

Newsletter 1 – Learning Trip with DCBS (India)

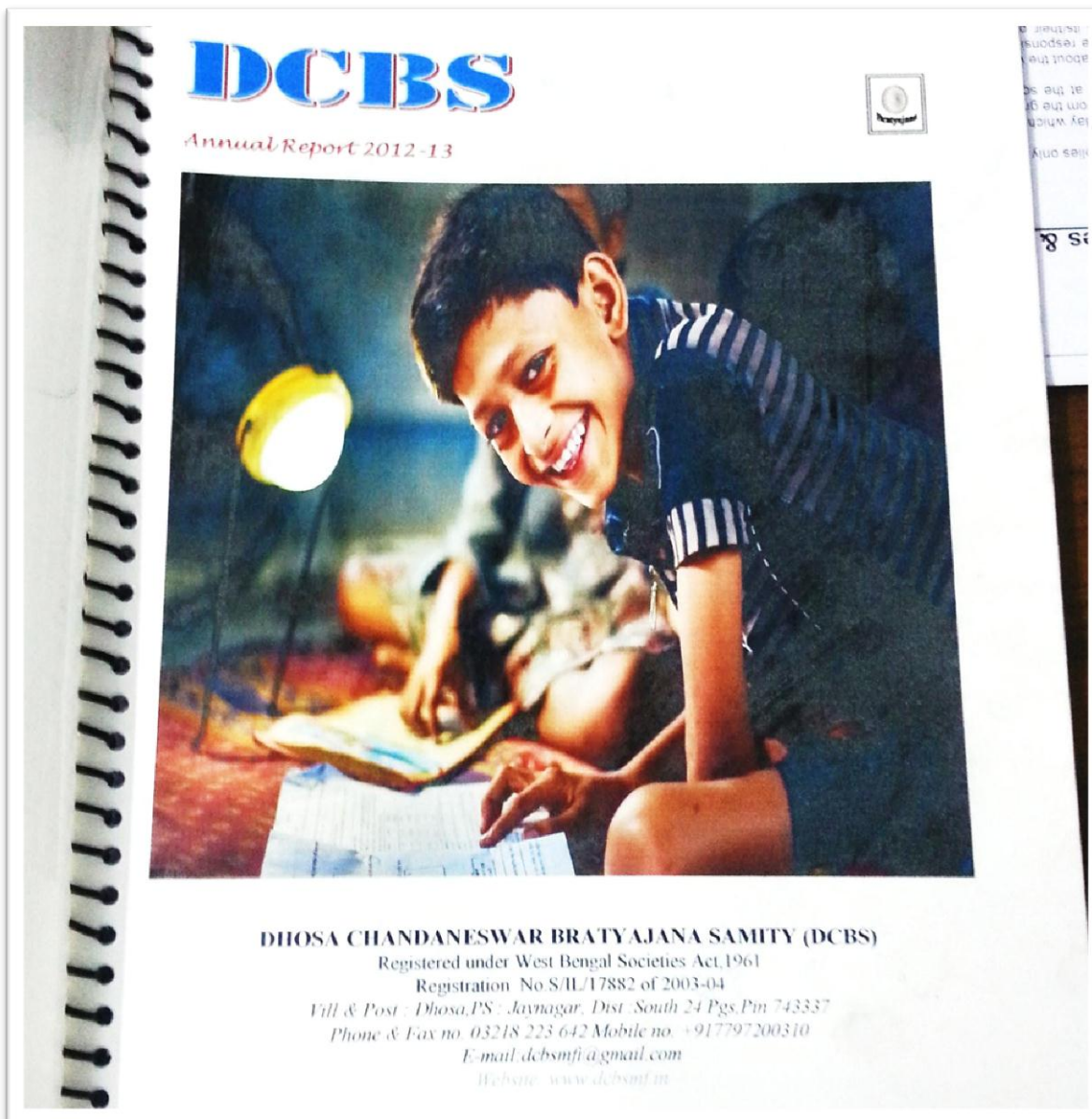
I like to write stuff that is simple and crisp. I have a new found love for simplicity. I don't care for 3 kg dictionaries. To me, Simplicity is the art of achieving clarity in a seemingly complex, monster problem. That's the starting point – keeping it simple.

That's one of the reasons why I don't like the phrase 'social entrepreneurship' – it's just too long and dramatized to describe something so simple and beautiful. But we'll come to that in another newsletter.

