Exploring the Use of Micro-grants to Accelerate Sustainable Financial Mobility

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Abstract

In this paper, we explore the use of micro-investments (small investments of less than USD 200 in entrepreneurial projects) as aid. We discuss the potential of setting public policy that uses entrepreneurship to move communities out of poverty. Finally, we compare our approach to the more traditional forms of welfare, and discuss the pros and cons of our approach.

Introduction

From 2009-2019, India moved over 271 million people out of poverty [1]. This is commendable, but recently, India's progress against poverty has stagnated. The COVID-19 pandemic has exposed cracks in the Indian growth story, where between 2020 and 2021, India saw the highest global increase in poverty rates [2]. Even before the devastating effects of the pandemic, 75% of rural Indians lived on less than USD 0.4 (INR 32) a day, with more than 800 million Indians classified as either unemployed or underemployed [3]. In 2020, the World Economic Forum reported that it would take an average low-income Indian family over 7 generations to reach the country's mean income of INR 1.12 lakhs (USD 1400).

Traditionally, the Government of India has tackled poverty by offering aid. Aid is money, equipment, or services that are provided for people, countries, or organizations who need them but cannot provide them for themselves. Governmental aid in India is commonly offered through the subsidization of essential goods and services (such as housing, LPG connections, education, food, etc.). While governmental aid remains crucial and beneficial, researchers have recently been exploring areas where governmental aid falters.

In her landmark book *Dead Aid*, Dambisa Moyo argues that economic growth drives poverty reduction, but aid inhibits economic growth [4]. Moyo calls aid an unmitigated political, economic, and humanitarian disaster for most parts of the developing world, and presents a convincing case on how aid stifles economic mobility.

One example of this phenomenon is US-based *TOMS* Shoes, whose value proposition was to donate a pair of shoes to villages in Zimbabwe for every shoe purchased. The compelling argument was that more shoes would result in a substantive improvement in quality of life, measured against greater school attendance and self-esteem. What followed instead was negligible change to the lives of poor children and a 'learned dependency' on foreign aid that overshadowed economic growth and drove local shoe businesses to the ground [5].

Leila Janah further explicates on aid in her book, *Give Work*, arguing that certain forms of aid are vital. Her examples include emergency or charitable aid agencies that provide food, medicine, clothing, and other goods and services that alleviate immediate suffering, often in the aftermath of a disaster. Importantly, she concedes that all other forms of aid must be laid to rest for three key reasons.

First, corruption—specifically in the context of governmental corruption engendering leakages in aid programs. Statistically, India ranks high on most corruption indices. *Transparency International* gave India a score of 40 out of 100 (0 meaning a completely, non-corrupt society and 100 meaning complete corruption) [6]. Over 40% of people who used public services in 2021 reported paying a bribe. Most markedly, pilferage and theft remain customary in India's public distribution system. Daniel Overbeck, in his paper 'Leakage and Corruption in India's Public Distribution System,' describes a stark average leakage of 67% in publicly distributed ration items.

Second, the fundamental structure of aid results in a lack of direct understanding of environmental factors and collaboration with affected populations. Often, the government will provide goods and services people don't need. Consider the example of *PlayPump*. Evangelized by the Kenyan Government and funded by the Clinton Global Initiative, PlayPump was a playground merry-go-round attached to a water pump. As kids played on the merry-go-round, the spinning motion pumped underground water into a 2,500-liter tank, bringing water to villages. Unfortunately, PlayPump didn't consult with local communities, and was a huge failure. The pumps were too expensive (a single PlayPump costed USD 14,000), too complex to maintain or repair in low-resource settings, too reliant on child labor (children would be forced to spin on merry-go-rounds, so villages could get enough water), and overall less effective than traditional handpumps [7]. Over USD 20 million was invested in bringing PlayPumps to villages across Africa, without any direct collaboration or consultation with local communities. The same amount could have been used to build hundreds of thousands of handwells across Africa, but a lack of direct collaboration (and, in part, the west's quixotic perception of what poorer nations need) resulted in an ultimately futile form of aid. Aid is often top-down, and thus ignores the needs and desires of local communities. Fundamentally, Janah says that people in these communities know more about their needs than we do.

