Building Economic Self-Reliance

Trickle Up’s Microenterprise Seed Capital for the Extreme Poor in Rural India

Jan Maes and Malika Basu

Abstract: The Trickle Up Program is a US-based organization engaged in microenterprise development for very poor households in 14 core countries, including India. Because it targets the most vulnerable sections of the population, such as the rural landless, women-led households, people with disabilities, and economically disadvantaged minorities, TUP employs a seed capital grant strategy to facilitate its clients’ movement from absolute poverty toward economic self-reliance. TUP clients cannot risk taking a loan because they have no spare income to make payments if their enterprises do not generate an immediate profit. A conditional grant, in contrast to credit, exposes its recipients to less risk and allows them to grow a business with a longer payback period. This paper draws from a recent study of the Alternative for Rural Movement, one of TUP’s partner agencies in rural Orissa, India, and shows that its TUP clients moved successfully from a position of extreme vulnerability to one of significantly improved economic self-reliance.

The Trickle Up Program (TUP) is a US-based organization engaged in microenterprise development for very poor households in fourteen core countries, including India. TUP achieves its mission, to enable the lowest income people worldwide to take the first step out of poverty, by providing
conditional seed capital, business training, and other relevant services essential to the launch of a microenterprise, by working in partnership with local organizations. These partner agencies integrate TUP’s services into their model to achieve their own context-specific approach to poverty alleviation. Trickle Up refers to the individuals selected for participation in the program as TUP entrepreneurs, even though in most cases this level of enterprise would be better described as launching or expanding an income-generating activity. Very poor TUP households commonly engage in multiple income-generating activities and use the TUP seed capital to capitalize both existing and new activities.

While a discussion among microfinance practitioners as to who constitutes the poor or very poor is ongoing, suffice it to say that TUP’s local partners target the poorest and most vulnerable sections of the population residing in the communities they serve, including the rural landless, women-led households, people with disabilities, and economically disadvantaged minorities. These people often cannot afford to take the risks associated with a loan, even though many are capable of running successful and profitable enterprises. Over the past two decades most microenterprise development and microfinance initiatives have been targeted at the so-called working poor, the majority of which are clustered just above and just below the poverty line. Most microfinance institutions that are driven by financial sustainability standards exclude the very poor, because loans to the very poor are seen as too risky and too labor-intensive. Even microfinance programs that deliberately target the very poor do not always manage to provide this target group with access to financial services, because the very poor often exclude themselves from such programs or are excluded by less poor clients.

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TUP clients, on the other hand, typically belong to the very poor living below the international US$1-a-day poverty line. Some TUP clients, including those portrayed in this study, can be labeled the *extreme poor,*\(^2\) as they live on less than $0.50 a day (taking into account purchasing power differences as with the international $1-a-day standard). Most microfinance practitioners would consider these extreme poor people unsuitable for microloans or any microenterprise interventions, since they are unable to provide for even the most basic daily needs or cope with frequently occurring emergencies. Although they struggle to survive in this condition of extreme vulnerability, owning little or no land or animals and suffering for long periods of time from chronic food deficits and illnesses, Trickle Up believes that even the extreme poor are capable of running a successful microenterprise. The key ingredient of TUP’s microenterprise development program is the provision of a seed capital grant, typically in the amount of $100, given in two consecutive installments, and based on certain conditions, to be explained later in this paper. Trickle Up’s seed capital poses less risk and therefore represents a more acceptable option for the extreme poor to invest in the start-up or expansion of income-generating activities.

While the use of grants as a microfinance strategy is controversial, proponents agree with the Consultative Group to Assist the Poor (CGAP) that microgrants can be “the first step in a strategy to graduate the poor from vulnerability towards economic self-sufficiency” (Parker, 2001, p 7). The research reviewed in this paper reveals strong evidence that extremely poor households can achieve economic self-sufficiency after receiving seed capital grants, and that access to a range of business and non-business support services provided by local NGOs are at least as critical for success.

The objective of this paper is to understand the effectiveness of the TUP seed capital grants in the creation of profitable and sustainable income-generating activities, and to highlight additional microenterprise program factors that facilitate progress from a situation of extreme poverty to one of improved economic self-reliance. This self-reliance can be typified by a sustainable increase
in household income and productive assets, enabling a household to continue to build up its economic strength. Finally, it should be emphasized that in its evaluation of the effectiveness of the TUP model, this paper focuses almost exclusively on the intended primary program outcome, household economic empowerment, while paying less attention to the hypothesized link between economic progress and the ultimate goal of social impact.

Methodology: A Brief Overview

At the time of this study in January 2005, TUP was working with 19 partner agencies in India, mainly in the eastern states of Uttar Pradesh, Bihar, Jharkhand, West Bengal, and Orissa. The findings in this paper are the result of a study conducted in rural Orissa with one of TUP’s partner agencies. Known as the Alternative for Rural Movement (ARM), this agency is one of TUP’s most successful partners in Asia in moving a majority of their TUP clients from extreme poverty to a situation of significantly improved economic self-reliance.

The objective of the study was not to prove the impact of Trickle Up seed capital grants on the economic capacity of the extreme poor, but rather to learn about the types of income-generating activities in which TUP entrepreneurs choose to invest their seed capital, to understand their reasons for making certain business decisions, and to assess how these income-generating activities contribute to the diversification and strengthening of the household income portfolio. Therefore, the study methodology is best described as a practitioner (as opposed to academic) approach to impact assessment. Through the use of focus group discussions and a standardized survey, the research produced cost-effective and credible information on the most important economic changes that take place when TUP is implemented. The goal was also to understand the reasons for success or failure as well as the constraints faced by TUP households when conducting their microenterprise activities, thereby offering immediate insights as to how program operations can be improved in the future. By no means does the research aim to attribute specific household changes to
certain program inputs or to distinguish between Trickle Up’s and the local partner agency’s contributions towards achieving impact. The study leaves no doubt, however, that ARM’s own development activities are at least equally as significant as its implementation of TUP’s microenterprise program for achieving sustainable impact on a household’s economic portfolio and well-being.

