

Samrudhi site visit report:

Samrudhi is a microfinance organization setup in Gulbarga, Karnataka by Sanju kumar. He is the founder and head of Samrudhi. This document is my site visit report on Samrudhi. Sanju kumar is also the co-founder of Asha Deepa School for the blind in Bidar Karnataka which is an asha supported project.

Before I discuss the site visit I would like to briefly talk about Samrudhi. Samrudhi is a NO-PROFIT organization that follows the Grameen Model (started by Mohd. Yunus in Bangladesh) where it receives donations/loans and lends that money in small amounts to women from an under-privileged background. The loan amount is typically about Rs. 5000 to be paid back in weekly installments over a period of time. The percentage interest charged for these small loans is such that it covers all the expenses of the organization.

The purpose of the site visit was to get an idea of Samrudhi and more important, how it could help the under-privileged.

I reached Gulbarga, a northern district of Karnataka early morning and after having breakfast I told Sanju kumar that I want to meet some of the clients of Samrudhi. On that particular day Samrudhi had two of their weekly meetings where clients come to a particular location to repay their loan installment. I was curious to see what goes on and so requested Sanju to take me to the meeting place. The meeting had about 25 women (4 groups with 5 members in each group). All of them had come there with their passbook which reflects all the loans received and their periodic repayments (photo attached). The loan officer of Samrudhi comes to the venue, takes attendance and collects the payments and updates their passbook. If there are any issues repaying that particular week or if someone is absent, the loan officer works with the group/member to ensure that the amount is paid on time. On that particular day all the members were present and so there were no issues. After all the members made their re-payments, the loan officer asked if they have any questions or concerns. They didn't have any issues or complaints, but some of the members requested for another loan so they can grow their business. The loan officer and Sanju explained that we will look at their history of repayments and then over time decide if it is appropriate to give them new loans. I asked if they have any issues or complains and many re-iterated that they would like their loan amount increased from 5000 Rupees to a higher amount so they can grow their business.



We then moved to another meeting venue about a few kilometers away from the current venue. The process is the same where many groups come together and repay their loans. Here again some women were interested in having their loan amounts increased. One of them wanted to know about education loans for her kids(Samrudhi has enrolled every client in insurance schemes for both disability/life insurance and for education scholarship for their children where applicable) and Sanju responded that they are waiting for the insurance company to process their application. Another woman was interested in receiving money as her husband had recently passed away, and the loan officer mentioned that he would follow-up with LIC.

After the two meetings we went to Samrudhi's office where I got a chance to talk to the Loan officers and also discuss various topics to understand the operations of Samrudhi.

While the loan officers were busy updating their ledger as they have to deposit the money in the bank before it closes, I took some time to talk to Sanju. One of my first questions was what motivated him to start this organization. He mentioned that his family has been through a lot of pain due to a high interest rate charged on the debt they owned, and it took them a very long time to pay it off. He said he was able to study mainly because he got a scholarship, else he wouldn't have been educated as they were saddled with debt. In addition to this motivation he also believes that microfinance is very effective as it not only makes the clients work hard for it but also live with self-respect as they have earned their living.

I then went on to ask him about how they choose their clients. Their model basically has an elaborate process in identifying the clients. It involves arranging a meeting in a

village/town to first give them an idea of what micro-credit is and how they can use it. They later have a follow-up meeting where they ask people in the community if they are interested. The loan officers then visit the houses of the people who are interested and talk to their family and get a good sense that they are really interested in borrowing the money for business ventures and they cannot afford it. A list is made and they are now asked to make groups of 5 each. The primary goal of having a group is to ensure that members work with each other if there are any issues. For example, one of the members cannot attend a meeting or cannot pay the installment amount that week as her business is cyclical. In such a case the group helps out to pay upfront and receive credit from the member later. It comes down to the responsibility of the group to work with each other so that they make their repayments. However, there are issues with a group too. Sometimes, some members who are smarter than the others try to dominate the group which can lead to issues as well. On an average the experience of grameen model has been that most members are co-operative and so has proven to be beneficial.

I later talked to the loan officers. I asked them about how they identify the clients. What do they do to ensure that clients really need that money and that they will repay the loan. The loan officers provided a similar answer mentioned by Sanju. They also mentioned that if a particular client is approved for a second loan after the first loan is fully paid, they would visit the house of the client and talk to the family members to get a sense that they can issue another loan.

