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Social Entrepreneurship in Peru: A Cross-Cultural Analysis

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Social Entrepreneurship in Peru: A Cross-Cultural Analysis

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Social Entrepreneurship in Peru: A Cross-Cultural Analysis

Social Impact Research Experience Summer 2014

By Leah Davidson

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I would also like to acknowledge my host organizations: Blue Sparrow in Huancayo, Peru and IFMR Trust in Chennai, India for their valuable connections, insights, and community relationships, which have provided exposure to the challenges facing entrepreneurs and small business owners in two very different parts of the world. Lastly, I am very grateful to the many organizations that responded to requests for interviews or additional information, the Ella Lyman Cabot Trust Foundation for its financial support, and Sai Kosaraju, Mara Zafiu, Divanna Cedeno, and Kim Gordon from my Penn student team, who helped start 11 businesses in rural communities around Huancayo and develop the framework for continued impact in the years to come.

Background

Last summer, I received a scholarship from MEJOR Communities to start a youth group with their partner NGO Expand Peru in Huancayo. I started meeting with a group of high school students in a rural suburb of Huancayo every day, teaching them the skills to operate their own bakery and helping them identify community mentors who could teach them how to bake bread. Later that summer, my host mother asked why I was focusing on teenage girls instead of adult women. “There are many people who would be interested in starting a microenterprise, but don’t have the marketing knowledge or financial resources,” she told me. I explained the conditions of my scholarship, but that I would be happy to help her with business development as well. She assembled a group of women to start a knitting co-operative and I provided a very informal zero-interest \$500 loan to help the co-operative purchase material.

Although the knitting co-operative is thriving and profitable today, the bakery proved unsustainable. Before leaving Peru, I made a plan for the bakery’s sustainability by assigning the girls leadership roles and organizing biweekly meetings with the director of Expand Peru. Unfortunately, although we had tested demand for our bakery products, I had not tested demand for a youth entrepreneurship program. The youth depended on their parents for their basic necessities and focused most of their attention on their studies. They thus were unable to attend school and concurrently run a business, as there is not a culture of extracurricular involvement in Peru.

After receiving \$14,000 in grants, I returned to Peru in summer 2014 with a group of interns from Penn to reconfigure and formalize the program under the umbrella of another Huancayo-based NGO called Blue Sparrow, which follows more closely the approach of a social enterprise. We are now focusing on providing education and consulting to adults who are

interested in turning their passions into full-time employment through entrepreneurship. My vision is to start a microenterprise incubator in conjunction with a low-interest microfinance platform. This will address two major problems: 1) the lack of access to capital (for-profit microfinance institutions in the area charge interest rates of 30-40%) and 2) the lack of business instruction for small-scale entrepreneurs who have not attended higher education. The venture will be self-sustaining through the repayment of loans. Revenue from interest rates will go toward Blue Sparrow's operating costs, as the directors are very willing to help oversee the redistribution and repayment of loans after we leave Peru.

When designing the program model, I interviewed Amy Rosen, CEO of The Network for Teaching Entrepreneurship (USA), Liz Wilson, Director of SKIP Peru (Trujillo, Peru), Ryugen Suzuki, CEO of the Global Development Collaborative (Trujillo, Peru), Daryl Poon, intern at Generation Enterprise (Nigeria), Joyce Meng, CEO and Founder of Givology (international), and Kathleen Colson, Founder of The BOMA Project (Kenya).

Blue Sparrow's Model

Blue Sparrow is an organization founded by Matt and Serei Jeppesen. Matt has worked in Huancayo since 2008, building computer laboratories for schools and running associated microbusinesses to cover the cost of Internet access; offering microloans for agriculture; and teaching English, computer, and design skills to children. Initially, Blue Sparrow started with guinea pig farms because they have a low startup cost and fast turnover and because the high demand in the local economy allows the loans to be repaid quickly. Blue Sparrow gives out loans of up to \$500, with a 12-month repayment schedule and a 10% interest rate, and offers three months without interest in order to encourage faster repayment. Before giving a loan, Blue

Sparrow requires a guarantee, such as a house lease, and a copy of the borrower's DNI (legal identification). The organization handles defaults on a case-by-case basis and runs a contingency program, by which successful repayment of a loan offers families the opportunity to receive larger loans for agriculture. Blue Sparrow works with local vets, agronomists, and volunteers to meet the family needs and conducts follow-up visits every two weeks. With regard to our program, Matt and Serei suggested group repayment because fear of shame motivates people in Huancayo to follow through with their commitments.

Team Overview

- Mara Zafiu is a freshman from Romania studying Computational Biology and Business through the Vagelos Program in Life Sciences and Management. Mara is a founding member of the Maca Collaborative, which assists artisans in Mexico by providing them with microloans and helping them to sell their products in North America. She is also on the Penn Microfinance research team, consulting for an MFI in Brazil.
- Sai Kosaraju, a freshman from California, intends to concentrate in finance and management in Wharton. Sai has worked as an interest rate loan program developer for the Women's Initiative, one of the largest microfinance/female empowerment organizations in the US.
- Divanna Cedeno is a junior in Wharton with an individualized concentration in Social Entrepreneurship in Emerging Economies. Divanna is a native Spanish speaker from the Dominican Republic and wants to eventually pursue a career in social entrepreneurship.
- Kim Gordon is a senior studying Engineering and Hispanic Studies. Kim interned with TerraCycle in Argentina last summer, studied abroad in Chile, and traveled to Guatemala

to visit a cooperative of Mayan weavers who received loans from a microfinance organization. Kim was also a member of the Penn Microfinance Club and worked with the Latin America team on market strategies for MiCredito, a Kiva-sponsored organization in Nicaragua. She received the Princeton in Latin America fellowship in spring 2014.

Research Methodology

For this project, I conducted a literature review on social entrepreneurship and microfinance and collected country-specific information on Huancayo, Peru. My project was designed primarily to walk through the steps outlined in Ian MacMillan's book *The Social Entrepreneur's Playbook*, chapter by chapter, applying the core principles through surveys, interviews, and additional means of collecting field data. I spent the month of May in Peru and my team stayed from May to August. During June to August, I conducted comparative research of microfinance and business development organizations in India to gauge possibilities for program expansion abroad, primarily through interviews and site visits in Chennai, Bangalore, and Delhi.

Chapter 1: Articulate your targeted problem and substantiate your proposed solution

Problem statement:

- Who is suffering?
- What are they suffering from and when?
- What's causing this suffering?
- How many people are affected?
- Where are they located, and how are they geographically distributed?

People in rural Peru suffer from oversaturated domestic markets for handicrafts, poor access to capital at affordable interest rates, and insufficient business training. These people are located in regions outside of the main tourist areas, where most nonprofit dollars are directed. For the purpose of this project, I focused on the rural communities in Huancayo in the Central Andes region.

Solution:

- How will my enterprise alleviate the problem?
- Who and how many will benefit?
- What major costs will be incurred?
- If it is to be a business, how will revenue be generated? If it is not to be a business, how will operating funds be secured?

Our solution is to start an e-commerce retail platform uniting artisanal groups in Huancayo under a specialized international brand (Amano) and to run a microenterprise incubator program, free of charge for participants, that combines training, microloans, and consulting.