Lastly, aid begets more aid. Aid doesn't improve the underlying capacity of people to do better, because it prioritizes commodities over opportunities. This results in a lack of capacity building and a learned dependency on external support, like seen in the example of TOMS shoes.

It is clear that traditional models of aid are ineffective. Recently, the development world has offered direct cash transfers as a substitute to aid.

In the wake of Mexico's economic crisis in the 1990's, Santiago Levy, a government economist, proposed to replace the slew of Mexican subsidy programs with deposits of money to the poor on the condition that they send their children to school and bring them in for health check-ups.

Instead of giving services to the poor, which involves substantive administrative costs, why not just give them money? Presumably, people know what they need the most and would be able to use the money in the most effective way. This leads us to the idea of unconditional cash transfers (UCTs), allowing recipients to spend the amount as they see fit.

Direct cash transfers could be an impactful way to immediately move families and communities out of extreme poverty. Some researchers argue that sending lump sums of cash triggers poor decision making, leading to the consumption of demerit goods or prodigality.[x]While empirical evidence suggests this might occur on a micro level, large-scale research has consistently shown that cash transfers are helpful in alleviating poverty. In 2020, for example, UNICEF's report on *Estimating the Impact of COVID-19 on Population and Child Poverty* found that cash transfers could halt the rise in poverty, as well as reduce it to below baseline level [8]. In 2017, Oxford Policy Management conducted a total of 21 studies covering more than one million participants and over thirty thousand households in Africa, the Americas, and Southeast Asia. They found that cash transfers reduced the odds of having experienced illness by an estimated 27%—a large and clinically-meaningful benefit. Unconditional cash transfers also improved food security, health of participants and their school attendance [9].

It is important to note that most cash transfer advocates do not think that cash transfers could end poverty. Instead, they believe that cash transfers serve as an effective means of meeting short term needs efficiently. The 2013 MDRC report describes the intention behind cash transfers as simply providing "cash assistance to low-income families to reduce immediate hardship". The report recognizes the need to "build up the human capital of rural families to reduce the risk of longer-term and second-generation poverty." [10]

While cash transfers are a young experiment, they have demonstrated success. Determined to restructure inefficient systems of aid that don't help the recipient, cash transfers present a creative means of empowering the poor to flourish by lowering administrative costs, respecting people's agency to allocate money the way they think is best, and improving health, education, and employment outcomes. If the choice is between traditional aid and cash transfers, cash transfers appears to outperform their predecessors.

But even though they are an improvement over traditional aid, cash transfers can still be problematic. First, cash transfers still position the poor as the dependent instead of the active protagonist in their own story of development. Second, the long-term benefits of cash transfers are unclear.

A 2018 research paper from Christopher Blattman, Nathan Fiala and Sebastian Martinez studies the evidence from Uganda's Youth Opportunities Program over a period of 9 years. In 2008, Uganda gave $400/person to thousands of young people. Four years on, an experimental evaluation found the transfers had led to a 57% increase in business assets, a 17% increase in work hours, and a 38% increase in earnings. Nine years later, however, the recipients of the grants were at the same level as the rest of the population, suggesting that the cash transfers did not provide recipients with "real, sustained earnings potential". [11] As George Ingram, a senior fellow in the Global Economy and Development program at the Brookings Institution writes in his 2018 report on cash transfers, "Individuals still need the institutions of justice within a free market to sustainably rise out of poverty". [12] While it's clear that cash transfers can be transformative in the short-term, there is unfortunately little research in understanding long-term, sustainable ways to eradicate poverty. In this paper, I propose the combination of cash transfers with entrepreneurship as a *sustainable method* of eradicating poverty.

