



Enterprises + COVID-19

SELCO Foundation - AIC-SELCO | June 2020



Impact of COVID-19 on MSMEs

For essential services and products to be delivered for the people, residing in the rural and remote areas, in an affordable manner, there needs to be large scale presence of enterprises and entrepreneurs who also belong to the same eco-system as the client base. The transaction process of selling a consumer product is largely based on mass marketing and on disposable incomes. There is not much of a human element in the buying and selling processes. Thus, large companies can play the game by creating multiple channels like dealers, online marketing platforms, retail shops etc. with low transaction costs and profits are made in volume sales. In the case of enterprises that promote products that lead to income generation or assets then transaction costs are high and people spend indispensable incomes.

Essential services like solar powered livelihoods applications or assets like silk weaving looms for small entrepreneurs needs a trust-based transaction process. Right from product development to market linkages requires one has to be immersed not only in the society culturally but also emotionally. Understanding the need of the product is purely not an excel sheet exercise and also capability to own the problem on behalf of the end-user becomes critical for any such business to succeed (while providing services that will make the society resilient economically and environmentally).

Thus, if one summarizes the end to end process, it starts as a problem of the end user (e.g. drudgery, income loss, poor quality of life, dirty water) moving onto owning the problem to solving it, creating the prototypes to scaling; while in parallel working on the related eco-system parameters like affordable finance and market linkages. All the points mentioned are essential for creating a long-term asset for the end-users leading to a more sustainable and inclusive society.

COVID-19 SCENARIO

Much has been written about the current COVID health crisis and its inadvertent socio-economic collateral damage far greater than the virus itself. While the impacts are far reaching across multiple stakeholders, one that is often touted as the backbone of the economy- local SMEs is facing a huge survival crisis. These impacts are mirroring the experience during previous outbreaks like the Ebola virus, when local SMEs in West Africa suffered from business interruptions whose repercussions lasted for as long as 2 years leading to consequential negative shifts in local economies that have been hard to rebound from even to this day.

In particular, local energy enterprises with wafer thin margins are facing severe challenges in accessing publicised funding and schemes due to their under the radar invisibility. In part due to their non-metro locations, language, non-pedigree educations, etc. which means they are left out of the purview of typical impact investors but also get lost in being able to access the first come, first serve critical safety nets due to their under-capacitated teams. Further, as financial relief, debt instruments are being extended to these enterprises which given the precarious situation, can deepen the pressures at a time of global uncertainty. There seems to be a dearth of information regarding the impact on locally led and owned energy enterprises which is leading to skewed analysis of how solutions can be designed and deployed and for whom.

In order to contribute to this information asymmetry, SELCO Foundation and AIC-SELCO Foundation is sharing insights and solutions garnered from the assessment done and support provided to 33 local Indian energy and efficient technology enterprises as part of its incubation program. Following are some insights and also suggestions on how governments, incubators, investors, philanthropies and other stakeholders can support local energy enterprises to tide over the crisis in the near and medium term so that they do not disappear under the rising challenges of COVID-19.



COVID-19 Response: Crisis Management

Saving the Last Mile: Design of an Inclusive Support System

Affordable delivery of services at the doorstep is very critical for the poor to be able to have chance to move up the financial ladder in any society. Any disruption in that very process makes it expensive and in some cases non-availability of those essential services, which would have a deep bearing on their future development.

For example, absence of street vegetable vendors would make it more expensive for the poor to avail vegetables at an affordable price leading to further erosion of their meagre financial resources. Similarly, in the energy access eco-system, it is critical for the survival of the SMEs. These are the organizations that are providing needed energy services to the poor, in a customized and affordable manner, to enhance their livelihoods and wellbeing. Development of small entrepreneurs and enterprises is a laborious process. Successful ones are those who have immense patience and have the ability to take enormous risks: without being compensated financially that is proportional to the risks.

Collapse of these doorstep enterprises leads to enormous repercussions.

INCREASE IN COST OF ESSENTIAL SERVICES TO THE POOR: Lighting, services like printing or photocopying, grinding or threshing become expensive creating further dent in their meager incomes. These have an indirect cascading affect, which are immeasurable.

