

Restructure Village Level Economic Aid to Promote Entrepreneurship

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Abstract

Problem

The microfinance industry in India has blossomed into a global model for economic sustainability projects seeking to provide aid. Yet, we see examples of poor follow-up and limited success in many regions. Village level economic aid has limited utility as it does not focus on creating a culture of entrepreneurship and business acumen. Villagers are often not instructed to spend the money in a meaningful manner, or are simply not aware on how to do so.

Approach

During March and April of 2011, village leaders and villagers were informally interviewed to discuss their approach and thoughts to microloan economic projects.

Local setting

The interviews were conducted in two separate regions of India: Dhajipur, Gujarat, and Sidhbari, Himachal Pradesh.

Relevant changes

Villagers in the regions interviewed are keenly aware of how such economic aid should be spent and utilized to maximize long term benefits. Inefficient, or even frivolous spending, was discouraged and refocused in a manner better suited to improving the villager's economic utility.

Lessons learnt

Until the focus of such economic projects turns to improving the long term economic conditions, such projects will have limited utility. Creating a culture of acknowledged, responsible fiscal spending will improve the outlook of microloaning.

Keywords: microfinance, microloan, microcredit, entrepreneurship, India

Introduction

Structured microfinance and microcredit initiatives have enabled tremendous economic mobility among the impoverished rural population in India.¹ Since the widespread dissemination of such programs, commensurate acceptance from rural populations has grown. Consequently, many programs cultivate unique initiatives targeted towards a region's specific demographics and interests.^{1,2,3} However, despite the preponderance of many unique, innovative economic programs, long term follow-up of recipients receiving economic aid remains lacking.¹ This lack of adequate continuing accountability plagues many developmental programs in India.^{4,5} Though there are numerous plausible explanations for this phenomenon, it has been demonstrated that many established microfinance and microcredit initiatives provide only a finite, limited degree of economic aid.⁶ Such limitations can potentially both hinder continued follow-up among members and encourage drop-outs. Though there are institutions implementing novel concepts intended to address this issue, so far the data is sparse at best.⁷ This paper explores the notion that one can improve the follow-up of such economic programs by implementing a system that teaches skills and innovations that translate directly into entrepreneurial success and business know-how.

Background

The experience occurred in the Indian states of Gujarat and Himachal Pradesh. In Gujarat, a combined healthcare-microfinance program was located in the rural village of Dhajipur, near the industrial town of Savli. In Himachal Pradesh, a microcredit program was located in the town of Sidhbari, near the town of Dharamshala; and operated in conjunction with the non-governmental organization, Chinmaya Organization for Rural Development (CORD).

The main economy in both Dhajipur and Sidhbari is subsistence-based agriculture. In Dhajipur, no prior formal organization has attempted to provide economic aid to the region. In Sidhbari, CORD has been providing economic aid since 1985.⁸ The village level governmental bodies of both towns are arranged based on the Gandhian concept of the independent functioning village.⁹ This organizing body, known as the Gram Sabha, is headed by a village leader, or a Panchayat. Just under this position are five members called Up-Gram Sabha, who serve as the conduit between the Panchayat and the villagers. Those in the position of Up-Gram Sabha, as well as those just below, are often referred to as Surpanch.

Program Settings

The duration of the experience was two months (March 2011 to April 2011). All living accommodations were within the villages themselves, and all social, religious, and economic functions were attended. Live field expeditions included actively observing many villagers work on their farm land and participate in the cultivation as needed. To learn about the economic activities, informal interviews were conducted with the villagers and the village leaders (Surpanches and Panchayat), repayment sessions were observed, defaulters were sought to ascertain the cause of payment failure, and account payment books from the previous year were studied. A few village members who participated in these economic programs return to provide assistance to subsequent participants in the hopes of improving their chances of upward economic mobility.⁸ However, most participants end up maintaining little to no contact with the organizing body that provided their economic assistance. *Table 1* details the prevailing notions that led many former members to lose contact over time. There is an overt sense of disconnect facing many recipients