The landmark 2020 paper by Neil Lee and Andrés Rodríguez-Pose researched the impact of entrepreneurship on poverty. In their model, an economy is divided into non-tradeable and tradable activities. Non-tradeable activities service local demand, with consumption taking place at the point of production. These include hotels, restaurants, retail, personal services and construction. In contrast, tradeable activities, such as parts of finance, consultancy, or manufacturing, can be performed anywhere and service national or global demand. [13] Lee and Rodríguez-Pose discovered that entrepreneurship in tradeables sectors dramatically reduces long-term poverty and increases incomes for non-entrepreneurs. In contrast, they find that while there are some economic benefits from non-tradeable entrepreneurship, those are not large enough to reduce poverty.

We are most interested in the relationship between entrepreneurship and the poverty rate. Figures 1 and 2 present scatter plots for these two variables, which demonstrate a negative relationship between poverty and entrepreneurship of both forms, with a higher correlation for tradeable entrepreneurship (correlation coefficient = −0.37, $p < 0.01$) than for non-tradeable entrepreneurship (−0.29, $p < 0.01$).

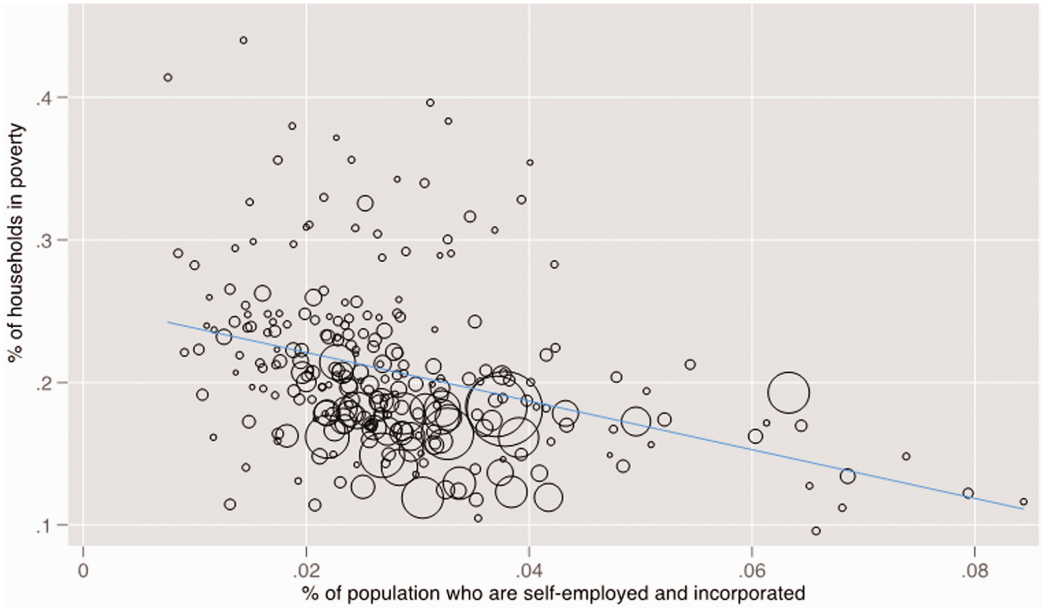

Fig 1. Poverty vs. entrepreneurship in US metropolitan statistical areas, 2015

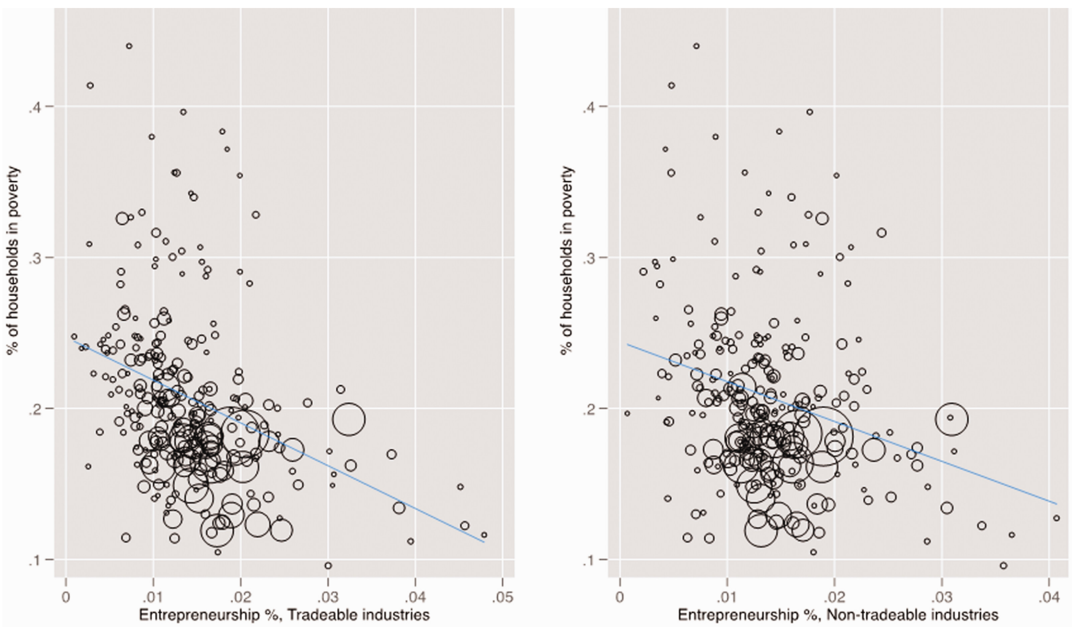

Fig 2. Tradeable entrepreneurship and non-tradeable entrepreneurship against poverty in US metropolitan statistical areas, 2015

Lee and Rodriguez conclude that to accelerate the fight against poverty, policy makers must accelerate entrepreneurship in tradable sectors. This would allow local enterprises to serve local and global markets, and thus, bring money from foreign economies to a locality.

I hope to take Lee and Rodriguez's work and apply it to rural India. Could we combine the short-term benefits of a cash transfer with the long-term benefits of introducing entrepreneurship in tradable sectors, to fight poverty in rural India?