ARM is a local Indian NGO that targets more than 50 villages in Baliapal Block, which is part of the coastal district of Balasore in Orissa, India. In addition to its proven success in implementing Trickle Up, the primary reasons for choosing ARM for this study were the following:

1. Its long-term association with TUP, which yielded a large pool of long-term TUP entrepreneurs, thus enabling the researchers to gauge the sustainability of the economic changes believed to be facilitated by TUP.
2. The variety of income-generating activities undertaken by TUP entrepreneurs in this area, which allowed for comparing the utility of seed capital in initiating or expanding different income-generating activities.
3. The rural context in which ARM operates, which is common for most of TUP’s target populations in India and worldwide.

In addition, ARM’s excellent track record with TUP’s microenterprise development program made ARM a suitable organization for field-testing a quantitative survey on the use of TUP grants and its effect on the household income portfolio of TUP entrepreneurs. An analysis of these results is expected to provide the program staff at TUP headquarters and at the local partner agency with concrete recommendations to improve the program’s impact and cost-effectiveness. This is particularly important as partner agencies move to adapt the key program features, such as grant size and business training, to the specific requirements of different income-generating activities.

The field study started with a focus group discussion with ARM’s staff members who are directly involved in the implementa-
tion of the Trickle Up program. This consultative process allowed for taking up issues that were considered important by the staff and provided additional questions or phrasing for the questionnaires and focus group discussions for TUP entrepreneurs. The staff also provided valuable feedback for translating and adapting the field questionnaire to local conditions. Since ARM implements almost all its development programs, including the Trickle Up Program, through Self-Help Groups (SHGs), four such groups that had Trickle Up entrepreneurs among their members were selected at random. The field study consisted of two in-depth focus group discussions with these SHGs and individual interviews with their TUP members. The group discussions focused on different aspects of the Trickle Up program (selection, size of grant, and quality of training and business counseling) or issues related to their own SHGs (savings amount and frequency, loan availability, and group meetings). Immediately after each focus group discussion, individual TUP entrepreneurs were interviewed for one hour using a Household Income-generating Activities Survey, which is a set of mostly quantitative questions related to the nature and profitability of the various income-generating activities funded by TUP grants and the role they play in the overall household income portfolio. These were conducted with the help of ARM staff, who acted primarily as translators. One-third of the interviews were supplemented with further qualitative questions that aimed to provide more in-depth insights into the motivations of TUP entrepreneurs in relation to their business and investment decisions. Table 1 provides details about the sample used during the study.

Table 1. Self-Help Groups and TUP Entrepreneurs in the Study Sample

<table>
<thead>
<tr>
<th>SHG</th>
<th>Total Members</th>
<th>Number of TUP Clients</th>
<th>Sample Size</th>
<th>TUP Grant Installments Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenduaria</td>
<td>18</td>
<td>11</td>
<td>7</td>
<td>1st in October 01</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2nd in May 01</td>
</tr>
<tr>
<td>Rashalpur</td>
<td>15</td>
<td>7</td>
<td>6</td>
<td>1st in October 01</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2nd in May 02</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st in January 04</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2nd in August 04</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>24</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>
As is illustrated in Table 1, among the members of the two randomly selected SHGs, 11 (of 18) and 13 (of 15) were TUP entrepreneurs, of which 7 and 12 were interviewed, respectively. The entire sample of 19 TUP entrepreneurs represents 6.3% of a total of 300 entrepreneurs assisted by ARM during the last 3 years. Of these 19 TUP entrepreneurs, 13 received their seed capital grant nearly 3 years ago, while the remaining 6 received theirs 6 months ago.

**Trickle Up’s Seed Capital Approach to Microenterprise Development for the Very Poor**

Trickle Up partner agencies provide seed capital in two consecutive $50 installments to selected TUP entrepreneurs. While a grant may appear contrary to current development thinking, the TUP model does not begin or end with a seed capital grant, which constitutes only one of four cornerstones of the integrated Trickle Up approach to microenterprise development for the very poor. The other three are careful selection of participants, business training and counseling, and continued access to capital through savings or loans. While TUP provides most of the financial inputs, it is the partner agency’s role in selecting and training TUP entrepreneurs and linking them to savings and loans that ensures long-term sustainability of their strengthened household income portfolios. Moreover, before describing the four cornerstones of the TUP model in more detail, it is important to mention ARM’s own development activities, which play a vital role alongside TUP’s contribution in moving households toward economic self-reliance.

Whereas TUP’s principal input to the business is the financial capital to acquire business assets, ARM’s own programs address human and social capital limitations that extremely poor people face in their efforts to build sustainable livelihoods. Like many TUP partner agencies in India, ARM delivers the Trickle Up model through SHGs, which are also the point of entry for other programs, including group capacity building, advocacy, literacy training, nonformal education, health, and sanitation, among others. ARM focuses on human capital development through education.
programs for adults and children and through a sophisticated health program that includes health awareness training, access to basic health services through a mobile clinic, and a life insurance program. This strong focus on health is uncommon among TUP partner agencies and strongly contributes to the success of ARM’s microenterprise programs, as chronic illness continues to be a very common obstacle to microenterprise success by TUP entrepreneurs worldwide. ARM also assists SHG members in building up their social capital through group solidarity and mutual help, increased negotiation power with local institutions, and linkages with business and market networks. ARM believes that a focus on the development of human and social capital of TUP entrepreneurs is vital both for improving the quality of life of the extreme poor and for improving the entrepreneurs’ ability to run successful microenterprises. ARM integrates these social safety net programs with the four cornerstones of Trickle Up’s microenterprise program that are described in the next sections.

