

MINI TOOLKIT ON UNLOCKING FINANCE

ABOUT WORK 4 PROGRESS (W4P), INDIA

The Work 4 Progress (W4P) program of “la Caixa” Foundation aims to accelerate the creation of meaningful and dignified employment through the creation of platforms for innovation, action and continuous learning. In India, W4P provides enterprise development opportunities for youth and women in two regions - Bundelkhand and Eastern Uttar Pradesh. W4P uses social innovation methods that encourage dialogue-based participation by the community to co-create model solutions and share learning with others to generate impact at scale.



DIALOGUE

Listen to Multi-Stakeholder Perspectives



CO-CREATE

Develop Relevant Solutions Collaboratively



PROTOTYPE

Demonstrate Sustainability of Solutions



ACCELERATE

Mainstream Learning for Impact at Scale

W4P OBJECTIVES

W4P innovates and demonstrates systemic solutions to create a culture of entrepreneurship through the following interconnected objectives:

- **Nurture constructive communities** through community led influence platforms, safe spaces for women, social enterprises, and awareness building through local self-governments and change leaders
- **Unleash entrepreneurial energies** through finance, technology and marketing solutions for entrepreneurs, network of information centres, and peer-to-peer influence
- **Build robust ecosystems** for enterprise development by creating regional and national platforms for convergent action
- **Mainstream enabling mechanisms** by sharing lessons and evidence on job creation through regional and global platforms

W4P aims to enable decent work opportunities for a million people over the next ten years.

SYSTEMS CHANGE FOR TRANSFORMATIONAL DEVELOPMENT

To achieve the 2030 Agenda for transforming our world towards sustainable development, a departure from traditional project-based efforts to practical solutions is required for addressing growing and complex needs. There have been recent developments in adopting a systems change approach for complex development problems like unemployment and job creation. Evidence from these developments shows that stakeholders in the development process have been provided with the tools and frameworks to navigate complexity and strengthen their capacity for initiating transformative change.

“The systems-thinking lens allows us to reclaim our intuition about whole systems and hone our abilities to understand parts, see interconnections, ask ‘what-if’ questions about possible future behaviours, and be creative and courageous about system redesign.”¹

A systems approach need, therefore, defies using pre-defined solutions. It is the core of social innovation methodologies which in implementation work to influence linkages and interconnections of the system to reach their intended communities.² It does this through activation of networks, collaboration, human centred design, embedding learning, and shared narratives. It taps into leverage points in the system, and creates viable and sustainable alternatives to established mindsets and paradigms, providing an inclusive and open approach for sustainable development.

¹ Donella Meadows (2008) Thinking in Systems: A Primer

² Bertha Centre for Social Innovation and Entrepreneurship

The approach thus has the potential for achieving development solutions with greater efficiency and scale, than traditional approaches. Evidence from successful initiatives shows that there can be new ways of organizing and operating to achieve our development goals. These new ways of operating, based on deep understanding, reflection, co-creation and collaboration, build constructive communities geared towards transformative change.³

Work 4 Progress (W4P) aims to practice innovation that is social in purpose, systemic in nature and inclusive by design.

Development Alternatives (DA), through Phase 1 of the W4P program of the “la Caixa” Banking Foundation, working on innovating resources, processes and models, has had early success in the space of micro-entrepreneurship to provide meaningful and decent work for all. Stories are emerging of women transcending gender barriers to drive progress literally through e-rickshaws, the youth taking advantage of technological and market dynamism through information kiosks, and communities in general transitioning from being recipients of change to co-creators of change. Building on current evidence base and initial successes, W4P continues to strengthen its systemic approach to further develop interconnected solutions with diverse actors to drive transformational change at not only the micro, but also the meso and macro levels.

³ Corka Espiau (2017) Social Innovation Platforms for International Development

THE NEED FOR INCLUSIVE FINANCE

The emerging Indian economy is characterized by un-paralleled dynamism owing to a new wave of technology and market transitions, as well as structural changes in the macro-economic environment. This impressive growth trajectory has not translated into a corresponding increase in jobs or resilient local economies – creating imbalances and dichotomies in the India's development story.

Micro enterprises are engines that boost job creation and fuel sustainable economic development.

As per the **National Sample Survey (NSS)** published in the year **2015-16**, micro enterprises create around **100 million jobs**, promoting economic development of rural and backward areas. Impetus to this sector has the potential for significant multiplier effect on economic resilience and social well-being.