In this paper, I study the potential of micro-grants (small investments of less than USD 200 in entrepreneurial projects) to tackle extreme poverty. A micro-grant is defined as an unrestricted cash transfer, designed to help the beneficiaries build and launch their own enterprise. It is important to distinguish here between a micro-grant and a micro-loan. Unlike a micro-loan, a micro-grant isn't meant to be returned, and thus, places no legal liability on the beneficiary. Instead, a micro-grant inherently trusts the beneficiary to use the money well, and enables them to experiment and take risks without fear of future liability. Though there isn't legal pressure to return the sum, our findings suggest the blind trust of UTCs engender a feeling of gratitude

Working together with Calcutta Foundation, one of India's most prominent nonprofit organizations, we identified 7 women in Gazna, one of the most economically backward villages in West Bengal. The women were identified based on their families' poverty level and their self-reported interest in entrepreneurship.

As a part of our research, we gave each of our 7 participants a grant of INR 10,000 (USD 126). The women received training in entrepreneurship, using curriculum sourced from Udhayam Learning Foundation. Finally, keeping in mind Lee and Rodriguez's suggestion, the participants of the study were specifically instructed to build businesses that could serve clients outside their village. In less than 3 months, the deployed INR 70,000 generated INR 100,000, leading to a profit of 42%. Most importantly, our participants reported high levels of confidence, determination, and joy.

The resulting enterprises have contributed positively to Gazna, leading to an increase in village wealth and employment levels. Most importantly, the women-owned enterprises, in generating substantive household incomes, help in implicitly reducing the societal perception of gender roles in the workforce. This is especially heartening as India has one of the lowest female workforce participation rates in the world [14]. Researchers give several reasons behind India's poor record of women employment, including a lack of social structure to support working women and a lack of access to grants. Entrepreneurship-supporting microgrants could fix that gap, and dramatically accelerate wealth creation for women.

