aggregating SHGs posed potential risks for the non-profit. However, SST might mitigate the risks by forming partnerships with organizations specializing in market-link services for SHG products, such as HiH and CSO Partners. Finally, acting as an agent or middleman would detract SST’s attention away from its grassroots focus on forming SHGs and fostering relationships especially with tribal villages.

b. Act as Consultant or Contract a Third Party to Assist Capacity Building at SHG Level.

Another option for SST would be to build capacity, namely marketing and distribution skills, more proactively at the SHG level. The first advantage to this approach would be graduating SHGs from the NGO parentage. As a consultant to a mature SHG or a federation of SHGs, SST could formalize IGPAs into a MBT or producer company, and assist in business plan development that included marketing strategies. A well-defined and legally-recognized entity with a sound business plan “underwritten” by a reputable NGO like SST would be attractive to outside investors who could step in to provide both funding and expertise.

Second, acting as a consultant would allow SST to develop and refine a process for building enterprises—easily replicable and transferable to more villages. As each MBT or producer company spun out of SHGs became financially sustainable, it could be a conduit to link other SHGs to new markets, buyers, and managerial and marketing best practices. For example, salesmen from one MBT could share market intelligence with other producers in the region or hold workshops in place of SST staff. In the case that SST chose not to act in the role of a consultant, it would have to contract a third-party marketer or business planner to potentially accomplish these key objectives more

²⁴ B. Rajsekhar, “Comprehensive poverty eradication through social mobilisation and empowerment of rural poor women - Andhra Pradesh experience of a statewide programme” (2009), (<http://www.adb.org/Documents/Events/2009/CDD-Rural-Poverty-Alleviation/S351-B-Rajsekhar.pdf>)

²⁵ Case writers’ interview with Mr. Joshi, IFMR Trust, Hand-in-Hand.

efficiently, albeit at a much higher cost under a commission structure. According to SST's Managing Director Venu Srinivasan, another alternative solution would be to hire a full-time MBA or initiate a five-month rotation program of newly-hired MBAs from the TVS Motor Company.

Even though this approach would ideally fit SST's mission of inculcating ownership in the villagers, there were a number of issues to consider. First, the model had few successful precedents. In Tamil Nadu, DHAN Foundation had established independently functioning financial federations with direct linkages to banks and apex financial institutions like SIDBI, RMK, HDFC, and HUDCO.²⁶ But beyond DHAN, capacity-building at the SHG level remained challenging because many NGOs lacked the skills to function as consultants.

While acting as an agent or middleman involved relatively straightforward interactions, developing a sustainable business model for SHGs would be resource-intensive and time consuming. Even if SST did partner with a third party, aligning incentives and arranging profit-sharing could be tricky. After all, mapping the effort of a third party marketer or business planner to the SHG's profit outcome would be difficult if not impossible. Sound business plans also would not address SHG members and farmers' low risk appetite. Investor interests might not turn into actual capital deployment or market guarantee, in which case many SHG members and farmers would remain reluctant to invest in machinery or training.

In light of growing interests from overseas for grassroots productions that directly benefited rural development, international partnerships with wholesalers such as SERRV International and Ten Thousand Villages presented a real possibility for SST as well.²⁷ These international fair trade organizations sourced products from rural villages and sold them to developed markets. As mission-driven organizations, they worked exclusively with communities instead of for-profit companies. This option, therefore, was only viable if SST were to build up SHGs' own capabilities first. Considering the sustainable enterprise model of those facilitated by SST, these international opportunities would provide another way for SST to help SHGs negotiate fair pricing and expand their operations beyond local markets.

However, international partner organizations were often unwilling to add new suppliers to their list. “[In 2010] the world economic recession hit demand hard in mature markets,” indicated one representative from a fair trade organization, “so we are not currently beginning new buying relationships so as to sustain our ability to purchase from our established artisan partners.” In addition, most of the products sold through these channels were highly sophisticated handicrafts and value-added products such as jewelry or designer saris. Unpolished lantana or banana fiber products had yet to find their market beyond India that justified high transportation costs. Many items

²⁶ Ajay Tankha, “Self-Help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact,” prepared for ICCO and Cordaid, The Netherlands (August 2002), page 18.