With each loan cycle, around 10 to 20 households will benefit, depending on the size of the loans. The major costs are the pool of loan capital, currently funded by the Ella Lyman Cabot Trust Foundation, and initial wool for the women to produce sample designs, funded by a Wharton Innovation Fund grant and the LATA Foundation. Travel costs to Peru for our

volunteer team come in part from the Ella Lyman Cabot Trust, as well as from the Amy Adina Schulman Memorial Fund and the Civic House Public Interest Fund.

Revenue will be generated from interest on the loans (around 10-15%). This will go toward covering overhead. Since we are partnering with a functional nonprofit, we are trying to cover only specific operating costs related to our project, such as transportation for follow-up site visits.

In order for the solution to work, beneficiaries need to commit to around five educational sessions. Since lateness and regular attendance at events are not part of Peruvian culture based on prior working experience in Peru, this will require significant commitment and possible behavioral changes from participants.

Chapter 2: Specify Performance Criteria

Unit of Social Impact:

- 1) Number of Peruvian businesses developed
- 2) Number of Peruvians trained

Unit of Revenue:

- 1) Business profits
- 2) Loan repayment rate

Chapter 3: Define and Segment Your Target Population

Our target population includes microfinance participants and knitters. For this ranking, 3 = very attractive, 1 = not attractive.

Table 3.1: Segment Attractiveness Factors

Segment	Microfinance Participants	Knitters
1. Their perception of the need to benefit: are they aware of their need for your proposed benefit?	3	3
2. Connectedness of actions to positive outcome: Do they clearly recognize the link between the	2	2

actions you propose and the expected outcomes?		
3. Salience to customer: how much does the need matter to them?	3	2
4. Urgency to customer: how long might they postpone having the need satisfied?	2	1
5. Visibility of benefit: how easy is it for them to see the benefit?	3	1
6. Timeliness of effect: how quickly is the benefit observable?	3	2
7. Credibility of the benefactor: how much do they believe your solution will help?	2	2
8. Performance contingency: how sure is the solution to work?	2	3
9. Reversibility of effect: If the benefit stops, does the problem return?	1	1
10. Fundability of the benefit by them/for them: can they afford the solution or will someone else pay for it on their behalf?	2	1
Total Score	23	18

Chapter 4: Understand the Beneficiary Experience

Table 4.1 Beneficiary Experience for Program Participants

Hear about the program through flyering, word of mouth or information sessions
Fill out an application and business plan proposal
Receive training from international volunteers and interns fluent in Spanish
Finalize and present business plan with an estimated budget
Receive a loan with a customized repayment schedule
Receive intensive business consulting during the first one to two months of running the business
Repay loan to replenish capital pool and raise awareness about the program

Chapter 5: Analyze the Most Competitive Alternative

I considered the following dimensions when analyzing competition:

- Who currently offers the best alternative approach to the problem?
- Or, how do beneficiaries currently cope in the absence of your envisioned product or service?
- Are there government or NGO programs that subsidize a product or service you intend to provide? And are they competition?
- Is the beneficiaries' current alternative to simply endure their problem?

Table 5.1: Beneficiary Experience for Program Participants

Beneficiary Experience	Advantages (Disadvantages) of working with our venture	Advantages (Disadvantages) of another local job	Advantages (Disadvantages) of participating in other entrepreneurial/microfinance programs
Hear about the program through flyering, word of mouth or information sessions	Free, convenient	Suited for people without entrepreneurial personalities	Programs may promote other appealing features and service
Fill out an application and business plan proposal	Forces entrepreneur to think through business logistics	No need to fill out business plan	Shorter application process
Receive training from international volunteers and interns fluent in Spanish	Comprehensive training, gaining transferrable skills, free, customized for people with low literacy rates	Opportunities for more professional training and certification	Quicker process, does not need to go through training to access capital
Finalize and present business plan with an estimated budget	Mentoring opportunities	Greater income security from a day job with an hourly wage	Can receive larger amounts of funding
Receive a loan with a customized repayment schedule		(Has to abide by bank's rates, less flexibility)	(Has to abide by bank's rates, less flexibility)

Receive intensive business consulting during the first one to two months of running the business	Free value-added services		Can hire professional consultant
Repay loan to replenish capital pool; raise awareness about the program	90 days for interest-free payments, low interest rate	(Higher interest rates)	(Higher interest rates)

Chapter 6: Identify Operations Realities

Table 6.2 Deliverables Table with Required Capabilities for Microenterprise Program

Deliverables	Capabilities required
Raise funds for loan capital	Grant-writing skills
Recruit Penn student interns	Marketing and human resource skills
Plan the curriculum in collaboration with Blue Sparrow	Business skills and professional development knowledge
Recruit program participants from Peruvian community	Context-specific knowledge (familiarity with community and culture), Spanish language ability
Run a five-week training program	Context-specific knowledge, Spanish language ability, business skills
Approve business plan pitches and evaluate loan applications	Business knowledge and experience
Provide consulting services	Business knowledge and experience
Collect loan repayments	Context-specific knowledge, finance and accounting knowledge, interpersonal skills

Table 6.3 Deliverables Table with Required Capabilities for Amano

Deliverables	Capabilities required
---------------------	------------------------------

Raise funds for initial supplies	Grant-writing skills
Recruit Penn student interns	Marketing and human resource skills
Plan the curriculum in collaboration with Blue Sparrow	Business skills and professional development knowledge
Meet with knitting groups and talk about plans for consolidation	Context-specific knowledge (familiarity with community and culture), Spanish language ability
Run a five-week training program	Context-specific knowledge, Spanish language ability, business skills
Prepare a budget for sample designs to create a catalog for prospective retailers	Accounting skills
Develop website	Coding skills, photography skills
Identify prospects for client relationships, build relationships with international retailers	Interpersonal and communication skills
Provide more advanced design training, as necessary	Design skills, contacts with design schools
Source orders and maintain inventory in stock for new orders	Inventory management
Pay women from sales proceeds	Finance and accounting skills

Chapter 7: Address the Inevitable Sociopolitics

Table 7.1: Stakeholder Impact Table

	Major Negative Impact (if any)	Major Positive Impact (if any)
Other NGOs (i.e. Expand Peru)	Short term: International volunteers may choose to come to work with Blue Sparrow, reducing revenue sources for other local NGOs	Long term: Opportunities for collaboration to make a larger community impact
Peruvian entrepreneurs	Short term: Risk of financial default	Short term: Skill development, capital to start new businesses Long term: Financial self-

		sufficiency
University students	Short term: Reduced time for other internships and summer activities	Long term: International development experience, leadership, consulting, and teaching experience that will help with future employment or graduate school applications
Blue Sparrow	Long term: Need to devote time to following up with loan repayments	Short term: Extra grant funds to allocate, more volunteers for projects
Government officials	Short term: May exert more pressure to formally register businesses, increasing program costs	Long term: May perceive benefit of collaboration with top American universities
Foundations and donors	Short term: Less capital for other projects	Long term: Opportunity to support a sustainable social enterprise in Peru
MFIs	Long term: Reduced customer base (although since we work with only 10-20 entrepreneurs at a time, this will not have a significant impact)	
Retailers		Long term: New supply of quality products and designs

Table 7.2: Stakeholder Mapping Table

Status	Allies	Opponents	Indifferents (those indifferent to the project's success, but whose support/resources are necessary)
	Active allies to be deployed	Primary opponents to disrupt or accommodate	Needed indifferents to convert
Currently Active	<ul style="list-style-type: none"> ● Wharton Social Impact Initiative (marketing) ● Legal Studies 		<ul style="list-style-type: none"> ● Other NGOs