As the researcher of this paper, I strongly believe that right now is the perfect time to attempt this idea at scale. For the first time in our history, rural India is in a position that micro-grants for entrepreneurship can be considered a practical solution to poverty. First, UPI and Aadhar payment methods have connected rural India to the world, and together, enable researchers and the government to make direct cash transfers to the accounts of millions of people at scale. Second, smartphone ownership in rural India has increased significantly, and thus, entrepreneurs in rural India can now build tradeable enterprises by selling their products and services regionally or globally. Third, the venture capital environment in rural India is now gaining pace, making entrepreneurship a viable and more popular career choice.

I believe that our experiment in West Bengal proves the efficacy of micro-grants in accelerating entrepreneurship and tackling poverty. I urge the Government of India to consider micro-grants as a form of aid. As described earlier, traditional forms of aid are ineffective and can rob the poor of their agency. Instead, micro-grants combine the best features of cash transfers, with the promise of unlocking entrepreneurship. They restore the agency of India's poor, and give them the opportunity to build sustainable enterprises that will enable them to move out of poverty.

Methodology: Pilot Information

Founded in 1995, the Calcutta Foundation has worked for over 25 years to strengthen low income communities in and around Calcutta [15]. Together with the team from Calcutta Foundation, I identified a village where micro-grants could be most impactful. Gazna is a small village located in the Nadia district in West Bengal, approximately 5 hours north of Calcutta. Located on the border of India and Bangladesh, Gazna was ranked among India's most economically challenged villages by Niti Aayog in 2018.

In our first visit to Gazna, we interviewed the women in the community and asked them the questions shown below. The women who reported the most interest in pursuing entrepreneurship were selected for our pilot:

1) What would your business do?
2) How did you come up with your idea?
3) Did you identify a problem that you initially started trying to solve, and if so, how prevalent is that problem as of now?
4) How will you reach clients in Kolkata and other cities across India?
6) What is your plan for the grant money and how are you going to use it?
7) What is your family's financial situation right now? Do you currently get paid for the work you do?
8) How much money does your family make right now?
9) How supportive is your family to you becoming an entrepreneur?
10) Do you have your own bank account and your own smartphone?
11) What obstacles do you think you will face as you build your company? And what is your strategy for solving them?
12) What are your financial dreams regarding your business? How do you hope to use this money to achieve them?
13) How much money do you project you can make in the first 6 months of your operation?
14) What other support (outside of money) would you need for your business to be successful?
15) How can the government best support you and your business?
16) In what areas, do you think you need to be trained for your business to be successful? For example: client acquisition, building your product lineup, price discovery etc

Post an analysis of the answers, the Calcutta Foundation team selected the 7 women, who could benefit the most from the grant, for the pilot.We made sure that all women came from Below Poverty Line families (families that make less than USD 1 per day). Figure 3 shows the 7 women, and Figure 4 shows one of the women who bought a sewing machine to scale her tailoring business.

Figure 3 : The 7 women who were selected by Calcutta Foundation for the pilot

Figure 4: One of the women entrepreneurs decided to build a tailoring business, and bought a sewing machine from the grant money

Results

Starting with just the grant of INR 70,000, the women of Gazna reported a total income of INR 100,000 (across all 7 businesses) in 3 months. Each of our 7 participants successfully launched their business, and each participant turned in a profit.

Most importantly, all 7 of our participants became the primary breadwinner of their families. This is especially rare in Gazna, where most women aren't financially independent.

