**SEWA ASHRAM MICROFINANCE PROGRAM 2014 Planning Process**

# **OUR CLIENTS**

*“Sewa Ashram is committed to serving the poorest of the poor within the context of community life, where one will find meaning, true community, intimacy and freedom. We provide an open door that is not based on religion, caste, race, ethnicity or gender. Our hope is to inspire people to develop a better understanding of who they are and their ability to contribute to society” (DHS website).*

* Emotional development is very important.
	+ Life groups are very supportive.
	+ However, some people need professional counselling in order to be able to cope with stressors/challenges.
	+ Being part of the groups helps people gain confidence.
	+ But we need to intentionally deal with issues of dignity.
* Physical, emotional and intellectual development are dealt with at the ashram.
	+ Need to make a safe environment for people to be able to make their own choices.
	+ Perhaps we should focus more on the other areas of development when they move to another home?
* Now, we should identify people who are ready to transition.
	+ Need a time period for transition – 1-2 years, for example – then they gain more independence.
	+ But they should remain part of our community?
		- We shouldn’t just send them on their own after whatever time period we nominate for transition.
	+ Whatever our plan, it must be a flexible plan
		- We can’t imagine that everybody will fit into our system.
* Need to find a property, work out how to pay the rent.
* Start some more ventures to generate income and create employment.
* By working with us, they are getting hands-on vocational training.
	+ Being paid a small stipend
	+ Then, they can take a loan to start their own business related to what they have learned. (e.g. They look after our cows, then we give them a loan to buy their own cows.)
	+ Less chance of loan default this way
* We need to look at people’s life goals.
	+ Connection with existing family
	+ Starting own family
	+ Many have the attitude of “I’m homeless; this is not for me” – but this is not an attitude we should just accept and not try to change.
* Need to have a pastoral care team – people to follow up on people that have transitioned out.

# **WHO QUALIFIES FOR A LOAN?**

* Those who are at the point of transitioning out are those who would be ready to apply for and receive loans.
* Current requirements for transitioning out:
	+ Reference from life group leader
	+ In life group for at least 6 months
	+ At ashram for at least 1 year before making any big decisions
	+ Stable/consistent behavior
* There is a need for set criteria for evaluating the holistic transformation of the individual and his readiness for transitioning out.

## **Holistic Transformation of the Individual:**

* *Sufficiently developed emotionally* – How can you define this?
	+ Shows an ability to cope
	+ Confident to make decisions about own life
	+ Mixes with other members of the group
	+ Shows empathy to other members of the group
	+ If necessary or recommended, has gone through professional counselling
* *Adequate social skills*
	+ Participates in group appropriately
	+ Able to communicate and share within the group
	+ Demonstrates ability to deal appropriately with conflict
	+ We would focus more on this area once they are in transition housing.
* *Economic development*
	+ Able to handle money
	+ Able to do a basic household budget
	+ Must be debt-free? (Not sure if any of the men have come in with some kind of debt.)
* *Physical*
	+ Strong and healthy enough for living outside of nursing care
* *Intellectual*
	+ Adequate problem-solving skills
	+ Adequate reading and writing and basic mathematical skills (Pass exam?)
* *Spiritual*
	+ Nothing essential here in terms of being eligible for transition housing.
		- It is when they are in the transition home that we would focus more in this area.
* *Life skills*
	+ Cooking, cleaning and laundry are all taught on rotation through the life groups.
	+ Time management – Need to get one’s self ready on time in the morning, communicate inability to attend work/study, stick to a routine, show responsibility for own time, etc.

# **INITIAL PROGRAM SETUP**

* Does the ashram need to register for any kind of license or certification in order to establish a microfinance program?

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| **Sl. No.** | **Type of MFI** | **Number** | **Legal Registration** |
| **Not-for Profit MFIs** |
| 1 | NGOs | 400-500 | Society Registration Act, 1860Indian Trust Act, 1882 |
| 2 | Non-Profit companies | 20 | Section-25 of Indian Companies Act, 1956 |
| **Mutual Benefit MFIs** |
| 3 | Mutual benefit MFIs – Mutually Aided Cooperative Societies (MACS) | 200-250 | Mutually Aided Co-operative societies, Act enacted by State Governments |
| **For Profit MFIs** |
| 4 | Non-Banking Financial Companies (NBFCs) | 45 | Indian companies Act, 1956Reserve Bank of India Act, 1934 |

SOURCE: NABARD ISSUES RELATED TO MICROFINANCE (<http://www.iitk.ac.in/ime/MBA_IITK/avantgarde/?p=475>)

🡪 Is there a way to use these loans as a means of establishing credit?

