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PROGRAM FOR INVESTMENT IN THE SMALL CAPITAL ENTERPRISE SECTOR

ASSISTING THE SMALLEST ECONOMIC ACTIVITIES OF THE URBAN POOR

PART II: Case Studies

INDIA

Jason Brown
Partnership for Productivity

Published By
Accion International/AITEC
120 Mt. Auburn St.
Cambridge, Mass. 02138

Program for Investment in the Small Capital

Enterprise Sector

PISCES Phase I

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FORWARD

ACCION International/AITEC, a private non-profit organization was contracted* by the Office of Urban Development, Development Support Bureau, Agency for International Development to study projects which assisted the smallest economic activities of the urban poor. AITEC was to determine if it were possible to reach these tiny enterprises in large numbers and at low cost. If it proved feasible to assist this sector, projects would be developed with local agencies and AID missions.

AITEC contracted two other non profit organizations, Partnershkp for Productivity for Asia and the Development Group for Alternative Policies for Africa, to carry out the research and project development phases of this work. In turn, AITEC would direct the project, complete the field work for Latin America and synthesize the results of the investigation.

The program began with a series of workshops held in early 1979 to define the research problem. In the spring the research teams visited twenty countries to identify projects and carry out their initial investigations. In the summer they completed in-depth studies of the most promising projects.

This volume of case studies is based on visits to India in February and August. Jason Brown of Partnership for Productivity did the field work and wrote this report assissted by Vargese Keerikatte.

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* Contract Number DS-otr-C-0013, Small Enterprise Approaches to Employment, PISCES Phase I.

Volumes of case studies are also available for the Philippines, Africa, and Latin America. A final report will synthesize the results of these studies and suggest practical approaches to develop new projects.

The India case studies show five approaches reaching the smallest economic activities of the urban poor. They are summarized as follows:

- The Differential Rate of Interest Scheme is implemented by the banks of India to comply with a government directive requiring them to loan one percent of their portfolio to tiny informal sector enterprises. Currently there are over one million five hundred thousand loans outstanding; this is by far the largest program studied.

  Each bank implements this program differently, but, in the best projects, a bank promoter would handle a portfolio of 400 loans, identify new clients, and keep the default rate under 10%.

- The Working Women's Forum in Madras collaborates closely with a local bank and in the last 18 months, has facilitated loans to develop the ongoing, economic enterprises of three thousand women. The Forum relies heavily on volunteer group leaders to select and supervise credit recipients. Using credit as an organizing tool, it has provided a forum for these women to get improved facilities in the markets, and to end police harassment of hawkers and vendors.

- In Madras, the National Association of Educated Self-Employed Youth (NAESEY) focuses on the creation of new enterprises. Originally it worked with high school and college educated youth who were unable to find employment, now it creates economic enterprises for the uneducated poor.

  The revolutionary methodology developed in NAESEY provides an alternative to complex and costly cooperative schemes by linking vertically integrated, mutually dependent micro-enterprises into a single, economic activity such as the production and marketing of milk.

- The Bangalur Layout started in what was the worst slum in Bangalore. Seven years later family incomes have trebled and housing and basic infrastructure are greatly improved. Much of the thrust of this broad ranging community develo-ment effort has focused on small enterprise development and this explains an important part of the progress made.

- The Calcutta Y Self Employment Center began as a vocational program to provide self employment for educated youths. However, it has developed innovative approaches to help people set up their own businesses and to reach the much smaller economic activities of rural dwellers.

This volume of case studies will be useful for any practitioner, planner or funder who hopes to upgrade existing employment and income programs for the poor or create new ones.

Questions and inquiries should be directed to AITEC, 10-C Mount Auburn Street, Cambridge, Mass., 02138 or to Partnership for Productivity, 2311 18th Street, N.W., Washington, DC 20009.

Jeffrey Ashe
PISCES Project Director
Executive Director, AITEC

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INDIAN GOVERNMENT POLICY AND MECHANISMS OF SUPPORT TO TINY URBAN AND VILLAGE INDUSTRIES

This study is concerned with income-generating activities of the very poorest members of the community. India defines the "poorest " as those families with incomes of less than Rs. 3,000 ($375 U.S.)* a year for urban dwellers or less than Rs. 2,000 ($250) a year for rura dwellers.[1] This sector will be defined as that sector in which the :poorest: Indians are self employed in manufacturing, in the services, or wholesale of retail trade.

The predominant activities are hawking and vending, petty trading and preparation of cooked foods. A smaller number of firms manufacture goods requiring little mechanization and very small investments, such as sandals, clothing, simple toys or jewelry or the upper portion for shoes. A typical range of investment for

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[1] The Indian Government defines "small" industries as those with investments in plant and machinery of less than RS. 1,000,000 ($125,000 U.S.). "Tiny" industries are those with investment of less than Rs. 100,000 ($12,500) in plant and equipment located in towns of populations less than 50,000. Khadi and village industries are defined by a list of 22 types of artisan activities which are assisted by the Khadi and Village Industries Commission. Sometimes the term "cottage" industries is applied to "traditional" activities such as hand loom and to similar scale activities, like match making, with investment in plant and machinery of less than RS 10,000 (($1,250). There is no terminology for commercial activities since until recently, no assistance was available to this sector.

Since none of the Indian Government terminology described above fully covers the subject of this study, we will describe our sector of interest as the "informal enterprise sector."

*All dollar figures given in parentheses are in U.S. dollars.

such commercial or manufacturing activities would be from Rs. 2 ($.38) to Rs. 1,000 ($125.00).

The Size of the Informal Enterprise Sector

The Indian Draft Five Year Plan, 1978-83, estimated a total labor force of 265.3 million. If present trends continue, the labor force will expand by 29.5 million by 1983, in other words, by six million a year for the next five years.

The largest number of new jobs will be absorbed in what the Indian Plan calls "Informal or Unorganized Employment." By Indian definition, this includes agriculture and allied activities and the "entire small unit sector" which, in 1971, employed 91% of the total labor force. An astonishing 67% of the unorganized work force is self employed, mainly in tiny enterprises. The non-agricultural labor force in the informal sector in 1978 was 43 million. The plan estimates that the informal enterprise sector will need to absorb at least 1.5 million new workers a year.

Government Attitudes Towards the Informal Sector

It was Prime Minister Nehru's dream that India should be an industrialized nation, providing a desirable standard of living to all its citizens. The early Five Year Plans reflected this and emphasized heavy industries. The emphasis began to shift in later plans: first toward emphasis on rural Khadi and handloom industries, (reflecting Gandi's philosophy of development), then increasingly, to other small and village industries as well. By the time the Janata Party came to power in 1977, the pendulum had swung away

from large scale industry and the emphasis was fully on rural and village industries.

In December of 1977, the new Janata Government stated:

> The emphasis of industrial policy so far has been mainly on large industries neglecting cottage industries completely and relegating small industries to a minor role. It is the firm policy of this Government to change this approach.
>
> The main thrust of the new Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced..."

Central Government Implementation

Government programs to implement this policy are elaborate. One important component of these programs is the Small Industries Development Organization (SIDO) under the Ministry of Industry. Headed by the Development Commissioner of Small Scale Industries. SIDO has an extensive network of services, including 25 Small Industry Extension Centres. In addition, it coordinates the development of District Industrialization Centres to assist small and cottage industries in all 480 districts.

Under the Ministry of Commerce, there are 40 subsidiary corporations to deal with specific needs, these include: Commodity Boards in 7 product areas and Export Promotion Councils in 16 product areas. The Handicraft Board is the coordinating body for four Agencies: the Khadi and Village Industries Commission, All-India

Handloom Board, and Small-Scale Industries Commission. Each of these agencies has the capacity to provide technical and financial assistance to informal sector entrepreneurs.

State-Level Machinery for Implementation

Each State has its own framework of programs, but all frameworks generally follow the same pattern. As an example, let us examine the programs of one state, Tamil Nadu. In Tamil Nadu, the State Department of Industies and Commerce coordinates State government activities for small and cottage industries. The Director of Industries and Commerce is also Chairman of the Tamil Nadu Samll Industries Development Corporation (SIDCO). SIDCO manages 8 industrial estates, provides hire-purchase machinery to 1135 entrepreneurs, helps procure raw materials and markets, and provides margin money to the tiny sector in rural areas. It also works with the Tamil Nadu Industrial Investment Corporation to provide loans ranging from as low as Rs. 5,000 ($625.00) up to Rs. 1,500,000 ($187,500.00).

In Tamil Nadu, the Khadi and Village Industries Board, (KVIC), operates 124 administrative centers, 360 craft and textile centers, and 205 village industry units, which include 460,000 small producers, many who are organized in 3000 cooperatives. Their activities are primarily rural. They are engaged primarily in palm product production (50%), Khadi (25%), non-edible oil, and soap products (15%) and honey (7%). The basic activities of the Board include the formation of cooperatives, assistance to secure bank

financing, new processes research and development, producer registration/procurement of raw materials, marketing, and training. In addition, it can provide loans in amounts as little as Rs. 500 ($62.50) at 4% interest for five years and technical assistance to 22 traditional village industries.

The KVIC has received directives from the State Director of Industry to expand into match production and sericulture. These two program are expected to generate 30,000 new jobs in the State over the next two years, of which 2,000 to 3,000 are to be in Madras.

The Tamil Nadu Handicrafts Development Corporation (TNHDC) provides assistance to handicraft industries. It runs 20 sales emporiums 17 training centers, 3 production centers, and is heavily involved in foreign exports. It also helps artisans obtain raw materials and loans and provides technical advice on design and production.

The Industrial Cooperatives Department (IDC) is responsible for the creation and support of industrial cooperative societies in the the state. There are 400 societies producing other than craft items, but there is some overlap; assistance provided is similar to TNHDC.

The Tamil Nadu Handloom Development Corporation provides assistance to the over 4 million weavers in the State.

The major orientation of these programs, however, is rural. Since it is the mandate of PISCES to focus on programs which reach urban enterprises, we will examine programs in Madras, a large city in the State of Tami Nadu. In particular, we are interested in the charac-

istics of businesses in the informal sector and the ways in which they are assisted.

Madras City Resources for the Informal Enterprise Sector

Madras is neither typical nor atypical of India. The Tamils are more entrepreneurial than many Indian people, but less so than the Gujeratis or Bengalis. Madras is a major industrial city of India. It has a large concentration of heavy industry, including automobile production, but several other cities employ more people in large-scale industry. Estimates of the population of Madras range up to six million people, depending on how the boundaries are defined.*

Datum on employment in the informal sector in Madras are inconsistent, but these figures are indicative: one World Bank report estimated 900,00 persons, or about 50 percent of the work force, are employed in business units employing less than 10 people; in the 1971 census, 88% of the establishments surveyed had fewer than 10 employees.

Informal sector enterprises are everywhere among the poorest groups. They seem to be the major source of employment for the poor and the poor buy most of their food, clothing, and other household goods from informal sector enterprises. The same is true of manufactured goods, the poor buy the majority of goods produced by informal sector producers. Because of population growth, there is a constant increase in demand for the basic retailing and wholesaling

*3 million is a more conservative figure. [redacted]

services of these entrepeneurs.

The informal sector is characterized by relative ease of entry the amount of capital investment required is small, the mortality rate of such activities extremely high. Family needs and other pressing problems use up the little capital accumulated, pushing businesses deeper and deeper in debt to money lenders. Many are forced to flee the community to escape their debts.

Financing Small Enterprises

Many small enterprises* are financed through personal savings and loans from families or friends. When more capital is needed, these entrepreneurs are most likely to turn ot the money lender. Vendors often obtain unsecured loans of less than Rs. 100 ($12.00) at an interest charge of 10 percent daily. Thirty day secured loans carry 20 to 40 percent monthly interest rates and can be obtained at 60 percent interest per month. Money lenders also have a social role to fulfill. They may give advice on running businesses and help in time of family crises.

However, with interest rates so high, the money lender system does not allow the tiny entrepreneur to accumulate capital. Owners of these businesses rarely hope to break out of the closed

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*Examples of enterprises are (1) retail: vendors of fruit, vegatables, flowers, candy, newspapers; (2) service: bicycle repair, barbers, key makers, launderers, hand cart puller; (3) manufacturing: artificial flower makers, basket makers, blacksmiths, bangle makers, sweet meat making, doll making, bakers.

economic system and escape poverty. It is widely recognized that some sort of mechanism is needed which will break into this system and allow the informal sector entrepeneur to break out of this system so he can begin to accumulate capital.

The most important public financing mechanism for the informal sector entrepreneur is the Differential Interest Rate (DIR) scheme. In Madras, as in the rest of India, banks have been directed to lend at least 1% of their portfolio to the "weaker sector" at 4% interest. In 1978, 1% of the loan portfolio would have been Rs. 54.12 million ($6,765,000). Actual lending to the weaker sector in 1978 was Rs. 50.4 million ($6,300,000) according to the reports of 13 of the 15 major banks. These figures represent a 24 % yearly increase since 1976. These banks loaned between 0.2% and 4.4% of their portfolios to the "weaker sector" in amounts from Rs. 50 ($6.25) to Rs. 1500 ($1,875.00).

