TISES Project Report

Financial Linkage and Monitoring System for Rural Entrepreneurship Development Programme (REDP)

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Primary Objective

To identify a way that REDP graduates can receive funding for starting or upgrading businesses more rapidly and easily than they do today.

In process, to assess the impact of REDP and identify opportunities for improvement.
Approach

• Observed REDP training sessions
• Analyzed follow-up data on REDP graduates
• Surveyed 43 REDP graduates
• Interviewed local bank managers and government officials
• Researched:
  − Design of other Entrepreneurship Development Programmes
  − Lending models, associated risks and benefits
  − Indian microfinance institutions
I. REDP Impact & Opportunities

Overall, REDP has a significantly positive impact in terms of income and employment generation, as well as social development.

• **Opportunities for Improvement:**
  - Reduce quantity of REDP trainings and improve quality of post-training assistance
    > Business counseling services
    > Short-duration continuing education
    > Entrepreneur associations
    > Compile information on business resources, markets, technology, and government incentives for students to take home
  - Initiate a programme to build credit culture
  - Run a campaign to change the public mindset about entrepreneurship, especially female entrepreneurship
II. Financial Linkage Solutions

- **Near-term solutions**
  - Dedicate more resources to communicating with banks and government agencies
  - Implement a programme to build credit culture in the region

- **Long-term solutions (in order of priority)**
  1. Entice existing microfinance specialist with similar values/priorities to establish an office in this region
  2. Establish an MFI with TCSRD & other funding

- **But first …**
  - Assess size of microfinance market in Okhamandal
  - Consider TCSRD priorities in terms of borrower relationship, Tata reputation, development objectives
III. Potential Partners

- **Lending to Women**
  - **SKS Microfinance** – NBFC lauded for its professional management and scalability; offices in eastern Gujarat
  - **SEWA** – Cooperative society in eastern Gujarat strong on supporting women workers (trade union)
  - **SHARE Microfin** – Established NBFC that offers microcredit and social services; offices in Gujarat

- **Lending to Women & Men**
  - **Vardan Trust** – NGO that is becoming an NBFC, little information available, but based in Gujarat
  - **Sonata Finance** – NBFC in Madhya Pradesh that offers loans, savings, and insurance through a Grameen/SHG hybrid model
Difficulties

• Communication
  - Language limitations: Tata staff, REDP students, bank and government personnel
  - Project definition

• Personal adjustment time
  - Slower ramp up because had to adjust to working in India and in poor rural communities
  - Amplified due to lack of time to research and mentally prepare for this trip ahead of time

• No time to travel
Solutions for Next Year

- **Communication**
  - Language lessons (Hindi)
  - Hire a young person to translate for interns
    - Volunteer opportunity

- **Personal adjustment time**
  - Select interns earlier
  - Utilise past interns and Indian nationals in the UK to conduct short preparatory sessions on:
    - Indian history and culture, the rural context, poverty in India

- **Week off for travel**
Personal Learning

• The Internship PLUS
  - Tata
  - Tata community development projects
  - Corporate Social Responsibility
    +
  - Indian history, lifestyles, work culture, perspectives on the world
  - Rural settings
  - Poverty
Personal Learning

• What will I do with this learning?
  - Fresh view on potential career choices: CSR, community development, entrepreneurship development
  - A positive example from which to draw inspiration when working in socially responsible business
  - Additional confidence RE: working in international settings
  - Greater empathy for societal problems worldwide
Impression of Tata

Context: MBA student with keen interest in CSR

Pre-TISES
- Tata as an up-and-coming multinational
- Famous in UK for recent acquisitions
- Serious about competing on a global scale
- No knowledge of CSR activity

Early TISES
- Strong values rooted in corporate history
- Significant CSR activity, particularly in development, which is unusual and difficult to do well
- Seemingly genuine motives (i.e., not just PR)

Now
- Satisfied that motives are genuine and impact is significantly positive
- Believe there is not enough focus on PR
- Still concerned for Tata CSR future, but hope to see efforts continue (and rub off on Western counterparts!)
Thank You
Appendix

