

सामयिक निबन्ध - 55  
Occasional Paper - 55

सूक्ष्म उद्यमों के लिए सूक्ष्मवित्त :  
स्वयं सहायता समूहों के प्रभाव का मूल्यांकन  
**Microfinance for Micro Enterprises :  
An Impact Evaluation of Self Help Groups**

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डॉ. समाप्ति गुहा  
Dr. Samapti Guha

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आर्थिक विश्लेषण और अनुसंधान विभाग  
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National Bank for Agriculture and Rural Development

मुंबई  
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2010

**लेखक****डॉ. समाप्ति गुहा**

एसोसिएट प्रोफेसर  
स्कूल ऑफ मैनेजमेंट एण्ड लेबर स्टडीज़  
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पेपर में दिए गए तथ्यों और व्यक्त किए गए विचारों के लिए राष्ट्रीय बैंक उत्तरदायी नहीं है.

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## ***Preface***

Microfinance movement in India which was started in 70s, emerged as a tool of poverty alleviation in 70s. There was a transition in 1992 when NABARD took up a pilot project on SHG Bank Linkage. The immense success of this project changed the mindset of the mainstream bankers and attracted the formal financial sector to join the movement. Presently, NABARD promoted SBLP is the largest microfinance programme in the world. From the development perspective, it is important to analyse the impact of SBLP on the livelihood of the beneficiaries.

A few assessment studies have been done by NABARD and academicians on SBLP. Most of the studies have reported that there is positive impact of SBLP on access to financial services by members. However, few studies have been done to see the impact of micro enterprises or income generating activities taken up by SHG members under SBLP on their livelihoods. In this context, NABARD conducted the present study in four selected States in India, Jammu and Kashmir, Gujarat, Andhra Pradesh and Himachal Pradesh.

The study has not only assessed the impact of micro enterprises or income generation activities taken up by SHG members on their livelihoods, it has also tried to understand problems faced by these members in performing these activities. The study has covered specific aspects of SHGs like group dynamics, changes in pattern of enterprises, job diversification, repayment performance, process of graduation of SHG members from micro borrowers to micro entrepreneurs and economics of these micro enterprises, etc. This study throws some light on other aspects of micro enterprises. It has discussed some problems faced by micro-entrepreneurs like lack of marketing facilities, lack of supply of raw materials in local markets, obsolete technology leading to low scale of productivity and lack of skill training to upscale the enterprises, etc. In this context policy prescription to address these problems are suggested.

I hope these findings and policy suggestions would help banks and other government institutions to design SBLP or to formulate policies to promote micro enterprises and group enterprises in a successful manner and help poor people to be uplifted.

**Samapti Guha**

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The present study “Microfinance for Micro Enterprises : An Impact Evaluation of Self Help Groups” conducted by NABARD aimed at understanding the impact of micro enterprises on SHG beneficiaries in Andhra Pradesh, Gujarat, Jammu & Kashmir and Himachal Pradesh.

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## **Abbreviations**

AP	: Andhra Pradesh
BRAC	: Bangladesh Rural Advancement Committee
CBO	: Community Based Organisation
CBs	: Commercial banks,
CIF	: Community Investment Fund
COI	: Cost of Investment
CSSS	: Catholic Social Service Society
CTT	: Chinmaya Tapovan Trust
DCCBs	: District Central Cooperative banks
DDM	: District Development Manager
DHAN	: Development of Humane Action
DRDA	: District Rural Development Authority
DWCRA	: Development of Women and Children in Rural Areas
DWDA	: District Watershed Development Agency
GHK	: Grameen Hastakala Kendra
GOI	: Government of India
GSA	: Gramin Seva Asram
HDFC	: Housing Development Finance Corporation Limited
HHA	: Households activity
HP	: Himachal Pradesh
ICDS	: Integrated Child Development Services
ICICI	: Industrial Credit and Investment Corporation of India
IGAs	: Income Generation Activities
IKP	: Indira Kranti Patham Project
IOB	: Indian Overseas Bank
IRVs	: Individual Rural Volunteers
LMSSS	: Lodi Multipurpose Social Service Society
MACS	: Mutually Aided Cooperative Societies
MARI	: Modern Architects of Rural India
MEs	: Micro Enterprises
MFI	: Microfinance Institutions

## **Abbreviations Contd.**

MSAJVS	:	Mandi Sakshatrata Avam Jan Vikas Samiti
MSs	:	Mandal Samakhyas
MYRADA	:	Mysore Resettlement and Development Agency
NABARD	:	National Bank for Agriculture and Rural Development
NGO	:	Non Government Organisation
NI	:	Net Income
NMHC	:	Nirmal Mata Health Centre
NPAs	:	Non Performing Assets
OBC	:	Other Backward Class
OC	:	Operational Cost
PKAGVS	:	Parvitya Krishi Avam Gramin Vikas Sansthan
PSS	:	Pragathi Seva Samiti
PWCS	:	Primary Weavers' Credit Cooperative Society
ROSCA	:	Rotating Savings and Credit Association
RRB	:	Regional Rural Bank
RSS	:	Rashtriya Seva Samiti
SBLP	:	SHG-Bank Linkage programme
SCs	:	Scheduled Castes
SEEDS	:	Sarvodaya Economic Enterprise Development Services (Gurantee) Limited
SEWA	:	Self Employed Women Association
SGSY	:	Swarnjayanti Grameen Swarojgar Yojana
SHG	:	Self Help Group
SHPIs	:	Self Help Promoting Institutions
STs	:	Scheduled Tribes
STD	:	Subscriber trunk dialing
STEP	:	Support to Training and Employment Programme
TC	:	Total Cost
VOs	:	Village Organisations

## ***Executive Summary***

Microfinance and micro enterprise development play a crucial role in alleviating poverty and generation of self employment. In India, 92 percent of the workforce is in the informal sector and micro enterprise is the main source of livelihood for many of them. Under SHG Bank Linkage programme promoted by NABARD, some of the SHG members have graduated to become micro entrepreneurs from the status of micro borrowers. It is important at this juncture to understand the impact of these micro enterprises on the livelihood of SHG members. The study was conducted by NABARD in Andhra Pradesh, Gujarat, Jammu and Kashmir and Himachal Pradesh. The study covered 155 SHGs and 632 members of these SHGs. The selection of SHGs was based on the stratification of SHGs based on their age. SHPIs like banks, NGOs, Farmers Club and GOs were studied to understand their role in promoting SHG members from micro borrowers to micro entrepreneurs. The reference year for the study was 2005-06.

With regard to main criterion used in formation of SHGs, it was observed that majority of the SHGs in AP, Gujarat and J&K, were formed on the basis of homogeneity criterion in terms of economic status. In HP it was the proximity criterion. Average size of the SHGs ranged between 12 and 14. More than 50 percent of the total sample SHGs belonged to the age category of 'four to six years'. Around 75 percent of total SHGs had conducted regular SHG meetings. To reduce the absenteeism, SHGs had decided to impose fine on absentees and the fine varied between Rs 2 to Rs. 10. The attendance was more than 90 percent in 54 percent SHGs. Interestingly, in HP attendance was 100 percent in 60 percent of sample SHGs and this phenomenon was rarely found in other States.

Across the four States, SHGs did not change their leaders. In 70 percent of the total SHGs, leaders maintained SHG records. NGO-SHPIs helped 20 percent of the total SHGs to maintain the records. Very few SHGs took the help of outsiders of the groups like family members, literate person of the locality and members of other groups to main records. The amount of savings varied across the SHGs. The saving rate varied from Rs. 10 to Rs. 150 per member per month in the surveyed SHGs. In more than 50 percent of the surveyed SHGs across all the age categories, members saved Rs. 50 per month. SHGs mobilized resources from different sources such as, group savings, interest income from internal lending, bank loans, revolving fund and

other receipts in the form of donation and money collected through fines and penalties for not attending meetings and defaults in paying regular savings and loan installments. Bank loan constituted more than 59 percent of financial support in SHGs across all the age groups, followed by savings and RFA.

Around 46 percent of the total SHGs were linked to the bank within six to eight months. Branches of commercial banks, RRBs and cooperative banks provided credit linkage to SHGs. It was found that most of the commercial banks (76%) provided the linkage within six to eight months, whereas most of the cooperative banks provided linkage after one year. Totally, SHGs had borrowed Rs. 7,98,880 from the banks as on the date of the survey. Out of this total loan amount, 68 percent loans were taken for productive activities. Maximum number of loan linkages in the study area varied from four to six linkages.

Majority of the sample households in Gujarat and J&K were engaged in mixed economic activities. In AP and HP majority of SHG members were engaged in farm activity. Around 78 percent of members had attended secondary level of education in HP followed by J&K (46 percent). In AP majority of the members could only sign (31.6 percent) and majority of members in Gujarat had attended primary level of education (36.7 percent). Around 61 percent members belonged to households that had four to six members.

The largest proportion of the sample SHG members was in the age group 36-55 years in J&K, whereas in Gujarat and AP, majority of the members were in the age group of 26-35 years. Around 50 percent SHG member households belonged to SC and ST category. Across the States and across the age group, members of households of marginal farmers and landless agricultural labourers constituted a major share (more than 75 percent) of membership in the SHGs. Comparatively, more number of members from the households of agricultural labourers was covered under SBLP in AP than the States of Gujarat and HP.

Around 70 percent households stated that the value of assets owned by them increased in the "post SHG" joining period. In HP, no members reported that the value of their assets decreased after joining the SHGs. In J&K, only two percentage of members reported that the value of their assets had decreased in post SHG period. Overall, the

change in value of assets was to the tune of Rs. 58,668.79. Most of the SHGs owned milch cattle, poultry and work animals. With regard to moveable assets, there was a sharp increase in percentage of members with new movable assets in the range of Rs. 5,001 to Rs. 10,000 after joining the SHGs in AP and HP. In case of Gujarat, the highest range, the percentage of member-households with movable assets of more than Rs.15000 had doubled in post SHG period. In AP, the percentage change in the member households in the immovable assets category of Rs. 30,000 to Rs. 50,000 was 13 percent. However, in Gujarat there was no change in pattern of immovable assets across all the ranges. In HP, the percentage of member households having immovable assets of more than Rs. 70,000 had increased from 1.58 percent to 13.19 percent.

There was a change in savings and borrowing behaviour of the SHG members after joining the SHGs. The overall change in the average savings per member was to the tune of Rs.2,129.33 in post SHG period. Around 41 percent of members in AP and 88 percent members in Gujarat have borrowed in the post SHG period. There was a significant change in percentage of members availing loans in the range Rs. 5000-10000 in the post SHG period in AP (25.8 percent). Whereas, in case of Gujarat, the percentage of members availing credit in post SHG period had significantly increased in the range of Rs. 10000-20000 (24.49 percent). The overall average borrowing had increased from Rs. 6,931 to Rs. 11,676.33 (from 1st bank linkage to 3rd bank linkage). The overall cumulative loan of Rs 54.87 lakh was disbursed among the studied SHGs in AP and Gujarat. Around 50 percent of this cumulative loan was disbursed to the SHGs in the age group, 'four to six years'.

Across the States, with the increase in loan linkages, SHG members utilized the loans either for initiating new economic activities or for diversifying their existing activities. In AP majority of the members in the SHGs of age group, 'upto three years' took up one activity (66 percent) followed by two activities (25.8 percent). In Gujarat, 46 percent of the sample members in the SHGs of the age group, 'upto three years', had taken up three activities. In AP, 42 percent of the sample SHG members took up IGAs. With regard to loan absorption, it was seen that out of the total loan disbursed, members with IGAs had borrowed 54 percent more as compared to the members without IGAs. In case of Gujarat, only 34.7 percent members took up IGAs.

With regard to MEs, around 28 percent members set up new MEs in both the States. In case of Gujarat, the rate of loan absorption of SHG members, who took up MEs, was 120 percent more than the members who did not take up any MEs. This percentage was 193 percent in case of AP.

Out of 632 members covered under the study 149 members had set up 30 different types of micro enterprises and 158 members had taken up 31 different types of IGAs. In J&K, 31 percent of members had set up their own enterprise while only 7 percent of members had taken up IGAs. In AP, 28 percent of members had MEs and 42 percent were involved in the new IGAs. In Gujarat, the performance is relatively poor as only 5 percent of members have set up MEs and 5 percent of members have taken up IGAs. Among different types of MEs, dairy activity is dominating (39.07%) followed by kirana shops (11.92%). In case of IGAs, around 12.66 percent of members have invested in purchasing raw materials for crops cultivation in order to increase their income. The average cost of Investment for setting up dairy unit was Rs. 13,575 and members met most of the cost by borrowing from SHGs. For two MEs, bakery and lathe work, which required larger investment, members borrowed more than 60 percent of unit cost from the moneylenders. The net income from different MEs ranged from Rs. 3,625 (Cultivation) to Rs. 45,000 (Auto Rickshaw). MEs like rehari and handloom, the net income per Rupee of investment was very impressive (Rs. 0.82 and Rs. 0.9); however, the net income generated by these MEs was low (Rs. 18,000). In case of mandap decoration, investment of Rs. 1,10,000 was required; but the net income per Rupee investment was comparatively less (0.16). It indicates that high level of investment does not always result in high returns.

SBLP brings positive socioeconomic changes in the lives of the SHG members. Some of the SHG members had become active members of local committees like 'Pani Samiti', Gram Sabha, joined ICDS as Anganwadi workers, etc. SHGs have also become a platform where the members were able to access the information on various issues like Rural Employment Guarantee Scheme, Panchayat Raj Procedures, Public Distribution System etc. SHG members were increasingly seen taking more active part in economic decision making of the family. Some of the SHG members changed their lifestyle in terms of better food habits and new assets creation. With regard to rise in the income it was seen that the income of the members increased at 25 percent

from pre SHG to post SHG in AP, 38 percent in Gujarat and 81 percent in J&K. In the category of 'more than 6 years' SHGs, the rate of increase in income was 162 percent in AP, 129 percent and 117 percent in GUJ and J&K respectively. Comparison of rise of income between members who had set up MEs with members who had set up IGAs, showed that members with MEs earned around 22 percent more income than the members who had taken up IGAs in AP. In case of Gujarat this was 15 percent more income. Comparison of rise of income between members who had set up MEs or IGAs with members with no MEs/IGAs revealed that more income was earned by members with MEs/IGAs. This percentage was 70.5 percent in AP and 225 percent in case of Gujarat.

Employment generation depends on the nature of work undertaken in the MEs and the demand for those goods and services. Employment in terms of person days generated per unit of MEs varied between 180 days (for mandap decoration) and 1200 days (Bakery). In AP, 78.9 percent of employment in terms of person days was generated from households engaged in MEs. In case of Gujarat, it was 58 percent. For households, who started new IGAs, 45.1 percent employment was generated in AP and 39 percent employment was generated in Gujarat.

Under SBLP, banks, NGOs, CBOs and government agencies act as Self Help Promoting Institutions (SHPIs). In most of the States covered, NGOs played a pivotal role in forming groups, linking the groups to the banks and helping members to take up IGAs / MEs. State Government agencies in AP were the only exception where they were proactive in promoting SHG movement. In AP, under the Model I of SBLP, bank officials from the branches visited the near by villages to spread information among people about the benefits of the SHGs. Further, bank staff also facilitated group formation, nurturing of SHGs and providing linkage to SHGs.

Backward and forward linkages play a crucial role in the sustainability of any economic enterprise. Regular procurement of raw materials for producing a product in time is an important factor for successful running of any ME. Problems of insufficient backward linkages were found during the study. For example, in J&K, members reported that there was a shortage of fodder for the dairy animals during the lean seasons. In AP, members involved in weaving pochampally silk sarees in Warangal district faced problems in getting inputs as the Primary Weavers' Credit Cooperative Society (PWCS) in the village was defunct.

Members involved in lathe work faced problems due to lack of proper power supply. This hampered their operations during peak seasons. Members engaged in jute bag making got sewing machine from DRDA but they did not receive any help from DRDA to procure the raw materials. It was also found that the usage of obsolete technologies in most of the ME units was the main reason for low scale of production. It was observed that banks were at a distance of more than 5 kilometers away from the villages in the case of 46 percent SHGs in AP and 47 percent in J&K. Members of more than 50 percent of SHGs reported that market was more than 5 kilometers away from the villages in J&K. Members of around 60 percent of SHGs in AP reported that they had access to public goods like roads, water supply and medical facilities etc., whereas this was much less in case of J&K. It was observed that no proper institutional arrangements for marketing products produced by SHGs were available in most of the studied States. With regard to financial sustainability of MEs, SHG members got lesser rate of margins on the products/services produced by them as compared to the rate of margin available to the traders. For instance, in case of jute bag making units in Andhra Pradesh, the margin to SHG member was Rs.4 per unit whereas, the same in the case of trades was Rs. 8.5 per unit.

The stability of SHGs can be ascertained by looking at size of the SHGs and the age of the groups. In case of SHGs under the age group '4 to 6 years', there was a sharp decrease in number of members in AP and J&K. Some of the important reasons for reduction in group size were: marriage and shift to other places, migration to other places for livelihoods, member's death, discontinuation due to health problem etc. The objective of SBLP is to make SHGs into financially sustainable institutions. Without good repayment performance, it is difficult for the SHGs to achieve the financial sustainability. The overall repayment performance showed that more than 90 percent of the loan demand was repaid by SHGs to the banks. The only exception was SHG of 'up to 3 years' category in Gujarat where repayment was around 85 percent. With regard to repayment of internal loans within the SHGs more than 92 percent of the loan demand was repaid by the SHG members. It was observed that banks were charging interest rates at the rate of 8 to 12.5 percent per annum to SHGs. The SHGs were charging 12 to 24 percent per annum to members on the internal loans. In AP, 12.3 percent of the SHG members had accessed loans from MACS floated by NGOs. The banks lent to MACS at 18 to 24

percent interest rate per annum and MACS lent to SHGs at 24 percent interest rate per annum. Banks fixed a repayment period of 36 months under SBLP. However, it was found that most of the SHGs repaid the entire loan within 24 months. In case of loans from MACS, the stipulated time of repayment was 20 months. Here no advance repayments were being made by SHGs.

Based on the findings of the study, following main suggestions for improvement of SBLP implementation are given.

**Suggestions:**

1. Training and capacity development of SHG member entrepreneurs, specifically in the areas of developing entrepreneurial skills appears to be an important area of intervention.
2. Link SHGs to different technical institute for their capacity building and facilitating use of new and innovative technology for improving production processes and margins.
3. All members of SHGs need to be imparted leadership training and eventually there has to be rotation in leadership to ensure functioning of SHG on more democratic basis.
4. A network engaging micro entrepreneurs, NGOs, Fair Trade Organisations (for example, like SEWA Trade Facilitation Centre, FabIndia etc.) and other institutions which are promoting marketing of products made by micro entrepreneurs needs to be created with adequate institutional backing to ensure that micro entrepreneurs find adequate opportunity to participate in the markets.

# **Chapter I**

## **Introduction**

### **1.1: Background**

Some of the important problems facing Indian economy in the present time are high levels of unemployment and under employment, increasing levels of inequalities and increasing poverty and dispossessions. One of the pressing needs of the present time, in India, is to create sustainable employment for unemployed and underemployed labour force. Labour force, here, is defined as the sum total of employed population and unemployed population who are seeking jobs. It is argued that employment can be created either by generating wage employment or by promoting self-employment (Wahid, 1994). Microfinance and micro-enterprises development are important strategies that are playing a crucial role in generating different types of self-employment in many developing countries. It is seen that increasingly, world over, Governments and the NGO sector are implementing various programs of microfinance and microenterprise development. The term 'Micro-enterprises' refers to small businesses owned by poor individual or group of poor people for which they have received the support of sponsoring organizations (Midgley 2008). Micro enterprise development is a strategy to provide employment to the poor and provide an opportunity to the poor to overcome poverty. Micro-enterprise development to address poverty has been an important strategy in India. Further, in recent years, with the growth and importance of microfinance as a strategy to address poverty, micro enterprise development has assumed added significance. In India, where almost 92 percent of the total workforce is in the informal sector, micro enterprise is the main source of livelihood for many. The report on the condition of work and promotion of livelihood in the unorganized sector (Sengupta, 2007) reveals that close to 57 % of the Indian labour force works as self employed. Though, self employed includes a wide range of occupations including occupations such as doctors, lawyers and other professionals, the large section of the self employed in India are engaged in menial jobs in very low scale enterprises (Sengupta, 2007).

Historically, if we see post independence, Government of India gave the priority to building large scale industries with public sector funding with an intention to create wage employment opportunities. It was

argued that this process of development would absorb the labour force of the agriculture sector. However, by 70s and 80s, it was realized that industrialization through public investment had very less impact on employment generation and poverty reduction. In 80s, Government of India (GOI) took up various targeted programmes specifically directed towards generating self employment. Programs like Jawahar Rozgar Yojana (JRY), Prime Minister's Rozgar Yojana (PMRY) Integrated Rural Development Programme (IRDP) were some of the important programs directed towards transition from wage employment to self employment. Under these programs, micro enterprise development became an important strategy of promoting sustainable self employment. These programs were implemented by Governmental agencies and credit was an important component of these programs. Further, credit was disbursed at subsidized rate. Government of India also set up institutions to monitor and promote small and micro enterprise development in India.

Government of India also set up institutions to monitor and promote small and micro enterprise development in India. Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) are two important institutions in India involved in giving strategic direction and promotion to micro enterprise development in India. SIDBI was set up with a view to have a multi-agency approach to credit disbursement to SSI sector in India. A working team from SIDBI has found that eight percent of GDP in India is contributed by Small Scale Industrial sector in 2007. Around 30 percent of manufacturing output was coming from this sector and employment of 32 million persons was created. Around Rs. 1,317,705 Crore credit was disbursed in this sector as of 31st March 2007. According to the classification as per the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, manufacturing enterprises are classified into 1) Micro Enterprises (investment upto Rs. 25 lakhs); 2) Small Enterprises (investment above Rs 25 lakhs and upto Rs. 5 crore) and 3) Medium Enterprises (investment above Rs. 5 crore and upto Rs. 10 crore). Similarly service enterprises are classified into 1) Micro Enterprises (investment upto Rs. 10 lakhs); 2) Small Enterprises (investment above Rs 10 lakhs and upto Rs. 2 crore) and 3) Medium Enterprises (investment above Rs. 2 crore and upto Rs. 5 crore). SIDBI had disbursed Rs. 15,072 crore loans to SSI sector up to 31st March 2008 (Source: SIDBI Report, [www.and.nic.in/C\\_charter/indust/MSMED\\_classification.pdf](http://www.and.nic.in/C_charter/indust/MSMED_classification.pdf)).

NABARD was set up in 1982 and is an apex institution in the field of credit for agriculture and other economic activities in rural areas in India. To promote small scale farm and non farm businesses, NABARD has launched various schemes. NABARD facilitates the micro credit innovation scheme to provide sustained access to financial services for the poor through micro credit innovations. NABARD has designed a model scheme for issuing Kisan Credit Cards. Farmers can use this card to purchase agricultural inputs such as seeds, fertilizers and pesticides etc. NABARD has also launched Swarozgar Credit Card Scheme to provide timely credit as working capital or block capital to small artisans, handloom weavers, service sector small business persons, fishermen, self employed persons, other micro entrepreneurs, SHGs etc. from the formal financial institutions in a hassle free and cost effective manner. To provide the marketing facility to rural artisans and entrepreneurs, NABARD initiated Crafts Mart Scheme. Through this scheme, beneficiaries can access the urban and rural markets. NABARD under its various promotional programmes also arranges for exhibitions of products of artisans. NABARD has also designed Rural Innovation Fund with the purpose to support innovations related to dry land / rain fed farming, rainwater harvesting, producing energy from biomass /Crop Residues or non-crop bio mass, distribution and use of water and energy, storage devices for agricultural and rural products, management of common property resources, building of roads, sanitation and waste disposal, microfinance, entrepreneurship / skill development, micro-enterprises development, marketing, housing, health care and hygiene. In the next section of this chapter we review status of microfinance in India and the strategies adopted by NABARD to support SBLP.