Elaborate central and state government programs also assist entrepreneurs in Madras. Many of these are being channeled through the newly-established District Industrialization Centre (DIC).

There is only one City agency charged with assistance to this sector: the Community Development Wing, Madras Metropolitan Development Authority (MMDC) handles cooperative development and marketing for urban slum dwellers. It identifies useful small business projects and then helps slum dwellers complete the forms necessary to obtain bank credit. During the MMDC helped 130 people obtain loans. It plans

to create 5,000 new jobs during the coming year.

Observations on the Operation of Government Programs

The elaborate organizational framework described above is designe to reach the very smallest and poorest of India's entrepreneurs at the district and block level. However, as is often the case in countries with much less extensive assistance activities, those who receive assistance from these programs are generally those who are better off. The new Five Year Plan admits "...assistance was provided mostly to relatively large industrial units in and around the metropolitan urban areas."*

There are good reasons for this. By and large, government services to small industry are quite expensive. It is difficult to justify this expense when the enterprise involved may have a daily sale of Rs. 24 ($3.00) or less. Another problem is the training and orientation of staff. Government technicians are generally university trained and their predisposition is to work with larger enterprises, whose needs they are better prepared to understand.

The new Indian Plan suggests a solution to this problem, which might be summarized as "better targeting." It proposes a special focus on needy groups and a fine-tuning of program requirements so that staff are forced to serve the needy group. This is being done with considerable success in the credit area. "Better

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*Five Year Plan, p. 176.

targeting" also translates as better planning, support and coordination.

> So far the programme for the development of different rural and small industries have consisted mainly of certain fiscal measures and a number of schemes for providing assistance and facilities in different forms to all types of these industries, without a careful assessment of their appropriateness and viability. This absence of focus and perspective has been responsible to a large extent for their sickness. Therefore, it is now proposed to formulate development programs for some slected industries based on (i) in-depth studies of their present position, and potential probelsm; (ii) "growth" areas based on detailed inventories of the existing and potential resources of blocks and districts to be selected for integrated rural development inclusing tribal, hill and other backward areas. By concentrating on a smaller number of carefully chosen industries and areas, the pitfalls of the approach adopted so far will be avoided.*

The tool created to implement this new strategy is the District Industrialization Centre. These Centres, which already exist in 350 districts, are to be responsible for "targetting" and thus assuring adequate support from all the needed resources, located in whatever agency to assure program success. This is an extremely ambitious undertaking. The Centres are new and it remains to be seen if they can succeed in pulling together a wide variety of agencies and vested interests, who will inevitably be jealous of their prerogatives, into a united effort, where each will have to give up some of its individual decision-making power to the Centre. Whatever the outcome, the

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*Five Year Plan, p. 179.

effort is a laudable one and should be watched by other countries with great interest.

Commercial Credit for the Poor

DIFFERENTIAL RATE OF INTEREST SCHEME

One of the most interesting Indian programs is the Differential Rate of Interest Scheme (DIR), which has reached large numbers of the productive enterprises of the poor. This Scheme provides loans for "productive endeavours" only to those with family incomes less than Rs. 3,000 ($375) per year in urban areas (less than Rs. 2,000 ($250) per year in rural areas). Loans range from Rs. 50 ($6.25) to Rs. 1,500 ($1,875 U.S.) for working capital and up Rs. 5,000 ($625 U.S.) for fixed capital. Terms are 4% interest, with no margin requirement. Working capital loans must be payed back in two years or less, but commercial activities such as bakers and vendors usually repay the loans at the end of the first year. Fixed capital loans must be payed back in five years, with a grace period of not more than two years.

The Reserve Bank of India rediscounts money to Indian banks, which in turn loan to poor people. Government owned banks (which since 1969 include almost all large banks) are required to allocate 1% of their total loan portfolio to this program. Smaller, private banks may do so at their discretion. Up to 85% of the lending is guaranteed under the Credit Guarantee Scheme of the Reserve Bank of India. This is a heavily subsidized program since the Reserve Bank of India estimates it costs the banks 8 1/2% to raise and administer conventional loans. No one outside the individual banks has systematically assessed how much it costs to administer these small loans, although several people in individual banks estimated the costs at around 13 1/2%

Apparently, banks do not make use of the Credit Guarantee Scheme to recover losses under DIR, which accounts for some of the high administrative costs. The Reserve Bank of India, which is responsible for the Scheme, is also responsible for bank audits. Since commercial banks would rather not report high default rates, only 291 of the 748 commercial banks eligible to participate in the Credit Guarantee Scheme do so.

The DIR Scheme began in 1972, but for several years, its reach was modest. Initially, banks were only required to allocate 1/2 of 1% of their loan portfolio to the "weaker sector." With the new Janata Government, there was pressure to expand this Scheme and other programs to benefit the poor. Banks were required to invest 1% of their portfolio to the Scheme. By December, 1978, there were 1.5 million loans totalling Rs. 900 million ($112.5 million); the average loan size was Rs. 556 ($69.50). Total commercial credit in 1978 was approximately 185 billion ($23 billion). This means that slightly less than 1/2 of 1% is currently being allocated to the DIR Scheme.

A significant number of the very poorest people have received loans from this program, but what is the impact of this assistance? Bank officials with whom I spoke paint a mixed picture. The banks are under heavy pressure to act but many are at a loss how to best proceed. Staff training, except in a few banks such as Canara, which have had a long-term commitment to the poor, does not prepare bank personnel for this type of program. In addition, such bank branches must "adopt" a village. Bank personnel must go to a village, identify

needs and work with the villagers to respond to these needs, not only in the form of finance, but in other ways as well. Some 70,000 Indian villages have been "adopted" in this way.

Some bank personnel have adapted to this new type of social responsibility, but it has been difficult for the vast majority. Banks are judged by the volume of money they loan, repayment rates bank profits. There is no financial incentive for bank personnel to perform the new tasks well.

As a result, some banks have bad repayment records and administrative costs are very high. Bank officials "hinted" that in some cases, repayment rates may be as low as 10-12%.

This picture was far from universal. Banks are desperately seeking for ways to increase the number of loans provided and at the same time reduce administrative costs. This has led to considerable experimentation. I saw successful bank programs in Bangalore, Madras and Calcutta, which either utilized their own carefully developed staff or cooperated with voluntary agencies to increase their outreach, and increase their repayments rates to above 90% (and in one case above 99%) while significantly reducing overhead costs.

In Calcutta, the Bank of Baroda maintains a Multi-Service Agency Branch, which exists solely to make small loans under this and other schemes. (There are Multi-Service Agencies in other cities). Four thousand loans are outstanding between Rs. 50 ($6.25 U.S.) and Rs. 15,000 ($1,875 U.S.). Only some of these loans are provided at 4% interest under DIR. The majority are at the commercial interest rate of 12%. According to the Branch Manager, over 90% of the loans made

have been repayed and only 15% have made one or more late payments.

The staff of the Branch consists of the Manager, 10 Loan Collectors and support staff. Collectors are responsible for approximately 400 loans and visit clients at least once a month to collect payments. Loan Collectors also identify potential loan recipients relying on references from those already receiving loans or neighbors. Collectors try to group loan recipients to make supervision easier and to develop groups of neighbors who will vouch for each other.

Loan applications are a single page and can be processed in one week. Loans are approved in batches after a brief individual interview of the applicant by the Manager.

The Multi-Service Manager hopes to increase the Branch's portfolio to 6,000 loans using the same staff. Administrative costs can be reduced while keeping repayment rates high, because the staff is dedicated, does careful follow-up, and maintains good rapport within the communities of credit recipients. The staff have B.A.'s and collectors make about Rs. 700 ($87.50 U.S.) a month.

The Bank of Baroda has a similar branch in Madras.* Through June, 1978, this branch had made about 2,000 loans to "small borrowers," averaging Rs. 1,572.00 or ($197 U.S.). The average loan to vegetable vendors was Rs. 671 or ($84.00 U.S.). Ninety five percent of these were regular loans at 11% interest for 3-5 years;

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*These two pages are drawn in part from: Simon Fass, "Inventory of Institutions and Agencies Engaged in the Promotion of Small Enterprises in Madras," Unpublished paper for World Bank, June 20, 1979.

the remaining loans were under DIR. As of September 1978, the overall rate of overdue accounts was 8%. Sixteen payment collectors on motorbikes supervise the loans.

Although these examples from the Bank of Baroda are exceptions, in general, bank officials are not pleased with their loans to "small borrowers" because of high administrative costs and high default rates. These problems were mentioned frequently:

1. good entrepreneurs are hard to find at this level;
2. borrowers receive loans from several different banks;
3. loans not used for productive activities and may be relent at higher interest rates;
4. borrowers lack knowledge of technical areas and market conditions;
5. bank staff have difficulty supervising widely scattered and often highly mobile borrowers;
6. borrowers often need other support services, (day care, medical help, etc.) to continue their business and repay the loans;
7. small borrowers are highly vulnerable to market fluctuations and are more likely to go bankrupt than larger borrowers.

Pulling together scattered information and making a number of assumptions, it is possible to estimate the program's break-even point. With a Manager, 10 Loan Collectors and support staff, the administrative overhead for the branch would be about $25,000 per year. Assuming these small borrowers have no deposits, the cost of the money to be loaned to the branch would be about 5%. The Loan Guarantee Scheme will cover 85% of the defaulted loans. Here we assume 10% of loans are defaulted.

With 4,000 loans at $400, the total portfolio would be $1,600.000. The interest paid per year, would be $160,000 less $16,000 for the interest lost on defaulted loans, or $144,000. Costs would be $25,000 for administrative overhead, and $80,000 for the cost of the money to the bank, and $15,000 for other expenses. The cost of defaulted loans would be $160,000, but 85% or $136,000 would be covered by the Guarantee Scheme, for a net loss of $24,000.

To sum up in order for the bank to break even:

Income:	
Interest	$144,000
Expenses	
Cost of Money Loaned (at 5%)	80,000
Administrative Overhead	25,000
Net Loss of defaulted loans	24,000
Other Expenses	15,000
Total Expenses	$144,000

The above analysis has shown us:

1. Administrative overhead costs are the least important factor. Staff size could be increased by half in the above case (from 10 to 15 Collectors) and more than cover their costs by a lower default rate.

2. The volume of loans is far more important to profits than are administrative costs.

3. The loan guarantee is essential to a small business program. Without the guarantee the default rate could not exceed 3% for the bank to break even.

If interest rates are increased to 13 1/2%, a figure some bankers told me was their break-even point, the bank could absorb a default rate of 5.5%. At 16% interest it could absorb 8% and at 25% interest, it could absorb almost a 15% default rate.

Bankers, however, think it unlikely that the central government would allow them to increase interest rates to recover their costs. They also think the government will continue to pressure them to increase lending to small borrowers. Therefore, they are seeking to transfer some of their costs to other organizations that are better able to identify and supervise clients. The following case studies present successful examples of how this can be accomplished.

The WORKING WOMEN'S FORUM
55 Bhim Sena Garden Rd.
Madras 600040 India
Executive Director; Jaya Arunachalam

Program Development

The Working Women's Forum was registered as a Society in April, 1978 to mobilize self-employed lower and lower-middle class working women to fight to improve their economic, social and professional status. Although many were involved in its creation, the Forum emerged largely through the efforts of one women -- Jaya Arunachalam.

Mrs. Arunachalam is an agriculturist, writer, journalist and social worker. With a B.A. in Geography and Economics, she had for many years been extremely active in the National Congress Party as well as in development programmes for the poor. The split in Congress in late 1976 led Mrs. Arunachalam to profound soul-searching. The new politics seemed to be regional and parochial in scope, not in keeping with her conception of national responsibilities. As a result, she withdrew from Party activity in early 1977.

Her immediate concern was what to do next. Friends and well wishers had many suggestions. Toward the latter part of 1977, the monsoons came in earnest, bringing with them the usual rounds of flooding and misery for the poor. As in the previous years, Mrs. Arunachalam was invited to organize programs such as soup kitchens, and shelter for flood victims.

As she undertook this work, many local leaders in Madras approach her for advice in dealing with the problems faced by these poor

people, particularly by the women. She addressed groups brought together by these local leaders and these groups expressed a wide variety of needs. In talking with many of the leaders, it became clear there was a critical need for these women to organize, if they were to address their own problems. The question was, around what issue would they organize?

As Mrs. Arunachalam continued to listen, some common threads emerged. She was surprised to find that most of the poor women were self-employed and not so surprisingly, were being exploited by money lenders, government officials and larger businesses. Over and over again, these women cited credit as their most critical constraint. Women were paying a minimum interest rate of 120% a year, many were heavily in debt to money lenders. The women also cited police harassment, lack of toilets in market places, lack of covered markets and lack of day care for infants as business constraints.