This is my first newsletter in the series I like to call 'Measuring Social Impact'. It's a lot to do with Simplicity. In my observation, we need to do a better job of Measuring Success in the sector of social impact. Who are 'we'? – 'We' includes a social ~~entrepreneur~~ business person who may be measured on how quickly she can raise capital instead of how efficiently she uses limited capital. 'We' includes a community service centre that flashes on the front page of its website how it raised X thousand dollars in its fundraising drive, instead of describing how its work reduces the burden on social security financed by tax payers. 'We' also includes you, who looks up to the CEO of a nutrition-deprived soda drink company flying in a private jet, but judges the morality of a social impact organization executive driving a swanky sedan.

I have no interest to write about why the measurement of social impact and efficiency is currently problematic. I rather use our short attention span to (attempt to) write about HOW to logically measure it and define success. That's my motivation, and the challenge I've given myself is to keep the discourse and its outcome simple. Not simplistic, but simple.

My first lesson in measuring social impact was in Dhosa village, which is about a 4 hour taxi ride to south of Kolkata city (it's the 3rd largest city in India in terms of GDP). The trip was hosted by DCBS (Dhosa Chandaneswar Bratyajana Samity), an enterprise founded in 2003 by 2 guys and 1 girl who could not find a job after graduation. DCBS is in the business of providing loans to the village women of Dhosa. It operates less like a commercial bank by putting more than 50% of its staff as 'foot-soldiers' to monitor progress of their borrowers.



I got to know DCBS through Milaap.org. Milaap is an online platform built in 2010 in Singapore (but operating in India) to allow people like you and me loan money to village women who want to borrow it for their business, education, sanitation, water and energy needs. It's a loan, not charity. My first loan instalment (with interest) from the borrower is in my account. It came within 3 months. I am a writer-volunteer with Milaap. Ok, that's all the real estate of this newsletter I'll spend talking about Milaap – they are credible and popular enough to capture your interest without my help. DCBS is the focus of this newsletter. I have learnt some lessons on measurement and application of social impact business from them.



DCBS is a Field Partner to Milaap. Field Partner means they are entrusted (based on their experience, credibility and efficiency) by Milaap to identify, support and monitor progress of deserving borrowers. A field partner like DCBS pays Milaap a 5% (plus service tax) fee on the loans crowd-sourced for it on Milaap.org to lend to borrowers in need. If you've heard of microfinance, this is what it is. If you've read about microfinance, you've probably also read about what can go wrong in it. Since that topic deviates from the purpose of this newsletter, I'll just add that microfinance is a business that is only as credible as its level of diligence and transparency.

DCBS charges a flat interest rate of 8% to 12.5% to its village borrowers. It varies according to the purpose of the loan. An education loan of INR 5000 (~ USD 80) for 12 months is given at 10% interest. An agro-business loan of INR 5000 for 12 months is given at 12.5% interest. State Bank of India (SBI), the largest bank by the amount of assets (assets are items in the accounting book that help increase cash, such as a loan to a customer), offers its most credit-worthy customers a commercial loan at 14.75% interest¹. So DCBS is a pretty competitive option for the village women of Dhosa.

DCBS operates over a borrower base of 7,201² village women. That's their primary and only target customer base. Amongst their 42 staff, 26 are on the field. Each field staff deals with about 300 village borrowers. This is where the fun begins. But before that, I should probably also mention why I chose this specific learning trip.

Last October, 18 of us (mostly from Singapore) raised loans worth about INR 57,000 to Dhosa village women who wanted to purchase solar-powered lamps for their families. That amount benefited about 30 families for a solar lamp with a lifespan of 5 years. That same amount is what 1 fresh IT graduate could get after working for 2 months in a big city like Bangalore. Since I was the one who lobbied these 18 folks to lend money for this specific cause, my credibility was on the line. I figured, the only way I could demonstrate the worth (or waste) of our loans to these village women, who had no established measure of their credit-worthiness, was to go down there and report what I saw for real.

The social impact that this foot-tall renewable energy appliance (Picture A) can have on these village women and their families was not easy to comprehend at the time we were raising loans. A solar-lamp is just a clean & green source of light. How do these village women plan to make money out of that solar

¹ 14.75% is the Benchmark Prime Lending Rate that SBI offers with effect from 7 November 2013.

² The number of borrowers in April 2013 was 7,201. The current number of borrowers is higher.

lamp? The answer to this question was just 1/3rd of the total social impact, the way I saw it at the Dhosa village.



