

**STUDY ON MICROCREDIT IN KERALA WITH SPECIAL  
REFERENCE TO EMPLOYMENT AND INCOME  
GENERATION THROUGH MICROENTERPRISES AND  
LIVELIHOOD PROJECTS**

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*By*

**Salini K.**

*Under the Guidance of*

**Dr. Antony G.**



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**Kochi – 682 022**

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**Study on Microcredit in Kerala with Special Reference to  
Employment and Income Generation through Microenterprises and  
Livelihood Projects**

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## Certificate

This is to certify that the thesis entitled “**Study on Microcredit in Kerala with Special Reference to Employment and Income Generation Through Microenterprises and Livelihood Projects**” is a record of bona fide research work done by **Ms. Salini K.**, Reg. No. 3357, part – time research scholar, under my supervision and guidance in School of Management Studies, Cochin University of Science and Technology. The candidate has done the Pre-submission seminar successfully and incorporated all suggestions given during the same.

The thesis is the outcome of her original work and has not formed the basis for the award of any degree, diploma, associateship, fellowship or any other similar title of any institution and is worth submitting for the award of the degree of Doctor of Philosophy under the Faculty of Social Sciences of Cochin University of Science and Technology.

*Kochi,*  
*13/03/2015*

***Dr. G. Antony***  
*(Research Guide)*

## *Declaration*

I hereby declare that the thesis entitled “**Study on Microcredit in Kerala with Special Reference to Employment and Income Generation Through Microenterprises and Livelihood Projects**” is a record of the bona fide research work done by me and that it has not previously formed the basis for the award of any degree, diploma, associateship, fellowship or any other title of recognition.

*Kochi,*  
*13/03/2015*

*Safini K,*

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## **Contents**

### **List of Tables**

### **List of Figures**

### **List of Abbreviations**

### ***Chapter 1***

#### **INTRODUCTION: ROLE OF MICROCREDIT AND**

#### **MICRO ENTERPRISES IN INDIA .....01 - 81**

- 1.1 Introduction to Microfinance ..... 02
- 1.2 International Landscape for Microfinance, Microcredit and Micro Enterprises ..... 08
- 1.3 Micro Credit in India..... 18
- 1.4 Role of Microcredit in the Promotion of Micro Enterprises, Employment and Income Generation ..... 48
- 1.5 Microcredit and Micro Enterprise Scenario in Kerala ..... 55
- 1.6 Critique of the Programme..... 68
- 1.7 Context of the Study ..... 72

### ***Chapter 2***

#### **REVIEW OF LITERATURE .....83 - 147**

- 2.1 Introduction..... 84
- 2.2 Rural Finance to Microfinance: A Transformation..... 85
- 2.3 Microfinance and Poverty Alleviation: Its Efficacy and Effectiveness ..... 104
- 2.4 Challenges of Microfinance ..... 116
- 2.5 Research Gaps..... 119
- 2.6 Summary..... 120

### ***Chapter 3***

#### **RESEARCH METHODOLOGY ..... 149 - 163**

- 3.1 Conceptual clarifications and Operational Definitions ..... 150
- 3.2 The Research Problem ..... 152
- 3.3 Relevance of the study ..... 154
- 3.4 Objectives of the study..... 155

3.5	Major Hypotheses .....	156
3.6	Research Methodology .....	157
3.7	Limitations of the study .....	160
3.8	Chapterisation of the Thesis.....	160

**Chapter 4**

<b>DATA ANALYSIS .....</b>	<b>165-281</b>
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**Part I**

<b>4.1</b>	<b>Survey Among Members of the SHGS.....</b>	<b>166</b>
4.1.1	Socio - Economic and Demographic Profile of the respondents .....	166
4.1.2	Self Help Group and Delivery of Microcredit.....	179
4.1.3	Eligibility for Microcredit – Conditions.....	184
4.1.4	Microcredit Availability: Hypothesis Testing .....	188
4.1.5	Microcredit Utilization: Hypothesis Testing .....	221
4.1.6	Generation of employment and Income from Micro Enterprises: Hypothesis testing.....	239
4.1.7	Repayment of Microcredit: Hypothesis testing .....	251
4.1.8	Comments on Microcredit Programme from all respondents .....	261

**Part II**

<b>4.2</b>	<b>Survey Among the Micro Entrepreneurs .....</b>	<b>264</b>
4.2.1	Nature of business.....	264
4.2.2	Details of Microcredit.....	266
4.2.3	Utilization of microcredit: Generation of income .....	275
4.2.4	Generation of employment .....	276
4.2.5	Repayment of microcredit .....	278
4.2.6	Major problems faced by micro entrepreneurs.....	280
4.2.7	Opinion on the improvement of social status of respondents .....	280



*Chapter 5*

<b>SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION.....</b>	<b>283 - 306</b>
5.1 Major Findings of the study .....	284
5.2 Conclusions .....	293
5.3 Recommendations .....	294
5.4 Suggestions for Future Research.....	303
 <b>BIBLIOGRAPHY .....</b>	 <b>307 - 309</b>
<b>APPENDICES .....</b>	<b>311 - 326</b>

## *List of Tables*

Table 1.1	Country- wise Ranking of Microfinance Penetration – 2011-12.....	09
Table 1.2	Basic Statistics of NGO-MFIs in Bangladesh (As of 30 June, 2013) .....	13
Table 1.3	Number of MFI Branches by South Asian Countries .....	16
Table 1.4	IMF Growth Forecasts on Real GDP for the first 15 most important microfinance nations .....	17
Table 1.5	Percentage and Number of Poor Estimated by Tendulkar method, Using Mixed Reference Period (MRP).....	22
Table 1.6	Progress Microfinance and Self Help Groups (SHGs) Bank Linkage Programme in India .....	26
Table 1.7	State wise number of SHGs under NABARD .....	27
Table 1.8	Growth Trends in SHG Bank Linkage Programme .....	28
Table 1.9	SHG and MFI Client Outreach (customers in millions) .....	29
Table 1.10	The loan portfolios of SHGs and MFIs (In Rs. Billions).....	33
Table 1.11	Progress of MFIs .....	34
Table 1.12	Relative position of Indian microfinance sector .....	35
Table 1.13	Regional share in linkages—SHGs with outstanding loans .....	41
Table 1.14	Comparison of disbursements in SHG loans— selected states.....	42
Table 1.15	Outreach to poorer districts – South Indian States.....	43
Table 1.16	MFI – Client outreach by South Indian States .....	44
Table 1.17	Coverage of financially excluded population by microfinance service providers (South Indian States).....	45
Table 1.18	Assessment of likely over-indebtedness and Scope for further lending (South Indian States) .....	47
Table 1.19	The Performance of MSME India in terms of enterprises and employment .....	49
Table 1.20	Contribution of Manufacturing Output of Micro and Small Enterprises In GDP (At 2004-05 Prices) .....	50

Table 1.21	Distribution of Enterprises, Employment and Average Employment per Enterprise by type of Enterprise .....	51
Table 1.22	Employment Intensity by Sector .....	52
Table 1.23	Employment Intensity by Type of Enterprise .....	52
Table 1.24	Year wise details of SSIs/MSMEs registered in Kerala.....	56
Table 1.25	Components of Human Development Index, Kerala - 2007-08.....	57
Table 1.26	Poverty Ratio of South Indian States (in per cent).....	59
Table 1.27	The progress details of the state on Microfinance coverage .....	63
Table 1.28	District wise list of Micro Credit Based Enterprises in Kerala as on 31-03-2000 and 31-03-2008 .....	65
Table 1.29	Turnover Returns from micro-enterprises.....	66
Table 1.30	Problems with the sectors.....	67
Table 4.1	Age – wise distribution of respondents-.....	167
Table 4.2	Mean and Standard Deviation of the age of the SHG Members.....	168
Table 4.3	Marital Status of the members of the SHGs.....	169
Table 4.4	Size of the family of SHG Members.....	170
Table 4.5	Mean and Standard Deviation of the size of the families of Respondents .....	170
Table 4.6	Earning Members of the families of respondents excluding the respondent.....	171
Table 4.7	Occupation of the Heads of Households of the respondents.....	172
Table 4.8	Family Income from Any other source .....	173
Table 4.9	Average family Income per day of the respondents.....	174
Table 4.10	The Ownership of land by the respondent/family.....	175
Table 4.11	Ownership of Houses by the respondents/ families of the respondents.....	176
Table 4.12	Status of account (before joining SHG) of the respondents with a Commercial Bank.....	177
Table 4.13	Loans taken by respondents from any Commercial Bank before joining SHG.....	177

Table 4.14	Have SHG Members taken any Loans from any co-operative bank/ society before joining SHG? .....	178
Table 4.15	The Source of the fund to SHG for lending as reported by the respondents .....	179
Table 4.16	Number of Members in the Self Help Groups .....	180
Table 4.17	Status of the membership of Respondents in the SHG .....	181
Table 4.18	Duration of Membership in the SHG .....	181
Table 4.19	Mode of delivery of Microcredit to individuals .....	182
Table 4.20	Mode of delivery of Microcredit to groups .....	183
Table 4.21	The Eligibility Conditions prescribed by banks to get microcredit to the SHG members as reported by respondents .....	185
Table 4.22	Eligibility Conditions to get microcredit to the SHG members from NGOs as reported by respondents .....	186
Table 4.23	Eligibility Conditions to get microcredit from SHGs as reported by respondents .....	187
Table 4.24	Status of Microcredit Availed by the respondents .....	188
Table 4.25	Responses about the factors leading to the availability of micro credit (collected from SHG Members who availed Microcredit) .....	190
Table 4.26	Availability of Microcredit: Views of respondents who have not availed any micro credit (collected from SHG Members who did not avail Microcredit) .....	192
Table 4.27	Comparison of the response about the factors leading to the availability of micro credit – Mean and Rank Score .....	194
Table 4.28	KMO and Bartlett's Test .....	197
Table 4.29	Communalities before and after extraction .....	198
Table 4.30	Total Variance Explained .....	199
Table 4.31	Rotated Component Matrix <sup>a</sup> .....	201
Table 4.32	Mann-Whitney test – Education of the respondents and Availability of microcredit .....	203
Table 4.33	Mann-Whitney test – Socio economic background of the respondents and Availability of microcredit .....	204

Table 4.34	Mann-Whitney test – Active participation of the respondents in the SHG.....	205
Table 4.35	Mann-Whitney test – Financial conditions of the respondents and Availability of microcredit from the SHG.....	206
Table 4.36	Mann-Whitney test – Financial needs of the respondents and Availability of microcredit from the SHG.....	207
Table 4.37	Mann-Whitney test – Participation of the respondents in training, seminar and other programs and Availability of microcredit from the SHG.....	208
Table 4.38	Mann-Whitney test – Closeness to the leaders of the SHG and Availability of microcredit from the SHG.....	209
Table 4.39	Results of comparison of opinions of SHG members who availed microcredit and who did not avail microcredit using Mann Whitney U test.....	211
Table 4.40	Relationship between age of the respondents and microcredit availability.....	213
Table 4.41	Chi- Square Test Result (Age of the respondents and availability of microcredit).....	214
Table 4.42	Relationship between Marital Status of the respondents and Microcredit availability.....	214
Table 4.43	The Status of membership of respondents in the SHG as office bearer and Microcredit Availability.....	215
Table 4.44	Association of Duration of Membership in the SHG with availability of Microcredit.....	216
Table 4.45	Chi- Square Test Result (association between the duration of membership in the SHG and availability of microcredit).....	217
Table 4.46	Average family Income per day of the SHG Members who availed microcredit.....	218
Table 4.47	Average family income of respondents – Mean and SD.....	219
Table 4.48	The comparative analysis of average family income per day of the respondents.....	220
Table 4.49	Respondents who have used loans for Individual and Group Projects as well as consumption purposes.....	221

Table 4.50	Number of microenterprises established .....	222
Table 4.51	The amount of micro credit taken – Individual microenterprises .....	222
Table 4.52	The amount of micro credit taken – Group Loans .....	223
Table 4.53	Was the Microcredit sufficient to start a Microenterprise? .....	224
Table 4.54	Microcredit Utilisation by beneficiaries.....	225
Table 4.55	Details regarding diversion of microcredit for consumption purposes .....	226
Table 4.56	Analysis of Utilization: Fully or Partially? .....	227
Table 4.57	Details regarding diversion of microcredit for consumption purposes .....	228
Table 4.58	Microcredit and consumption: A comparative analysis.....	229
Table 4.59	Average family income of the respondents and utilization of microcredit.....	231
Table 4.60	Comparison of Average family income among those who availed the microcredit for income generating activity and those availed for consumption.....	231
Table 4.61	Age of the respondent and utilization of microcredit.....	233
Table 4.62	Chi- Square Test Result (Age and microcredit utilization).....	234
Table 4.63	Status of the membership in the SHG as office bearer and utilization of microcredit .....	234
Table 4.64	Chi- Square Test Result (Status of the member and utilization) .....	235
Table 4.65	Duration of membership of the respondents in the SHGs and their utilization of microcredit for productive purposes.....	236
Table 4.66	Marital Status and Microcredit utilization .....	237
Table 4.67	Chi- Square Test Result (Marital Status and Utilization of microcredit).....	238
Table 4.68	Nature of employment generated by microenterprises (ME) or livelihood projects (LP).....	240
Table 4.69	Number of days of work in a week generated by microenterprises (ME) or livelihood projects (LP) .....	241

