

Microfinancing with

Shanti Microfinance is providing poor people in the slums of Gujarat with an opportunity to set up small businesses and break free from poverty

Waqas Qureshi
waqas@businessasiaweekly.com

Small and aspiring business men and women in the UK may think they have a hard time starting and growing their business, but people living in slums in the developing world have it infinitely harder making a living.

With little or no collateral to guarantee financing, setting up a business is probably the hardest part.

Shanti Microfinance has been operating in India for over 18 months, helping poor communities in slum areas to establish businesses as well as promoting social awareness and help.

In essence, the scheme provides micro loans but unlike many other microfinance organizations, Shanti provides approximately £100 per loan in order to help the entrepreneurs scale more quickly. In addition, Shanti promotes savings and other basic financial services to the poor who do not have access to formal banking systems.

As poorer people in the developing world generally tend not to have assets, they can benefit from microfinance by acquiring loans based on their reputation within their communities.

In the process, they can steer clear of unreasonably high interest rates, often obtained through loan sharks. The Indian government has capped interest rates at 24%, which has advantages and disadvantages.

Sheetal Mehta Walsh, CEO of Shanti Microfinance, explained that some entrepreneurs will need more finance than what is available from official channels and would then have to go to a loan shark - so the cap could push poor people towards loan sharks.

Walsh said



Sheetal Mehta Walsh

there is a huge debate in the microfinance world about profit vs not for profit. Many organisations charge high interest rates on loans in order to cover themselves for the cost of the loan plus the cost of potential defaults and local administration and to make sure they can pay their initial investors a return - on top of this they have huge Christmas parties and high expenses - such costs add up to ridiculous amounts.

As UK deal-maker for the Global Entrepreneur Programme, UKTI, Walsh helps in her spare time to attract innovative companies into the UK from where they can build their tech businesses and go global. In many cases this involves fundraising and assisting the entrepreneurs in finding smart money not, just any capital.

"Slums where microfinance succeeds tend to be in regions where conditions and processes enable the loan repayment," she said.

Her charity helps establish local businesses to ensure that the venture is sustainable rather than just providing aid.

Shanti works in slum areas of Gujarat, India, and is one of the few not-for-profit organizations in this field - all funds are used for social ends to promote entrepreneurship, insists Walsh.

"Our work is development-focused, rather than just providing aid. By providing training, technology and capital, positive knock on effects are realised across the community," explained Walsh. "Sustainability is of critical importance. The communities that Shanti works with are ones with long-term sustainable visions and goals. We also promote strategic partnerships with corporations to facilitate lending and training for entrepreneurs." Shanti's goal is to measure social impact and not just calculate figures.

Shanti Microfinance has an initial modest target of helping 2000 entrepreneurs in Gujarat over the next six months - but is planning to scale up this figure as the fund grows.

However, Shanti's immediate priority is to provide eco-sanitation toilets for women farmers in Bhavnagar and the surrounding area.

"Currently a lot of women have to think about when they go to the toilet to avoid men working in the fields. Women will often go to the toilet extremely early in the morning or late in the night without any facilities and this causes a number of illnesses, non-productivity and high cost medicines - everyone suffers including the children and the rest of the household who rely on the female holding the house together," explained Walsh.

With loans from Shanti, the farmers will be able to purchase the eco-sanitation toilets, construct them on their own and recycle all the waste.

The model

Loans are agreed with set interest rates, which are aimed to help entrepreneurs build a platform for small business.

The interest earned by Shanti is invested back in to the local community to fur-

ther finance schemes - Walsh says the interest is never paid back to Shanti - and insists all of it is recycled back into the community.

As the loan recipients typically do not have collateral, they guarantee the loans taken by other members in the group, i.e. the Joint Liability Groups which consist of four individuals in the loan. Once repayment is complete, the funds are recycled for new or second time loans in the communities - a targeted and wider group of communities can be reached this way, according to Shanti Microfinance.