A description of the businesses the 7 women launched is shown below:

Participant ID	Age (yrs)	Business Idea
P1	35	Bought raw materials with the help of the grant and received 25 orders from neighboring villages. She is now using the profits to set up her first shop in the market.
P2	32	Used the money to buy a parlour chair, waxing and hair color materials. This enabled her to launch her home business
P3	35	She already has a basic sewing machine. She used the grant to attach a motor to the sewing machine and set up shop in her own home. This reduced time taken to complete an order by 5x, and she has since completed 100+ orders
P4	29	She has bought parlour essentials to set up a door to door business. A novel idea, she sets up pop-up parlour stores in areas in and around Gazna
P5	34	She used the grant money to setup a school in her home where she would train other young women in Gazna, on how to be entrepreneurs
P6	29	She set up a parlour business in the neighboring village to Gazna and used the grant money to build her first store.
P7	28	Bought a color printer and an ink printer to setup the village's first printing shop.

Qualitative Results

After the 3 month period, we interviewed our participants to understand their experience better. Interviews were conducted in a personal, friendly manner to encourage all forms of feedback. The received feedback can be divided into 3 key areas:

1. "The grant and its inherent trust was transformative"

Several participants reported feelings of gratitude, after receiving the grant. For example, a participant said:

"I was so surprised when didi told us that we were just getting free money. Nobody gives anything for free. So, I thought there must be a catch. But, when I learnt that it was actually a free grant, I was so happy. Nobody trusts us like this. And it felt really nice."

Other participants felt that the grant enabled them to take big risks, which they might not have had the confidence to take:

"I have dreamt of opening my parlor shop for so long, but I couldn't afford to take the risk of getting a bank loan. I was scared of the shop failing, but when I received the free grant, I took it as an opportunity to take the risk and finally launch the shop."

2. “Attitudes in the village changed”

As our women entrepreneurs launched their businesses and succeeded, some participants reported a change in the attitudes in the village.

“My family was so surprised that I had made so much money. I am now making INR 3,000 per month from my tailoring business. I am also teaching other young women in the village how to launch their own business, so they can be independent. Now that they have seen me, they are interested in learning tailoring too.”

Other participants reported some tension due to their choice to take the grant.

“Earlier, my husband was annoyed that I took someone else’s money for my shop. But the new sewing machine I bought has a motor, and that allowed me to finish over 100 orders in 3 months. This brought in more money, so now my husband is happy”

3. “Money is the perfect first step, but we need more support”

Most participants reported feeling confident about their new businesses, but mentioned that they would appreciate more support.

“The free grant was great, but we also need some business guidance. For example, if you could send people to train us, and help us with creating online stores, that would be very useful, as selling prices in cities are much higher”

Following the feedback, we are planning to conduct several workshops in Gazna, on the various aspects of running a business. We are also providing our participants educational, entrepreneurial content in Bengali.

Conclusion

Through this research, we explored the use of micro-grants to accelerate financial mobility in rural India. The combination of the short-term impact of cash grants with a long-term focus on entrepreneurship makes micro-grants a promising solution in our fight against poverty. The results from our pilot are especially heartening. Our participants reported high levels of confidence and in just a short duration, became the primary breadwinners for their families. As the researcher of this paper, I strongly urge the government and the non-profit sector to explore the use of micro-grants at a greater scale. Given the developments on the ground, I strongly believe that this is the right time to evangelise large-scale enterprise creation in rural India. As we discuss in the paper, this will enable millions of rural Indians to become job-creators and not just job-seekers. Micro-grants have the potential to move millions of people out of poverty, and dramatically transform India.

As a researcher deeply interested in both economics and ethnography, I hope to conduct larger-scale studies in the field. I am currently working with Udhyam Learning Foundation and Karya Inc to launch a larger version of this study, where we will be offering an unrestricted grant of INR 10,000 each to 10,000 workers across rural India. I am confident that this larger study will re-confirm the lessons we have learnt from this study. Micro-grants can enable social mobility at scale and allow rural Indians to launch sustainable, transformative enterprises.

I want to thank the Calcutta Foundation for their help in this study, and to all our incredible participants in Gazna, who I feel so honored to have supported.

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