

# **TISES Project Report**

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

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# Project Objectives

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## Primary Objective

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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

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- **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

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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

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- **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 TCSR D & other funding
- **But first ...**
  - Assess size of microfinance market in Okhamandal
  - Consider TCSR D priorities in terms of borrower relationship, Tata reputation, development objectives

## III. Potential Partners

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- **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

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- **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

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- **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 multi-national
- 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

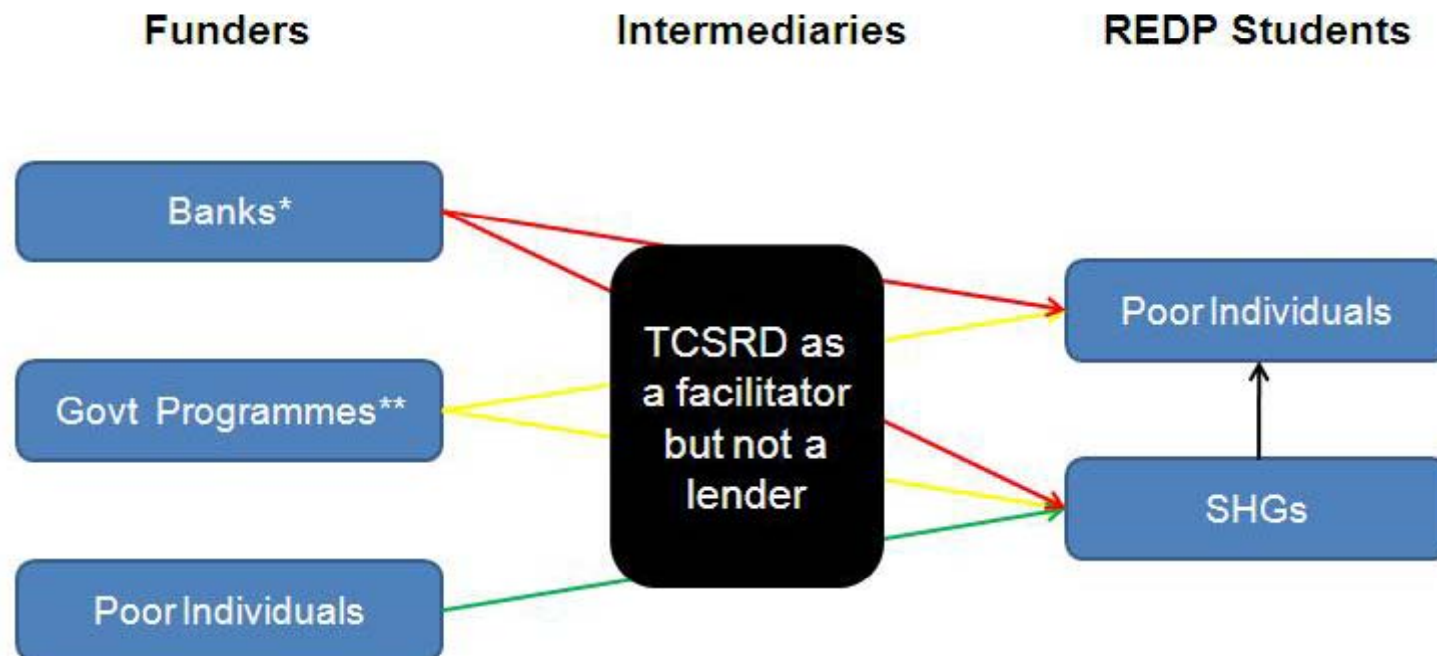