* Shikhar is affiliated with formal banks and is able to do this. Is there a way to establish this without connections to a formal bank?
	+ Self Help Groups (SHGs) give people a paper that says they have proven themselves to be financially responsible (able to take this to a bank).

🡪Self-Help Group bank linkage program (May cost to have it set up)

* + - Can Sewa Life Groups serve as Self-Help Groups in this way? How can we make this happen?
		- Important to try to meet with people from Shikhar to learn more about the process of setting up a microfinance program.

# **POTENTIAL MICROENTERPRISES**

* Businesses set up by men from the ashram should be a way to not only give themselves financial stability but also a way to give back to the community.
* Microfinance loans given specifically for the purpose of increasing income.
* Sewa Life Shop as a prerequisite and model for men starting their own business
	+ Started as an idea to motivate people and encourage them to see the world outside the ashram
	+ People started talking in their life groups about wanting to seek employment
	+ Good way to show other people that it can be done
* People who have come to the city are very unlikely to return to life in their village. It is unrealistic to expect these men to be able to set up a business within their family’s village, but there may be economic initiatives that can link a small enterprise in the city with those in the village in mutual benefit.
	+ Is it even possible, reasonable, or healthy to reconnect these men back to their families if it will cause them to fall back into old habits?
		- Case by case basis
* Potential businesses that could the city and the village:
	+ Food production – Rural farmers grow the food and the business in the city processes or sells it
	+ Need input from men at the ashram
* Preset enterprise options or proposals made by the individuals?
	+ Board/loan officer/staff review and grant permission for a loan for the specific business proposal
		- Room for creativity
	+ Part of financial discipleship and skill training might include learning how to create a business proposal? (Done with a staff member)
	+ Is Narela lacking any product or service?
* Microfinance for individual businesses vs co-ops using microfinance
	+ Microfinance tends to end up with self-employment whereas coops using microfinance to create shared entrepreneurship.

# **A SYSTEM FOR PAYING BACK LOANS**

* Repayment within 6 months? (Payments made weekly)
	+ Do we need loan officers outside of the current staff? (people who will meet with borrowers to track with them, run meetings to talk about how everything is going financially)
	+ Social guarantee and incentive – Taking loan as a group
		- Most common microfinance model in India
		- Loan to a group (individuals can use the money as they wish but it must be paid back in installments as a group)
			* Meet weekly (Life Groups)
			* Full payment must be made each time, even if one member fails to pay his share 🡪 Social pressure by other group members to ensure that everyone comes to the meetings and pays back their portion of the loan
			* Those applying for a loan generally choose who they want to go into a group loan with (know who is responsible and who they can trust)
				+ Do Sewa Life Groups fit this criteria? Groups could potentially form from within the larger group.
		- How does Sewa Life Shop fit into this? Could this be a potential sustainable source of income? (Very small)
		- How can funds generated by these microenterprises be recycled to go to other borrowers?
* Is it necessary to charge interest in order to be sustainable?
	+ Covers defaulted loans
	+ Recycles and adds to funds donated and designated for microfinance loans
	+ Would we be more comfortable with charging “administrative fees” instead of “interest fees?”
* Actions taken if someone defaults on a loan
	+ Interest only after a person defaults?

# **THE DIFFICULTY OF SECURING DONORS LONG-TERM**

If you absolutely do not wish to charge interest with microfinance loans, have you considered the following?

* What kind of funding is the ashram receiving and for how long?
	+ How many donors? (Team of different individuals? A company?)
* Is it going to be cut off at any specific point in time?
* Is there anyone who has taken up the responsibility of continuously fundraising from other sources?
* Are there any back-up plans in place if American donor cuts off funding? (i.e. banks who would loan to the ashram vs individuals at the ashram – not preferable)