Later I took a look at some of their documents. They had various files for each group with their history of loan payments. Sanju showed me some of the forms they use while doing a survey of the village. They also document the percentage loans that are paid, what is remaining and other loan related metrics. I also asked for the latest audit report, and he showed me that. Overall, I felt that they had maintained their documents in order. They didn't take time to search for any of the documents I requested. Since the organization is answerable to all the entities who have loaned them money, they are obligated to maintain good records.

Later I checked out of the hotel, and then boarded a bus to go to Bidar to visit one of our Asha projects. On the way, I had discussions with Sanju about various aspects of Micro-finance.

Advantages and disadvantages of a no-profit Microfinance organization.

The advantages of being no-profit is that it charges a lower interest rate to pay the loans back thus helping clients keep a larger portion of their profits thus helping the under-privileged community.

The only disadvantage of being no-profit if you are just starting according to Sanju is the competition from profit-based microfinance organizations, and if they are large enough they can force out smaller organizations out-of-business by charging less teaser interest rates only to raise them later. The other option is to get bought by these large organizations. On this aspect, regulation from the government will play a very important role and also enforcement of that regulation. Sanju said that some of the regulatory changes were being discussed by the central government and there are plans to change the regulation(s). Asha, as a supporter of the fellow should try to track the regulatory changes and understand how this may effect microfinance organizations.

Role of the loan officer.

The loan officer is the most important person in a microfinance organization. He is responsible for identifying the people to give loans to and also collect money from them. This role can clearly be misused if it is the wrong person. A loan officer has to be honest and truthful, and also smart to effectively handle the clients. The right loan officer will go a long way in the success of the organization. Currently Samrudhi has a couple of loan officers who are known people and so the job is easier. However, as the organization grows the effectiveness of the implementation of the model (to ensure that the loan officer doesn't cheat or not handle clients effectively) will be of paramount importance. Asha has to constantly be asking questions or trying to identify if the model is being effectively implemented.

Past incidences with loan officers.

While talking about loan officers, Sanju mentioned that some loan officers in his previous company (he was working for a private Micro-credit organization in the past) have tried to run away with the money. So, the organizations have an indemnity bond with a government official to claim the damages as a backup. The reason it is a government official is because of the safety of a government job as compared to a private job. There have also been incidences where the loan officer claims that the money was stolen away from him after collection but before depositing it to the bank. In such cases, the loan officer is probed by various people in the organization as well as by the Police to ensure that he isn't lying.

I will conclude this report with some of my thoughts about Samrudhi and microfinance in general. Please note that these are my opinions and should be discussed further.

- My take away from the site visit is that it is a great model that helps the poor without having to be a charity. It is amazing to see how well the model works given that the default rates have been very low. Samrudhi has experienced very few defaults over the course of the past one and a half years.
- The person who heads the organization has to be a very risk averse, conservative, honest and capable person. That is the nature of that job. I think Sanju Kumar suits that role.
- The biggest risk with this model is liquidity. If people are scared to lend money as they don't trust banks or organizations such as micro-finance then the organization runs the risk of not being able to grow.
- Other risk that needs to be constantly monitored is the effect of for-profit-micro-finance organizations in that region. What are they doing? Are they trying to buy no profit organizations? What are the rules setup by the govt to ensure that smaller no-profit organizations are protected? If government doesn't enforce rules to protect smaller players, larger players will either buyout or bring down the smaller players. Larger players can then be more harmful than helpful by raising interest rates on loans by taking advantage of their monopoly.
- It is important for us to check for scalability issues. Currently Samrudhi is small, the loan officers are known people and trustworthy. As it gets bigger the implementation of the grameen model will gain importance. Asha as an organization should constantly look for ways to monitor this.
- Last point, we also need to figure out a way to loan money to the microfinance organization *esp. in bad economic times when it is hard to get loans*. From my understanding Asha cannot lend money as we are a charity organization, but if we can somehow find a way to lend that money, it will go a long way in helping

the organization grow and help more underprivileged people. We could also look into donating to the organization, thus reducing the interest rates of the loans to the clients of Samrudhi.

Finally, my thoughts on some of the things we need to check on a regular basis (something to follow-up on a conf.call or ask for updates):

- Loan metrics. Something which is simple to understand yet gives a good understanding of the progress being made by the organization. Something like
 - o Total donations/loans received.
 - o What percentage of each loan paid.
 - o Default rates in each community, is there concentration in one section. If so, what is causing it?
 - o Growth of loans in a year.
- Turnover of loan officers. This is crucial. We don't want a high turnover.
- Regulation updates by the government and how it affects Samrudhi.
- Competition updates.

For information about Samrudhi, please visit:

<http://www.samrudhi-india.org>