# Appendix

# 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



\*Includes Bank of Baroda and State Bank of India

\*\*Includes DIC and Women & Child

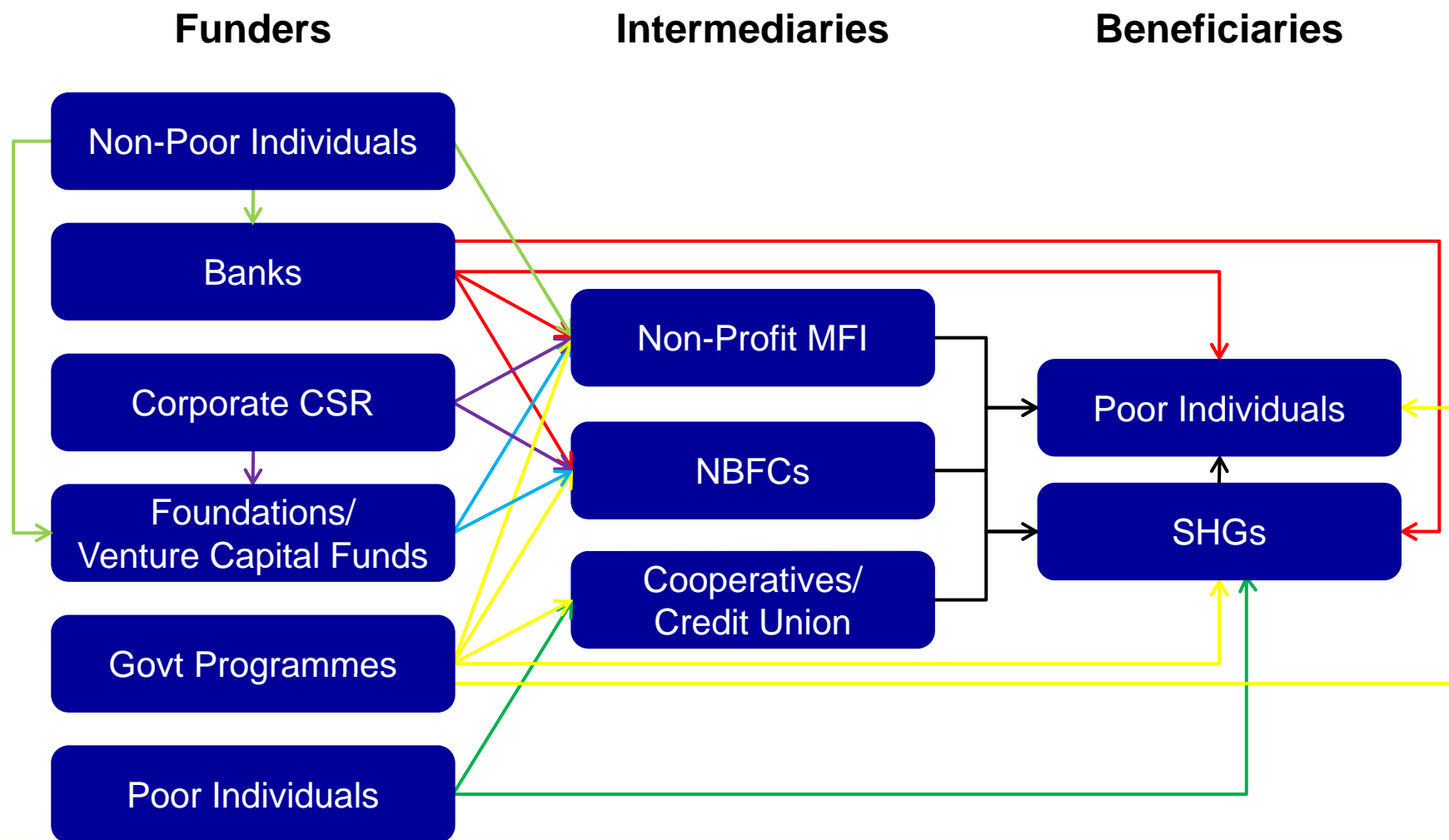
# Issues with current linkage system

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- **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 TCSR D 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



# Microfinance Delivery Methods



# Three Options for Direct Lending

Start a...	Methodology	Funding Sources
1 Non-Profit MFI	Start a Non-Profit MFI that lends directly to SHGs and/or poor individuals	<ul style="list-style-type: none"> <li>• TCSR Reserves</li> <li>• Donations from non-poor individuals</li> <li>• Bank loans</li> <li>• Grants from foundations</li> <li>• Interest on loans</li> <li>• Bank funds (ICICI Bank)</li> </ul>
2 NBFC MFI	Start an NBFC MFI that lends directly to SHGs and/or poor individuals	<ul style="list-style-type: none"> <li>• TCSR Reserves</li> <li>• Equity investment</li> <li>• Venture capital</li> <li>• Bank loans</li> <li>• Interest on loans</li> </ul>
3 Cooperative Society	Build SHG Federation into a cooperative society like SEWA	<ul style="list-style-type: none"> <li>• SHG Federation funds</li> <li>• Interest on loans</li> <li>• Borrower savings</li> <li>• TCSR reserves (for start-up costs)</li> </ul>