Mrs. Arunachalam approached the banks and learned that the "small borrowers" program (the DIR Scheme described earlier) was ideally suited for the poor women. Furthermore, the banks were anxious to work with voluntary organizations which could help them identify and supervise borrowers. As a result, she helped create the Working Women's Forum as a vehicle for responding to the needs of the poor women for credit.

Program Goals

Credit is seen by the Forum as a catalyst to encourage women to organize. Once organized, however, the Forum has broader goals for its members:

1. To federate existing organizations striving for working women, and to establish branches of the Working Women's Forum in all districts and villages of Tamil Nadu State.
2. To assist in improving the conditions of working women through cooperation and secure for them more time and leisure for creative work, cultural activities and recreation.
3. To help self-employed women expand their business through arranging loans from nationalized banks and to improve their professional and social status by giving them training and providing day care centers for their children.
4. To solve the civic and other problems of members by acting as a liaison agent between members and civic authorities, government and other national and international organizations.
5. To mobilize all working women to fight for their rights by acting as a pressure group.

Organization

Initially, the Forum grew out of another organization, the Vidya Bharti Trust, a well-known voluntary organization of which Jaya Arunachalam is Executive Secretary. This organization runs a school, a rehabilitation center, day care centers, and other services

throughout Madras. In Jaya's words, this organization "mothered" the Forum. Its reputation allowed her to develop contacts with the Indo-German Social Service Society. From them she received an initial small grant and loan which enabled her to form a separate society which was chartered as the Working Women's Forum in April, 1978.

The Working Women's Forum is headed by a Governing Body. This Body is composed of its President, Jaya Arunachalam; two Vice-Presidents; an Executive Secretary; a Treasurer; and at present, 150 group leaders, elected from each 10-50 member group associated with the Forum. Most of the staff volunteer their time.

The paid staff of the Forum is the Executive Secretary (also chief organizer) (salary: $31.25 U.S. a month); two organizers (salary: $12.05 U.S. each a month); two field workers (salary: $7.50 each a month); an accountant (salary: $43.75 a month); and 19 adult literacy teachers who work evenings only. Most are social and political workers by background. None, including Jaya, ever worked in small business before.

Jaya and the Executive Secretary run the daily operations of the Forum. The group leaders are vocal and articulate and it is their participation in the organization which gives the Forum its ability to reach the poor and has contributed to its rapid expansion.

Funding

The Forum is operating on a grant of Rs. 25,000 ($3,000) from the Indo-German Social Service Society. This sum is used to pay

staff (including teachers) and other administrative costs. There is also a no-interest loan for 61 months of Rs. 50,000 ($6,000) from the same organization to be used as "margin money" to cover the proportion of the funds the bank requires the borrower to put up and to guarantee loans. They can guarantee up to Rs. 200,000 ($25,000) in loans with this amount. Rs. 1 is collected from each member of the Forum each year as dues.

Project Beneficiaries

The Forum found a responsive chord among poor women entrepreneurs. Within six months of its formation, there were 1,000 members. Ten months later there were 5,000 members. Most of these women make between RS 2 and RS 15 a day ($.25 to $1.85 per day) and many are helping to support families of 8-10 people. Among the 59 activities practiced by Forum members are included selling vegetables and fish, making idli and dara (confections), selling sarees and blouses, making plastic flowers and wire bags, selling firewood, tinkering, running tea stalls, selling pottery, making bidi and stitching leaf plates. Most of these women live in the slums of Madras, but due to the initial success, the Forum is now organizing throughout the state and particularly in rural areas. Family income for these women is generally below RS 3,000 ($375.00) a year.

Membership in the Forum is open to any poor self-employed woman who is willing to help organize or participate in a group of from 25 to 50 similar women from her own neighborhood.

She must be willing to pay membership dues of Rs. 1 per year.

Project Activities

The Forum's primary focus is organizing these very poor women to fight for their rights. It is a charismatic organization, and resembles a political movement, complete with speeches and heavy emphasis on recruiting and organizing new members. As we mentioned, it has grown rapidly.

The Forum focuses on the immediate needs of working women. Thus, they have demanded that City officials build platforms, thatched sheds, and toilets for women in the markets. They have sought protection from police harassment, schooling for children, jobs for the unemployed, arragement for inter-caste marriages (a delicate task in India), and provision of literacy classes for 600 children and women.

The Forum staff uses all available means to tell the poor about Forum activities and successes; there are plenty of both. Apparently, police harassment has disappeared and the Government responds to most Forum requests. Where the Government has not responded, Jaya has launched successful drives to raise private donations. The Forum is perceived as a winner.

Forum staff meet with local leaders who request their intervention and suggest that these leaders organize groups of 10 to 50 women. Organizers from the Forum help, by making speeches or giving advice. As a former political cadre, the staff is very skilled in group

organization and, in this manner, formed fifty groups in one six-month period. Once formed, the group approaches the Forum for membership and is accepted.

Groups must meet at least monthly on a regular basis, but usually they meet more often, especially when they are just forming. In the local meetings, group members and leaders decide what issues will become the focus of Forum attention. Group leaders, in turn, take these issues to regular meetings of the Governing Body, which decides what actions the Forum will take.

The women feel the Forum is most useful in helping them obtain loans from the banks. In turn, the Forum has facilitated 3,000 loans from the banks. This seems to be their main reason for joining the Forum. The women seek an alternative to the money lenders who charge interest of 120% or more a year. These interest rates, while not necessarily usurious due to high risks involved, keep the women from accumulating capital.

To receive a loan, the group must be formed and have an elected leader. Loans are to individuals, but the group must review the loan application and the leaders must agree to stand guarantor for the loan. At this point, the Forum approaches the bank and a bank official will come to a meeting organized by the group leader of all those interested in obtaining loans. Bank officials discuss the feasibility of the projects in general and group leaders help applicants fill out an application form which according to bank officials, takes only 10 minutes. The bank official then interviews each applicant. If the loan is approved, the loan applicant can receive the money

in three days.

The average loan is RS 100-300 ($12-$36). Loan recipients who are classified as poor pay a yearly interest rate of 4%. People with higher incomes do not qualify for this low interest rate and pay 12%.

The Forum works primarily with existing businesses which reduces the need for technical advice. If family or other problems emerge, the group or Forum tries to help and occassionally refers women to government services.

Every two months, a bank officer is supposed to go to a meeting of loan recipients convened by a group leader where the bank officer will try to see 30-40 loanees in 3 hours. Actually, there is very little follow up, even of this sort.

Technical help to the businesswomen is minimal. The Forum counts on the simplicity of most of the petty trades, the ingenuity of the women and the support of the group to assure success and this policy seems to work. The bank of India, which has 1,500 Forum loans says loan repayment is about 90%. Some of these loans have required vigorous follow-up on the part of group leaders or Forum staff. The Forum attempts to keep a good repayment record with the banks so it will not have to use the guarantee fund.

The Forum thinks it is helpful to allow repayment of loans on a flexible basis. Repayments are often made to group leaders on a daily or weekly basis; in turn, the leader deposits the funds at the bank. Deposits are collected by group leaders and

transferred to pay off outstanding loans on a monthly basis. So far, there has been no misappropriation of funds by group leaders.

Impact

Since the program has existed only a short time, it is difficult to assess its impact. One measure of impact, however, is the speed at which the Forum is growing. Apparently, many poor women feel it does them some good, for it is continuing to expand at the rate of about two new groups a week. This is corroborated by the banks, which have close contact with the Forum.

The women I spoke to are articulate in their praise of the Forum; they say it is the first organization that has really listened to and responded to their needs. Some were close to tears in describing their problems with money lenders, police, and government officials -- problems they say the Forum has solved.

One woman who sells a confection called idli said she owed money lenders an average of $40 over a period of several years. With the loan, she paid off the money lenders and since she no longer pays a significant proportion of her earnings in interest she has been able to purchase more stock and double her daily profits. In 6 months, her daily profits rose from Rs. 16 to Rs. 32 a day (from $2 to $4).

The banks are clearly impressed with the Forum and are ardent supporters. They feel the Forum's record in encouraging repayment and reducing bank administrative costs is excellent. They are trying

to use the Forum as a model in other areas.

Future Plans

According to Jaya Aranachalam, the women's greatest need is a cooperative bank of their own since commercial banks cannot afford to provide them with all the services they need. Their very small businesses need a constant re-supply of working capital and they need money for funeral and medical needs. Commercial banks are unwilling to supply money for these purposes; also, they are slow and inflexible. Indian law allows for the establishment of cooperative banks, and several good models do exist in India. Jaya Aranachalam plans to have the bank operating within a year, assuming necessary government clearances, which pose a formidable obstacle. She has been promised money from several sources, and each of the 3,000 Forum members has agreed to deposit Rs. 21 .. such a bank, for a reserve of Rs. 105,000 ($13,125).

The Forum also has an elaborate plan for integrated rural development of landless women laborers. Under this scheme, a block of four or five villages would he selected in each district of the State. In each block of villages, 100 women would receive loans to purchase 3 cows for a dairy, 50 women would receive loans to purchase baby chicks for poultry-raising and 50 women would received loans to purchase sheep for sheep raising. These loans would be arranged through the commercial banks and guaranteed by the Forum.

Since this involves higher technical skill than present petty

trading, a technically competent person would be hired to live in the vi lages and provide technical support. Several Indian organizations have already agreed to provide partial funding and the first experimental organizational efforts are under way.

The Forum also plans to extend its literacy centers through an expanded grant from the Indo-German Social Service Society.

Assessment for potential for further development

The Forum will likely continue its rapid growth for several years and will at least double its size this year. It will be difficult for it to keep its costs as low as at present. Because of its initial success, it will be offered more money and the money will probably be use to increase the salaries of staff and to add other services designed to increase program quality. These improvements, however, will increase the costs of serving each client.

It is difficult to assess the current cost of delivering services on a per-client basis. Although the Forum budget is small, it is heavily subsidized in the form of low staff salaries (which could rise as more funds begin to flow into the organization), free office space, and other support received from the Vidya Bharti Trust. As computed on the basis o the current income items -- an operating grant of $3,000 and a $6,000 loa the per client costs are RS 14.4 ($1.80) or $9,000 for 5,000 members .

Project Assessment

The organization is built around a few highly committed and charismatic leaders. It has grown so rapidly, that it has had no time to solidify procedures. Things tend to be done on a highly personalized basis which is probably appropriate for such a young organization.

Staff, group leaders, and members are extremely committed. They feel this is a movement that is bringing about change. The Forum generates excitement amont those associated with it and controversy for those on the outside.

The organizing activities of the Forum are dominant, but the enterprise activities are essential too. The two are mutually supportive. Without organizing, the Forum would not exist; without enterprise assistance, the perceived need, organization efforts could not have succeeded. Thus the Forum gives organizational recognition to a perceived need of the poor and the poor join in ever-increasing numbers.

Beneficiaries with whom I talked were entirely positive in describing their relation to the Forum. There has been little time for problems to develop. Women generally felt themselves to be an important part of the organization and involved in its decision-making processes. This contrasts with many government programs: the recipient rarely has the opportunity to take part in the decision-making process of a government program.

Women were concerned about the resistance of the government or other outside groups to needed changes, but they felt confident that the Forum would overcome this resistance and that the government would make needed reforms.

More can be done. With a larger budget, the Forum could hire more competent technical people to help women break out of petty trading into cottage industries which produce better profits. They also need to involve the business community more in providing technical help to these women. But the organization is young, and programs should not be added too hastily. They are doing extremely well on a spartan budget; they should be allowed to expand at their own pace. Their new rural project, for example, will allow them to explore the problem of setting up agro-businesses and they may develop some unique approaches based on their experience.

Technical Assistance Needs

Jaya Arunchalam is quite frank about her needs for technical assistance in the small business field. She realizes that she and other Forum women are missing many opportunities for enterprise development because none of the staff have the technical skills to recognize and assess those opportunities. They would like short-term consultants to help them identify their needs and help them work out some potential directions. They would also like staff members with business experience.

Lessons to be Learned from the Project

1. The poorest and smallest enterprises can be reached by services perceived by them as relevant.

2. For a very low overhead cost -- with little accompanying bank supervision and no technical assistance -- commercial banks can make loans of as little as $10 and yet enjoy repayment rates of 90% or better.

3. The process seems to work because:

   a) The Forum is as much a movement as an organization;

   b) There is charismatic and astute leadership;

   c) Staff are committed and are working for low pay. They are skilled organizers and are responsive to member needs;

   d) Members feel committed to an organization responding to their critical needs. They give it their time and pay back their loans because they want to continue to be part of the Forum and have it grow stronger so it can meet their other needs.

   e) As a result of high level of commitment, group leaders accept heavy responsibility for group members and assure members repay their loans.

   f) It relies almost entirely on volunteers, keeps its overhead low and utilizes whatever it can of existing services, such as commercial credit;

   g) The Forum has been able to facilitate the functioning of a government credit program and was thus able to fill both the bank's needs and the needs of its members.