	<p>and Business Ethics Department (marketing)</p> <ul style="list-style-type: none"> ● Penn students ● Retailers ● Blue Sparrow ● Peruvian entrepreneurs ● Foundations 		
Currently Inactive		<ul style="list-style-type: none"> ● Government authorities ● For-profit MFIs 	<ul style="list-style-type: none"> ● Penn professors / Academic departments

Chapters 9-10: Frame and Scope the Venture, Specify Deliverables

Objectives:

Element	Target
Profits:	Current profits are \$0 for the venture and around \$250 for the knitting co-operative (\$500 in initial investment and \$750 in sales); desired profits for the program are \$1,000 per \$10,000 distributed in loan capital and around \$1000-\$5000 in profits per business during the first year after loan repayment.
Return on investment:	We are currently investing \$10,000 in loan capital. Our tentative plan is to charge interest rates of 10-15%, thus achieving an ROI of around 10-15% on a yearly basis.

Reverse Income Statement: The reverse income statement, a concept introduced by Rita Gunther McGrath and Ian MacMillan, iterates the value of obtaining realistic financial data and evaluating the feasibility of one’s strategy. Before starting a business, MacMillan advises entrepreneurs to calculate the minimally accepted profits and loss.

Element	Target
Profits required:	\$1,000 (for operating costs)
Estimated profit margin (ROS):	10-15%
Minimum required revenues:	\$11,000
Maximum allowable costs:	\$10,000
Allowable investment:	\$10,000

Here are our current revenue sources:

Amount	Source	Details
\$12,000	Ella Lyman Cabot Trust Foundation	Grant to support social service projects of personal significance to the applicant
\$1,000	Wharton Innovation Fund	Grant to scale enterprise
\$1,000	LATA Foundation	Grant to promote Latin American tourism; given to support Amano

Additional funding beyond the \$10,000 investment was put aside for the knitting co-operative and served as supplemental travel funding for interns with financial need.

Chapter 11: Establish Assumptions and Checkpoints

Table 11.1 Assumption Checklist Template

Assumption Number	Assumption Description	Relevant Assumption Value	Source
1	Market Size	Expected size of the Huancayo market for microfinance	It is hard to collect data on the size of the Huancayo market for microloans because very little information is collected and published. Growth of Peruvian microfinance market: Est. 10% in 2013 ¹ Population of Huancayo, Peru: 323,054 Poverty rate: 33% ² GDP per capita: \$10,000 (cannot find specific data on the region of Huancayo)
2	Demand	Based on consumer preferences: what percent of our target market wants to participate in a microfinance program	Data and in-person interviews
3	Loan size	\$100-\$1000	Based on precedent, but flexible
4	Costs	Costs of materials and supplies	Based on estimates and market research
5	Partners	Schools will allow us to use their teaching and computer facilities for free	Confirmed with school administrators

¹<http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245358287371>

² <http://wheretherainfalls.org/peru/>

Table 11.2 Deliverables for Microenterprise Project – Likely and Worst-Case Estimates

Deliverables	Cost Estimate	Worst-Case Estimate	Best-Case Estimate
Raise funds for loan capital pool	Up to \$10,000		Loan fund will come from previous repayments in the future, so this will reduce the need for outside fundraising
Recruit Penn student interns	\$3,000	We use a portion of the grant money to defray travel expenses	Students pay for their own trip
Plan the curriculum in collaboration with Blue Sparrow	Free	Buy a curriculum	Create a curriculum or use existing materials (could look into partnerships with Wharton student groups)
Recruit and screen program participants from Peruvian community	\$100 (transportation), \$15 (marketing materials, photocopies)	Hiring outside person for X hours per week	Matt and Serei can leverage their community contacts to set up information sessions
Run a five-week training program		Pay students or professionals to come from abroad to deliver trainings	Use current volunteers
Approve business plan pitches and evaluate loan applications			
Collect loan repayments	\$200		Matt and Serei can use their van for transportation to collect loan repayments and combine these trips with site visits for their other projects to save on gas

Primary Assumptions (Written in March 2014)

1. There are small business owners in Huancayo who are not adequately serviced by current financial institutions

Last summer, I interviewed the director of Caja Huancayo, one of the larger MFIs in the city, and the founders of Blue Sparrow to determine the barriers inhibiting small business owners from accessing capital. Jose Nunez Porras, Administrative Director of Caja Huancayo, which extends loans of \$5000 to \$7000 to business owners of all income levels in Huancayo, said, “Many people don’t try to export their products because they lack knowledge of how to access other markets. There are organizations – for example, Camera de Comercio de Huancayo – that provide consulting for large enterprises, but none that dedicate time and resources to entrepreneurs who are just starting out.” He also commented that many entrepreneurs struggle with product differentiation. Matt and Serei also explained that banks in the area charge exorbitant interest rates between 40 and 100 percent, which often puts loan recipients in an even worse financial situation. I plan to test the hypothesis that there would be considerable interest in a program combining comprehensive business training with low-interest microloans.

2. Peruvians will be receptive to business training from American university students

To evaluate the effectiveness of our business curriculum, we will conduct surveys after our first three workshops to ask attendees to assess the program structure, content, and relevance. Taking attendance will allow us to measure attrition and calculate the graduation rate at the end of the program. If participants fail to attend a weekly meeting, we will call or pay a house visit. Our goal is to identify obstacles that could prevent Peruvians from accessing this type of service (e.g. family obligations, cultural norms, etc.) and pivot accordingly.

3. Providing business consulting and financial literacy education will lower client default rates

4. Borrowers will take the repayment of loans with lower interest rates seriously

In order to determine an appropriate interest rate, I will interview similar NGOs that have started microfinance programs to promote economic growth and social equity. I will survey NGOs on the average size of their microloan, the interest rate (adjusted for PPP), the repayment schedule, and the default rate. Before arriving in Peru, I will analyze this data and work with my team to create a customized loan repayment system. We expect to receive initial repayments of the loans by the end of the summer. I will collect data on each client's ability to follow repayment schedules and compare our default rate with the default rate of for-profit MFIs that charge higher interest rates. I want to additionally confirm the assumption that we can improve the financial sustainability of the program and the speed of loan repayment by offering a mandatory training program to all loan recipients.

5. There is a market for our clients' business ideas

As mentioned in the World Bank article "Latin America: Entrepreneurs' lack of innovation curbs creation of quality jobs," innovation is sorely lacking in the Peruvian microenterprise industry. The primary businesses involve foodstuff, textiles or handicrafts. Business owners try to achieve a competitive advantage via price-leadership rather than through a differentiation or focus strategy. As part of the microenterprise incubator, we will lead participants through the process of market research by conducting surveys to identify an ideal price point, create a plan for product/service differentiation, and estimate demand.

Chapter 12: Launch Your Enterprise

We ran two different training sessions: one in June with Divanna and Mara in El Tambo and the other in the beginning of August with Sai and Kim in the Huari community. Based on outside research, we established the following policies for our program:

- Participants would have to attend a minimum of five sessions in order to submit a loan application
- Loans over S./3000 would need to formally register their businesses with legal authorities
- Loans would be repaid over a period of 12 months, with a 90-day interest-free grace period to encourage more prompt repayment
- The interest rate would be set at 15%
- Loan recipients would need to provide a copy of their identification and house lease for us to hold as collateral. We would work with participants to explore all other options for repayment before collecting collateral.

