Test Case

Differential pricing for partners[1]

"Vanita Kalyana Samstha gets 20.75 points and Bala Mitra - minus 19.8…" Manoj Kumar, a Credit Manager with the Dakshin Microfinance Services - Urban Programme (DUP) was presenting a draft version of the 'Partnership Performance Index' to his colleagues. The PPI was a composite index that measured a Partner-NGO's performance in DUP's lending programme. It used different weightage to indicators such as the average loan outstanding per partner, the overdues from the NGO's self-help groups (SHGs), the rate of repeat business from SHGs, and the participation of the PNGO in enabling efficient financial intermediation by DUP. Manoj had not yet identified the objective measures for PNGO participation and bookkeeping in SHGs, but was working on it. Though the scores were incomplete, the sections that measured financial performance had clear pointers; Bala Mitra, DUP's first and perhaps most professional partner was lagging behind. The scores of Vanita Kalyana Samstha, the leader of the pack, generated equally mixed reactions from the staff; DUP's staff called it a 'relentless SHG factory whose organisational methods bordered around the bizarre'. "That's an organisation – if we can call it one – you [the business school] must attempt to understand", said Anup Shah. The sharp contrast between the two partners brought back the question on how to deal with BM.

Established in 1981 as a community development organisation, Bala Mitra (BM) focussed on urban issues. In 1999, when Bindu Govindan visited the organisation to explore a possible partnership with DUP, BM ran shelters and a helpline for children in distress, organised collectives of children against child labour, and ran several educational programmes for children and adolescents. According to the Director of BM, the organisation had come to understand that an effective way to keep young children – in school, safe, and off the streets, was to work on the economic condition of their mothers prompting BM to start self-help groups in the slums of Navanagar in 1998-99. BM was the first to partner with Dakshin's Urban Programme (in October 2000) and was considered by DUP to be professional - an organisation where management layers and procedures were clearly identifiable. BM was one of the few agencies that had SHGs of its own even before DUP began its operations and this meant the philosophies of the organisations matched. DUP opined that BM's groups were generally sound and whenever there had been problems with them (such as overdues and bounced cheques), the organisation had taken prompt corrective action.

With its early start, BM remained DUP's largest partner until 2003. For the year 2004-05, BM's monthly average of SHGs with loans outstanding with DUP stood at 70, but that was declining gradually[2], third in the line-up with only half as many groups as VKS. More than the number of groups linked to DUP, their credit off-take was flagging faster. During the year, DUP had disbursed Rs. 158 lakhs to VKS, but only Rs. 32 Lakhs to BM's SHGs, behind in seventh position; "Even the nuns, who are finicky about quality and therefore a

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[2] See Appendix 6A on PNGO Performance Statistics for 2004-05 and Appendix 6B on Partner Performance Index

little slow, are catching up with them," said the Credit Manager[3]. An average BM group absorbed Rs. 42,000 per linkage, less than half of what Friends' Society's groups did. BM also figured prominently in the NCL List – a No Current Lending case was an SHG that did not come back to DUP for a subsequent loan upon successful closure of the previous; 66% of BM's linked SHGs never reverted back to DUP.

"Sometimes we think the high NCL is because, under the new incentive system[4], PNGOs get paid a much lower sum for L2 loans; we feel that PNGOs may be intentionally dissolving their groups after the first loan and then reforming them as new groups", said Anup Shah. But in the recent past BM had conveyed its intention to develop groups at no cost to Dakshin but wanted DUP to lend to them at lower interest rates.

"The trouble with BM", said Indrajit Borde, the Credit Manager dealing with the PNGO, "…is their ideology. They are very unhappy about the 24% interest rate that DUP charges. They say their choices are clear - local commercial banks (like the Women's Branch of Westcoast Bank) charge 12% per annum for SHG loans, sometimes as low as 9%; that is in stark contrast to DUP. They insist that their job is to give people choices and that the ultimate aim of microcredit is to help the poor link up with the formal financial sector. They don't get this 'sustainable-microfinance' thing. About 60 of their SHGs have been linked to the banks, but we are the ones funding the promotion of their groups; of course, BM also brings in other resources and uses the SHGs as a vehicle for other development interventions, and that's good. But it does not work out for DUP to spend a lot on getting groups ready, only to lose the credit business to the banks. Our assumption was that with larger loans from the second cycle onwards, the interest incomes would help us recoup the costs of funding PNGOs." Added to this, Dakshin's own philosophy of wanting to exit from areas where mainstream banks are willing to lend to SHGs (articulated in its vision) had been used by BM to justify greater linkages between banks and SHGs.

Despite these misgivings, DUP found it difficult to deal with BM head-on as it considered the NGO to be a model that its other partners could emulate. According to various staff of DUP, BM was a professional agency with a clear organisational mandate for development, good and transparent organisational systems and procedures, and one that organised SHGs for reasons of women's empowerment and enabling a better life for children. During the early days of the partnership, Dakshin's board members had hoped that BM would be able to develop a benchmark strategy for poverty alleviation in urban areas, given that BM worked both in Navanagar and Udayapur, two big cities in the region, and had good working relationships with both NGOs and the government. Bala Mitra's Director had been keen to develop the organisation's SHG promotion activities in the likes of what Uttejan had achieved in other areas. He had kept close contact with Uttejan looking for advice, and employing its former staff member to oversee the bookkeeping aspects of SHGs. In December 2004, having attended a function in BM where the Consul General of Japan was also present, Anil Prabhu, the Chairman of Dakshin, had this advice for DUP: "You must learn to treat Bala Mitra differently from some of your other partners. You can't play your 'hard-headed financial institution' card with them. They have – shall we say – a very caring approach to their strategies, and have to be dealt with on a somewhat different intellectual plane. They have some very valid things to say and are strategically a valuable partner for DUP."

[3] Referring to the several PNGOs run by catholic nuns
[4] See Appendix 5 - Structure of Incentives to DUP's Partners

In March 2005, DUP's Bindu Govindan, Anup Shah and Indrajit Borde met with BM to iron out the issues. The gist of the meeting was explained to DUP's operational team during the meeting on March 23. "BM has requested us to cut down our training and capacity building costs so that we can lend to BM's groups at 18% interest. They are ready to work without the financial support of DUP – they want neither the […Rs.] 3000, 2000 nor any share of the administration charges[5] – none of it", explained Anup. The reaction from the Operational Team was sharp. "Differential interest rates were shot down by other partners in our earlier discussions on the issue. BM sometimes ignores the fact that there are different types of partners with DUP and not all have their kind of resources. Besides, all of us, DUP and the PNGOs, will be in trouble, as groups might start defecting to BM, and all that… Let them take the PNGO costs and do whatever they want with it – let's keep to one system for now." But DUP had sent feelers in previous meetings that it was open to the 18% option.

BM had suggested that DUP bring out a booklet that explained the pros and cons of linking to DUP vs. a commercial bank, in order to help SHGs make an 'informed choice'. Anup continued, "We then asked them why they need DUP at all… for which they immediately clarified. 'No, no…' they said. 'We need both options [… the banks and DUP…], in fact the road to DUP is smooth: that to the banks - quite rough… there are different costs involved for BM for these two options'. As usual, they find the 12% vs. 24% interest rates very problematic. Besides, the Westcoast Bank has apparently promised them Rs. 6000 (from their capacity building funds) for each group linked to them… another matter that this money has not been paid up so far. So, what do you think we should do?"

[5] See Appendix 5 on the Structure of Incentives for DUP's Partners