Project Replicability

Just how essential each of the factors identified above is to project success is difficult to determine on the basis of this initial

study. In many respects the Forum is similar to the Self-Employed Women's Association (SEWA) in Ahmedabad, although Jaya did not know of SEWA until very recently. Both have strong leadership and staff who are skilled organizers; both have strong member commitment and both utilize government programs. SEWA, however, has a very large, well trained and expensive staff and seems to have much less volunteer commitment, which may reflect the fact that SEWA is several years old.

The fact that these similar organizations exist, suggests that the approach is replicable. The key ingredient is leadership. Without the right kind of leadership, programs like this cannot exist. There are many potential people like Jaya and it is the task of the development practitioner to find them and facilitate their emergence.

NATIONAL ASSOCIATION OF EDUCATED SELF-EMPLOYED YOUTH (NAESEY)
Y-121 Anna Nagar
Madras 600040, India
Executive Director: Loyola Joseph

Program Development

The National Association of Educated Self-Employed Youth (NAESEY) enables educated, unemployed young people develop self-employment opportunities to help them to become financially independent. NAESEY is the idea of Mr. Loyola Joseph.

Mr. Joseph is a businessman and, prior to setting up NAESEY, owned a substantial manufacturing operation. Mr. Joseph has been involved in youth development for some time and decided to devote himself to developing opportunities for others. He noted that many educated youth remained unemployed for long periods after graduation. It is not unusual for a young person to be unemployed two years after graduation. The unemployment rate among B.A. graduates is currently 10% and is expected to rise to 15% in five years.

Mr. Joseph felt that it must be possible to help these young people develop self employment opportunities so they can become contributing members of society. At this point, he was able to set up an organization and persuaded the Union Bank of India to put up money for an experiment. With this support, NAESEY was formed in October, 1976.

Program Goals

NAESEY's goal is to provide educated unemployed youths the

opportunity to be self-employed. Self-employment is defined by NAESEY as the process of gainful employment acquired by an individual by his own effort.

> While an individual creates his own opportunity for self-employment, he indirectly creates employment for a few or many others as and when he expands. So, for every individual who thinks of self-employment, the contribution will be many-fold. Self-employment opportunities are available for everyone if looked for in the right places.

"We help ourselves" is the motto of NAESEY. NAESEY views increased income as the key to general socio-economic improvement for the individual.

The Organization

NAESEY does not have a formal structure or hold regular meetings of all participants. Instead, relationships among members grow out of the needs of their businesses. Tea kiosks are a major activity of NAESEY. A kiosk owner will buy his supplies from another NAESEY member and pay his loan to yet another NAESEY member, each of whom are independent businessmen. Another NAESEY member constructs new kiosks.

There are only two paid NAESEY staff. Loyola Joseph volunteers his time with NAESEY. He does, however, receive a salary for running Lijjat Pappad, a voluntary organization of poor women producing a type of food sold throughout India. Loyola and his two paid staff run the day-to-day operations of NAESEY and develop new program ideas.

Funding

One of the attractive features of NAESEY is that its members support it through their profits. The Bank commitment amounted to Rs. 2,500,000 in 1978 ($312,500). NAESEY's current income is Rs. 60,000 a month ($7,500) or Rs. 720,000 a year ($90,000). Most of this is loaned to individual members, the rest covers administrative costs.

Project Beneficiaries

To be a member of NAESEY one must be an unemployed or irregularly employed high school or university graduate under the age of thirty; both male and female members are accepted. Most of those with whom I spoke had been unemployed for two or more years prior to joining the organization. Educated persons in India, as in other countries, first seek white collar jobs. They seek self-employment only as a last resort.

NAESEY members tend to come from the upper levels of the lower classes. Upper income youths have better connections and are more likely to get white collar jobs. Lower class youths, whose parents just managed to support them through school, are the ones with the greatest problems finding work. They are also more likely to have family members who were themselves small entrepreneurs; thus, in the last resort, small businesses are more acceptable to them. Still, some of the older NAESEY programs require a substantial investment by Indian standards (Rs, 1,000 or $125 as margin money). Although NAESEY helps many obtain this sum, it means that the youths must have access to some financial resources.

More recently NAESEY has sought to develop new projects -- that require a smaller investment -- to allow poorer youths to become involved.

Given the disdain most educated young people have for manual labor, one of the remarkable things about this organization is the pride NAESEY members take in their work. Kiosk operators proudly display their names and degrees on the sides of their kiosks. Those I talked to seemed inspired by their work, reflecting Loyola Joseph's charismatic leadership of the organization.

Project Activities

NAESEY's first program involved setting up small tea stalls or kiosks. Mr. Joseph felt the Indian habit of tea break could be turned into a profit for unemployed youths. He felt if small, neat, clean kiosks set up to sell coffee, tea, milk, snacks, and soft drinks would be profitable.

The initial idea was that educated unemployed would pay Rs. 10 ($1.35) as admission fee and Rs. 12 ($1.50) per annum as a membership fee to join NAESEY. They would be screened and take an aptitude test. If found satisfactory, they would be sponsored by NAESEY to the Union Bank of India. With Rs. 1,000 ($125) as their investment (margin), they would be granted a Rs. 9,000 ($1125) loan. The loan would be used to construct the kiosk and provide its working capital. The kiosk was expected to make a net profit of Rs. 30-60 ($3.75 - 7.50) a day. Of this Rs. 15 ($1.88) were to be applied towards loan payments and 1% of the gross was to be returned to NAESEY to finance future expansion.

It was difficult to get started. The kiosks needed good sites if they were to be profitable, but the best sites were already the property of government departments and large industry. After a good deal of effort and a NAESEY sponsored sit-in at City Hall, the Public Works Department and the Pollavan Transport Corporation provided them with sites. Their main argument had been especially persuasive: "The State will provide us with a 3 ft. by 6 ft. piece of ground to be buried in , but it will not provide us with the same space to remain alive."

Manufacturing the kiosks was also a problem. The original contractor failed to produce them so NAESEY had to manufacture the kiosks itself. Finally, in 1977, the first kiosks were established. By the end of 1977, 80 kiosks were operational, and NAESEY was growing rapidly. By the end of 1978, there were almost 300 kiosks.

After receiving his location and kiosk, the youth is in business. He buys his basic commodities -- tea, coffee, biscuits, and milk -- from another self-employed youth, and he is expected to keep a strict discipline in his conduct. A kiosk operator can charge only the fixed price and must record all his sales on a daily basis. He receives no formal training in sales or bookkeeping, but is shown how to keep simple records.

Each day, another self-employed youth comes around to collect Rs. 15 toward loan repayment. This youth obtains Rs. 20 per kiosk per month as his fee, or about Rs. 400 ($50.00) a month. After six months, he receives a loan for his own kiosk.

It was expected that kiosk operators would net Rs. 900-1,900 per month ($112.50-$225.00); however, most of them net Rs. 2,000-3,000 per month ($250.00-$375.00). This is more than a middle level civil servant makes. Needless to say, kiosk operators are ecstatic over their good fortune.

Because NAESEY views increased income as the key to general socio-economic advancement of the individual, all of its activities are keyed to improved business operations. Although all NAESEY businesses are individually owned, they are highly interdependent and require considerable organizational discipline.

Encouraged by its success, NAESEY launched a variety of other projects. One is NAESEY's Guard Service. A young businessman is made responsible for the protection of 600 homes, and each owner pays Rs. 3 for this service. In turn, he hires five persons to work for him so that two can work each eight hour shift. Forty young people are now engaged in this activity. These young people can make as much as Rs. 1,000 a month ($125.00) without any investment. They are hoping to employ 1,000 young people in this program The local police say crime in areas covered has dropped dramatically, in one area from fifty-five to five incidents a month.

The NAESEY Village Renaissance Programme was designed to test a model for village uplift. NAESEY adopted a village 15 k. from Madras. With NAESEY sponsored bank loans, local educated youths were able to purchase fifty milk buffaloes. The youths were able to repay the loan and make a good profit.

Based on their success, NAESEY helped establish a dairy business. At first, the dairy produced only enough milk to supply the kiosks; soon, however, they had expanded considerably beyond the kiosk market.

Each step of producing and marketing of milk is assigned to a separate level of business. Youths in rural villages were given loans to buy 1 to 3 cows. For every 100 cows, a veterinary doctor is employed and paid for by fees from their owners. Other youths own businesses to sell feed, purchase the milk from the farm, or pasteurize the milk. At the retail stage, other self-employed youths sell the milk door to door. Each youth up and down the chain makes between Rs. 500-800 ($62.50-$100.00) per month. The milk is more expensive than other milk because it is undiluted, but those buying the milk seem very pleased. This project should employ 1,000 youths when fully developed.

NAESEY is increasingly marketing other products as well. It is now the distributor for Sunflower Oil produced by the Tamil Nadu Agro Industries Corp., Ltd. and it recently began a service to provide temporary secretaries and other office staff to businesses and government offices. They also have a service to pay utility and other bills for people (a time-consuming process in India).

NAESEY's most recent project is an integrated rural development project for an entire district sub-unit of Tamil Nadu. Under this recently approved project, NAESEY will develop a wide range of industrial projects for the rural poor and educated youths in dairy, leather,

matches, soap, sericulture, kiosks and petty shops and the marketing of agriculture products. They will utilize the same approach in Madras.

Repayment of loans to the Union Bank by NAESEY has been excellent. The Union Bank considers their relationship with NAESEY a model and will extend their participants as much credit as they need.

Future Plans

As NAESEY's name implied they have national aims for the organization. Loyola Joseph has a variety of ideas and is only limited by organizational capability and his ability to find people to delegate responsibility to carry them out.

He has just created the Foundation of Occupational Development (FOOD), which will implement their rural programs such as the just-approved sub-district integrated rural development program. With FOOD, he hopes to be able to move to the national level and break into the export market. NAESEY is already beginning to export leather gloves to Germany and Loyola Joseph hopes to find products, such as leather gloves, that can be produced by small units owned by poor people, which can be exported and even larger profits could be returned to the producer.

Assessment of Potential for Further Development

NAESEY will grow rapidly and will probably have 10,000 members in 2-3 years. Other organizational mechanisms created by Loyola Joseph

will doubtless also show rapid growth. So far, he has been able to keep his operating costs down and the enthusiasm of participants high. Low overhead means the cost of new venture start-up is small and funds are easier to raise, while the enthusiasm of the participants insures that he has people to carry out projects with the dedication needed for a new and risky venture.

Under the new integrated rural development project, NAESEY would have almost an unlimited potential to bring the very poorest people into entrepreneurial activity. This project will test the full capacity of the model to reach large numbers.

Impact

Although NAESEY is very new and experimental, its members feel it is very useful and they are enthusiastic in their support of it. The banks also view it as a success.

The impact in terms of incomes for the members I interviewed was impressive. Most had moved from almost zero income to the middle class. One kiosk operator I talked to was netting RS 3,000 ($375.00) a month. He had an M.A. in history. He has used his profits to get a loan from the bank to purchase 15 cows for a dairy project. He had been unemployed 3 years before joining NAESEY.

These results are not uncommon. Those running a guard service can make about RS 1,000 a month ($125.00) and those in milk production and marketing can clear RS 500-800 a month ($62.50-$100.00). While

these incomes are not as high as those of kiosk operators, they are very high for an Indian just out of school.

The social impact of the program is also important. The fact that young, educated people, who normally disdain manual work are willing to sell is significant. NAESEY members feel they are part of a movement. They speak with pride, not only of how much they are earning, but of how many young people they are helping and what this is doing for the nation.

The banks are clearly pleased to be working with NAESEY. Union Bank prominently details its relationship with NAESEY in a brochure describing its small loans program to benefit the poor. There is no doubt that NAESEY has been able to reduce the administrative costs of the bank and increase loan repayment rates to almost 100%.

Project Assessment

NAESEY is developing a very interesting model. It takes the corporate business structure, breaks it down to its component parts and sets up each component as an enterprise. Like a modern, vertically integrated business, NAESEY is an integrated system of companies, each receiving inputs from other member companies and providing products to others.

This model is a new and compelling alternative to cooperatives.

First, profits are not aggregated and then divided. Instead, the profit structure of each unit is independent and the profits are dependent on the initiative of each individual. However, acquisitiveness is kept in line because each entrepreneur is an integral part of a system. If profits are made at the expense of others in the system, the others can apply sanctions by withholding supplies or by not purchasing the offender's output.

Another important advantage of the system is that once established, it seems to be self-regulating, requiring little in the way of outside management or technical support. Since profitability is the responsibility of the individual, each owner has great incentive to find out for himself how to increase profits. And since each owner is part of a system, products must be of high quality or the profits of the other businesses in the system will be jeopardized. Thus, the expensive overhead structure and extension system so characteristic of most cooperative programs are greatly reduced in this new model.

Third, there is a notable absence of hierarchy. In this system, the need of elaborate central organization is minimized, every individual is equal, yet interdependent.

NAESEY service sector projects are keyed to redistribution of income from the upper and middle class downward. NAESEY's increasingly prominant production-oriented projects will clearly create new wealth. The commitment of the staff and members is extremely high. There is a feeling that this is a movement bringing about change with the result

that NAESEY generates excitement among those associated with it and controversy from those on the outside.

