

Rickshaw Bank

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Case Analysis I

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Rickshaw Bank: Time to Take a Call

Rickshaw Bank is one more example of an enterprise trapped by the limitations and fancies of the promoter. The not-for-profit space is full of such schizophrenic examples, where the promoter wonders where to go, and how to grow. Given that it is predominantly promoter-centric, the organization suffers from certain limitations.

Let us first look at the origin of the idea. The story appears so familiar for those associated with the social enterprise sector. Here is a promoter who is trying to make a difference in society. In this particular case, Dr. Sarmah starts by looking at sustainable development with a holistic approach. He then moves on to set up the Vet Aid centre to improve the productivity and breed of the local capital and, finally, one fine morning, he finds his calling — to support the rickshaw pullers. This idea of Sarmah appears to be instinctive, unrelated to his past work – the only common thread we find is in his wanting to make a difference to the lives of the poor people. His initial endeavours were directed towards helping them indirectly by undertaking general programmes, but the project ended up making a difference directly to the individual families of the rickshaw pullers.

Like many a social entrepreneur, Sarmah stumbles on a big idea and then goes about pursuing it in a scientific manner. It appears like a no-brainer that by paying daily installments as much as the rent, the rickshaw pullers would own the rickshaw within a decent period of time. All that it needs is an intervention of making adequate credit available and then following up with the rickshaw pullers to ensure that they repay on a consistent basis.

In the case of Rickshaw Bank, Sarmah actually hits upon a much brighter idea which helps him to multiply the impact quotient. The multiplier effect emanates basically because CRD being a not-for-profit entity, gives great comfort for a start up. An entrepreneur can start up an enterprise with almost nil investment of his personal

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resources. If the enterprise is able to convince the authorities, both tax exemptions and foreign contribution clearances follow, which pave the way for grant money to flow in. In case of CRD, Sarmah not only manages to get a tax exemption, but he actually gets an exemption under Section 35 AC of the Income Tax Act, which makes the contribution to CRD 100 per cent eligible for tax deduction. With this tax status, it becomes easier for Sarmah to attract corporate donations, of course in return for an advertising space. The Rickshaws are 'sold' to the beneficiaries on an installment basis, thus creating a multiplier effect from the repayments so that other members of the rickshaw-pulling community could be helped.

While the funding side of the story is tight, to make the assets more effective and ensure that they yield a greater income for the rickshaw pullers, it is necessary to look at other aspects. The natural expansion has to be about improving the design of the rickshaw. While a better designed rickshaw enables the pullers to make more trips with less effort, aesthetics provides a natural attraction for the passengers to choose a *Deep Bahan* over other rickshaws, other things being constant. It is not only less tedious for the puller, but also more comfortable for the passengers and thus maximizes revenue per day as against the conventional rickshaws.

There are a few things that we need to consider when we look at this model. These relate to the transaction costs pertaining to the ownership of a rickshaw. Why did it require a Sarmah to figure this simple idea that funding the rickshaw would end up providing an asset to the rickshaw puller in a reasonable period of time. It should have been any moneylender's dream project. A project where the cash flows are regular, the asset is visible, and the design is fitting, the borrower could be insensitive to interest rates given the frequency of payments. When we examine this aspect, a few other unique features of the Rickshaw Bank come out in the open. While the Case does seem to mention these issues in the passing, it is possibly very significant from the point of view of making the project successful.

Two elements of the CRD model are absolutely necessary for pulling this out. Though insignificant from the point of view of an intervening agency, they might be very critical from the point of view of the beneficiary. The first is the licence from the Municipal Corporation to reduce the harassment that the rickshaw pullers might

have to face if they were to directly purchase the rickshaw on their own. The second is the uniforms and identity provided by CRD to reduce harassment from the local policemen and other authorities. Apart from the design inputs, these two rudiments would help those who prefer to be 'wage employed,' – running rickshaws owned by others, without the trappings of the risks of ownership – to take to ownership seamlessly.

In starting the Rickshaw Bank, four elements fully fell in place with the CRD strategy – finance, better design, licence, and identity for the rickshaw as well as for the rickshaw puller. The other elements of insurance and other welfare measures were only icing on the cake. This in itself should have been a good enough business model to take up and grow. However, having hit upon a good idea and with the recognition that Sarmah and CRD have got in terms of awards and recognition, it appears that there has been some self-imposed pressure on being innovative and creative all the time.