**Selection**

Local partner agencies select new TUP entrepreneurs by using a poverty assessment tool that scores new applicants according to five locally relevant poverty criteria, identified by the partner agencies themselves. ARM’s poverty criteria include lack of land ownership (most TUP households are landless), illiteracy (80% of TUP entrepreneurs are illiterate), lack of access to credit at affordable interest rates, official “Below Poverty Level” (BPL) status, and rural residence. Those who receive the highest score according to these criteria (and thus experience the highest poverty) are eligible for participating in the program and receiving the seed capital. Since the poverty assessment tool selects households based on relative poverty only, Trickle Up also focuses geographically on countries with high poverty incidence according to the Human Development Index and on mostly rural areas within those countries to ensure that it reaches the very poor worldwide.

In order to promote sustainable income-generating activities, a strong preference goes to business groups of at least two people, typically adult members of the same household who designate one
among them as their business leader. Since illness is often a major obstacle to business success, having more than one person involved improves the continuity of the business. The motivation of the candidates, although assessed in a much less formal way than their poverty, is in most cases an equally strong requirement to pass the selection process.

The Trickle Up Seed Capital Grant

Before participating in the Trickle Up program, most households are already involved in one or more undercapitalized and usually seasonal income-generating activity, while others derive their income exclusively from daily labor. In both cases capital is often the most limiting factor to unleashing the profit potential of existing or new income opportunities. Given their very low and irregular incomes, the extreme poor cannot risk taking a loan to invest in a microenterprise activity, because, as one of the women stated, they can never jeopardize the inadequate resources required to feed their children in case the profit of the business would not be enough to pay the loan. And even if profit is ensured, many of these income-generating activities are difficult to finance with a loan because they generate unpredictable returns or need an incubation period after investing in the required productive assets. Agricultural income-generating activities require an especially long lag period before actual production, which prevents immediate loan repayments. Finally, the very poor often need to consume a significant part of their production, which leaves insufficient cash to pay back a loan.

TUP seed capital, in the form of two $50 grants, has the capacity to unlock latent profit opportunities, especially, as is the case at ARM, when preceded by training in basic business concepts and followed by regular business counseling sessions. The seed capital grant is not a handout but is conditioned on a strong commitment by the TUP entrepreneur. In order to receive the first seed capital installment, she must attend training and, assisted by partner agency staff, prepare a business plan for her intended microenterprise as well as commit to saving or reinvesting at least 20% of her profits in business. After working for at least three months and
completing a business report, a successful entrepreneur is eligible for a second $50 installment, which she can use to expand the original income activity or start a new one. The bulk of Trickle Up seed capital is used to fund the expansion of existing undercapitalized income-generating activities, but some recipients use at least a portion of the TUP grant to start a new activity.

**Business Training and Counseling**

The seed capital grants are most effective when combined with appropriate business training, geared toward mostly illiterate TUP entrepreneurs. ARM’s field personnel organize training sessions that cover immediately relevant business topics, such as conducting a simple feasibility study, estimating and calculating profits, marketing, reinvesting profits, and so on. Equally important is regularly encouraging entrepreneurs to think of their income-generating activities as businesses, many elements of which they have control over. After an initial business training in a group, subsequent follow-up counseling sessions are typically one-on-one; these sessions are vital to nurture self-confidence and to address individual and specific business issues. These sessions also enable field staff to monitor the use of the capital for productive purposes according to the business plan and to assist entrepreneurs in calculating their profits and reinvesting a portion in the business before using the remainder to meet daily household needs.

**Continued Access to Capital**

The majority of TUP clients generate a profit within the first year after receiving the first grant, thereby increasing their overall household income and strengthening their economic portfolio. Most partner agencies encourage or require TUP entrepreneurs to participate in formal or informal savings (and loan) programs. These programs can provide additional capital for new business opportunities and help to protect group members against future economic or natural shocks as well as prepare for costly life events, such as a marriage or the death or illness of one of their household members.
At ARM, TUP entrepreneurs form SHGs that pool their periodic savings to provide loans to their own members and to serve as collateral for bank loans, often three to four times the amount of their combined savings. While such savings-led microfinance approaches for the poor have been immensely successful, they tend to work less well with the extreme poor whose savings usually accumulate too slowly to provide sufficient capital to invest in profitable income-generating activities before a new disaster wipes out their savings. This study shows that the extreme poor can kick-start sustainable income-generating activities much faster if they have sufficient capital to invest in the minimum assets needed for their microenterprise activities. When microcredit is too risky or not available to them, or when their savings rates are very slow, seed