Members generally talked as if NAESEY provided them with unlimited opportunities, if they worked hard. They seemed to feel that if they have a good idea, they can try it out.

I met no dissatisfied members. All were pleased with their increased income. Very little technical assistance seems to be provided to members directly. Indirectly, however, through the support structure, every need seems to be met. Thus, village youths get proper feeds, proper veterinary care for buffaloes, help in marketing, all at a guaranteed profit level. The system seems ideal--and cheap.

As regards money lenders, obviously the unemployed used them infrequently. However, NAESEY had several cases in which money lenders were used to obtain the Rs. 1,000 necessary for a kiosk. In a few cases, NAESEY had to find funding through other sources for these people and even prosecute a couple of money lenders, because they were trying to take over kiosks.

Lessons to be Learned

1. That loans of as little as $100 can be made by commercial banks to new enterprises, with minimal supervision or technical assistance, if the right kind of support structure exists.

2. There is an alternative to the cooperative model for enterprise development that seems to solve the management difficulties of cooperatives without sacrificing its members' commitment to community betterment.

3. The process seems to work because:

   a) NAESEY is as much a movement as an organization;

   b) There is charismatic and astute leadership;

   c) Staff are highly committed, work for low pay, and are responsive to member needs;

   d) Members feel their organization responds to their critical needs. They give it their time and pay back their loans because they want to continue to be part of the program and have it grow stronger so it can meet their needs;

   e) It facilitates the functioning of a Government credit program, and it is able to fill both needs of the bank's for good credit risks and the needs of NAESEY's members for credit.

Project Replicability

The important factor to understand is that this is a different model than any we have encountered elsewhere. The distinction is that it uses a corporate model or organization as opposed to a community/cooperative model of organization. The key distinction, in this regard,

seems to be in the way profits are made and distributed.

This model could not be duplicated in every situation. It can only work where activities can be broken down into small enough units to be run by one or a small group of individuals. Many activities require a large volume in order to be economic or in order to have a significant influence on the market. This is an argument in favor of large-scale farm marketing cooperatives, for instance.

However, the NAESEY approach seems to make sense in a cultural situation in which entrepreneurship is presently at a low level. The imposition of cooperative notions in this situation requires a good deal more organizational skill than is usually present.

The NAESEY system starts the individual with a small responsibility commensurate with his abilities, but requires each to pull the others up with him. Thus, it is the best system for developing new entrepreneurs found in the study.

Loyola Joseph has proved the approach is not only replicable, but can reach poorer and poorer people as it is tried in new situations. The new integrated rural development project will be dealing with the very poorest segment, even those without any formal education. If it can make the concept work with the very poorest group, it may offer a major break-through.

The key ingredient for success seems to be leadership. Without the right kind of leadership, programs like this cannot exist. There are many people like Loyola Joseph, and it is our task as development practitioners to find them and facilitate their emergence.

BANGALUR LAYOUT
Contact through: Social Action Section
Development Wing
Canara Bank, H.Q.
Bangalore 2
Contact person: Mrs. Jayalakshmi

Program Development

Developed on the one square kilometer site of a graveyard, the Bangulur Layout is one of the largest slums in Bangalore. It has a population of 12,000 people, 2,400 families, wedged into 1455 tiny dwellings. Its population is composed of a cross section of caste and religious groups. By 1970, it was not only one of the biggest, but probably the worst slum in the city.

In 1972, Mrs. Jayalakshmi moved into the slum as a government employed social worker. She is a high caste woman, whose parents are very powerful and whose husband is very wealthy. However, she met much unhappiness in her life and decided to devote it to the service of others. She gave up her wealth and position and moved into Bangalur Layout. In part because of the ongoing process of upgrading which occurs naturally in any slum and in part through her efforts and those of the others she has inspired over the last seven years, the Bangulur Layout has been completely transformed and is considered by local officials as a model of slum improvement.

Program Goals

The goal of the program is the complete social and economic uplift of the 12,000 people in the community and is focused on

all aspects of community life, with programs in health and sanitation, personal grooming, day care, literacy, vocational training, marriage arranging, funerals, savings and bank loan programs, counseling, community beautification, housing construction and recreation.

Organization

There are a variety of special purpose organizations, some more active, others less so, to deal with specific problems. Some have overlapping leadership and membership, others do not.

1. The Slum Dweller Association, formed in 1972 has a membership of 1,200 and was created to deal with general slum problems. This organization is not very active now.

2. The Women's Welfare Center, formed in 1973 for training and day care and to encourage savings has its activities funded by the government (in the case of day care) or by voluntary agencies (including the Indian Social Institute Training Centre and the William Carey Foundation).

3. The Multipurpose Cooperative Society formed in 1975 is now the most active community-based group. It is operated on a cooperative basis, with equal responsibilities for all members, under elected leaders.

4. The Lion's Club sponsored dispensary has treated over 15 000 patients.

5. The Slum Women's Self-Help Association formed in 1978 plans

to construct 102 low cost houses. It is also run on a cooperative basis by its leaders.

Mrs. Jayalakshmi relies heavily on a large number of volunteers. Five young boys and five girls are community "volunteers" who get RS 50 ($6.25) a month for full-time work. Ten other boys volunteer as teachers in the evening literacy classes for 56 juvenile delinquents. There are also women community leaders, who take responsibility for the various programs in the area.

Funding

Funds come from a variety of sources. The government has obviously invested heavily in infrastructure over the past few years. Amounts provided by groups like the Lions are very small but commitments seem to be long term.

Project Beneficiaries

It is clear that these people, who are all recent migrants to the city, were once some of its poorest inhabitants. Average family income in the early 1970's was well below RS 3,000 ($375) per year, the Indian poverty level. Mrs. Jayalakshmi estimates that the average income has at least trebled to RS 9,000 ($1,125) a year. People are rapidly improving their social and economic position at least partly as a result of slum programs. Anyone in the slum is

eligible to participate in the variety of programs available, although some are limited to women or young adults.

Project Activities

Mrs. Jayalakshmi began her work by organizing the Women's Welfare Centre in 1973. Here, 60 children were provided nursery school so their mothers could work. Also a small number of young girls were taught tailoring and boys were taught carpentry. Women were encouraged to start kitchen gardens and bank savings.

In 1975, the Multi-purpose Industrial Cooperative Society was formed, which presently has 96 members. This Society has as its purpose, the development of employment opportunities for its almost exclusively women's membership. Canara Bank provides employment for about 30 people who make envelopes from used paper supplied by the bank. Those employed in this way earn Rs. 6 for each 1,000 envelopes produced which is about 1 day's production. The women have also started a wide range of other enterprises.

The government now provides funding for the nursery. The William Carey Foundation, Women's Wing, funds tailoring, typing and literacy training. A dispensary was started in 1974 with medicines supplied by the Lion's Club. With pressure from Mrs. Jayalakshmi and others, paved roads, sewers, water and drainage systems were installed. Now, the Slum Women's Self-Help Association has been formed with 120 members and Rs. 650,000 ($81,250) in funds from a Swiss agency and is constructing 102 houses at Rs. 6,000 each ($750).

Mrs. Jayalakshmi has placed increasing stress on self-employment in the various programs of Bangalur Layout and this is the dominant theme. The most critical need is to increase income. The success of these programs explain at least part of the increase in family income level over the last few years. Many are already involved in some small self-employment activity but a large percentage of these are heavily in debt to money lenders, who charge interest rates that are so high that only the interest and never the principle is repayed.

Part of the self-employment emphasis is on saving. Children in the nursery are encouraged to save at least 1 paise a day, (One tenth of one cent) which they put in toy banks provided by Canara Bank. Adults may save from RS 1 to RS 10 a day. There are 918 savings accounts now in the community with total deposits of over RS 100,000 ($12,500 US). Slum women are saving anywhere from RS 3 ($.37 US) to RS100 ($12.50 US) a month.

Slum dwellers have been able to mobilize these savings through their self-employment activities. Mrs. Jayalakshmi says she is currently working principally with 120 families, who have demonstrated a desire to become better off. Mostly, she works with women, as the men are often drunkards or irresponsible or prefer to work for someone else.

The women themselves choose a business which seems to them likely to succeed and are introduced to a bank for a loan. Generally, their first business is retailing since manufacturing generally requires training and a larger investment and retailing has a rapid turnover. Presently, they have supported sellers of fried roots, kerosene (5 people),

soap, country cloth, vegetables (15 people), poultry, coconut milk, sarees (3 people), fruits (15 people), brooms (3 people), fish (5 people), firewood (15 people), cloth (6 people), and knife sharpening and have helped one man buy a truck.

Most of these activities require more in investment than a typical slum dweller can handle initially, even as a loan. For instance, in the selling of kerosene, an investment of about RS 3,400 ($425.00 US) is needed to make a good profit. This includes:

working capital:	RS 400	($50.00)
3 barrels	RS 1,000	($125.00)
cart	RS 1,000	($125.00)
bullock	RS 1,000	($125.00)
TOTAL	RS 3,400	($425.00)

Usually, the initial loan will be for RS ($50.00) to cover working capital. The bullock, cart and barrels must be rented. With this loan, they will net RS 25-35 ($3.13-$4.38) a day out of which they must repay RS 40 ($5.00) each week. When the first loan is paid off, they are loaned RS1,000 ($125.00) and when this is paid off, another loan is given until the investment in the business is paid off.

During the years 1976-1978, RS 92,000 ($11,500) was saved and RS 130,000 ($16,250) was loaned. Only RS 600 ($75.00) has not been paid back, less than 1/2 of 1%, the result of careful support and follow-up and the people's sense of responsibility. People from the community have been hired by the banks to do <u>daily</u> collections. Each person collects about RS 500 ($62.50) a day, of which they receive 3.5% or RS 17.5 ($2.19). Mrs. Jayalakshmi feels that especially in the

first year, daily collection is essential until people can develop the habit of saving.

If someone is having trouble repaying, they are visited, and the problem is identified and a solution is found. The solution may be helping with a medical problem that is draining income or finding day care etc.

People repay loans out of a sense of responsibility and to not lose their good name. One lady, who still owed RS 36 ($4.50) died. After 2 years, principle and interest were RS 102 ($12.75). Her granddaughter is paying this off at the rate of 8 paise ($0.01) a day because she doesn't want her grandmother's name to be dishonored.

The most ambitious activity is the construction of 102 houses with RS 650,000 ($81,250 00) in funds provided by a Swiss group. They want to provide housing for 1,000 people, but even with the Swiss funds, do not have enough money. However, by building 20 X 20 ft. houses, at RS 6,000 ($750.00) each, using bricks they make themselves and their own labor, they will house as many people as possible. They also want to start a variety of larger "cottage" industries in this new village, including bamboo, lacquer, wood mosaic and cane.

Future Plans

Future plans are to carry on and expand existing activities. Mrs. Jayalakshmi has no plans to leave the slum. At the present rate of development, conditions will continue to improve in the next few years.

Assessment of Potential for Future Development

The progress to date has been remarkable. The issue will soon become whether or not the people here still need attention, since they are so much better off.

Although sources and uses of funding were too complicated to unravel in this current assessment, on the average it costs RS 500 ($62.50) to set up one new business, including about RS 490 ($61.25) as an average loan and RS 10 ($1.25) for support services.

Impact

Much of Mrs. Jayalakshmi's and the volunteer's time over the years has been spent in trying to generate responses to the various slum problems, such as poor drainage, lack of water, etc. Partly because of the prominance of Mrs. Jayalakshmi's family and her ability to articulate problems, she has been remarkably successful in getting government support. The result is that the area no longer looks like a slum. The main streets are paved. There is water and good drainage. The houses, though small, are neat and most are not constructed of wood or thatch, but of brick and plaster. Business activity is everywhere in evidence. Physically, the impact on the community of this activity has been dramatic.

In terms of general well being- as a result of relatively good health care- health in the area has improved markedly, and more children are in school than in surrounding areas.

In terms of improved economic well being, some of the case histories are dramatic. After receiving an initial loan to sell fried roots in 1976, one woman has now saved over RS 2,000 ($250.00). Her husband wants a delivery van, for which she will borrow RS 20,000 ($2,500.00) and pay back RS 50 ($6.25) a day. Another women earned RS 1,417 ($177.13) during her first year in business and was able to get her gold ornaments back from the money lender. Her husband, who was a drunkard is now the owner of a cycle rickshaw, from which he earns about RS 35 ($4.38) a day and his drinking has dropped dramatically.

Project Assessment

The remarkable aspect of this program is that it is a classic example of the successful implementation of a community development program in the relatively short time of only 7 years. Every important aspect of community life has been dealt with. These programs, rather than being imposed from without, have grown out of the needs of the slum dwellers themselves and have been conceived and developed by them prior to any outside support. Mrs. Jayalakshmi seems to have played a catalytic role of helping slum dwellers determine their needs and articulate them. Obtaining outside assistance was no doubt facilitated by her status and connections, but the real story is about individual women and the way they were enabled to increase their economic and social well being with the limited services offered.

