

# Session 8

## Productive Use of Time for Income-Generating Activities

**Time: 2 hours**

### Preparation

#### Purpose of the Session

This session provides an insight into the need for and importance of income-generating (IG) activities to address the productive needs of women so that they can take full advantage of the time saved through drudgery-reducing water and energy technologies. The session provides ideas on how to select an income-generation programme and methods of obtaining start-up financing and of loan management. Participants are encouraged to identify different forms of drudgery-reducing, income-generating programmes. Parts of this session are based on MOWCS 2001.

#### Learning Objectives

By the end of the session the participants will be able to

- understand the importance of income-generating activities for women
- identify different forms of income-generation programmes with or without the use of water- and energy-related technologies
- understand the need for and ways of obtaining start-up financing
- be familiar with the concepts of group savings, revolving funds, and credit and loan facilities

#### Session Content

- A. Selecting an income generating programme
- B. Financing an income generating programme (group savings and their benefits; revolving funds; obtaining loans using group collateral)
- C. Loan management: setting lending rules, terms and conditions

#### Materials

Flipcharts, marker pens, white board, coloured pens, masking tape

#### Handouts

- 8A Income Generating Programmes
- 8B Productive Use of Saved Time for Income Generation: Example from the UNEP/ICIMOD Project
- 8C Financing an Income Generating Activity
- 8D Loan Management: Setting Lending Rules, Terms and Conditions
- 8E Utilisation of Revolving Fund and Group Savings: Example from the UNEP/ICIMOD Project

#### Trainer's Preparations

Gather together the training materials, and handouts for the session.

## Activities

### A. Selecting an Income Generating Programme

#### Step 1

- Divide the participants into 3 to 4 groups
- Ask each group to discuss what they know about income generation (IG) programmes and to make a list of the income-generating activities they are involved in.

#### Step 2

- Reassemble in the plenary group and ask each group to present their list of activities.
- Distribute Handouts 8A and 8B and discuss the benefits of an IG programme and points to be considered in choosing an appropriate programme for a particular situation.
- Discuss the essential prerequisites for a successful IG programme

#### Trainer's Notes

The trainees should be clear about

- The need for an IG programme for women as a source of their own personal income
- IG programmes that could be feasible for the participants
- Why it is important to choose carefully at the beginning

### B. Financing an Income-generating Programme

#### Step 1

- In the plenary group, discuss the need for start-up financing of an income-generating programme.
- Distribute Handout 8C summarising different financing mechanisms

#### Step 2

- In the plenary group, ask two or three participants to share their experiences and what they understand by savings and the benefits of savings.
- Explain in detail the need for and benefits of group savings using Handout 8C as a guide.

#### Step 3

- Explain the benefit of revolving funds using Handout 8C as a guide.

#### Step 4

- Lead a discussion on what participants understand by 'collateral' and 'group collateral'
- Identify people (if any) who have already taken a loan on the basis of group collateral

#### Trainer's Notes

Lead the participants to discuss the following points

- Why is credit required and what are the sources of credit?
- What is group collateral, what does it require?
- What are the processes and rules for obtaining loans from banks or other finance companies

- Ask one of them to volunteer to share their experience.

## **C. Loan Management: Setting Lending Rules, Terms and Conditions**

### **Step 1**

- Distribute Handout 8D and explain the need for setting lending rules, terms, and conditions for effective management and utilisation of group funds

### **Step 2**

- Discuss the ways of making optimal use of credit

### **Step 3**

- Distribute Handout 8E and discuss the examples of use of revolving funds and group savings funds in the UNEP/ICIMOD project.

### **Step 4**

- Ask participants what they know about the loan systems in the local area. List the main systems on the flipchart, add any that are missing
- Discuss the loan systems in the local area, their advantages and disadvantages, and how they could be used

### **Trainer's Notes**

#### **The trainees should be clear about**

- The loan systems or micro-finance possibilities (including lending terms and conditions) in the local area – banks, projects, women's groups, and others.
- Loan providing agencies can be brought to the session to give details of their schemes direct to the participants.

