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Microfinance Gets 'Divine' Intervention in India

By Keya Acharya

BANGALORE, Jun 25 2012 (IPS) - In a country with a disastrous record for microfinancing, a religious organisation has done well enough to claim this year's Ashden award for initiatives in providing loans to poor farmers.

The Ashden award – which carries 40,000 British pounds (62,238 dollars) in prize money – is given for sustainable energy initiatives in Britain and the developing world by the Ashden Trust that is run by the Sainsbury family, founders of a supermarket chain and other businesses.

The success of the awardee, the Shri Kshethra Dharmasthala Rural Development Project (SKDRDP), is linked to the fact that it also administers the ancient and well-endowed Manjunatha Temple in Dharmasthala town, set in the high Western Ghats of southern Karnataka state.

The temple's hereditary head priest, Veerendra Heggade, who also heads SKDRDP, is revered by devotees as well as borrowers. "It is this reverence that spurs loanees to pay back their loans," explains L.H. Manjunath, the project's executive director.

"We are secular with many Muslims and Christians in our fold, and Manjunatha is a symbol of the poor, not just of Hindus," Manjunath hastens to add.

SKDRDP's microfinance operations, begun in 2000, now have a turnover of 800 million dollars. Some 1.8 million families from 5,000 villages in Karnataka are covered through a decentralised system that is run by a staff of about 7,000.

Manjunath, who earlier headed a commercial national bank, said SKDRDP noticed that handing out charity did not bring improvement in people's lives. "So we changed our policy in 1990 and began giving out small loans for specific livelihood and development purposes."

SKDRDP started by forming small, 'joint liability groups' of five farmers each. A rotary system was devised where each member performed a day's free labour on another member's lands.

"This galvanised development," says Manjunath. Farmers were also persuaded to save 20 cents weekly that went into a common fund.

By 1995, the organisation had begun involving women's self-help groups and today two-thirds of its clientele consists of women.

A 4,500-strong band of rural youth forms part of SKDRDP's network spread over 16 districts in Karnataka, that grades loan eligibility, guides repayment and maintains grassroots contacts with clients.

Heggade stands guarantor for loans taken from national banks, which SKDRDP disburses to clients, keeping a four percent profit margin and his high status comes in handy for negotiating the best interest rates.

Factors such as such as a lending bank's unmet targets are taken into account and in one case, says Manjunath, a leading national bank lent money at 6.9 percent when the going rate was approximately 12 percent.

SKDRDP lends at between nine and 18 percent interest, but keeps both interest rate and payback timings flexible.

Approximately 20,000 loans have gone towards renewable systems of lighting and fuel needs, benefitting some 82,500 people.

A bank account with a deposit of two months’ repayment amount as taken from clients a buffer against repayment default and this is mandatory before the first cheque is disbursed.

“Building the payback capacity of the borrower is our strong point,” says Manjunath.

SKDRDP’s success contrasts with the record in India of borrowers, mostly marginal farmers in the rural areas, getting caught in debt traps and being driven to suicide in droves.

In neighbouring Andhra Pradesh, the state government was forced to legislate in the state assembly in October 2010, banning the collection of repayments by goons hired by MFIs, leading to the virtual collapse of the system.

“To my mind, microcredit cannot really alleviate poverty,” says Aloysius Fernandez a pioneer of microfinance in India and former head of MYRADA, a reputed non-government organisation (NGO).

Fernandez, now chief of the financial services of the government’s National Bank for Agriculture and Rural Development, says distributing credit to the poor and extracting capital from the ‘bottom of the pyramid’ is the wrong way to go.

“I have seen this work where there are support services, but not otherwise,” Fernandez says emphatically. “The national banking system with its standard measures for loans cannot be applied to poor communities who need customisation.

“If you ask me whether agriculture has improved for people through microcredit, I will say ‘yes’, but I have not seen poverty alleviation as such.”

India is predominantly agricultural and more than 70 percent of the country’s 1.2 billion people are dependent on farming for a living.

“The question is whether an NGO should function as a banking institution, or be doing rural upliftment work,” says Somnath Naik of Nagarika Seva Trust that has record of good work in the region.

Manjunath responds to that by saying SKDRDP’s microcredit works successfully because of the ‘hand-holding’ and capacity-building measures that it undertakes.

India’s apex reserve bank has outlined the rural sector’s near exclusion from banking services, and has, as a matter of policy, been encouraging rural agents to come forward to fill this gap in rural development. “We are in tune with this policy,” Manjunath said.