Table 4.70	Generation of employment for people other than respondents from micro enterprises .....	242
Table 4.71	Investment Range of Individual Income Generating Projects .....	244
Table 4.72	Investment Range of Group Microenterprises .....	244
Table 4.73	Average Annual Business Turnover: Individual Micro enterprises.....	245
Table 4.74	Analysis on Annual Business Turnover -- Group Microenterprises.....	246
Table 4.75	Average Monthly wage Content Analysis – individual income generating Micro enterprises .....	247
Table 4.76	Average Monthly wage Content Analysis: Group Microenterprises.....	247
Table 4.77	Average Monthly Income for each SHG member from individual income generating projects (excluding wages from microenterprises) .....	248
Table 4.78	Group Microenterprises-- Average Monthly Income for each SHG member (excluding wages from micro enterprises) .....	249
Table 4.79	Financial performance of the micro finance project in terms of average of each parameter.....	250
Table 4.80	Opinion regarding Penal interest for non repayment of microcredit collected from respondents .....	252
Table 4.81	Processing fee for the getting microcredit.....	253
Table 4.82	Arrears in repayment of loan – Number of cases.....	253
Table 4.83	Reasons for Non – repayment of loans as reported by respondents.....	254
Table 4.84	Measures taken by the SHG to ensure repayment.....	255
Table 4.85	Method of arranging repayment in case of a financial difficulty .....	256
Table 4.86	Whether there was pressure from other members for repayment of loans? .....	256
Table 4.87	Age of the respondents and repayment of microcredit .....	257
Table 4.88	Number of respondents with microcredit repayment arrears in relation to marital status .....	258

Table 4.89	Number of respondents with microcredit repayment arrears in relation to their average family income.....	259
Table 4.90	Relationship between Duration of Membership and Number of cases of arrears in Microcredit Repayment.....	260
Table 4.91	Comments of all respondents on Microcredit programme of the SHGs.....	262
Table 4.92	Nature of Micro enterprises.....	265
Table 4.93	Total Loan and Total Investment of micro enterprises .....	266
Table 4.94	Details Regarding Bank Loan other than microcredit received .....	267
Table 4.95	Microcredit Instalment Details (per month).....	268
Table 4.96	Average Monthly Sales/Turnover .....	269
Table 4.97	Comparison of Labour cost per day with Minimum Wages per day under MNREGA.....	270
Table 4.98	Profit per month from Microenterprises.....	272
Table 4.99	Summary Profit Statement of Micro-enterprises (per month) .....	274
Table 4.100	Total Income generated by micro enterprises (per month) .....	275
Table 4.101	Number of days worked in a week.....	277
Table 4.102	Are the members employed fully? .....	277
Table 4.103	Average Wage Received by one employee per week .....	278
Table 4.104	Promptness of the payment of loan instalment .....	278
Table 4.105	Arrears on repayment .....	279
Table 4.106	Major Problems faced by the units.....	279
Table 4.107	Opinion on Improvement in the social status of the micro entrepreneurs.....	280



## *List of Figures*

Figure 1.1	Scope of Microfinance.....	07
Figure 1.2	Share of Total establishments by Enterprise – size in terms of number of employees .....	10
Figure 1.3	Share of Total employment by Enterprise size (in terms of provision of employment) .....	11
Figure 1.4	SHG and MFI Outreach.....	29
Figure 1.5	Microfinance Growth Index.....	31
Figure 1.6	Growth in Client Outreach.....	32
Figure 1.7	The Loan Portfolios of SHGs and MFIs.....	34
Figure 1.8	The state-wise break up of MFIs (geographic penetration - number of MFIs).....	37
Figure 1.9	Regional Distribution of Outreach and Loan Portfolio.....	39
Figure 1.10	Regional Distribution of Loan Portfolio of MFIs.....	39
Figure 1.11	SHG’s Outstanding Loans- Region wise FY12.....	40
Figure 1.12	Change in Trends of Rural Poverty of Kerala and India .....	58

## *List of Abbreviations*

ADS	Area Development Society
BRI	Bank Rakyat Indonesia
CGAP	Consultative Group to Assist the Poor
IGP	Income Generation Programme
ILO	International Labour Organization
IRDP	Integrated Rural Development Programme
JLG	Joint Liability Group
MF	Microfinance
MFI	Microfinance Institutions
MSME	Micro, Small and Medium Enterprises
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NGO	Non Government Organization
RBI	Reserve Bank of India
ROSCAS	Rotating Savings and Credit Association
SBLP	SHG Bank Linkage Programme
SEWA	Self Employed Women's Association
SGSY	Swarnajayanti Gram Swarajgar Yojana
SHG	Self Help Group
TRYSEM	Training of Rural Youth for Self Employment

# Chapter 1

## INTRODUCTION: ROLE OF MICROCREDIT AND MICRO ENTERPRISES IN INDIA

<i>Contents</i>	1.1 <i>Introduction to Microfinance</i>
	1.2 <i>International Landscape for Microfinance, Microcredit and Micro Enterprises</i>
	1.3 <i>Micro Credit in India</i>
	1.4 <i>Role of Microcredit in the Promotion of Micro Enterprises, Employment and Income Generation</i>
	1.5 <i>Microcredit and Micro Enterprise Scenario in Kerala</i>
	1.6 <i>Critique of the Programme</i>
	1.7 <i>Context of the Study</i>

*This chapter intends to give a general introduction about microcredit. The chapter attempts to study the evolution and substance of microfinance as a major tool for combating poverty at the global and national level. The development of micro finance in Kerala is briefly discussed. It also indicates the importance and role of microcredit in bringing the poor up in the society through entrepreneurial initiatives. The current trends in the field are also discussed, leading to the need of the present research.*

## **1.1 Introduction to Microfinance**

While many developing nations focus on higher growth trajectory on the one side, there are deliberate efforts worldwide on the other side to integrate economically weak strata of the population into the course of economic growth. For majority of the poor, access to financial services is regarded as a major problem. It has been approximated that throughout the world, there are around five hundred million people without access to formal credit (World Bank, 2012). Though the formal financial institutions like commercial banks are present, they seemed to be quite reluctant to offer financial services to the poor for reasons such as lack of collaterals, insufficient income flows, variations in the credit history, illiteracy, high cost of small transactions, ignorance of the poor about banking transactions and inferiority complex, geographic isolation and many more. The organized credit sector is also characterized by cumbersome loaning procedure, lot of hassles, time consumption, unrealistic lending policies, lot of paper work and inadequate credit with poor recovery. Thus, majority of the rural poor in many countries would have to depend on indigenous bankers and money lenders for their immediate cash requirements.

The unorganized, informal credit sector offers certain advantages to the rural folk like easy availability of adequate credit without much delay, no formalities and no collateral requirements. But these informal financial sources charge exorbitant rate of interest with less or no flexibility. Lack of basic education and emergency of the requirements of the poor will automatically lead to their financial exploitation. This results in recirculation of the poor in the vicious cycle of poverty. Policy makers at government level came with variety of solutions for providing access to financial institutions and cheaper credit.

But provision of mere credit without any other support will not help the poor to recover from the clutches of poverty. Instead, providing them access to financial services at an affordable cost along with some income generation programme has been widely accepted as an effective poverty eradication tool all over the world. With this objective in mind, the concept of 'microfinance' giving special prominence to 'microcredit' has been evolved. Microcredit programme is currently being endorsed as a powerful and effective strategy for simultaneously addressing both poverty alleviation and empowerment of the poor.

### **1.1.1 Historical Perspective of Microfinance**

Microfinance in general and microcredit in particular came into discussions only in 1970s (Gender and Economic Policy Discussion Forum, 2012). Prior to this, the provision of financial services to the poor by donors or government was mainly in the structure of subsidized rural credit programmes. These often resulted in high default rates, huge losses and inability to reach the very poor rural households (Robinson, 2001).

By 1980s, a turning point was represented in the arena of rural finance in the form of microfinance. In Asia, Dr. Muhammed Yunus of Bangladesh led the way with a pilot group lending scheme for the people who had no land or other collaterals. Later this became Grameen Bank which now serves more than 2.4 million clients (94 per cent are women) and is exhibited as a model for many other countries with similar economic structure. The poor were out of the reach of formal financial system due to lack of collateral and absence of prompt repayment records. Institutions like Grameen Bank and Bank Rakyat Indonesia (BRI) began to show that they could provide small loans and savings services profitably to the poor on a large scale. They could

establish fully sustainable, wide reach to poor clients with no subsidies and external help. The term ‘microcredit’ significantly brought into limelight during this tenure referred to a predominant component of microfinance. The major difference cited between traditional rural credit programmes and microcredit was that microcredit insisted on correct repayment, charging moderate interest and focusing on clients who were dependent on informal credit sources. Thus it was established that microcredit could provide large scale credit and create wide outreach profitably.

The decade of 1990 – 2000 marked an extra-ordinary, accelerated growth of microfinance globally wherein large number of microfinance institutions (MFIs) had been established, with huge network of self help groups. Dichter (1999) called the decade as “the microfinance decade,” experiencing the unexpected growth in the sector and thus turning it to an industry. Gradually with the success, the attention changed from just provision of microcredit to the poor to the provision of other services like insurance, savings, pension schemes and an array of similar financial services.

Nevertheless, the year 2011 marked negative growth in the sector in spite of huge microcredit flow to the economy world over. The major reasons pointed out were multiple lending by the beneficiaries from competing MFIs, lack of income generating activities, no or insufficient repayment, debt trap and over borrowing and aggressive collection practices of the MFIs leading to stress and suicides of the beneficiaries. However, the microfinance programmes have been widely heralded in academia, government and international development forums as the solution to make sustainable contributions to rural poor through financial investment leading to empowerment of people which in turn will facilitate to build confidence and high esteem.

### **1.1.2 Substance of microfinance and microcredit**

The concept of microfinance has been described as an array of financial services to the poor and excluded people from the formal financial system due to lack of collateral and absence of prompt repayment background. Microfinance was defined in the International Year of Microcredit in 2005, as ‘loans, insurance, savings, transfer services, other financial products for low-income clients’ (ILO, 2005). It can be explained as a process that includes financial intermediation such as supplying credit (microcredit), savings and insurance products. It also originated with a social intermediation role of poverty reduction and enabling empowerment (Chakrabarthi and Ravi, 2011). Consultative Group to Assist the Poor (CGAP) defines microfinance as ‘the supply of loans, savings and other financial services to the poor’. Generally, these definitions explain microfinance as an array of financial products (microcredit) and services offered to the poor and un-bankable.

Microcredit is considered to be a practice of providing small loans to the poor at low interest rate for a shorter duration, without any collateral to benefit the low income population who are deprived of bank credit (IBEF, 2013). Such small loans help them to grow their tiny business and maintain their income through employment and to reduce their vulnerability. It is ultimately supporting the creation of access to formal financial services for low income people and holds the promise of improving the living conditions of the poor and fostering economic development (Terberger, 2003). It is not just to facilitate credit to the poor but to support them as an economic development tool by providing wide range of financial services and non-financial services like training and counseling.

Though government initiated certain steps in the form of poverty alleviation programmes, they found only little success. But with the invention of group based lending approach, the poor were able to prove that, they can efficiently manage credit and finance. Availability of adequate finance in time is indispensable for their enterprises to grow rather than subsidies.

The function of microcredit cannot be confined to just provision of finance to the poor. It plays a major developmental role as well, especially among rural women. United Nations Capital Development Fund (UNCDF) in 2004 asserted that there are three key roles for microcredit to play in development scenario (Aziz and Alam, 2012).