Insert table (1) about here

Lessons Learnt

The chasm that forms as participants abandon long term follow-up in their respective microfinance/microcredit program is, in part, an inability of these programs to translate economic aid into a viable growth or entrepreneurial strategy. Economic assistance, without educating or incentivizing the recipients on the proper allocation of these resources, will inevitably lead to underperformance and underutilization among the recipients. It is difficult to ascertain this in isolation since the only evidence of inefficiencies manifest as delinquent payments, defaults, drop out percentages.^{1,6,10} While we may concede this as an inevitability of financing at this scale, and to such a demographic¹⁰, perhaps an alternative explanation is due: the recipients of this economic aid are not educated or informed how to best channel the new found capital towards entrepreneurial development or growth. During the experience of visiting villages in two distinct regions of India, the villagers shared same prevailing belief that this type of economic assistance will only marginally improve one's existing lot. In introducing microfinance, Professor Yunus declared this system as a way to dramatically redefine finance in the rural regions of the world.¹¹ Yet what was promised as a disruptive innovation for global indigents has translated into more of an incremental improvement.¹² Although most villagers in India use this source of capital to finance existing businesses¹³, some programs encourage the use of the loans for private consumption despite knowing the recipients exhibit no major socioeconomic need.⁸

Directing economic assistance to entrepreneurially minded recipients who are capable of spurring new businesses and achieving socioeconomic liberation is a major goal of microfinance.^{1,11} Providing basic capital and ensuring accountability can only achieve a portion of this goal; encouraging proper business practices and a fiscally sound mentality in conjunction can potentially help complete this goal. The past decade has seen a plethora of social entrepreneurs dive into the field of microfinance, microcredit, and social venture capital in order to achieve this common goal. One firm, Acumen Fund, actively trains its employees in start-up business strategy in order to successfully accomplish its social-entrepreneurial projects.¹⁴ Yet our ground work indicates that there is little to no transfer of these skills towards the recipients of such programs.

Our field experience refutes any contention that many of the programs' recipients do not possess the business and entrepreneurial proclivity to capitalize from learning this skill set. In the village of Dhajipur, one Surpanch attempts to develop a diamond refining plant. Being in close proximity to a large diamond hub in Surat, Gujarat, the Surpanch recognized that he has the geographic scope to provide a viable option for diamond wholesalers. This project began when the Surpanch decided to provide more job opportunities for the villagers rather than just traditional sharecropping. Through a combination of loans from the State Bank of India and capital reserves, he has begun construction of the plant.

Yet in the village of Sidhbhari, the existing organization, CORD, took a diametrically opposite view to such entrepreneurial projects. Many of the microcredit projects encouraged traditional industries such as garment stitching, farming, and dairy production.⁸ During interviews, the microloan issuers mentioned that their aim was to provide a social platform rather than economic growth. When prompted, CORD eschewed the notion of providing an entrepreneurial forum that would encourage the development of market selling skills. Rather, CORD envisions any economic aid as part of the overall experience of cultivating more socially aware, economically independent individuals.⁸

Microfinance, microcredit, and entrepreneurial innovation all share the common notion of risk taking. We should both actively encourage the development of new ventures and innovative thinking, and properly mentor recipients to allocate resources conducive towards business development. Microloan education has become an organized discipline^{10,14}, and we should extend that knowledge set towards the recipients we are eager to serve. While this appears obvious in principle, the oft disarrayed and negative nature of microfinance in India indicates this is not always so in practice.^{1,6,7} Microfinance has received negative publicity in India for the aggressive nature of loan collectors and the spurious cycle of dishonest recipients continually accumulating loans.^{1,6,7} The ensuing backlash has created a negative damper on many economic assistance programs. The state of Gujarat has considered imposing restrictions on which firms can provide microfinance assistance.¹ In spite of the negativity, economic assistance of this type can result in amazing production. The largest dairy producer in India, Amul, founded in the state of Gujarat, began through similar financing as what many microloan programs provide.¹⁵ Through a combination of proper financing, and supremely qualified management, Amul rose to the level of being the largest national provider of dairy.¹⁵

There are many attempts to infuse innovations into microloans to align and mitigate risk taking behavior incentives.^{1,7,10} The diverse array of novel programs is a testament to the maturity of this industry in India.^{1,6} My lessons from the field indicate that simply educating the recipients on basic business concepts such as profit margins, capital allocation, and having a growth strategy will result in tremendous strides towards achieving the maximum potential of microloans. All who venture into this field should recognize the inherent systemic risk; and a major mitigating strategy should be a proper education on the business fundamentals. The requisite entrepreneurial and business-like mindset already exists in the region. To reach the next stage of sustainable, truly consequential economic aid, we need to identify and nurture this notion as a viable solution.