EXPENSIVE TO REBUILD THE ECO-SYSTEM: Collapse of these SME leads to long term employees at the grassroots joining other sectors, a huge loss to the energy sector. These human resources have been painstakingly built over years. Their moving over is a loss of field experience.

EXPENSIVE TO BRING ALL THE RELATED STAKEHOLDERS BACK: Collapse of set of SMEs leads to disruption in the ecosystem for other suppliers, financiers etc. They lose faith in the energy access business because of its vulnerability. It will take enormous financial and human resources to set the course back in track.

Thus, it becomes too expensive for all the associate stakeholders for letting the SMEs fail. Strategies have to be made for immediate, short term and long-term success of these SMEs. They can range from financial impetus to crisis management. Some of the solutions that SELCO Foundation implemented in order to save 33 of grassroots organizations under its incubation program were:

IMMEDIATE RELIEF

Many of the enterprises in the Incubation programme lack a sound capital base. They often start with minimum essential capital and raise money from family and friends in times of need. Regular business provides them with the required finances to manage their operational expenses. Any deviation from the regular flow of business and unexpected stoppage as seen with the lockdown can push them into a deep financial crisis. The COVID 19 crisis and the subsequent lockdown did have this impact on a large number of MSMEs.

Many of the enterprises (80%+) faced immediate cash flow issues that was leading to lack of finances to retain HR. Based on a quick look of payables, receivables, inventory in stock and cash in the bank, a picture was developed of how badly the enterprise was affected. Accordingly, support was given to ensure survival.

For some of the mature ones, SELCO Foundation covered the full salaries of some of the least earning employees, while they negotiate for pay cuts with the higher paid ones. **This support was critical in ensuring that staff such as technicians and sales executives from the local area were earning a regular income for the months of April and May despite lockdown. This in turn had an impact on their ability to meet the basic needs of their families. It was also important in ensuring the retention of well-trained staff given the time spent in building their capacity- who might otherwise have been forced to take up other low skilled work to meet basic needs. This step ensured that the long-term grassroots employees had job security during the tough times (would lead to increased loyalty).**

Some of the very small enterprise and entrepreneurs, with absolutely no resources (human or financial) were given basic financial package for survival for the 1st phase of 3 months. The amount ranged from USD 500 to USD 1,000.

Approximately 90% of the total Relief provided for Human Resource retention went towards meeting the salaries of technicians, sales executives and office assistants (administration and accounts). Only in cases where the leads of the enterprises themselves came from low socio-economic backgrounds, was where there salaries were covered as well.

MENTORSHIP ON CASH-FLOWS

The immediate relief efforts and infusion of some capital to keep enterprises afloat was followed by a process of mentorship on key issues and planning for the short term.

Miscalculations or misjudgements, particularly with the limited experience of many of these enterprises could result in non-judicious utilization of precious cash. A COVID specific panel of practitioners was established to mentor the enterprise on cash inflow and outflow management. Both for inflow and outflow, the worse case scenarios were worked out. **These were then used to advice on aspects of supplier negotiation, inventory management, loan repayments and to begin a discussion on future business model development and new sales channels**

A big aspect of the cash flow analysis and mentorship was to review the various payments due- to staff, to local transporters, to local vendors, payments against advance orders to larger vendors, loan repayments to formal financial institutions as well as repayments on unsecured loans from family, friends, informal sources. On the other hand, they had receivables such as invoices raised against completed projects from institutions, against credit sales, advances on agreed projects and so on. Mentorship from experienced practitioners went towards supporting enterprises in prioritising of orders and management of resources- human resources as well as cash reserves. Here the cash flow projection also helped in listing out all the payables and receivables and then determine priorities and new sales channels (discussed in the New Channels for Sales on Pg 5).

Since it is difficult to gauge how long this epidemic will last, it was also deemed important to be prepared for all scenarios. Beyond the immediate 3 months, scenarios and plans for 6 months, 9 months and 12 months were developed. For example, in considering the 3-month crisis scenario, while also preparing for a 9-12 month crisis scenario. Entrepreneurs were encouraged to reconfigure their business strategy to reduce variable costs while also renegotiating fixed costs including rent, salaries, equipment lease payments etc., and focus only on essentials for survival. Revisiting sales strategies, strengthening an online presence particularly through social media and selling online versus in-person and analyzing if there was a need to cut back on or scale up marketing costs were the kind of aspects explored. In all cases, entrepreneurs and leaders were advised to keep communication transparent as much as possible with end users, investors and employees.