A nurturing ecosystem is crucial to the growth of the micro enterprise sector. Access to finance is a consequential component of this nurturing ecosystem. Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals (SDGs), with noteworthy effects on economic empowerment. Financial access facilitates day-to-day living, and helps individuals, communities and enterprises to plan for long-term goals and unexpected emergencies.⁴ With micro and small enterprises being the largest employers in low-income countries like India, employing a growing share of the marginalized (especially women) sections, financial inclusion in the sector remains a key variable for initiating decent and meaningful livelihoods.

Despite the positive attribution of financial inclusion to economic development, there are significant gaps in its uptake in the Micro, Small and Medium Enterprise (MSME) sector as a whole.

According to the [Economic Survey 2017-18](#), data on credit disbursed by banks shows that out of a total outstanding credit of **INR 26,041 billion** as in **November 2017**, **82.6% was lent to large enterprises**, and **MSMEs got only 17.4%** of the total credit. According to the sixth MSME census, **2.3% MSME units in India have access to finance from financial institutions**, including Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs), and **only 6.9% units have leveraged financial assistance from government sources**. Also, according to the 'Financing India's MSMEs' report by the International Finance Corporation, of the overall debt demand of **INR 69.3 trillion of the MSME sector, 84% is financed from informal sources**.

The scenario is even more twisted for micro enterprises. As per a survey conducted by the Reserve Bank of India, micro enterprises with a turnover of less than INR 1 million have lower probabilities of accessing formal funding as the primary source of finance.

Micro and small firms are generally more likely to rate financial constraints as a major obstacle to growth. In fact, under the Work 4 Progress (W4P) program, India, with the application of social innovation methodologies that led to deep listening and dialogue with communities in rural India, it was realized that for 82 of 122 entrepreneurs (67%) access to finance is the major roadblock in setting up an enterprise.

INCLUSIVE DELIVERY MODELS

While the above figures and inferences highlight a glaring gap in the system, these also illuminate opportunities linked to the gaps. These opportunities can only be realized through innovation in mechanisms for delivery of financial services, without which the sector, addressed as the '**engine of Indian economy**', will not be able to reach its full potential.

There is a strong demand for such models to successfully channelize finance from large financial institutions to micro enterprises. Such models will be able to attract capital from macro credit flows and effectively distribute it at the micro level by strengthening service delivery to communities and individuals. Hence, to decode building of a nurturing entrepreneurial ecosystem and culture, inclusive delivery models for financing micro enterprises remain a key piece of the puzzle.

Inclusive delivery models can provide access to useful and appropriate financial products or services, customized as per the requirement of individuals or the community, at affordable prices. In these financial delivery models, there is a deep involvement of local stakeholders, co-creating solutions for greater effectiveness.

This will not only decrease delinquency in the credit lending sphere, but also provide micro and small entrepreneurs a platform for accessing financial resources within the acceptable regulatory framework of credit in India. It will empower them to access formal credit, rather than resorting to usurious money lenders providing credit at exorbitant rates of interest. These institutions can also act as mentors for entrepreneurs to develop their business skills, bridge information gaps among the community members, and become a channel for leveraging government schemes.



OUR APPROACH FOR INCLUSIVE DELIVERY MODELS

The W4P approach to financial inclusion is through creating synergies among micro level stakeholders to channelize funds from the meso or macro level. In this direction, the program has supported two major initiatives – **micro credit lending through Self Help Group (SHG) federations**, and **partnerships with MFIs**.

MICRO CREDIT FACILITY BY SHG FEDERATIONS:

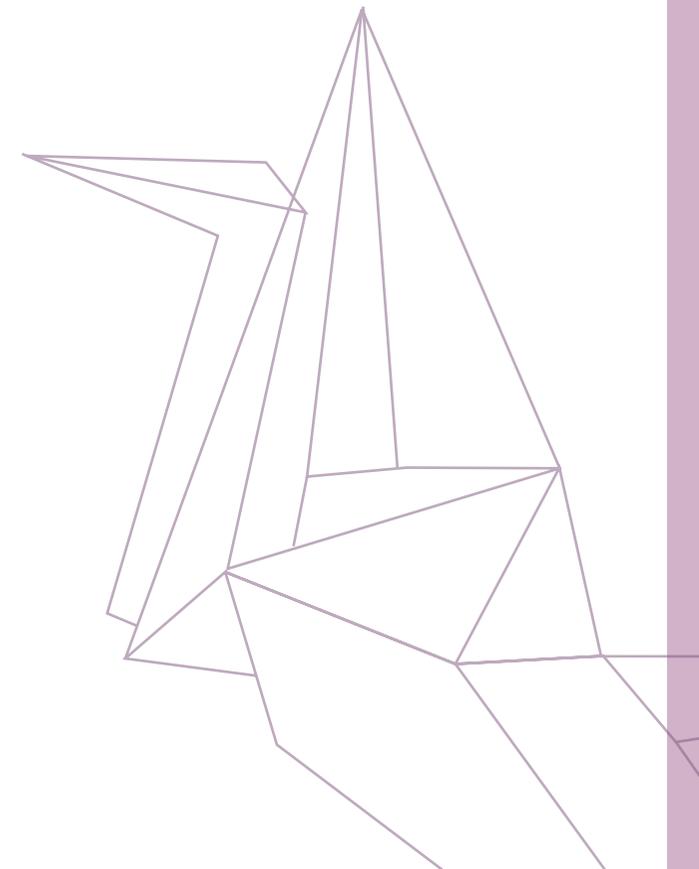
Micro credit facilities, supported by the W4P program, are an inclusive, community based financial model, formulated by three SHG federations in Jhansi and Niwari districts of the Bundelkhand region. These federations were formed to create and sustain SHGs, and to enable access to livelihood through capacity building and enterprise development. To fulfill these objectives, the federations provide various enterprise support services, including micro credit facilities, to their members.

Through the micro credit facility, which functions like a revolving fund, the federations provide micro loans to aspiring and existing entrepreneurs. Loans are sanctioned for technically feasible and financially viable enterprises. The finance obtained must enhance the production, productivity and profitability of the enterprise. Apart from credit lending, federations also provide support in the form of capacity building for the community, and help in market linkages wherever possible.

These federations are registered under the Society Registration Act. Currently, each federation has around **500-800 members** across **18-25 villages**. The micro credit facility offered by the federation disburses micro loans ranging from **INR 10,000 to INR 50,000** at 1% interest rate for maximum of 12 months. A total of **51 enterprises** (of the members) have been linked to the micro credit facility in a duration of 12 months during the pilot phase, which includes enterprises like vermicomposting, information centre, e-rickshaw and construction material. The repayment rate of the facility is closed to **98%**.

PARTNERSHIPS WITH MFIS:

The W4P program partnered with MFIs to understand strengthening of service delivery through the participation of local civil society organizations. For this, the program tied up with six MFIs, which include institutions like **HDF Financial, Sonata Micro Finance, Cashpor Micro Credit** and **Unibase Micro Finance**. The program bridges gaps to enhance the local ecosystem – through imparting information, building capacities, building viable business plans and understanding the importance of repayment. These are addressed with regular dialogue, deep listening, trainings and co-creation of business plans with the entrepreneurs. Through the program, MFIs were assured provision of all supporting documentation to aid in their financing process and compliance with regulations. Through these processes, the program creates the supporting structures – a nurturing environment – to develop robust entrepreneurs by lowering risks of lending for MFIs, thus influencing systemic shifts by encouraging MFIs to lower their interest rates.



SETTING UP A MICRO CREDIT FACILITY

DEVELOPMENT OF FEDERATIONS:

The primary step for establishing an effective micro credit facility is the development of a strong SHG federation. Such a cluster ideally has **10-20 SHGs**, comprising around **120-200** members, either at the Gram Panchayat level or block level. An ideal federation is registered under appropriate acts prevailing in their respective states. All financial assistance/capital from the macro level, directed to the micro level (to SHGs or SHG members), is through federations only. Hence, the federation should have a proper accounting mechanism, including formal bank accounts, book keeping and a robust online and offline financial management system. The federation must provide appropriate manpower and office premises to carry out the operations. A team of representatives of the federation must be appointed based on technical suitability to manage operations.

CAPACITY BUILDING OF FEDERATIONS:

For a federation to be potent, it is important to have efficient representatives who are trained enough to drive the cause of enterprise development and livelihood creation. For this, a supporting organization (SO) is required, which could be a civil society organization (CSO), a financial institution, a government agency or a corporate entity. The SO builds the capacity of the federation representatives to act as agents of change in the federation and the community as a whole. The SO will also have to support the members of the federation technically, in various ways such as:

1 Capacity Building:

The federation representatives will be trained on how to build capacities of the SHG members on entrepreneurship, enabling them to start their own enterprise. This training should be in line with 'training of trainers', where the trainees will be coached on the basics of livelihoods, the meaning and value of entrepreneurship, and digital and financial literacy.