## **1.2: Microfinance in India**

The birth of microfinance movement in India can be traced to 70's. The main aim of the movement was to alleviate poverty by delivering financial services to the poor. The basic idea was to enable poor to access the financial services so that poor can have a asset base and initiate income generation activities. The movement was initiated in India by the joint efforts of NGOs and CBOs. Self Employed Women Association (SEWA) is considered one of the pioneers of the microfinance movement in India. Over the years, the efforts of these organizations have proved that poor are bankable. Further, in the last two decades microfinance movement has gained a lot of prominence world over and also in India. We can divide microfinance

movements in India into two distinct phases. Phase I: from 1970's to 1991 and Phase II: from 1991 to the present time. In the Phase II, formal financial sector in India also joined the microfinance movement. It was realized that the main limitations banking sector in serving the poor were related to high transaction cost, high cost of mobilization, especially when the banking sector had to follow regulated interest rate structure and asymmetric information in the financial sector. In such a situation, it was found, based on the experiences of different countries across the globe that Self Help Groups could be an ideal delivery model to address the problems mentioned above and viably meet the financial needs of the poor. This is also supported theoretically, where it is found that Joint Liability Lending and Peer monitoring have overcome the problem of asymmetric information in the financial sector. (Ghatak, 1999 and Stieglitz, 1990). In India, NABARD also adopted the same lending processes to implement SBLP.

The NABARD promoted microfinance program, 'The SHG Bank Linkage Program', is now considered to be the biggest microfinance program in the world. The genesis that led to participation of formal banks in microfinance program is traced to a study conducted by NABARD in mid eighties to understand the credit needs of the poor households and a subsequent pilot project of NABARD along with some NGOs. The study found that poor needed consumption loans as well as small loans for their micro-enterprises (Harper, 2002). NABARD took up a pilot project in 1992, along with some NGOs in India to assess whether by linking SHGs to formal banks can meet the credit needs of the poor. The pilot project was very successful and today it is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor.

### **1.2.1: Strategies adopted by NABARD in promoting SBLP**

NABARD is the lead agency promoting SBLP in India. It plays a strategic and promotional role to promote SBLP through formal banks in India. The strategies adopted by NABARD cut across different stakeholders engaged in SBLP. NABARD's activities are related to forming strategic linkages and expanding the range of formal and informal agencies which can work as Self Help Group Promoting Institutions. Providing crucial capacity building by promoting and conducting different training programmes and workshops with the help of Government and Non Government Agencies for Bankers, SHPIs and SHG members is also NABARDs important role. Further, removing

the existing regional imbalances in SBLP by adopting region specific strategies and interventions is an important aspect of NABARD's role. NABARD also plays an important role as financial agency by providing refinance facility to formal banks in order to promote SBLP. The following Table 1.1 below gives a summary of the financial and promotional supports of NABARD to promote SBLP.

**Table 1.1: Financial and Promotional Supports offered by NABARD under SBLP**

<b>Role of NABARD</b>	<b>Programmes</b>	<b>Supports</b>
Providing Financial Support	Refinance Support to Banks	NABARD provides refinance support to banks to the extent of 100% of the bank loans disbursed to SHGs. In 2008-09 the total refinance disbursed to banks for SBLP was Rs. 2,620.03 crore.
Promotional Support	Micro Finance Development and Equity Fund (MFDEF)	This fund is created to facilitate and support systematic growth of the microfinance sector through diverse modalities. A corpus of Rs. 200 crore is set up and out of this Rs. 80 crore is contributed by NABARD. The major components of this fund include promotional grant assistance to Self Help Promoting Agencies, training and capacity building for microfinance clients and stakeholders of SBLP, funding support to MFIs, providing Management Information System (MIS) for MFIs, and research on microfinance.
	Training and Capacity Building	Every year NABARD organizes training programmes and exposure visits for SHGs, NGOs, Bankers and government agencies to strengthen their effectiveness for implementation of SBLP. During 2008-09, total amount of Rs. 6.10 crore was disbursed as a fund for capacity building, exposure and awareness building. During this year, 6,278 training / capacity building programmes were conducted for 2,83,998 participants.

<b>Role of NABARD</b>	<b>Programmes</b>	<b>Supports</b>
	Grant Support to partner agencies for Promotion and Nurturing of SHGs	NABARD provides grant support to NGOs, RRBs, DCCBs, Farmers' Clubs and Individual Rural Volunteers for nurturing of quality SHGs. During 2008-09, NABARD provided grant of Rs. 1,768.53 lakhs to 331 partner agencies functioning as Self Help Promoting Institutions.
	Pilot project on SHG-Post Office Linkage Programme	The objective of this pilot project is to examine the feasibility of utilizing vast network of Post Offices in rural areas for credit disbursement to rural poor through SHGs. As on 31 <sup>st</sup> March 2009, 2835 SHGs have opened zero interest savings accounts with select Post Offices in Tamil Nadu and 889 SHGs were linked with loan amount of Rs. 2,13.11 lakh. NABARD has sanctioned Rs. 3 crore RFA to Department of Posts, Tamil Nadu and Rs. 5 lakh to Post Offices in Meghalaya for lending to 50 SHGs in East Khasi Hills.
	Support to SHG Federations	NABARD provides grant-support to the SHG Federation in terms of training, capacity building and exposure visits of SHG members under all of the NABARD's existing promotional schemes.
	Special Initiatives for Scaling up SHGs/ SHG Fedearation	Along with Rajiv Gandhi Charitable Trust (RCGT) and Society for Elimination of Rural Poverty (SERP), NABARD has taken special initiatives to promote credit linkages of SHG federations in Andhra Pradesh and Uttar Pradesh. The project envisages promotion and credit linkage of 22,000 SHGs, 1,100 cluster level associations and 44 block-level associations in UP. As on 31 <sup>st</sup> March 2009, in AP 7,808 SHGs were promoted of which 3,972 SHGs were credit linked. 273 village level and 14 block level SHG federations were formed.

<b>Role of NABARD</b>	<b>Programmes</b>	<b>Supports</b>
Support to micro enterprise development	Micro Enterprise Development Programme (MEDP) for skill Development	The objective of this programme is to enhance the skill of the members of the mature SHGs to set up micro enterprises. The duration of the programme varies between 3 to 13 days and budget of Rs. 30,000 per training programme is allocated. During 2008-09, 879 MEDPs were organized on both farm and non-farm activities and 41,479 members of the mature SHGs attended these training programmes.
	Support to Activity Based Groups (ABG)	NABARD introduced a new scheme for supporting small scale activity-based groups in terms of capacity building, and support to production, investment and market related activities. This scheme has both grant and a loan component. Grant component covers the costs of SHG formation and training, extension services, establishing market linkages etc.; bank loan covers the investment and working capital needs of the SHGs enterprise.
Promotional Support-MFI Bank Linkage	Rating of Micro Finance Institutions (MFIs)	NABARD launched a scheme for providing financial assistance by way of grant to Commercial Banks, Regional Rural Banks and Cooperative Banks to avail the service of accredited credit rating agencies for rating MFIs subject to a maximum of Rs. one lakh.
	Capital / Equity Support to MFIs	A scheme titled 'Capital / Equity Support to MFIs' was introduced in 2007-08. Under this scheme NABARD has provided capital / equity supports to various types of MFIs to enable them to leverage commercial and other funds from banks. During 2008-09, capital support of Rs. 11.75 crore was sanctioned to 13 agencies.

<b>Role of NABARD</b>	<b>Programmes</b>	<b>Supports</b>
	Revolving Fund Assistance to MFIs	NABARD provides Revolving Fund Assistance (RFA) to select MFIs. RFA helps MFIs to access credit facilities through the regular banking channels. These MFIs use RFA for on lending to SHGs. RFA has a service charge ranging between 6.5 % and 9.5% to be repaid within a stipulated period of three to seven years. During 2008-09, RFA of Rs. 6.25 crore was sanctioned.

Source: NABARD Annual Report 2008-09.

From the above table it can be seen that NABARD has taken several initiatives in promoting SBLP and assisting the poor to set up micro enterprises (MEs) or take up income generation activities (IGAs). In the next section we analyse the performance of SBLP by looking at the outreach achieved under SBLP so far.

### **1.2.2: Models of SBLP:**

Initially, SBLP was operational under three different delivery models for providing microfinance services. The details are included in Table below:

**Table 1.2: Delivery models of microfinance under SBLP**

Model I	Banks facilitate SHG formation and provide savings and credit linkage directly to SHG
Model II	NGOs or other SHPIs facilitate the SHG formation and banks provide the savings and credit linkage to SHG
Model III	Banks lend to MFIs and MFIs facilitate the group formation and on lend to SHGs.

While banks and NGOs facilitate SHG formation, the reporting of credit linkage of SHGs is under SHG Bank Linkage Model and MFI- Bank Linkage Model since 2007-08. From the year 2006-07, SBLP follows a two models strategy where the focus is on credit linkage to SHG. The reporting is carried out under following two models (Table 1.3).

**Table 1.3: Credit linkage models under SBLP introduced in 2006-07**

Model (i)	SHG-Bank Linkage Model: SHGs are directly financed by the banks
Model (ii)	MFI-Bank Linkage Model: Banks lend to MFIs for on lending to SHGs

We now look at the model wise credit accessed by SHGs. Table 1.4 below gives the details. It can be seen that majority of the SHGs were linked under the Model II under SBLP up to 2006. It appears that NGOs and other SHPIs have helped banks to increase the outreach under SBLP. The overall the outreach was growing at rate of 124 percent per annum during the period from 2001-2006. After 2006, however, it can be seen that majority of the SHGs are linked under newly defined Model I where banks linked the SHGs directly. Overall the number of credit linked SHGs is increasing at the rate of 15 percent per annum during 2006 to 2009. In case of MFI-Bank Linkage Model, four types of MFIs are considered. These are NGO-MFIs (registered under Societies Registration Act, 1860 and / or Indian Trust Act, 1880), Cooperative MFIs (registered under State Cooperative Societies Act or Mutually Aided Cooperative Societies Act (MACS) or Multi-State Cooperative Societies Act, 2002), NBFC-MFIs (registered under Section 25 of Companies Act, 1956 (Not for Profit) and NBFC-MFIs incorporated under Companies Act, 1956 & registered with RBI.

**Table 1.4: Model wise distribution of linked SHGs**

<b>Year</b>	<b>Model I</b>	<b>Model II</b>	<b>Model III</b>	<b>Cumulative Total</b>
<b>Savings and Credit Linkage</b>				
2001	34,297	2,00,507	29,021	2,63,825
2002	73,836	3,46,109	41,533	4,61,478
2003	1,43,472	5,16,499	57,389	7,17,360
2004	2,15,818	7,76,946	86,327	10,79,091
2005	3,39,876	11,65,288	1,13,292	16,18,456
2006	4,47,713	16,56,538	1,34,314	22,38,565
	<b>Model I (SHG-Bank Linkage Model)</b>	<b>Model II (MFI-Bank Linkage Model)</b>		
<b>Credit Linkage</b>				
2006-07		41,60,584	550	41,61,134
2007-08		50,09,794	1,109	50,10,903
2008-09		61,21,147	1,915	61,23,062

Source: NABARD Fact Sheet March 2001 to March 2006 and Status of Microfinance in India 2008-09

With regard to regional spread of SBLP, it can be seen that there are regional imbalances of outreach under SBLP (Table 1.5). It is a well known fact that the concentration of NGOs and CBOs is very high in South Indian region. Accordingly, southern region accounts for highest outreach (46%), followed by Eastern region (20%). North Eastern Region accounts only for four percent of total outreach of SHGs and two percent of total loan disbursement. In Central Region, only six

percent of total loans were disbursed among the 11 percent of the outreach achieved under SBLP. Western Region accounts for 13 percent of total outreach of SHGs and 12 percent of total loan disbursement. North Region accounts for three percent of total outreach and four percent of total loan disbursement. Except Central Region, commercial banks have linked majority of SHGs across all the other regions. In Central Region, RRBs have linked the highest number of SHGs. Overall it can be concluded that growth of SBLP is lopsided and southern States in India continue to be the growth centers.

**Table 1.5: Savings of SHGs with Banks (Region wise and Agency wise Position) as on 31st March 2009  
(Amount in Rs. Lakh)**

Region	Commercial Banks		Cooperative Banks		Regional Rural Banks		Total	
	SHGs	Amount	SHGs	Amount	SHGs	Amount	SHGs	Amount
Northern	1,69,319	14,688.04	62,231	3,495.69	79,448	4,520.19	3,10,998	22,703.92
North Eastern	93,354	4,453.75	21,434	539.66	1,25,305	5,216.75	2,40,093	10,210.16
Eastern	6,29,728	29,231.32	2,28,519	15,850.20	3,75,388	1,14,606.52	12,33,635	159,688.04
Central	3,19,952	19,670.46	59,291	2,446.14	3,33,672	16,562.60	7,12,915	38,679.20
Western	4,29,453	36,583.83	2,50,651	21,860.83	116,158	7,983.74	7,96,262	66,428.40
Southern	19,07,703	1,72,671.54	3,20,924	34,095.28	5,98,617	50,085.28	28,27,244	2,56,852.10
Total	35,49,509	2,77,298.94	9,43,050	78,287.80	16,28,588	1,98,975.08	61,21,147	5,54,561.82

Source: Status of Microfinance in India 2008-09, NABARD

It is important to know how microfinance programmes are designed to promote micro enterprises and what the impact of micro enterprises on microfinance beneficiaries is in the global context. In the next section development of microenterprises through microfinance is discussed and some of the case studies of micro entrepreneurs in different countries are analysed. The purpose of this section is set a tone for this report by looking at micro enterprise development as a strategy to overcome poverty and also learning from different cases of micro enterprise and its effect on poverty alleviation.

### **1.3: Micro enterprises Development through microfinance**

Micro enterprises or small businesses are an integral part of any economy. World over, micro or small enterprises are an important source of livelihoods for majority of the people. This section is devoted to understanding the role of micro enterprise in development and specifically the relation between microfinance and micro enterprise development strategy. We also review some studies that have looked at the impact of micro enterprise development on poverty and livelihood promotion. The last part of this section includes a content analysis of some select case studies of micro entrepreneurs to bring out factors that come into play when MFIs support and promote micro enterprises. The objective is to gain more insight and understand factors that determine how microfinance programs help in establishing and sustaining enterprises.

#### ***Understanding Micro enterprises***

Typically, these enterprises are referred to as home based work or self employment taken up on a small scale. Researchers have identified these enterprises as businesses operated by poor or group of poor people with support of sponsoring organizations and operated either by individuals or individuals along with their family members (Midgley, 2008). As micro enterprises are overwhelmingly operated by poor, it is one of the livelihood promotion strategies across the world. According to ADB Report 1997, the major objectives of micro-enterprise development projects are, "poverty alleviation, women empowerment, employment generation and enterprise development" (ADB Report 1997, pp.9). Micro enterprises can be developed under two different frameworks: livelihood promotion and growth oriented enterprise development. Livelihood promotion programmes have main objective of poverty reduction and in the process the programmes help to increase the productivity of the enterprises. growth oriented micro enterprise programmes, on the other hand, have main objective of enterprise development. These programmes attempt to have micro enterprises to achieve the high level of sustainability and long term growth by providing services like training, technical assistances, credit and business skill. Given the nature of these two approaches, it is seen that the livelihood programmes make a short term impact on poverty by creating self employment whereas growth oriented micro

enterprise development programmes make long term impact on poverty. However, the problem with long term growth oriented programme strategy is that it reaches only a smaller number of enterprises. Livelihood promotion programmes on the other hand can reach much higher number of poor people (ibid, 1997).

### ***Microfinance and Micro Enterprise Development***

In the following part of this section a review of some studies that have looked at impact of microfinance programs using micro enterprise development strategy. We also specifically look at studies that have reviewed working of SGSY, a government sponsored SHG-Bank linkage programme. A study in Orissa State examining SHGs of women entrepreneurs engaged in fishing activities under SGSY program found that internal loans did not match with the demand for loans of the members Tietze et al (2007). It was found that there was a huge demand for training and capacity building, but the training was provided only to three members per SHGs. Authors observed that members especially fisher women had low education, lack of access to health facilities and lack of adequate housing facilities and other necessary infrastructure facilities. The study recommended capacity building programmes for these micro entrepreneurs like, hygienic fish drying with the use of solar dryers, shell-craft production and developing marketing strategies. Authors felt that there was an urgent need to identify markets and marketing strategies for these products and need to develop a pilot production and marketing operations strategy (ibid).

A comparative study that looked at responsiveness of training among women entrepreneurs belonging to different social groups found that religious and caste sanctions imposed in India put restrictions on women's entrepreneurial activities. It was found among the upper caste women were more responsive to business training and training allowed them to challenge social norms that obstructed their businesses. Whereas Muslim women, who faced more social restrictions faced considerable discrimination in the market place as the area in which they were operating had a history of communal tension. Interestingly, the study found that sanctions due to gender norms were less restrictive for the lower castes than that for upper caste women. However, authors indicate that increasingly, the lower

caste women follow the gender norms laid by the upper caste. Given these problems, the authors indicate that the micro enterprise development programmes for women might fail to achieve sustained economic growth. (Field et al, 2010).

A study on SEEDS in Sri Lanka found that not all the enterprises started through SEEDS loan were self sustaining and some also failed. Further, enterprises were also of marginal scale and did not make any profit or incur losses making the enterprises very vulnerable. The study noted that there was high social pressure from peers, family and friends to repay SEEDS loans. The enterprises which have been successful have helped in building material wealth of the entrepreneurs and their family. However, whenever there was a failure, it has pushed entrepreneur and the concerned family into more poverty and increased debt burden (Sear and Simon, 2001). Promotion of micro enterprise using microfinance has mixed outcomes and opposing evidences exist. As seen in the earlier section, micro enterprise is occupation choice of millions of the poor who work individually or along with their unpaid family members to earn a decent living. It is seen that MFIs use micro enterprise as a strategy to address the poverty of its members/clients. Several studies have found that income levels of households engaged in micro enterprises through their microfinance programs have been improved and many successful cases can be seen in the global context. On the other hand, some studies have also pointed out the fact that micro enterprise with the help of microfinance has not had a very significant impact on poverty. Further, it has also been pointed out that the poorest of the poor may not participate in the micro enterprise programs supported by MFIs (Midgley, 2008). We end this section with seven case studies included of individual entrepreneurs who have used microfinance to address their poverty concerns and a content analysis of these case studies to gain more insight into working of microfinance and micro enterprise development strategy.

## ***Individual Entrepreneurs Case Studies***

### **Case:1\***

**Microenterprise Development Fund Kamurj (MDF Kamurj),  
Country: Armenia , E Europe and Central Asia**

#### **"Client Impact: Adrine s Microloan\***

Adrine runs one of the most popular businesses in her neighborhood, making traditional Armenian pastries. Adrine learned to make pastries from her mother, but for most of her life baking was a spare time avocation. During the hard economic times following Armenia s independence from the Soviet Union, Adrine resorted to baking to earn money to feed her children and send them to school. However, for many years her home-based production was so small that it did not generate much income. This changed when she learned about MDF Kamurj. With a micro-loan from MDF Kamurj, Adrine was able to invest in a larger oven, eventually renting a shop outside from her home. Now, in her 10th loan cycle, she sells out of her shop, in the central market and to local hotels and restaurants. With her next loan she plans to move her pastry shop to a larger location to attract more customers and hire additional employees".

### **Case:2\***

**Fundación D-MIRO: Country: Ecuador (South America) Country  
Profile: Ecuador**

#### **Client Impact: Patricia s Microloan\***

"Patricia is one of five women that make up the solidarity group known as Las Toreras, or the Bullfighters. They live in an impoverished community on the outskirts of Guayaquil, each running a small business out of their homes. Patricia operates a small store selling beauty supplies to other women in her neighborhood. Before working with D-MIRO, Patricia always struggled to have enough money to increase her inventory of products, losing an opportunity for increased sales when her neighbors would shop at larger stores in the center of town. Thanks to DMIRO, she has been able to invest in her business because D-MIRO accepts the personal guarantees of the other women in

1 \*Cases accessed from [www. http://www.mcenterprises.org/about/casestudies/](http://www.mcenterprises.org/about/casestudies/). The case studies have been produced as given in the website to carry out a content analysis

her group as collateral for her loan, whereas traditional banks demanded property that she didn't own. Today, Patricia rarely loses a potential client because of a poorly stocked store. As a result, she is generating enough income to regularly feed her children and buy their school supplies".

**Case:3\***

**Mitra Bisnis Keluarga (MBK), Country: Indonesia (Southeast Asia), Affiliation: Unitus**

**Client Impact: Asih.s Microloan\***

"Asih and her three children (ages, 6 to 15) live at a distance of two hours journey from Jakarta in a one-room house made from woven bamboo. Asih is little literate, only attending school through the 3rd grade. Before taking a loan from MBK her total working capital amounted to \$20 and, consequently, her daily net income was meager, just \$1 per day. She supported her family through preparing fried rice in her home and selling it throughout her village. After joining MBK and borrowing \$50, Asih invested her loan in basic goods that she now sells from her home in the afternoon after she sells her fried rice door-to-door in the morning. By diversifying her business, the family's income has doubled moving her above the poverty line".

**Case:4\***

**Tchuma, Country: Mozambique (Sub-Saharan Africa), Affiliation: Acción International**

**Client Impact: Joana s Microloan\***

Joana is 51 years old and lives in a city on the outskirts of Mozambique's capital. In search of providing a better future for his family, her husband left Mozambique to work in the mines in South Africa Joana borrowed her first loan of \$175 from Tchuma in 2002 to invest in cement block production. Today, she is on her 12th loan, borrowing \$2,375. When Joana took her first loan from Tchuma, her monthly output was relatively small, generating less than \$1,000 in monthly gross revenue. Because of her persistence and determination to build a thriving small business, she now generates nearly \$9,000 in monthly gross revenue, providing her a stable income and secure future. She also now employs 10 full-time employees and 6 part-time employees, who did not have the opportunity to earn a consistent income prior to working for Joana.

**Case:5\*\*****An Unsuccessful Tea Dust Making Enterprise, Colombo District**

***The effects of small enterprise failure - deepening poverty, disempowerment and social isolation from family, friends and neighbours.***

"This lady entrepreneur, Mrs. S, borrowed RS. 10,000 from SEEDS in early 1997 to establish a tea dust making unit. The enterprise involved purchasing tea leaves from local suppliers. The leaves were ground into tea dust and were sold on to a larger supplier. Unfortunately, the price of tea escalated, resulting in a decrease in demand for her supplies. After one year of business, she was forced to cease trading. She gradually repaid Rs. 9,000 of her loan to SEEDS, from her husband's income. Mrs. S hopes to repay the remaining Rs. 1,000 also from her husband's income. Therefore the final repayment to SEEDS is dependent on her husband continuing to work. Repayments and the keeping of agreements are taken very seriously in rural areas of Sri Lanka. Mrs. S says her immediate friends and neighbours put pressure on her to repay her loan quickly to SEEDS when her enterprise failed. She claims that when she was unable to repay, members of her extended family and neighbours socially isolated her - she was considered to have brought disgrace upon the family. The effects of this occurrence are sometimes too profound for words to describe".

**Case: 6\*\*****The Brick Maker, Badulla District**

**A marginal enterprise which has generated small profits but the entrepreneur remains in a state of poverty.**

"Mrs. K, a widow, had some experience in brick-making in her youth, and learnt the trade through observing others. Mrs. K established her enterprise in August 1998 with Rs 10,000 SEEDS credit. She has repaid Rs 2,000 of her loan and is satisfied with the loan arrangements. She hopes to apply for another loan to expand her enterprise in the future. She would like to get more vocational training and business advice. Though this lady appears to be quite satisfied with her lifestyle, it is evident from her home that she has few possessions. The children do not attend school; they appear malnourished and wear old clothes. The enterprise fails to generate enough profit to improve the material well-being of her household.

2 \*\*Cases accessed from <http://www.gg.rhul.ac.uk/CEDAR/cedar-papers/paper35.pdf>, A Paper by Jane Sear and David Simon, Indigenous Microcredit and Enterprise Establishment: A Sri Lankan Case Study. The case studies have been produced as given in the website to carry out a content analysis

**Case: 7 \*\*\***

**The Local Village Shop, Galle District**

**How the establishment of an enterprise has given an individual a new and immense happiness in life, as he is able to generate an income and has new-found respect.**

"This village shop was established nearly two years previously by a disabled man who is confined to a wheelchair. The loan is in his name, although the compulsory savings of Rs 10,000 were funded by his sister, who helps the enterprise. Before establishing the enterprise, the man felt himself to be a burden on his family due to his disability. But now the gentleman is able to generate his own income and is no longer reliant upon others for money. He collects fruit from local farmers in his wheelchair, traveling many kilometers during the day over rough roads and in all types of weather. This is an example how a disability has not prevented the establishment of a new enterprise. The gentleman informs me that the establishment of the enterprise itself has given immense joy to his life. Eventually he hopes to commence a boutique business adjacent to the fruit and vegetable shop".