**Figure 1. Trickle Up’s Seed Capital Grant Approach**

- **Grant funds**
- **Selection:** Very Poor
- **Business Training**
  - Business Planning
  - Business T o T
  - PAT, BP, BR
- **Technical Assistance**
  - BDS
  - Savings (and Loans)
- **Administrative Support**
- **Trickle Up**
- **Non-TUP program**
  - SAVINGS and LOANS
  - Food assistance
  - Agricultural development
  - Education, skill training
  - Healthcare and sanitation
- **Monitoring:**
  - use of grant
  - business progress
  - savings and reinvestment
- **Reporting:**
  - BP, BR, 1-yr update
  - Evaluation
  - Data Collection
- **Expected Outcomes, Impact**
  - Stronger household income and asset base
  - Improved business capacity
  - Improved well-being (nutrition, shelter, clothing, healthcare, education)
  - Empowerment and increased self-confidence
- **External Conditions**
  - Market, Geography, Climate
  - Unexpected events: conflict, natural disaster
  - Government policy and programs
- **Household Conditions**
  - Poverty Level: Income/Assets/Vulnerability
  - Other poverty dimensions: Health, Education, Literacy, Disability, Gender Inequality
- **New Business Assets**
  - fixed and/or variable assets
- **Improved Business Skills**
- **Motivation, skills, business idea**
- **Time, health**
- **Business Groups/Households**
- **Expected Outcomes, Impact**
capital grants are a more effective alternative to provide the very poor with this minimum amount of capital.

Figure 1 represents an overview of the Trickle Up seed capital grant approach. Central to this model are the acquisition of physical (productive) capital through the use of seed capital grants and the strengthening of human capital through business training. As mentioned previously, however, the role of the partner agency often extends much further than the implementation of these two TUP inputs. The quality and frequency of monitoring and counseling by the partner agency is also crucial for sustainable business success, as well as facilitating access to new markets for inputs as well as products.

**Improved Economic Self-Reliance**

This study’s findings relate mostly to changes at the individual enterprise (or income-generating activity) level and at the broader household income portfolio level. At the enterprise level, impact is seen through changes in profitability, employment, assets, and level of production, while impact at the overall household economy level becomes visible through changes in household income, labor productivity and dependency ratio, asset accumulation, and income diversification. The Household Income-generating Activities Survey focused on the uses of the seed capital grants, the underlying decision-making factors, the diversification and profitability of household income-generating activities, and the accumulation of productive assets and savings.

**Poverty Conditions and TUP Entrepreneur Data**

The study took place in Baliapal Block in Balasore District, a coastal area in the northeast of Orissa, one of India’s poorest states. This predominantly agricultural area is prone to frequent natural disasters, such as cyclones, droughts, and floods. During the last census in 2000, 74% of the households in Balasore District were below the poverty line (BPL), the official State poverty line set at 324 Indian rupees (Rs)\(^5\) per capita per month, which translates into approximately 10 Rs per capita per day. The better-off among
these BPL households are small farmers (12%), followed by marginal farmers (28%), and seasonal farm workers (60%) who have no land except for their homestead. While most agriculture is subsistence-based, some farmers produce cash crops, such as betel leaves and coconuts. The extreme poor in Baliapal Block are predominantly members of Scheduled Tribes\(^6\) (8%) and Scheduled Castes (23%), who constitute ARM’s main target population.

More than 500 SHGs have been created in Baliapal Block, 200 of which have been formed with assistance from ARM in 40 villages and hamlets. The majority of Trickle Up entrepreneurs selected by ARM are landless and their main source of income is daily wage labor, which pays an average of 45 Rs per day for men and 40 Rs for women and is available for fewer than 100 days each year. Even though some households manage to supplement this with paddy cultivation through leasing land or sharecropping, their harvest meets only home consumption needs for a maximum of two to four months. In this study, household income levels were estimated by combining annual incomes calculated for each of the various income-generating activities taken up by a household, including labor and the household’s own food production. These estimates suggest that before entering the Trickle Up program, the majority of the sampled households (14 out of 19) belonged to the extreme poor, with daily per capita incomes below 4 Rs, which is equivalent to 25% of the international $1-a-day poverty line.

Table 2 below shows that two-thirds of the Trickle Up entrepreneurs in the sample were women. In the case of male-led

<table>
<thead>
<tr>
<th>Category</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Percentage</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>Average age</td>
<td>39 years</td>
<td>38 years</td>
</tr>
<tr>
<td>Average years in school</td>
<td>3.5 years</td>
<td>2.3 years</td>
</tr>
<tr>
<td>Can read</td>
<td>100%</td>
<td>46%</td>
</tr>
<tr>
<td>Can add and subtract</td>
<td>100%</td>
<td>92%</td>
</tr>
</tbody>
</table>

Note: \(n = 19\)
income-generating activities, female SHG members had been selected for TUP, but they used their seed capital grant to sponsor a business activity led by their husbands. The average age of both male and female TUP entrepreneurs was slightly below 40 years. Most men were literate and had attended school longer than the women, of whom less than 50% are literate. Both men and women could add and subtract numbers.

Table 3 shows that the average household size in the sample was six and had a dependency ratio (the number of income earners divided by total household members) of 0.6. Smaller families had higher dependency ratios and tended to rely proportionally more on women to provide income. Four out of five households were headed by a married couple, and the majority of households belonged to Scheduled Castes, the largest disadvantaged social group in ARM’s target area.