Community Development
REDP Impact

Objective: Income generation through self-employment

- **Employment status**
  - About 50% engage in self-employment after REDP
  - About 20% find employment through others, including 7% (mostly women) that are employed for the first time after REDP

- **Income generation**
  - About 52% experience an increase in income
  - Movement up the income ladder with 22% earning greater than Rs 3000 monthly after REDP (up from 3%)
  - Little movement of the population over the poverty line (Rs 1000)

- **Loan access and repayment**
  - 41% of graduates applied for a loan, 14% received a loan
  - 40% of graduates are re-paying loans timely (poor credit culture)

- **Social benefits**
  - Increased confidence, community participation, female decision-making, child education
Issues with current linkage system

Funders
- Banks*
- Govt Programmes**
- Poor Individuals

Intermediaries

TCSRD as a facilitator but not a lender

REDP Students
- Poor Individuals
- SHGs

*Includes Bank of Baroda and State Bank of India
**Includes DIC and Women & Child
Issues with current linkage system

- Root cause of delays in the lending process are:
  - Limitations on the number of applications that can be accepted by government programmes annually (DIC)
  - Poor communication between government agencies and TCSRD about the status of loans, or even the status of their offices
  - Doubts about the economic viability of loan applicants
  - Doubts about the motivations of loan applicants (e.g., plan to spend the loan money on consumptive purchases)
  - Time required by banks to assess economic viability
## Three Options for Direct Lending

<table>
<thead>
<tr>
<th>Start a...</th>
<th>Methodology</th>
<th>Funding Sources</th>
</tr>
</thead>
</table>
| 1 Non-Profit MFI | Start a Non-Profit MFI that lends directly to SHGs and/or poor individuals | • TCSRD Reserves  
• Donations from non-poor individuals  
• Bank loans  
• Grants from foundations  
• Interest on loans  
• Bank funds (ICICI Bank) |
| 2 NBFC MFI | Start an NBFC MFI that lends directly to SHGs and/or poor individuals | • TCSRD Reserves  
• Equity investment  
• Venture capital  
• Bank loans  
• Interest on loans |
| 3 Cooperative Society | Build SHG Federation into a cooperative society like SEWA | • SHG Federation funds  
• Interest on loans  
• Borrower savings  
• TCSRD reserves (for start-up costs) |
## Non-Profit vs. For-Profit MFI

<table>
<thead>
<tr>
<th>Model</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Non-Profit MFI**     | • Usually more empathetic with clients, focused on maintaining a relationship and providing holistic solutions  
                         • Even very poor borrowers can be served  
                         • Possibly exempt from tax | • Less likely to be financially sustainable without TCSRD reserves and a steady inflow of grants  
                         • Scalability may be an issue due to the lack of access to equity (but may not be a big deal if TCSRD reserves are adequate to fuel growth)  
                         • Banks less comfortable lending large sums due to lack of clarity around ownership |
| (i.e., Society, Trust, Section 25 company) |                                                                           |                                                                               |
| **For-Profit MFI**     | • More likely to be financially sustainable and have access to equity investment and venture capital for growth  
                         • Banks more comfortable lending to NBFCs that are well-capitalized and well-performing | • Higher focus on financial sustainability comes at the expense of relationships and holistic solutions  
                         • Tend to serve less poor borrowers because NBFC needs to make a profit  
                         • More accounting and finance compliance requirements  
                         • Taxable                                                                 |
## Cooperative Society

<table>
<thead>
<tr>
<th>Model</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Society</td>
<td>• Run by members, for members</td>
<td>• Restricted to accessing equity from members only and not easy to raise from</td>
</tr>
<tr>
<td></td>
<td>• Can access equity as well as deposits from members</td>
<td>them due to “one person one vote” imperative</td>
</tr>
<tr>
<td></td>
<td>• Potentially self-sustainable if run well and deposits remain stable</td>
<td>• Banks are reluctant to lend to co-operative societies because of non-equity</td>
</tr>
<tr>
<td></td>
<td>• Could build on SHG Federation for lending to women</td>
<td>based ownership and their tendency to get political</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If built on SHG Federation, would not solve problem of lending to men</td>
</tr>
</tbody>
</table>
Other Direct Lending Option