***Content Analysis of Case Studies***

The seven case studies included above are a mix of success and failure. The short cases speak about individual trysts of addressing their poverty and lead a dignified life. The purpose of including them here is to give a snapshot of how microfinance can help poor and also to understand how sometimes just financial interventions are not adequate but more fundamental structural changes are needed to address the problem of poverty.

The five success stories revealed that microfinance loans were used for meeting the initial capital requirements, diversification of enterprises, tapping new markets by increasing the scale of the enterprise and also create additional employment for others. The

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3 \*\*\*Cases accessed from [www.gg.rhul.ac.uk/CEDAR/cedar-papers/paper35.pdf](http://www.gg.rhul.ac.uk/CEDAR/cedar-papers/paper35.pdf). The case study has been produced as given in the website to carry out a content analysis

success cases also revealed that there was a material improvement in the lives of the micro finance clients and a sense of empowerment. It also appears that these clients were aware and had plans for their enterprises, but were in need of capital to initiate and implement their micro enterprise ideas. The regular borrowing pattern also tells us that a growing business is in constant need of capital. The MFIs by understanding the needs have provided the capital. These cases also revealed the motivation of the microfinance clients to take up micro enterprise. These are hard times befalling on the families, getting money to get the children educated and leading a dignified life.

The two unsuccessful cases point out what can be adverse impacts of borrowing by poor through microfinance institutions. The business gone sour can push clients into more poverty and destabilize their social status. Further, sometimes even if the enterprise creation is successful in terms of loan repayment it may not be adequate to meet basic needs of a decent life. The failures point out that MFIs need to be constantly advising clients on market behaviour and providing ways of protecting micro enterprises.

## **Chapter II**

### **Objectives and Methodology**

To eradicate poverty, it is important to enable poor people to take up income generation activities like setting up own micro enterprises and setting up small cottage industry etc. Microfinance has emerged as a poverty alleviation tool to facilitate the aforementioned processes. The present study has made an attempt to assess the impact of micro-enterprises on income and employment levels of SHG members under SHG-Bank Linkage programme promoted by NABARD which adopts microfinance as a strategy. This chapter discusses the Objectives and Methodology of the study.

#### **2.1 Objectives**

The broad objective of the study is to assess the impact of micro-enterprises on SHG members. The specific research objectives of this study are:

- To study the group dynamics in SHGs;
- To study the pattern of enterprises set up by SHG members;
- To assess the role of Self Help Promoting Institutions like Banks, NGOs and Government Agencies in promoting Micro-Enterprises;
- To study the process of graduation of SHG members from Micro borrowers to Micro Entrepreneurs;
- To assess the impact of Micro-enterprises on Employment and Income levels of SHG members;
- To assess the repayment performance of members in SHGs and also the overall repayment of SHGs under the SHG- Bank linkage programme;
- To study the sustainability of Micro-Enterprises by examining issues related to marketing by SHG members, scale of operation of the micro enterprises, quality of products / services produced and by estimating the cost and returns on investment of the microenterprises and
- To assess the changes being brought in socio-economic conditions of SHG members post their association with SHGs.

## 2.2 Methodology

The study was conducted by NABARD in four States: Jammu and Kashmir (J&K), Andhra Pradesh (AP), Himachal Pradesh (HP) and Gujarat (GUJ) in 2005-06. It was based on both primary and secondary level data. In every State, multistage sampling techniques were adopted to collect the relevant data. In the first stage districts were selected, SHPIs were selected in the second stage, SHGs were selected in the third stage of the sampling process and finally group-members were selected from the selected SHGs. In each stage, purposive sampling technique was used.

### 2.2.1 Selection of Districts:

There was an immense asymmetric distribution of SHGs in these four States. Table 2.1 below gives details of total number of SHGs in each State under the study and the number of SHGs in selected districts.

**Table 2.1: State wise distribution of SHGs as on 31st March 2006**

<b>State</b>	<b>Number of SHGs</b>	<b>Selected Districts and Number of SHGs</b>
Jammu and Kashmir	2,354	Jammu(322) and Kathua(223)
Himachal Pradesh	28,368	Kangra (5509 SHGs) and Mandi (7527 SHGs)
Gujarat	24,712	Panchmahal (2854) and Dahod (1369 SHGs)
Andhra Pradesh	6,26,472	Chittor ( 32339 SHGs), Warangal (28137 SHGs) and Nizamabad (24772 SHGs)
<b>Total</b>	<b>6,81,906</b>	—

The main criterion for the selection of the districts was number of SHGs. Districts where highest number of SHGs were formed and linked to the banks by end of March 2005 were selected. In AP some State-specific criteria were used. Such as districts where good number of NGOs acted as facilitators and had motivated SHGs for taking up Income Generation Activities and Districts where the presence of banking agencies, i.e., RRBs, CBs and DCCBs was more than other MFIs in linking SHGs and supporting SHG members to take up IGAs / MEs.

### 2.2.2 Selection of SHPIs

In all States NGOs, CBs, RRBs and DCCBs were acting as SHPIs. The criterion used for selection of NGOs was NGOs which had formed large number of SHGs. Further, despite the fact that most of SHGs formed by some NGOs had defaulted, these NGOs were specifically selected to find out the reasons of default. In HP, Government agencies like DRDA, Department of Social Empowerment and Justice (ICDS) etc were selected as SHPIs as these departments took active part in forming and nurturing SHGs

### 2.2.3 Selection of SHGs and SHG members

In every State, SHGs were selected in consultation with SHPIs. Table 2.2 includes the number of SHGs and number of SHG members selected under the study. As it can be seen that HP has the largest number of sample SHGs followed by AP, GUJ and J&K.

**Table 2.2: State wise Distribution of sample SHGs and members**

State	Sample SHGs	SHG-Members
Jammu and Kashmir	15	150
Himachal Pradesh	64	123
Gujarat	20	49
Andhra Pradesh	56	310
<b>Total</b>	<b>155</b>	<b>632</b>

The selection procedure was based on the following parameters:

- SHGs which had completed at least two years of operation and taken up IGAs or set up MEs
- SHGs, which received two doses of loans from banks

In order to assess the graduation process from the stage of availing credit to the stage of setting up micro-enterprises and other impacts, the sample of 155 SHGs were further stratified on the basis of linkage with different banking agencies and MFIs and the age of SHGs. Table 2.3 and 2.4 below include details of Agency wise and Age wise stratification of sample SHGs. It is seen that majority of the sample

SHGs are linked to RRBs (73) followed by commercial banks and other agencies. In terms of age wise distribution of sample SHGs, it can be seen that majority of sample SHGs belong to the age group of '4 to 6 years' followed by the age group of 'more than 6 years' and 'less than 3 years' respectively.

**Table 2.3: Agency Wise Stratification of the Sample SHGs**

State	Credit linked by				
	RRBs	Com Banks	Coops	NGOs	Total
Jammu and Kashmir	9	6	0	0	15
Himachal Pradesh	26	33	5	0	64
Gujarat	6	0	0	14	20
Andhra Pradesh	32	13	11	0	56
<b>Total</b>	<b>73</b>	<b>52</b>	<b>16</b>	<b>14</b>	<b>155</b>

**Table 2.4: Age-Wise Stratification of Sample SHGs**

State	Age of the SHGs			
	Up to 3 years	4 to 6 years	More than 6 years	Total
2	6	4	5	15
HP	0	41	23	64
GUJ	6	5	9	20
AP	9	33	14	56
<b>Total</b>	<b>21</b>	<b>83</b>	<b>51</b>	<b>155</b>

#### 2.2.4 Data Collection

The study is based on both primary as well as secondary data. A structured questionnaire was prepared to collect the primary data from the SHPIs, SHGs and SHG members. For SHG level data, the questionnaire elicited information on various aspect of group functioning. This included questions to build profile of sample SHGs like membership, types of training received by SHG leaders, savings and internal lending profile of the SHG, maintenance of books and records, details of SHG bank linkage , incidences of default and

community asset built by the SHG. For SHG level data collection, interview method was adopted. 'Focus Group Discussion' was used to collect the information regarding the Socio-Economic impact of the SHGs on its Members. Secondary Data was collected from MCID cell of NABARD, branches of banks which provided credit linkage, different SHPIs, NGOs and SHGs.

### **2.2.5 Data Analysis**

Different statistical techniques are used for analysis. To analyse the impact of micro enterprise on SHG members, all SHG members were stratified into three categories: a) Members with MEs (with asset creation); b) Members who have only IGAs (without asset creation) and c) Members who had not taken up any economic activities (no IGAs). Here Non-IGA members are considered as a control group to analyse the impact of MEs/ IGAs on SHG members. To analyse the economics of MEs / IGAs, cost of investment (Rs. per unit), total cost, gross income, net income, sales per opportunity cost, sales per total cost, net income per sales and net income per rupee of investment were used as independent variables. The critical role played by SHPIs in capacity building, developing linkages in terms of availability of raw materials, marketing and technology upgradation etc. was also examined. The role of VOs / MSs in formation of SHG Federation and in promoting MEs in AP was also studied.

## CHAPTER III

### Group Dynamics and Bank Linkage Among Sample SHGs

In this chapter we attempt to study different aspects of group dynamics of the sample SHGs in four States of India (Andhra Pradesh, Gujarat, Jammu and Kashmir and Himachal Pradesh). We look at different processes of SHG Bank Linkage like group formation, record keeping, regularity of meetings, collection of savings, resource mobilization, internal lending and level of SHG linkages with formal lending organizations.

#### 3.1: Group Dynamics of the SHGs

##### 3.1.1: Structure of SHGs

###### Age of SHG

The age of any SHG is an important indicator to measure the sustainability of that SHG. It is found that higher age of SHGs means these groups have performed the group activities successfully over a long period of time. In this study more than 50 percent of the groups have been performing their microfinance activities for four to six years. Out of 155 studied SHGs, 46 SHGs are in operation for more than six years. The reasons for long sustenance of SHGs might be due to the care taken in nurturing these SHGs by SHPIs and other facilitating agencies. We will discuss the role of SHPI in detail in chapter VIII.

**Table 3.1: Age wise distribution of sample SHGs**

State	Upto 3 years	4 to 6years	More than 6 years
AP	9	33	14
GUJ	6	5	9
HP	0	41	23
JK	7	8	0
<b>Total</b>	<b>22</b>	<b>87</b>	<b>46</b>

### ***Membership Size of SHG***

Most of the theoretical literature (Besley et al, 1993; Handa et al, 1999) suggests that the group, which contains large number of members, may fail to achieve sustainability. To maintain the informal nature of SHGs, a SHG should not have more than 20 members. In our study, average size of SHGs is not very large. It ranges between 12 and 14. Table 3.2 shows an important feature that the membership size of the group decreases with the increase in the age of the group. It appears that there are cases of drop out in some of the SHGs over a period of time.

**Table 3.2: Distribution of Sample SHGs**

<b>Age</b>	<b>No. of SHGs</b>	<b>Total Members of SHGs</b>	<b>Average Size</b>
Upto 3 years	22	310	14.1
4 to 6years	87	1149	13.2
More than 6 years	46	589	12.8
<b>Total</b>	<b>155</b>	<b>2,048</b>	<b>13.2</b>

### ***Criteria for SHG Formation***

The concept of SHG as an instrument of delivering microfinance has come from the concept of Rotating Savings and Credit Association (ROSCA). Basely et al (1993) has stated that random ROSCA is effective for those groups which consist of homogeneous members. Here homogeneity means i) members come from the same income class; ii) members have the same social background. Four criteria: - Activity<sup>5</sup>; Homogeneity<sup>6</sup>; Proximity<sup>7</sup> and Community / Caste<sup>8</sup> have been chosen to study how these groups have been formed by the members.

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5 Activity means the occupation of the members of a SHG.

6 Members have same standard of living.

7 Members of a group stayed near to each other.

8 Members come from the same social groups.

**Table 3.3: Criteria for SHG formation**

State	Basis	Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	Activity	0	5	4	9
	Homogeneity	4	19	3	26
	Proximity of Stay	2	7	7	16
	Community / Caste	3	2	0	5
	<b>Total</b>	<b>9</b>	<b>33</b>	<b>14</b>	<b>56</b>
GUJ	Activity	0	0	0	0
	Homogeneity	4	4	7	15
	Proximity of Stay	1	0	0	1
	Community / Caste	1	1	2	4
	<b>Total</b>	<b>6</b>	<b>5</b>	<b>9</b>	<b>20</b>
HP	Activity	0	0	0	0
	Homogeneity	0	0	0	0
	Proximity of Stay	0	40	23	63
	Community / Caste	0	1	0	1
	<b>Total</b>	<b>0</b>	<b>41</b>	<b>23</b>	<b>64</b>
	Homogeneity	4	4	0	8
	Proximity of Stay	1	2	0	3
	Community / Caste	2	2	0	4
	<b>Total</b>	<b>7</b>	<b>8</b>	<b>0</b>	<b>15</b>

Majority of the groups in AP, Gujarat and J&K (Table 3.3) were formed due to homogeneity criterion, whereas majority groups in HP were formed due to proximity criterion. Very few groups in AP were formed on the basis of activity and in other States no group was formed on the basis of this criterion. Most of the groups have only female members. It was observed in the field that women were mostly involved either in looking after the family or in family led farm, off-farm or non-farm activities. This might be the cause of low representation of SHGs formed on the basis of economic activities.

### 3.1.2: Conduct of Meetings

In an informal organizational structure like SHGs, regular meetings are required to perform the financial activities. Apart from this, it helps

members to discuss social issues with their peers. In this way, social capital is generated. Successful Microfinance Programmes depend on Peer Monitoring (Stiglitz, 1990). To follow this monitoring technique, members need to meet frequently. In the study, it was found that around 75 percent of total SHGs conducted regular meetings. In around 77 percent SHGs, meetings were held on a fixed day and at a fixed time. It is found that SHGs under the age group, 'more than 6 years', are more regular (78 percent) in conducting meetings. Thus, it appears that regularity in conduct of meetings is one of the important reasons for sustainability<sup>9</sup> of SHGs.

**Table 3.4: Frequency of Meetings organized by SHGs**

<b>Particulars of Meeting</b>	<b>Upto 3 years</b>	<b>4 to 6 years</b>	<b>More than 6 years</b>	<b>Overall</b>
Regular	15	65	36	116
Irregular	7	22	10	39
Total	22	87	46	155
Time and Day Fixed	16	68	35	119
Time and Day not fixed	6	19	11	36
<b>Total</b>	<b>22</b>	<b>87</b>	<b>46</b>	<b>155</b>

Under SBLP, most of the SHGs are facilitated by NGOs or RRBs as SHPIs. With the help of these facilitators, two members were selected in each SHG as leaders to perform the routine group activities. In conducting the group meetings, it is found that leaders or facilitators or members of the SHGs have taken the initiative. In GUJ and J&K, Leaders have played the pro-active role. In AP, NGO facilitators took proactive role in conducting meeting. In HP, SHG members played the major role in conducting meeting.

Under the age group, 'upto 3 years', meetings were conducted by leaders in majority of the SHGs. However, under the higher age groups, meetings were conducted by the members. It shows that members have become confident in conducting group activities over the time

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<sup>9</sup> Sustainable groups are those that continue to perform its savings and lending activities successfully and do not break down in the pre-contracted lifetime of the SHGs (Guha and Gupta, 2006).

period. During the study, it was found that there was no change in leaders in the group. On one hand, leaders of these groups opined that no member wanted to shoulder the responsibility though the leaders wanted to step down. On the other hand, members stated that they were happy with their existing leaders and they did not want to change the leaders. In AP, DRDA and bank officials suggested the SHGs for rotation of leadership. It was found that groups had changed the leaders only in case of the death of leaders or migration of previous leaders.

**Table 3.5: Initiative in conducting SHG Meeting**

<b>State</b>	<b>Initiative taken by</b>	<b>Upto 3 years</b>	<b>4 to 6 years</b>	<b>More than 6 years</b>	<b>Total</b>
<b>AP</b>	Leader of the SHG	3	9	7	19
	NGO representative as Facilitator	5	21	6	32
	Meeting organised by members	1	3	1	5
	<b>Total</b>	<b>9</b>	<b>33</b>	<b>14</b>	<b>56</b>
<b>GUJ</b>	Leader of the SHG	3	3	6	12
	NGO representative as Facilitator	2	1	1	4
	Meeting organised by members	1	1	2	4
	<b>Total</b>	<b>6</b>	<b>5</b>	<b>9</b>	<b>20</b>
<b>HP</b>	Leader of the SHG	0	12	6	18
	NGO representative as Facilitator	0	0	0	0
	Meeting organised by members	0	29	17	46
	<b>Total</b>	<b>0</b>	<b>41</b>	<b>23</b>	<b>64</b>
<b>J&amp;K</b>	Leader of the SHG	5	5	0	10
		<b>years</b>	<b>6 years</b>	<b>than 6 years</b>	
	NGO representative as Facilitator	2	2	0	4
	Meeting organised by members	0	1	0	1
<b>Total</b>	<b>7</b>	<b>8</b>	<b>0</b>	<b>15</b>	

### ***Attendance in Meetings***

Regular attendance is an important indicator of smooth functioning of SHGs in a democratic manner. The attendance was more than 90 percent in 54 percent SHGs. It was found that the attendance in 60 percent of SHGs in HP was cent percent; however this was found in very few SHGs in other States<sup>10</sup>. In most of the SHGs, there was a practice of imposing fine for irregular attendance. The amount of fine varied between Rs 2 and Rs. 10. However, it was not implemented in most of the cases.

**Table 3.6: Distribution of Groups according to attendance in the meetings**

<b>State</b>	<b>Attendance (%)</b>	<b>No. of SHGs</b>	<b>Percent</b>
AP	50-69	3	5.4
	70-89	5	8.9
	90-99	46	82.1
	100	2	3.6
GUJ	50-69	3	15.0
	70-89	4	20.0
	90-99	12	60.0
	100	1	5.0
HP	50-69	0	0
	70-89	9	14.06
	90-99	17	26.56
	100	38	59.38
J&K	50-69	0	0
	70-89	3	20.0
	90-99	9	60.0
	100	3	20.0

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10 In Andhra Pradesh, in three percent SHGs, attendance was cent percent, in Gujarat, it was five percent, in J & K, it was 20 percent.

### 3.1.3: Record Keeping

Under SBLP, to get the bank linkage, SHGs have to maintain proper records of internal savings and lending. Apart from that, record keeping is considered an important indicator of group sustainability.

**Table 3.7: Qualities of Record Keeping and Account Maintenance (%)**

Indicators	Upto 3 years	4 to 6 years	More than 6 years	Overall
Leader / Second Leader maintain records	10	62	37	109 (70.3%)
Records are maintained with the assistance of	10	17	5	32 (20.6%)
i) NGO representative / accountant				
ii) A family member (esp. school going children) of a group member	1	1	2	4 (2.6%)
iii) by member of other groups	1	7	2	10 (6.5%)
<b>Total</b>	<b>22</b>	<b>87</b>	<b>46</b>	<b>155 (100%)</b>

One of the duties of the leaders is to keep the records. Records are of three types: Minutes book, Loan book and Debit book and each member has Personal account book. It is found that in around 70 percent of the SHGs, Leaders to maintain SHG records. NGO-SHPIs helped 20 percent of the total SHGs to maintain the records. Very few SHGs have taken the help of outsiders of the groups like family members of the members, literate person of the locality and members of other groups. It is noteworthy that most of the old groups have taken the help of leaders to keep their records. It seems as the groups get older, leaders acquire expertise in maintaining the records. It is a healthy sign with respect to the sustenance of the SHGs.

### 3.1.4: Collection of Savings

The common practice in any SHG is that members jointly decide the savings per month per member on the basis of their capacity to save.

The amount of savings varies across the groups. In the surveyed SHGs, the rate varied from Rs. 10 to Rs. 150. It was found that members saved Rs. 50 per month in more than 50 percent of the total surveyed SHGs. Further, the similar pattern of savings was found across all the age categories.

**Table 3.8: Range of Savings by SHGs (%)**

<b>Savings (Rs./ month)</b>	<b>Upto 3 years</b>	<b>4 to 6 years</b>	<b>More than 6 years</b>	<b>Overall</b>
10	0	0	3	3
20	2	2	3	7
30	4	15	5	24
50	14	52	23	89
100	2	16	7	25
150	0	2	5	7

### **3.1.5 Mobilization of Resources**

SHGs mobilized resources from different sources such as, group savings, interest income from internal lending and from savings account with the banks, bank loans, revolving fund and other receipts in the form of donation and money collection through fines and penalties for not attending meetings and default in paying regular savings and loan-installment. In Table 3.9, it is seen that there is a positive correlation between age of the SHG and the savings per SHG. However, the reverse is true in GUJ<sup>11</sup>. In this State, average savings under the age group, 'four to six years' was higher than that of the age group, 'more than six years'. It was found that savings were irregular in SHGs under the age group, 'more than six years' in GUJ. As most of the members were agricultural labourers, their income was not regular and due to the erratic nature of their income, they were irregular in their group savings. Moreover, the savings rate was low in these groups and the members did not change the savings rate over the time.

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<sup>11</sup> Under age group 4 to 6 years, savings per SHG was Rs. 17448 however, it was Rs. 15032 under the age group more than six years.

**Table 3.9 Mobilization of Resources by Sample SHGs**

Purpose	Age of SHG (years)		
	Upto 3 years	4 to 6years	More than 6 years
Savings	19,385	25,043	27,812
	(15.29%)	(15.39%)	(10.11%)
Revolving Fund	12,589	28,816	49,679
	(9.93%)	(17.71%)	(18.06%)
Bank Loan	86,660	86,949	1,63,366
	(68.34%)	(53.45%)	(59.39%)
Interest / Others*	8,182	21,867	34,225
	(6.45%)	(13.44%)	(12.44%)
<b>Total</b>	<b>1,26,816</b>	<b>1,62,675</b>	<b>2,75,082</b>
	<b>(100%)</b>	<b>(100%)</b>	<b>(100%)</b>
<b>Ratio of Savings to Bank Loan</b>	<b>22.37</b>	<b>15.39</b>	<b>10.11</b>

\*Inclusive of interest earned on internal lending, bank savings account, fines and other penalties etc.

If we look at the various components of the resources, bank loan constitutes more than 50 percent across the age groups, followed by savings and RFA. We have considered 'share of savings to the bank loan' as an indicator of dependence of SHGs on external resources. It is expected that banks disburse more loans to the SHGs which are performing the group activities for long time. It is seen in the above table that older SHGs depend more on the bank loans than their savings. As we have seen in Table 3.8, members in more than 50 percent of SHGs save Rs. 50 per month per person. At such a low rate of saving, it is expected that SHG members will have high dependency on bank's credit to meet their livelihoods and other consumption needs.

### **3.1.6: Income generation Activities / Micro enterprises taken by SHGs**

SHGs use loans for three main purposes:- i) Production, ii) Consumption and iii) Repayment of previous loans (Guha and Gupta,

2005). Under SBLP, SHGs initially got loans for consumption purpose. However, if SHG-members do not graduate themselves as micro-entrepreneurs, the objective of poverty alleviation under microfinance programmes would not be achieved (Guha, 2007).

**Table 3.10: SHGs with IGA/MEs**

<b>Category</b>	<b>No. of Members</b>
Members without IGA	325
	(51.4%)
Members with IGA	158
	(25%)
Members with MEs	149
	(3.6%)
Total Members	632

In the present study, it is found that 51 percent of the members have not taken any income generating activities (IGA) or set up micro enterprises (MEs). Production loans were taken either for purchasing agriculture inputs, petty trade, kirana shops, vegetable vending and Tailoring unit etc. Some of the members utilized loans for up-scaling an activity into a ME. None of the SHGs took up group IGAs or group MEs. Most of the members, who have not taken IGA/MEs, have utilized loans for education, marriage, medical expenses and meeting some uncertain expenses.