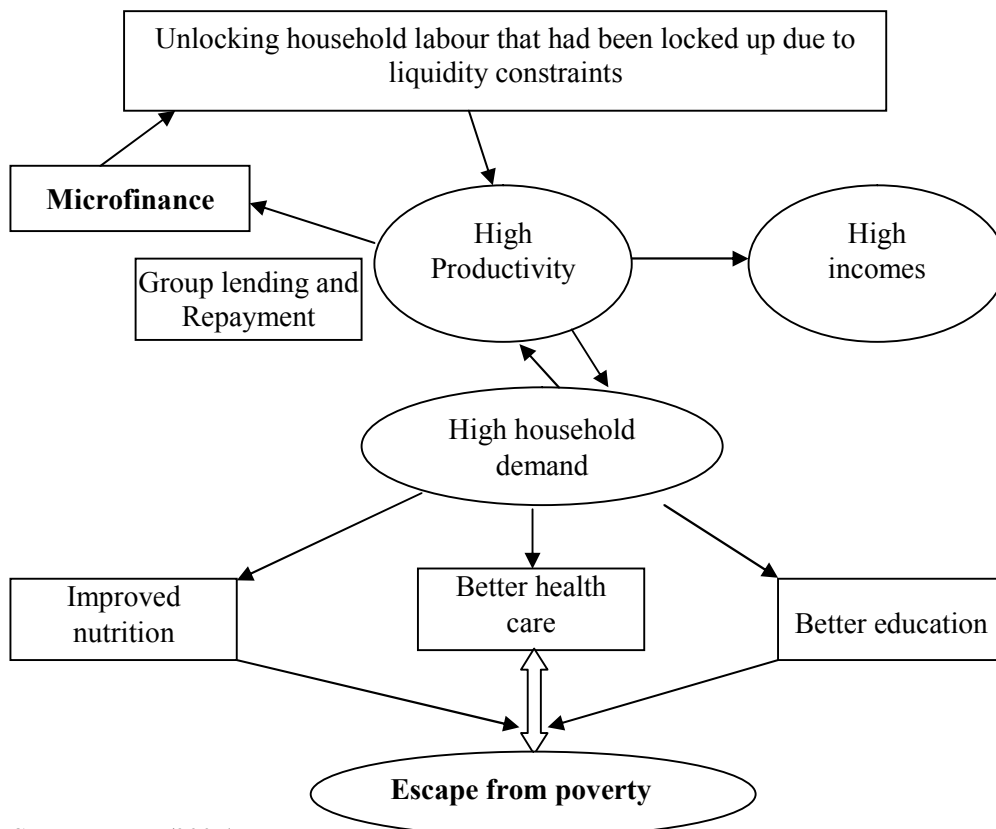
- It helps very poor households to meet basic needs and protect against risks;
- It is associated with improvements in household economic welfare;
- It helps to empower women by supporting women's economic participation and so promotes gender equity.

Microcredit is a key strategy in building global financial systems that meets the needs of the poorest people (Simanowitz and Brody, 2004). The system of microcredit is unique among other developmental interventions as it can deliver social benefits on an ongoing, permanent basis and on a large scale (Littlefield, Murdugh and Hashemi, 2003). In developing nations, particularly in deprived regions, microcredit is relevant in stimulating entrepreneurship (Nugroho and Miles, 2009). According to Yunus (2003), charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual initiative. Unleashing the energy in each human being is the answer to poverty. Kiiru (2007) had also



asserted almost in the similar line that the path of microfinance is unlocking household labour that had been locked up due to liquidity constraints through a group approach which leads to higher productivity, increased employment, high income and high repayment levels. An increase in income will naturally result in improved healthcare, nutrition and better education which are the natural outcomes of escape from poverty.

The following figure better explains the scope of microfinance:



Source: Kiiru (2007)

**Figure 1.1: Scope of Microfinance**

Microcredit has all the capabilities to create access to productive capital for the poor, which together with human capital, addressed through education,

training and social capital, achieved through local organisation building, enables people to move out of poverty (Otero, 1999). By addressing the gap created by formal financial institutions in financially serving the poor, the microfinance institutions (MFIs) become a major part of the financial system of a country. The institutions providing microfinance have commonly been regarded as ‘semi formal’ organizations (World Bank, 1997). Thus, an institutional role is also fulfilled. By serving the poor untouched by formal financial sector, microfinance institutions generally can address the market failure in a financially sustainable manner. Many microfinance institutions have emerged to address the market failure of formal financial institutions in catering to the poor and thus MFIs have become the main source of funding for micro enterprises in many developing countries (World Bank, 1994; Littlefield and Rosenberg, 2004). At this backdrop, the major developments in the field experienced globally are discussed in the next section.

## **1.2 International Landscape for Microfinance, Microcredit and Micro Enterprises**

In addition to subsidized agriculture credit, governmental institutions worldwide set up credit unions based on Raiffeisen Model developed in Germany in 1864 (Ledgerwood, 2000). Later this credit model was criticized heavily since such programmes experienced heavy losses and regular capitalization was required to continue functioning. This led to an innovative approach which considered microfinance as an integral part of overall financial system. Microcredit strategies were devised to address the credit market failures in developing nations. It has evolved as an advancement to the existing credit lending mechanisms to establish economic development through entrepreneurial approach to both low income men and women (Olu, 2009). However, throughout the world women are focused more in microfinance programme, as

they perform better as clients compared to men, and their participation has brought more desirable development outcomes (Pitt and Khadker, 1998).

Almost at the same time, local Non- Governmental Organizations (NGOs) began to look for a more long term developmental approach than unsustainable income generating activities. The efforts on this regard by various governmental and non-governmental institutions resulted in establishing wide range of microfinance initiatives throughout the world. This has increased microfinance penetration in many countries. The following table gives a ranking of microfinance – friendly countries in terms of microfinance penetration<sup>1</sup> (for the year 2011).

**Table 1.1: Country- wise Ranking of Microfinance Penetration – 2011**

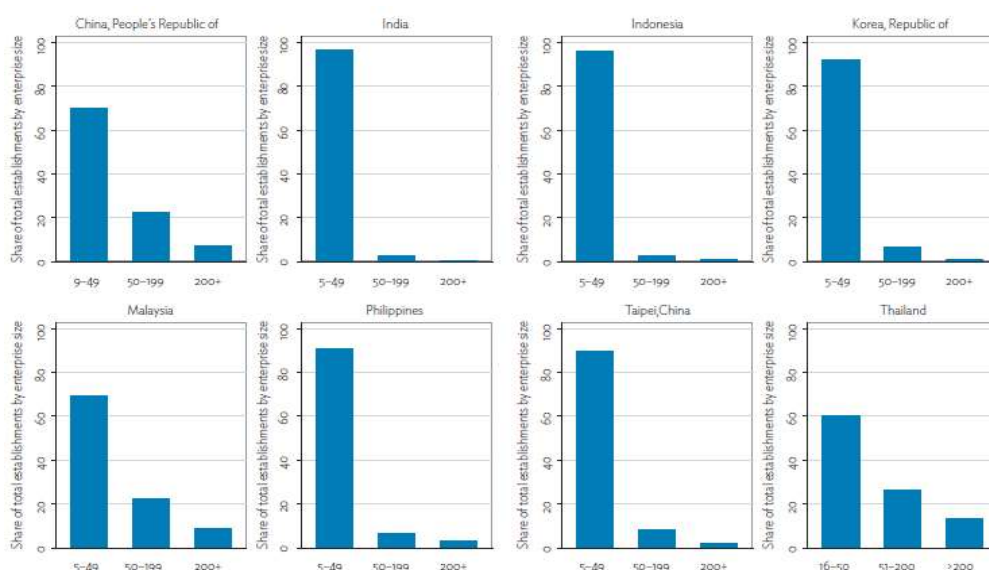
<b>Global ranking</b>	<b>Country</b>	<b>Borrower accounts/ population (%)</b>
1	Bangladesh	25
2	Bosnia and Herzegovina	15
3	Mongolia	15
4	Cambodia	13
5	Nicaragua	11
6	Sri Lanka	10
7	Montenegro	10
8	Viet Nam	10
9	Peru	10
10	Armenia	9
11	Bolivia	9
12	Thailand	8
13	India	7
14	Paraguay	6
15	El Salvador	6

*Source: Bateman (2011)*

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<sup>1</sup> Microfinance penetration establishes how much microcredit (supply) (in aggregate) is already offered in comparison to the potential demand. It is calculated as total number of microcredit accounts/total population). The intensity of penetration of microfinance (MPI) was computed by dividing the Share of the State in microfinance clients with share of population (NABARD, 2011).

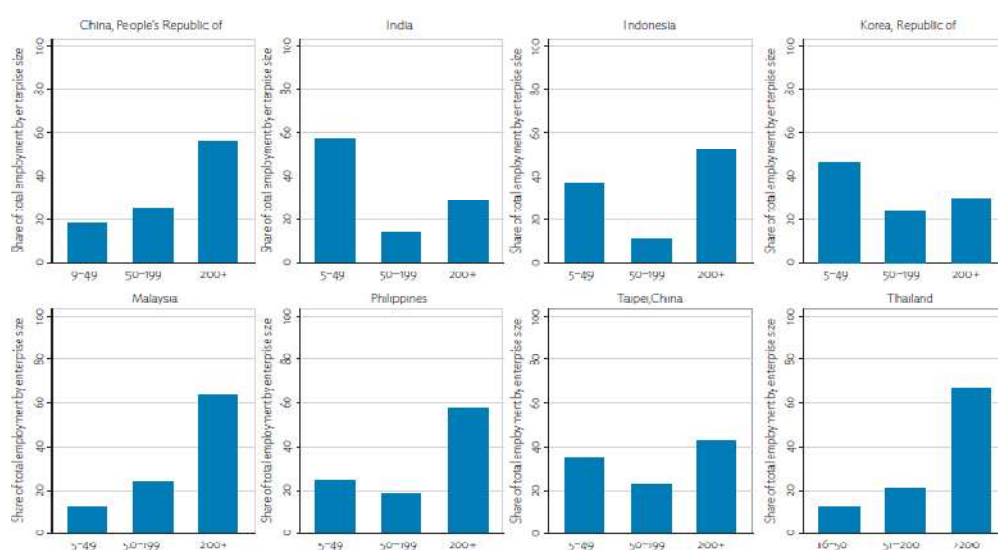
In terms of microfinance penetration, India stands at 13<sup>th</sup> position among other countries. But according to Asian Development Bank (ADB), the micro and small sized firms in countries like India, Indonesia and the Philippines account for more than 90 % of all the firms (Khor and others, 2013). This is attributed mainly due to two reasons: first, in some countries, changes in their economic structure is at the beginning and there is a slow shift from agriculture to manufacturing and service sectors which are even younger in growth and very small in size. In other countries, the economy is ruled by large state owned enterprises and creates a hindrance to the micro and small firms to expand. An earlier study by ADB in 2009 indicated that in most of the countries, majority of the enterprises were of micro and small size structure with fewer than fifty employees (Figure1.2).



Source: ADB, (2009)

**Figure 1.2: Share of Total establishments by Enterprise – size in terms of number of employees**

Similarly, it is interesting to note that the employment formation also differs across economies. Unassumingly, in some major economies, large share of employment to people is provided by micro and small sized firms (Figure 1.3).



Source: ADB (2009)

**Figure 1.3: Share of Total employment by Enterprise size (in terms of provision of employment)**

The data on employment by ADB (2009) reveals that countries like Malaysia, China and Thailand provide more employment to its people through large sized organizations. But compared to large sized firms, micro and small sized firms in countries like India and Korea provide more employment opportunities to people. But on averaging the overall penetration in the country, India has a low penetration of seven per cent, compared to Bangladesh where microfinance penetration is 25 per cent.

### **1.2.1 Microfinance activities in Bangladesh**

Bangladesh is the birth place of current microfinance operations in the world. A large number of NGOs function in the field to eradicate the poverty by generating self employment and income for the millions of poor, following the lending model of Grameen Bank. Bangladesh was a least developing nation with more than 80 % people living in rural areas and almost half of the total populace is constituted by women (Sultana et.al, 2010). It is to be noted that majority of women in the country was characterised by economical dependency, social vulnerability and educational backwardness. They were financially marginalized and politically deprived (Sarkar and Rahman, 2007). A study by Hossain, (2010) showed that the monthly average income of a rural woman in Bangladesh was estimated to be TK 1870.00 (US\$ 27.6) -‘with credit’ and TK 540.00 (US\$ 7.9) - without credit’ which was almost equal to 19% and 10% of their average total family income, respectively. The prominent model of microfinance – Grameen Bank - showed a record of TK 10,2959.9 million as microcredit disbursements during FY 2011 to about 83,69,011 members through 2565 branches. The bank’s activities have reached to more than 81,000 villages, created direct job opportunities for over 110,000. The microfinance sector recorded an outstanding loans of BDT 257.01 billion (USD 3.31 billion), distributed to more than 19 million borrowers with a savings figure of approximately BDT 93.99 billion (USD 1207 million) from more than 24 million clients (over 90% of them were women) by 650 NGO-MFIs, during June 2013 (Microcredit Regulatory Authority (MRA), Dhaka, 2013). Details are given in Table 1.2

**Table 1.2: Basic Statistics of NGO-MFIs in Bangladesh (As of 30 June, 2013)**

Particulars	Janu'09	June'10	June'11	June'12	June'13
No. of Licensed NGO-MFIs ( provided valid data)	419	516	576	590	650
No.of Branches	16,851	17,252	18,066	17,977	14,674
No. of Employees	107,175	109,597	11,828	108,654	110,734
No.of Clients ( Million)	24.85	25.28	26.08	24.64	24.60
Total borrowers (Million)	18.89	19.21	20.65	19.31	19.27
Loan Disbursement (Tk.Billin)	261.18	300.72	303.18	456.02	432.28
Agriculture Loan Disbursement (Tk.Billion)	-	-	93.63	110.84	131.98
Amount of Loan Outstading (Tk.Billion)	143.13	145.02	173.79	211.32	257.01
Agriculture Loan Outstanding (Tk.Billion)	-	-	59.36	66.71	89.05
Amount of Savings(Tk.Billion)	50.61	51.36	63.30	75.25	93.99
Loan Recovery (Tk.Billion)		280.78	271.83	314.11	375.07
Recovery Rate	97.93	97.35	95.52	97.74	97.69

Source: MRA – MIS Data base (2013) \*US\$1= Tk70.00

The microfinance under Grameen Model has been imitated and reproduced in many countries including China, India, Philippines, Thailand, Vietnam, Sri Lanka and Malaysia. Self Help Group model was primarily brought in by NGOs in many parts of South East Asia, including India, Indonesia and Africa. Microfinance operation through co-operatives is also prevalent in India, Thailand, Vietnam, Sri Lanka, Philippines and some other Asian countries. It is found that irrespective of the models, microfinance has

reached almost 80 million households and around 20,000 microfinance institutions are working in developing countries of Asia, Africa, Europe and Latin America (Mahanta and others, 2012).