The first point of drift from the original strategy appears here. When innovation was initially introduced in the design of the rickshaw, CRD dovetailed with the basic purpose of uplifting the rickshaw-pulling community. However, when the innovation in the rickshaw design was transferred to momo carts, fish carts, and hand-pulled carts for different regions, CRD started moving away from its empowerment and poverty agenda towards the innovation and design agenda. We have to remember that the innovative design for the rickshaws has not come from Sarmah, but from his collaboration with IIT Guwahati. Therefore for CRD and Sarmah to believe that their core strength is in innovation and design is somewhat misplaced.

All supple and nimble-footed agencies end up making this mistake of investing in physical facilities that require an economic logic of their own to keep them going. Once a production unit is set up, the organization suffers all the ills of asset specificity – and that almost becomes the reason for survival of the unit. Capacity utilization and covering of fixed costs are necessary for survival of the organization. Therefore, CRD will have to find more and more buyers who would consume the production of the manufacturing unit. Thus from the agenda of rickshaw pullers driving the organization, we actually find a shift towards manufacturing unit driving the organization.

The logic of a manufacturing unit is located in the market and the market-based principles. The manufacturing unit has costs, both fixed and variable. These costs are to be recovered from the market. The subsidized donor funds would at best be available for capital expenditure and possibly for design and innovation. Beyond that, the unit will have to fend for itself and generate resources from what it produces. The Rickshaw Bank has landed itself precisely in this situation and cannot find a way out.

Sarmah is torn between collaborations, networking, awards that seem to recognize his innovation, and the need to work with more and more rickshaw pullers. However, a reading of the later part of the Case clearly shows the direction in which the promoter is headed – towards collaborating for better designs, manufacturing those designs, franchising his model, and scaling up. It is evident that the private limited company set up by Sarmah is no longer about empowering the rickshaw pullers; it is more about selling better rickshaws. Sarmah is falling into the trap that many a social entrepreneur falls, but only a few emerge winners. This trap takes the donors away from CRD as it moves nearer to the commercial end of the spectrum. If successful, it will have a bunch of investors who would look at the business as manufacturing and selling better rickshaws and scaling up. Once Sarmah is in the game, he would be dictated by the investors, who would want more and more variants, greater sales, geographical spread, and growth. It is time for Sarmah to think where he himself wants to go, and where he wants to take his organization. While geographic expansion can give opportunities for mov-

ing much beyond the areas that CRD is currently operating in and finding more and more vulnerable rickshaw pullers, expansion of production facility will give him access to a diversified set of rickshaw variants that can be sold in multiple markets.

If Sarmah is in the business of getting vulnerable rickshaw pullers out of the clutches of the contractor and hiring of rickshaws on a daily basis and making them more empowered, he would not bother about other manufacturers, including a past employee setting up a new unit. He would not even bother much about the franchising model as long as his facilities can supply rickshaws to the people he is working with.

If Sarmah is in the business of rickshaw manufacturing, he will have to acknowledge the change in the focus of his work and go whole hog into the manufacturing process. If he takes this route, he needs to be worried about the current and potential competition and also about the franchising option. The work of CRD will have to be separated from this entity and CRD will have to continue doing what it did earlier, possibly under a different leadership. Sarmah can then put all his efforts in running a profitable rickshaw manufacturing, lease and sale business, and get investors to put in money for the level of returns he would promise them.

It is time for Sarmah to take a call. If he does not do that quickly, he would be snowed under the mutually contradictory growth trajectories that have been presented before him – whether to work with the pullers, increase their collective, and help them in their overall welfare or just be a great manufacturer of rickshaws. ✓

Case Analysis II

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This case illustrates a classic problem that most non-profits face at some point — scaling-up the social impact of its programmes. Dr. Sarmah started an NGO called the Centre for Rural Development (CRD) in Guwahati, Assam. Under the flagship of CRD, a live-

lihood option programme called 'Rickshaw Bank' was initiated in the year 2004. Through micro credit route, Rickshaw Bank provided an ergonomically designed rickshaw, '*Deep Bahan*' to the beneficiaries who in turn paid Rs.30 every day for about 12-15 weeks to become