### What is an IG programme?

An IG programme is intended to earn money. It is a self-employment or group occupation or business to benefit and provide services or goods to others. Not all productive work generates income: an IG must provide cash benefit to the person.

#### Benefits of an IG programme

- Earns direct income
- Opportunity for self employment
- Improves socioeconomic conditions
- Increased opportunity and decision-making power for women
- Helps meet family's financial needs
- Increases women's economic empowerment
- Exposure to outside world
- Enjoyment in family life

### How to identify a Relevant Income-generating Programme

It is important to select appropriate goods to grow or make for sale or an appropriate service business that will make it possible to raise family income. A bad choice or mismanagement might lead to loss and can even worsen the situation. The activity must be feasible in the local area in terms of resources needed, production, potential/comparative advantage, and marketing; it must be able to make a profit beyond that needed to pay back any loan taken to start it; and it must be sustainable in the longer-term. The following list summarises some of the important points to be considered when choosing an IG activity.

#### 1) Technical feasibility

- environment (climate, soil, water, etc.)
- repair and maintenance facilities
- human resources
- technical provisions
- availability of raw materials locally

#### a) Market facilities

- marketplace for goods
- competitive market
- transportation facilities
- quality of product

#### b) Economic feasibility

- provisions of finance or resources
- possible benefits and investment
- a clear accounting system of benefits and debt repayment

#### c) Management capability

- Traditional occupation or experience
- Training facilities/possibilities

#### d) Other considerations

- Family and outside cooperation
- Effect on other work or occupation
- Alternatives to save from losses
- High or low risk factors

#### Essential prerequisites for a successful IG programme

1. Clear assessment of potential profitability
2. A schedule with details of activities
3. Clear distribution of work and responsibilities among those involved
4. Financial resources for start-up
5. Ongoing assessment and modification where appropriate

## 8B: Productive Use of Saved Time for Income Generation: Example from the UNEP/ICIMOD Project

Many women in the UNEP/ICIMOD project are making a reasonable income by taking loans and starting businesses as individuals or in a group. Some of the activities are summarised in the table below. One model example of a very successful woman who benefited markedly from the project activities is described in the box below (Sharma and Banskota 2005).

Income Generation Programme	Benefits
Kitchen garden	More vegetables for home and sale at market
Dried vegetables	Sold at market and used in off -season for households
Beekeeping	Business and to earn money for family support
Grass production	Used for cattle and selling milk at market
Ginger farming	Business and to earn money for family support
Food processing	Business and to earn money for family support
Off-season vegetables	Business and to earn money for family support
Agro-processing	For making and marketing processed products from vegetables and kitchen garden produce
Drip irrigation	Used for kitchen garden to increase production of vegetables for home -use and sale at market
Tailoring	Business and to earn money for family support
Running LPG depot	Business and to earn money for community development fund which is used for supporting IG activities
Solar dryer production venture	Business and to earn money for community development fund which is used for supporting IG activities
ICS promoter	Business and to earn money by selling services/ICS to other clients

### **Devi Darlami becomes a role model**

Devi Darlami, a 20-year-old girl, has become a role model for all the members of her women's group. After the inception of the pilot project, Bhumika Mahila Group was established at her initiation and with the support of NRCS, Palpa. Six months back she was so shy she ran away so as not to have to introduce herself to the project coordinator. After undertaking group empowerment and other training sessions, she has developed the skills and confidence to guide and manage her group so well that everyone praises her leadership qualities and her desire to help her fellow group members from the ethnic Limbu community.

Apart from the group empowerment training, she also benefited from the beekeeping and food processing training. She then started modern beekeeping with the provision of a loan from NRCS. Within 15 days of participating in the food processing training, she produced a number of processed items of 'lapsi', which she also taught the women of her community how to make. She is confident about being able to generate the maximum amount of income using her beekeeping and food processing skills, provided she gets further training on packaging, quality control, and marketing aspects. When one visits her household, it is clear how much she learned from an exchange visit, including how to grow vegetables in a sack filled with soil which she saw during her visit to the ICIMOD Demonstration and Training Centre site. Now she practices this and has shown it to her community. She also taught and illustrated to her group members how to produce green manure. She learned this during her visit to the Dhankuta pilot project site. She also cooks food on an ICS in her kitchen and irrigates her cultivated land with drip and sprinkler irrigation. It seems as though her household has become a tiny technology demonstration centre. Being modest, she delivers all this credit to NRCS for introducing the project in her area and she desperately appeals for further training and project activities so that every woman not only from her community but also within and outside the entire village can benefit and become like her in the foreseeable future. She has been instrumental in initiating new technologies, and within a short time succeeded in serving as a young 'role model' with a vision of empowering the local community. She deserves a lot of credit.