2 Enterprise Development:

The enterprise development training will provide a deep understanding of the enterprise development process. Representatives will be trained on business planning and management, financial management, marketing and operation management.

3 Administration and Fund Management:

The representatives will be trained on efficient management of federations. For this, they will need trainings on book keeping, fund management, account management, record keeping and enterprise management software.

A strong federation can be a significant conduit in unleashing entrepreneurial energies and building a nurturing and encouraging entrepreneurial ecosystem. It would be a major vehicle for inclusive financial service delivery through its enterprise support services and micro credit facility.



ENTERPRISE SUPPORT SERVICES:

Enterprise support services would build a culture of entrepreneurship in the local ecosystem, building capacities of community members to access finance and other services effectively. These services would promote livelihoods and enhance job creation through entrepreneurship in the local economy. The support services include:

• Community engagement

The federation should engage with the community through meetings and sessions to motivate and increase awareness on entrepreneurship. They can use innovative infotainment tools like flash cards, videos, games and street plays.

• Facilitation of training of entrepreneurs

The federation should conduct and facilitate periodic trainings for capacity building of entrepreneurs. These can be on basic skills such as book-keeping. For advanced trainings, the federation should take help from expert professionals through the SO. These advanced modules can range from development of business plans to market linkages.

• Backward and forward linkages

The federation should aid entrepreneurs in market linkages wherever possible. They can help entrepreneurs in identifying markets for procurement of raw material and technology, for instance.

• Financial linkages

The federation should help entrepreneurs in identifying and accessing any further financial assistance. They can serve as information centres to enable entrepreneurs to leverage the latest government schemes. They can also be an effective medium to help entrepreneurs with documentation for financial institutions.

DEVELOPMENT OF MICRO CREDIT FACILITY:

A strong federation is the foundation for developing a micro credit facility. This facility is a revolving fund that provides small loans to micro entrepreneurs. The SO and federation can take the following steps to develop a micro credit facility:

• Establishment of the facility

To establish the facility, the federation first opens a bank account. This account will be solely dedicated to the micro credit facility. A separate accounting book should be maintained as well. They should have a different recording and data management system for the facility, and the data and record keeping ideally should be done both online and offline. To start the micro credit facility, the federation would need a capitalizing fund, which can be a grant from the SO or any other partner organization. This fund will become the stepping stone for the revolving fund.

• Selection of entrepreneurs

Entrepreneurs' eligibility and sanction of finance will be guided by assessment of character, business plan viability, micro credit worthiness, capital, willingness, and capacity to repay. All applications must hold a bank account. The federation will not discriminate borrowers on the ground of clan, colour or creed, and will encourage marginalized groups such as women borrowers (if they meet the eligibility criteria, and their financing proposals are technically feasible and financially viable). They shall not provide finance to clients for refinancing or redemption of existing debts, for purchasing consumer goods, for meeting emergent family needs or personal loans, and for investment in equity capital in any enterprise for speculative trade transactions.

• Credit appraisal and disbursement of the micro credit

After screening the candidates through evaluation guidelines and standard operating procedures, the documents of the candidates are verified. Post the positive verification of documents, the terms and conditions are finalized, which includes rate of interest, time period etc. After signing the terms and conditions, the entrepreneur receives micro credit in their bank account either through cheque or NEFT.

• Post disbursement of micro credit

Post the micro credit is transferred to the entrepreneur's account, an effective tracking of the repayment should be done by the federation. This includes tracking of monthly installments, providing handholding support and updating records of the entrepreneurs. In case of default, the federation should explore possibilities of recovery of the amount as per the guidelines. This may include restructuring the loan.

• Accounting and information policy

The federation shall keep and maintain the books of accounts, and all supporting documents of entrepreneurs will be accessible for review throughout the project period and three years after closure. All information pertaining to any entrepreneur shall be kept strictly confidential. No information of any customer shall be disclosed or passed on to anyone including customers' relatives, except in a case of arbitration or conflict.

TOOLS AND INITIATIVES FOR UNLOCKING FINANCE

FINANCIAL LITERACY CAMPS

The camp is a one-day event which includes short trainings on financial literacy and presentations by Financial Institutions (FIs) in the local region. The micro entrepreneurs connect with FIs and sign up for loans on the spot, which are processed a few days after the camp.