- **Business Correspondent**
  - TCSRD acts as a representative of a bank, disbursing loans, collecting installment payments and deposits

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• TCSRD does not take on credit risk</td>
<td>• Requires development of new procedures with the bank, if a bank is willing</td>
</tr>
<tr>
<td>• TCSRD can build credit culture and improve the timeliness of loan repayments, which may incentivize banks to lend more</td>
<td>• Requires staff with desire and ability to chase borrowers for payment (perhaps a less supportive role than TCSRD fieldworkers play today)</td>
</tr>
<tr>
<td>• TCSRD can build on its existing relationships with clients</td>
<td>• Requires tight controls over money collection, deposit, and recording</td>
</tr>
<tr>
<td>• Get experience in microfinance activities prior to starting an MFI</td>
<td></td>
</tr>
<tr>
<td>• Banks can compensate TCSRD for their work</td>
<td></td>
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Indirect Lending Options

- Convince an existing MFI that does direct lending to open a branch here
  - Banks
    > ICICI Bank (Special programme for lending ICICI funds that is not “on-lending”; minimizes risk for TCSRd and allows for scalability)
    > HDFC (Direct lending from branches – need branch here)
  - Cooperative Society
    > SEWA (Based in eastern Gujarat)
  - Non-Profit MFI
    > Vardan Trust (Switching to NBFC; Based in eastern Gujarat)
  - NBFC MFI
    > MAS Financial Services (Not a viable partner)
    > SKS (Known to be well managed; lauded as a top MFI in India)

- The same advantages/disadvantages apply as did in the direct lending options
Key Considerations

- Need to decide:
  - Which category of poor to serve
  - Strategic priorities
    - Poverty Alleviation, Financial Sustainability, or Female Empowerment
  - What relationship we want to have with borrowers

<table>
<thead>
<tr>
<th>Facilitator</th>
<th>Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supportive interactions</td>
<td>Transactional interactions</td>
</tr>
<tr>
<td>Personal</td>
<td>Less personal</td>
</tr>
<tr>
<td>Worst form: Useless</td>
<td>Worst form: Aggressive</td>
</tr>
</tbody>
</table>
Key Considerations

• What is the size of the MFI market in Okhamandal?

• What should the MFI lend for?
  - Micro-Enterprise only
  - Consumption, as well

• What are the potential sources of finance for TCSRD?

• How would TCSRD protect itself from the risk of borrowers defaulting on loans?
  - Accept risk
  - Delegate risk to an established financial institution
  - Chase borrowers for repayment
Asian vs. Latin American MFIs

<table>
<thead>
<tr>
<th>Focus</th>
<th>Asian MFIs</th>
<th>Latin American MFIs</th>
</tr>
</thead>
</table>
|       | • Rural areas  
       | • Poverty alleviation | • Urban areas  
       | | • Microenterprise development  
       | | • Require borrowers to own a small enterprise for at least 6-12 months |

<table>
<thead>
<tr>
<th>Target Populations</th>
<th>Asian MFIs</th>
<th>Latin American MFIs</th>
</tr>
</thead>
</table>
|                   | • Poor individuals, generally | • The “economically active poor,” i.e., people with established businesses that need capital to grow  
                   | | • Only around 10% of the Latin American MFIs that claim to target very poor clients |

<table>
<thead>
<tr>
<th>MFI Model</th>
<th>Asian MFIs</th>
<th>Latin American MFIs</th>
</tr>
</thead>
</table>
|          | • More geared toward non-profit MFI model  
          | • 65% are non-profit MFI, but many are transitioning to NBFC | • From the start, microcredit was seen as a business, potentially as a branch of commercial banking  
          | | • Ahead of Asian MFIs in terms of financial viability  
          | | • More geared toward for-profit, NBFC model |

L.A. MFIs are very focused on financial sustainability and profit