### **1.2.2 Microfinance in Latin America, the Carribbean (LAC) and Sub-Saharan Africa**

In Latin America, ACCION International supported the developmental needs of solidarity groups of poor people and Fundación Carvajal developed a new model for successful credit and training system for individual micro-entrepreneurs. Similarly, Bank Rakyat Indonesia (BRI), a state owned rural bank moved away from providing subsidized credit to an institutional approach. Most recently, many microfinance providers (NGOs including PRODEM / BancoSol in Bolivia, K-REP in Kenya, and ADEMI/ Banco in the Dominican Republic) have started to recognize that they need to access more market funding resources than rely on exclusive donor funds.

Commercial banks in LAC countries are in the forefront to make significant contributions in the area of microfinance. For instance, MiBanco in Peru and ProCredit in Ecuador consider microfinance as their primary line of business. Some other banks such as BanHcafe in Honduras or Banco Santander in Chile are looking at microfinance as a new product. Through NGO – MFIs, nearly six million low income households were served financially in LAC countries and thus NGOs become the predominant source of microfinance. In 2001, 52% of the microfinance clients were served by MFIs; the same in 2006 was 65%, showing an annual growth of 35% in terms of number of borrowers and 46% in the growth of portfolio (Navajas and Tejrina, 2006).



In South America, according to IMF (2012), the GDP growth rate is predicted to become 4.9 per cent in 2013, compared to 3.6 per cent in the previous year. This is because of the substantially low growth recorded in Brazil and Argentina. Countries such as Peru, Colombia, Bolivia and Ecuador are posting dynamic GDP growth rates. Mexican microfinance market is expected to grow – in terms of loan size – at more than 20 per cent. But growth estimates in the rest of Central America is likely to be between five per cent and 10 per cent (IMF World Economic Outlook Database, 2012).

The economy of Sub-Saharan Africa is experiencing the strongest growth in the region since 2007 and recorded 5.7 per cent in 2013 (IMF, 2013). Microfinance industries in both East and West Africa have equally benefitted from powerful growth 10 per cent to 20 per cent in 2013 (Economic Report on Africa, 2013). In the rural regions, mobile money (payment transactions through cell phone) is the strongest driver for growth. But there is huge difference in the growth rate between urban and rural areas of Africa.

In South and East Asia, IMF predicts GDP growth of more than five per cent in 2013 for the countries with the most important microfinance markets. These comprise of India (6 per cent), Cambodia (6.9 per cent), Indonesia (6.3 per cent) and Mongolia (15.7 per cent).

### **1.2.3 Microfinance in other South Asian countries**

The growth rate statistics of other South Asian countries are less when compared to Bangladesh. As per the statistics given by Microfinance Institute (2010), the number of MFIs serving the poor differs from country to country.

**Table 1.3: Number of MFI Branches by South Asian Countries**

County	Number of Branches	Number of Branches per 100 Sq Km Land Area	Average Annual Growth Between 2006 and 2008 <sup>a</sup>
Afghanistan	283	0.43	6%
Bangladesh	14,441	110.94	5%
Nepal	590	4.13	12%
Pakistan	1,281	1.88	12%
Sri Lanka	1,465	22.67	1%

*Source: Overview Report (2010), Microfinance Institute*

All countries listed in Table 1.3 have shown a positive trend in annual growth of microfinance. Pakistan and Nepal have showed the largest percent in average annual growth (12%). Bangladesh has highest concentration in terms of number of branches (110 per 100 sq KM Land, followed by Sri Lanka (22.67 per 100 sq.KM Land).

As an industry, microfinance has posted an overall growth rate of almost 20 per cent in the year 2012. In 2013 the estimated growth is 15 to 20 per cent. Micro finance is highly important for developing and emerging economies. According to International Monetary Fund (IMF), the average growth in 15 most important microfinance country markets will increase from 4.7 per cent to 6.2 per cent (IMF, 2012). It is also to be noted that apart from Asian countries, considerable growth in microfinance has been experienced in South Africa. The growth forecasts in real Gross Domestic Product (GDP) for the first 15 microfinance countries are given in Table 1.4.

**Table 1.4: IMF Growth Forecasts on Real GDP for the first 15 most important microfinance nations**

Sl. No	Countries	Real GDP (per Cent)	
		2011	2013
1.	Peru	6.0	5.8
2.	Cambodia	6.5	6.7
3.	India	4.9	6.0
4.	Georgia	6.5	5.5
5.	Ecuador	4.0	4.1
6.	Armenia	3.9	4.0
7.	Magnolia	12.7	15.7
8.	Azerbaijan	3.9	2.7
9.	Russia	3.7	3.8
10.	Kyrgyzstan	1.0	8.5
11.	Kenya	5.1	5.6
12.	Colombia	4.3	4.4
13.	Paraguay	-1.5	11.0
14.	Mexico	3.8	3.5
15.	Bolivia	5.0	5.0

*Source: IMF World Economic Outlook Database, (2012)*

The strength of developing and emerging economies is that they are showing bright prospects according to IMF estimates. Though IMF had forecasted a growth rate of 5.8 per cent, the countries have shown a growth rate of only 5.3 per cent in 2012. This effect has been largely due to slow growth of microfinance in BRIC nations (Brazil, Russia, India and China). Brazil, for example, recorded a mere growth of 1.5 per cent. India and China also showed their lowest growth rate in last ten years. It is also to be noted that the only BRIC nations with attractive microfinance markets for private investors are India and Russia. Countries like Peru and Colombia which have strong trade relations with China have also shown uninterrupted growth in 2012. Countries like Bosnia, Serbia and Albania suffered from low growth. Considerable variations in growth rates in the microfinance industry have

been experienced in India from the year 2010. A detailed account of microfinance scenario in India is discussed in the next section.

### **1.3 Micro Credit in India**

#### **1.3.1 Evolution of microfinance in India**

Government of India has been trying to implement many poverty alleviation programmes. In total, the members in the sector with an income of less than \$1 per day will come to almost 36 per cent of the country's total population (Mendoza, 2009). However, 51.4 per cent of the farming households in India are still excluded from both formal and informal forms of credit, and only 21 per cent of the total farming households have an access to formal credit (Summary recommendations of the Committee on Financial Inclusion, 2008). The case is further bad in Central, Eastern and North eastern parts of the country, where 64 per cent of the farmer households are totally excluded from formal financial sector (NABARD, 2008). This huge gap of exclusion will force the poor to approach to moneylenders who charge exorbitant rate of interest of five to 10 per cent a week, which is equivalent to 240 or 480 per cent annually (NABARD, 2008). In the beginning of 2008, Committee on Financial Inclusion, commissioned by Government of India, set a goal to provide financial access to at least 50 per cent of the excluded people in rural areas by 2012 and cover the rest by 2015. As a part of it, there had been considerable effort on the part of the Government for financial inclusion like "No frills Account", "smart cards" and bank alliances with post office networks, with some other similar models. But mere access to credit without aiming vulnerability reduction and risk management of the poor had not brought in desired results. Further, Indian Microfinance industry, one of

the largest in the world in client base with close to 26 million clients, is expected to expand around 20 per cent in 2013 – 14 (EIU, 2012).

Government of India has been trying to give stress on providing financial services to the poor and deprived. In this connection, Government has issued directive to commercial banks to lend 40 per cent of their loans at concessional rate to priority sectors. The lending to priority sectors, including agriculture, allied activities and weaker sections of the society in general, is reinstated by commercial banks after their nationalization in 1969. Simultaneously, Government also launched many poverty alleviation programmes to assist the poor to come out from the clutches of poverty. These programmes included Small Farmers Development Scheme (SFDS) in 1974-75; Twenty Point Programme (TPP) in 1975; National Rural Development Programme (NRDP) in 1980; Integrated Rural Development Programme (IRDP) in 1980; Rural Landless Employment Guarantee Programme (RLEGP) in 1983; Jawhar Rozgar Yojna (JRY) in 1989; Employment Assurance Scheme (EAS) in 1993; National Social Assistance Programme (NSAP) in 1995; Swarna jayanti Gram Swarajgar Yojna (SGSY) in 1999 and many other programmes of similar line. But none of these programmes could successfully achieve expected results due to poor execution and lack of proper monitoring.

As an initiative to microcredit, Government started a programme called Integrated Rural Development Programme (IRDP) in 1980. IRDP was launched as a scheme where ₹ 15,000 will be given as a loan to weaker section of the society. But the scheme failed because it worked on a substantial element of subsidies (25-50 per cent of the project cost). In a period of 20 years, the total outlay came to ₹ 250 billion, distributed to approximately 55 million families which was really far from the desired outcome of IRDP. The factor of subsidies

resulted in heavy malpractice and mis-utilization of funds and thus the programme ended up with a very low rate of repayment of 25 – 33 per cent. Thus “the world’s largest microcredit programme” failed miserably leaving long term negative impact on the development of microenterprises.

The Planning Commission constituted a committee in 1997 under the Chairmanship of Prof. Hashim to study and review the effectiveness of self employment programmes. By accepting the recommendations of the committee on 1<sup>st</sup> April 1999, a new programme called Swarnajayanti Gram Swarojgar Yojana (SGSY) was initiated. Elements of many programmes were amalgamated in this scheme like Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS). SGSY was a holistic credit cum subsidy programme which involves establishment of micro enterprises. It laid emphasis on Self Help Group (SHG) formation, extension of training, disbursement of credit, monitoring the activities and marketing the products. It focused on group approach and promoted multiple credits to vulnerable groups among the rural poor (Planning Commission, 2009). The scheme was implemented through District Rural Development Agencies (DRDAs) with co-operation of Panchayati Raj Institutions (PRIs), banks, departments of the State Governments and Non- Government Organizations (NGOs). But in later years, for several reasons, its growth came down and resulted in a colossal failure in many parts of the country. The major reasons were uneven spread, high rate of attrition among groups, inadequate access to credit, lack of capacity building and training initiatives, lack of transparency and accountability and other similar

reasons (Arunachalam, 2011). The states like Arunachal Pradesh, Jammu and Kashmir, Kerala, Assam, Goa, Mizoram, Nagaland and Sikkim showed zero SHGs in operation of the scheme in the year 2012 -13. Thus it can be inferred that the Regional Rural Banks (RRBs) and primary co-operatives were facing huge financial burden due to mismanagement of funds, poor or no repayment, corruption and restrictive interest regime (Sinha and Patole, 2003). Maintaining the basic model of SHGs and SGSY scheme, a new model of microfinance based on micro enterprise was getting established by the time.

### **1.3.2 The Growth of Microfinance and microcredit in India**

The microfinance initiatives in India have been pioneered by MYRADA (Mysore Rehabilitation and Development Agency) in 1968 and Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank in 1974. The programme was to provide banking services to poor women, who were mostly employed in unorganized sector, through the method of Self Help Affinity groups (SHGs) (SEWA, 2012). These initial efforts had only localized operations and mostly they were funded by donor agencies.

The massive movement of microfinance in India started only with the intervention of National Bank for Agriculture and Rural Development (NABARD) in 1992 with its pilot project. According to the RBI report, the contribution of formal financial sector to rural people was just 56.6 per cent compared to the informal finance at 39.6 per cent and unspecified other sources were 3.8 per cent (RBI Report, 1992). There was massive potential for microcredit in India as it gave access to affordable finance with no collaterals on easy terms focused on livelihood prospects for the poor. Apart from access to finance, microcredit also aims at bringing empowerment to the

rural women. Proper utilization of microcredit ensures not only social, political and financial empowerment but it provides to the beneficiaries formal identity and self confidence as well.

The inventiveness for capacity building activities resulted in a sudden increase in the number of self-employed micro enterprises, which have contributed positively towards rural development. As an effect, India witnessed a reduced poverty rate of 29.8 per cent during 2009–10 from 37.2 per cent over 2004–05. Rural poverty fell eight percentage points to 33.8 per cent and urban poverty 4.8 percentage points to 20.9 per cent. Poverty in rural areas declined at a faster pace than in urban cities between 2004-05 and 2009-10. According to the Planning Commission estimates, the total number of poor in the country was estimated at 34.47 crores in 2009-10, as against 40.72 crores in 2004-05 (Planning Commission, 2009-10). The poverty estimates for 2011 -12 in comparison with poverty estimates of 1993-94 and 2004-05 are given in Table 1.5.