Money from the interest accrued is used to hire local people to administer the microfinance loans, training and improvements to the start-up ecosystem to help ensure sustainability.

The idea is to help a few become successful mentors in their community and help others - thereby lifting entire communities, rather than disbursing millions of loans to millions of people.

Shanti also aims to have transparent expense accounts and takes currency fluctuations into account with loan repayments.

With a focus on local industries using appropriate technology (computers, devices, software) and training, the scheme aims to help building communities that will be self-sustaining after the initial loans have been repaid. "This enables the capital to be recycled to a wider group of participants or to be recycled in greater volumes to initial borrowers allowing them to expand their business further," says Walsh.

Additional advantages to the community are that children are able to stay in education longer than they would have done otherwise ensuring that further benefits are brought to the community in the longer term, health care improves, housing improves as recipients can access smart capital.

The initial pilot program worked with two communities in the Indian state of Gujarat. "We did our first pilot of giving funds to rural artisans in Surendranagar Gujarat and urban rickshaw wallahs in Ahmadabad. We've just visited the loan recipients one year on and they have all paid back their loans and are ready for the next loans" said Walsh. She adds "as a newly-wed I was delighted that my husband, Paul Walsh, who is a serial entrepreneur, joined me in April for a month's visit to the slums in order to meet current recipients and identify new ones".

She pointed out the impact of the programme has helped two different communities of not only entrepreneurs but also their families. "The impact of 150 individuals is being measured so that we can determine how to scale deep into the communities".

Application process

Shanti has a formal application process, which is preceded by a meeting and deciding on potential channel partners - those local organisations and personalities that actually administer the work on behalf of Shanti. "We investigate on the ground how funds are going

to be dispersed, to whom, why, for how long, and we review the businesses of each entrepreneur. It is essential that our partners do not take high administration fees and that they are socially inclined and not chasing profit. We seek out partners who share the same mind set of bettering communities through value added services - which could include skills and training, health care etc".

Once Shanti has visited them and investigated their model, they speak to some of the local members to determine their level of satisfaction and their needs are later measured in our process. "Only when we are certain that there are synergies, we then invite them to fill out an application form."

The criteria Shanti looks at before providing funds include the following:

For the entrepreneurs (recipients of the loans)

- ☐ Infrastructure that exists in the area that can help them come out of poverty (running water, etc)
- ☐ How much they can save and have saved already
- ☐ How many people are working in the household
- ☐ How many children are going to school
- ☐ What the payback has been to date
- ☐ How many loans they have taken already and at what interest rate

The aim is have social impact as well as financial. For the local microfinance institution which gets the grant from Shanti to distribute on its behalf, the following areas are assessed:

- ☐ That they don't take a huge administration fee to operate
- ☐ That they don't take an unreasonable interest rate to operate and make revenue (our interest rate is 12% and 100% of that interest incurred is recycled back into the local community for further loans and to create jobs locally)
- ☐ That they can sustain basic value add training and have thought about other issues (obtaining fully insured eco-friendly licenses for rickshaw wallahs for example)

The model employs a very lean team and so that as much funds go to the entrepreneurs as possible.

Shanti also works with partners in the local slums and villages to support their own organizations. These partners are generally federations that have been created by the recipients themselves. Most of them come from the slums and have a model for microfinance already. "We have checks and balances to make sure that they abide by a certain code of conduct and we do regular reviews. One such organization that we work with is based in Ahmedabad and another in Baroda, Gujarat".

Application vetting

Walsh insists frequent local visits are made to ensure all processes are complied, and all funds that come in as donations are from clean sources.

"We also have a very strict criteria for

Gujarat's slum angels

choosing our partners on the ground – there is a lot of corruption, therefore understanding the language and frequent reporting is key.”