NEGOTIATING WITH SUPPLIERS

SELCO worked with many of the enterprises to evaluate their inventories and supplier payables. The team worked with each and every enterprise to prepare:

- Plan to liquidate the existing inventory.
- Negotiate a new set of payment terms with suppliers (especially with the larger ones).

Most enterprises are often working with vendors who are themselves quite small and not in the right position to provide longer credit periods or waivers on advance. The mentors also did a quick assessment on the scale of the suppliers and vendors as well- classifying them according to their size and thus, their ability to bear the COVID-19 Crisis shock. For some enterprises, SELCO arranged cash to pay the smaller suppliers (who themselves were on the verge of collapse).

Certain enterprises had more established connections with vendors and an ability to bargain, while others were helped in re-negotiating with existing suppliers (if possible) particularly on credit periods with a view to reduce the cash outflow in the lockdown.

NEGOTIATING WITH FINANCIAL INSTITUTIONS

Some of the enterprises had pending debts with local financial institutions. Zero sales meant low availability of liquidity to pay the monthly instalments to the bank. Some enterprises took the moratorium of three months offered by the banks. In some cases, SELCO advised them to pay off the loans (if they were smaller sums) in order not to have higher interest payments in the future. Potential new loans are also in discussions with SELCO Foundation putting up back to back guarantees on behalf of the enterprises.

NEW CHANNEL FOR SALES

Considering the rapid changes in the market, it is imperative that enterprises reconsider their business model, reassess where their business stands and adapt by diversifying their offerings and services.

SELCO team worked with the enterprises to evaluate new short term and medium terms channels for sales. Due to the complete destruction of economies, sales of individual systems via direct cash payments or financial loan channels were not an option. The banking system would take some months to get back to its feet to finance new set of end-users. Under these circumstances, the following channels are being explored:

- **Health Institutions:** Many of these institutions require reliable power supply to cater to an influx of patients.
- **Government Buildings:** Numerous essential government buildings in remote areas like police stations, local official residences, check posts etc.
- **CSR Funds:** Many companies have allocated sums of monies for COVID related activities.

Beyond tracking financial metrics, cash flow and inventory, this is a crucial time to evaluate the potential for new sales channels and strengthening organizational systems to meet the needs of a changing market and business environment.

The health emergency situation and the role of law and order in the lockdown directly influenced the exercise of mapping potential channels for revenues and new sales. Connections and relationships with local health and law enforcement agencies were activated and solutions designed or replicated to meet their needs. **Some of the enterprises succeeded in securing orders from local government bodies for lighting and powering of health premises.** Leads generated in partnership with government bodies were also found to be secure, since support on permissions of logistics could be easily coordinated then, which helped lower the escalating transaction costs of the enterprise for implementation.

A larger exercise to map key stakeholders and undertake assessments for NGOs, government programmes, financial institutions and schemes, funds and challenges, local CSR agencies for energy in livelihood, household and health centers.

All of the above required an evaluation and strengthening of internal systems. As with all MSMEs, particularly in the midst of the crisis, funding remains one of the major hurdles. In recent months, many MSMEs have either been forced to shut shop or significantly scale down operations owing to a lack of funds. A key area of mentorship support was to help enterprises write proposals to raise funds from diverse sources, including banks, CSR agencies, competitions and challenges.

This process also included capacity building for team members on the exercise of writing up proposals as well as maintaining accounting hygiene and clean balance sheets to enable better due-diligence and funding in the event that these proposals are successful.