**Table 1.5: Percentage and Number of Poor Estimated by Tendulkar method, Using Mixed Reference Period (MRP)**

Particulars	Poverty ratio (per cent)			Number of poor (Million)		
	Rural	Urban	Total	Rural	Urban	Total
1. 1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2. 2004 -05	41.8	25.7	37.2	326.3	80.8	407.1
3. 2011 -12	25.7	13.7	21.9	216.5	52.8	269.3
Annual Average Decline: 1993-94 to 2004-05 (percentage points per annum)	0.75	0.55	0.74	-	-	-
Annual Average Decline: 2004-05 to 2011-12 (percentage Points per annum)	2.32	1.69	2.18	-	-	-

Source: Poverty Estimates (2011-12), Planning Commission (2013)



It is estimated by Planning Commission that, the percentage of persons below the Poverty Line in 2011-12 was 25.7 per cent in rural areas, 13.7 per cent in urban areas and 21.9 per cent for the whole country. The respective ratios for the rural and urban areas were 41.8 per cent and 25.7 per cent and 37.2 per cent for the country as a whole in 2004-05.

Reportedly there was remarkable decline in poverty: the poverty rates in 1993 – 94 was 50.1 per cent in rural areas, 31.8 per cent in urban areas and 45.3 per cent for the country, respectively. In 2011-12, India had 270 million persons below the Tendulkar Poverty Line, as compared to 407 million in 2004-05. This shows a reduction of 137 million persons over the seven year period. It is to be noted that, the reduction in the poverty rates from 1993 -94 to 2011-12 is almost 50 per cent. The average decline in the poverty ratio for the country during the 11 – year period from 1993 – 94 to 2004 – 05, was recorded at 0.74 percentage points per year. It accelerated to 2.18 percentage points per year during the seven year period from 2004-05 to 2011-12.

Therefore, it can be concluded that the rate of decline in the poverty ratio during the most recent seven year period from 2004-05 to 2011-12 was about three times that experienced during the 11 – year period from 1993 – 94 to 2004-05. The major reason for the sharp decline during the seven year period could be attributed to the initiatives on micro entrepreneurship (IBEF, 2013), promoted by major institutions involved in the sector such as NABARD with other state or central owned institutions, various MFIs and governmental and non-governmental organizations.

The structure of microfinance providers in India is organized in such a way that at the apex level, institutions such as NABARD, RBI, SIDBI (Small Industries Development Bank of India) are functioning. In the middle level, commercial banks, Regional Rural Banks and co-operatives are in operation. At the lowest level, NGOs, MFIs and SHGs are the functionaries. Different models of microfinance had evolved for administering the microfinance delivery.

### **1.3.2.1 Modes of Operation of Microfinance in the Country**

The proliferated growth of SHG – Bank Linkage Programme (SBLP) has moved across various stages like Pilot Testing (1992–96), mainstreaming (1996–98) and expansion (1998 onwards) and has transformed itself into a microfinance movement in the country. During this period, the efforts of linking SHGs with banks have undergone a series of changes and different models have emerged in this process (NABARD, 2012). They all concentrated more on women than men, as they are the more vulnerable segment of society. They are considered to be more judicious than men in earning and spending income.

The following major approaches are followed by the MFIs in India.

- (I) Self Help Groups (SHGs):** The microfinance operation through self help group is most popular in India. SHGs are essentially a formal and voluntary association of 15 to 20 people of the same locality with more or less same socio-economic condition. Such homogeneous groups pool their savings for the benefit of all the members. NABARD has facilitated a programme which entails commercial banks lending directly to SHGs without the intervention of MFIs.

- (II) Individual Banking Programme (IBPs):** Under this, MFIs may lend to individual members of the SHG, though they may be organized into groups. This model is increasingly popular through co-operatives. In co-operatives, all borrowers are members of the organization directly or indirectly by being a member of co-operatives.
- (III) Grameen Bank Model:** This model was pioneered by Dr. Mohammed Yunus of Bangladesh. It is perhaps, the most well known and widely practiced model in the world. It works on joint liability groups, and thus when a loan is sanctioned, all the members in the group are held responsible for loan repayment. If one member defaults, all the other members are denied subsequent loans.
- (IV) Mixed Model:** It takes the features of SHG model and Grameen Bank Model. SHG method has a compulsory deposit scheme in which members themselves will arrive at a common amount.

In India, above all other models, SHG model is prevalent. There are three models of SHGs. They are given below:

- (a) **SHG – Bank Linkage Model:** This model involves SHGs directly financed by banks. The term bank encompasses public and private sector banks, Regional Rural Banks and Co-operative banks.
- (b) **MFI – Bank Linkage Model:** Here, microfinance institutions are financed (MFIs) by banking agencies and the MFIs provide onward lending to SHGs and other small borrowers.
- (c) **NGOs – Bank Linkage Model:** Under this, NGOs play a crucial role and promotes the connection between banks and SHGs for savings and credit.

Through all these models, Indian microfinance industry has been growing at a faster rate witnessing a growth rate at 81.9 per cent per annum in terms of number of clients and 98.6 per cent in annual portfolio growth, which no other country of similar size could exhibit.

The progress of microfinance self help groups and increased trend of micro credit availed through bank loans by the beneficiaries are presented in Table 1.6.

**Table 1.6: Progress Microfinance and Self Help Groups (SHGs) Bank Linkage Programme in India**

Year	No. of SHGs Linked	Bank Loans ( in Crores)
1992-93	255	0.29
1993-94	620	0.65
1994-95	2122	2.44
1995-96	4757	6.06
1996-97	8598	11.84
1997-98	14317	23.76
1998-99	32995	57.05
1999-00	114775	192.98
2000-01	263825	480.87
2002-02	461478	1026.34
2002-03	717360	2048.67
2003-04	1079091	3904.2
2004-05	1618456	6898.46
2005-06	2238565	13975.43
2006-07	2924973	18040.74
2007-08	5009794	3785.39
2008-09	6121147	5545.62
2009-10	6953250	61980.71
2010-11	7462000	70160.30
2011-12	7960000	65510.41

Source: NABARD (2012)

Data show that the number of SHGs has increased from 255 in 1992 – 93 to 79,60,000 in 2011 – 12. Similarly, there is enormous progress recorded in terms of bank loans: from ₹ 0.29 crores in 1992 – 93 to ₹ 65,510.41 crores in 2011 – 12. But the growth is not uniform across states in the country. The South Indian states dominate in terms of number of SHGs and loans outstanding. The state wise number of SHGs (as in 2012) which are functioning under NABARD leadership is given below:

**Table 1.7: State wise number of SHGs under NABARD**

State	Number of SHGs	Per cent share	State	Number of SHGs	Per cent share
Andhra Pradesh	1,495,904	18.8	Haryana	44,184	0.5
Tamil Nadu	925,392	11.6	Punjab	37,343	0.4
Maharashtra	827,047	10.4	Tripura	34,021	0.4
West Bengal	685,448	8.6	Puducherry	17,913	0.2
Karnataka	628,643	7.9	Meghalaya	14,091	0.1
Kerala	615,714	7.7	Manipur	12,711	0.1
Odisha	540,029	6.8	Nagaland	10,711	0.1
Uttar Pradesh	47,184	5.9	Goa	8,414	0.1
Bihar	305,113	3.8	Arunachal Pradesh	8,363	0.1
Assam	276,565	3.5	Jammu and Kashmir	6,349	0.1
Rajasthan	251,654	3.2	A & N Islands	5,521	0.1
Gujarat	226,626	2.8	Sikkim	5,280	0.1
Madhya Pradesh	163,588	2.1	Mizoram	4,976	0.1
Chhattisgarh	129,854	1.6	New Delhi	3,536	0.0
Jharkhand	89,603	1.1	Chandigarh	619	0.0
Himachal Pradesh	65,641	0.8	Lakshadweep	171	0.0
Uttarakhand	48,141	0.6	<b>Total</b>	<b>9,456,253</b>	<b>100</b>

Source: India Brand Equity Foundation (IBEF) (2013)

In comparison with other regions of the country, southern region of India has higher microfinance penetration. Self Help Groups of south Indian states - Andhra Pradesh, Tamil Nadu, Karnataka and Kerala - together account for more than 45 per cent of the total SHGs operating in India. The dominance of these states in the field of microfinance has continued from the year 2006 to 2012 (Table 1.8).

**Table 1.8: Growth Trends in SHG Bank Linkage Programme**

Particulars	2006	2007	2008	2009	2010	2011	2012
No: of SHGs provided with bank loans	2,238,565	2,924,973	3,625,941	4,224,338	4,587,178	4,813,684	4,354,567
Of which in Southern region	1,214,431	1,522,144	1,861,373	2,283,992	2,421,440	2,663,569	2,355,732
Share of southern region (percentage)	54	52	51	54	53	55	54

*Source: The State of Sector Report, NABARD (2012)*

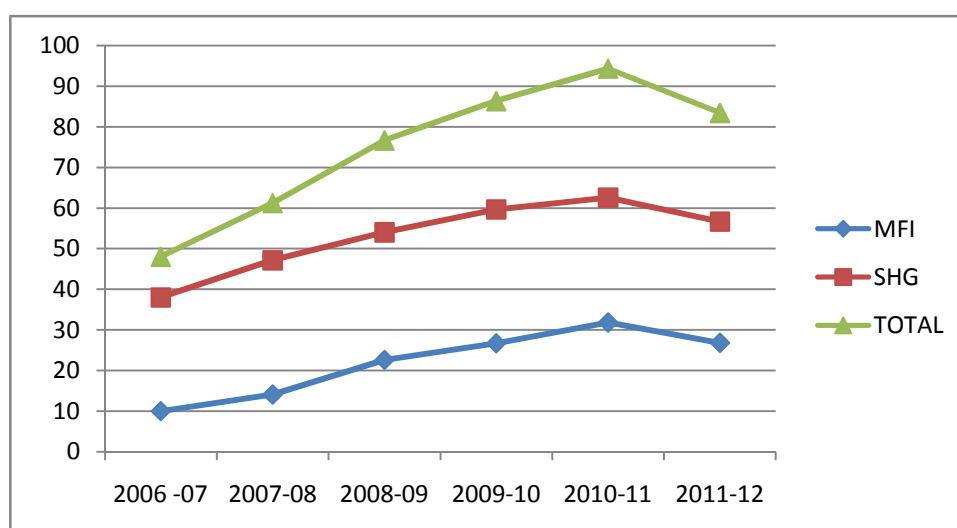
The progress in the growth trends in the number of SHGs can also be attributed to the contribution given by several microfinance institutions (MFIs) and non – governmental organizations (NGOs). In addition to the integral part played by NABARD in linking SHGs to the commercial and rural banks, the role of MFIs are also vital in providing wide client reach with the microcredit. Table 1.9 illustrates the position of microfinance SHG and MFI client outreach (customers in millions) in India for six years (2006–07 to 2011– 12).

**Table 1.9: SHG and MFI Client Outreach (customers in millions)**

YEAR	MFI	SHG	TOTAL
2006 -07	10	38	48
2007-08	14.1	47.1	61.2
2008-09	22.6	54	76.6
2009-10	26.7	59.6	86.3
2010-11	31.8	62.5	94.3
2011-12	26.8	56.6	83.4

Source: The State of Sector Report, NABARD (2012)

The following figure will show the trend for the above data.



Source: The State of Sector Report, NABARD (2012)

**Figure 1.4: SHG and MFI Outreach**

Outstanding SHG loans from banks showed an increase of about 19 per cent, whereas the MFIs performance loans decreased 3 per cent when compared to the previous year. Overall, the loans outstanding in the micro finance sector increased by about 9.7 per cent (Figure 3.3). In terms of

absolute amounts, the increase was of the order of ₹ 51 billion. However, a realistic assessment of the portfolio can be made only when the loans that have turned delinquent are taken into account.