Picture A

The first impact was that solar lamps were a more economical alternative to regular kerosene-fuel lamps used before. On paper, this fuel is subsidised by the government. But it is often ridden with black market forces that hike the price equivalent to a common Dhosa family's total monthly savings. These savings were now put to better use, like investing in a small home-run business, buying shoes for husbands who work in construction or paying back the loan instalments to DCBS.

The second impact is that the solar lamps give these women an opportunity to monetize the 3 to 4 hours after sundown. They spend the daytime managing household matters and shift gears after sundown to make saleable items like 'jori' or embroidery work (Picture B) for the city market. Now to be fair, a kerosene lamp can do as good a job as a solar lamp to provide light in the evenings when the municipality administers necessary power cuts, right? Wrong. The Dhosa village women I spoke to during my learning trip told me that their work has been often burnt or charred by fumes from the kerosene-fuel lamps. When their work gets damaged, they get little or no money for it. Some women were altogether disallowed from 'wasting' the expensive lamp fuel on work that made little money.



Picture B

The third impact was on the non-earning members of the family. I did not observe a population problem in Dhosa, in that families typically had a mum, a dad, 2 to 4 children and 1 to 2 seniors. Some of us have grown up in those kinds of families too. Even if you haven't (like I haven't), it doesn't take much to guess that in such families, children's education and senior's health are high priority matters. This is where the solar lamps step in. This clean and reliable source of light allows children to catch up on homework after they've spent the daylight hours in school, giving mum and dad a helping hand or playing with friends. The solar lamp also turned out to be a preventive measure against breathing disorders easily induced by fuel burning lamps among seniors. This meant lesser time and money spent running to the village dispensaries for medicines.

I still struggle to find simple parameters to measure the second and third impact, let alone the overall impact. This is primarily because of lack of data measured from the ground. I am following up with DCBS to collect and process data that will make the story of their social impact more marketable, like additional earning made from 'jori' work as a percentage of current income, change in medical expenditure per household, etc. For now, you can watch 2 video interviews³ of Dhosa village women (Picture C) to get a sense of what the impact of solar lamps was on them.

³ You can ask me for the Youtube link if you're keen to watch the 2 interviews.



Picture C

Let's go back to learning how DCBS makes their job measurably sustainable on the field. I'll split this description in two: how they are in terms of their running financial health, and the ease of using their micro-loan services from the viewpoint of their clients i.e. the Dhosa village women.

DCBS has been cashflow positive since its inception in 2003. That said, its borrower base did drop from 2010 to 2011 by 20%. DCBS reasons that when the Microfinance sector came under a crisis in October 2010⁴, many of their investors cut off funds. This in turn limited their capacity to give out loans to village borrowers. Clearly it's not just the earnings from loan-interest-payments that helps DCBS run the show. I have a copy of their 2013 annual report (Picture 1). I noticed that a third of their corpus was usually pumped in as donations from foundations and enterprises in India. What is more fascinating, however, is that this figure jumped to 2 ½ its size when DCBS managed to catch the attention of Arc Finance. Arc Finance is a reputed global non-profit organization that aims to plug the gaps in microfinance towards energy and water needs. Their impact can primarily be seen in Central America, Africa and India.

Let me assure you that organizations like Arc Finance do not hand out gift vouchers. They invest wisely in field partners like DCBS that demonstrate a robust track record and an ambitious plan ahead for social impact. The return they expect on such an investment is measured in terms of social impact. There is

⁴[Source: 2013, "Rise and Fall of Microfinance in India: Andhra Pradesh Crisis in Perspective", Philip Mader, Max Planck Institute for the Study of Societies, Cologne, Germany] Briefly, the crisis started in a southern Indian due to a face-off between non-banking microfinance institutions (MFI) and the state government. They blamed each other for the plight of borrowers who were being squeezed for loan-payments against collaterals like their homes. Eventually this turned into a downward spiral of falling rate of repayments from village borrowers, dipping funds into MFIs from commercial & state banks, and more stifling regulations from the central bank RBI. Long story short, the poor in the village were denied affordable access to micro-loans. Thanks to agents like Milaap.org, who spent nearly 12 months negotiating with RBI to permit funds from outside India to fund local MFIs, the village borrowers again had a fair chance to borrow money.