The process of diversifying sales channels while also strengthening systems meant that attention had to be paid to the digital presence of the enterprise. **The increased barriers to opportunities such as exhibitions, face-to-face meetings with local NGOs and communities pose an enormous challenge to continuing sales and generating revenue. Realising this, enterprises were advised and supported in opening new channels through improved presence on social media platforms and digital channels.**

Case Study 1: SNL Energy Solutions

Name of Organization: SNL Energy Solutions Private Limited

Entrepreneur: Mr. Moirangthem Seth

Began operations in: 2018

Areas of operations: Manipur - Imphal East and West, Thoubal, Kakching, Bishnupur, Ukhrul, Chandel, Tengnoupal districts

In addition to the immediate relief efforts, the support provided to SNL in terms of building a robust order book was particularly useful. It not only helped liquidate the inventory stocks, but also helped build the enterprise's ability to plan and undertake larger projects and strengthen the underlying systems to meet that need. **Their order book now provides a longer runway while also diversifying their client portfolio. Thereby, boosting future earnings and also bringing much needed cash flows into the enterprise.**

Many of these orders were focused on healthcare responses to the COVID 19 crisis, such as solar powering quarantine centers. The enterprise has also won orders to undertake livelihood interventions and are seeking an advance from a microfinance institution to implement solutions through local NGO partners. This exercise has really helped build their experience of working with institutional clients such as health departments.

KEY TAKEAWAYS

- **Suppliers:** Dealing with small vendors, with supply chains cut off in Manipur, the supply was low and the demand high. The vendors started asking for 100% advance- tightening the cashflows of the enterprise.
- **Pending Payments from Financial Institutions:** Primarily doing projects which were individual sales - credit or direct cash, the enterprise's in flow was also dependent on the capacity of the financial institutions in the area. With no ongoing collections, extended moratorium periods, 100% of approximately a month's worth of sales was locked with Financial Institutions, reducing his working capital. A 100% advance on some of the newly secured COVID Response Projects was secured through SELCO Foundations' efforts which helped ease the working capital, allowing him to take up new projects and revive the cashflow/
- **Increase in Transaction Cost:** A 3 day installation in a designated COVID Red Zone, resulted in a 14 day quarantine for the SNL team.- hampering their ability to complete other installations and complete sales. These externalities are being accounted for in the relief package being offered to SNL and other enterprises.



Pictures: Team of SNL installing solar energy systems for Quarantine Centres, established by Volunteers for Village Development (VVD) Training Centres in Ukhrul District, Manipur

Case Study 2: Envo Renewable Energy Services Pvt Ltd (ERES)

Name of Organization: Envo Renewable Energy Services Pvt Ltd (ERES)

Entrepreneur: Mr. Fazle Illahi

Began operations in: 2018

Areas of operations: Assam, Meghalaya & Arunachal Pradesh

In addition to the immediate relief efforts, the support provided to ERES was primarily on inventory management and developing new sales channels. ERES particularly had a large stock and a large list of projects where the materials had reached site, but were pending implementation, or agreements signed which needed to be converted.

ERES, in comparison to other incubatees, had about 80% of its pipeline as grant driven projects- ie with CSRs and NGOs- partnerships that were developed further for quick implementations. However, the projects for ERES were spread out in geography, and thus, mentorship was also provided to plan for management of implementation- transportation and logistics, human resources in accordance with the Government announced lockdown guidelines.

KEY TAKEAWAYS

- **Inventory Management and Cash Inflows:**

ERES's inventory was mapped to pipeline projects. The projects were then further analysed to understand the possibility of conversion. This was done by understanding the agreements, timelines, geography as well as the client (ie implementation even in red zones could be made possible if the client was a government body- ensuring permissions). This process helped ERES prioritise its efforts to convert projects, allocate inventory for new immediate COVID projects to ensure continuous inflow of cash.

- **Increase in Transaction Cost:** Similar to SNL, ERES has seen an increase in transaction costs as well. For example, in the implementation for COVID Hospital in Meghalaya, 3 days were spent in quarantine on the site till the team was cleared through COVID testing. Since these implementations are in remote areas, the testing time period is extended since labs are not located in the sites of implementation.



Solar Energy System implemented by ERES for the COVID Care Hospital in Williamnagar, East Garo Hills, Meghalaya . The Inauguration was done by the Honourable Chief Minister Sangma Conrad

Case Study 3: Assam Innovation and Research Centre (AIRC)

Name of Organization: Assam Innovation and Research Center (AIRC)

Entrepreneur: Mr. Milan Jyoti Das

Began operations in: 2010

Areas of operations: Pan India

In addition to the support provided through mentorship, the incubation team worked closely with the enterprise to unlock the networks of SELCO Foundation and its partners and increase the possible sales channels for the innovations and solutions from AIRC, such as the egg-incubator for the poultry value chain.