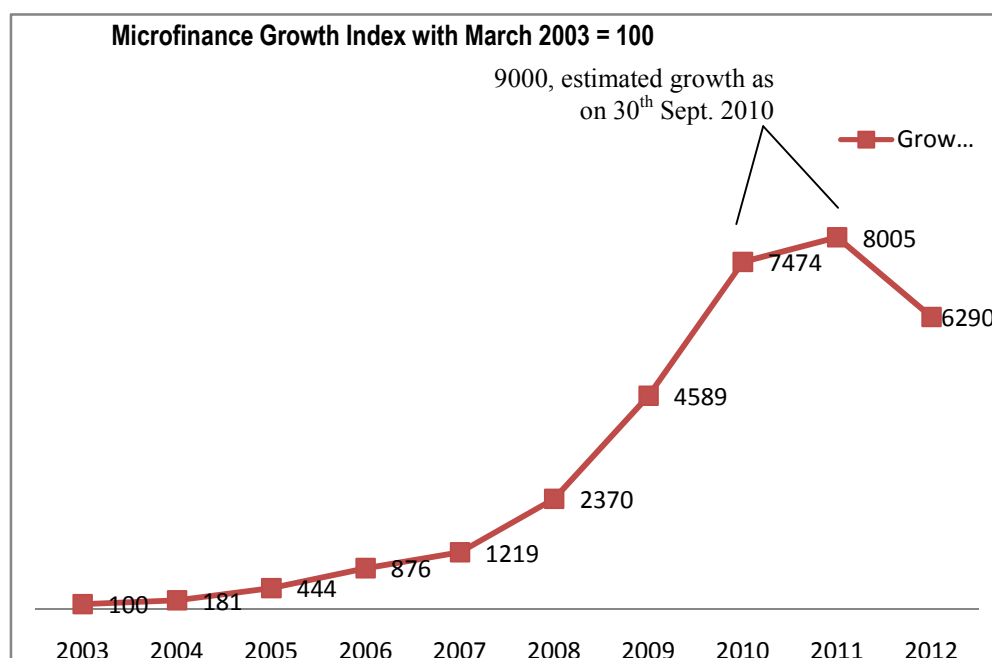
### **1.3.2.2 A Brief account of Microfinance Crisis in India**

Though the industry is predicted to be reaching at its peak during the years of 2011 and 2012, over the past few years – particularly from 2007 until October 2010 - the Indian microfinance industry faced major setbacks as some of the leading MFIs were greedy in fund mobilization and client acquisition. The hunt of growth by the largest MFIs created the mirage of substantial increases in revenue and profit over the next few years leading to magnificent valuations of equity paid by investors of almost 7-11 times of book value. This attracted others in the industry to follow, such that virtually all MFIs turned to growth and more and more new ones were established while already functioning NGO MFIs transformed into NBFCs in the search for quick commercial success forgetting their very purpose of their establishment. Thus India witnessed a growth rate for the industry at 81.9% per annum in terms of number of clients and 98.6% in annual portfolio growth, which no other country of similar size could exhibit. However, after passing the Andhra Pradesh Ordinance on 14<sup>th</sup> October 2010, the industry virtually facing a standstill in the state and most MFIs elsewhere were also affected by the reluctance of banks considering the subsequent risk in lending them.

A greater level of introspection is warranted on issues like multiple lending, the substance of internal control systems, portfolio quality and efficient management of growth of the sector. The repercussions of the issues



that have emerged as found out as: unrestrained growth leads to selection of untrained staff without commitment, an increase in multiple lending and unhealthy competitions, a corrosion in control mechanisms and possible malpractices in loan collection. The following graph will show how the growth rate of microfinance industry as an index for 10 years from March 2003 to March 2012 affected after the setback faced by MFIs during 2010 (taking March 2003 as 100).



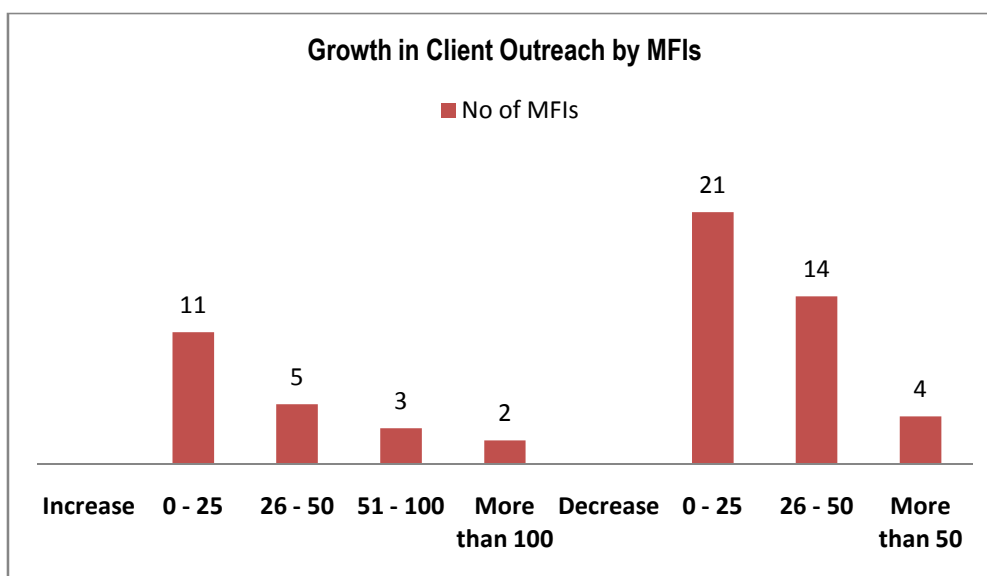
Source: M-Cril Microfinance Review, 2012

**Figure 1.5: Microfinance Growth Index**

The figure 1.5 presents the index for 9 year period from 31<sup>st</sup> March 2003 to 31<sup>st</sup> March 2012 taking March 2003 as the base (where Index value = 100). It is seen from the figure that by March 2010, the index had reached a level of 7,474 up from 4,589 in the previous year registering a composite growth of 63% in the financial year – April 2009 to March 2010

continuing the trend of the previous years. But there was a slowdown recorded from the year 2010 to the year 2011 with just 7.3% composite growth and ended up in an index 8005. It is important to note that the growth continued to happen until early October of the year 2010 and the industry was estimated to grow to 9000 points. After the crisis and related government actions, the index came down to fallen level of 6290 represented a decline from the peak of well over 33% in the microfinance services of the largest Indian MFIs.

The declining pattern in client outreach by MFIs is evident in Figure 1.6.



Source: *The State of Sector Report, NABARD (2012)*

**Figure 1.6: Growth in Client Outreach**

There is a decline of 0 - 25 per cent in client outreach for 21 MFIs. Another 14 MFIs' outreach has declined by 26 to 50 per cent. Such reduction in outreach by MFIs during this year may be due to voluntarily reduced exposure by some MFIs as they were not clear about the risks

(NABARD, 2012). Some other MFIs had to appraise clients rigorously for debt level and drop a number of clients who had other loans elsewhere. Small and medium MFIs had to reduce their staff and branches as they did not get bank loans. Even with the recent setbacks, the microfinance industry remains to be a significant sector of the Indian financial system. The number of effective client accounts served at the end of March 2011 was nearly 35 per cent lower than the previous year (M-Cril Microfinance Review, 2012).

Similarly, the loan portfolios of SHGs and MFIs for a six year period from year 2007 to 2012 are given below:

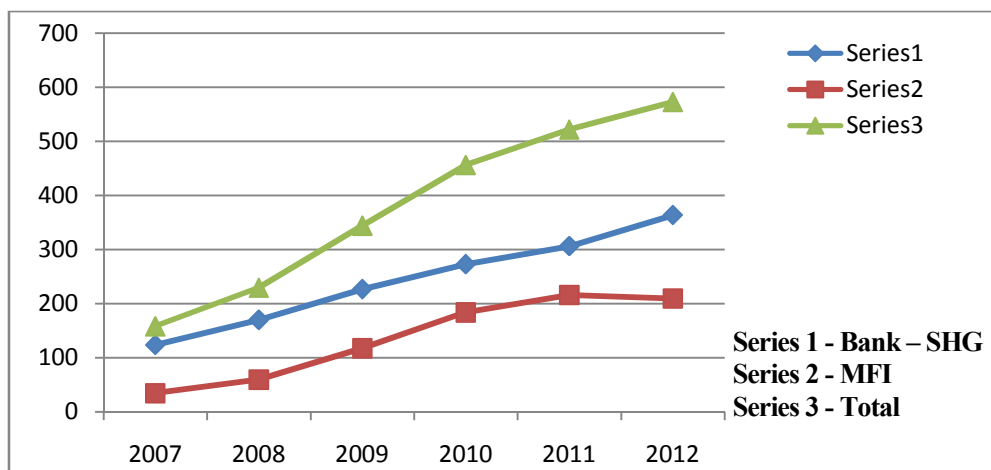
**Table 1.10: The loan portfolios of SHGs and MFIs (In ₹ Billions)**

Models	Years					
	2007	2008	2009	2010	2011	2012
Bank - SHG	123.66	169.99	226.76	272.66	306.19	363.41
MFI	34.56	59.54	117.34	183.44	215.56	209.13
Total	158.22	229.53	344.1	456.1	521.75	572.54

*Source: The State of Sector Report, NABARD (2012)*

The trend of loan portfolios of SHGs and MFIs is generally increasing year after year from 2007 to 2012. But the loan portfolio of MFIs started to show a decrease to ₹ 209.13 billions in the year 2012 from ₹ 215.56 in the previous year.

The trend of the same can be plotted in the figure 1.7:



Source: *The State of Sector Report, NABARD (2012)*

**Figure 1.7: The Loan Portfolios of SHGs and MFIs**

### 1.3.2.3 Progress of MFIs in recent years

In India, a growth rate of 70 – 80 percent had been recorded in microfinance institutions' activities over the past five years. According to the Finance Ministry's mid-year analysis (2010 – 11), the combined microcredit outstanding in India is estimated at US \$ 6.7 billion with around 30 million beneficiaries. Thus, the country has one of the largest microcredit industries in the world. However, the progress of MFIs in customer outreach and outstanding loans for the years 2010, 2011 and 2012 do not exhibit a promising look.

**Table 1.11: Progress of MFIs**

Particulars	2010	2011	Growth rate (per cent)	2012	Growth rate (per cent)
No: of MFIs Reporting	264	170	-	167	-
Customer Outreach in Million	26.7	31.8	19.1	26.8	- 15.7
Outstanding Loans (₹ in Billion)	183.44	215.56	17.5	209.13	- 3.0

Source: *Bharat Microfinance Quick Report (2012)*

The loan portfolio and client outreach showed negative growth during the year 2012. The total client outreach of MFI was recorded at 26.8 million with a loan gross portfolio of ₹ 209.13 billion. There was a negative growth in the client outreach by 15.7 per cent and loan portfolio by 3 per cent. The reason for a relatively higher deceleration is attributed to the inability of MFIs to retain the customers due to liquidity crunch and a fixation of ceiling on multiple loan borrowing – maximum two loans per borrower – of microfinance clients. This has resulted in lesser number of loans per borrower and thus experienced a rapid decline in the industry. This could be considered as an important positive signal in the direction of reducing multiple lending in the microfinance sector. The decreasing outlook of Indian microfinance is also exhibited in the global ranking of microfinance indicators of the country (Table 1.1). The relative position of microfinance industry in India for consecutive three years during the period 2009 to 2011 is given in Table 1.18. It discusses the rank scored by India in five categories such as overall microfinance business environment, regulatory frame work and practices, institutional development or supporting framework, investment climate and stability of the industry in the country.

**Table 1.12: Relative position of Indian microfinance sector**

Particulars	2009		2010		2011	
	Score	Rank	Score	Rank	Score	Rank
Overall MF business Environment	62.1	4	59.1	8	43.1	27
Regulatory frame work and Practices	62.5	13	62.5	14	50.0	22
Institutional development/ Supporting framework	66.7	3	58.3	7	40.0	20
Investment Climates	51.9	14	53.9	14	--	--
Stability	--	--	--	--	62.5	40

*Source: Global Microscope on the Microfinance Business Environment (2009–11), Economic Intelligence Unit Ltd. (2012)*

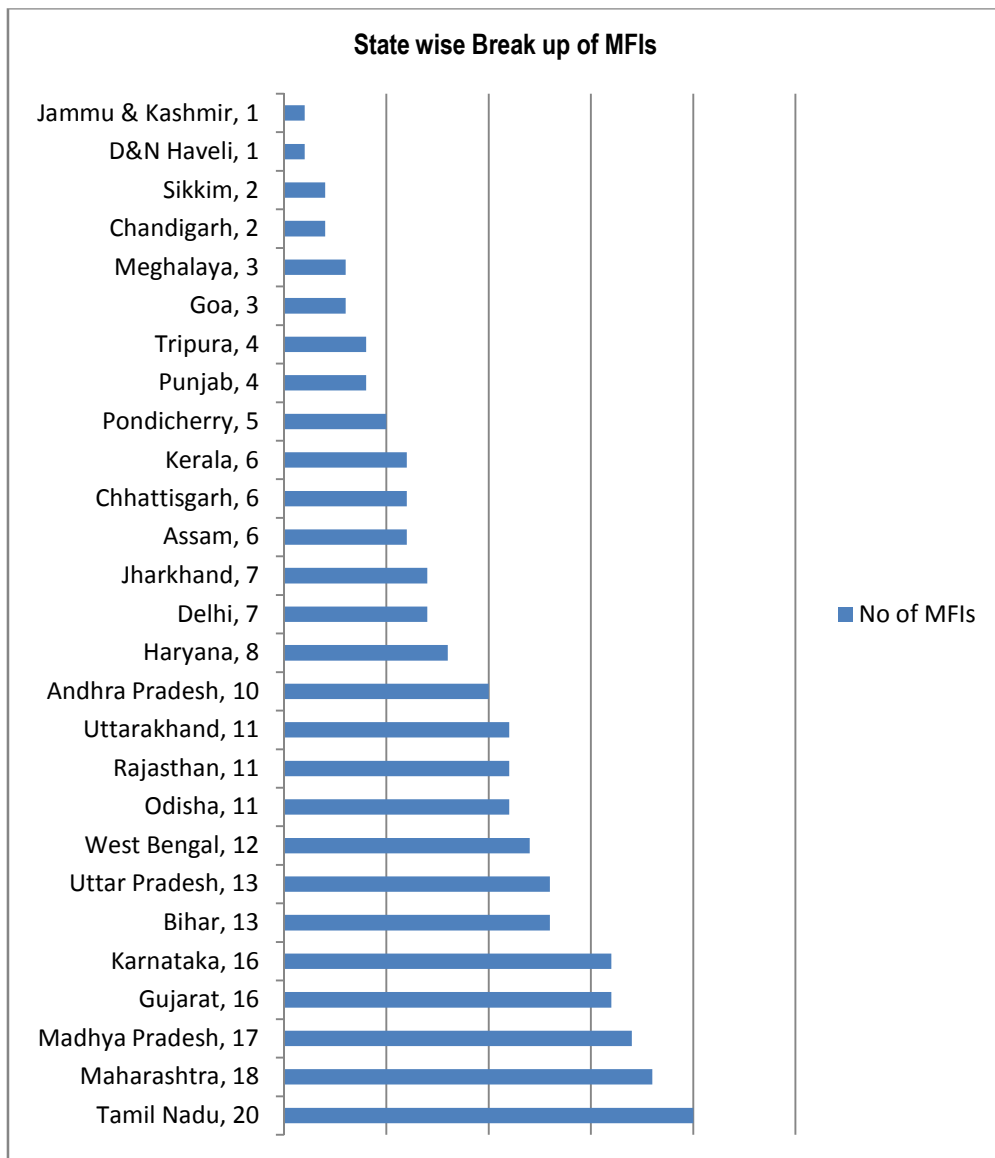
Under the supervision of NABARD about 8.0 million SHGs are functioning in the country serving more than 103 million household members. According to NABARD, the number of SHGs rose from 500 in 1992 to 0.5 million in March 2002 and 8.0 million in March 2012. Loans outstanding against SHGs increased at a CAGR of 20.9 per cent to INR 363.4 billion in the last four years (F.Y. 2008–2012). During the same period, loans against MFIs grew at a faster pace (CAGR of 42.9 percent to INR 114.5 billion). Its share in total outstanding loans surged to 24.0 percent in 2012 from 13.9 per cent in 2008 (NABARD, 2012).