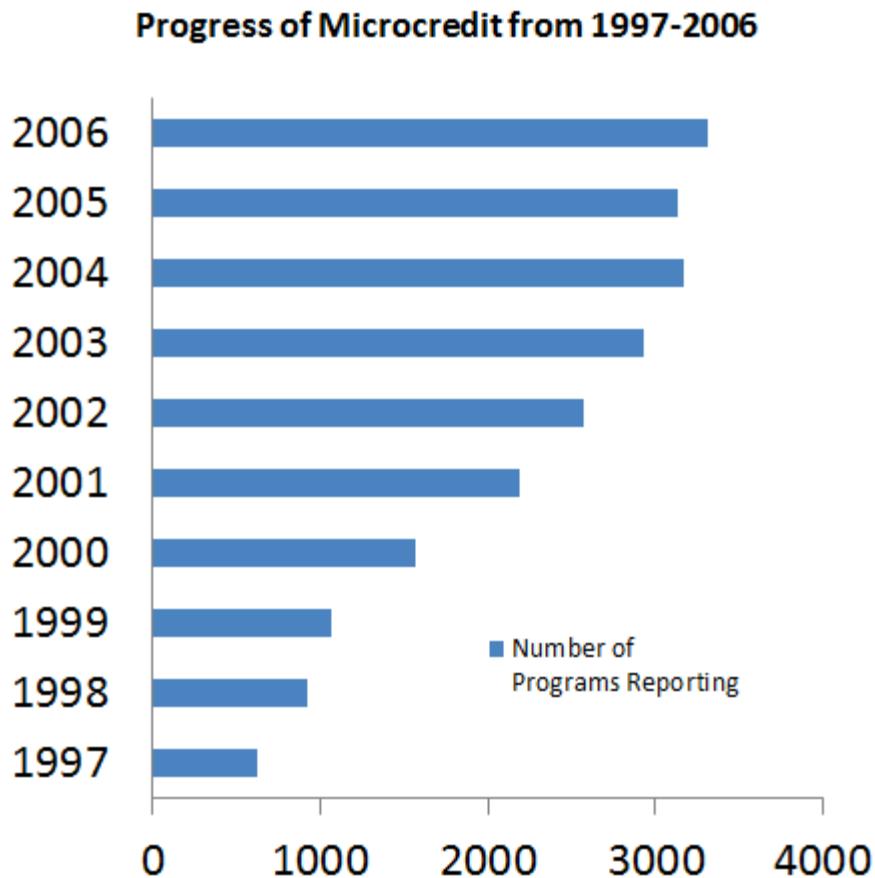
²⁷ Case writers’ interview with SERRV and Ten Thousand Villages; company websites (<http://www.serrv.org/>, <http://www.tenthousandvillages.com/>).

produced in SST's SHGs had a long way to go up the value-chain before meeting these organizations' niche demands for the "high-end, indigenous" crafts.

The Future

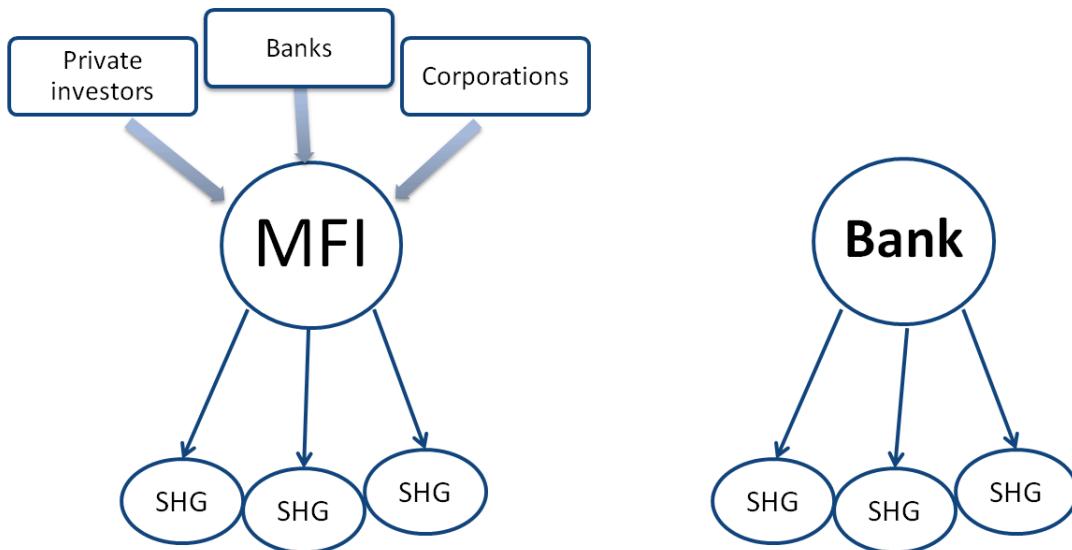
Reflecting on the tens of thousands of livelihoods SST was able to influence, Joshi was anxious to get started. However, pursuing the right course of action would be imperative, lest SST's credibility be shaken and the villagers lose all the savings they worked so hard to set aside. On the one hand, SST could propel itself into a small group of results-driven MFIs with access to global capital markets and investors. But given the organization's roots and wariness of "mission creep," should it instead continue to facilitate and educate? If so, where should the much needed capacity building happen? At the SST level, a dedicated marketing team would be able to aggregate SHG products and household enterprise development. But would developing those abilities directly at the SHG level be the right long-term approach?