*Compiled by the District Coordinator, Palpa*

#### Start Up Capital

Most income generating activities require **start up capital**, which consists of the short-term working capital needed to get a business going, and long term capital, which is needed to obtain physical and human resources. Start up capital may be needed for such things as purchasing seed and sprinkler equipment for vegetable growing, buying a sewing machine and material, or obtaining equipment and materials for making and lining a pond and fish to stock it with.

Money (capital) to cover these costs can be obtained in a number of ways: by saving over a period of time, as a grant or loan from a project (see 'seed money' below), and in the form of a loan from a bank or money-lender to be repaid with interest. When the money is borrowed it is often called 'credit'.

Once the activity is running, the profit it makes can be used to finance the long-term capital needs, and to repay any money borrowed to use as start-up capital. However, the cost of the loan may be crucial in determining whether the activity can really be successful. If a loan has to be taken at high interest (as is usual from a money lender) then the profit may not be sufficient to repay the interest and the loan, the entire benefit will go to the moneylender. If the loan is low interest, and can be paid back slowly, then it will be possible to establish the activity and start reaping some benefit fairly quickly. If a non-repayable grant can be obtained, then it will be feasible to start an activity even if it produces only a small amount of profit.

It is easier to get short term capital than seed money (grants). People with sufficient personal savings or personal collateral to obtain a bank loan (owning a house for example), can start income generating activities without further support – although banks are normally reluctant to make start up loans because of the risk involved, there are certain credit banks that will provide such loans. But the great majority of rural people in the Himalayan region, and especially women, are not in this position. By joining together in a group, women can pool their resources and also develop group collateral that can be used as a basis for financing individual and/or group activities. Some of the most common financing mechanisms are described briefly in the following.

#### 1) Group Savings

##### What is saving?

Saving is the decision by an individual or group to put aside some amount (of money) for future needs of the individual or the group, or project run by the group. There are two ways to save.

1. Saving some amount out of income accrued
2. Cutting some expenditure when there is no additional income

##### What is group saving?

This is the amount deposited in a savings account by group members (women/community/group) for use in group activities (micro credit operation) as decided by the group members. Group savings can be used to finance single large projects, or for making individual loans to members. They can be supplemented by revolving funds (Section 2 below), and/or bank loans obtained using the group savings as collateral (Section 3 below).

How to make and maintain group savings

- Increase income to earn more than is needed to meet daily needs
- Invest in productive work
- Cut down unnecessary expenditure
- Save on a regular basis – daily, weekly, monthly as decided by the group members
- Carry out productive work on a group basis
- Invest the savings by loaning with interest to members and others

Characteristics of group savings

- Higher savings in a shorter time
- Individuals are encouraged to save money due to group enthusiasm
- Easier to pay back loans due to group support and peer pressure

## Financing an Income Generating Activity cont.

### Benefits of group savings

Money cannot be taken out as easily as from an individual account because the whole group's consent is required, thus there is a better chance to save as a group. The joint savings of a group are larger, and can be used in rotation to help individual members to start enterprises. Group savings have the following benefits.