Curriculum Overview:

Week 1: Introduction

Business organization (present the schedule for the upcoming weeks):

- Execution Plan
- Industry
- Finances
- Design and Execution

Questions for the upcoming week:

- What do you need to execute your project? (including location, materials, workforce, money, any help)
- What is your product, and how do you plan to sell it? How will you distribute it, and to whom?
- A written summary of the business

Week 2: Execution Plan

Answer the questions at the end of the week 1 lecture
Discuss them in more detail

Week 3: Industry Awareness

1. Supply

-Where are you going to buy your basic materials, and at what price?

2. Market and Demand

-Where will you sell, to whom, and at what price?

-What are your major channels of distribution?

3. Understanding your competition

-Who is selling the same product?

-How do you ensure that you don't lose your clients?

Week 4: Finance

1. Accounting

2. Budgeting

-How much money do you need and for what purpose?

-Calculation of costs and expected revenues

Week 5: Design and Execution

1. Finalize and submit the business plan

2. Give a timeline for execution

Results from first round of loans:

Name	Business idea	Costs and capital required	Projected revenue	Questions/Concerns	Consulting Results	Loan application status
Anais	Jugeria (juice business)	Rent: S./200-300 for three months Table with four chairs: S./50-100 Jars: S./25 Cups: S./7 Blender: S./300 Juicer: S./800	S./50-80 per week (hours of operation 7 am to 6 pm)	1-Where is the shop? 2-How long can she rent the store? 3-What is her differentiation strategy?	1-Storefront is in a main area near the city center 2-There is no maximum as long as she keeps paying. 3-She is buying fruit from the jungle.	Funded
Juana	Knitting	Wool:	N/A	1-Can she	1-She did not	Funded

	business	S./200		join other knitters and form a larger co-operative?	realize this application was separate from the funding already set aside or Amano. We reserved \$1000 USD for the knitting cooperative.	
Gabriela	Chicken farm	Construction: S./6000 (needs loan for the food and semi-expansion) Chicken feed: S./480 for four months Animal care: S./100 per month	S./50 per chicken , S./0.70 per egg	1-What is the condition of the pens? 2-How fast can she raise and sell chickens? 3-How many chickens does she have currently and how many can she house?	1-The pens are built with noble metal. 2-She can raise the chickens in four months. 3-She currently has 37 chickens (cost projections based on current supply). She has room for 150 chickens.	Not funded because she was approved at her bank for a S./22,000 loan at a 9.98% interest rate for the entirety of her wall remodeling.
Saul	Shoe business	Machinery: S./10,000 (will buy the machinery from Arequipa; he already provided a S./20,000 down payment) -He already has materials because he has an	S./500-600 per week (can pay the loan off quickly because he will receive money daily)	1-What collateral can he offer? 2-Can he register his business since he is requesting more than our original loan cap? 3-What is his differentiation strategy?	1-He has a lot of property to provide as insurance (land title for S./10,000, a taxi, and a S./30,000 machine). 2-We looked into the registration process with SUNARP and acquired legal documentation by going	Funded

		established business for six years			through the Notario Galvan notary process. 3-There are 3,000 shoe salesmen and high competition, yet only 10 people do what he does.	
Marisol	Retail business	Vitrina: S./500 Merchandise: S./10,000 -Has her own house	S./12- S./20 per day	1-Would she accept a smaller loan to start off? 2-How soon could she start repaying?	1-No 2-Needs three to five months	Would not accept a smaller loan, so not funded
Marivel (Saul's wife)	Guinea pig farm	Renovation and new animals: S./2,000-2,500 (needs an additional 25 meters of space to expand animal enclosures)		1-What is her collateral? 2-What is her motivation for applying for a loan when her husband is applying separately?	1-A taxi 2-She has a daughter from before her marriage to Saul and wants to be financially self-sufficient.	Received a 200 sole loan after we explained we could not give out such a large loan to a single family
Judith	Repair shop	S./10,000				
Mary Luz	Salchipapa stand	Salchipapa: S./610 Reimplementation of store: S./200 Materials: S./1000 Total: S./2000		1-How long does she need for repayment?	1-Two months	After speaking with her husband, she did not think she could repay the loan and thus withdrew her application

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For the second round, the loan applicants were requesting smaller amounts, so we were able to fund all loans.

Name	Business idea	Costs and capital required	Projected revenue	Application status
Ricardina	Raising chickens	S./1,050 (chickens, medicine, food)	S./1,318	Funded (S./1,000) after decreasing cost projections
Enrique	Guinea pig farm	N/A	N/A	Funded
Teresa	Restaurant expansion	N/A	N/A	Funded
Iledgar	Taxi business	Battery: S./150, lasts 1 year Oil change: S./100 soles, lasts 1.5 months Rims: S./25/tire → 100 soles in total, lasts 6 months Tires: Total cost: S./200, lasts 1 year	Minimum S./100 per day	Funded
Maricruz	Performing dental services in Huancayo	-Already has local display windows, machines, and infrastructure Expenses include: Anesthetics x 3: S./150 Recinas x 2: S./300 Fillings: S./200	Charges for services range from S./25 for extractions to S./600 for a complete prothesis	Funded
Pilar	Fish (jurel) business selling directly to customers	Two cages: S./180 Marketing: S./200 40 kg of fish: S./180	S./7 per fish	Funded
Sonia	Raising rams	S./150-180 per	S./200-250 per	Funded

		carnero, S./40 per trip to purchase	carnero	(S./1,000)
Esther	Preparing animals for sale at fairs	Cow: S./1,500 Bull: S./800- 1000 Heifer: S./800- 1,000 Bessero: S./150 Food for seven animals for one week: S./49 Transportation: Average S./10 per trip	Cow: S./1,600- 1,800 Bull: S./900- 1,000 Heifer: S./1,100-1,600 "Bessero": S./200-220	Funded

Although some of these business models look financially unfeasible because of the cost-to-revenue ratio, we based the feasibility metric on variable costs to revenue (contribution margin), as fixed costs can help sustain the business in the long term and be paid off over time.