### **3.1.7: Purpose of Borrowing**

In the previous section we have already mentioned that SHG members borrowed loans for three purposes. In this section, we examine the purpose of borrowing on the basis of data collected in AP and GUJ. Overall, SHGs borrowed Rs. 7,98,880 from the banks, out of which 68 percent loans were taken for productive activities. If SHGs utilize more loans for production than consumption, it is likely to result in improving their livelihoods. It was found that there was an increasing trend of using loans for production across the age groups in these two States.

**Table 3.11: Composition of cumulative loan portfolio of SHG (%)**

State	Purpose	Age of the SHGs			
		Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	Production	60,882 (41.9)	1,15,465 (66.6)	2,25,411 (87.7)	1,33,919 (69.8)
	Consumption	49,260 (33.9)	32,462 (18.7)	19,143 (7.4)	33,622 (17.5)
	Other Purpose i.e., health, Marriage etc.	35,247 (24.2)	25,482 (14.7)	12,589 (4.9)	24,439 (12.7)
	Total	1,45,389 (100.0)	1,73,409 (100.0)	2,57,143 (100.0)	1,91,980 (100.0)
	Ratio of Consumption loan to production loan	58.1	33.4	12.3	30.2
GUJ	Production	19,983 (44.80)	44,150 (50.86)	78,177 (85.41)	47,437 (63.83)
	Consumption	5,220 (11.70)	5,952 (6.86)	5,003 (5.47)	5,392 (7.26)
	Other Purpose i.e., health, Marriage etc.	19,400 (43.49)	36,700 (42.28)	8,354 (9.13)	21,485 (28.91)
	Total	44,603 (100)	86,802 (100)	91,534 (100)	74,313 (100)
	Ratio of Consumption loan to production loan	26.12	13.48	6.40	11.37

### 3.1.8: Pattern of Bank Linkage

#### *Time taken for linkage*

According to guidelines under SBLP, every SHG should link to the bank after six months of its operation. This however, depends on the group performance. Around 46 percent of the total SHGs<sup>12</sup> were linked to the bank between 6 and 8 months. However, linkage rate is higher in the SHG in age group category of 'four to six years'. Most of the

<sup>12</sup> This section is based on the data collected from Andhra Pradesh, Gujarat and Himachal Pradesh. For political and administrative reasons, J and K have not collected the required data.

younger SHGs (i.e., age group, 'upto three years') were linked to bank within the range of nine to twelve months. Most of the older SHGs got the linkage after one year. However, with younger SHGs the linkage rate has improved. The younger SHGs have adopted group dynamics quickly than the older SHGs, probably because with the course of time, bankers and SHPIs who nurtured these SHGs, got capacity building training either from NABARD or from other Government Organisation.

**Table 3.12: Time Gap between openings of Savings Accounts and Bank Linkage**

<b>Age wise Time Gap</b>	<b>6-8 months</b>	<b>9-12 months</b>	<b>&gt;12 months</b>	<b>Total</b>
Upto 3 years	10(48%)	9 (43%)	2 (10%)	21 (100%)
4 to 6years	44 (53%)	22 (27%)	17 (20%)	83 (100%)
More than 6 years	18 (35%)	12 (24%)	21 (41%)	51 (100%)
Total	72 (46%)	43 (28%)	40 (26%)	155 (100%)
Agency wise Time Gap				
Cooperative	2 (13%)	5 (31%)	9 (56%)	16 (100%)
RRBs	14 (18%)	43 (55%)	21 (27%)	78 (100%)
Comm. Banks	35 (76%)	6 (13%)	5 (11%)	46 (100%)
Total	51 (36%)	54 (39%)	35 (25%)	140 (100%)

If we look at agency-wise linkage pattern, branches of commercial banks, RRBs and cooperative banks provided credit linkage to SHGs. It was found that most of the commercial banks (76%) provided the linkage within six to eight months. The opposite pattern of linkage was found in case of cooperative banks.

### **Loan Size**

It can be seen from Table 3.13 that total loan disbursed to the SHGs under the age group '4 to 6 years' is the highest. However, average loan size per SHG under this age group is low compare to SHGs under other age categories. As expected, the average loan per SHG is highest under the age category 'more than six years'.

**Table: 3.13 Distributional Pattern of First and Second Bank Linkage Amount**

Age wise Time Gap	Total Loan (in Rs.)	Loan / Group (in Rs.)	Groups (%) receiving < average loan	Groups (%) receiving > average loan
Upto 3 years	13,44,300	50,158	12 (55%)	10 (45%)
4 to 6years	34,67,498	39,062	56 (67%)	27 (33%)
More than 6 years	23,79,952	59,309	26 (52%)	24 (48%)
<b>Total</b>	<b>71,91,750</b>	<b>46,398</b>	<b>94 (61%)</b>	<b>61 (39%)</b>

Overall most of the SHGs have received three to four linkages or three to four doses of loans from the bank (Table 3.14). The same trend is found in the age group '4 to 6 years' and 'more than 6 years' However, in the age group, 'upto 3 years', most of the SHGs got two doses of loans. It is found that there is a positive relation between the age of the SHGs and the number of linkages. It appears that older SHGs have repaid loans on time and they have graduated to receive the higher linkage.

If we look at the State wise picture, maximum number of linkages in AP, GUJ and J&K, varied from four to six. Exception to this is HP, where the maximum number of linkages is more than six.

#### **Average loan amount**

It is observed in the Table 3.15; the average linkages amount per SHG has increased sharply between 1st and 2nd linkages (91 percent). It is possible that the increase in demand for second dose of loan is because the members have taken up IGAs / MEs. However, there is a sharp decline in average linkages amount per SHG after the third loan. This might indicate that the demand for loan of most of SHGs has decreased after the third linkage. This could be the result that SHGs are less dependent on bank for loans to manage their IGAs / MEs or have reached a point beyond which they can not absorb high amount of credit. It was observed in the field that upto fourth linkage SHGs borrowed for various purposes. However, for last two linkages the nature of purposes was not varying much.

**Table 3.14: Linkage pattern among sample SHGs**

State	SHGs Credit Linkage	Age of the SHGs			
		Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	Only one linkage	0	0	0	0
	2 linkages	4(44.4)	4(12.1)	0	(8)14.3
	3to 4 linkages	5 (55.6)	24 (72.7)	11 (78.6)	(40)71.4
	5 to 6 linkages	0	5 (15.2)	3 (21.4)	(8)14.3
	More than 6 linkages	0	0	0	0
GUJ	Only one linkage	0	0	0	0
	2 linkages	5 (83%)	2 (40)	1 (11)	8 (40)
	3to 4 linkages	1 (17%)	1 (20)	4 (44.4)	6 (30)
	5 to 6 linkages	0	2 (40)	4 (44.4)	6 (30)
	More than 6 linkages	0	0	0	0
HP	Only one linkage	0	0	0	0
	2 linkages	0	0	0	0
	3to 4 linkages	0	21(51%)	13(57%)	34(53%)
	5 to 6 linkages	0	13(32%)	7(30%)	20 (31%)
	More than 6 linkages	0	7(17%)	3 (13%)	10(16%)
JK	Only one linkage	2	0	0	2
	2 linkages	2	0	2	4
	3to 4 linkages	2	4	3	9
	5 to 6 linkages	0	0	0	0
	More than 6 linkages	0	0	0	0

On basis of above observation, we can state that these SHGs are successful in recovering the loans from the members and graduating themselves to higher loan size. In the case of linkages 'more than five', the average amount of linkage per SHG was Rs. 1, 04,545.70 and these SHGs utilized the linkage amount to upscale their enterprises. We can conclude that on the one hand, SHGs are gradually moving from consumption loans to loans for IGAs / MEs. On the other hand, bankers are willingly disbursing loans to SHGs overriding the set norms of lending as per prescribed ratio of savings: credit. Thus, it appears bankers are increasingly getting confidence about the repayment behavior of the SHGs.

**Table 3.15: Average loan amount in each Bank  
Linkage received by SHG**

<b>No. of Linkage</b>	<b>No. of SHGs linked</b>	<b>Range of Linkage amount (Rs.)</b>	<b>Average linkages amount per SHG (Rs.)</b>	<b>% change</b>
One	140	2,000-50,000	16,889	
Two	140	10,000-1,50,000	32,425	91.90%
Three	121	15,000-2,77,500	55,866	72.29%
Four	89	8,000-4,30,000	55,391	-1%
Five	62	15,000-2,75,000	56,427	1.87%
More than Five	69	65,000-2,95,000	1,04,545.7	85.3%

## CHAPTER IV

### Profile of SHG Members

One of the main agenda of the NABARD promoted SBLP is to provide financial services to poor, especially the women from poor households. Therefore the effectiveness of this programme lies in targeting the poor households (Basu and Srivastava, 2005). In this chapter, we analyse the socio-economic profile of the household of the sample SHG members in order to examine the nature of SBLP outreach in the four states. We will also examine the impact of group participation on the SHG members by looking at the changes in the asset holding pattern of the sample households in the four States covered under the study.

#### 4.1: Socio-Economic Profile

##### 4.1.1: Occupational Pattern :

Table 4.1 includes occupational classification of the sample households in the four states under the study. As it can be seen majority of the sample households in Gujarat and Jammu and Kashmir were engaged in mixed activities<sup>13</sup>. In Andhra Pradesh and Himachal Pradesh majority of SHG members are engaged in Farm Activity. If we compare the age of the SHG and the occupational pattern, it is interesting to see that the share of households working as agricultural labourers is high for the SHGs in the age group, 'upto three years' as compared to the older group category. It is possible that agricultural labourers in the older group have dropped out as they were not able to continue their savings or they promoted themselves from the occupation of agricultural labour to farm / other micro entrepreneurs by availing the credit from SHGs. If we combine the share of the households who are doing farm and non-farm activities, it is high in Andhra Pradesh under the age group 'less than three years' and in Himachal Pradesh it is high in the older groups. The share of households engaged in off farm<sup>14</sup> activities is low across all the age groups categories of SHGs.

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13 Mixed Activities are the combinations of farm, non-farm and off-farm activities.

14 Off farm activities are allied to agriculture like dairy, sheep/ pig/ goat rearing, pisciculture and sericulture etc.

**Table 4.1: Distribution of the Households in the family of SHG members according to Occupation**

State	Occupation	Age of SHG (years)			Overall
		Upto 3 years	4 to 6 years	More than 6 years	
AP	Farm Activity	29.8	34.2	18	28.1
	Non-Farm Activity	14.8	18.8	21.1	15.9
	Off-farm Activity	18.4	10.3	10.9	10.6
	Mixed Activity	9.5	16.5	36.4	18.7
	Agricultural labourer	23.2	16.8	4.5	22.3
	Others*	4.3	3.4	9.1	4.5
GUJ	Farm Activity	0	9.09	4	4.08
	Non-Farm Activity	15.38	0	8	8.16
	Off-farm Activity	0	0	0	0
	Mixed Activity	69.23	81.82	88	81.63
	Agricultural labourer	15.38	9.09	0	6.12
	Others*	0	0	0	0
HP	Farm Activity	0	61	67	63
	Non-Farm Activity	0	17	11	15
	Off-farm Activity	0	0	0	0
	Mixed Activity	0	0	0	0
	Agricultural labourer	0	10	9	10
	Others*	0	12	13	12
J&K	Farm Activity	19.64	9.09	13.89	14.71
	Non-Farm Activity	1.79	6.82	11.11	5.88
	Off-farm Activity	8.93	13.64	16.67	12.5
	Mixed Activity	69.64	54.55	41.67	57.35
	Agricultural labourer	0	0	0	0
	Others*	0	15.91	16.67	9.56

Note: \*Others refer to SG members like Anganwadi workers, teachers, village book keepers, NGO animators etc.

#### 4.1.2: Education

High incidence of illiteracy among the SHG members caused higher dependency on leaders, poor record keeping and inability to meet the demand for loans (Shylendra et al, 2005). Illiteracy is a big obstacle in growth of the SHGs. However, it was found in sample SHG-households that the percentage of illiterate members was not high. Comparatively in Gujarat, the incidence of illiteracy was more than the other States. According to Shylendra et al (2005), in rural Gujarat girl-children were not sent to the school and those who attended school, studied only up to seventh standard. Villagers, in Shylendra et al study, indicated that it was difficult to find a groom for the educated women in Gujarat. In our study it is seen that around 78 percent of members have attended secondary level of education in Himachal Pradesh followed by Jammu and Kashmir (46 percent).

**Table 4.2: Distribution of the Households according to Level of Literacy (Percentages)**

State	Level of Literacy	Age of SHGs (in Years)			Overall
		upto 3 Years	4 to 6 Years	More than 6 Years	
AP	Illiterate	16.1	19.7	12.9	17.4
	Can sign	38.7	32	24.3	31.6
	Primary	25.8	24.7	41.4	28.4
	Secondary	19.4	23.6	21.4	22.6
	Higher Studies	0	0	0	0
Gujarat	Illiterate	30.77	27.27	24	26.53
	Can sign	15.38	0	4	6.12
	Primary	38.46	36.36	36	36.73
	Secondary	15.38	36.36	36	30.61
	Higher Studies	0	0	0	0
HP	Illiterate	0	7.3	4.3	6.3
	Can sign	0	2.4	4.3	3.1
	Primary	0	7.3	8.7	7.8
	Secondary	0	78	78.3	78.1
	Higher Studies	0	4.9	4.3	4.7
J & K	Illiterate	26.67	14.89	18.6	20.67
	Can sign	5	25.53	16.28	14.67
	Primary	18.33	12.77	25.58	18.67
	Secondary	50	46.8	39.54	46
	Higher Studies	0	0	0	0

#### 4.1.3: Size of the Households

It is seen that members of SHG who have large family size and have high number of dependents in the families, often face higher levels of financial hardships. Guha and Gupta (2005) found that most of the members showed interest in joining SHGs in West Bengal because of their financial hardships. In the present study, around 61 percent members had four to six family members. Very few SHG members had family size of ten or more members.

**Table 4.3: Distribution of the Households according to family size (Percentages)**

Size of the Family	Age of SHG(years)			Overall	
	Upto years	3	4 to 6years		More than 6 years
Upto 3		12	13	15	13
4-6		63	59	59	61
7-9		19	21	19	20
10 and above		7	8	7	7

#### 4.1.4: Age of Members

In Table 4.4 below the sample SHG members are classified according to different age categories. It can be seen from the Table below that the largest proportion of the sample SHG members was in the age group 36-55 years in Jammu and Kashmir, however, in Gujarat and Andhra Pradesh, majority of the members were from the age group 26-35 years. In Andhra Pradesh most of the members of the older groups belonged to the age group 26 to 35 years, however, in Gujarat and J and K most of the members of the older group belonged to the age group 36 to 55 years. It appears that in Andhra Pradesh, women have joined the SHG movement in their young age.

**Table 4.4: Distribution of SHG members according to age (Percentage)**

State	Age (in years)	Age of SHG(years)			Overall
		Upto 3 years	4 to 6years	More than 6 years	
AP	18-25	14.5	15.2	0	11.6
	26-35	35.5	52.2	68.6	51.3
	36-55	41.9	31.5	31.4	33.5
	55 and above	8.1	1.1	0	3.5
Gujarat	18-25	7.69	0	4	4.08
	26-35	61.54	45.45	44	48.98
	36-55	30.77	54.55	52	46.94
	55 and above	0	0	0	0
J and K	18-25	6.67	0	11.63	6
	26-35	43.33	38.3	27.91	37.33
	36-55	43.33	53.19	58.14	50.67
	55 and above	6.67	8.51	2.33	6

Note: Data of Himachal Pradesh is not included

A very small percentage of members belonged to the age group 55 and above in the sample SHGs. It appears that old people tend to leave SHGs. Some of the members revealed that these members left the SHGs as they could not work and could not save due to old age. Death of some members due to old age was also the reason for reduction of older members in some of the SHGs.

## **4.2: Targeting**

### **4.2.1: Social Groups**

The objective of SBLP is to provide financial services to poor, deprived and weaker section of the population. If we look at the distribution of households according to their social groups, majority belongs to OBC in Gujarat and Andhra Pradesh. In Jammu and Kashmir, the trend is different. Around 50 percent SHG member- households belong to SC and ST. In older SHGs, the distribution of households matches with the overall trend. However, in the younger SHGs in Gujarat, majority of the households belongs to SC and ST.

**Table 4.5: Distribution of the Households according to Social Groups (Percentage)**

State		Age of SHG(years)			Overall
		Upto 3 years	4 to 6 years	More than 6 years	
AP	SCs & STs	6.5	11.8	15.7	10.6
	OBC	74.1	66.9	55.7	66.8
	Other Castes	19.4	21.3	28.6	22.6
Gujarat	SCs & STs	61.54	27.27	16	30.61
	OBC	15.38	63.64	76	57.14
	Other Castes	23.08	9.09	8	12.24
J&K	SCs & STs	48.33	44.68	58.14	50
	OBC	0	0	23.26	6.67
	Other Castes	51.67	55.32	18.6	43.33

Note: Data of Himachal Pradesh is not included

In Jammu and Kashmir, majority of the members under the age group 'up to three years' belong to Other Caste. It appears that the poor belonging to other castes have also realized the benefits of joining SHGs.

#### **4.2.2: Land Holding Status**

It can be seen from Table 4.6 below that across the States, members from the households of marginal farmers and landless agricultural labourers constituted a major share (more than 75 percent). The same trend has been found across the SHGs of different age groups. However, percentage of marginal farmers and agricultural labourers is comparatively higher in older SHGs than younger SHGs. Very few members came from the family of large farmers.

Among the four States, more number of members from the households of Agricultural labourers was covered under SBLP in AP and J&K. In HP more than 80 percent members came from the households of marginal farmers.

**Table 4.6: Distribution of the Households according to Cultivable Landed Property (in Percentage)**

State	Social Groups	Age of SHG(years)			Overall
		Upto 3 years	4 to 6 years	More than 6 years	
AP	Marginal Farmers (upto 2.5 acres)	33.9	36.5	31.4	35.2
	Small Farmers (2.5-5.0 acres)	8.1	10.7	5.7	9
	Other Farmers (>5.0 acres)	3.2	2.8	0	1.6
	Agricultural Labourers	54.8	50	62.9	54.2
GUJ	Marginal Farmers (upto 2.5 acres)	61.54	54.55	52	55.1
	Small Farmers (2.5-5.0 acres)	15.38	18.18	28	22.45
	Other Farmers (>5.0 acres)	7.69	0	0	2.04
	Agricultural Labourers	15.38	27.27	20	20.41
HP	Marginal Farmers (upto 2.5 acres)	0	80.49	85.37	82.11
	Small Farmers (2.5-5.0 acres)	0	8.54	7.32	8.13
	Other Farmers (>5.0 acres)	0	0	0	0
	Agricultural Labourers	0	10.98	7.32	9.76
J and K	Marginal Farmers (upto 2.5 acres)	47.46	40.43	46.51	44.97
	Small Farmers (2.5-5.0 acres)	8.47	8.51	9.3	8.72
	Other Farmers (>5.0 acres)	0	2.13	2.33	1.34
	Agricultural Labourers	44.07	48.94	41.86	44.97

### 4.3: Changes in the Asset Structure of SHG members

#### 4.3.1: Asset Holding Pattern

During the survey, around 70 percent households stated that the value of assets owned by them has increased post joining the SHG. It can be seen from the Table 4.7 that the increase in value of assets is higher in the case of members belonging to older groups and this change is found to be low in the case of members belonging to younger groups across the four States.

Some of the members reported that some of their animals had died and there was a decrease in value of Assets. In HP, no members

reported that the value of their assets decreased after joining the SHGs. In J&K, only two percentage of members reported that the value of their assets decreased.

**Table 4.7: Change in value of Assets of SHG Members  
(Percentage)**

State	Change in Assets	Age of SHG(years)			Overall
		Upto 3 years	4 to 6years	More than 6 years	
AP	Decreased	6.5	13.5	4.3	10
	Increased	51.6	64	82.9	65.8
	No Change	41.9	22.5	12.9	24.2
Gujarat	Decreased	7.69	0	4	4.08
	Increased	46.15	54.55	64	57.14
	No Change	46.15	45.45	32	38.78
HP	Decreased	0	0	0	0
	Increased	0	89.02	88.1	88.71
	No Change	0	10.98	11.9	11.29
J and K	Decreased	2	0	0	2
	Increased	66.67	61.7	74.42	66.67
	No Change	31.33	38.3	25.58	31.33

If we examine the type of assets being created by SHG members, it can be seen that there is a change in the value of movable assets owned by SHG members after joining the SHGs. Overall, the change in value of assets is to the tune of Rs. 58,668.79. Most of the SHGs owned Milch cattle, Poultry and work animals. It appears that SHG members across the group have invested more in Milch Cattle/ Poultry for their Dairy activities. Older group members invested in consumer durables like Televisions, Refrigerators, Cooking Gas, Motor Bikes, cycles, Sewing Machine etc., whereas this is less in the case of younger groups. It appears that younger group members preferred to invest in IGAs or their existing enterprises rather than buying new consumer durables.

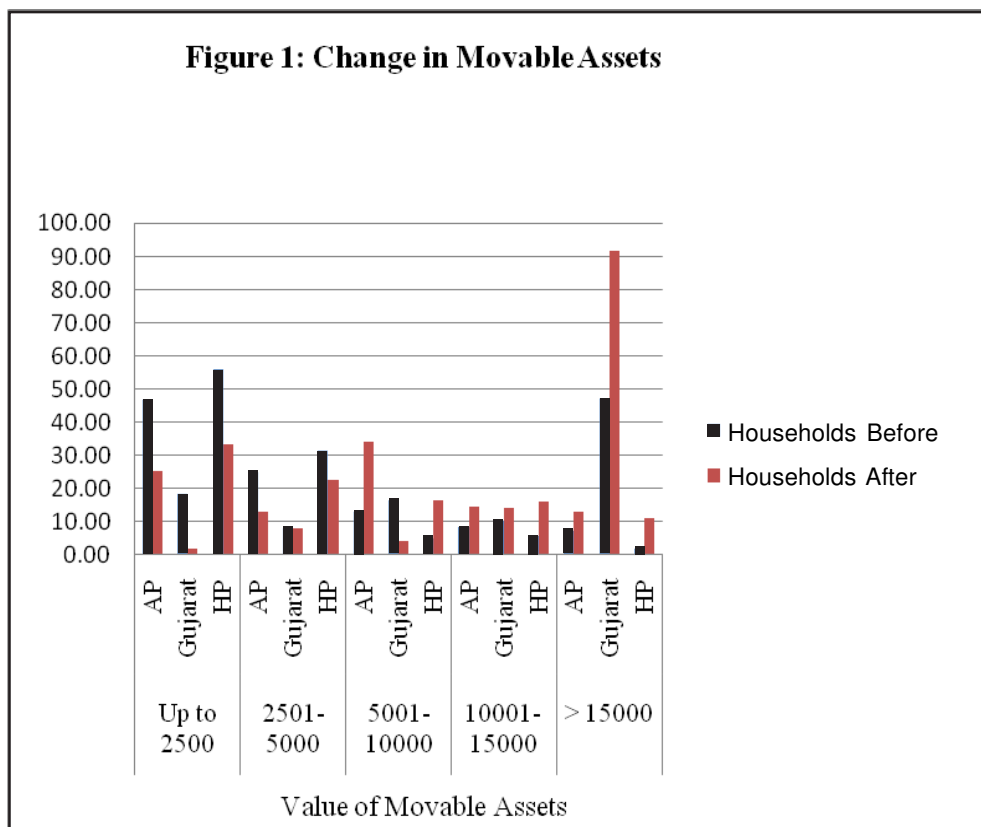
**Table 4.8: Change in value of Movable Assets Possessed by SHG Members** (in Rs.)