- Pooling of small amounts leads to accumulation of sufficient investment capital for a project
- Loans can be made on an individual or group basis to start IG activities; the profits can be used to repay the loan
- Group collateral can act as a guarantee for receiving a bank loan
- By taking low interest loans from the group fund, individuals are protected from the heavy interest rates of local money lenders
- Group projects can be turned into a cooperative enterprise or entrepreneurship
- Group saving helps to develop savings habits
- Cooperation among group members leads to economic enhancement and social security
- Successful management of group funds leads to self confidence and self reliance of group members

## 2) Grants and Revolving Funds

Donor funded community development projects generally provide money in some form to meet the costs associated with implementing the project activities. Activities may require start up capital and/or working capital, and this can be provided in the form of a **grant** (non-repayable), or a **loan** (to be repaid, but at no or low interest). Where a relatively small amount of money is provided to help a project get off the ground it is usually called '**seed money**' and is provided as a direct grant without requirement for repayment. In some cases, money may be used by a project to subsidise the cost of equipment or disposables that community members need in order to benefit from project activities, the intention usually being that the first items so purchased will show their value so that other people will then be prepared to buy them at full cost.

In some cases grants are used to create a **revolving loan fund** in a project area. This fund is used to provide loans for specified purposes that are repaid to the fund with interest. The income earned from the interest charged for the loans is accumulated in the fund until it is sufficient to pay back the original loan. The loan is returned to the project and can then be used to start another fund somewhere else. Meanwhile the original fund still has capital from the loan repayments and continues to grow as a result of the interest payments.

## 3) Using Group Collateral to Obtain a Bank Loan

Collateral is the word used to describe the assets that a borrower pledges to a lender as guarantee for a loan. In general, banks require movable or immovable property, a house, piece of land, equipment, business and so on, as guarantee for a loan. If the loan is not repaid, the bank will take the pledged assets in its place. Few rural women in the rural areas of the Himalayan region have sufficient assets to obtain a personal bank loan. However, group saving and/or a group's commitment to save and to start income generating activities can serve as group collateral for obtaining a bank loan. Individual members of the group can then receive loans from the group based on the bank loan. The repayments with interest from the group members are used to repay the bank loan and interest. It is the responsibility of the group leader to ensure that the bank loan is repaid. In this way, women who have skills and the capacity to work, but who are poor and do not have the funds to start a small business or the collateral to obtain a bank loan, can obtain credit through in-group collateral.

### Obtaining a bank loan

The process for obtaining a bank loan and the eligibility criteria differ from country to country. In Nepal, for example, women who have no assets to deposit must be members of a government group or a recognised NGO and must have a training certificate that makes them eligible to receive a bank loan; the qualifications for receiving a personal loan are:

- local residence in the programme area
- completed age 16, citizenship certificate
- group membership
- have required amount in group saving accounts

## Handout

### 8D: Loan Management: Setting Lending Rules, Terms and Conditions

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Group savings, revolving funds, and bank loans to a group are assets that belong to all the group members. It is important that group members have a responsible attitude towards the management of this 'group property' so that all can benefit and no one is penalised. The group must also decide on how to select and set priorities for beneficiaries of loans. This means putting a system in place for deciding on loan disbursement and that ensures that loan conditions are sufficient to service any bank loan and replenish the capital in a suitable time for other members to benefit. The major steps are summarised below.

- Decide by group consensus on rules and regulations regarding the disbursement and management of loans from group savings and revolving funds. Examples of lending terms and conditions include the maximum size of loan that can be borrowed according to its purpose, the interest rate, repayment schedules (monthly instalment payment on loan), length of repayment period (number of monthly repayments), repayment options (equal or graduated repayments), loan maturity date (the date by which the loan is expected to be fully repaid), deferment options (an approved postponement of payment for a specified time), late payment charges on delinquency or default (the failure of the borrower to make an instalment payment when due).  
(The specific monthly instalment amount is determined by the length of the repayment period and is normally calculated to amortise the loan evenly throughout the repayment period. The larger part of the first payments are channelled to pay interest and a small portion of the principal; the principal decreases over time so as the repayments progress less is used to pay interest and more to repay the principal.)
- Form a loan management committee comprising selected group members and/or the local NGO partner for appraising loan applications and creditworthiness, arranging loan disbursement and collection as per the lending terms and conditions, and overall monitoring of the utilisation of loans.
- Provide managerial and financial record keeping/accounting training for operating the micro finance activities.