AIRC has also been able to build multiple solutions in response to the crisis such as sanitizing gate, Counter sanitizing machines with UV rays, Automatic hand sanitizer dispensers and so on. To help convert the solutions into implementation through existing linkages and new ones, the enterprise was supported with proposal writing and submission. The linkages established through the incubation team with government, NGOs, micro entrepreneurs will be important in ensuring a revenue channel in the longer term for these products.

Through the SELCO Foundation Innovation Team, the design of Portable Sample Collection Kiosks was also shared with AIRC. Connections were also established with government departments for orders and last mile clean energy enterprises for on site implementation.

AIRC has already installed sample collection kiosks for the Ministry of Health and Family welfare in Meghalaya based on the above linkages.



The Solar Powered Sample Collection Kiosk fabricated by AIRC and installation completed by ERED. The inauguration was done by Dr Awedesh, Civil Surgeon.



Learnings and Way Forward

Inclusive Incubation and Innovation: An Ecosystem to Inspire and Develop Local Entrepreneurs and Innovators

Typically, in an ecosystem to foster startups, there is the existence of appropriate policies, incubators, risk capital for R&D, venture capital (or the angel investors), various forms of debt instruments and other types of long-term support mechanisms. Unfortunately, much of it does not exist for startups, entrepreneurs and enterprises that do come from the very client base it wants to serve. This gap has been brought to surface very drastically during COVID-19, impacting the poor far more disproportionately than the upper classes. It is also important to note that this has been true for every disaster/crisis.

Taking the lessons from COVID-19 forward, the following are some of the ways that an inclusive ecosystem can be created for entrepreneurship and innovation for the last mile and the under-resourced regions and populations.

LACK OF INSTITUTIONS AT THE GRASSROOTS FOR INNOVATIONS

PROBLEM

There are two problems that exist here. One, there are practically very few institutions that foster the concept of innovation and incubation at the doorstep of many youngsters. Secondly, even the most innovative youngsters have very less options or idea of places to test their ideas.

SOLUTION

Similar to the concept of Science and Technology Parks (STEP) in IITs, selected number of ITIs and RUDESTIs should host full-fledged STEP to inspire the students of those respective institutes and others in the vicinity. These institutes should be allowed to broaden their mandate from being just skilling institutes to be places of innovation and entrepreneurship. They should be equipped with maker spaces, high speed internet (for collaborations with mentors and institutes around the world) and other related equipment suitable for the area and selected sectors.

LACK OF EXPERIMENTAL CAPITAL FOR R&D

PROBLEM

Potential enterprises and innovators in 2nd tier cities and lower have no access to risk or failure capital to experiment with either a new delivery model or a technology. Innovations can be inspired only if there is an appetite to put in healthy amounts of risk capital. Around the world, it is well known that very small percentage of innovations make it through, but for those to happen other innovations have to be tried and tested.

SOLUTION

Just like the TEPP program in STEPs of IITs different tiered options should be offered to enterprises and entrepreneurs from the grassroots areas. These monies should be in a structured manner thus encouraging them to move each level up.

LACK OF FINANCIAL CAPITAL: EQUITY AND DEBT

PROBLEM

Startup and existing enterprises/innovators have very little options available to them to take higher risks in taking their business or innovation forward. In some cases local debt could be available but that is too risky for a startup or expensive for an existing business; The local financial institutions do not have in their mandate to take such risk and also will be very weak in judging those proposals. Typical high-risk R&D monies available in the country are very exclusive. The criterion set incentivizes innovators and entrepreneurs who belong to certain strata of society or graduates of universities. The disconnect stems right from the design to implementation level.

SOLUTION

Equity and Debt instruments needs to be decentralized. Regional offices of local financial institutions like the regional rural banks can be created as the clearing house for grassroots enterprises and entrepreneurs. A sub-body could also be created in the Institutes themselves for due-diligence. In parallel, investment bodies should be created that are local and led by people who understand the local eco-system and markets.