# Non-Profit vs. For-Profit MFI

Model	Advantages	Disadvantages
<b>Non-Profit MFI</b> (i.e., Society, Trust, Section 25 company)	<ul style="list-style-type: none"> <li>• Usually more empathetic with clients, focused on maintaining a relationship and providing holistic solutions</li> <li>• Even very poor borrowers can be served</li> <li>• Possibly exempt from tax</li> </ul>	<ul style="list-style-type: none"> <li>• Less likely to be financially sustainable without TCSR reserves and a steady inflow of grants</li> <li>• Scalability may be an issue due to the lack of access to equity (but may not be a big deal if TCSR reserves are adequate to fuel growth)</li> <li>• Banks less comfortable lending large sums due to lack of clarity around ownership</li> </ul>
<b>For-Profit MFI</b> (i.e., NBFC)	<ul style="list-style-type: none"> <li>• More likely to be financially sustainable and have access to equity investment and venture capital for growth</li> <li>• Banks more comfortable lending to NBFCs that are well-capitalized and well-performing</li> </ul>	<ul style="list-style-type: none"> <li>• Higher focus on financial sustainability comes at the expense of relationships and holistic solutions</li> <li>• Tend to serve less poor borrowers because NBFC needs to make a profit</li> <li>• More accounting and finance compliance requirements</li> <li>• Taxable</li> </ul>

# Cooperative Society



Model	Advantages	Disadvantages
<b>Cooperative Society</b>	<ul style="list-style-type: none"><li>• Run by members, for members</li><li>• Can access equity as well as deposits from members</li><li>• Potentially self-sustainable if run well and deposits remain stable</li><li>• Could build on SHG Federation for lending to women</li></ul>	<ul style="list-style-type: none"><li>• Restricted to accessing equity from members only and not easy to raise from them due to “one person one vote” imperative</li><li>• Banks are reluctant to lend to co-operative societies because of non-equity based ownership and their tendency to get political</li><li>• If built on SHG Federation, would not solve problem of lending to men</li></ul>

## Other Direct Lending Option

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

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• TCSR D does not take on credit risk</li><li>• TCSR D can build credit culture and improve the timeliness of loan repayments, which may incentivize banks to lend more</li><li>• TCSR D can build on its existing relationships with clients</li><li>• Get experience in microfinance activities prior to starting an MFI</li><li>• Banks can compensate TCSR D for their work</li></ul>	<ul style="list-style-type: none"><li>• Requires development of new procedures with the bank, if a bank is willing</li><li>• Requires staff with desire and ability to chase borrowers for payment (perhaps a less supportive role than TCSR D fieldworkers play today)</li><li>• Requires tight controls over money collection, deposit, and recording</li></ul>

# Indirect Lending Options

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- **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 TCSR 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

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- **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**

Facilitator	Lender
Supportive interactions	Transactional interactions
Personal	Less personal
Worst form: Useless	Worst form: Aggressive

# Key Considerations

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- **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 TCSR?**
- **How would TCSR 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

	Asian MFIs	Latin American MFIs
<b><i>Focus</i></b>	<ul style="list-style-type: none"> <li>• Rural areas</li> <li>• Poverty alleviation</li> </ul>	<ul style="list-style-type: none"> <li>• Urban areas</li> <li>• Microenterprise development</li> <li>• Require borrowers to own a small enterprise for at least 6-12 months</li> </ul>
<b><i>Target Populations</i></b>	<ul style="list-style-type: none"> <li>• Poor individuals, generally</li> </ul>	<ul style="list-style-type: none"> <li>• The “economically active poor,” i.e., people with established businesses that need capital to grow</li> <li>• Only around 10% of the Latin American MFIs that claim to target very poor clients</li> </ul>
<b><i>MFI Model</i></b>	<ul style="list-style-type: none"> <li>• More geared toward non-profit MFI model</li> <li>• 65% are non-profit MFI, but many are transitioning to NBFC</li> </ul>	<ul style="list-style-type: none"> <li>• From the start, microcredit was seen as a business, potentially as a branch of commercial banking</li> <li>• Ahead of Asian MFIs in terms of financial viability</li> <li>• More geared toward for-profit, NBFC model</li> </ul>

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