Type of Assets	Age of SHG(years)			Overall
	Upto 3 years	4 to 6years	More than 6 years	
Milch Cattle / Poultry	16,525	1,34,375	35,951	28,259.27
Work Animal	6,410	4,331	6,565	6,288
Consumer Durables	5,127	9,183	39,192	24,121.52
<b>Overall</b>	<b>28,062</b>	<b>1,47,889</b>	<b>81,708</b>	<b>58,668.79</b>

#### 4.3.2: Asset Distribution Pattern

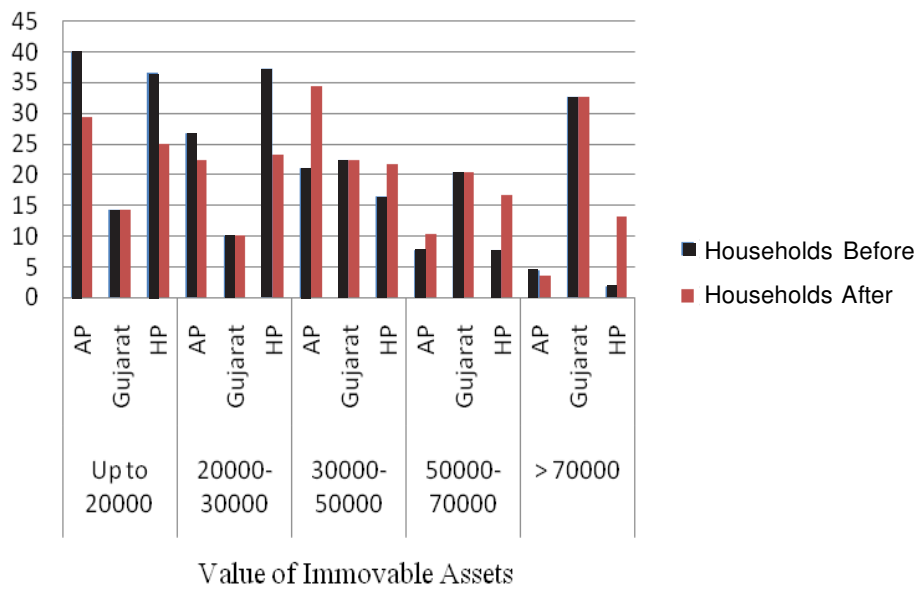
There is a huge change in distribution pattern of assets (Figure 1). We have made an attempt to conduct a comparative study on asset pattern of the SHG member households. The study did not include the State of Jammu and Kashmir due to lack of data. SHG members have invested in two types of assets: - movable and immovable assets. It can be seen in the Figure 1 below that there is a significant change in the movable asset pattern among the SHG members. There is a sharp increase in percentage of members having movable assets in the range of Rs. 5001 to Rs. 10000 after joining the SHGs in AP and HP, however in Gujarat there is a decline in number of households in this category. In case of highest range, assets more that Rs.15000, the percentage of member-households has doubled in Gujarat. In AP and HP there is a little increase in the percentage of households in this category.

In the case of lesser range of value of Movable Assets there is a declining trend. In the range of upto Rs. 2500, overall percentage of Member households has changed from 40 percent to 20 percent. We would say that there is a positive impact of SHGs on the movable assets owned by member-households. They have shifted from lesser asset category to higher asset category after joining the SHGs.



In case of immovable assets, the similar trend like movable assets is observed in AP and HP (Figure 2). In the smaller range of immovable asset category, the percentage of member households is less in the post SHG situation. The opposite trend is found in the range of Rs. 30,000 to 50,000. However, in case of higher ranges, the change is not much (only 3 to 4 percentage point change). In case of AP, the percentage change in member households owned the assets of the range between Rs. 30,000 to Rs. 50,000 is only 13 percent. It is highest among the studied States. However, in Gujarat there is no change in pattern of immovable assets across the range. From the survey no specific reasons for this pattern in Gujarat were found. It is noteworthy that in HP, the percentage of Member households having immovable assets of more than Rs. 70,000 has increased from 1.58 percent to 13.19 percent (a change by almost 11 percentage point) in post SHG period. It might be due to the fact that most of the SHG members were involved in new IGAs or MEs which helped them to accumulate enough capital in investing more on higher valued immovable assets.

**Figure 2: Change in Immovable Assets**



## **Chapter V**

### **Graduation of SHG Members from Micro Borrowers to Micro Entrepreneurs**

The success of SBLP depends on both repayment performance of SHGs and graduation of SHG members from borrowers to micro entrepreneurs. "Without integration of credit services with marketing initiative, the beneficiaries of microfinance services can hardly be expected to graduate themselves to micro entrepreneurs. Further, it would not be possible for MFIs to achieve the sustainability and reach the objective of poverty alleviation" Guha (2007). In this chapter, we begin by presenting a comparison of the status of SHG members in terms of savings, bank linkage and employment in pre SHG period and post SHG period. This will give us an idea as to the changes SHG members have experienced after joining SHG and whether they were in a position to graduate to micro entrepreneurs. We then discuss the graduation process through which SHG members have become micro entrepreneurs.

#### **5.1: Access to Financial Services**

##### **5.1.1: Access to Savings**

As indicated in Chapter III, the habit of saving is inculcated amongst the members of SHGs immediately after the formation of SHGs under the SBLP. It can be seen in the Table 5.1 below that the overall change in the average savings per member is to the tune of Rs.2,129.33 in post SHG period. The increase in average saving is the highest amongst the SHGs in the age group of 'more than 6 years' (893 percent). Members who joined the SHGs at the initial stage of SBLP implementation, had very low saving in the pre SHG period as most of them were agricultural labourers or marginal farmers or casual labourers. It appears that once the SHG members started regular saving in the SHGs, they realized the importance of thrift and in general increased their savings with SHGs and other agencies.

**Table 5.1: Age wise Annual Average Incremental Savings by SHG members ( in Rs.)**

Category	Before SHG	After SHG	Incremental Savings	Percentage increased
Upto 3 years	542.30	2,275.23	1,732.93	319.55
4 to 6 years	516.31	2,127.73	1,611.42	312.10
More than 6 years	340.13	3,377.74	3,037.60	893.06
Overall	409.00	2,538.33	2,129.33	520.62

In Gujarat and J&K, it was observed that average savings with Banks and other agencies were higher in case of members belonging to the SHGs of the age group, 'more than six years' (Table 5.2). However, the SHG members of the same age group in AP had more average savings with the SHG or self. It seems that SHG members in AP chose higher savings rate in their SHGs than SHGs in other States. It is possible that SHGs in AP were able to accumulate more group savings and used group funds for internal lending more frequently than the SHGs in other States. Members of younger SHGs in AP and Gujarat, have kept major portion of their savings with the SHGs, whereas, in J&K majority of the members have kept more savings with the banks.

**Table 5.2: Source wise Annual Average Incremental Savings by SHG members (in Rs.)**

State	Savings through	Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	Self / SHG	820	1110	1440	1123
	Bank	420	578	664	554
	Other Agencies	236	277	319	277
	<b>Total</b>	<b>1,476</b>	<b>1,965</b>	<b>2,423</b>	<b>1,955</b>
Gujarat	Self / SHG	1,085	2,169	1,225	1,493
	Bank	581	336	528	482
	Other Agencies	385	0	1,280	555
	<b>Total</b>	<b>2,051</b>	<b>2,505</b>	<b>3,033</b>	<b>2,530</b>
J and K	Self / SHG	465.81	406.49	687.53	2618
	Bank	508.2	287.23	739.53	512
	Other Agencies	0	0	0	0
	<b>Total</b>	<b>974.01</b>	<b>693.72</b>	<b>1,427.06</b>	<b>3,130</b>

Note: Data of Himachal Pradesh not available

### 5.1.2: Access to loans

Apart from savings, SHGs are a source of credit for its members. In the studied SHGs, it was observed that there was a sharp rise in average borrowings of the SHG members in the post SHG period (Table 5.3). The analysis in this section is based on the data collected from Gujarat and AP as the same data in other two States were not available due to some unavoidable reasons. The average incremental borrowings of the members are positively related to the age of the SHGs in AP. The reverse is true in case of Gujarat. In case of AP, it is seen that majority of the members in the groups have initiated IGAs / MEs and this might have increased their needs for borrowings. It was observed that the members utilized the loan amount either to meet working capital need or to create assets.

**Table 5.3: Age wise Annual Average Incremental Borrowings by SHG members (in Rs.)**

State	Category	Before SHG	After SHG	Percentage increased
AP	Upto 3 years	8,202	14,685	79.04
	4 to 6 years	5,599	15,048	168.76
	More than 6 years	4,445	16,282	266.30
	Overall	6,082	15,338	152.19
Gujarat	Upto 3 years	423	7,646	1,707.57
	4 to 6 years	873	12,077	1,283.39
	More than 6 years	1,004	15,177	1,411.65
	Overall	7,675	11,634	51.58

SHG members borrowed from different sources like SHG, banks, informal moneylenders and other sources like credit cooperative societies. It can be observed in the Table 5.4 that members in younger SHGs borrowed lesser amount from the bank than the members of the older SHGs in Gujarat. The reverse is true in case of J&K. Whereas in case of AP no clear pattern of borrowing emerged. Apart from SHGs and banks, members are still dependent on informal moneylenders like traders, jewelers, big farmers et al for loans. It can be seen from Table 5.4 that members of younger SHGs borrowed more amounts of loans from the informal moneylenders than members of the older

SHGs in Gujarat and AP. However, in J&K, members reported that none of them borrowed from the informal moneylenders. It seems SBLP has been able to reduce the dependence of members on the informal moneylenders. In AP, SHG members of the age group 'four to six years' borrowed more from other sources than the members of SHG in other age groups. Further it was found in AP, that members of the SHG in the age group of 'four to six years' invested bank loans in crop cultivation and eventually experienced crop failure leading to default and increased borrowing from other sources.

In Gujarat members reported that in few SHGs, members had kept their savings as fixed deposit (FD) instead of utilizing it for internal lending. Members gave the following reasons for low internal lending in some SHGs: - i) poor group dynamics; ii) group decided not to use group savings because high amount of bank loans would be ensured if they keep high amount of savings with the banks and iii) in some cases, the bankers discouraged SHG members to withdraw their savings from the group account with the bank before they got the credit linkage from banks.

**Table 5.4: Age wise Annual Average Incremental Borrowings by SHG members (in Rs.)**

State	Category of Borrowing	Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	Banks	7,950	8,155	7,450	7,852
	Informal	2,580	873	725	1,393
	SHGs	4,155	6,020	8,107	6,094
	Other	358	2,385	645	1,129
	Total	14,685	15,048	16,282	15,338
Gujarat	Banks	4,738	6,236	10,022	6,999
	Informal	1,538	0	80	539
	SHGs	1,369	5,841	4,955	4,055
	Other	0	0	120	40
	Total	7,645	12,077	15,177	11,633
J and K	Banks	19,800	10,114	15,650	14,010
	Informal	0	0	0	0
	SHGs	6,642	3,699	7,627	5,903
	Other	0	0	0	0
	Total	26,442	13,813	23,277	19,913

It is seen in the Table 5.5 credit absorption has increased post SBLP. Around 41 percent of members in AP and 88 percent members in Gujarat borrowed in the post SHG period. The credit needs of the members have also increased. If we look at the amount of borrowing, there is a significant change in percentage of members availing loans in the range Rs. 5000-10000 in the post SHG period in AP. Where as, in case of Gujarat, the percentage of members availing credit in post SHG period has significantly increased in the range of Rs. 10000-20000. It appears that SBLP still has a lot of potential to meet the credit needs of the SHG members.

**Table 5.5: Percentage distribution of SHG members according to their level of borrowing**

State	Loan Range	Before SHG	After SHG	Difference
AP	No Borrowing	41.9	0.6	-41.3
	Upto 1000	16.5	12.4	-4.2
	1000-5000	19.4	27.7	8.4
	5000-10000	14.8	40.6	25.8
	10000-20000	4.8	9	4.2
	20000 & above	2.6	9.7	7.1
	Total	100	100	-
Gujarat	No Borrowing	95.92	8.37	-87.55
	Upto 1000	0	14.08	14.08
	1000-5000	4.08	14.29	10.21
	5000-10000	0	18.37	18.37
	10000-20000	0	24.49	24.49
	20000 & above	0	20.41	20.41
	Total	100	100	-

Note: Data are based on Gujarat and Andhra Pradesh

## 5.2: Process of Graduation

### 5.2.1: Bank Linkage

Under SBLP, SHGs usually get the first credit linkage between six months to one year. As the age of the SHGs increases, the number of linkages also increases. It was observed that demand for loans for a

certain section of members within the SHGs was relatively low. Members reported that:-

- i) Some members were either poor or they were not able to absorb the larger doses of credit;
- ii) Some members, particularly agricultural labourers, landless poor, were not able to shift to a new venture due to their poor asset base. These members did not have more demand for loans and
- iii) Some members were better off. They did not have any demand for loans; however they were more interested to maintain the savings with SHGs.

It is seen in the Table 5.6 below that, SHG members of the age group, 'upto three years' have graduated by increasing their borrowings. The average borrowing has increased from Rs. 6,931 to Rs. 11,676.33 (from 1st linkage to 3rd linkage). Under the age group, 'four to six years', members increased their average borrowing from Rs. 2567 to Rs. 7429 (from 1st linkage to 6th Linkage). In case of SHGs members belonging to the oldest category, have increased average borrowing from Rs. 7,156 to Rs. 35,000 (from 1st linkage to 6th linkage). It is observed that the average loan is low in case of SHGs of the age group, 'four to six years' compared to SHGs under other age groups. Members of the surveyed SHGs revealed that in some SHGs, loans were equally distributed among the members, whereas in case of some SHGs, loans were distributed only amongst two to four members.

**Table 5.6: Average loan distribution among the SHG members in each Bank Linkage (in Rs.)**

No. of Linkage	Upto 3 years		4 to 6 years		More than 6 years		Overall	
	Members with Loans	Average Amount	Members with Loans	Average Amount	Members with Loans	Average Amount	Members with Loans	Average Amount
1 <sup>st</sup>	91	6,931	228	2,567	115	7,156	434	5,059
2 <sup>nd</sup>	70	68,88.67	203	5,044.33	83	8,674.67	356	6,256
3 <sup>rd</sup>	39	11,676.33	160	7,766.67	58	11,351.33	257	9,538
4 <sup>th</sup>	0	0	71	6,865.50	27	10,306.50	98	7,214
5 <sup>th</sup>	0	0	42	8,390	28	14,050	70	8,726
6 <sup>th</sup>	0	0	14	7,429	4	35,000	18	13,556

Most of the surveyed members were linked to the banks for credit. It is seen from Table 5.7, that the overall cumulative loan of Rs 54.87 lakh was disbursed among the studied SHGs in AP and Gujarat. Around 50 percent of the cumulative loan was distributed among the SHGs in the age group, 'four to six years'

**Table 5.7: Age wise cumulative loans availed by SHG members**

State	Age of Membership	Total Members	Members with Bank Loan	Total Loans (Rs. In Lakh)
AP	Upto 3 years	62	62	7.73
	4 to 6 years	178	178	26.81
	More than 6 years	70	68	16.54
	<b>Overall</b>	<b>310</b>	<b>308</b>	<b>51.07</b>
Gujarat	Upto 3 years	13	8	0.616
	4 to 6 years	11	6	0.686
	More than 6 years	25	16	2.5055
	<b>Overall</b>	<b>49</b>	<b>30</b>	<b>3.8075</b>

\* Data for J&K and HP not available

### 5.2.3: Graduation to IGAs / MEs and Diversification of activities

It is expected that majority of the microfinance borrowers would utilize their first dose of loan for consumption purposes. To take up productive activities, consumption smoothing is required. It is observed from the Table 5.8, under SBLP major portion of the 1st loan amount was utilized for consumption (54 percent), followed by purchase of inputs for their existing income generation activities. It is observed that as the frequency of linkage increases, a large portion of loans is used for IGAs or for assets-creation. In case of sixth linkage, no loan was used for consumption purpose. The major portion of this linkage was used for setting up own IGAs by the members. It seems that members were able to utilize the loans for production with the increase in the number of linkages.

**Table 5.8: Linkage wise utilization of loans by SHG members**

<b>Order of Linkages</b>	<b>Consumption</b>	<b>Family Venture</b>	<b>Input</b>	<b>Own IGA</b>	<b>Asset Creation</b>	<b>Total</b>
1 <sup>st</sup>	54.5	6	22.5	11.65	5.35	100
2 <sup>nd</sup>	39.95	12.5	21.7	13.85	12	100
3 <sup>rd</sup>	20.95	10.9	22.4	25.75	20	100
4 <sup>th</sup>	12.1	3.45	17.9	38.85	27.7	100
5 <sup>th</sup>	4.45	8.95	10.7	32.6	43.3	100
6 <sup>th</sup>	0	11.8	17.6	41.2	29.4	100

It is seen that diversification of occupation is one of the most popular coping mechanisms of the poor in India. In the studied States, it was observed that with the increase in loan linkages, SHG members utilized the loans either for initiating new economic activities or for diversifying their existing activities. It is seen in Table 5.9 below that members, who were agricultural labourers before joining the SHGs, have shifted to activities such as knives selling, poultry, hiring land for cultivation on a lease etc. As the number of loan linkages increased, in general members took up new IGAs such as cycle repairing unit, vending vegetables, cooking jobs under mid-day meal programme etc. Members have also set up new MEs like small hotels, STD booth and petty shops.

It is seen that SHG members whose primary occupation was agriculture have set up MEs related to agricultural activities. For example, dairy unit, vegetable vending unit, grocery shops and flour mills are some of the MEs set up by these members. SHG members have also set up other MEs like petty trade, cloth store, brick kiln and imitation jewellery shop etc. If we look at the shift in the economic activities, it is clear that the members have shifted to economic activities that require higher levels of investment. The SBLP appears to have facilitated the shift in the occupations through credit linkages.

SHG members have also diversified their economic activities. Following are some of the examples. SHG members who had cloth stores have expanded them to readymade garment shops and have also set up new MEs like shoe shops. Members, who were tailors, have taken up embroidery as a new activity of income generation and set up new cloth stores. SHG members, who had tea stall, expanded their

business to include snacks making unit. Generally it is seen that after joining SHG, most of the members, who took up IGAs or MEs, have diversified their activities for bettering their standard of living.

### 5.9: Details of shift in the economic activities pursued by SHG members

State	Household Primary Occupation	1 <sup>st</sup> Shift	2 <sup>nd</sup> Shift	3 <sup>rd</sup> Shift	4 <sup>th</sup> Shift
AP, Gujarat	Agricultural Labourers/ Bidi and Leaf Plate Makers / Construction Labourers	Tamarind Tree Leasing, Candle Making, Poultry, land cultivation on Lease, STD PCO Booth, Jute bag making, Knives selling etc.	LIC Agent, Vegetable Vending, Cycle / Bottle bush Making	Mid-Day Meal Cooking, News Paper Agent	Petty Shop / Small Hotel
Gujarat, J and K	Agriculture	Dairy, Petty Trade, Vegetable vending, Cloth Store, Cycle repair shop, Grocery Shop, Flour Mill, Imitation Jewellery, Mushroom Cultivation, Bee Keeping	Brick Kiln, Grocery Shop, Animal Husbandry, Sisal Fibre Cultivation	Flour Mill, Kirana Shop, STD Booth.	
Gujarat	Agriculture and Dairy	Brick Kiln, Cycle Shop and Caning of chairs, Grocery	Flour Mill, Bangles Shop.		
AP	Cloth Store	Readymade Garment Shop	Shoe Selling		
AP	Kirana Shop	Bangles Shop	Stationary	STD Booth	
AP, J and K	Tailoring	Embroidery/ Tailoring Training Centre	Cloth Shop/ Tailoring Shop	Embroidery	
AP	Tea Stall	Snacks Making			
AP, Gujarat, J and K	Housewives	Bangle Shop, Vegetable vending, Tailoring, Kirana Shop, Handloom unit with single loom	Embroidery, Fancy Shop, Hotel, Handloom unit with three looms	Cloth Shop and Pickle Making.	

SHG has also helped members to come out of their homes and take up new IGAs or set up new MEs. For example, housewives have set up bangles shops, kirana shops, vegetable shops etc. Further, these members have diversified their economic activities and have taken up embroidery works, set up small hotels, selling of fancy items etc. Interestingly, in the third shift, the erstwhile housewives have initiated MEs like pickle making unit and cloth shops. Members reported that they spent adequate time on their enterprises and have improved its operations.

It is also important to see the number of activities which have been taken up by members during the process of diversification. It is seen from Table 5.10 that in AP most of the members in the SHGs of age group, 'upto three years' took up one activity (66 percent) followed by two activities (25.8 percent). In Gujarat, within the SHGs of age group, 'upto three years', most of the SHG members have taken up three activities. Whereas most of the members in SHGs of age group of 'four to six years', took up two IGAs / MEs. In AP, SHG members in this category took up one activity. However, in both the States, majority of members of the older SHGs took up two activities. A few members across the age of the SHGs took up four activities in both the States. It is seen that with time, SHG members try to achieve financial sustainability by creating more IGAs and by setting up more than one ME. The same trend is also found in the studied SHGs.

**5.10: Age wise categorization of SHG households based on Occupation (in percent)**

State	Age / Occupation	Upto 3 years	4 to 6 years	More than 6 years	Overall
AP	One	66.1	52.8	37.1	51.9
	Two	25.8	38.8	41.4	36.8
	Three	8.1	6.2	17.1	9
	Four	0	2.2	4.3	2.3
Gujarat	One	23	27	16	20
	Two	23	45	40	37
	Three	46	18	40	37
	Four	8	9	4	6

#### 5.2.4: Status of Graduation to IGAs / MEs

We can categorise members of SHGs into three categories:- i) Members who did not take up any IGAs or MEs; ii) Members with IGAs and iii) Members with MEs. It can be seen from Table 5.11 below that in AP majority of members took up IGAs. These were both self managed IGAs and family managed IGAs. Members with IGAs utilized 54 percent more average loans than that of the members without IGAs. In case of Gujarat, only 34.7 percent members took up IGAs. Around 28 percent members set up new MEs in both the States. In case of Gujarat, the rate of loan absorption of SHG members, who took up MEs, was 120 percent more than the members who did not take up any IGAs / MEs. This percentage is 193 percent in case of AP. Among these MEs, some of them were set up by the members on their own and some of the MEs were set up by the members along with their family members.

**5.11: Economic Activity wise distribution of SHG members**

State	Categories	Total Members	Share (%)	Average Loan Amount
AP	Non IGAs/ Non MEs	92	29.7	8210
	IGAs	130	41.9	17171
	MEs	88	28.4	24089
	<b>Total</b>	<b>310</b>	<b>100</b>	<b>16476</b>
Gujarat	Non IGAs	18	36.7	6080
	IGAs	17	34.7	4606
	MEs	14	28.6	17917
	<b>Total</b>	<b>49</b>	<b>100</b>	<b>9535</b>

Members who did not take up any activity utilized their loans for consumption. It was observed that in these SHGs, initially loans were distributed equally among the members; and only some members especially leaders of the SHG or one or two members utilized the major share of the bank loans for their enterprises.

## **Chapter VI**

### **Cost of Investments and Economics of Micro Enterprises**

SHG members have availed loans for three purposes: Consumption, Production and Repayment of past debts. Members, who have availed loans for production, have used loans either for meeting working capital needs or for creating fixed capital for their micro enterprises (MEs) / Income Generation Activities (IGAs)<sup>15</sup>. The economics of an enterprise is based on parameters such as gross income, cost of production, volume of sales, net profit / income etc. However, in all the States covered under the study, most of the individual entrepreneurs had not keep the records of expenditure and the returns earned from their enterprises. The study team therefore has calculated annual figures of all parameters on the basis of number of working days per annum. The limitation of this method is that the analysis is prone to memory bias of the respondents as proper records were not available. In the following sections, the analysis of the MEs/IGAs is presented.

#### **6.1: Details of Activities pursued by SHG members**

This section discusses the various activities which have been taken by SHG members as MEs / IGAs. Out of 6 members only 149 members have set up micro enterprises and 158 members have taken up IGAs (Table 6.1). Pattern of enterprises differs across the four States. In J&K, 31 percent of members have set up their own enterprise while only 7 percent of members have taken up IGAs. In AP, 28 percent of members have MEs and 42 percent are involved in the new IGAs. In Gujarat, the performance is relatively poor since only 5 percent of members have set up MEs and 5 percent of members have taken up IGAs.

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15 Activities are categorised as MEs if members invest the loans into creating some kind of fixed capital whereas activities are categorised as IGAs if members use the loans to meet working capital expenses. In case of MEs assets are created to generate income whereas in case of IGAs fixed assets are not created but income is generated through use of working capital.