Here are our total loan disbursements after two rounds:

Loan recipient	Loan size	Date distributed	Status as of December 2014
Saul	S./10,000	June 22	No payment (pursuing legal process)
Anais	S./2,500	June 21	75% behind schedule (chickens fell ill)
Ricardina	S./1,000	August 12	Ahead of schedule with repayments
Enrique	S./1,500	August 19	Repaid
Teresa	S./1,000	August 19	Repaid
Iledgar	S./800	August 12	On schedule
Maricruz	S./1,100	August 12	On schedule
Pilar	S./800	August 12	On schedule
Sonia	S./1,000	August 12	On schedule
Esther Loan 1	S./1,000	August 16	On schedule
Esther Loan 2	S./1,000	September 15	On schedule

The financial statement of the knitting co-operative:

Blue Sparrow

Job Profit & Loss Statement

1/1/14 through 12/9/14

12/9/14
11:00:35 PM
Account Name
Selected Period
FYTD 2014
Page 1

Account Name	Selected Period	FYTD 2014
Amano	Amano Knitters	
Income		
Wharton Microfinance Grant	S/2,750.00	S/2,750.00
Product Sold	S/4,791.13	S/4,791.13
Total Income	<u>S/7,541.13</u>	<u>S/7,541.13</u>
Expense		
Labor Hired	S/3,824.00	S/3,824.00
Cargo	S/55.30	S/55.30
Raw materials	S/3,780.75	S/3,780.75
Postage	(S/227.65)	(S/227.65)
Travel	S/128.00	S/128.00
Website hosting	S/122.09	S/122.09
Office Supplies	S/4.00	S/4.00
Bank fees	S/140.52	S/140.52
Publicity	S/53.59	S/53.59
Tools & Other Equipment <\$200	S/59.00	S/59.00
Furniture & Appliances <\$200	S/454.80	S/454.80
Total Expense	<u>S/8,394.40</u>	<u>S/8,394.40</u>
Net Profit (Loss)	<u>(S/853.27)</u>	<u>(S/853.27)</u>

A comparison of expectations and results, by assumption:

1. There are small business owners in Huancayo who are not adequately serviced by current financial institutions

Before coming to Peru, we conducted several Skype calls with Blue Sparrow to investigate the landscape for our program. We asked them to evaluate prospective communities on the following basis:

- What types of (business) projects are they working on? What stage are they at in the development process? If they don't have a business, what vocational skills do they have?
- Are people working individually or in teams? What is the composition of these business teams (e.g. size, gender, family/friends, education level)?
- What time and day of the week would work for them to meet? Are they willing to meet on a regular basis (1-2 times per week)?

-Out of the Blue Sparrow locations (including the partner schools), where would they most likely go to for training?

From May 6 to 28, we visited four different communities: Asuncion, Pachachaca (rural), Huancan, and El Tambo. We tried several different experimental marketing approaches: announcements at larger gatherings (Mother’s Day celebration and parent conferences), sending flyers home with the students, and spreading news about the program through word of mouth.

The results were as follows:

Method	Community	Result
Announcement at Mother’s Day	Huancan	2 came to information session out of 100 flyers distributed
Announcement at Mother’s Day	El Tambo	8 came to information session out of 100 flyers distributed
Sending flyers home with students	Asuncion	0 came to information session out of 300 flyers distributed
Word of mouth	Pachachaca	12 came to information session out of 30 parents in the town
Word of mouth	Huancan	6 more women came to information session (reached out individually through word of mouth)

We conducted qualitative interviews of program applicants and helped each person fill out a questionnaire explaining their business idea, their expected revenues and startup costs, and their current skills and experience.

Here are the results from the first round of applications:

Type of business	Number	Capital required (estimated varied by application)
------------------	--------	----------------------------------------------------

Raising guinea pigs	5	1500 soles, 300 soles, 1200 soles, 200 soles, 1000 soles
Starting a restaurant	1	550 soles
Selling clothes	1	2000 soles
Buying small animals	2	1200 soles
Selling bulls	6	1500-2000 soles
Starting a store (shoes, painting, baby items, etc.)	5	400-500 soles, 350 soles, 500 soles, 700 soles
Selling quinoy and corn	1	
Starting a bakery	1	2000 soles+
Selling chicken	1	2000 soles
Poster/digital design business	1	
Raising guinea pigs and chicken	1	
Launching a mechanical workshop	1	
Starting a jugueria	1	5000 soles
Raising horses	1	800 soles
Knitting business	3 communities	3000 soles (1000-1500 soles each)

This indicated interest from community members in El Tambo, Huari/Huancan, and Pachachaca.

Since the Pachachaca businesses lacked a viable model and mostly involved buying, fattening, and reselling animals, we decided to focus our efforts on El Tambo and Huari/Huancan.

2. Peruvians will be receptive to business training from American university students

According to our informal interviews about program effectiveness, the participants all enjoyed the business curriculum and found the supplemental English lessons provided by Mara to be helpful.

We shortened the length of the program to five lessons within two weeks (originally, the duration was set at eight to ten weeks), so that we could begin the consulting phase faster. Without initial capital to experiment with, it proved difficult to foresee and troubleshoot problems. One participant said that it would have been more helpful to delve into the details of each person's

plan, so that they could learn from each other. Kim and Sai tried to implement this change in Huari to facilitate community building. In-person conversations revealed that some of the business concepts needed to be simplified in order for participants without a formal education to understand the content and that we should focus, in the future, on financial literacy to improve family budgeting and saving. We customized the training to make it very oral and visual with minimal written material to further cater to people who could not read or write.

3. Providing business consulting and financial literacy education will lower client default rates

This assumption will be hard to test in the short term, as we need to continue to refine our curriculum. Furthermore, we still do not know the final outcome of Saul’s loan. Saul claimed to have purchased new equipment, but upon our observations of this “new equipment,” we found that it looked to be equipment he had borrowed previously from his friend. Matt and Serei suspect he is not telling the truth about his funding needs and revenue sources, and thus far he has defaulted on every payment. Since we have some of his assets and property under collateral, we may need to pursue legal pressure to force repayment. Since Saul’s loan represented around 30% of the loan pool, his ethical shortcomings artificially inflate the default rate.

4. Borrowers will take the repayment of loans with lower interest rates seriously

When setting the interest rates, we found data online about the interest rates of other Peruvian microfinance organizations.

Name of program	Target audience	Model	Average size of loan	Indicators of success
Caja Huancayo Huancayo, Peru http://www.cajahuancayo.com.pe/	Small to medium sized businesses in Huancayo, Peru	A for-profit bank offering high-interest loans (interest rates up to 100%)	\$2,722	-198,312 depositors in 2012
SKIP Peru	Families and	A nonprofit	\$18-\$110	-59 loans

Trujillo, Peru http://www.skipperu.org/	individuals in Trujillo, Peru	organization that offers zero-interest microloans, financial literacy training, and vocational workshops		offered in 2012 -98.7 percent repayment rate
Blue Sparrow http://www.bluesparrow.org/	Families and individuals in Huancayo, Peru who would be unqualified for loans from traditional banks	-A nonprofit organization offering business training and low-interest microloans (three-month grace period and then 10% interest rate) -Primarily involved in starting guinea pig farms	-\$200	-Works in three communities and offered 20 loans in 2013 -Over 90% repayment rate
FINCA www.fincaperu.net/	Economically disadvantaged women in Ayacucho, Lima, and Huancavelica	-A nongovernmental organization offering credit and savings programs (68.7%-79.6% interest rate) in addition to education on women's rights and entrepreneurial skill training	\$208	-Dropout rate of 46% in 2008 (39% of these cases were because of default)
Asociación Arariwa http://www.kiva.org/partners/119	Low-income entrepreneurs in the Cusco, Arequipa, Puno, Apurimac and Madre	-A nongovernmental organization offering microcredit in the Cusco region	\$1000 (approximately 12.80% of per capita income)	-14,000 clients -Works with Kiva, which has a 99% repayment rate

	de Dios regions			
Fondesurco http://www.fondesurco.org.pe	Remote populations in Southern Peru	-Nonprofit microfinance institution with around 3.42% average interest rate	\$1,480	11,095
Mibanco	Small-scale entrepreneurs in areas where access to finances is limited (Lima and Callao)	-Private bank -Interest rate of 25-50% with a repayment period of three to 60 months	\$100 to \$4,000	325,068

Although our interest rate was among the lowest, we did not encounter significant resistance to repayment, with the exception of Saul.