She initially set up a microfinance scheme with a friend who had agreed for it to be a not-for-profit venture, but when donations started coming in, her partner decided to ask for a considerable administration fee and expenses. “I had to walk away from that. I was furious with the situation. I had no idea there was as much if not more corruption in the West”. Walsh is proud to have walked away and started a fresh organisation which abides to her integrity which she learned from her parents, Mukund and Mrudula Mehta.

New technologies

Mobile phones have been used for repayments in many parts of the world. Having a mobile device for the field workers who go from home to home to collect payments makes data collection and real time reporting so much easier.

Additionally, where the internet can be leveraged to profile their products and services, entrepreneurs can benefit by hopefully increasing their sales. “Video footage captured on the ground can be downloaded on our site which helps raise awareness, furthermore, we can take online donations which makes giving very easy for people who might never get to India but want to make a change and contribute meaningfully”.

The main challenges

There are many regulation changes (arguably for the better of the poor) but a lot of the stakeholders are not responsible in their money lending, explains Walsh. “Some organisations charge very high interest rates whilst others disburse hundreds of millions of dollars in tiny loans worldwide. This makes it impossible to manage the social impact and may even cause the recipients to take out multiple loans thereby paying more administrative costs. As a result, productive loans become consumptive loans. They are often giving loans that are too small and charging huge interest rates - which cause the need for multiple borrowing. These lenders ignore all the aspects of lending that make it effective smart money. They don't, consider the negative impact of issues such as poor health, domestic violence, lack of education and understanding savings.”

She said the poor may not have the skills or know how to save and they can get stuck in a rut of having to take multiple loans - which end up piling up over time and the negative effects are sometimes worse than when they started the loan process.

A second challenge is scaling businesses so that the entrepreneurs can generate revenue in order to break their dependence on microfinance. In some cases they need to take multiple loans to pay back previous loans. A third challenge is finding the right lender who won't overburden them with arduous conditions. A fourth challenge is politics and corruption and finally natural disasters which can ruin crops – access to insurance is key.

Walsh's message to young entrepreneurs



here is straight-forward: “Know your ecosystem, who are the players and stakeholders that can make a difference to your business”. She also points out that networking is key at all levels whether you own a travel business in Southall, work in the City, or you own a blouse-making business in the slums - “No one is going to give handouts but who you know can affect every bit of your business. It's also key to get out and build a rapport with your clients so they remember you and make sure you enjoy what you are doing otherwise your insincerity will cloud those around you. Finally stay true to your values and achieve your goals in an honest way - we come into this world with nothing and we take nothing with us when we go!”

And surprisingly, Walsh is frank about how she hopes the scheme unfolds in years to come. “My personal goal is to eventually put micro finance out of business. We will only be successful if we are out of business so that future generations don't have to be dependent on microfinance. By this I mean, the poor won't need microfinance anymore because they will have grown in wealth and can actually have access to bank accounts. Microfinance is a means to alleviate people out of poverty but in some cases it's creating a dependency. Our goal is to help them grow and graduate out of microfinance so that they can also have choices.”

Fundraising

Donations are mostly given online and through events. Donors, especially corporations with CSR programmes, are able to recognise a continued contribution to worthy causes each year simply by recycling the funds rather than providing additional donations. All donors receive ongoing reports about the social and business impact their donation has had on the recipients and their families.

Short term goal

To raise £20,000 by Sept 2011 via the online campaign. Funds are being raised for women farmers to buy eco sanitation toilets (all waste is recycled for crop growth); rickshaw wahls in the slums; and for textile artisans in Surendranagar – having spent time on the ground with these entrepreneurs, Shanti wants to ensure we can fulfil their financial requirements in the coming weeks.

Medium-term goal

For 2011/12 Shanti is aiming to raise £250,000 which will affect thousands of families in rural and urban Gujarat. Donations as small as £50 or as large as £10,000 can affect group recipients in a meaningful way.”

Donate here

<http://uk.virginmoneygiving.com/ShantiMicrofinance>
or contact Sheetal Mehta-Walsh
sheetal@shantimicrofinance.org.
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