**Table 6.1: State wise distribution of Members with MEs and IGAs**

State	No. of members taking up MEs	No. of members taking up IGAs	Total Members
Jammu and Kashmir	47	11	150
Himachal Pradesh	-	-	123
Gujarat	14	17	49
Andhra Pradesh	88	130	310
<b>Total</b>	<b>149</b>	<b>158</b>	<b>632</b>

Note: Data for HP not available

If we look at the types MEs and IGAs that are being taken up, it can be seen from Table 6.2 below that 149 members have invested in 30 types of different MEs and 158 members have taken up 31 types of different IGAs. It is observed that some of the members have taken up multiple MEs<sup>16</sup>. Among different types of MEs, dairy activity is dominating (39.07%) followed by kirana shops (11.92%). In case of IGAs, around 12.66 percent of members have invested in purchasing raw materials for crops cultivation in order to increase their income. Other important IGAs are knife selling, tailoring, fodder supply for the dairy animals, cloth stores, weaving and small hotels etc. Some of the MEs are State specific. For example in J&K, members have set up bee keeping unit, rehari, mushroom processing unit etc. In Gujarat, some of the members have set up STD booth, mandap decoration unit, brick kiln, news paper agency etc. In AP, some members have set up small hotels, knives making units, bangles shop etc. It appears that the members are setting up the MEs as per local needs. On the whole SBLP programme in these four States has been able to initiate a wide variety of activities aimed at generating income for SHG members.

**Table 6.2: Different MEs and IGAs taken by sample SHG members**

Micro Enterprises	Members	% of total	IG Activities	Members	% of total
Dairy	59	39.07	Cloth Shop	11	6.96
Flour Mills	8	5.30	Small Hotels	10	6.33
Tailoring	13	8.61	Kirana Shops	7	4.43
Kirana Shop	18	11.92	Imitation Jewellery Shop	4	2.53

<sup>16</sup> For example, 149 members have taken up 151 MEs.

Micro Enterprises	Members	% of total	IG Activities	Members	% of total
Small Hotels	3	1.99	Bottle brush Making	6	3.80
Jute Bag Making	5	3.31	Poultry	3	1.90
Sheep Rearing	5	3.31	Embroidery	3	1.90
Snacks/ Pickle Making	3	1.99	Knives Selling	16	10.13
Knives Making	2	1.32	Mid-Day Mea Cooking	4	2.53
Bangles Shop	2	1.32	Tailoring	11	6.96
Backery Unit	1	0.66	Vegetable vending	6	3.80
Poultry	2	1.32	Weaving	14	8.86
Saloon	1	0.66	Pottery	3	1.90
Photo frame Making	1	0.66	Shoe selling	2	1.27
Motor Cycle Repairing	8	5.30	Input purchase for Crops Cultivation	20	12.66
Musical Instruments making	1	0.66	Carpentry	3	1.90
Lathe Work	1	0.66	Tamarind Tree Leasing	3	1.90
Catering Services	1	0.66	Flower Selling	2	1.27
Crane Machine	1	0.66	Dairy Animals fodder supply	15	9.49
Bee Keeping	2	1.32	Leaf Cup-plate making	1	0.63
Sweet Shop	1	0.66	Candle Making	2	1.27
Vegetable Cultivation	5	3.31	Construction Business	1	0.63
Handloom	1	0.66	Cycle Repairing	1	0.63
Rehari	1	0.66	Purchase of Land on lease	1	0.63
Tent House	1	0.66	Pump	3	1.90
STD Booth	1	0.66	Rehari	1	0.63
Mandap Decoration	1	0.66	Mule	1	0.63
Cycle Store	1	0.66	Grass Cutter	1	0.63
News paper Agency	1	0.66	Caning of Chairs	1	0.63
Brick Kiln	1	0.66	Sewing Machine	1	0.63
<b>Total</b>	<b>151</b>	100.00	Mushroom working capital	1	0.63
			<b>Total</b>	<b>158</b>	<b>100</b>

## **6.2: Sources of Investment**

Dairy activity is taken by many (59 members) in the three States covered under the study. Since the primary occupation of most of the SHG members is agriculture, as a secondary source of generating income, members have taken up dairy as additional economic activity. Further, even in the drought prone areas dairy has emerged as an alternative source of income generation. The average cost of Investment for setting up dairy unit is Rs. 1,375 and members met most of the cost by borrowing from SHGs. Another important activity is flour mill. These flour mills were working on the basis of job orders. Capital investments were made for motors, hullers etc. During the survey, it was found that these units had limited working capital to meet the running expenses of electricity, lubricants, maintenance costs etc. The cost of investment per unit was Rs. 23,833 (approximately). Members borrowed around 40 percent of cost from SHGs and 35 percent from banks. Members who set up tailoring units, invested in sewing machines, cutting tables, interlocking machines, scissors etc. They received orders from local areas. Some of these units also got bulk orders from businessmen. Some units only did alteration of old garments. None of these members invested in workplace as they set up their units at their residences. These members borrowed 68 percent of average cost from SHGs.

For two MEs, bakery and lathe work, which required larger investment, members depended highly on informal moneylenders. For these MEs, members borrowed more than 60 percent of unit cost from the moneylenders. Except the bee keeping units, for no other MEs, members received government subsidy. For some of the MEs, members borrowed full amount of unit cost from the SHGs. These were MEs such as setting up tent house, setting up catering service unit, chicken selling unit, photo frame making unit, musical instrument selling unit etc. It is noticeable that members required relatively less capital investment to set up these MEs. It appears that members are able to set up small scale MEs with the credit available in SHGs, however, for larger scale MEs, members are still dependent on other sources like informal moneylenders indicating that SHG are alone not sufficient to meet the entire credit needs of the SHG members.

**Table 6.3: Cost of Investment (COI) and Sources of Fund**

State	MEs	Members	Cost of Investment (Rs./ Unit)	Sources of Funds (%)						
				SHG	Own	I ML	MACS	GOI Subsidy	Bank Finance	Others
AP,GUJ	Flour Mill	8	23,833.5	40	16	3	6	0	35	0
AP,GUJ, J and K	Tailoring	13	16,418.33	68	18	3	0	0	11	
AP,GUJ, J and K	Kirana Shop	18	17,098.33	49	25	12	0	0	14	0
AP,GUJ, J and K	Dairy	59	13,575.33	60	13	4	1	0	16	6
AP	Small Hotels	3	7,667	100	0	0	0	0	0	0
AP	Jute Bag	5	5,000	100	0	0	0	0	0	0
AP	Sheep Rearing	5	11,800	83.1	0	0	16.9	0	0	0
AP	Snacks /Pickles Making	3	19,800	60.6	14.1	0	25.3	0	0	0
AP	Knives Making	2	57,000	61.4	17.5	21.1	0	0	0	0
AP	Bangles Shops	2	5,000	100	0	0	0	0	0	0
AP	Bakery	1	87,500	38.9	0	61.1	0	0	0	0
AP	Chicken Selling	1	5,000	100	0	0	0	0	0	0
AP	Saloon	1	8,483	76.4	23.6	0	0	0	0	0
AP	Photo frame Making	1	1,500	100	0	0	0	0	0	0
AP	Motor Cycle Repairing	1	20,000	90	10	0	0	0	0	0

State	MEs	Members	Cost of Investment (Rs./ Unit)	Sources of Funds (%)						
				SHG	Own	IML	MACS	GOI Subsidy	Bank Finance	Others
AP	Musical Instrument Making	1	14,000	100	0	0	0	0	0	0
AP	Lathe Work	1	30,000	33.3	0	66.7	0	0	0	0
AP	Catering Services	1	7,000	100	0	0	0	0	0	0
AP	Crane Machine	1	35,000	14.3	57.1	28.6	0	0	0	0
GUJ	STD Booth	1	20,000	50	50	0	0	0	0	0
GUJ	Mandap Decoration	1	1,10,000	0	64	0	0	0	18	18
GUJ	Cycle Store	1	30,000	0	0	0	0	0	72	18
GUJ	Newspaper Agency	1	15,000	0	0	0	0	0	100	0
GUJ	Brick Kiln	1	NA	10	49	0	0	0	41	0
J and K	Bee Keeping	2	20,000	50	5	0	0	45	0	0
J and K	Cultivation	5	16,000	53	47	0	0	0	0	0
J and K	Sweet Shop	1	35,000	86	14	0	0	0	0	0
J and K	Auto	7	45,000	22	0	0	0	0	78	0
J and K	Tent House	1	30,000	100	0	0	0	0	0	0
J and K	Poultry	1	2,00,000	20	0	0	0	0	80	0
J and K	Rehari	1	8,000	88	12	0	0	0	0	0
J and K	Handloom	1	30,000	33	67	0	0	0	0	0

Note: IML = Informal money lenders; GOI= Government of India; MACS= Mutually Aided Cooperative Societies.

### **6.3: Returns on Investment**

In the previous section, members' investment in their micro enterprises was discussed. In this section an attempt has been made to study the returns which members have earned from the enterprises. Here, the main variables of measuring returns are costs of inputs, price of output / services, gross income and net income etc. During the survey, the data on all variables was collected either on daily or weekly or monthly basis. However, for comparing the estimates across the different MEs, we have taken yearly estimates of all variables. Gross income is the estimate of total sale of output / services. Apart from few units like knives making or bakery unit, most of the units were operating on per day / job basis. From daily gross income level, annual gross income was calculated considering the total number of working days in a year. Costs of production were of two types: fixed costs and variable costs. Costs of raw materials, wages of laborers, rent, expenses on electricity and other infrastructures were the main costs under variable cost. Annual interests on investment and depreciation costs came under the fixed costs. To measure the economies of MEs, different ratios like sales to operational costs, sales to total cost and net income to sales etc. were calculated. Due to heterogeneity of the ME units, the net income per Rs. of investment was assessed to compare cost effectiveness of these MEs.

Comparison between different MEs reveals that the net income ranges from Rs. 3,625 (Cultivation) to Rs. 45,000 (Auto Rickshaw). Flour mills, dairy, tailoring unit etc. are the common activities across the States. In case of flour mill, the net income is Rs. 9,333.50 and net income per Rs. of investment is 0.26; sales per operational cost are 130.8 and sales per TC are 116.2. For Tailoring activity, the net income is Rs. 11,892; net income per Rs. of investment is relatively high at Rs.1.11, sales per OC are 243.7 and sales per TC are 202.5. In case of Tailoring, news paper agency and STD booth the net income per Rupee of investment is more than one rupee. However, the initial investment in STD booth is lesser than that of other two units (Rs. 7,900). For some of the units like knives selling, small hotels, crane machine and photo frame making, the total cost is very high to the tune of more than Rs. 50,000. However, the net income per Rupee investment for these activities ranges between Rs. 0.12 to Rs. 0.23.

Some of MEs are State specific. In case of J&K, for MEs like rehari and handloom, the net income per Rupee of investment is very impressive (Rs. 0.82 and Rs. 0.9) and is higher than that of auto (0.43) and tent house (0.45). However, the net income generated by rehari and handloom MEs is lower (Rs. 18,000) indicating that the size of these MEs was very small. In AP, MEs like knives selling or small hotels where members invested larger amount of money, the net income per Rupee of investment was lesser (0.23) than other MEs. In Gujarat, to set up a STD booth only Rs 7900 were required but the net income per Rupee of investment was 1.61. Further, in case of Mandap decoration, more investment was required; but the net income per Rupee investment was comparatively less in Gujarat (0.16). The above analysis indicates that high level of investment does not always result in high returns.

**Table 6.4: Per Unit Return on Investments from different MEs**

State	Micro Enterprise	TC	Gross Income	Net Income	Sales / OC	NI/ Sales	Sales/ TC	NI / Rs. of investment
AP,GUJ	Flour Mill	41,517	50,850	9,334	131	18.5	116.2	0.26
AP,GUJ, J and K	Tailoring	20,696	32,587.5	11,892	244	43.7	202.5	1.11
AP,GUJ, J and K	Kirana Shop	61,756	72,710.3	10,954	148	14.3	115.6	0.46
AP,GUJ, J and K	Dairy	21,604	31,993.8	10,390	179	32.9	152.5	0.415
AP	Small Hotels	88,066	1,10,333	22,267	125	20.2	12.9	0.23
AP	Jute Bag	27,132	38,415	11,283	142	29.4	136.1	0.34
AP	Snacks /Pickles Making	71,120	1,01,600	30,480	143	30	134.6	0.32
AP	Knives Making	91,266	1,27,516	36,250	140	28.4	122.8	0.23
AP	Bangles Shops	32,350	42,000	9,650	130	23	125.6	0.25
AP	Bakery	1,02,996	1,51,725	48,729	147	32.1	124.1	0.23
AP	Chicken Selling	41,555	56,000	14,445	135	25.8	131.3	0.3
AP	Saloon	28,250	40,500	12,250	143	30.2	134.5	0.32
AP	Photo frame Making	1,11,525	1,35,525	24,000	122	17.7	121.2	0.21
AP	Motor Cycle Repairing	23,800	38,250	14,450	161	37.8	135.6	0.3
AP	Musical Instrument Making	17,550	31,250	13,700	178	43.8	151.5	0.4

State	Micro Enterprise	TC	Gross Income	Net Income	Sales / OC	NI/ Sales	Sales/ TC	NI / Rs. of investment
AP	Lathe Works	17,450	28,250	10,800	162	38.2	117.5	0.2
AP	Catering Services	25,600	40,000	14,400	156	36	147.4	0.42
AP	Crane Machine	75,400	90,000	14,600	119	16.2	108.3	0.12
GUJ	STD Booth	7,900	24,000	16,100	421	67.08	303.8	1.61
GUJ	Mandap Decoration	30,200	48,000	17,800	333	37.08	158.9	0.16
GUJ	Cycle Store	17,580	30,000	12,420	250	41.4	170.7	0.41
GUJ	Newspaper Agency	33,000	66,000	33,000	212	50	200	2.2
GUJ	Brick Kiln	93,650	1,06,500	12,850	125	12.07	113.7	0.26
J and K	Cultivation	7,000	10,625	3,625	152	34.12	151.8	0.52
J and K	Sweet Shop	1,05,000	1,15,000	10,000	164	8.7	109.5	0.1
J and K	Auto	1,05,000	1,50,000	45,000	250	30	142.7	0.43
J and K	Tent House	55,000	80,000	25,000	320	31.25	145.5	0.45
J and K	Rehari	22,000	40,000	18,000	286	45	181.8	0.82
J and K	Handloom	20,000	38,000	18,000	136	47.37	190	0.9

Note: TC= Total Cost; NI = Net Income; OC = Opportunity Cost.

## **Chapter VII**

### **Socio-economic Impact on SHG Members**

#### **7.1: Change in Social dynamics in the context of economic transformation**

In this chapter our focus is on understanding the impact of the SBLP programme on the SHG members. We will analyse the impact by looking at both social and economic changes. The chapter includes aspects such as changes seen in SHG members' access to public resources and social dialogue, changes seen in family and gender dynamics within the family and finally the impact on income and employment generation.

##### **7.1.1: Access to public resources and social dialogue**

The members reported that after joining the SHGs, they have got the opportunities to come out from their houses and a platform to share their thoughts and the problems in the SHG. Interviewed members also noted that their self confidence has gone up. It is seen that some of the SHG members have become active members of local committees like 'Pani Samiti', Gram Sabha, joined ICDS as Anganwadi workers etc. SHGs have also become a platform where the members were able to access the information on various issues like Rural Employment Guarantee Scheme, Panchayat Raj Procedures, Public Distribution System etc.

##### **7.1.2: Changes in family dynamics**

SHG Members revealed that there is a change in attitude towards them in the family. Families seem to be changing its attitudes towards women mobility and education of children, especially girl children. Further, it was also seen that SHG members of the surveyed SHGs took part in economic decision making of the family. Perhaps now it is increasingly being recognized that SHGs are forums that are able to provide economic support to the families of SHG members. It was also seen that many girl children have got opportunities to attend the school. In terms of raising voice for improving the status of women, it is seen that leaders of these SHGs continuously raised the issues like domestic violence and alcohol consumption. Some of the group members also reported that they changed their lifestyle in terms of dresses, food habits and assets creation. It is important to note that

a large share of income earned by the SHG members was used for children's education. The SHG members revealed that their dependency on informal money lenders has reduced. The members also noted that starting IGAs or MEs has resulted in positive changes in attitudes of the husbands and other family members towards them.

## 7.2: Impact of SHGs on Income Generation

The objective of SBLP is to enable poor people to take up income generation activities in order to improve their standard of living. In the surveyed SHGs, it is seen that there is a sharp rise in income in post SBLP period (Table 7.1). Further, there is a positive relation between the age of the SHGs and the increase in income. If we look at the younger SHGs, the income of the members increased at 25 percent from pre SHG to post SHG in AP, 38 percent in Gujarat and 81 percent in J&K. However, in the oldest SHGs the rate of increase in income was 162 percent in AP, 129 percent and 117 percent in J&K respectively. In case of older SHGs, i.e., under the age group '4 to 6 years', the highest growth rate of income of members (181%) was found in J&K.

**Table 7.1: Incremental Average Income of SHG members**

(in Rs.)

State	Age of the SHG	Before SHG	After SHG	Incremental Income	% Change
AP	Upto 3 years	19,310	24,110	4,800	25
	4 to 6 years	15,582	30,738	15,156	97
	More than 6 years	13,780	36,169	22,389	162
	Overall	16,224	30,339	14,115	87
Gujarat	Upto 3 years	6,457	8,886	2,429	38
	4 to 6 years	5,614	12,102	6,489	116
	More than 6 years	9,752	22,380	12,628	129
	Overall	7,274	14,456	7,182	99
J and K	Upto 3 years	12,232.62	22,155.57	9,922.95	81.12
	4 to 6 years	14,112.77	39,665.96	25,553.19	181.06
	More than 6 years	10,560.47	22,979.07	12,418.6	117.6
	Overall	12,423.93	28,025.93	15,602	125.58

SBLP has positive impact on the financial condition of the SHG households (Table 7.2). This analysis is restricted only to AP and Gujarat. It is found that members, who have set up MEs, have earned around 22 percent more income than the members who have taken up IGAs in AP. In case of Gujarat it is 15 percent more income. If we compare the income of members with MEs with income of non-IGA/MEs members, it can be seen that members with MEs have generated 70.5 percent more income than that of the Non IGA members in AP and 225 percent more income in case of Gujarat. It appears that members who have undertaken MEs/IGAs by utilizing loans have experienced increase in their income levels compared to members who have not started MEs/IGAs.

**Table 7.2: Average Income generated by SHG households for Different MEs/IGAs**

Sl No.	State	Category of Households	Net Income Generated from		Total Income generated by Household
			MEs / IGAs	Other HHA	
1	AP	ME - Households	17,652 (41.2)	20,193 (58.8)	37,845 (100)
2		IGA- Households	12,321(39.8)	18,652 (60.2)	30,973 (100)
3		Non IGA / ME Households	—	22,198(100)	22,198(100)
4		Overall	14,987 (49.4)	20,348 (50.6)	35,335 (100)
5		% (+) or (-) of 1 over 2	(+) 43.3	(+) 8.3	(+) 22.2
6		% (+) or (-) of 1 over 3	—	(-) 9.0	(+) 70.5
1	Gujarat	ME households	11,126 (46.2)	12,939 (53.8)	24,065 (100)
2		IGA Households	11,930 (56.8)	9,084 (43.2)	21,014 (100)
3		Non IGA / ME Households	0	7,399 (100)	7,399 (100)
4		Overall	7,685 (43.9)	9,807 (56.1)	17,493 (100)
5		% (+) or (-) of 1 over 2	(-)7	(+) 42	(+) 15
6		% (+) or (-) of 1 over 3	—	(+) 75	(+) 225

### 7.3: Impact of SHGs on Employment Generation

The data on 'how much income is generated from MEs / IGAs' does not give clear picture of job creation in real terms through the MEs or IGAs. In this section, an attempt has been made to understand

the real employment creation scenario by calculating the total person days of employment generated from IGAs / MEs. This analysis is based on data from AP and Gujarat. As it can be seen from Table 7.3 below, in AP, 78.9 percent of employment in terms of person days was generated from households engaged in MEs. In case of Gujarat, it is 58%. For households, who started new IGAs, 45.1 percent employment was generated in AP and 39 percent employment was generated in Gujarat. In both the States, households with MEs were able to create more employment than households with IGAs and non IGAs.

**Table 7.3: Average Employment days generated under different MEs/IGAs**

Sl No.	State	Category of Households	Person Days Employment Generated		Total Person Days generated
			MEs / IGAs	Other HHA	
1	AP	ME households	470 (78.9%)	126 (21.1%)	596 (100%)
2		IGA Households	202 (45.1%)	246(54.9%)	448 (100%)
3		Non IGA / ME Households	0	329 (100%)	329 (100%)
4		Overall	224 (58.9%)	234 (41.1%)	458 (100%)
5		% (+) or (-) of 1 over 2	(+)132.7	(-)48.8	(+) 33.0
6		% (+) or (-) of 1 over 3		(-) 61.7	(+) 81.2
1	GUJ	ME households	357 (58%)	258 (42%)	615 (100%)
2		IGA Households	186 (39%)	286 (61%)	473 (100%)
3		Non IGA / ME Households	0	381 (100%)	381 (100%)
4		Overall	272 (47%)	308 (53%)	580 (100%)
5		% (+) or (-) of 1 over 2	(+)92	(-) 10	(+) 30
6		% (+) or (-) of 1 over 3		(-) 32	(+) 62

### 7.3.1 Employment generated by different ME units

Employment generation depends on the nature of job undertaken in the MEs and the demand for the goods and services. The details are included in Table 7. 4. Majority of the ME units required just one to two workers, whereas some of the units like Bakery required up to 7

workers. Majority of members (62 out of 148) set up dairy unit. Initial cost of investment was in dairy units was Rs. 17, 363. A dairy unit on an average created 411.4 person days of employment and the employment generated per Rs. 100 of investment by this unit was 2.5. The next important ME is kirana shop. The initial cost of investment for a kirana unit was similar to dairy unit (Rs. 17,060), but it created lesser person days of employment per unit than the dairy unit. However, it generated same level of employment per Rs. 100 of investment (2.5) like the dairy unit.

Person days of employment generated per unit varies between 180 (for Mandap decoration) and 1200 (Bakery). Out of 30 MEs, 13 MEs generated person days of employment per unit within the range of 400 to 500 person days. For certain MEs, the cost of investment is very high, however, employment generated per Rs. 100 of capital investment is very low for these MEs. For example, the cost of investment in a Mandap decoration unit was Rs. 1,10,000 and the employment generated per Rs. 100 of investment was only 1.5. Whereas, in case of photo frame making unit, the cost of investment was just Rs. 1500 and the employment per Rs.100 of investment was as high as 33.3.

**Table 7.4: Employment Generated by ME units**

State	ME	Members	Workers / Unit	Cost of Investment (in Rs.)	Person days / Unit	Employment. Per Rs. 100 of Capital Investment
AP,GUJ	Flour Mill	8	2	23,833.5	408.5	1.8
AP,GUJ, J and K	Tailoring	13	1	16,418.3	262.3	1.9
AP,GUJ, J and K	Kirana Shop	18	1.7	17,068	368.7	2.5
AP,GUJ, J and K	Dairy	62	1.7	17,363.7	411.4	2.5
AP	Small Hotels	3	2	7,667	472	6.2
AP	Jute Bag	5	1	5,000	250	5
AP	Snacks /Pickles Making	3	2	19,800	508	2.6
AP	Knives Making	2	3	57,000	900	1.6

State	ME	Members	Workers / Unit	Cost of Investment (in Rs.)	Person days / Unit	Employment. Per Rs. 100 of Capital Investment
AP	Chicken Selling	1	1	5,000	280	5.6
AP	Saloon	1	2	8,483	556	6.6
AP	Photo frame Making	1	2	1,500	500	33.3
AP	Motor Cycle Repairing	1	1	20,000	290	1.5
AP	Musical Instrument Making	1	2	14,000	510	3.6
AP	Lathe Works	1	2	30,000	410	1.4
AP	Catering Services	1	2	7,000	400	5.7
AP	Crane Machine	1	3	35,000	450	1.3
GUJ	STD Booth	1	2	20,000	300	1.5
GUJ	Mandap Decoration	1	3	1,10,000	180	0.16
GUJ	Cycle Store	1	1	30,000	300	1
GUJ	Newspaper Agency	1	1	15,000	365	2.43
GUJ	Brick Kiln	2	7	42,250	690	1.51
J and K	Cultivation	4	2	7,000	300	4.29
J and K	Sweet Shop	1	2	35,000	400	1.14
J and K	Auto	7	1	45,000	250	0.56
J and K	Tent House	1	3	30,000	300	1
J and K	Rehari	1	1	8,000	240	3
J and K	Handloom	1	2	30,000	200	0.67
J and K	Bee Keeping	2	1	20,000	200	1
	Overall	148	2.05	25,662.78	411.4	3.72

Note: ME=Micro enterprises.