The approach of Mrs. Jayalakshmi demonstrates how self-employment programs can provide the keystone to broader community uplift. It shows how self-employment can be tied to total community betterment and how this assistance can be provided at an extremely low per-person cost by utilizing volunteer help and diversified funding.

Bangalur Layout indicates that it is possible to have a dramatic impact on development by working intensively with a small group of people within a single geographic area. Like all successful efforts, this seems to require considerable energy, charismatic leadership and more time than many donors consider necessary.

An interesting aspect of the Bangalur model is that so many different organizations have emerged. It is sometimes argued that dispersed organizational development will diffuse leadership and energy. However, this is was apparently not the case here. Instead it would seem that by breaking problems down, they were divided into manageable units which organizations could handle, another example of the "small is beautiful" approach in practice.

Community participation is very high. Mrs. Jayalakshmi said she particularly depended on seven women volunteers to provide leadership who did an enormous amount of the work. One reason for having so many different activities is to get as many people as possible involved. Women may be interested in the day-care, but men get heavily involved in housing.

Lessons Learned

1. That assistance in amounts under $100 can be provided to small entrepreneurs as the keystone of other low cost services which together have the impact of lifting the entire family out of poverty.

2. That this can be done utilizing the classic community development model without technical or managerial assistance to individual businesses.

3. This seems to work because:

a. People feel part of a community based movement

b. There is charismatic and astute leadership

c. The low paid staff is highly committed and is skilled at organization and responsive to community needs

d. Members feel that organizations are responding to their critical needs. They give of their time and pay back loans because they want to continue to be part of the organization and have it grow stronger so it can meet their other needs.

e. As a result of high levels of commitment, volunteer leaders accept heavy responsibility for community members, helping them to solve problems, urging them to repay loans and getting them involved in other tasks.

f. It relies almost exclusively on volunteer help to do everything which keeps the overhead low

g. Mrs. Jayalakshmi is able to attract people by her ability to get responses to stated community needs. As in the case of commercial credit, she was able to both help the people who needed money and the banks, that needed help identifying and supervising clients.

Project Replicability

This is a highly replacable model since it follows the community development model. The only critical limitation on replication is leadership. Leaders of Mrs. Jayalakshmi's caliber do not exist in large numbers. It is the task of the development practitioner to find them and facilitate their emergence.

Calcutta 'Y' Self-Employment Centre
11, Dr. U.M. Brahm chari Street
Calcutta 700017, India
Executive Director: Koely Roy

Program Development

The Calcutta 'Y' (Youth) Self-Smployment Center (CYSEC) was registered as a Society in December, 1971 to promote programs of self-employment for the unemployed youth of Calcutta, and more recently the surrounding rural areas.

The unemployment and "underemployment" figures for the region including Calcutta are extremely high, -- as high as 40 million for the country. "...the average young Indian has gloomy prospects of obtaining a gainful means of livelihood at the end of his educational career....There is obviously the need for voluntary organizations devoted to the task of encouraging entrepreneurship."

CYSEC was organized by a number of prominent industrialists, businessmen, bankers, professional people and social workers as a response to the rapidly increasing unemployment and social unrest in Calcutta in the early 1970's. Government programs alone were unable to meet the growing need and people outside Government felt they might be able to help. CYSEC was initially funded by a grant of Rs. 100,000 ($12,500) from the Ministry of Education of the Government of India for the development of their training Centre. This Centre was to provide unemployed youth with vocational training and assistance in

establishing their own businesses.

Through December, 1978, over 500 young men and women have been trained and 378 businesses have been set up. During 1978, 83 persons completed training and 91 business units were established.

Program Goals

Tha basic assumptions of CYSEC can be summarized in the following three ideas.

(a) A belief that entrepreneurship can be developed through train

(b) A belief that training and business assistance can be packaged; and

(c) A faith in voluntary services.

The principal goals of CYSEC are:

(a) To train young men and women in productive enterprises.

(b) To assist them in drawing up economically viable business sch

(c) To help them secure bank loans; and,

(d) To arrange initial business contacts for their services and production.

Organization

CYSEC is a Society, governed by a Board of Directors, composed of 28 prominent businessmen, bankers, and professional people, serving for fixed terms. Under the Board are the Managing Committee (Urban) with 16 members and the Managing Committee (Rural) with 21 members. These committees ar composed of some of the same people as the Board,

with some additions, and function to oversee the respective programs under their jurisdiction. The Board meets quarterly, but the Managing Committees meet monthly.

There is a Project Screening Committee, composed of representatives of 8 local banks, plus representatives of the Managing Committees. The function of this committee is to screen requests for loans to be sanctioned by the banks.

CYSEC is operated on a day-to-day basis by a paid administrative staff, selected by the Board. Mrs. Koely Roy is the Chief Executive and has been for some years. There are, in addition to Mrs. Roy, an accountant, a Project Superintendent, a Senior Project Officer, 3 Project Officers, 12 teachers and 3 office support staff. The total budget for salaries and benefits for the staff in 1978 was Rs. 204,600 ($25,575.00).

CYSEC's total expenditures for 1978 were Rs. 367,112 ($45,849). Funding has come from a variety of sources over the years. In 1978, CYSEC received Rs. 251,283 ($31,410) from the Mennonite Central Committee i che form of a grant for general overhead and Rs. 21,000 ($2,625) for CYSEC's Capital Fund. It also received from Kanoria Chemicals Ltd., Rs. 1,000 ($125); from Kothani Foundation Rs. 1,000 ($125); from Union Carbide Rs. 2,000 ($250); from the Government of India Rs. 25,414 ($3,177); from sales relating to Production-Cum-Training centre Rs. 99,886 ($12,486); from unused materials Rs. 8,242 ($1,030); from interest on the Revolving Credit Fund Rs. 2,888 ($361), and from fees from trainees Rs. 850 ($106).

Project Beneficiaries

The only requirement for participation in the CYSEC program is that one be from 18 to 30 years of age without regular employment. Fifty percent of trainees are high school graduates.

Although there is no minimum on the size of loans provided, and loans of as little as Rs. 150 ($18.75) are given with some regularity the average loan appears to be about Rs. 2,500 ($310) suggesting that the businesses are of a substantial size,above that normally undertaken by the very poorest group. CYSEC clients cluster in what Indians term the "educated unemployed," mostly lower-middle class youths or the upper part of the lower economic class.

There is no role in CYSEC for beneficiary involvement in control or direct management. Beneficiaries can only make their changing needs known to CYSEC staff indirectly, who must then be sensitive to their needs and alter programs accordingly.

Project Activities

The principle activities of CYSEC are twofold: the vocational training of young, unemployed men and women and helping those trained and others to obtain the financing and other support needed to establish and run their businesses.

At their Training Centre at Behala in 1978, 110 trainees were admitted to courses in: 1) air conditioning and refrigerator repair and service; 2) electrical maintenance and service; 3) radio-electronic

repair and service; 4) television repair; 5) bakery products; 6) typewriter/duplicator repair and service; 7) clock, watch repair and service; 8) tailoring. Of these 110 trainees, 83 successfully completed training.

A second training centre is now nearing completion at Salt Lake, at the opposite end of the city from the present site. In addition to courses provided at the Behala centre, the new training program will include: 1) transformer making and armature winding; 2) textile printing and painting; 3) leather products; 4) sports goods; 5) plastic bakelite moulding; 6) food preservation and canning; 7) wood work and tea chests; 8) electro/mechanical/plastic toys; 9) bamboo/cane products; and 10) shoe making.

a. Selection of Trainees (entrepreneurs)*

The process of selection begins with an advertisement in the leading newspapers inviting applications for entrepreneurship training. The responses are always overwhelming. Applications are then sorted out according to the target population, and those selected are invited for an interview.

The members of the Executive Committee, in assistance with the Administrative Officer at the training center, interview the candidates, usually on weekends. The interview is qualitative, and it stresses

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* The following on training is from: Debabrata Sen, "Educational planning for Generating Self-Employment: One Aspect of Manpower planning" Unpublished Ph.D. Dissertation, Harvard University; 1979. Dr. Sen directed CYSEC in 1974.

three things: (i) applicants' motivation in businesses; (ii) their desire to work hard; and, (iii) their expectations. Each interview takes about half an hour. Those who pass the first interview are asked to come for a detailed interview which takes about an hour or longer. At the second interview, an applicant's business plan, if any, specific skills, knowledge of the market and other related aspects of a small enterprise are screened. If the applicant's ideas or plans match with CYSEC training resources, he or she is asked finally to join for the training, which is free. In other cases, if the applicant is found "good," but cannot fit into current CYSEC training schemes, he or she may be advised to wait until such time a training program is available.

At CYSEC, the selection process is not just to identify prospective entrepreneurs; importantly, the selection has to match the individual's education and skills with the current training schemes, which reflect business opportunities.

Therefore, if there is no match between the business plan of an individual and a CYSEC training scheme, the individual may be denied the services or asked to wait until this match occurs. In the absence of reliable data, it is difficult to calculate the number of rejections on this ground. It is probably not higher than 12 percent of those accepted.

b. Selection of Instructors

Most of the instructors are on salary and are drawn from industry. The members of the Managing Committee sometimes help to find an instructor. The qualifications of an instructor vary from one training scheme to another. For example, the instructor in V-Belt making did not have formal schooling, but he had worked in this line for more than 30 years. On the other hand, the instructor for Radio-Electronics was a science graduate and had himself been an entrepreneur for more than twenty years. One of the major criteria for selection, in addition to his technical skill, was the instructor's knowledge of business. Management training is given by volunteers from industry.

c. Training

The training for skill development is an integral part of CYSEC's package assistance. Much of the effort goes into identifying the training schemes and planning the programs at CYSEC. These training schemes show the current market opportunities for small entrepreneurs. Proper selection of training therefore is crucial to the success of the whole program.

The selection of a new training program is done through market research, which began systematically in 1974. Prior to this, the members on the Managing Committee used to help in identifying the prospective areas of business, and programs were developed on their

recommendations. Until 1974 about twenty-five courses were tried at the center. Some of the successful training programs were: air conditioner and refrigerator maintenance, radio electronics, servicing, electrical wiring and servicing, welding and fabrication, and wood products manufacture.

Since the training has to offer current market opportunities to the small entrepreneurs, the program changes training schemes continuously. New training items are added and old ones are dropped. This feature of CYSEC -- the continuation of a training course only for as long as it offers business opportunities to the graduates-- is an important reason for the success of the project.

The training courses are practice-oriented, intensive (averaging 32 hours a week) and last for about twelve months. During the training, the trainees learn technical skills and elementary business management. They also learn how to prepare a business plan and how to fill out bank loan applications. Training is free. A mid-day meal is provided but there are no live-in facilities. The student must pay his or her own transportation to and from the training centre.

Training is not an absolute requirement to receive assistance from CYSEC. If CYSEC is approached by a needy person with a viable scheme who already has the required vocational and business skills, this person will be assisted. However, the majority of those who have received loans and other support have received CYSEC training.

Through the end of 1978, over 500 students had been trained.

d. Business Development

CYSEC training is specifically designed to support self-employment and about 75% set up their own businesses. CYSEC helps them obtain financing and project officers provide technical and management assistance to deal with start-up problems.

Those finishing training are assisted in the preparation of a business proposal/feasibility study outlining their financial needs. Loan requests range from Rs. 150 ($18.75) to Rs. 5,000 ($625). The proposal is presented to the Project Screening Committee, which reviews not only the proposal, but the individual's history as well. The Committee may approve the proposal for bank financing, in which case, one of the banks represented on the Committee will immediately begin processing the loan for payment. The Committee may also recommend that the proposal be redone or reject it entirely.

If the proposal is rejected, the CYSEC staff may consider funding the project from the Revolving Credit Fund, despite Committee rejection. In this case, the proposal will be submitted to the Managing Committee for approval.

It generally takes at least one year for the trainee to become established in business upon completion of training. It takes an minimum of three months for financing to be arranged after the application is received and it often takes time for the trainee to find a suitable shop or work space.* Also, trainees often lack the confidence to start their own business.

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*Dr. Sen says this step of getting a loan often requires one year.

One of the key issues CYSEC faces is how to identify those with entrepreneurial potential. Some of those who completed training never set up their own businesses: over 500 people have been trained, but only 378 business units were set up and some of these units were run by people who had not been trained.

CYSEC's repayment rates have been improving steadily (from a low of 60 to 65% for the Revolving Loan Fund), as it increases its follow-up support to borrowers and tightens up its lending procedures. The banks are pleased with their arrangement with CYSEC and feel that CYSEC assistance guarantees them a higher repayment rate than they could otherwise obtain.

In 1978, CYSEC began functioning in rural areas surrounding Calcutta. In one new project, the Revolving Credit Fund was used to finance 12 traders including mat makers and grocery shops, in the village of Sangrami Nagar. Later, the Indian Overseas Bank "adopted" the village under CYSEC sponsorship in order to help more than 150 families living there. CYSEC now sponsors businesses such as rickshaw drivers, glover makers, retail shops, and weaving projects in several other villages. Most of these people do not receive CYSEC training.