**Table 3. TUP Household Data**

<table>
<thead>
<tr>
<th>Category</th>
<th>Average</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of members</td>
<td>6.0</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>0.58</td>
<td>0.30</td>
<td>1.00</td>
</tr>
<tr>
<td>Married</td>
<td>79%</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>Divorced/Separated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Widowed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marital status of TUP client</td>
<td>SC</td>
<td>GC</td>
<td>OBC</td>
</tr>
<tr>
<td>Caste</td>
<td>58%</td>
<td>26%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Note: n = 19. SC=Scheduled Caste, ST=Scheduled Tribe, OBC=Other Backward Castes*

**Seed Capital Grant Use and Asset Accumulation**

Of all Trickle Up entrepreneurs interviewed, only two used part of the seed capital for a different purpose than investment in productive assets. One household had spent a portion of the grant to pay off a high-interest loan with a local moneylender, while another had used a portion to pay for the children’s school expenses. Even though these actions by both households might have been good long-term investments affecting their economic potential, TUP guidelines allow the use of the seed capital grant only to purchase income-generating assets or to pay for business-related expenses.
Data on ARM entrepreneurs indicate that during the past four years the most common types of businesses supported by Trickle Up grants are paddy cultivation (17%), goat raising (12%), vegetable cultivation (10%), rice processing (9%), bamboo and cane work (7%), betel cultivation (6%), fishing (4%), poultry raising (4%), and leaf-plate making (4%). The majority of income-generating activities are agriculture related (crop production and processing, fishing, and small animal husbandry), with the remainder involved in the production of simple household items, such as baskets. The participants in the survey (n=19) show a similar trend in their choice of income-generating activities for TUP funding; the most frequently selected income-generating activity is paddy cultivation (9), followed by rice processing (6), and followed in turn by basket making (3), fishing (3), and trading fruits (3).

When asked what factors they had considered when selecting a certain income-generating activity, the most common responses were market demand and profitability (18), advice from a family member (10), and familiarity with the work or an example by others (9). Given their initial condition of food insecurity, many invested at least part of the seed capital in paddy cultivation and rice processing. These households typically keep a portion of their harvest or processed product for home consumption, thus providing them with an income in-kind rather than in cash. Paddy cultivation remains popular, perhaps because of its importance for the household’s own food security, even though it is by far the least profitable of all the income-generating activities analyzed in the study. Interestingly, the majority used only the second seed capital installment, and in most cases only a portion of it, to either expand or start paddy cultivation enterprises. This seems to suggest that there are fewer profitable opportunities available to TUP households when they receive the second grant or that they prefer to address food shortages by producing rice themselves rather than buying rice from enterprise income. Rice processing (dehusking) on the other hand generates better profits than paddy cultivation and is the most common income-generating activity funded by the first seed capital installment. The fact that this microenterprise
activity can be done by women in their homes and requires few skills probably explains its popularity.

One-third of TUP entrepreneurs used their seed capital amount exclusively to expand existing income-generating activities, whereas two-thirds used at least one of the two grant installments to start a new income-generating activity. The TUP households participating in the survey spent about 40% of the seed capital on long-term assets (tools, means of transportation, equipment, animals) and 60% on working capital items (raw materials, inventory, agricultural inputs, transportation expenses). This ratio, however, depends strongly on the type of income-generating activity. For instance, betel-leaf cultivation requires almost exclusively long-term assets, while rice dehusking requires mostly working capital.

Two-and-a-half years after receiving the second grant disbursement, all households still owned the fixed assets they had originally purchased with the TUP seed capital, and many had acquired additional assets from subsequent profits and savings. This accumulation of long-term assets is a significant step toward self-reliance, as the assets not only provide a secure source of income but also increase a household’s resilience against economic shocks, as they

Table 4. Reinvestment of Profits in Productive Assets by TUP Entrepreneurs

<table>
<thead>
<tr>
<th>Type of Assets Purchased from Business Profits</th>
<th>Number of TUP Households</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small tools or accessories, such as cooking utensils, hoes, plow, baskets, basins, barreis</td>
<td>12</td>
<td>63%</td>
</tr>
<tr>
<td>Tools, such as stoves, equipment, machinery</td>
<td>10</td>
<td>53%</td>
</tr>
<tr>
<td>Means of transportation, such as a bicycle, pushcart</td>
<td>6</td>
<td>32%</td>
</tr>
<tr>
<td>Building or storage structure, including house improvements</td>
<td>3</td>
<td>16%</td>
</tr>
<tr>
<td>Minor investments for marketing, such as chair, table, shed, or the like</td>
<td>4</td>
<td>21%</td>
</tr>
<tr>
<td>Animals, including livestock, poultry, fish</td>
<td>9</td>
<td>47%</td>
</tr>
<tr>
<td>Land, bought or leased</td>
<td>3</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>21%</td>
</tr>
</tbody>
</table>

Note: n = 19
are typically the last assets to be sold in a crisis. Table 4 shows how TUP entrepreneurs have reinvested profits for investment in both production and household assets.

More than half of those interviewed had acquired the following asset categories from their enterprise profits: small tools, utensils, and accessories; larger tools and equipment; and animals. An average household invested in 2.7 different types of assets, and only one household was not able to reinvest any profits in new assets. These high reinvestment rates are a good indication that the new and expanded income-generating activities have sustained profits for several years since the disbursement of the Trickle Up seed capital.

**Profits and Diversification**

Since most available income-generating activities are seasonal and time is usually not a limiting factor for engaging in them, most households conduct a certain income-generating activity for as long as the season lasts. Therefore, rather than comparing daily profits of different income-generating activities, it makes more sense to evaluate their annual profits. Unlike time requirements, gender roles and the number of people required to run a business impose strong limits on the type of income activities households can choose from. For instance, fishing ideally requires three (preferably male) household members, whereas fruit vending can be done by one male household member and rice dehusking by one or more female members. A profitability analysis of the various income-generating activities selected by the TUP entrepreneurs interviewed shows that there is a significant variation in profits among different income-generating activities, but when considered on a per capita basis, annual profits for the various income-generating activities are very similar. Table 5 provides a comparison of profits for the most common income-generating activities in which those interviewed were engaged. Even though profits are annualized as explained above, they are shown as average daily profits by dividing the profit by 365 days, to better understand each activity’s contribution to daily incomes, comparable to the international $1-a-day poverty line. The reader needs to keep in
mind that these are not actual daily profits, since most income-generating activities are not conducted on a daily basis. For example, while an actual daily labor wage is 45 Rs (for men), the average daily labor wage is only 6 Rs, because agricultural wage labor is only available for an average of 50 days during the year.