There is a market for our clients' business ideas

As demonstrated by the repayment results, for the most part, business owners were able to achieve forecasted sales, which indicates that there is market demand for the proposed businesses. We tried to invest in larger-scale projects than Blue Sparrow had formerly dealt with. Based on our sales experience with Amano, there is demand for knitted items abroad, particularly for scarves, hats, custom-designed sweaters, and hair accessories (over \$2000 in international orders in the first few months of operation). The volume sold varied considerably by product type, but we now have a better understanding of our faster-moving inventory items. We also hope to sell hand-dyed alpaca wool directly to knitting co-operatives, as Blue Sparrow has relations with alpaca farmers in Huancavelica, a town two hours from Huancayo. Our current challenge is to identify retailers that are not at overcapacity budget-wise for knitted items. To address this obstacle, we plan to recruit a few retail/marketing interns from Penn during the spring semester to prospect potential partners and

conduct market research. We may also invest in training from professional designers to further differentiate our product line.

Chapter 13: Manage the Upside and Downside

Preplan for disengagement: if the venture was to fail, we should keep some key considerations in mind.

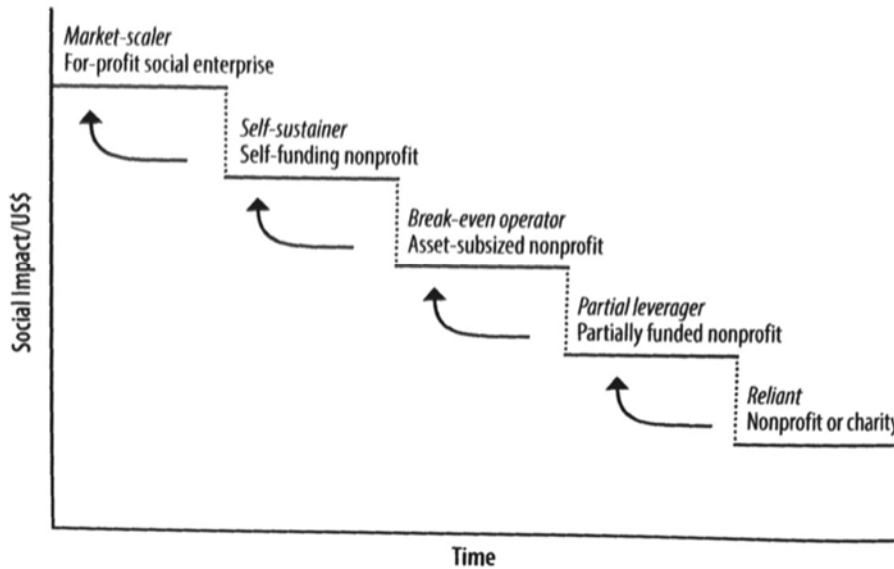
Considerations:

1. How to preserve relationships with Blue Sparrow and other NGOs doing important work in Peru
2. How to leverage Penn's resources to make a difference by fostering entrepreneurship in underserved communities

Positive second order effects: Mara explained how working in Peru gave her “a more realistic expectation” of international development work, stretched her adaptability to rudimentary living conditions, and made her even more committed to interning or working abroad in the future. Similarly, Kim, who is currently pursuing her Princeton in Latin America fellowship in Nicaragua, said this helped her prepare for some of the challenges she would encounter with Comunidad Connect and develop more flexible thinking. The students also forged strong relationships with their Peruvian host families and a greater appreciation for other cultures.

Negative second order effects: Since we gave larger loans than Blue Sparrow has traditionally distributed, this led to misguided expectations in communities. We have also found that many Peruvians were ungrateful for the loans and often expected additional funding in the future or began charging higher prices for their knitting, which caused strain for Matt and Serei.

Figure 13.2: Aspirations Cascade: Amplifying Social Impact



Currently, our organization is a partially funded nonprofit, but in time I hope it will become either a self-funding nonprofit or a for-profit social enterprise.

Key Takeaways

According to Eric Ries’s lean startup model, MacMillan’s discovery-driven planning principles, and IDEO’s design thinking framework, it is necessary to continuously refine one’s business model based on small launches to test hypotheses and create ongoing feedback loops. We were able to validate our assumptions over the summer that there is demand for our microenterprise incubator and for Amano; however, based on our experience with Saul, we still need to work to ensure that applicants are more appropriately vetted for integrity before approving loan applications. In the future, in addition to obtaining original copies of their lease as “garantia” and enforcing SUNARP registration, we might ask for community references. Although some individuals may have taken advantage of program offerings, many of our other participants used the capital to grow their businesses and provide basic necessities for their families, thus from a nonprofit standpoint, the social benefits outweigh the occasional cost.

Moving forward, we plan to recruit four to five students from Penn to return to Peru this summer to conduct a condensed version of the training. Although we will help students with fundraising to offset travel costs, we will not provide funding for flights or accommodation expenses. The main challenges that arose last summer resulted from miscommunications between Matt and Serei, who had returned to Canada over the summer for the birth of their baby, and our Penn team on the ground in Huancayo. In the future, Matt and Serei will play a much larger role in the administration and strategic direction of the program. We have learned that it is not possible to run an independent standalone program in Peru from the United States with periodic oversight from a partner in-country NGO and that our policies need to be consistent with Blue Sparrow's in order to minimize confusion for our beneficiaries.

Chapter 14: Scale Up Your Social Enterprise

Comparative Study in India

As we continue to refine our microenterprise model in Peru, I am interested in exploring opportunities to one day operate the organization as its own social enterprise in another geographic location. I chose India to provide a comparative lens because of its large rural population (851 million people as of 2013), revitalized microfinance sector following the Andhra Pradesh Microfinance Crisis of 2010, and culture of *jugaad*, or frugal innovation – innovations that meet or exceed performance standards at significantly reduced operating and manufacturing costs. I created a database profiling India's top 25 MFIs according to CRISIL, looking at assets under management, disbursements, year-to-year growth, repayment rate, and the launch of new technology products, as announced through news and press releases. Through this database and in-person visits and phone calls with different microfinance firms across the country, I observed the following differences between microfinance in India and Peru:

1) Greater integration of technology

In the Thanjavur district, the Pudhuaaru KGFS launched a pilot with Qarth Technology, a mobile payment startup, and developed an application for Java and Android phones that allows customers to make loan repayments. Swadhaar FinServe Pvt Ltd, a banking company based in Mumbai, worked with Airtel and Axis Bank to introduce the mobile wallet concept and received the Finnoviti Award 2013 for its innovative technological solutions. Technology allows Indian MFIs to use SMS messages and biometric fingerprint scanning to create a customer database, from which the operations team can extract and analyze customer profiling data.

2) For-profit models

As a country with 1.25 billion people, India needs financial services at a larger scale than can be provided through a nonprofit model. Of the top 25 microfinance companies as ranked by CRISIL, 21 were non-banking financial institutions (NBFIs), receiving funding from debt lenders and equity investors in the for-profit sector.

3) Provision of insurance

Zachary Yerushalmi, Senior Director of IFMR IRCS, explained that the organization assumes responsibility for selecting the right product mix and protecting the client. By buying insurance, farmers do not risk defaulting on their loan payments in the event of a crop failure or the death of livestock.