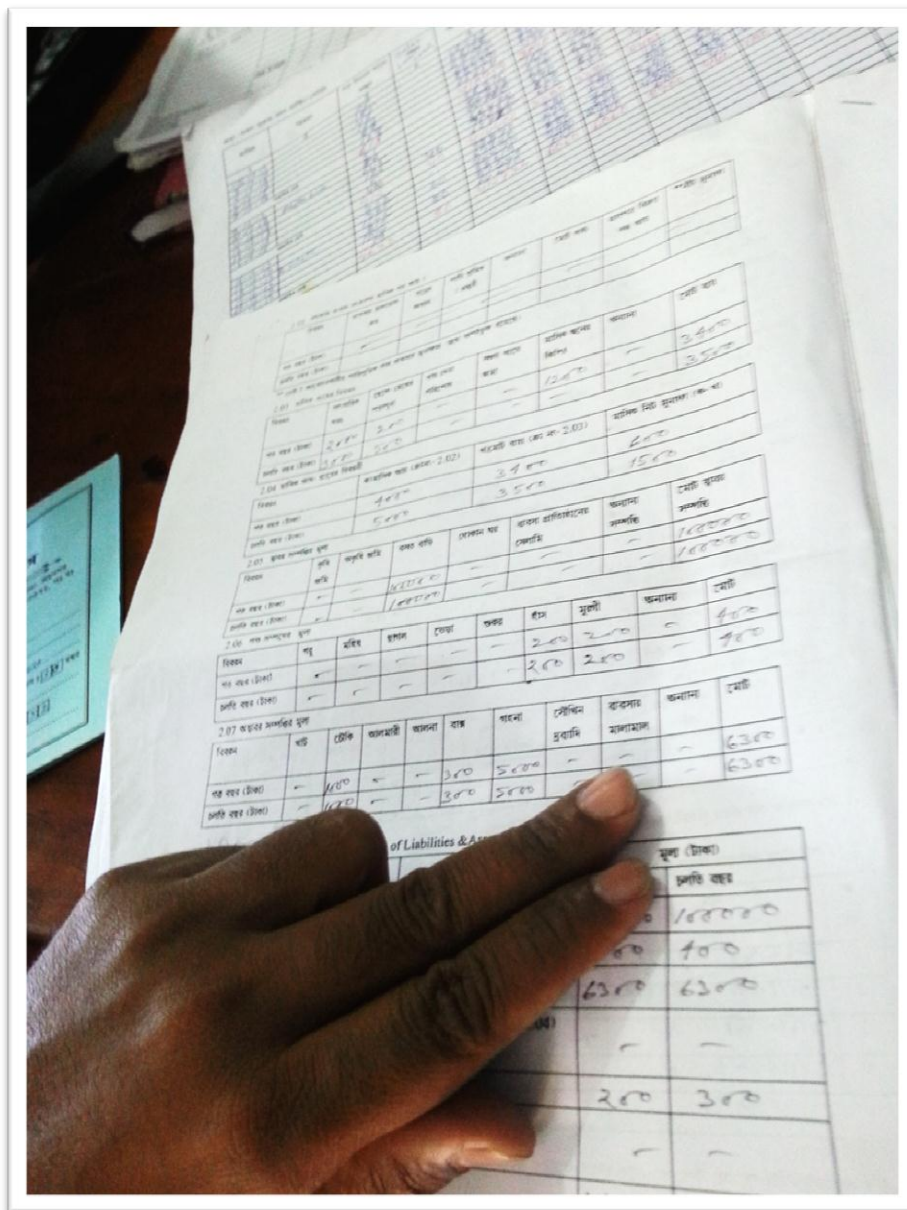
another way to look at donations from foundations or even individuals like you and me. We give a donations to ‘buy’ a service from a field partner who we are reasonably sure can deliver good quality service. We buy this service on behalf of those who may not have the capacity (financial or otherwise) to buy it themselves, because we want to do a good deed. The element of ‘doing-good’ is layered on top of a transaction that is fundamentally the same as any other commercial one. The service provider must market itself well and deliver service up to expectations. The service purchaser must be convinced of the value and reliability of the service bought. Why am I drawing this similarity between a for-profit and a for-social-impact service transaction? It is to explain why I do not view larger donations to DCBS as a sign of their weak financial self-sufficiency. It is in fact their strength in marketing themselves to a global player like ArcFinance to ‘buy’ its services on behalf of the village women of Dhosa. The ability to market their services is built on a robust track record and ambitious plans to have a larger social impact. A stronger stream of donations allows DCBS to hire and pay competitive salaries to new talent that can realise their ambitious plans. As a data point, Mr. Pinak Dan (Picture D), who guided me through the learning trip in Dhosa, is a Masters degree holder with 9 years’ experience in matters of laws regulating microfinance in India. He is more qualified than his bosses and made a willing choice to join DCBS in Dhosa village instead of sitting in an office building in Kolkata city. He is currently the internal auditor and legal advisor at DCBS. If you think this data point deviates from my intention to assess DCBS financial health, you are wrong. The ability to remain cash positive while expanding market share (of commercial products or social impact alike) is heavily dependent on how today’s cash is used on talent, technology, organizational systems and marketing efforts to create more cash in future. This is a mantra that even the for-profit world subscribes to but often struggles to apply.