When considering the profitability of each income-generating activity, regardless of the number of people engaged in it, fruit vending (34.7 Rs per day) and fishing (33.1 Rs per day) are by far the most profitable. As stated earlier, paddy cultivation provides the lowest average daily income (3 Rs per day). However, there is much less variation in average daily income for each income-generating activity when considering per-worker incomes: all but two provide average daily worker incomes between 7.5 Rs and 9.1 Rs, a difference of only 21%. This suggests that annual profits are not a strong discriminating factor for selecting an income-generating activity. Only fruit vending, at 20.8 Rs per worker per day, is significantly more profitable, and paddy cultivation, at 3 Rs per worker per day is significantly less profitable. In other words, compared to the average daily income of 6 Rs from labor, most alternative income-generating activities (except rice cultivation) generate a higher average daily income (on an annualized basis). Since most households are underemployed before they receive the TUP grant, they often supplement rather than replace their labor wages with income from microenterprise activities, at least to the extent that agricultural labor and microenterprise activities can be performed during different times. In addition to such time-management constraints, other factors, such as the composition of the household work force, caste and gender roles, and previous

### Table 5. Profit and Income in Kenduaria and Rashalpur Villages

<table>
<thead>
<tr>
<th>IGA Type</th>
<th>Fruit Vending</th>
<th>Fishing</th>
<th>Betel Leaf Cultivation</th>
<th>Bamboo Cane Work</th>
<th>Rice Dehusking</th>
<th>Vegetable Cultivation</th>
<th>Paddy Cultivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average daily profit per IGA</td>
<td>34.7</td>
<td>33.1</td>
<td>21.6</td>
<td>21.3</td>
<td>17.1</td>
<td>15.1</td>
<td>6</td>
</tr>
<tr>
<td>Profit ranking</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Daily income per worker income ranking</td>
<td>20.8</td>
<td>9.1</td>
<td>8.7</td>
<td>8.5</td>
<td>8.3</td>
<td>7.5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

*Note: IGA = income-generating activity.*
experience with an income-generating activity, are more important in the selection of a microenterprise than its expected annual profits.

The study also revealed a marked increase in the diversification of household income sources after the TUP seed capital intervention. Figure 2 shows the number of income-generating activities per household before and after TUP. The average number of income-generating activities per household before TUP was 2.1 (median = 2) and after TUP increased by 41% to 2.9 (median = 3). In other words, an average household managed to add one new income-generating activity to its household income portfolio, not only increasing overall household income, but also decreasing risk and vulnerability through diversification. On closer examination, it appears that pre-TUP households with one income-generating activity added two new ones, while those with two income-generating activities added one new one (with one exception among nine cases), and those with three or more income-generating activities before TUP added none. This strongly suggests that the combination of three income-generating activities per household

Figure 2. Diversification: Number of IGAs per Household
represents an optimal number. It also suggests that household employment not only improved but perhaps reached a maximum.

All nineteen respondents confirmed that their household income had increased since receiving the TUP grants. The average increase in household income for those households who added one new income-generating activity to their economic portfolio was 113%. The average increase in household income for those households who added two new income-generating activities to their economic portfolio was 152%. See Figure 3 for a household annual income distribution before and after TUP. Before TUP, the majority of households were found in the two bottom income categories, below 5,000 Rs and between 5,000 and 10,000 Rs. After TUP, most households had moved up at least one category and all had annual incomes above 5,000 Rs. Figure 4 shows daily per capita household income data, which can be compared with the $1-a-day international poverty line, equivalent to approximately 16 Rs at the time of the survey in January 2005. Before TUP, the majority of households had a per capita daily income of less than 4 Rs. After TUP, most households were in the 4 to 8 Rs and 8 to 12 Rs

Figure 3. Household Annual Income Distribution (Rs)
categories. After TUP, the average daily per capita income level was 7.1 Rs per day (roughly equivalent to $0.50 a day), and only one household was able to cross the 16 Rs per day equivalent to the international $1-a-day poverty line. More telling than a comparison with the international poverty line are the perceptions about their poverty shared by TUP entrepreneurs themselves during focus group discussions. During these discussions the following changes were almost unanimously cited as the most significant ones: reduced debt burden and ending of dependency on local moneylenders; increased household income, especially during the lean period; and the ability to eat three meals a day instead of one, as was the case before.

**Access to Capital**

Since capital had been a limiting factor for expansion or start-up of income-generating activities, the seed capital grants enabled most TUP entrepreneurs to reach a higher level of business activity than before. Some had been in a perpetual state of indebtedness with local moneylenders, and surpluses in-kind or in cash could never
be realized because they were withheld by the moneylenders as payments for high-interest loans. Even without this debt burden most households never had enough cash flow to expand their working capital or to buy additional assets for an existing or new income-generating activity. As a result, the household labor force remained largely underutilized and income sources were mostly limited to daily wage labor and sharecropping, supplemented in some cases by the meager profits of undercapitalized microenterprises. In almost all these cases, the TUP seed capital injection boosted microenterprise profits by optimizing the amount of working capital needed or by providing for the purchase of new fixed assets. Also, one-third of the interviewed households bought or repaired a bicycle with TUP seed capital, and another 25% did the same with profits subsequent to the TUP seed capital injection. The resulting increased mobility enabled many to bypass middlemen and to access new markets for their products and their raw materials.