4) Less focus on entrepreneurship

Executive Director of the Parinaam Foundation Mallika Ghosh explained, “We link beneficiaries with vocational training sessions.” Although Parinaam has provided livelihood training in the past, for the most part, Ghosh recognizes that people may have different purposes in applying for a loan and may be better suited for hourly wage jobs, such as garden or house work. Many MFIs, such as Madura Microfinance and Suryoday Microfinance, offer business development or financial literacy education through private trusts or subsidiary nonprofit organizations.

5) More governmental regulation on interest rates

After the Andhra Pradesh Microfinance Crisis, in which suicides over indebtedness severely harmed the microfinance sector’s reputation internationally, the Reserve Bank of India (RBI) tightened regulations on microfinance. Until April 2014, the RBI set an interest rate cap on loans at 26%, but has now linked it to the cost of funds. The interest rate should be at maximum a 10%

margin in addition to the cost of funds. Microfinance institutions in India have been unable to accept deposits, as per government and RBI restrictions.

6) More group lending

In Peru, group lending does not work because people do not want to be accountable for each other. Conversely, in India, the most common types of loans are joint liability group loans (JLGs) and self-help group loans (SHGs). With the SHG model, around 10 to 20 members form a voluntary association, often with the assistance of an NGO, and open a collective bank account. Members borrow as needed from the SHG on terms set by the group. A JLG consists of an informal group of 4 to 10 members who apply for loans from MFIs and serve as a guarantee for one another.

Profiles of Organizations:

IFMR Trust

The Kshetriya Gramin Financial Services (KGFS) model has the mission of ensuring “that every individual and every enterprise has complete access to financial services.” The Institute for Financial Management and Research (IFMR) operates 220 branches across three geographic locations concentrated in 6 KGFS that are mapped through GPS technologies and serve 10,000 people, or 2,000 rural households, within a 4 to 5 km radius. KGFS branches have an average enrollment rate of 70 percent (CGAP Report). When establishing a branch location, IFMR ensures that there are not more than 4,000 inhabitants in the locality and no major competitors. After collecting information on the household (income, size of family, school enrollment of children, etc.), wealth managers estimate the household expenses and collect information on assets and liabilities through a Customer Management System. This system generates financial

product recommendations and produces a “Financial Wellbeing Report,” after which the customers visit the branch to make purchases. The FWR helps clients to reach their household goals through a Grow-Plan-Protect-Diversify framework, which mitigates risk and anticipates future financial needs.

IFMR expects each KGFS to generate profits within 18-36 months, produce an ROE of at least 20%, and have an asset base of \$300 million. Puneet Gupta, CEO and Executive Director of IFMR Rural Finance, explained that IFMR does not track social returns and runs itself as an NBFC (non-banking financial company), focusing exclusively on financial metrics. IFMR was one of the first MFIs to raise money from external debt investors, which, according to Kshama Fernandes, the CEO of IFMR Capital, allows MFIs to access “limitless pools of finance” and scale in a way that is not possible when raising funds from the government and grant-making foundations. In the future, IFMR is interested in licensing the KGFS model to other banks and selling mature KGFS to generate supplementary revenue.

Number of customers served: 500,000

Number of financial products: 20 (savings, loans, investments, insurance, risk management, pensions)

Assets under management: \$1,537 million

Interest rate: Around 26%

Repayment rate: Above 99%

Loan size: 2,000 to 50,000 rupees

Samasta Microfinance

Samasta Microfinance is an NBFC founded in 2008 that works to empower financially disadvantaged women in JLGs in rural, semi-urban, and urban districts of Karnataka and Tamil Nadu. Samasta aims to not only provide loans, but also to grow with the customers by staying in the same geography and working with the same household for on average two years. Samasta's loans start or expand businesses, most commonly agricultural and handicraft businesses. In the rural areas, people take loans for dairy cows, kitchens or gardens, while in urban districts the business started tend to be more diversified and less predictable. Currently in the process of starting an NGO, Samasta also offers medical camps, financial literacy training, income-generating assets such as sewing machines, and medical camps free of charge. Samasta's clients normally have not received formal business education, but have gained skills through family connections. Samasta has observed increased recognition of the utility of microfinance in the communities in which it advertises its services.

Number of customers served: 55,543

Number of financial products: 5 (3 loan and 2 insurance)

Assets under management: \$ 492,693,875

Interest rate: 26%

Repayment rate: 99.4%

Loan size: 15,000 to 35,000 rupees (loan term of six months to one year)

Parinaam/Ujjivan

Ujjivan is a for-profit MFI operating in 23 states with over one million borrowers. It was the first microfinance organization to start operations in urban areas. According to Ghosh, MFIs began working in rural areas because the residents migrated less frequently, which ensured higher

repayment rates. Parinaam and Ujjivan share office space and various human resource/administrative functions, although the two entities are legally separate. Parinaam operates as a nonprofit organization, focusing on microfinance plus projects, including academic sponsorship, education, healthcare, medical intervention, and financial literacy training. Ghosh explained that providing financial services does not teach parents to put their children in schools or undergo surgery, so Parinaam bridges a knowledge gap in the Indian developmental sector. With the Diksha Financial Literacy Program, Parinaam trains 6000 women over seven weeks and has taught 180,000 people over the past two years in partnership with the Michael & Susan Dell Foundation. As a result of the financial literacy programming, 78% of survey respondents were saving through a bank account and 80% were tracking financial expenditures. Parinaam also works in urban slums for twelve months at a time with families who have low education rates, high debt levels, and a lack of basic necessities, offering social services, livelihood development, and childcare. Some participants in the Urban Ultra Poor Program go on to apply for Ujjivan loans.

Number of customers served: 1,450,552

Number of financial products: 10-11

Assets under management: \$16,315 million

Interest rate: 22%

Repayment rate: 99.9%

Asirvad Microfinance Pvt Ltd

Asirvad is an NBFC founded in 2008 operating in urban, semi-urban, and rural districts of Tamil Nadu and Kerala. One of the few MFIs that has made a profit since its inception, it provides JLG

loans to women for income-generating activities, such as agriculture, running a pettishop or selling fruit. CFO Srikanth G. explained that their business models are very simplistic. Although the women are uneducated, they use pre-existing skills and can do basic recordkeeping of revenues and expenses. As a corporate social responsibility initiative, Asirvad operates a development foundation. The company and its employees contribute to the foundation, which provides medical camps and scholarships in urban and rural communities. Asirvad's clients have a maximum annual income of around \$2000 USD and are mostly entrepreneurial homemakers who want to earn supplemental income to provide for their families. Women are more reliable borrowers than men and are more likely to use the money for its intended purposes.

In the coming years, Asirvad plans to diversify geographically and enter two or three new states. Srikanth explained that owing to political entry barriers, the competition is fairly stagnant. Clients are very price sensitive and will normally choose the company that offers the largest ticket size. Since the RBI regulations have forbidden clients from accessing loans from more than two financial institutions at a time, clients can afford to be more selective. The main challenges faced by Asirvad include lack of funding during the first two quarters of the year and political pressure from government parties that try to capture the vote of the large uneducated segments of the Indian population. Asirvad measures their social impact and has found that microfinance allows clients to improve their quality of life. Clients will normally stay with Asirvad for as long as the institution serves their needs and are eligible for larger loans upon successful repayment.