Team of Envo Solutions handing over the installation to the Medical Staff of the COVID Care Hospital in East Garo Hills, Meghalaya

LACK OF MENTORSHIP

PROBLEM

Innovation and Incubation needs a certain breed of mentors who know the space, the risks involved and are able to mentor according to the needs to the selected individual. There are very few people who do have the experience and come from backgrounds needed to think and act like an innovator or entrepreneur. Thus, the selected entrepreneur and enterprises not only get poor mentorship but many are demotivated in the process. Peer to peer learning in this space is unfortunately missing.

SOLUTION

There are two paths one needs to take. One is to create a channel for future mentors and the other one is to take advantage of technology and set up high quality virtual equipments for the budding entrepreneurs and innovators to avail mentorship from across the world via the net. Here one needs to be careful in choosing mentors; He/She should be connected socially and culturally to the entrepreneur/enterprise. The mentor should be able to own the problem and advice accordingly that would make financial sense for the budding/existing entrepreneur and innovator. The COVID crisis amplified the lack of poor of mentors in crisis management for SMEs in the rural areas.

LACK OF TRUST

PROBLEM

Grassroots entrepreneurs and enterprises are not trusted immediately. Typical profiles of being that they do not have the following qualities: from a good English medium educated institute, having a decent network in the field or related, able to present articulately the business plan, and is able to talk to all external stakeholders (foreign shareholders etc.); This has been one of the biggest challenges that has kept the divide alive, also leading to lack of solution for sustainable development in the poorer parts of the country.

SOLUTION

There needs to be processes in place for cross learning between the innovations in the underserved areas and the STEPs of the world. Each one should be able to recognize the importance of having centers at purely cater to the needs to rural enterprises and entrepreneurs. Government policies can mandate that to happen.

LACK OF LOCALIZATION PROCESSES

PROBLEM

The incubation and innovation processes have been mostly copied from the IT world and applied to rural and semi-rural areas of the country. Some ethos of investment and audits is superimposed on to these enterprises that in some ways would be in conflict with the culture of family owned business or borrowing capital from family. Instruments like equity only incentivize private companies, which traditionally have been absent in rural areas which tend to have more partnership or proprietorship-based enterprises. Thus, here itself there is huge mismatch in the incubation ecosystem leading to lack of scaled up versions of locally owned businesses.

SOLUTION

Institutions like AIM can play a major role in Indianization of Incubation process. The AIC in the country should be able to encourage all forms of innovators and entrepreneurs which will in turn force the financiers (of all forms) to restructure capital to cater to this upcoming market. AICs can be centers of true inclusion. There needs to re-jigging of clauses like conflict of interest etc.

COVID-19 has opened an opportunity to take a long hard look at a highly flawed economic structure that has rewarded shareholder profits, short term thinking, unsustainable unicorn business models that have in turn contributed to accelerating inequality. There are growing voices to use the opportunity to depart from common bailouts that continue to incentivize practices that privatize wins and socialize losses rather, a formulate a response system that gives birth to a inclusive and sustainable economy.

OTHER REFERENCE DOCUMENTS

[Webinar: STRATEGIES TO OVERCOME CRISIS FOR MSMEs DURING COVID-19](#)

[COMPILATION OF FINANCIAL SCHEMES FOR ENTERPRISES : APRIL 2020](#)

[EFFICIENT TECHNOLOGY ENTERPRISES: INNOVATIONS AND PARTNERSHIPS DURING COVID-19](#)

Case Studies: ENTERPRISES RESPOND TO COVID-19 ENERGY REQUIREMENTS

- [COVID-19 CARE HOSPITAL IN EAST GARO HILLS, MEGHALAYA](#)
- [ISOLATION WARDS IN UKHRUL, MANIPUR](#)
- [SWAB COLLECTION AND SCREENING KIOSKS IN SHILLONG, MANIPUR](#)

Do get in touch for further information and assistance

SELCO Foundation COVID-19 Response Website:
covid-19.selcofoundation.org



Write to us at:
covid19@selcofoundation.org



Write to us at:
info@aicselco.org