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Table 1 details key observations made by village members about the value of the economic assistance programs.

Background		Discussion Topics ²									
Interviewee ¹	Occupation	Ease of obtaining money	Restrictions on money use	Liability measures	Stigma associated	Usefulness of money	Longterm effectiveness	Repayment process	Extent of setback with no aid	Consider repeat use	Prefer other sources
Surpanch ³	Accountant	"very easy to obtain financing, however, many sources are unethical"	"would like to see more restrictions placed"	"liability measures often do not exist or are not realistic to enforce"	"none"	"it is useful as any other source of capital"	"an intelligent businessman already knows how to use his money properly"	"most rules are standard and accepted as they are"	"we have multiple sources of finance and economic support"	"I have not seen it, but I am sure it is there"	"I would prefer government banks to build credit"
Surpanch ³	Village Elder	"beside the most sources, though there can't be a process"	"the development of one's business should not be used for one's own use"	"how can one be held liable when they just just give out and here"	"working hard and wanting to achieve is no shame"	"it is very useful so long as people use it properly"	"expanding one's work will definitely lead to greater results"	"often vendors who more flexible often do not exist"	"there is great risk of fluctuating in many farmers and dairy producers"	"I cannot personally say but I know many who have"	"all trusted sources are good sources"
Surpanch ³	Mail Courier	"thinking of this sort is readily available if one actively seeks this source"	"at this stage we all know the use must be for starting a business but many exploit it"	"unless a more organized system is set, how can one really hold accountability"	"the only stigma comes from the person himself"	"it is useful if used in the right manner"	"if one is smart in spending money, then the financing proves its effectiveness"	"it should focus on the cash cycle of one's work and less on old rules"	"we use stagnation all over the countryside"	"I think, if one completes a payment package, then he should do it again"	"same finding is much better but not available"
Surpanch ³	Accountant	"it is often too easy for many who do not appreciate because they are unsure how to spend"	"we see many who abuse the money and we respect that"	"we do a good job of holding people accountable but we can only go so far"	"if the person is not trustworthy, that is enough"	"it is important to show how to use the money"	"one cannot build credit from this process so I see little benefit"	"this process does not account for daily expenses of abstinence"	"any time you remove a source of funding, you will see problems"	"many people repeatedly use this source of funding"	"banks are a great source but they screen with prejudice at times"
Villager	Subsidence Farmer	"I find that the organizations often focus more on growth than providing funds"	"we know why we are given the money and we respect that"	"we attend weekly programs and pay regular dues and fees"	"none"	"I purchased new tools that were dull"	"the new tools will last me many more years"	"this is to absorb some costs at first but then it becomes manageable"	"I could have gotten the tools regardless"	"of course, I helped my end and repaid on time"	"I think I make enough now"
Villager	Subsidence Farmer	"there are many such places but one has to be careful"	"our goal is to spend the money to better our families and community"	"our crops and land are put on, but our social standing is more important"	"there is none"	"I had to cover costs from a low yield"	"I managed to recover from losses much better"	"I had multiple late payments but the people were kind"	"I might have suffered more losses"	"if they help me use the money better"	"I might try this venue again"
Villager	Subsidence Farmer	"I see them as a good source for money but not without risk"	"we would not risk self-limitation by using the money, but what can happen"	"we work with the Surpanch so his impression is very important"	"only if you cheat"	"I thought new tools that I potentially did not need"	"the tools did help and avoided more costs"	"I know the process ahead of time and was prepared"	"same spot as before"	"this was a one-time experience"	"hopefully this experience will convince the local state bank"
Villager	Subsidence Farmer	"I understand their purpose and I am glad to join such an organization"	"we spend the money on furthering our existing business or absorbing costs"	"I respect the opportunity and know that my word and honor are bound by truth"	"none"	"I increased my crops size by purchasing more land"	"it did become burdensome at first but then I accepted it"	"I had become land now"	"I am glad I did it, but I have moved on"	"I am glad I did it, but I have moved on"	"family sharing is a very good option"