## Chapter VIII

### Role of SHPIs in Promoting Micro Enterprises

In this chapter we shall review the role of SHPIs. Globally, several models of delivering microfinance are operational. Joint Liability Group in Bangladesh and India; Rotating Savings and Credit Associations (Roscas) in India and other developing countries like Madagascar, Indonesia and Egypt etc; Tontine, Tsusu in African countries are some of the examples of existing popular delivery models of microfinance. In India, the most popular model is delivery of microfinance services through Self Help Groups (SHGs). Under SBLP, banks have adopted three different models of delivery.

#### 8.1: Description of SHPIs in the surveyed States

In this next section we analyse the role and functioning of SHPIs in the four States covered under the present study. Several agencies were working as SHPIs in four States. The following Table 8.1 below gives a description of the main SHPIs involved in SBLP in the four States covered under the study.

**Table 8.1: SHPIs Working in Four States Covered under the Study**

State	Names of SHPIs
GUJ	NGOs like Anandi, Vardan Trust, Samanvay Resource Centrea and BAIF-GRISERV and Badodara Gujarat Grameen Bank worked as SHPIs in the surveyed areas.
AP	Around 96 percent SHGs were promoted by DRDA and other government agencies under Indira Kranti Patham Project (IKP). Apart from Govt. agencies, Regional Rural Banks, NGOs like Pragathi Seva Samiti (PSS), Lodi Multipurpose Social Service Society (LMSSS), DHAN Foundation, GRAM, Rashtriya Seva Samiti (RSS) and Modern Architects of Rural India (MARI); Farmers Clubs and Individual Rural Volunteers (IRVs) were also acting as SHPIs.

State	Names of SHPIs
J&K	Most of the SHGs were promoted by NGOs and a few were promoted by government agencies like DRDA and Farmers Clubs. Gramudyog Hastkala Kendra (GHK), Kristu Jyoti Social Welfare Society (KJSWS), Catholic Social Service Society (CSSS) and Nirmal Mata Health Centre (NMHC) were the prominent NGOs in the studied areas in J&K. Some of the banks also promoted SHGs under the Model I. Commercial Banks like State Bank of India, Punjab National Bank, J&K Bank Ltd. and UCO Bank; Women Development Cells of Cooperative Banks like J&K State Cooperative Bank, Jammu Central Cooperative Bank, Anantnag Central Cooperative bank; Regional Rural Banks like Jammu Rural Bank, Kamraz Rural Bank and Ellaquai Dehati Bank had promoted the surveyed SHGs.
HP	Banks have adopted model II for promotion of SHGs. NGOs like Chinmaya Tapovan Trust (CTT), Gramin Seva Asram (GSA), Social Work and Environment in Rural Areas, Parvitya Krishi Avam Gramin Vikas Sansthan(PKAGVS), Mandi Sakshatrata Avam Jan Vikas Samiti (MSAJVS) contributed in promoting SHGs. Department of Social Empowerment and Justice, Govt. of Himachal Pradesh, has also taken initiative in promoting SHGs.

## 8.2: Role of SHPIs

In the following section we will review the role played by different SHPIs in the four States to promote microfinance through SBLP. We will analyse the role of different SHPIs by looking at different processes of SBLP functioning like group formation, capacity building, formation of bank linkage and formation of market linkages for ensuring sustainability of micro enterprises.

### 8.2.1: NGOs as a SHPI

Microfinance movement in India and in many other developing nations was initiated by Non Governmental Organisations (NGOs). In India, NABARD initiated pilot project on SHG Bank Linkage along with NGOs

like MYRADA and Dhan Foundation way back in 1992. The dominant practice of microfinance in studied States is where NGOs have played a supporting role in formation and nurturing of SHGs as described in Model II in Table 8.1 above, the NGOs have facilitated bank linkages for both savings as well as credit. The NGOs were also involved in conducting exposure visits for SHG members and leaders of the SHGs, arranging capacity building programme for SHG members, supporting SHG members in setting up micro enterprises and marketing of the goods produced by SHGs.

**Group Formation:**

The following Table 8.2 describes the role played by different SHPIs in different States in group formation.

**Table 8.2: Description of Group Formation Processes undertaken by different SHPIs in Four Sample States**

State	Description of Group Formation Process
GUJ	ANANDI has adopted three tier system of group formation: - at the grassroots level Mahila Mandals (groups of women) were formed <sup>17</sup> ; above the Mahila Mandal, Clusters were formed ; above the clusters, Mahila Sangathan or federation was formed <sup>18</sup> . BAIF GRISERV, Vardan Trust and Samanvay Resource Centre facilitated group formation as a part of their watershed management programme. These organizations interacted with their respective SHGs directly and did not adopt cluster approach or federation of SHG approach.
AP	PSS, RSS, LMSSS, DHAN Foundation, GRAM and MARI implemented SBLP in the studied districts. PSS, MARI and GRAM facilitated the group formation and also helped SHGs to get the registration under APMACS Act, 1995. MARI established the system of village book keepers for writing the records of these SHGs. RSS promoted SHG federations. Under a collaborative project with DRDA, DHAN foundation took up a project for reviving, rebuilding and strengthening of DWCRA Groups in Chittoor District. LMSSS promoted SHGs of disabled people.

17 Leaders of the Mahila Mandals of nearby villages were the members of the clusters.  
18 Members from different Clusters were elected to form the federation.

<b>State</b>	<b>Description of Group Formation Process</b>
J&K	GHK and KJSWS helped group formation directly; however, CSSS took the help of NMHC in facilitating the group formation. GHK had 15 trained development facilitators who facilitated group formation.
HP	CTT, GSA, PKAGVS and MSAJVS conducted awareness programmes on benefits of SHG formation to motivate the villagers. Later these organizations facilitated group formation and helped the groups in selecting the leaders.

### **Training and Exposure visits:**

In the nascent stage, NGOs conducted orientation programmes on concept of Self Help Groups, thrift and credit. After group formation, all NGOs had designed training programmes based on the needs of the SHGs, their members and the villagers where they were implementing their projects. For example, they conducted training programmes on record keeping, leadership for leaders of the SHGs and entrepreneurship development for members who graduated from borrowers to micro entrepreneurs. The details of different training and exposure activities undertaken by SHPIs are given in Table 8.3 below.

**Table 8.3: Description of Training and Exposure visits Processes undertaken by different SHPIs in Four Sample States**

<b>State</b>	<b>Description of Training and Exposure visits Processes</b>
GUJ	NGOs provided training on activities like vermicompost, dairy, drift irrigation, leaf cup making, pickle making, papad making, and preparation of mango pulp, embroidery, paper bag making and candle making. ANANDI provided 'Udyog Shiksha' to all members which helped members to start their own business.

AP	<p>NGOs along with different trainings for MEs/IGAs, provided training on formation of MACs, federation of SHGs and the legal structures. Another unique feature in AP is that NGOs built up network with other agencies to conduct training programmes. For example, PSS became partner of CARE to strengthen the SHGs through regular capacity building activities under CASHE programme. RSS also set up Capacity Building Institute for Microfinance in partnership with CARE-CASHE for providing training on SHG management, financial management, delinquency management etc. This NGO also implemented the Support to Training and Employment Programme (STEP) in collaboration with Department of Women and Child Development, GOI to provide technical skills to members of SHGs Under a collaborative project with DRDA. DHAN foundation took up a project for reviving, rebuilding and strengthening of DWCRA groups in Kuppam and Gudipalli mandals in Chittoor District.</p>
J&K	<p>GHK had four training cum production centers where they provided training on handicrafts, carpet sleepers, various items from Sisal Fibers etc. KJSWS helped members to start IGAs like handloom, dairy, Poultry and Grocery Shops etc. NMHC provided training on cutting, tailoring and fashion designing, mushroom cultivation and animal rearing etc.</p>
HP	<p>CTT and GSA provided training to members on how to set up micro enterprises. Most of the training programmes were designed as per the needs of the SHG members. They were given training on handicraft, knitting and weaving, mushroom cultivation, dairy and floriculture etc.</p>

**Bank Linkage:**

Under the model II of linkage in SBLP, NGOs facilitated the bank linkage process of the SHGs. After formation of the SHGs, NGOs helped SHG members to open joint savings accounts in the nearest

banks. It was observed that SHG members got the first credit linkage within six months to one year if they had maintained the records on internal savings and lending in a proper manner. In some cases in J&K and HP, SHGs got the linkage after one year. The details of role played by SHPIs in bank linkage are given below in Table 8.4.

**Table 8.4: Description of Bank Linkage Processes undertaken by different SHPIs in Four Sample States**

<b>State</b>	<b>Description of Bank Linkage Processes</b>
AP	Most of the NGOs helped the SHGs to set up the MACS. Most of the SHGs borrowed from MACS for their enterprises apart from the bank linkage. In this particular State, SHG members got the linkage from Indian Bank, IOB, ICICI, HDFC and ING Vysya etc.
GUJ	In this State, all of the studied SHGs got the linkage from Baroda Gujarat Grameen Bank.
J&K	NGOs facilitated to link the SHGs to Jammu Central Cooperative Bank, State Bank of India, Jammu Rural Bank and Anantnag Central Cooperative Bank.
HP	SHGs were linked to Kangra Central Cooperative Bank, State Bank of India, State Bank of Patiala, Punjab National Bank, Canara Bank, State Cooperative Bank and Himachal Gramin Bank. It was observed that in case of studied SHGs, RRBs and Cooperative banks played a major role in linking SHGs under SBLP.

**Market Linkage:**

A social programme, which aims at economic upliftment of poor through livelihoods generation, needs to be designed in such a manner that poor can participate in the market. Under SBLP, NGO-SHPIs tried to link the SHG members, who had set up MEs, to the market. Some of the studied NGOs organized exhibition of products made by SHG members to market their products. GHK in J&K sold products of SHG members through its own sale outlets, exhibitions and fairs etc. NMHC in J&K organized exhibitions outside of the State to promote the sale of the SHG products.

### **8.2.2: Bank as a SHPI**

NABARD had encouraged Regional Rural Banks, Cooperative Banks and Commercial Banks to act as SHPI under SBLP since 1998. Under the Model I, bank officials from bank branches visited the near by villages to motivate the villagers about the benefits of the SHGs. They facilitated the SHGs for group formation; nurtured the SHGs and provided linkage to SHGs. However, it was found in Gujarat that regular monitoring, organizing training programmes and exposure visits were not done by the bankers as per the requirement of the SHGs. Further, in the four States covered under the study, most of the SHGs were linked under the model II where SHPI have played the main role of SHG promotion and nurturing.

### **8.2.3: Farmers Clubs as SHPI**

In the four covered States under the study, in some cases farmers clubs have also participated in promoting SHG formation. This is true in case of AP and J&K. These clubs have also facilitated bank linkage. However, their role was limited in nurturing SHGs in AP after SHGs came under the IKP project and presently these SHGs were nurtured by IKP-DRDA. In J&K, farmers clubs encouraged women for group formation.

### **8.2.4: Government Agencies as SHPI**

District Rural Development Authority (DRDA) has played crucial role in SHG promotion under SBLP. In most of the States, DRDA took the help of NGOs to form the SHGs under Swarnjayanti Grameen Swarojgar Yojana (SGSY) programme. However, in the case of AP, the role played by governmental agencies as SHPIs is outstanding. In the following section a detailed account of SBLP processes in AP is given.

In AP, the State agencies have taken a very proactive role and are involved right from the stage of group formation to marketing the SHG produced goods/ services. In this State, 96 percent of SHGs were formed by IKP- DRDA and other government agencies. The IKP project is managed by SERP (an autonomous Society registered under Societies Act) along with DRDA. Project Staff formed the SHGs and linked SHGs to the banks under SBLP. They also helped the banks to recover the loan amount. Under the IKP project, SHGs were federated at the village levels as well as at the block levels. The

objectives of formation of SHG federation were to transfer the function of capacity building, formation of new SHGs, audit, maintaining of quality of SHGs, providing support of resources to SHGs etc., to the federation from the government officials. Most of the federations were registered under APMACS Act 1995. To meet the capacity building needs of the SHGs and federation, training centers in blocks and training and technology development centers in district headquarters were set up. In these centers, SHGs got the series of formal training including training on issue like gender, health and livelihoods. Some of the members in SHGs were trained as community resource persons, community activists, health activists etc. This cadre of women helped in forming new SHGs, revival of defunct SHGs, facilitating regular group activities like savings, internal lending, training, preparing micro credit plans and facilitated SHGs to take up social agenda. Under IKP, Community Investment Fund (CIF) was created to assist SHGs, Village level Federation and Block Level Federation to support a wide range of activities such as agriculture, animal husbandry, non farm activities and commodity marketing etc. Social development activities on health, education, nutrition, creation of infrastructure like drying platforms, procurement centers, weighing scales etc were also provided from CIF. The component of CIF which was used for supporting IGAs, was provided to block level federation as a revolving fund. Village level federation borrowed from block level federation; SHGs borrowed from village level federation and members borrowed from the SHGs. There was interest rate differential at each tier. Village level federation had to repay to the block level federation in 100 equal monthly installments and SHGs had to repay to the village level federation in 50 equal monthly installments. SHG members had to repay to the SHGs in 20 equal monthly installments. As per the guidelines, 50 percent of the CIF were planned to provide for agri-allied activities, 25 percent was for non-farm activities and 15 percent for direct agriculture activities. CIF also played a major role in commodity marketing. DRDA built marketing infrastructure for marketing of the goods produced by members of the SHGs in major districts in AP. In the studied districts, DWCRAs bazaars were set up. Shops in this bazaar were allotted to SHG women on a reasonable rent. Some shops were given to two to three SHGs together to sell their products. Apart from that, DRDA organized fair / melas in district headquarters to facilitate the marketing of the products. In this State among the SHPIs, DRDA played major role in facilitating SHG members in taking up IGAs or setting up MEs whereas in other States covered under the

study, the proactive role of Government Agencies in facilitating SBLP was not found.

### **8.3: NGOs versus GOs and Banks as SHPIs**

SHPIs played a pivotal role in graduation of SHGs from formation stage to the stage of setting up of enterprises by the SHG members. In the earlier sections, we described the roles played by different agencies in the processes of a sustainable SBLP. In this section, we attempt to find out the differences in roles played by NGOs, governmental agencies and banks as SHPIs. There is a distinct difference between NGOs as SHPIs and Banks as SHPIs. First of all, the organizational structure of banks is very different from NGOs. The primary objective of banks is to provide financial services to those customers who have affordability to avail of the services. Most of the time, nurturing SHGs or group formation or monitoring SHG activities is not the prime objective of the banks. Whereas for NGOs, the main objective is to implement developmental projects like micro-financing for the benefit of the poor. Most of the branches of bank do not have separate staff for SBLP implementation. At the head office, there is one manager who handles the SHG activity as an additional responsibility.

It was reported that bank branch staff found difficulties to take up regular and frequent monitoring of SHG members. Most of the bankers reported that there was lack of female staff in the branch and SHG women were not comfortable in sharing the group activities with the male staff. NGOs on the other hand devoted more time for SHG formation and nurturing of the SHGs. Due to a good rapport, NGOs were able to address the different problems faced by the SHG members. Staff of the NGOs also tried to solve social problems apart from the credit related needs. It was found that most of the NGO staff knew the SHG members personally and there was strong influence of these staff on choosing the IGAs or MEs by the members. Banks had not taken up such interventions.

## **Chapter IX**

### **Sustainability of Micro Enterprises**

The core objective of forming SHG under a microfinance programme is to extend credit to the poor. This cannot be fulfilled if the SHG is not sustainable. It is true that there could be some default in SHGs, however, it is more important to understand how the SHG may remain sustainable even when some of the members of SHG are likely to default (Guha and Gupta 2005). The concept of sustainability has several conflicting definitions. A group is seen to be sustainable if the role of social sanction is decreasing in the lifetime of the group without resulting in more default. Some of the development economists like Conning (1999) defined sustainability as full cost recovery or profit making. It is suggested that this kind of sustainability will lead to emergence of microfinance institutions owned by beneficiaries, which can sustain without any help or grant from government or donor agencies. In the context of SBLP, sustainability of micro enterprises is also gaining currency as a new concept of sustainability. SHG members are expected to move from their status of micro borrowers to micro entrepreneurs. In this section, an attempt is made to discuss the issue of sustainability of micro enterprises started by members of SBLP. The analysis is carried out by looking at aspects such as: availability of forward and backward linkages to micro enterprises, availability of infrastructure which enables the member entrepreneurs to achieve sustainability, availability of adequate marketing facilities, supply of appropriate inputs for the enterprises, accessibility to updated technology etc.

#### **9.1: Sustainability of Micro enterprises**

To achieve sustainability of any enterprise backward and forward linkages play crucial role. During the study, it was observed that SHG members took up individual activities and were also able to generate income and employment. However, members faced various constraints from the point of view of sustainability.

##### **9.1.1: Backward Linkages**

###### **Availability of Inputs / Raw Materials**

Before setting up any enterprise, the existing level of demand, procurement of raw materials for producing that product and required

skills for this product have to be surveyed and analysed. In the present sample, most of the activities taken by the members were based on the local needs, be it vermi compost, dairy, vegetable vending or kirana shops. To some extent, all the enterprises have scope of survival. However, sustainability of these enterprises needs to be analysed in terms of backward linkages. Members covered under the study reported various experiences. The experiences shared by the sample member entrepreneurs are given in Table 9.1 below.

**Table 9.1: Experience of entrepreneurs on backward linkages available to the enterprise**

State	Details of experience
J&K	It was reported that inputs for micro enterprises were easily available locally. Some members however, reported that there was a shortage of fodder for the dairy animals during the lean seasons. For bee keeping activity, bee hives were supplied by the Department of Agriculture but there was problem in control of pest in colonies. Members engaged in tailoring reported that there was no problem in getting raw materials for this activity as all raw materials were locally available. NGO supplied the raw materials to members of a SHG who made several articles from Sisal Fibers.
AP	The availability of raw materials for manufacturing / service oriented MEs was not satisfactory. Members involved in weaving pochampally silk sarees in Warangal district faced problems in getting inputs as the Primary Weavers' Credit Cooperative Society (PWCS) in the village was defunct for many years. It was also observed that husbands of these members were issued Artisan Credit Cards with the credit limit of Rs. 20,000. Due to lack of proper power supply, members involved in Lathe work faced problems as supply of electricity was restricted to seven hours a day in these villages which hampered their operations during peak seasons. These units were mainly, repairing agricultural implements and received around 70 percent jobs during the agricultural season. For knives making units, members procured iron sheets from Bangalore and woods from local

	<p>sawmills. However, these sawmills did not supply a proper material. Like the lathe work unit, flour mills were also facing lack of supply of electricity. Members engaged in Jute bag making got sewing machine from DRDA but they did not receive any help from DRDA to procure the raw materials. Members opined, if DRDA had supplied the raw material like jute fibers; they would have received high returns from these units. Members engaged in tailoring activity did not report any difficulty. Like J&amp;K, Dairy units of this State also faced the problem of lack of fodder due to draught in many districts in Rayalseema and Telengana regions. There were no institutional arrangements to supply raw material like sisal fibers which members used for their cycle / bottle brush making units.</p>
GUJ	<p>Leaf cup making unit did not face any problem of procuring raw materials. For vermi compost units, NGO provided worms to the group members to start the enterprises. However, members, who set up Grocery Shops, procured items from the nearby towns, which were around 20 kilometers away from their villages. In this State, NGOs had provided training on IGAs / MEs and imparted necessary skills. It was observed that some of the members possessed these skills. Business activities like running a grocery shop, mandap decoration etc were taken up by individuals who had skills to run a business or had the support of family members. However, most of the skills imparted by NGOs were found to be very elementary and this could cater to basic needs of running an activity.</p>

\*Data not available for HP

### **Availability of Technology for production**

Technology improvement in any production process helps the entrepreneurs to attain higher margin of profit and enables them to produce in a cost effective manner. In our study, it was found that in all the States covered under the study, there was a need for technology upgradation. Members reported that they needed higher capital investment to upgrade the technology, however, most of the ME units were running on a very low scale with limited funds. For example, members engaged in cycle and bottle brush making units,

invested only in pillars and small drilling machines. It was found that the traditional way of making brushes was time consuming and was not cost effective. One of the knife making units did not invest in wood cutting machine due to paucity of fund. The usage of obsolete technologies in most of the ME units was the main reason for low scale of production.

### **Availability of Infrastructure Facilities**

For sustainability of any enterprise, good infrastructure plays a crucial role. Availability of good infrastructure like better transport facilities from the places of production to markets; nearness to all public utilities and nearness to banks are essential for SHG members to achieve the sustainability of their micro enterprises. During the survey it was observed that banks were more than 5 Kilometers away from the villages in the case of 46 percent SHGs in AP and 47 percent in J&K (Table 9.2). Members of more than 50 percent of SHGs reported that market was more than 5 kilometers away from the villages in J&K. Members of around 60 percent of SHGs in AP reported that they had access to public goods like roads, water supply and medical facilities etc., whereas this is much less in case of J&K. Some of the members reported that the shortage of power was one of the major obstacles of setting up of a micro enterprise.

**Table 9.2: Distances of SHG member entrepreneurs from Banks, Markets and access to Public Utilities**

<b>State</b>	<b>Particulars</b>	<b>Overall (%)</b>
AP	Distance from Bank >5 Km	46.7
	Distance from Market >5 Km	41.7
	Have access to Public Goods	60
J and K	Distance from Bank >5Km	47
	Distance from Market>5 Km	60
	Have access to Public Goods	38

\*Data not available for Gujarat & HP

### 9.1.2: Forward Linkages

#### Marketing Arrangements

Getting a good market is very important for sustainability of any enterprise. Unless SHG member entrepreneurs get good market facilities, it would be impossible for the members to sustain the micro enterprise. Overall, it was observed that no proper institutional arrangements for marketing products produced by SHGs were available in most of the studied States. In the following Table 9.3, some of the issues connected with the marketing of SHG products/services are included.

**Table 9.3: Support available to SHG entrepreneurs to Market products/services**

State	
AP	Members reported that SHGs engaged in weaving of Pochampally silk sarees did not get any help for marketing their products as the PWCS was not functioning in the village. Members, who were involved in knives making units, were taking help of other villagers to sell their products. Some of these members even travelled to other States like Karnataka and Tamil Nadu for marketing their products. Some of the micro entrepreneurs were forced to sell their products at a low price to the traders. However, traders earned high margin of profits. MEs like bangle shops or saloons faced tough competition as many of the members opened these units in the same locality
J&K	Since there was no organized milk procurement system, dairy units faced difficulty in marketing their products. In case of Mushroom cultivators, they had to sell their products quickly in towns and cities as these were highly perishable products. However, most of the time, these cultivators were forced to sell the products at a cheaper rate to the middlemen / intermediaries. Members involved in bee keeping units faced difficulties in processing of honey and were forced to sell crude honey at a lower price.

GUJ	Members who took up dairy, agarbatti making and candle making units as their MEs, sold their products in local market. These members reported that they were not able to diversify their activities and did not receive any help to access the wide market outside the locality. Some of the members reported that they sold artificial ornaments and cosmetics in the local market only as their products were not branded. It was very difficult for them to compete in the bigger markets outside the locality without a brand name
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\*Data not available for HP

## **9.2: Issues related to Sustainability of Micro Enterprises**

In the present phase of micro finance processes, sustainability of micro enterprises initiated by SHG members has become very important. Further, the sustainability of the micro enterprises in turn depends on the overall stability and sustainability of the SHG as a form of organization. The success of SBLP as a programme for socio economic empowerment highly depends on sustainability of micro enterprises that have been initiated by millions of micro borrowers and the sustainability of the informal organizations, i.e the SHGs. In the following section we analyse issues related to sustainability of micro enterprises and SHGs by looking at various indicators such as margins available to SHG entrepreneurs, overall stability of SHGs as a form of organization, financial sustainability by examining repayment performance of SHGs and finally the financial management practices such as level of interest rates and stipulated repayment period in SHGs.