Number of customers served: 210,000

Number of financial products: 1

Assets under management: \$35 million

Interest rate: 26%

Repayment rate: Nearly 100%

Loan size: 12,000 to 21,000 rupees

SEWA Delhi

Founded in 1972, SEWA Delhi is an independent trust that promotes the self-reliance and full employment of 40,000 poor women who traditionally were served by the informal sector. Operating as a for-profit institution through nominal membership fees, SEWA Delhi provides a range of integrated services to address the women's basic needs. For example, SEWA offers technical training for rural workers and companies to assist with production and exportation, as well as embroidery centers and women-owned fashion brands featuring silk weaving, tie-dye, recycled paper, and other traditional art forms. Additionally, SEWA has established partnerships with international retailers, such as Gap, NEXT, Monsoon, and Marks and Spencers, to create a market for the artisans' handicrafts. According to Sanchita Ben, one of the directors of SEWA Delhi, initiating these large-scale sales partnerships remains a challenge.

In 2007, SEWA Delhi set up a financial institution, the Mahila SEWA Urban Cooperative Thrift and Credit Society, to extend savings and credit plans to their beneficiaries. SEWA has tailored their services to meet the women's needs. For example, many women cannot bear the lost income from traveling to banks and suffer from illiteracy, meaning they cannot fill out standard forms for financial borrowing. For this reason, SEWA provides door-to-door services and allows women to use their SEWA Delhi Union ID card and photo as identification throughout the banking process. In 2013, SEWA also provided 300 trainings in financial literacy that benefited 4,500 women by promoting savings and preventing unnecessary borrowing.

Additionally, SEWA runs health awareness sessions, supplies social security linkages to government services, and conducts women empowerment trainings that help women become aware of their legal rights and come together to share problems. According to Ben, the women struggle because they lack negotiation skills for prices and are cheated by middlemen. Furthermore, they do not have knowledge of the market or of government schemes that provide financial and in-kind resources.

SEWA's Polytechnics work with adolescent girls aged 14 and older, many of whom have dropped out of school, to provide internships, entrepreneurial support, job placements (222 placed in 2013), and training courses in subjects encompassing graphic design, beauty culture, clerical work, sales, tailoring, and textile design.

In order to connect with new communities, SEWA works with local leaders who are able to present SEWA's service offerings. As a result of SEWA's efforts, Ben has seen women become "more empowered" and develop a "sisterhood" within the SEWA community, which leads to greater financial independence and self-advocacy.

Number of customers served: 7,532

Number of financial products: 3 (regular, gold, emergency)

Interest rate: Around 18% (co-operative members often set their own rates)

Loan size: 6,000 to 50,000 rupees

ESAF Microfinance

Established in Trichur in 1992, Evangelical Social Action Forum Microfinance (ESAF Microfinance) runs SHGs, working in six branches and providing both financial and non-financial services to 250,000 clients. ESAF Microfinance is one of the more socially focused

organizations with programs touching all aspects of its clients' lives, including healthcare, affordable housing, natural disaster preparedness, and holistic child development, through which it provides a values-sensitive curriculum, a school uniform, food, books, and health check-ups to needy children. The company runs the ESAF Swasraya Producer Company Ltd to provide entrepreneurship and design training for 250 artisans working on innovative creative projects in bamboo, screw pine, and natural fiber and also offers workshops for small business owners. ESAF also works to link clients to external markets through producer companies in handicrafts, herbal and medicinal products, agri-foods, and dairy and meat products, which formalize co-operatives into professional organizations run by members who democratically set their own policies and hold equity shares in the company. The children of loan recipients can also receive career guidance from ESAF in the form of aptitude and career tests, personality assessments, academic resources, and programs covering resume writing, stress management, leadership, interviewing, and negotiation, among other skills relevant for the workplace.

Number of financial products: 13

Assets under management: \$92 million

Interest rate: 25%

Repayment rate: 98%

Loan size: 15,000 to 40,000 rupees

Dalit Indian Chamber of Commerce in India

The Dalit Indian Chamber of Commerce in India (DICCI) has the mandate “Be job givers, instead of job seekers” and provides value-added services to the Dalit caste in addition to advocating for policies and partnerships benefiting all SMEs (small and medium-sized

enterprises). In addition to organizing workshops, mentoring, and networking events, they work with credit rating agencies to help SMEs achieve formal certification. Most of DICCI's entrepreneurs are people from the middle class with backgrounds in manufacturing; however, DICCI also deals with unskilled labor traveling from rural areas with no formal contracting or legal identification. According to Sarah Kho, Wharton junior and summer intern with DICCI, some of the main challenges facing minority entrepreneurs include implicit discrimination in urban areas, lack of connections, and poor access to credit. Although DICCI does not provide microfinance services, it began a Rs 10 cr. venture capital fund in 2013 through support from the Small Industries Development Bank and aims to eventually raise a total of Rs 500 crore to provide early-stage business funding. As an example of DICCI's impact, DICCI helped 10 workers win a contract with Tata Motors by making the initial introductions and industry linkages.

The Opportunity for India

The model we are experimenting with combines skill training with microfinance and consulting services, providing resources for entrepreneurs who may never reach the VC or private equity stage, but still need to learn sound business practices. Currently, Micro, Small and Medium Enterprises (MSME) make up 8 percent of India's GDP. These entrepreneurs receive support from the following government agencies: National Institute for Entrepreneurship and Small Business Development (NIESBUD), National Institute for Micro, Small and Medium Enterprises (NI-MSME), Indian Institute of Entrepreneurship (IIE), and the Development Commissioner (DCMSME).

According to *Reimagining India: Unlocking the Potential of Asia's Next Superpower*, “43% of India’s poor who have exited agriculture are engaged in low-skill informal services – vegetable sellers, food handlers, handcart pullers, shop clerks, maids, and drivers.” Rajat Gupta, Anu Madgavkar, and Shirish Sankhe from McKinsey believe that short training courses and certification systems could drastically improve income levels for the lower class. At present, India only has 159 incubators and needs other institutions that provide infrastructure and networking (194). The 2012 Bain & Company report “Creating a Vibrant Entrepreneurial Ecosystem in India” reported that Indian businesses “have not generated significant employment in the past few decades and are unlikely to do so in the coming decade or two.”

From my experience living in India for ten weeks, India’s microfinance sector is one of the most vibrant in the world, with among the highest repayment rates, scalability, and regulation. Unfortunately, the funding mechanisms remain detached from entrepreneurial support programs and communities. This has led to many uncommercialized innovations and misguided spending decisions, with only 56 to 78 percent of average incomes spent on necessities and the other portion of income going toward less productive use, such as festival participation, drugs, and alcohol (Field, Holland, and Pande).

In *The Social Entrepreneur's Playbook*, MacMillan presents two strategies for scaling a social enterprise: cookie cutter, which involves replicating existing operations in other geographic locations, and expansion from the core, which expands operations at a single site to make use of economies of scale. If we were to replicate our model in India, I would suggest that we try a cookie-cutter model, while taking into consideration the cultural nuances between states. In India, it might be helpful to partner with a for-profit MFI instead of a nonprofit focused on social services. Providing a hybrid nonprofit-for-profit model in the same vein as Ujjivan and

Parinaam seems to be an effective way to achieve competitiveness on the basis of both financial and social returns.

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