However, the gross loan portfolio has remained almost stagnant, registering a marginal fall of three per cent. This trend could be attributed to the liquidity crisis which affected the MFIs during the years 2010–11 and 2011–12. SBLP (SHG – Bank Linkage Programme) and MFIs put together achieved outreach of 83.4 million clients during 2011–12, which is less by 11.6 per cent of their customer base in the previous year. The SHG movement has helped over 8.0 crore poor women to accumulate savings worth ₹ 6200 crores and obtain small loans worth ₹ 28,000 crores as of March, 2010 (Bharat Microfinance Report, 2011). The massive momentum of microfinance activities – especially those run by MFIs – demonstrates wide disparity among different states in the country. The next section deals with this.

#### **1.3.2.4 Geographical Penetration of MFIs in India – State wise Break-up**

After the deceleration in growth, the microfinance industry is witnessing high diversification across different states. In India, MFIs are present in 27 states and Union Territories. The state-wise break up of MFIs (geographic

penetration - number of MFIs) as of March 31, 2013 along with a graphical representation is given in Figure 1.8.



Source: Microfinance Institutions Network (2012-13)

**Figure 1.8: The state-wise break up of MFIs (geographic penetration - number of MFIs)**

Among the states, Tamil Nadu ranks first and Maharashtra ranks second with the presence of 20 and 18 MFIs respectively. Kerala stands at sixteenth position with a penetration six MFIs operating in the state. There are two states in India (Jammu and Kashmir and DN & Haveli) with the lowest penetration of MFIs with just one MFI operating, followed by Sikkim and Chandigarh (with two MFIs).

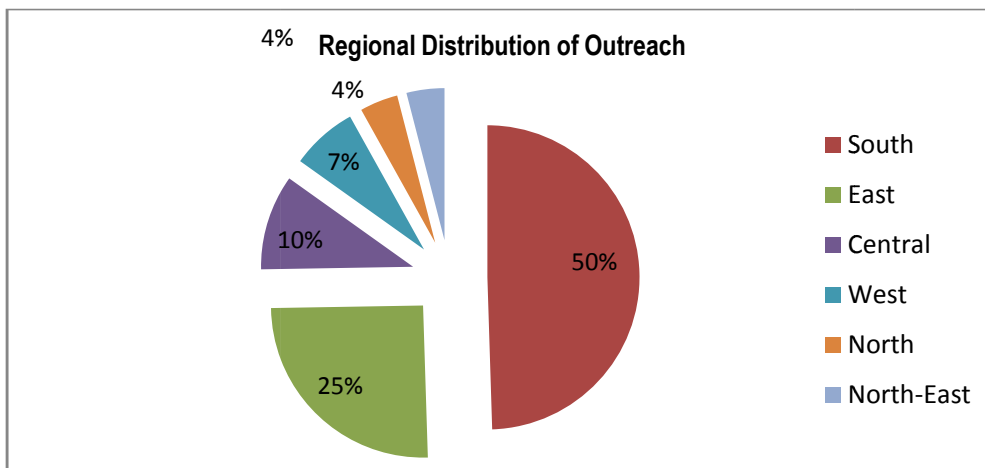
### **1.3.2.2 Rural – Urban Penetration of Indian MFIs**

Many of the Indian MFIs started their operations in rural areas based on the assumption that poverty is largely a rural phenomenon. South Indian states like Andhra Pradesh, Tamil Nadu, Karnataka and Kerala have higher penetration of SHGs, as compared to other regions of India. Together, they account for more than 45 per cent of total SHGs operating in India (accounting for 77 per cent of total bank loans outstanding against SHGs). The rural – urban disparity in terms of outreach and loan portfolios of MFIs is discussed here.

#### **1.3.2.2.1 Regional Distribution of outreach and loan portfolio of MFIs**

Indian MFIs aggregate to 57.6 per cent working in rural areas and 42.4 per cent working in urban areas (M-Cril Microfinance Review, 2012). This rural – urban distribution is declining, as many of the MFIs alter their focus of development objectives from remote rural areas to reachable urban areas. The regional distribution of outreach and loan portfolio estimates based on the Sa-Dhan Bharat Microfinance Quick Report – 2012, revealed that the dominance of the south India continues. The Southern region of the country accounts for almost 50 per cent in both outreach and portfolio, followed by the Eastern region (25 per cent). The outreach share of the Northern region remains below five per cent. Figures 1.9 and 1.10 show the same.

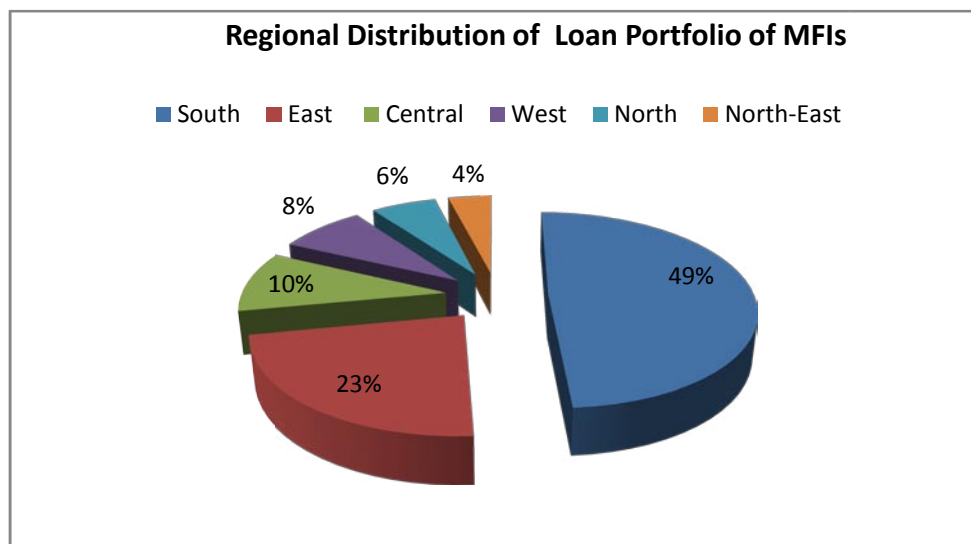




Source: Sa-Dhan Bharat Microfinance Quick Report (2012)

**Figure 1.9: Regional Distribution of Outreach and Loan Portfolio**

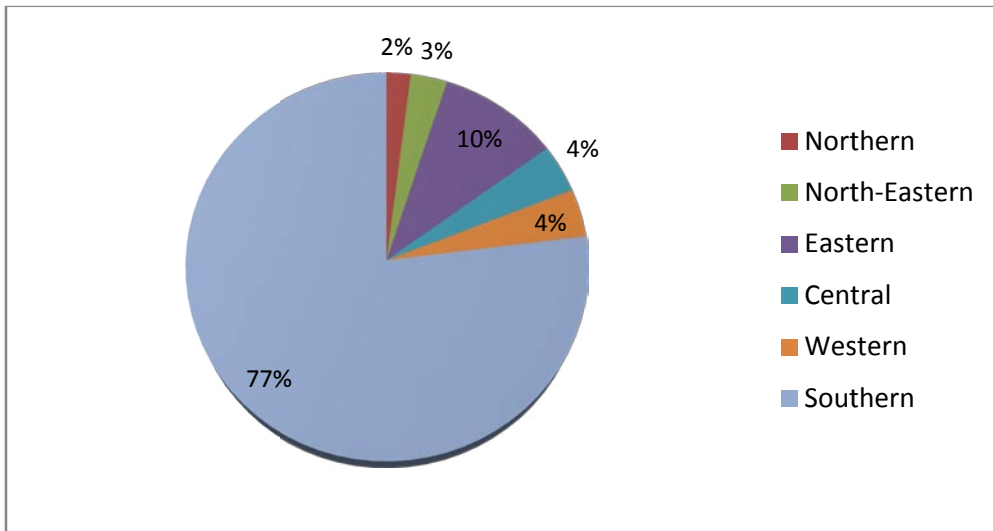
The diagrammatic representation of regional distribution of loan portfolio of MFIs operating in India is given below (Figure 1.10).



Source: Sa-Dhan Bharat Microfinance Quick Report (2012)

**Figure 1.10: Regional Distribution of Loan Portfolio of MFIs**

Lower Microfinance Poverty Penetration Index MPPI in Bihar and Uttar Pradesh indicates ample scope of growing the reach of SBLP and MFIs to serve poor customers (IBEF, 2013). The following diagram (Figure 1.11) explains region – wise SHG’s loan outstanding for the financial year 2012.



Source: IBEF (2013)

**Figure 1.11: SHG’s Outstanding Loans- Region wise FY12**

According to the data, the outstanding loans in southern states of India amount to 77 per cent of the total for the country. Eastern parts of the country accounts for 10 per cent, western and central parts of the country share four per cent each and north and north-eastern parts have two per cent and three per cent respectively.

#### **1.3.2.2.2 Regional Spread of the SHG – Bank Linkage Programme of NABARD**

Another angle of the regional distribution of the microfinance programme initiated by NABARD is given here. During the financial year 2012-13, the percentage share of group linked with loans showed a slight

decrease to 54.1 per cent from 55.3 per cent in the previous year. The eastern region also shows a decrease in the number of groups from 24.3 per cent to 22.6 per cent. But the northern region increased its share to 4.9 per cent from 3.1 per cent. Similarly, North Eastern region and Central region showed a positive change in terms of number of groups whereas Western region remained almost same between the years 2011 and 2012. The details are given below (Table 1.13):

**Table 1.13: Regional share in linkages—SHGs with outstanding loans**

Region	2009		2010		2011		2012	
	Groups	Per cent share	Groups	per cent share	Groups	per cent share	Groups	per cent share
Northern	166,511	3.9	158,829	3.9	151,260	3.1	212,041	4.9
North – Eastern	117,812	2.8	85,276	2.8	151,280	3.1	159,541	3.7
Eastern	933,489	22.1	985,094	22.1	1,171,840	24.3	985,329	22.6
Central	332,116	7.9	497,340	7.9	361,822	7.5	352,452	8.1
Western	393,499	9.3	439,199	9.3	313,913	6.5	289,472	6.6
Southern	2,280,911	54	2,421,440	54	2,663,569	55.3	2,355,732	54.1
All India	4,224,338	100	2,165,738	100	4,813,684	100	4,354,567	100

*Source: NABARD (2012)*

Taking the data from NABARD (2012), larger states such as Tamil Nadu have recorded a decline in terms of the number of groups with loan outstanding. The number of groups that availed loans during the year has declined drastically by 56,727 as compared to the previous year. While there is no change in the performance in Andhra Pradesh, there was declining performance in states like Tamil Nadu, West Bengal and Kerala. The reasons for this decline in performance in such a large number of states need to be

analyzed in depth so as to improve the performance. The comparison of disbursements in SHG loans is given in next section.

### 1.3.2.2.3 Comparison of disbursements in SHG loans— Selected states

Table 1.14 gives data on disbursements in SHG loan amounts with number of groups for the selected states for the year 2010-11 and 2011-12. Also, the growth in the trend is mentioned.