Future Plans

CYSEC plans considerable expansion in the near future. A Rural Technology Centre is being planned, with collaboration from the Sunderban Development Board and possibly UNICEF. It will undertake programs in mini-rice mills, fruit processing plants, fish drying plants including solar driers, grain storage bins and seed processing plants, and other installations.

A non-formal vocational training centre is also being planned in collaboration with the Ramachrishna Mission for rural industries. These industries include crop husbandry, poultry production, fish-culture, honey production and canning. A marketing consortium is being developed to relieve small businesses of their present problems related to marketing. This consortium will not only sell products, but supply market information and technical guidance on product design and development. The Consortium would act as intermediary between buyer and seller, providing its own guarantee as to product reliability, quality and fair pricing.

Impact

As an example of the impact of these loans we cite the following case studies:

> A loan of Rs. 5,000 ($625) was given for the manufacture of cotton gloves. The owner used the loan to purchase 6 glove weaving machines at Rs. 400 ($50) each. He also purchased furniture yarn and needles. Young boys are employed to operate the machines on eight hour shifts. The owner pays the boys at a rate of Rs. 2.50 ($0.31) per dozen.

Most of the boys turn out 2 dozen gloves a day for Rs. 5 ($.62), which is a decent wage for a young Indian boy.

He has purchased 2 to 3 machines quarterly from the profits and now has 29 for weaving gloves and 4 for weaving glove ribs. He employs 33 boys to tend the machines and 40 women to stitch the gloves together. The capital investment per job created is about $50.00.

- A young widow with eight dependents received a CYSEC loan of Rs. 1,600 ($200) to continue her husband's business of repairing and dying old mosquito nets. Since assistance, her business grosses Rs. 6,000 ($750). She earns a living of Rs. 500 ($62.50) and employs four people at an average wage of Rs. 150 per month ($18.75).

- A maker of leather sandals received a loan for Rs. $4,000 ($500) to allow him to buy raw materials for the Festival in September and October. He employs eleven people who earn Rs. 250 month ($31.25). Gross sales are Rs. 12,600 per month ($1,575) andhis income is Rs. 600 per month ($75).

- A woman who was trained by CYSEC as a tailor received a loan of Rs. 600 ($75.00) to buy a sewing machine. She nets an average of Rs. 300 ($37.50) per month by sewing and embroidering ladies' and childrens' dresses.

The average daily gross income for very small retailing operations CYSEC has assisted is Rs. 25 ($3.13), with a daily net of Rs. 7 or 8 ($1.00) or about Rs. 210 ($26.25) per month, a subsistence level income for an average family of eight. This is similar to the wages paid to workers in the case studies for CYSEC-assisted industries.

An average of 90 new businesses are set up each year. Up to 1975, the failure rate of the businesses set up was about 50%, but since then it has declined to 25%.

The banks are positive about the program. As a result of their association with CYSEC, banks can meet their commitment to lending in this sector, get satisfactory repayments and transfer the admini-

ministrative costs to CYSEC. Bank staff who are members of the Project Screening Committee spend two afternoons a month at CYSEC, a substantial commitment of their time.

Assessment of Potential for Further Development

CYSEC has plans for modest growth over the next few years in terms of the numbers of people assisted. This is in ·-ping with its historical approach, which has been to provide relatively sophisticated assistance to a small number of people.

Since 1978, however, it has been experimenting in its rural program with the provision of much less sophisticated services to larger numbers of people and it is working closely with the banks to do this. CYSEC has not yet decided what the implication of this type of program might be for them programmatically in the long run.

Project Assessment

CYSEC is currently following two approaches to entrepreneurial development. The older program, which is strictly urban and works with the educated unemployed, provides vocational training of a fairly sophisticated type, which results in the establishment of relatively large (by Indian standards) business, requiring investments averaging about RS 4,000 ($500).

A second approach was developed for rural areas which was needed because of the lower level of education on the part of the participants. In this case, no vocational training is provided. Instead, persons with

existing businesses, for the most part, are helped to expand or move from selling to manufacturing, say, of gloves. in this case, much smaller investments seem to be required, averaging about RS 1,000 ($125.00)

Transportation costs are higher to reach rural clients, but costs on a per client basis appear to be lower for rural clients because no expensive vocational training is provided. Although the newer approach is the rural one, CYSEC has no plans to downgrade its more expensive urban program and are, in fact, opening a new training site at Salt Lake. They feel the two approaches are aimed at two different kinds of needs, which should not be mixed -- the very bottom level requires greater liquidity and a minimal amount of supervision. But once the business reaches a certain size, (especially with new enterprises), it is necessary to provide beneficiaries with technical and business training.

CYSEC is, however, concerned about the fact that at least 25% of their trainees never start businesses and another 25% of those set up fail. Since they are in the business of creating business this is an expensive waste of scarce resources. It costs CYSEC approximately RS 3,612 ($451.50) per student who enters training to provide this assistance.

Thus, although the training is not "lost" in the sense that the person utilized often uses it in his wage employment, the facilities of CYSEC, which are relatively expensive, are being used for a purpose other than that intended.

One means of dealing with this problem would be to combine the two

programs. Assistance would not start with expensive vocational training; instead, small loans and limited supervision would be provided to all applicants. This way the new entrepreneur could see if business was to his liking. The loan would be kept small so the risk to CYSEC would not be too great. Then, if after two years or more, the business started to grow and the entrepreneur wanted training, it could be given to him. In this way, a larger percentage of the training would be likely to be returned directly to business and it might also be possible to let the student pay for part of the cost.

Clearly, CYSEC's current cost of operations are comparatively high. It is not likely that given these high costs, that it will be able to reach much larger numbers of people.

Organizationally, CYSEC tends to be rather formal. In order to obtain funds, Board members are drawn from the elite structure of Calcutta -- businesspersons, officials, etc. This is understandable given the large budget CYSEC must raise each year.

It also reflects the way CYSEC originated -- as the response of a group of businessmen and community leaders to the social unrest and growing unemployment of the early 1970's. Unlike many other programs we have seen, these community leaders did not themselves get involved in the operation of the program. Others were hired to do this. The problem was defined by one set of people and actually solved by another.

This is not necessarily a problem as long as there are high quality people on both sides and good communication between them. If staff listen to beneficiary needs and can convince board members of these needs, it is possible for this form of organization to be as effective as one in which beneficiaries have direct control of decision-making.

Lessons to be Learned from the Project

1. That tiny new enterprises can be established through a combination of loans and vocational and management training.
2. That vocational training significantly increases the cost of services on a per-client basis. Therefore, programs such as this will have difficulty reaching more than a small number of clients a year.
3. The CYSEC process seems to work because:
   a. They have a dedicated Board and staff. Staff are relatively well paid.
   b. They keep the numbers of those assisted modest.
   c. Staff are sensitive to the needs of the clients.
   d. Training is carefully geared to the needs of the market place.
   e. In its early years, it relied heavily on volunteer help.

Project Replicability

This program is probably replicable. Its principal advantage is that its principal component is vocational training, which is a traditional program that has been implemented widely. The novel features of CYSEC have to do with the methods of client selection, orientation and support in setting up a new business.

Setting up relatively few businesses reduces the potential problems. These factors make strong leadership much less essential in this program than in others previously described. It is also an approach which can be implemented with relatively frequent staff changes (which CYSEC has experienced) and even with some conflict between staff and the Board (which CYSEC has also experienced).

CONCLUSIONS

The purpose of this study was to see if it were possible to establish programs to provide assistance to the informal enterprise sector in urban and semi-urban areas. The conclusion to this question, based on the Indian experience, seems to be "yes." In fact, one cannot help but be impressed both by the variety and magnitude of current Indian governmental and non-governmental work being done in this field and by the considerable amount of experimentatio taking place. India may not be typical of the rest of the Third World, but it is an important laboratory, which justifies careful monitoring and much more careful research than was possible in this report.

For the purposes of this report, we have defined the informal enterprise sector as that in which the poorest Indians are engaged in self-employment. The Indian Government defines "poorest" as those families in urban areas having a yearly income of less than Rs. 3,000 ($375) and in rural areas Rs. 2,000 ($250). Activities can include manufacturing, servicing, retailing, and wholesaling.

The Indian Draft Five Year Plan estimated the informal enterprise sector as employing approximately 32 million workers.* Further, given the employment difficulties in other sectors, this number is

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*This includes those engaged in wholesaling, retailing, servicing and manufacturing. It does not include small farmers.

probably growing by at least 1 million persons a year. In India, as in much of the developing world, the informal enterprise sector is the employer of last resort.

Barriers to entry (other than the psychological and social ones, which may, in fact, be substantial), are lower in this sector than in larger and more modern enterprises where employment opportunities are more limited. Hawking requires no education. Stock is often purchased in the morning and sold during the day so that profits can cover daily expenses for food and other basic necessities. Initial investment is minimal and although in theory, continued entry into the sector may only further subdivide the market and depress incomes, in practice, the demand seems to be increasing fast enough, due to population growth, to dampen the potential impact of this factor, even in situations where the larger economy is stagnating.

The key problem of the informal enterprise sector is that, in many cases, it locks the entrepreneur into a closed economic system. The economic system is closed in two important respects. On the one hand, for what appears to be the majority of those in the sector, sources of supply, including credit, come from within the sector, while products are designed for and sold to others within the same sector. Relatively few are able to compete for raw materials and markets in the larger economy. Since the number of poor people is growing, the demand for their services is increasing and they are relatively unaffected by larger economic factors.

The system is also closed because the average person entering upon this activity probably hopes it will be a stepping stone to something better. But the key to breaking out of the system is the accumulation of savings. This is extremely difficult in the sector for a variety of reasons, including those related to poverty -- sickness, family problems and lack of entrepreneurial skills. These entrepreneurs are hampered by institutional problems such as official indifference or hostility, and the high cost of services, including credit.

The Indian Government's approach to the sector is symptomatic of the types of problems those entering it face. For the first 20 years following Independence, India pursued a policy of massive investment in large scale industry. The theory was the benefit of these investments would trickle down through the system and pull the poor up. There was also support for traditional industries, especially cloth weaving which employed millions of people as part of the Gandhian legacy.

As it became clear that investment in large industry had little impact on the growing population of the poor, there was a gradual shift in favor of smaller and smaller industries and the rural farmer. However, until recently, these shifts had little impact on those involved in "trade." This sector, the Indians continued to view with antipathy born of traditional values. As in other parts of the world, such activity is perceived as exploitative.

Gradually, however, as the realities of the explosion of the informal enterprise sector became evident, the Government's view has changed. It now recognizes "trade" as the increasingly prevalent point of entry

for the very poor into economic life. With that in mind, it has begun to look at the sector with an eye to examining the means by which this entry point might be used to ratchet the poor out of poverty.

Thus, the Indian Government does not see assistance to this sector as an end in itself, but rather a means to the end of moving people out of the sector to something better. This is important because many economists argue against assistance to the sector.

The Government is trying a number of different methods designed to open the present closed economic system. First, and probably most importantly, it is focusing on policy. These policies relate to such issues as reserving certain items for small scale manufacture; reserving certain percentages of supplies for small scale businesses; requiring that small-scale suppliers are utilized in government purchases; easing import restrictions for small-scale operations; providing export subsidies to the sector, and developing or extending a series of credit schemes to the sector.

The Government is also, as a matter of policy, encouraging and supporting private voluntary agencies to work with the sector. Although these policies are still experimental, over the long run they could have a dramatic impact.

On the program side, the Government, through its elaborate mechanisms to assist business, including the recently created District Industrialization Centres (DIC), is trying to reach the smallest units with technical assistance, including retailing units for the first time. So far,

this type of assistance is very expensive and as far as one can tell from cursory contacts, relatively small numbers in the informal enterprises sector are being assisted.

The really exciting activity in India, providing credit to informal enterprises, is taking place in the private sector and in commercial banks. This, as already indicated, is made possible by supportive Government policy.

The importance of credit to people in the informal enterprise sector is a complicated question. It is easy to argue that it is the critical point of access to working with the sector. This can be translated as:

1) it is universally perceived by the majority of informal sector entrepreneurs as their most critical need, and
2) it is the most easily and cheaply deliverable service to the sector.

Credit is at the core of every program studied in India that was attempting to work with this sector.

This still does not, however, answer the question of the importance of credit. The importance of credit depends on the type of program. For a program aimed at uplifting an entire community or group of people, not only economically, but socially and politically as well, credit may not be important relative to other factors. Mrs. Jayalakshmi's program in Bangalore is an example. For a program trying to set up people in business, it may be absolutely critical. Loyola Joseph's program in Madras is an example.

These Indian case studies prove that credit can be a powerful tool. It also makes clear, however, that this tool must be molded to the unique circumstances of each program situation. There is no universally replicable model but the case studies broaden the range of choice beyond that which was previously thought available.