For each type of income-generating activity, a critical minimum amount of capital seemed to be necessary to jump-start the business to a level that more fully employed household labor. Some microenterprises, such as basket making and rice dehusking, require less than $50 to enable the household to produce at maximum capacity or to generate a surplus from the profits and gradually increase inventory. In the case of basket weaving, for example, $10 was enough to purchase a stock of raw materials to last for weeks. In many cases, the ability to buy greater quantities of raw materials (bamboo or paddy for instance) enabled these microentrepreneurs not only to bargain for lower bulk prices, but more importantly to buy raw materials at times when prices are low. For instance, the biggest investment to start a rice dehusking business is equipment (a large boiling pot, a tarp to dry the boiled rice, and a scale with weights) and amounts to approximately 1,000 Rs or $20. The remaining cash amount from a grant is more than sufficient to purchase adequate amounts of paddy and firewood to operate a profitable business for at least several weeks. After that, the TUP entrepreneur is able to gradually increase the inventory of paddy by reinvesting a portion of the profits.
In other instances, the $50 capital grant is insufficient, especially for start-up businesses. For instance, betel leaf growers needed more than the initial $50 to buy all the assets and betel saplings necessary to start a minimum size betel vine. Given the high start-up cost as well as the required skills, only those who were already engaged in betel leaf production before TUP used the seed capital to expand this type of income-generating activity. Moreover, one betel leaf producer borrowed additional money from her SHG to supplement the first TUP grant so as to increase her investment. She later used the second grant to pay back this loan. Finally, some income-generating activities simply require a much higher investment than $50. Operating a grocery shop and trading coconuts and bananas are good examples. None of the TUP entrepreneurs interviewed owned a grocery store, and only those who were already engaged in buying and selling fruits were able to use the TUP seed capital for expansion of this type of business.

Conclusions and Recommendations

TUP’s primary objective for this study was to better understand its microenterprise development process and to learn how the TUP model could be improved and adapted within each local context where the program is implemented. Therefore, rather than focusing on social impact, this paper was mostly concerned with how TUP entrepreneurs invest their seed capital grants, what types of assets they buy with the grant money, and how they are able to improve their household income portfolio. As TUP starts to better understand and systematically analyze, beyond mere anecdotal evidence, the various determining factors for success of the microenterprises it funds, it and its partner agencies can use these findings to make program inputs more fitting to the partner agency’s own development approach and more relevant to each different socio-economic context as well as more fitting to the different types of income-generating activities that are available to would-be TUP entrepreneurs. This in turn can be expected to provide recommendations for increased impact and for a more cost-efficient program.
Experience has shown that before participating in the Trickle Up Program, many extremely poor people are by necessity already involved in various income-generating activities that are often seasonal, barely profitable, and undercapitalized. Others, such as the rural landless, can only resort to labor as their source of income, but they often have the skills and interest to engage in certain income-generating activities. Capital is often the key to unleashing the profit potential of such income activities, but the high risks involved make loans unattractive to both lenders and entrepreneurs. Trickle Up’s capital grant eliminates most of these risks to the entrepreneurs who, in the case of ARM, have been able to expand existing activities and start new income-generating activities, resulting in significantly increased household incomes. That the capital grant plays a critical role in strengthening the household income portfolio is evident from the direct link that exists between the investment of the grant in productive assets and the increased profits these assets in turn have generated. Whether the capital grants are the main factor in this process, however, is less certain, since ARM, like many Trickle Up partner agencies, provides a range of additional financial and nonfinancial services that may contribute directly or indirectly to the sustainability and profitability of the income-generating activities funded by TUP grants. In the absence of a control group and a large sample size, it is impossible to attribute impact to specific program elements. But the fact that ARM is one of TUP’s most successful partner agencies in improving the economic capacity of extremely poor households is likely to be related to the type and quality of the services it provides to its target clients in addition to the TUP inputs.

As for the role of capital itself, the study did not attempt to compare the effectiveness of Trickle Up grants versus loans taken from SHG members’ own pooled savings in improving the household income portfolio. But since it would take most SHG members years to save the equivalent amount of the TUP grant, it is easy to see that a large one-time TUP grant represents a stronger potential than slowly accumulating savings for boosting household incomes. The fact that TUP entrepreneurs are saving two to three times
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more than non-TUP SHG members also suggests that grants are capable of improving household profits faster than just savings alone. Nevertheless, it would be valuable to conduct further research to assess to what extent non-TUP SHG members, of the same poverty level as TUP entrepreneurs, are able to increase their household incomes, relying on savings as their only source of financing their income-generating activities.

When microcredit is too risky or not available and their own savings rate is limited, seed capital grants are an effective method to provide the extreme poor with a minimal amount of capital to start or improve income-generating activities. Moreover, grants provide more flexibility than loans for several microenterprise activities, especially in rural areas, as these activities often generate unpredictable returns or need an incubation period after investing in productive assets. In addition to making immediate loan repayments difficult, microenterprises that involve food production often provide the household with food for home consumption, leaving little or no products to be sold for cash to pay back a loan.

As mentioned before, ARM assists TUP entrepreneurs in various ways in their efforts to initiate or expand productive and sustainable income-generating activities. For instance, SHG membership provides TUP entrepreneurs with an opportunity to save as well as a platform to discuss their businesses with each other and to jointly sort out difficulties that may be hindering their income-generating activities. TUP entrepreneurs also found the regular business counseling sessions with ARM staff very useful, and they recommended that these sessions cater more to their needs by addressing specific issues relevant to each different type of income-generating activity. As mentioned before, ARM’s nonbusiness services, such as healthcare and education, also play a crucial role for achieving long-term economic progress by the extreme poor targeted for the TUP program.