### **Price Margins Available to SHG Entrepreneurs**

With regard to the price margin, SHG members got lesser rate of margins on the products/services produced by them as compared to the rate of margin available to the traders. It can be seen from Table 9.4 that the price margin received by the members for their enterprises across all the products/services are higher for traders. Especially, margins available to SHG member entrepreneurs for products from units like Jute Bag Making, Khadi Weaving and Embroidery are very less compared to margins that are reaped by the traders.

**Table 9.4: Profit Margin per Unit (Rs. / Product Unit)**

State	Major Activities	Margin to SHG Member (Rs./ unit)			Margin to Trader (Rs. / unit)		
		Cost	Price	Margin	Cost	Price	Margin
AP	Jute Bag Making	12.5	16.5	4	16.5	25	8.5
AP	Knives Making	4.72	5.72	1	5.72	10	4.28
AP	Photo frame Making	13.25	14	0.75	14	16	2
AP	Embriodary	550	750	200	750	1,000	250
AP	Khadi Weaving	750	1,000	250	1,000	1,500	500
J& K	Sisal Fibre Bag	—	—	40	80	125	45
J& K	Tailoring Unit	40	90	50	NA	NA	NA
J& K	Carpet Making	42.5	80	37.5	80	125	45
J& K	Blanket Making	180	350	170	350	525	175
J& K	Mushroom	26	50	24	50	75	25

\*Data not available for Gujarat & HP

### Stability of SHGs

The stability of SHGs can be ascertained by looking at size of the SHGs and the age of the groups. During the study, it was observed that mean size of the group had reduced across the SHGs in different age groups and across the States compared to the size of these SHGs at the stage of group formation. Particularly, in case of SHGs under the age group '4 to 6 years', there was a sharp decrease in number of members in AP and J&K (Table 9.5). Members reported several reasons for reduction in the size of the SHGs. Some of the important reasons were: marriage and shift to other places, migration to other places for livelihoods, member's death, discontinuation due to health problem etc.

### Repayment Performance of SHGs

Under SBLP, banks lend to SHGs and SHGs in turn lend to members. The objective of SBLP is to make SHGs into financially sustainable institutions. Without good repayment performance, it is difficult for the SHGs to achieve the financial sustainability. The overall repayment performance showed that more than 90 percent of the loan demand was repaid by SHGs to the banks. The only exception was SHG of

**Table 9.5: Stability of the members in the group**

State	Age Category	No. of SHGs	Average No. of Members		Average No. quitting	Average No. of Joining	Reduction in Average Size
			Past	Present			
AP	Upto 3 years	9	12.7	12.2	0.6	0.2	3.6
	4 to 6 years	33	14.1	13	1.3	0.2	7.3
	More than 6 years	14	13.1	11.9	1.6	1.7	-0.7
	Overall	56	13.3	12.4	1.2	0.7	3.4
Gujarat	Upto 3 years	6	12.7	12.2	1	0.5	0.5
	4 to 6 years	5	11.4	9.8	1.8	0.2	1.6
	More than 6 years	9	12.6	13	0.3	0.8	-0.4
	Overall	20	12.3	12	1	0.6	0.4
J &K	Upto 3 years	7	11.33	11.17	0.67	0.5	1.49
	4 to 6 years	8	13.5	11.75	1.75	0	14.89
	More than 6 years	0	11.4	10.8	2	1.4	5.56
	Overall	15	12.08	11.24	1.47	0.63	7.31

\*Data not available for HP

'up to 3 years' category in Gujarat where repayment was around 85 percent. With regard to repayment of internal loans within the SHGs more than 92 percent of the loan demand was repaid by the SHG members (Table 9.6). In studied States, it was seen that SHGs had adopted a flexible approach to recover the internal loans from the members and no fixed repayment schedule was drawn. SHGs made a norm that members should repay interest on time and repay principal according to the members' convenience. In the group meeting leaders collected the interest payments from the member-borrowers and they fined the defaulters who did not pay interest on time. In case of banks' loans SHGs were found to be very strict to recover the principal loan and interest amount. In case of younger SHGs, repayment rate is slightly lower than that of older SHGs in case of debt repayment of banks except SHGs in J&K. However, a similar trend was found in case of internal lending. It can be concluded that members in older SHGs utilized repeat loans for productive activities and repaid on time. On the other hand, members in younger SHGs either utilized initial loans to smoothen the consumption or even they utilized the loans for production, they did not achieve the break-even point in a short period of time.

**Table 9.6: Repayment Performance of SHGs and Members of the SHGs (Rs. in lakh)**

State	Age of the SHGs	Repayment Performance of Sample SHGs to Banks			
		Demand	Collection	Balance	(%) Recovery
AP	Repayment Performance of Sample SHGs to Banks				
	Upto 3 years	1.24	1.14	0.1	91.9
	4 to 6 years	12.54	11.96	0.58	95.4
	More than 6 years	13.77	12.86	0.91	93.4
	Overall	27.54	25.95	1.59	94.2
	Repayment Performance of Sample SHG Members to SHGs				
	Upto 3 years	0.65	0.61	0.04	93.5
	4 to 6 years	5.68	5.5	0.18	96.8
	More than 6 years	5.74	5.59	0.15	97.5
	Overall	12.07	11.7	0.37	96.9
Gujarat	Repayment Performance of Sample SHGs to Banks				
	Upto 3 years	2.68	2.31	0.37	85.97
	4 to 6 years	2.1	1.9	0.2	90.48
	More than 6 years	5.78	5.3	0.48	91.78
	Overall	10.56	9.51	1.05	90.05
	Repayment Performance of Sample SHG Members to SHGs				
	Upto 3 years	0.44	0.41	0.03	91.86
	4 to 6 years	0.59	0.55	0.04	93.69
	More than 6 years	2.4	2.22	0.18	92.39
	Overall	3.43	3.18	0.25	92.54
J & K	Repayment Performance of Sample SHGs to Banks				
	Upto 3 years	0.12	0.26	-0.14	222.27
	4 to 6 years	0.21	0.31	-0.1	149.15
	More than 6 years	0.22	0.4	-0.18	184.54
	Overall	0.17	0.32	-0.15	183.47

J&K is especially interesting case where loan repayment is more than the demand. It was observed that members were eager to repay the loans as early as possible. Members reported that they could repay the loan in advance as there was adequate income generated from their MEs/IGAs. Early repayment also helped members to get the repeat loans quickly.

#### Financial Management Practices - Interest Rate Structures and Repayment Periods

It was observed that banks were charging interest rates at the rate of 8 percent to 12.5 percent per annum to SHGs. Whereas SHGs were charging 12 percent to 24 percent per annum to members on the internal loans.

**Table 9.7: Interest Rates on Loans**

Agency	Agency to SHGs	SHG to Members	Agency	To NGO-MFI	To MACS	MACs to SHG
CBs	8 to 11	12 to 24	Banks	9 to 11	18 to 24	24
RRBs	9 to 12.5	12. to 24	NGO-MFI	—	12 to 15.5	14 to 18

In AP, some of the SHGs were registered under MACs Act where banks lent to MACs at 18 percent to 24 percent interest rate per annum and MACS lent to SHGs at 24 percent interest rate per annum. In case of NGO-MFIs, banks lent to NGO-MFIs at 9 percent to 11 percent interest rates and NGO -MFI in turn lent to MACs at 12 to 15.5 percent interest rate per annum and MACs lent to the SHGs at 14 to 18 percent interest rate.

Banks fixed a repayment period of 36 months under SBLP (Table 9.8); however, most of the SHGs repaid the entire loan within 24 months. In case of loans from MACS, the stipulated time of repayment was 20 months and no advance repayments were made by SHGs. It was observed that in case of internal lending, some of the members delayed repayment and were penalized for the default.

**Table 9.8: Repayment Period on Loans issued to SHGs  
(in months)**

<b>Loans</b>	<b>Repayment Period</b>	<b>Normally Repay</b>
Bank Loan	12 to 36 months	10 to 24 months
MACs Loan	20 months	20 months
Internal Loan	10 to 12 months	11 to 12 months

## **Chapter X**

### **Summary and Policy Implications**

Microfinance movement in India entered into second phase in 1990s. In this phase, the formal financial sector has joined the movement. Presently, NABARD promoted 'Self Help Group Bank Linkage Programme'(SBLP) is the largest microfinance programme in the world. Under SBLP, members of the Self Help groups (SHGs) have access to formal financial services and have utilized these services to improve their livelihoods by taking up income generation activities or by setting up micro enterprises. Further, it is also seen that the micro borrowers under SBLP are graduating to become micro entrepreneurs. In this context, this study has made an attempt to understand:

- i) The process of graduation of SHG members from micro borrowers to micro entrepreneurs under SBLP,
- ii) The impact of micro enterprises on the livelihoods of the SHG members and
- iii) Factors which are responsible for sustainability of micro enterprises set up by the SHG members.

The study covered four States: Andhra Pradesh, Gujarat, Jammu and Kashmir and Himachal Pradesh. In this chapter a brief summary of important findings from this study are presented.

#### **10.1: Summary of the Study**

##### **10.1.1: Microfinance and Micro enterprises**

In Chapter I the background of the study is provided. The necessity of micro enterprises or self employment in the context of addressing the problem of unemployment is discussed in this chapter. The role of microfinance programmes in creation of income generation activities or in setting up of micro enterprises in developing nations like India, Bangladesh, Egypt and Bolivia etc., is portrayed. In this chapter, to understand the impact of microfinance programmes on micro enterprise development in the global context, an attempt has been made to do the content analysis on the basis of seven case studies from different developing nations like Armenia, Ecuador, Indonesia, Sri Lanka and Mozambique. At the end, the detailed outline of chapters is given.

### **10.1.2: Approach of the Study**

The approach of the study is discussed in Chapter II. Under the broad objective of impact of micro enterprises on SHG members, several specific objectives like, to study the pattern of enterprises set up by SHG members; to assess the role of SHPIs; to assess the impact of micro enterprises on employment and income levels of beneficiaries; to assess the repayment performance and to study the sustainability condition of micro enterprises etc are discussed. In this chapter the methodology of research is also discussed. The study team adopted multi stage purposive sampling techniques to select the Districts, SHPIs, SHGs and members of these SHGs. The process of data analysis is also described in this chapter.

### **10.1.3: Group Dynamics and Bank Linkage pattern of SHGs**

In the four States covered under the study, SHGs were formed on the basis of four factors: - economic activity of the members; residential proximity; homogeneity in terms of community affiliations or castes of the members. Group meetings were conducted regularly in 77 percent of studied SHGs with the help of SHPIs and SHG group leaders. Though there was a norm under SBLP that each member was eligible to become the SHG leader on a rotation basis, some members reported that they did not want to change the leaders as they were happy with the existing leaders. There was a practice in sample SHGs that members were penalized if they did not attend the meetings. It helped SHGs to achieve a high level of attendance in meetings. Record keeping is one of the important activities in SHGs. Records were maintained by group-leaders. However, in case of younger SHGs, records were maintained by SHPIs. It was found that leaders gained expertise in keeping records as the age of the SHGs increased. During the group meetings, regular savings amount was collected from all members, and the internal savings were used for internal lending to the members in need of credit. Loans from the banks to SHGs (in case SHG got the bank loan) were also borrowed by SHG members in need of more credit. It was observed that rate of saving amount, per month per member, was increasing in older SHGs indicating a positive sign of the sustainability of SHGs. It was also observed that more members in older SHGs utilized loans for productive purposes than for consumption purposes. Most of the older SHG had availed three to four bank linkages and after the fourth linkage, there was a sharp decline in demand for more loans. It

appears that SHG members reached a level beyond which they cannot absorb more credit.

#### **10.1.4: Profile of SHG Members**

Most of the SHG members and their family members were involved in mix of economic activities. For example, some members were doing agriculture and dairy activity together. The objective of taking up mixed activities was to increase income level through diversification. In sample SHGs, it was observed that only 18 percent members were illiterate and 44 percent members had attended secondary level of education. Large family size and a small number of income earners was one of the reasons for high financial dependency on the income earners. Most of the members of the sample SHGs had a family of four to six persons. Most of the sample members were of the age group 36 to 55 years. It was observed that old members wanted to leave SHGs as they could not save at the old age and they were ill. It was difficult to continue the group activities at this age. It was found that majority of the members belonged to OBCs and SC / STs categories. Around 54 percent members were marginal farmers and 32 percent members were agricultural labourers. It can be inferred that in the studied States, poor, weaker section of people were targeted under SBLP. Members reported that there was a change in their pattern of assets after joining SHGs. It was observed that members in younger SHGs invested in dairy animal or other IGAs / MEs. On the other hand, members in older SHGs invested in consumer durables.

#### **10.1.5: Graduation of SHG members to Micro entrepreneurs**

In chapter V, the process of graduation of SHG members from micro borrowers to micro entrepreneurs is discussed. The first section of this chapter looks at how SHG members increasingly access financial services under SBLP and in the next section; the process of graduation of micro entrepreneurs is discussed.

Members reported that after joining the SHGs, they enjoyed greater level of independence in economic decision making like purchase of assets, other households requirements and management of productive assets. In some cases, it was observed that members borrowed from informal financial sources as they could not meet their needs through loans which they received from SHGs and banks. Sometimes members did not get repeat loans from banks as they did not repay loan on time due to crop failures and other difficulties. It was found that

overall most of the SHG members had demand bank loan up to first three linkages indicating that these members had reached the upper limit of the borrowing capacity. Some members reported that they were not able to invest bank loans in productive activities as they were poor which did not allow them to take up new IGAs. Some of them also reported that they did not need loans but they were interested only to keep savings with SHGs. Members who had taken up IGAs or set up new MEs, reported that they were able to diversify their activities. For example, members who set up grocery shops also set up STD booths later as a joint activity. Some of the members increased their scale of operation by availing credit. It was found that sometimes bank loans were accessed by just two to three members in a SHG indicating that the loan was not democratically used in the SHG.

#### **10.1.6: Cost of Investments and Economics of Enterprises**

In chapter VI, activities taken as MEs or IGAs by SHG members and the economics of these MEs are discussed. It was found that the main problems of micro enterprise development were i) limited resources or raw materials and ii) lack of infrastructure. It was observed that out of 632 members 149 members took up new MEs and 158 members took up IGAs. Members in the sample had taken around 30 types of MEs and IGAs. Dairy was the dominating activity followed by kirana shops in the studied States. It was observed that some activities were State specific. For some of the MEs, members borrowed full amount of unit cost from SHGs, however, for larger investments, they depended on other sources like informal moneylenders. To measure the returns on investments, costs of inputs, price of output / services, gross income and net income etc. are calculated. It was observed that higher investment did not translate into higher returns all the time. Among the MEs, net income was ranging from Rs. 3,625 (Cultivation) to Rs. 45,000 (Auto Rickshaw).

#### **10.1.7: Socio-economic Impact on SHG members**

In chapter VII, the socio-economic impact of SBLP on SHG members is discussed. Members reported that SBLP has impacted the overall lifestyle of members, their socio economic status and it has enabled SHG members to understand the contemporary social issues. They were now taking more active part in the local political process. For example, some of SHG members were members of Pani Samiti or local Panchayat. Members expressed that they gained confidence in running

the MEs and it also resulted in more participation or more say in decision making process in their families. SBLP has had a positive impact on increase in income. Across the States, members reported that they earned more income after joining SHGs after taking up IGAs / MEs. Employment was also generated by MEs and IGAs. In AP, 78.9 percent and in Gujarat, 58.9 percent of employment in terms of person days was generated from households engaged in MEs. For some MEs, the cost of investment is very high; however, employment generated per Rs. 100 of capital investment is very low. Only few members set up MEs / IGAs utilizing bank linkages. In spite of constraints like lack of marketing facilities and lack of knowledge of financial matters related to the IGAs / MEs, it was seen that the SHG member entrepreneurs have performed well in managing their MEs/IGAs.

#### **10.1.8: Role of SHPIs in promoting Micro enterprises**

Microfinance Movement initiated by NGOs and CBOs in India has been able to prove that poor are bankable. NABARD initiated SBLP along with different Self Help Promoting Institutions like banks, NGOs, governmental agencies, farmers' clubs and village based organisations to provide the microfinance services to the poor. In chapter VIII, the role of different SHPIs in the studied States in promoting micro enterprises is discussed. NGOs as SHPIs participated in group formation in the nascent stage and conducted various capacity building programmes for SHG members like leadership training programmes, skill development training programmes, financial literacy programmes etc. Exposure visits for the SHG members were also conducted by SHPIs. Further, SHPIs organized exhibition for marketing of the products made by SHG members. Under model II of SBLP, NGOs also helped in facilitating members to get the credit and savings linkages from banks.

Regional Rural Banks, Cooperative Banks and Commercial Banks also acted as SHPI under SBLP in the studied States. Under model I banks helped group formation however, monitoring of SHGs required for the smooth group performance was not done by bankers in the studied States. Sometimes, lack of female staff in the branches created problems for bankers to interact with the women SHG members. In such cases bankers took the help of the some old villagers to check the performance of SHGs. Apart from bank linkage, bankers were not able to conduct exposure visits for SHG members or provide marketing facility as done by SHPIs under model II. Farmers' Clubs as SHPIs

formed SHGs in AP and J&K. These clubs also linked SHGs to the banks for credit and savings. Only in AP, government agencies like DRDA took proactive role in group formation, strengthening SHGs, formation of federation or MACs, setting up MEs and arranging DWCRA bazaars to market the products made by SHG members. Several differences have been found between NGOs as SHPIs and Banks as SHPIs. First of all the organizational structures of these two organizations are very different from each other. NGOs devoted lot of time in nurturing SHGs, whereas banks did not consider nurturing SHGs as the prime area of work. Further, NGOs, due to rapport built in nurturing SHGs, were able to address many problems faced by the SHG members apart from just financial problem. In this context, it is seen that a joint effort of banks and SHPIs is required to enable SHG members to take up new MEs to improve their livelihoods.

#### **10.1.9: Sustainability of Micro enterprises**

For any developmental project, the first and foremost question is how beneficiaries can achieve sustainability. With regard to SBLP, the major concern is how SHG members who have set up MEs or taken up new IGAs can achieve sustainability. Sustainability has different definitions according to different perspectives on development. In chapter IX, issues about sustainability of SHGs and micro enterprises are discussed. Issues of sustainability of MEs were analysed by examining backward linkages and forward linkages available to member entrepreneurs. With regard to availability of backward linkages, members had varied experiences. Some of them reported that raw materials were supplied by NGO-SHPIs and some members reported that raw material was sourced from the local markets. Members involved in manufacturing units noted that continuous availability of raw materials was a problem. Most of the members reported that they could not increase the scale of operation due to obsolete technology. Across the studied States, members reported that good infrastructure facilities for MEs were not available. Members could not produce adequate goods due to lack of energy / electricity and they were not able to access public utilities on time as these facilities were located at a long distance from villages where MEs were functioning. In case of forward linkage, members did not get much help from government organizations, NGOs or banks for marketing their products. For some products, SHG members faced obstacles in marketing since their products were non-branded. Overall, it was seen

that SHG members were not able to make high margin of profits compared to big traders.

To achieve sustainability of micro enterprise, stability of SHG in terms of continuing of membership in SHGs is a must. It was observed that in case of younger SHGs there was sharp decrease in membership. However, in case of older SHGs there was no change in size of the SHGs. The decrease in size of SHGs in the younger SHG was due to migration of members in new locality, marriage of members in different villages and death of some members in SHGs. Another important criterion for sustainability of SHGs is repayment performance. It was observed that in younger SHGs repayment rate was lower than that of older SHGs. Members reported that some members did not repay on time as they utilized the loans for consumption purposes and they also experienced crops failure. Financial management practices play an important role in smooth functioning of SHGs. In the nascent stage, SHPIs inculcated the behaviour of regular savings in members. They conducted training on financial literacy and on usage of savings and credit in improving their livelihoods. With the help of SHPIs, members formulated rules and regulations of group meeting, record keeping, savings accumulation, lending operations and fixation of interest rates etc. Under SBLP banks fixed the interest rates for lending to SHGs and SHGs decided the interest rates on lending to SHG members. It was observed that banks charged 8 to 12 percent interest rate per annum whereas SHGs charged around 24 percent interest rate per annum to members. In some groups there was a practice of imposing penalty on defaulting members. Most of the group members repaid loans on time.

## **10.2: Policy Implications and Suggestions**

Based on the above findings, some implications for policy formulation, especially in the area of overall institutional design and strategies for promotion of micro enterprises by SHG members under SBLP in India can be drawn. The following section includes suggestions and policy implications in this regard. The suggestions are both to improve backward linkages and forward linkages to improve performance of micro enterprises and to overall improve the performance of SBLP.

### **10.2.1: Training and Capacity Development**

Training and capacity development of SHG member entrepreneurs, specifically in the areas of developing entrepreneurial skills appears

to be an important area of intervention in the area of 'backward linkage of microenterprise development' for further improvement of SBLP impact. It is seen that training under SBLP was more concentrated on financial literacy and management of group dynamics. However, SHG members reported that what they also needed was training on different skills which could help them in running sustainable enterprises. Further, most of the member entrepreneurs reported that they took up some activities as IGAs and MEs which were available to them through their past work or experiences. However, no new innovation in terms of process or technology has taken place in these villages. Further, it was found that members still used obsolete technology for their MEs or IGAs making it difficult for them to compete with branded products. There is a need to link the SHGs to different technical Institute for their capacity building and facilitating use of new and innovative technology.

#### **10.2.2: Develop a model of leadership for SHG members**

It was observed that group members highly depended on leaders of the SHGs. In many cases, in the nascent stage of group formation SHPIs conducted leadership training for two to three members in each SHG and these leaders were not changed. If the joint liability lending programme has to be successful, all members of SHGs should be given leadership training and leaders should be changed on rotation basis. Otherwise, member's dependence on leaders could create extra social burden on the existing leaders. Further, there is also a strong possibility that the leaders are likely to exercise their power in an unfair way to determine loan distribution or taking undue advantage of other facilities of SHGs. In Gujarat, Shyledra et al (2007) have observed that in some SHGs, members had a lot of dissatisfaction regarding loan distribution which they got through bank linkage as major portion of the loans were taken by the leaders and some members left these SHGs for the same reason. SHPIs can promote rotating leadership in SHGs and this could be an important indicator of good group dynamics.

#### **10.2.3: Process of Graduation for SHG members to micro-enterprises:**

Banks, SHPIs, SHG and the SHG entrepreneur networks can work together on the graduation process of SHG members from micro borrowers to micro-entrepreneurs in different stages. In the first stage

through innovative loan products banks can help members to take up IGAs or MEs. In the second stage banks and SHPIs and SHGs can help individual or group member entrepreneurs to get the market linkage. The two stage approach is described below.

### **First stage of Graduation**

It is seen in the study that number of members applying for loans decreased after third bank linkage. Members reported two main reasons on why they did not apply for further loans:- i) Some members were very poor and they were not able to absorb the higher doses of loans. Further, these members were not able to shift to a new venture due to their poor asset base and ii) some members were better off and were not in need of scaling up through bank credit. In this context, SBLP needs to specifically target first section of members described above. For the first category, SHGs and banks need to continue to lend to members to use the loans for consumption. If members are not able to attain their basic consumption level, they will not be able to graduate themselves to micro-entrepreneurs.

### **Second Stage of Graduation**

In the second stage of graduation, market linkage for micro entrepreneurs appears to be the most important need. There already have been some innovations in this area. . For example, one rural branch of Andhra Bank in Warangal involved Dabar Company to buy Neem dust from members of a SHG which was used as raw materials of different Ayurvedic products. A network engaging NGOs, Fair Trade Organisations (for example, SEWA Trade Facilitation Centre, FabIndia etc.) and other institutions which are promoting marketing of products made by rural artisans or other producers can be created. Micro entrepreneurs can access the information about the possible market linkages and also sell their products through these networks. To achieve the sustainability of any enterprise, market linkage plays an important role and for SBLP, there is now a need to formulate and implement strategies which can link SHG micro enterprises to the market in a sustainable way.

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