The conclusions of the study are:

1. Government policy is essential to create that climate that requires credit to be provided to large number of people in this sector. The Indian program is, of course, highly subsidized, including extremely low interest rates and a loan guarantee fund (although the guarantee scheme is making a profit). But in fact, Indian commercial banks operate in such a way as to reduce the subsidy, by making these low interest rate loans only a small proportion of the total loans to the sector. In 1976, a Government Commission looked at interest rates and was in favor of raising them, but viewed such an act as politically impossible. Most other countries would come to the same conclusion. An experimental credit scheme in Bangladesh is trying out a flexible interest rate which may go as high as 35% to reflect the true costs of lending. This program has only recently started and should be watched with great interest by those interested in this issue.

2. Commercial banks can, under the right circumstances, lend to this sector, at a profit. The key requirements are to keep loan supervision costs low, making supervision effective (reflected in low default rates)

and reduce to the extent possible the number of loans given at the lowest interest rates. In the best bank lending programs to this sector each field staff person can supervise up to 400 loans and keep the default rate under 10%. The banks can also utilize community leaders, who typically operate as volunteer assistants to the bank staff.

There does not appear to be any formula to select and supervise loan recipients. With a dedicated and sensitive staff, there appears to be few problems and a low default rate.

One radical experiment which indicates the expanded development role that banks can play is the government imposed requirement that banks "adopt" villages. Thus far, 70,000 villages have been adopted by banks. Adoption requires bank staff to function as community development officers and not merely loan agents. This is a new role and there are many difficulties. But some thoughtful bank officers feel it is helping to broaden the roles and responsibilities of bankers beyond that traditionally assumed. The various ways banks can take a development role warrants more careful study.

3. Specialized governmental or quasi-governmental machinery can be created to work with the sector. Examples of this are the Khadi and Village Industries Commission, the District Industrialization Centres and the Women's Cooperative Financial Corporation of Hyderabad. Others are government-regulated cooperatives like the Indira Mahila Cooperative Bank in Bombay. The differences in cost, quality and outreach

of services of these various programs is enormous, ranging from expensive services of low quality which reach few people to relatively inexpensive programs of better quality which reach many. Many government agencies have trouble getting good people and by their structure and system of rewards and expectations have difficulty reaching very poor people but there are notable exceptions to this and this area too warrants more careful study.

4. Banks and voluntary agencies can cooperate. It is sometimes in the interest of both banks and voluntary agencies to collaborate to provide credit. The banks often have difficulty in identifying potential borrowers of tiny loans, since these people are not used to using formal credit and find it frightening to approach a bank. Likewise, banks complain that the needs of tiny borrowers often go beyond the mere provision of credit. Money borrowed may be used for a variety of non-business purposes. Sickness or family problems may prevent business development. Police harrassment or failure to grant a license may intervene. Raw materials or markets may not be reliable and business skills may be lacking. The banks have looked to voluntary agencies to perform these functions because they have close ties with community groups and are skilled in dealing with at least some of their social and political problems.

Most of the voluntary agencies have little experience with business and credit. Although many agencies feel that credit is not the key problem, they view it as a point of access to begin to deal with more complicated problems. Many of them feel their relationship with the

bank is ideal, since the bank can perform the complicated task of lending and keeping track of funds while they are assured their clients have access to credit.

In many cases the voluntary agencies have shown themselves to be good enough at dealing with the problems of borrowers to reduce the default rate from 10% to below 1% at a very low cost for supervision. The voluntary agencies are particularly good at encouraging borrowers to use the money for business purposes and dealing with problems created by governemental policy. Lacking business experience, the staff of these voluntary agencies has typically not dealt with problems like management, raw material procurement, or marketing. But in working with these tiniest of businesses these technical inputs do not seem to be a major area of need. It is interesting to note that the agency with the lowest default rate was the one with the least capacity to help on business problems.

What makes the relationship between the voluntary agency and the bank work? The simple answer is mutual trust. In each of the programs reviewed, a relationship of trust had been painstakingly nurtured. Real trust, of course, is built on success -- meaning large numbers of happy loan recipients, most of whom must repay their loans. In India if loan repayments are above 90%, the banks appear satisfied, but this must be put in the context of government pressure to loan to this sector. Without this pressure, banks would likely require a 97% payback and an interest rate of 10% to break even, unless there were a loan guarantee scheme.

Aside from a low default rate, trust can be built in a variety of ways. In one program, a committee composed of representatives from 8 banks meets with agency staff bi-weekly to review and sanction all loan requests. This mutual acceptance of responsibility seems to foster trust and respect. In another program, an agency volunteer accompanies a bank loan officer to meetings of potential loan recipients. The agency volunteer facilitates the meeting to take as little of the loan officer's time as possible. In yet another case, the bank actually pays a fee to agency-selected collection agents for the loan repayments collected. These are all ways of keeping communication open, sharing responsibility and building trust.

5. Voluntary agencies can take the intiative in providing these services. The key to successful voluntary agency assistance to this sector seems to be:

a) astute and charismatic leadership;

b) committed staff willing to work for low pay, who are responsive to client needs;

c) heavy use of highly committed volunteers;

d) the wise use of available governmental programs, intiatives and resources; and the

e) feeling on the part of beneficiaries that this is an organization responsive to their needs.

Not all of these factors were present in all the programs described earlier, but they are all present in the most successful ones.

Of these, the most critical factor is leadership. Astute leadership can make up for the initial lack of business experience and other factors. With strong leadership the other elements of a good program can all be added relatively rapidly. The key seems to be to find an organization with good leadership that is dedicated to working with businesses in this sector. For this reason, a significant expansion in the assistance to this sector would occur if strong voluntary agencies with astute leadership were identified and helped to learn about various approaches to reach these business and provided with a link to banks and other financial institutions to provide needed credit.

What can we learn from the different approaches to assistance to the sector taken by different agencies? Each program reviewed has a very different approach based on its own particular purpose.

The purpose of NAESEY and CYSEC is to establish new businesses. These two agencies achieve that purpose in very different ways. NAESEY is following a very innovative approach, which we might call the "corporate" model. This approach has the advantages of requiring little overhead, and places a maximum responsibility on the participants to assist each other, and has demonstrated that it can grow fairly rapidly. There is no training component in this approach and minimal technical and managerial assistance. Yet loan repayments are excellent and practically none of the businesses fail. NAESEY <u>is</u> achieving its purpose. Its impact has been a substantial increase in income for participants (usually beginning at zero since they were previously

unemployed).

CYSEC uses a more traditional approach, which we might call the "educational" model, and stresses vocational education and follow-up by a highly qualified professional staff. Because this approach is comparatively expensive, it requires a large subsidy which limits the number of clients it can reach. Also, loan repayment rates are not nearly as good as those of NAESEY and a larger percentage of businesses actually fail. Unlike the other programs, CYSEC was not developed through the stong involvement of the community; participation of beneficiaries in the organization is the lowest of any organization studied. Community participation seems to be an important factor in insuring good payback and a high rate of business success. Also, unlike other programs, there has been frequent staff turnover. The program however, has managed to survive and grow and serve a modest number of clients sufficiently well so that 75% of their trainees set themselves up in business. The newer rural program seems in fact to be pursuing a much different approach in employing vocational training and utilizing traditional community support structures. The unit cost of assistance is lower and the number of people who can be reached is increasing. In both of CYSEC's programs there has been a substantial increase in income for participants in many cases.

The purpose of the Working Women's Forum is to organize the women to fight for their ecomomic and social rights. As such, the Forum is more a movement than an organization. Its activities vary from organizing meetings to protest police harassment, to literacy classes,

to providing credit. It depends heavily on charismatic leadership and staff and the heavy use of volunteers. Its costs of reaching member are extremely low, less than $2 per member. With this approach, it has been able to organize over 5,000 women in 18 months. It also has managed to help 3,000 women get loans (default is less than 10%) without any technical or managerial supervision, through the process of having volunteer group leaders stand guarantor for loan repayment. The impact of the Forum has been to increase income and self esteem, reduce police harassment and get better conditions in the markets.

The purpose of the Bangalur Layout is to move an entire community of 12,000 out of poverty. To accomplish this, it has a wide range of programs in health, education, housing, etc., including one to provide loans mostly to women entrepreneurs. To operate these various programs, they depend heavily on dedicated and poorly paid staff and unpaid volunteers, who view this as <u>their</u> organization. In 7 years, as a result of what is basically a community development approach, the community has been completely transformed from one of the worst slums to a model area, with all the basic physical and social amenities. As part of this effort, they have arranged a large number of loans with a default rate below 1%, the lowest for any program reviewed. The impact has been to completely change the lives of the people and to move them well on their way out of poverty.

We have identified a number of approaches, all of which seem to have a positive impact. Yet one cannot escape the conclusion that

the best programs with the highest impact are not models at all, but rather emerge as a unique mixture out of the expressions of need of local people.

On the credit side, a number of approaches have been used in these programs either singly or in combination:

1. credit has been tied to a savings program (the savings and loan cooperative approach);
2. groups are created with the leader as guarantor;
3. businesses are linked together in an interdependent chain so that each business is dependent for its success on the others;
4. banks have hired local people as collection agents and pay them a commission;
5. the organization has hired collection agents and pays them a commision;
6. community volunteers or staff have done intensive follow-up;
7. a committee of bank staff has reviewed loan applications and has approved only those who are likely to repay;
8. vocational and business training has been provided to increase the likelihood of business success;
9. "tiered" loans have been given, starting with a tiny one to test the borrower to get them gradually used to using credit.

A particularly difficult issue for these programs is how to move those businesses up the ladder in terms of size and investment.

The consensus seems to be that at the very bottom, the amount of technical and managerial assistance needed is minimal, or perhaps not necessary at all, while social support needs, are considerable. But as the size of business increases, so do the needs for other kinds of services. This is the argument behind CYSEC's program. They are trying to develop a more sophisticated type of business and they feel more training is required for this.

Since these services are rather expensive are there novel ways in which they could be provided more cheaply? The NAESEY system, utilizing a "corporate" model, establishes every service needed by its entrepreneurs as another business, rather than having these services provided by the agency. This means setting up the suppliers of feeds, and the veterinarian, the wholesaler and retailer of milk as independent businessmen. The owner of the dairy herd pays directly to support the doctor and the feed suppliers. Indirectly he supports wholesaling and retailing through the price he is payed for his milk. This approach requires an experienced businessman (such as Loyola Joseph) to implement, but such people can be found.

Recommendations

Given these many factors including the critical importance of leadership to the success of programs and the need for programs to grow out of the unique fabric of local conditions in response to local needs, we do not recommend a single national model program. The government policy with the greatest impact on the enterprise sector has been to require that credit be made available. The important point is that credit becomes a resource which local agencies, whether governmental or non-governmental, can adapt to their needs.

Credit is doubtless the easiest and cheapest assistance to extend to these tiny businesses. Its positive impact is also fairly clear. In the case of countries other than India some sort of credit scheme might be considered. For the banks to administer it, however, an interest rate that reflects true costs will have to be charged and will require a guarantee fund, at least initially. In India, credit policy is currently being reviewed. There is some thought of setting up a separate bank for lending to small industries. This may or may not include lending to the informal sector (including DIR). A separate institution might be very useful for several reasons. Presently, the Reserve Bank of India handles rediscounting loan guarantees and bank audits. Setting up a separate institution might make banks more willing to utilize the loan scheme and thus be more willing to finance the sector, since this new bank might focus attention on its problems and needs. Finally, many bank officials complained about the lack of information on what each other were doing, making it difficult for them to know how to proceed. This new bank might serve as an information broker, to facilitate the exchange of information on successful programs.

Other resources could be provided to help tiny businesses, such as vocational training and managerial and technical assistance. However, such programs should be undertaken with great caution. They are very expensive in most cases and for this size of enterprise, their importance has not been established. Other than the "corporate" model the conclusion of this report is that management assistance

programs at this level should not be implemented until new methodologies have been developed and tested which can lower the cost to reasonable levels.

The other element that is clearly important is leadership development. Since leadership is absolutely key to local program success, it would seem desirable to nurture and develop such leadership as a conscious policy. Leadership to run programs of assistance to informal enterprise entrepreneurs is not, however, like developing secondary school teachers. You do not develop program leaders in classrooms. These leaders most need the opportunity to exchange ideas with other people like themselves. This is best achieved by: (1) letting them travel to see other programs; (2) letting leaders meet occasionally to exchange ideas; (3) and by a classroom program for leaders of no more than 5 weeks duration, in which they would use a case-study approach to look at each others programs and by helping each other to design solutions to the most pressing problems.

This approach to leadership development is not one which Government can itself implement. It requires flexibility in arranging travel for leaders and coordinating visits with local agencies. It requires objectivity in selecting those for participation in various programs. For these reasons, such a program could best be carried out by a voluntary agency. In the case of India, this might be AVARD, the Gandhi Peace Foundation or even one of the programs studied in this report, which has national aspirations. This includes NAESEY and Working Women's Forum. Actually, these small voluntary organizations

would probably do a better job, since assisting these businesses is their area of expertise. Larger agencies have many other programs and no particular experience in the informal enterprise sector.