Surpanch ³	School Principal	"the money is there, the organizations are there, but it is important to screen how to use the money"	"I see a need for greater restrictions but one should show how to use the money"	"there is a limit on how much you can do, but trust is a mutual thing"	"if one is honest with one's lot then there is no shame"	"any time you put somebody in a better place, it is useful"	"the momentum of a successful investment should produce more effectiveness"	"it is tricky to balance the payment dues with the revenue from irregular businesses"	"many people would remain fixed in their current lot"	"if one can use the money properly, then they should keep using it"	"with a proper source, one can improve credit, but many do not have formal accounts"
Surpanch ³	Accountant	"it is easy to find at least one program within a few villages"	"restrictions are there, but maybe many don't understand them"	"I know the responsibility is on the person, but a good education can help"	"if one is repeat user, then perhaps a stigma can form"	"having the money to overcome unforeseen hurdles is essential"	"if one is successful in using the money, then they have better understanding"	"this part seemed too rigid work"	"people who are willing to work hard and understand their work will find funding"	"there should be some limit but only to allow more people to be involved"	"if this source is credible, then it is fine"
Surpanch ³	Religious Priest	"there are many sources for such funding"	"one knows the money is to improve one's work or start a business"	"good organizations can identify good people and that should be it"	"none"	"I believe organic growth on by to use the money"	"again, it is based on how well the person understands the business"	"how much this takes away from the benefit depends on the recipient"	"those who want to improve will find another means to do so"	"one's understanding would improve and the benefits accordingly"	"state banks create a credit history"
Surpanch ³	Dispensary Owner	"many programs exist and they use this like my store to operate"	"we all understand why the money is given and we must respect the trust"	"trust is essential to any business, but the liabilities should rely on that"	"most of the people in these programs are very honest"	"if one can use the money effectively"	"this is an accepted standard that everybody complies with"	"there are many examples of small businesses with this same is very needed"	"there are many examples of small businesses with this same is very needed"	"think, if one is pragmatic enough, then yes properly, he should do it again"	"this is a great opportunity for people who are eligible"
Villager	Subsidence Farmer	"many organizations do great work and I am happy to help them out and participate"	"we are told that we will not be allowed to borrow again"	"we are told that we will not be allowed to borrow again"	"there is nothing"	"I thought rice, grain to grow along with my wheat"	"I alternate between crops to keep the soil fresh"	"the process is standard so I was ready"	"I cannot say for sure exactly, but about the same"	"I would like to try again"	"I like the program and the feeling of being part of an organization"
Villager	Subsidence Farmer	"there are many government and non-government organizations"	"we see this opportunity to give our lives a boost and know to spend it wisely"	"I come from an honest family so this is not a problem"	"I don't think so"	"I would have saved the money instead or not used it at all"	"I would have liked some flexibility"	"I would have been in the same position"	"I would have been in the same position"	"no"	"what else can we do but work on our own?"
Villager	Subsidence Farmer	"there are more in certain villages than others, but none too far away"	"many times, what we want to spend if on what we have to be different"	"I understand their faith in us so I seek to respect that"	"none"	"it covered the cost of additional water buckets"	"the buckets help during droughts but otherwise are not needed"	"I wish I could have given them an extra bucket back instead"	"it is nice but I should have done something else"	"not if I purchase buckets again"	"I like this experience, but I needed help"
Villager	Milk Dairy Producer	"many organizations often come and recruit people who are known to be honest"	"many just provide capital and assume we already know what we want to spend it on"	"I understand the liabilities but then why do they trust us?"	"none"	"I thought to get a cow but instead reached out to more customers"	"teaching out to more customers costs me more time, but I make more money"	"I make daily revenue so the weekly payments were easy to repay"	"I would have eventually grown as I did"	"it is a good experience, but not absolutely necessary"	"state banks are preferable"

Footnotes:
¹ All interviewees provided responses voluntarily and received no financial compensation for their effort. All interviewees understood that their comments would be used for academic purposes. There were no interviewee responses omitted in this study.
² Based on interviews were shown based upon the most common topics discussed during the first informal visit. All topics were shown to reflect common concerns among all participants receiving economic aid.
³ Surpanch members were affiliated by the figure in holding positions of power through multiple villages. Most conversations took place in the common meeting building used for village organizations.