Picture D

I asserted a few times before that DCBS has ambitious plans that have caught the imagination of supporting enterprises like Milaap and ArcFinance. While it's pleasant to hear how DCBS aims to grow the size of its social impact, but this beautiful story of a brighter tomorrow has to be grounded by the reality of its operations today. I will now attempt to describe the methods that DCBS applies to its micro loan services for the village women of Dhosa. Why is such a measure important to assess DCBS? Well, let's just say that no matter how professional and competitively priced a haircut salon is, you are unlikely to go there if you must drive more than 10 km, wait in line for 2 hours and fill out a 5 pages long form to describe your haircut needs.

Pinak took me to one of DCBS's 5 branch offices to demonstrate how DCBS interacts with its customers. A branch office location is chosen in an area that has a potential customer base of about 1,500 women between ages 18 and 50 with a running or expected income generating activity. DCBS has recognized this customer base size as manageable by a lean branch office of 5 or 6 field staff over many years of trial and improvement. Each branch then sets out to sign up 'members' who can apply for loans. DCBS field staff do this by going to the mud or thatched houses of every potential customers, each field staff targeting up to 300 homes. The field staff explain how a microloan works and fill out the 'financial statements' of each household interested to sign up. I found this part of my learning trip the coolest.



Picture E

These financial statements are simplified, locally adapted but accurate versions of a balance sheet, cashflow statement and income statement. All 3 statements are laid out in an innovatively designed form in just 2 pages in the local Bengali script (Picture E). For instance, under the balance sheet, a member's house was logged in as a fixed asset while the chicken, cows and goats were current assets. Like you, I too was amused. But this level of detail and diligence is necessary for DCBS to evaluate the creditworthiness of their customers with practically non-existent financial records. DCBS prides itself in putting in that effort that ensures that they do not take unnecessary risks at the cost of existing customers who make loan-payments on time. As these members get signed up, they are formed into Self Help Groups of 5 to 10 women. The functions of a Self Help Group are to ensure complete circulation of information between DCBS and borrowers, spread the financial risk and responsibility instead of imposing it on individuals, and allow borrowers to exploit the power of accumulating their seed capital for bigger business plans. Each Self Help Group meets its DCBS field officer on Monday morning at a designated meeting point close to their homes. The purpose of meeting varies from explaining its loan services, loan-payment collections or addressing grievances. At each branch office, the meeting points are laid out over a simple hand-drawn map with a reference number (Picture F). These are cross-referenced to a weekly documentation of loans disbursed, collected or defaulted on.



Picture F

If the above system sounded complex to you, that is likely because of limitations in my academic writing skills. I say this because during my learning trip, I understood this process step by step by myself, only with some help to translate the documentation in local Bengali language that I cannot read. I could tell from Pinak's expression that he did not expect a 'visitor' to be bothered to go into such details. Other than basic curiosity, I did not need a deep knowledge of finance or banking to understand DCBS's operating process. It was simple, locally adapted and easy-to-use for its customers – the village women of Dhosa.

That was a reality check of DCBS's operations today. As for their ambitions, DCBS wants to more than double its membership base by expanding its micro-loan services to another nearby district that has a similar customer profile. This is from their Annual Report that DCBS circulates to its key funders and investors. Due to my inexperience in the field of microfinance, I'm unable to make a credible assessment on how realistic are DCBS's ambitions. That said, it is reassuring to see that one of the pillars of DCBS management's vision for the organization is to attract the best available talent. Talent that is not only motivated to deliver social impact, but has the right skills keep DCBS's work simple yet highly marketable.