Exhibit 1 The State of Microfinance in the World



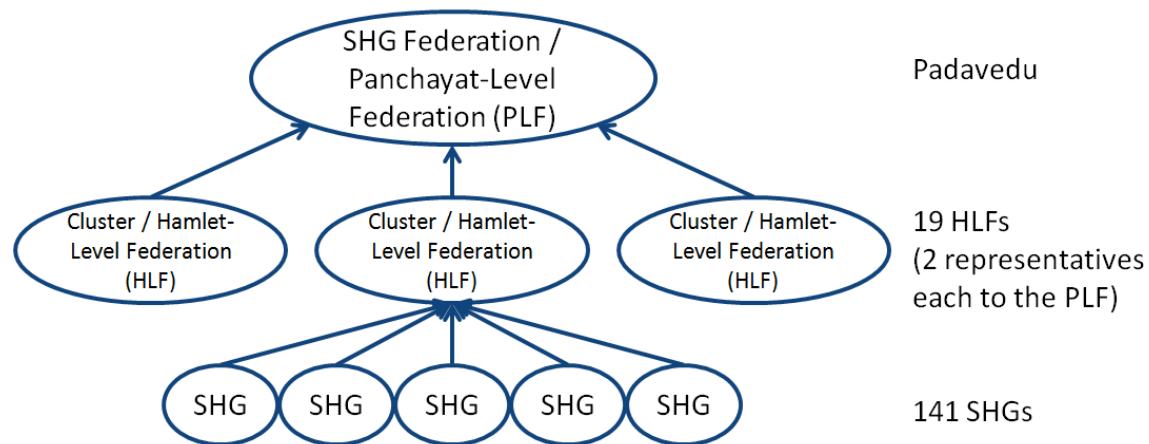
Source: Sam Daley-Harris, *State of the Microcredit Summit Campaign Report (2007)*, data from page 22.

Exhibit 2 SHG-Bank Linkage Model vs. Direct MFI Model



Source: Case writers' interview with Mr. Joshi.

Exhibit 3 SST's SHG structure in Padavedu



Source: Case writers' interview with SST staff in Padavedu.

Exhibit 4 SST Operational Statistics

Details of activities	Unit of measurement	Performance up to November 2009
Villages covered	Nos	473
Population covered	Nos	401,125
Families	Nos	90,778
ECONOMIC DEVELOPMENT		
Activities		
Self-help group formed	Nos	2,027
Families enrolled in SHG	Nos	32,181
Results		
Families income increased through IGP	Nos	27,909
Additional income ranging per month / person	Rs	1,000 - 2,500
Activities		
Veterinary camps conducted	Nos	439
Number of animals treated	Nos	125,936
Results		
Number of animals increased by milk yield	Nos	32,790
Increase in income from milk yield	Rs	1,250
AGRICULTURE		
Activities		
Area cover under drip irrigation	Ha	1,446
Quality seeds	Ha	30,786
Inter cropping	Ha	18,623
Agriculture related awareness program	Nos	699
Results		
Net income through Paddy cultivation	Rs / Ha	21,400
Net income through Banana cultivation	Rs / Ha	91,100
Net income through sugarcane cultivation	Rs / Ha	90,297
HEALTH		
Activities		
Health awareness programs	Nos	1,215
Nutrition demonstration programs	Nos	1,437
General health check up for public	Nos	99,397
Dental health check up for students	Nos	20,055
Construction of Individual toilets	Nos	35,091
Construction of Community toilets	Nos	63
Construction of School toilets	Nos	208
Results		
Reduction in morbidity	%	6
Malnourished children brought to normal	%	96
Reduction of Anemia among women	Nos	27,030

Note: Nos – Number of, Rs – Rupees, Ha – Hectare.

Source: SST.

Exhibit 5 SST's geography of operation



Source: SST website.

Exhibit 6 List of IGPs visited in Padavedu and Thirukkurungudi

Padavedu	Thirukkurungudi
<ul style="list-style-type: none"> • Mushroom cultivation • Milk production • Silk weaving unit • Banana fiber products • Pottery unit • Palm leaf products • Lantana products • Soap oil making • Incense making 	<ul style="list-style-type: none"> • Rice and banana farming • Milk production • Banana chips unit • Bakery enterprise • Banana fiber unit • Rexene products • Paper products

Exhibit 7 Various IGPs in SST SHGs



Banana fiber handicraft making in Padavedu



Incense stick making in Padavedu



Paper making in Thirukkurungudi



Women's Federation special meeting in Thirukkurungudi

Appendix List of Acronyms

- CSR: Corporate social responsibility
- HDFC: Housing Development Finance Corporation (India)
- HiH: Hand-in-Hand
- HLF: Hamlet-level federation
- HUDCO: Housing and Urban Development Corporation Limited (India)
- IGP: Income generating project
- MBT: Mutual Benefit Trust
- MFI: Microfinance institution
- NGO: Non-government organization
- PLF: Panchayat-level federation RBI: Reserve Bank of India
- RMK: Rashtriya Mahila Kosh – Ministry of Women and Child Development (India)
- SHG: Self-help group
- SIDBI: Small Industries Development Bank of India
- SST: Srinivasan Services Trust