BUSINESS PLAN CO-CREATION

The business plan for each entrepreneur is developed with them, based on aspects such as resources and interests. The plan includes a section on information common to loan application forms, and identifying potential investors and financial institutions.

FINANCIAL TRAININGS

Low financial literacy is a major barrier to accessing credit. W4P conducts periodic trainings based on the needs of the micro entrepreneurs on record keeping, filling loan applications etc.

FLEXIBLE REPAYMENT TERMS

W4P has built partnerships with eight Micro Finance Institutions (MFIs), for making amendments to their terms in order to make repayment of loans more flexible for micro entrepreneurs. W4P aims to reduce barriers in accessing finance by introducing changes to the supply of loans in response to the demand.



ADVANCING VILLAGE KENA

In the quiet village of Kena in the Niwari district of Madhya Pradesh, Meera's home is a hub of economic activity where she lives with her husband, two children, and goats. Walking towards it on muddy roads, you might spot Meera's husband riding children to school on her e-rickshaw, or might even spot women showcasing their latest sarees that they most likely bought from Meera's hub. Ask anyone in the village, and they will direct you to it.

Meera started her tailoring enterprise in 2013, the year she moved to Kena village with her husband. For the next four years, she continued taking tailoring orders from the residents of her village and built a reputation for her detailed work. To meet the growing competition from other tailoring enterprises, Meera started exploring funding options for increasing the capacity of her enterprise in November 2017. But she did not want to fill in a loan application at the infamous micro credit institutions around her village. She shares, "I have heard enough cases of bad and endless debts to know better." Meera contacted friends from a trusted regional federation of women, known for their fair community-based lending practices. She attended a business development session with the federation and applied for a loan of INR 20,000. She expanded her enterprise, adding women and home care products with tailoring service on the side. This included the latest saree trends from Delhi and good quality health care products, which led to a surge in Meera's customer base. Her neighbour, Devi, fondly shares, **"We love going to Meera's hub because she always has the trendiest products from Delhi."**

By June 2018, Meera had repaid her loan, and her revenue had grown by 45%. She wanted to invest in more services for her village – starting with affordable transport services for school children, like her two daughters. She accumulated her savings and got another loan from the federation, this time for INR 40,000, and bought an e-rickshaw. In early October 2018, Meera flagged off a new mode of transport for her village, which her husband, Kaushal, would drive, while Meera would manage all the businesses.

The e-rickshaw enterprise has been in operation for over a year now. It serves as a mode of local conveyance for the community and is providing safe transportation for school going children, especially girls. Her daughter, Muskaan, is most excited about this. Over time, to Meera's surprise, her rickshaw also started serving as a product delivery vehicle for farmers and entrepreneurs – which, in turn, has saved working hours that were otherwise spent in travelling to and fro from the main markets. Through the enterprise, Meera's revenue has increased by 65% since November 2017 – as has her confidence. She continuously keeps thinking of new ideas to expand her hub.

Meera's role in leading multiple enterprises stands as a rare case of role-reversal in a patriarchal society like Bundelkhand. Her role as a change maker is not limited to her household as she strives to create a better lifestyle for the residents of her village every day.

WHAT MAKES MEERA AN ENTREPRENEUR?

She is risk taking and strategic

MEERA AS AN AGENT OF CHANGE:

Providing basic needs for her community and emerging as a mentor for aspiring entrepreneurs

Meera is one of the 51 members of the women federations who have accessed fair credit for setting up enterprises that are making basic needs and services available in their communities. Together, these women entrepreneurs are challenging patriarchal norms and enhancing information, products and monetary flows.







Development Alternatives (DA) is a social enterprise with global presence in the fields of green economic development, social empowerment and environmental management. It is credited with numerous innovations in clean technology and delivery systems that help create sustainable livelihoods in the developing world. DA focuses on empowering communities through strengthening people's institutions and facilitating their access to basic needs; enabling economic opportunities through skill development for green jobs and enterprise creation; and promoting low carbon pathways for development through natural resource management models and clean technology solutions.



The "la Caixa" Foundation from Spain, the third largest foundation in the world, promotes diverse social, economic, cultural and ecological initiatives to foster sustainable development across the world. "la Caixa" has worked for more than 110 years in contributing to the advancement of society and the progress of individuals, with a special emphasis on those who need it most. Its main strategic objective is to provide opportunities and fight inequalities in Africa, Asia, and Latin America through programs that contribute to the achievement of the United Nations 2030 Sustainable Development Goals (SDGs).

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