#### How to Make Optimum Use of Credit

A loan provides a valuable opportunity to do something, and it is important to obtain the maximum benefit from it. Activities should be calculated so that the loan (interest and capital) can be repaid without undue difficulty after the activity is started. It is sometimes tempting to obtain a loan as a stop gap to bridge immediate problems, but if the repayment terms are demanding, the loan can simply push the beneficiary deeper into debt to a point where any income earned is simply used to pay off interest, and the beneficiary becomes a life long dependent of the loan giver. This is one reason why the loan management committee should consider the ability of a beneficiary to repay a loan when appraising loan applications.

Some of the points that should be taken into account to ensure that the best use is made of the credit are summarised below.

- Choose the business or IG activity according to skill, capabilities, markets, and technical feasibility
- Use the credit only for the purpose for which the loan is taken
- Invest enough money for efficiency
- Look for new areas of investment for better opportunities
- Keep a close connection with technological and financial support institutions
- Have insurance against incidental hazards
- Keep a clear account of savings, credit, and income and insure that loans are repaid as per the lending terms and conditions
- Carry out regular monitoring and evaluation of the record keeping/accounting system (by someone from the bank or the related project office)



## 8E: Use of Revolving Funds and Group Savings: Example from the UNEP/ICIMOD Project

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The UNEP/ICIMOD project provided support for pilot demonstrations in the form of seed money. The 'seed fund' was used as a 'start-up' financing mechanism to meet the immediate funding requirements for water- and energy-related technologies. Part of the seed money was used to create revolving funds managed by the women's groups. The funds were used to provide low interest loans to members for the purchase and maintenance of implemented energy and water technologies (e.g. improved cooking stoves) and for initiating productive income-generating activities, including small-scale enterprises. Because money was loaned rather than donated, members were careful to choose only technologies that they really wanted. This approach proved to be a major factor in promoting ownership and successful and effective utilisation of the technologies.

The project adopted a flexible approach with regard to the creation and management of the revolving funds. The creation of an exclusively women's self-help group was a prerequisite for the provision of credit from the revolving fund. The size of the revolving fund created varied across the three countries, partly reflecting the number of women in the women's groups. In Nepal, a revolving fund of NRs 159,000 (approx US\$2250) was set up in Palpa and of NRs. 50,000 (approx US\$700) in Dhankuta. The members of the women's groups generally decided by consensus on the rules and regulations of the revolving fund. A loan management committee composed of women's group members, and in Nepal including the local NGO partner, was formed in each country.

In addition, a group savings fund was created for all the groups with monthly savings from each group member and maintained separately from the revolving fund. The monthly savings per group member varied, for example IRs 20 (US\$ 0.43) in India, between NRs 10 and NRs 500 in Nepal (US\$ 0.14 to US\$ 7), and Nu 100 (US\$ 2.15) in Bhutan. The group savings in some places grew to a sizeable fund in a relatively short time, for example in both Palpa and Dhankuta the group savings reached around NRs.120,000 (approx US\$1700) before the end of project implementation. The women's group in Dhankuta is already in the process of registering itself as a cooperative based on the sizeable group saving. Women in some project sites (e.g. Himachal Pradesh, India) used the savings as collateral to link to financial institutions (banks) in order to strengthen the local financing mechanism.

Women group members at the project sites obtained loans through both the revolving fund and their group savings for initiating various income generating activities and have shown excellent repayment records. Some women's groups have also started utilising group savings in community development activities, which has contributed to a 'proactive' feeling among community members. The self-help groups are now initiating development activities to address pressing issues such as the drinking water problem through coordination with local development organisations.

Women were provided with managerial and record keeping/accounting training for operating the micro-finance activities. The loan management committee in Nepal, for example, appraises the loan application and recommends loans to needy members for the purchase of different technologies and for initiating income-generating activities, fixes lending terms (interest rate, loan maturity and repayment schedule) by purpose of loan, and monitors the utilisation of the loans. The members of the group hold regular monthly meetings to review the group's financial activities (credit and savings, applications for loans), develop and improve their solidarity and mutual understanding, and undertake social activities. Group management is extremely flexible and varies among the groups according to the needs and capabilities of each group member. The project does not target loans; it is up to the group members to decide how to use the money for the purpose of income generating activities. Loans are repaid through specified installments that are collected by the group leaders.

*Source: Sharma and Banskota 2005*