The study points at several ways whereby TUP can increase the impact of its programs and make them more cost-effective. Given the different amounts of seed capital required by different income-generating activities, TUP should consider varying the amount of
seed capital according to business needs instead of the current one-size-fits-all approach of two $50 installments. In the case of higher capital needs for a certain business, TUP could disburse a higher amount for the first grant installment and a lower one for the second. Some of the evidence also suggests that in the current two-installment system, the second $50 grant has less potential for improving the household income than the first one. If further research confirms this, then increasing the first installment and possibly eliminating the second has the potential to make the program not only more effective but also less costly. Some microenterprise activities, as mentioned in the study, require a total investment of less than $50. Reducing the amount of seed capital for these types of business therefore is justifiable but might seem unfair to those who engage in these business types. To address this issue, TUP could consider providing all entrepreneurs with an equal amount of seed capital (for instance, $25 instead of the current $50 first installment), enough to invest in low-capital business types, and to provide access to loans (in the case of ARM, from the SHG savings pool, for instance) for those who require a higher capital investment and can take on some risk. This or similar innovations (such as matching savings with a grant amount, for instance) would not only increase the entrepreneurs’ ownership in their businesses but also offer great potential to reduce overall program cost, of which a large portion is currently allocated to capital grant expenses.

The finding that the TUP entrepreneurs at ARM were able to significantly increase their production and profits after investment of the grant in working capital and long-term assets suggests that their microenterprise activities were undercapitalized before. Moreover, since their per capita income levels were estimated to fall below $0.50 per day before TUP, they lived in extreme poverty. The TUP entrepreneurs themselves stated during focus group discussions that they had led a hand-to-mouth existence, often with only one meal a day for the entire family and virtually no cash surplus. In addition, many faced permanent debt and their money-lenders would demand any cash surplus as soon as it became
available. The seed capital grant enabled them to accumulate a critical minimum of productive assets to reach a state of economic self-reliance, characterized by a significantly increased household income and employment level. Through increased microenterprise profits they were able to improve their food security from one meal to three meals a day, pay off long-term debts, and start saving. These households were able to shift their focus from consumption and immediate survival to production and longer-term survival.

Whether these households are able to continue to accumulate wealth and invest in new profit opportunities remains to be seen. Several factors seem to indicate that their income has reached a plateau. First, almost all households in the study had arrived at a total of three income-generating activities, which seems to present an optimal household income portfolio in the given circumstances. Second, since the majority of microenterprise activities generate very similar profits (annualized) and very few households were able to specialize in only one microenterprise as their only source of income, there seems little room for expansion and improved profits unless other factors such as increased demand, skill development, or technological innovations improve the profits of their microenterprises. In order for these households to move further out of poverty, TUP and its partner agency ARM should explore the impact potential of business development services, such as business-specific training, new ways to add value to product and services, and linking TUP entrepreneurs to new markets for their raw materials and products.

**Notes**

1. Recent US legislation defines the phrase very poor as those households living in the bottom 50% below the nationally defined poverty line or those living on the equivalent of less than $1 per day, which is the international poverty line, adjusted for Purchasing Power Parity (PPP). While TUP does not formally measure the poverty levels of its clients, the majority of its clients in India are believed to live significantly below the international poverty line.

2. The TUP-assisted households in this study can be described as the extreme poor because they all live below $0.50 per day (per capita income) and a majority live on less than $0.25, based on poverty estimates derived from the annual income from
their entire portfolio of income-generating activities, including labor and food production for home consumption. Sebsted and Cohen (2000) distinguish among different poverty levels: destitute (the bottom 10% below the poverty line), extreme poor (the bottom 10–50%), moderate poor, vulnerable non-poor, and non-poor. In January 2005, when the study was conducted, the $1 per day international poverty line was equivalent to approximately 16 Indian Rupees, compared to the market exchange rate of 45 Rupees per $1.

3. In this study the household income portfolio is simply the set of income sources within a household, which is much less encompassing than the term household economic portfolio as defined by Chen and Dunn (1996). The household income portfolios in this study are mostly agricultural in nature and consist of income-generating activities (earning an income through selling a good or service), wage labor and employment, and production for home consumption.

4. In India, a typical Self-Help Group is a voluntary group of 10–20 low-income women who collectively save a monthly amount into a group fund. After a sufficient period of internal lending, the group is able to access bank credit for larger needs. Peer pressure is said to ensure regular repayment and accountability. Often SHGs provide nonfinancial benefits to their members, who use their meetings as a forum to discuss issues of mutual concern and resolve matters collectively. Many community development NGOs in India aim to facilitate economic and social development by targeting their programs to SHGs.

5. For the time frame of the study, which focused on incomes earned during the last 12 months before the interviews took place, the average exchange rate was 47 Rs per $1.00. Most income data in the study were either kept in local currency or converted into dollars, adjusted for purchasing power parity (PPP), which takes into account the local purchasing power of the Indian rupee.

6. The Indian constitution allows the government to compile a schedule (list) of castes (Scheduled Castes, SC) and tribes (Scheduled Tribes, ST) who are economically and socially disadvantaged and are therefore entitled to protection and specified benefits under the constitution. Other Backward Castes (OBC) are also officially recognized as being traditionally subject to exclusion, while still having a higher status than Scheduled Castes and Scheduled Tribes.

7. Since SHG membership often precedes the TUP intervention by only a few months, it would be misleading to suggest that the TUP program is solely responsible for the observed changes in the household income portfolio. It is more likely that the combined effects of SHG membership (giving members access to a range of services) and TUP facilitated some of these changes.
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References

