

## Microfinance : Alternative Finance

### In-Kind Loans: The Things Money Cannot Buy

**Micro-entrepreneurs in developing countries need capital to grow. Micro-lending provides them with affordable credit. But what about people so disadvantaged that they cannot build a business on their own? In-kind lending combined with basic business training fills the gap.**



Hemali Hansda got four adult goats from Trickle-Up. Her income is enough to provide her her four children enough food throughout the year (Photo: Trickle-Up)

"Microfinance does not reach the people at the very bottom of the socio-economic scale - the 'poorest,'" writes the multinational Consultative Group to Assist the Poor. The group estimates that some three billion people of working age still lack access to financial services.

Many of these 'poorest' live in India. To reach them, loans or grants in kind, a common feature of the traditional Indian economy, often work better than cash. Organizations like Delhi-based Family of the Disabled (FoD) or U.S. NGO Trickle-Up focus on the truly marginalized and provide In-kind loans that demand little or no requirements apart from the motivation to improve one's life.

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"We have 17 partner agencies in India and all but one this fiscal year are giving grants in kind not cash," says Janet Heisey, Program Officer for Asia for the New York-based Trickle-Up Foundation. In 2007, the organization plans to supply 2400 Indians, mostly in rural areas, with goods or crops, says Heisey. "For instance, in West Bengal, with a \$100 grant we can buy four goats, an extension for the house, medication and feed for the goats for six or seven months," she explains.

#### Positive side effects

Hemali Hansda has four adult goats and four kids. The income from the goats has given her and her children food security throughout the year. Previously she had to scavenge for firewood to sell. Being an owner of property also enables lenders to take credit independently. Hansda, for

example, borrowed from her local Self-Help group to buy food and pay for medication. Previously she would borrow from moneylenders, who habitually charge exorbitant interest rates.

“We see India as essentially our laboratory for this approach,” says Susannah Hopkins Leisher, Trickle-Up’s Director of Programs and Strategic Planning. In India, Trickle Up works by identifying four or five promising business types in a particular area and then financing dozens of entrepreneurs in each of those businesses.

These economies of scale make purchasing in bulk and subsequently granting in kind more attractive than individual entrepreneurs negotiating on their own. Similarly, purchasing stock for Trickle-Up’s disabled entrepreneurs—10 percent of the total—often makes sense if, for example, they are visually impaired.

### **A springboard to microfinance**

There are potential drawbacks, acknowledges Hopkins Leisher. “There is a risk that it undermines empowerment if goods are purchased and delivered to entrepreneurs without their involvement in negotiating and handling money. There is also the question of how much of the \$100 grant is spent on the goods and what happens to the remainder.

“Monitoring, both of the money and purchased goods, and of entrepreneurs’ skills and self-confidence, may need to be better with in-kind grants,” she concludes. FoD and Trickle Up are bridging social protection programmes and orthodox microfinance with the in-kind model. Their programmes act as potential springboards to microfinance or mainstream banking and may well offer an effective means of bringing some of the three billion ‘poorest’ in from the margins.

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