**Table 1.14: Comparison of disbursements in SHG loans— selected states**

States	Year 2010-11		Year 2011-12		Growth	
	No: of SHGs	Loans O/S (₹millions)	No: of SHGs	Loans O/S (₹millions)	No: of SHGs	Loans O/S (₹millions)
Andhra Pradesh	376,667	63,542	378,526	81,714	1,859	18,172
Karnataka	89,259	13,668	87,943	16,295	-1,316	2,627
<b>Kerala</b>	<b>73,275</b>	<b>7,836</b>	<b>55,242</b>	<b>8,542</b>	<b>-18,033</b>	<b>706</b>
Tamil Nadu	190,942	25,486	179,902	19,329	-11,040	-6,157
<b>All India Total</b>	<b>1,202,912</b>	<b>147,687</b>	<b>1,146,185</b>	<b>165,149</b>	<b>-56,727</b>	<b>17,462</b>

Source: State of the Sector Report - Provisional data, NABARD (2012)

In all the southern states, except Andhra Pradesh, there has been a reduction in the number of SHGs. In Kerala the reduction has been significant. The number declined from 73,275 to 55,242, the highest reduction among these states. In Tamil Nadu there has been a reduction in the loan outstanding as well. At the national level there has been a reduction in the number of SHGs.

But outreach to poorer districts differs significantly across south Indian states. Various MFIs operate in 91 districts in south Indian states, (out of 96). Out of the districts reached, 43 are among the poorest districts. Table 1.15 provides the data.

**Table 1.15: Outreach to poorer districts – South Indian States**

States	No: of poorest districts covered by MFIs	Total number of poorest districts	Other districts
Andhra Pradesh	19	19	4
Karnataka	11	12	17
Tamil Nadu	10	10	19
<b>Kerala</b>	<b>3</b>	<b>4</b>	<b>9</b>

*Source: The Dakshin Bharat Microfinance Report (2008)*

The poorest districts have been identified by Government of India as target for prior implementation of the National Rural Employment Guarantee Act (NREGA). In South India, 45 poorest districts have been marked in 2007 – 08. MFIs reach all but two (Kodagu in Karnataka and Wayanad in Kerala) of them. The 96 per cent coverage of all poorest districts in the South India is to be compared to the 63 per cent coverage at the all India level.

#### **1.3.2.2.4 MFI – Client Outreach by South Indian States**

It is estimated that about half of total microfinance clients in the country concentrated in four south Indian states (Andhra Pradesh, Karnataka, Tamil Nadu and Kerala). The states follow two methods of delivery channels: NABARD's SHG – Bank Linkage programme (SBLP) and Microfinance Institutions (MFIs) / NGOs. In addition to Regional Rural Banks (RRBs) and co-operatives, commercial banks also play a very vital role by providing biggest proportion of contribution (65.4 per cent in terms of loan portfolio and 70.8 per cent in terms of number of SHGs nurtured).

In loan outstanding and client outreach Kerala stands at the bottom, with 3.4% and 4.9% respectively of the south Indian totals (Table 1.16).

**Table 1.16: MFI – Client outreach by South Indian States**

S. No.	State	Portfolio Outstanding (in crores)	Portfolio Outstanding (in per cent)	Client Outreach (in Lakhs)	Client Outreach (in per cent)
1	Andhra Pradesh	1944.5	51.8	36.5	47.5
2	Karnataka	1103.9	29.4	19.6	25.5
3	Tamil Nadu	575.4	15.4	16.9	22.0
4	<b>Kerala</b>	<b>127.7</b>	<b>3.4</b>	<b>3.8</b>	<b>4.9</b>
<b>Total</b>		<b>3751.5</b>	<b>100</b>	<b>76.8</b>	<b>100</b>

Source: *The Dakshin Bharat Microfinance Report (2008)*

Based on NABARD's data, the microfinance client outreach is recorded at 13 million clients in 2007-08 and the same in 2011 – 12 is 26.8 million. From Table 3.20, it is clear that the total MFI clients reaches about 7.7 million in numbers and close to half (51.8 per cent) of the figure is in Andhra Pradesh (36.5 lakhs). MFIs in south Indian states served 77 lakhs clients in 2007-08, compared to about 45 lakhs in 2006-07. Also, NABARD's SHG - Bank Linkage programme has reached over 130 lakhs clients in 2007-08. It is to be noted that 37 lakhs clients are there in Andhra Pradesh, 20 lakh in Karnataka, 17 lakhs in Tamil Nadu and 4 lakhs in Kerala (The Dakshin Bharat Microfinance Report, Quick Data, 2008). The following data (Table 1.54) reveals the coverage of financially excluded population by microfinance service providers (MFIs/NGOs) in the four South Indian States.

Table I.17: Coverage of financially excluded population by microfinance service providers (South Indian States)

States of India	Population (million)		Poverty rate (per cent)	Calculated rate of financial exclusion (per cent)	Financially excluded families (million)	Microfinance Loans (million)			
	Persons	Families				SHGs	MFI's	Total	per cent Coverage of excluded families
		Family Size = 4.4	Average = 117.3	Eligible for microcredit			Microfinance Penetration (per cent)		
Andhra Pradesh	84.7	19.25	44.7	52.4	10.10	22.87	7.48	30.34	334.0
Tamil Nadu	72.1	16.39	32.4	38.0	6.23	7.75	5.47	13.22	235.8
<b>Kerala</b>	<b>33.4</b>	<b>7.59</b>	<b>15.9</b>	<b>18.7</b>	<b>1.42</b>	<b>2.41</b>	<b>0.34</b>	<b>2.74</b>	<b>215.1</b>
Karnataka	61.1	13.89	46.1	54.1	7.51	3.41	4.47	7.89	116.6
All India	1,210.0	270.29	55.4	65.0	175.69	64.62	31.93	96.56	61.1

Source: *M-Crit Microfinance Review (2012)*

The poverty rate is the minimum (15.9 %) in Kerala. The calculated rate of financial exclusion is also the minimum (18.7 %) with the State. Comparatively, population (both persons and families) is the lowest in Kerala. Compared to the All India status (61.1 %), microfinance penetration is also very high at 215.1per cent. Andhra Pradesh is leading with 334 per cent, followed by Tamil Nadu with 235.8per cent. The scope for further lending of Kerala in comparison with other South Indian States along with an assessment of over-indebtedness is given in Table 1.18.



Table 1.18: Assessment of likely over-indebtedness and Scope for further lending (South Indian States)

States of South India	SHG Outstanding (₹) per member	Microfinance outstanding (Rs million)	MFI debt as per cent of total	Average mf debt per excluded family	Monthly payments due	Weekly payments due	To be paid from daily wages	average family income – financially excluded	Annual payment, per cent family income	Estimated debt servicing capacity	Scope for further lending
		₹7350 per MFI Loan (average)	per cent	₹	Average 7 instalments	Average 30 instalments	300 working days per family	₹	per cent	per cent	per cent of family income
Andhra Pradesh	5847	188655	29.1	20,763	3,411	796	136	102050	40	40	0
Tamil Nadu	5837	85,452	47	15,242	2,504	584	100	124998	24	45	21
<b>Kerala</b>	<b>6,537</b>	<b>18,190</b>	<b>13.5</b>	<b>14,272</b>	<b>2,345</b>	<b>547</b>	<b>94</b>	<b>118,358</b>	<b>24</b>	<b>45</b>	<b>21</b>
Karnataka	6586	55,352	59.4	8188	1345	314	54	101352	16	40	24
All India	4831	546931	42.9	5664	931	217	37	102994	11	35	24

Source: M-Crit Microfinance Review (2012)

In analyzing the scope for further lending, Andhra Pradesh indicates zero per cent showing no further scope. The states of Tamil Nadu and Kerala has 21 per cent scope for further lending. Kerala has a debt servicing capacity of 45%.

## **1.4 Role of Microcredit in the Promotion of Micro Enterprises, Employment and Income Generation**

### **1.4.1 Micro enterprises**

Mere client outreach or provision of loans to the poor may not help them to continuously combat against poverty. The aspects of productive utilization is more important than just provision of microcredit (Choudary R C, 2001). The microcredit utilized to open micro enterprises or to operate livelihood projects will produce employment and income for the beneficiaries. There must be a graduation from microcredit to livelihood to micro enterprise to enable the poor beneficiaries with employment and income (Hanley and Bill O’Gorman, 2004).

But only 15 per cent of the matured SHG members were graduated micro entrepreneurs (BIRD, Lucknow, 2009) in some of the states like Uttar Pradesh and Bihar and still they are at nascent stage and not economically viable. The slow growth rate of such graduation is a matter of apprehension. Difficulties in getting microcredit, lack of skills and confidence are the main reasons for not graduating to micro enterprises. The study cites that the average investment and average loan amount per an entrepreneur was ₹ 9929 and ₹ 9102 respectively in the two states. This was not adequate for running of microenterprise feasibly.

### 1.4.2 MSME sector

However, the status of micro and small enterprises gives a promising look. The Quick results of 4th All India Census of MSMEs 2006-07 (latest available), exhibits that there are a total number of 2.61 crore MSMEs in 2006-07 (of which 0.15 crore are registered units and 2.46 crore are un-registered units). The report also states that the microenterprises, together with small and medium enterprises, comprise over 90% of total enterprises in most of the economies with generating the highest rate of employment growth and a major share of industrial production. In latest years, the MSME sector in India has consistently recorded higher growth rate compared to the overall industrial sector in terms of number of working enterprises, total employment generated and output of the country.

**Table 1.19: The Performance of MSME India in terms of enterprises and employment**

Sl.No	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (₹ in Crore)
I	II	III	IV	V
1	2001-02	105.21	249.33	154,349.00
2	2002-03	109.49	260.21	162,317.00
3	2003-04	113.95	271.42	170,219.00
4	2004-05	118.59	282.57	178,699.00
5	2005-06	123.42	294.91	188,113.00
6	2006-07	361.76	805.23	868,543.00
7	2007-08 <sup>#</sup>	377.36	842.00	920,459.84
8	2008-09 <sup>#</sup>	393.70	880.84	977,114.72
9	2009-10 <sup>#</sup>	410.80	921.79	1,038,546.08
10	2010-11 <sup>#</sup>	428.73	965.15	1,105,934.09
11	2011-12 <sup>#</sup>	447.66	1,011.80	1,183,332.00
12	2012-13 <sup>#</sup>	467.56	1,061.52	1,269,338.02

Source: Annual Report, MSME India (2012) # - projected.

The trend of MSMEs shows an increasing trend in terms of total enterprises, employment and fixed assets for all the years from 2001 -02 to 2012 -13. The contribution of Micro and Small Enterprises towards Gross Domestic Product of the country is also analyzed to show the relative importance of the sector in the country.

**Table 1.20: Contribution of Manufacturing Output of Micro and Small Enterprises In GDP (At 2004-05 Prices)**

Year	Cross Value of Output (Rs. in Crore)	Percentage Share of MSME	
		Total Manufacturing Output	Gross Domestic Product (GDP)
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.60	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.60	38.48	7.42
2011-12*	1790804.67	37.52	7.28

Source: Annual Report, MSME India (2012).

The contribution towards total manufacturing output shows a slightly decreasing trend year after year. Though the contribution of MSME towards GDP of the country is significant, it also shows a decreasing trend from 2006 -07 to 2011 -12. However, according to the data of Gross Domestic Product (GDP) published by Central Statistical Office, Ministry of Statistics and Programme Implementation, the contribution of Micro and Small Enterprises (MSEs) to GDP and total industrial production was estimated to be 8.72% and 44.86% respectively, during the year 2008-09. Similarly, the approximate contribution of Micro, Small and Medium Enterprises (MSMEs) in total exports of the country for the year 2007-08 (latest available), based on data obtained from Export Promotion Councils, was 30.80%.

The size of the micro and small enterprises sector shows a tremendous growth in terms of number of enterprises from 105.21 lakhs in 3<sup>rd</sup> All India Census of small scale industries (SSI) (2001-02) to 361.76 lakhs in 4<sup>th</sup> All India Census of MSME (2006-07). The same is the trend for employment generated (249.33 lakhs employment in 3<sup>rd</sup> Census of SSI and 805.24 lakhs in 4<sup>th</sup> Census).

Though the sector contains micro, small and medium enterprises altogether, when the type of enterprises is considered, micro segment topped with 198.39 lakh enterprises (99.83 %). Similarly, in providing employment, micro segment dominated with 99.19% of the total employment in unregistered MSME sector, followed by small segment (0.81 % only). By providing employment to 408.84 lakh persons (Rural areas - 57.26% and urban areas - 42.74%), micro and small segment (unregistered) of enterprises dominate the other sectors of the industry. Further, the distribution of employment over micro and small segment of industries will give a clear idea about the opportunity of these sectors (Table 1.21).

**Table 1.21: Distribution of Enterprises, Employment and Average Employment per Enterprise by type of Enterprise**

Type of Enterprise	No.of Enterprises (lakh)	Employment (Lakh)	Average Employment Per Enterprise
Micro	198.39	405.52	2.04
Small	0.35	3.32	9.60
All	198.74	408.84	2.06

Source: 4<sup>th</sup> All India Survey MSME India (2006-07)

### **1.4.3 Employment Intensity in MSME sector**

Unregistered MSME sector recorded an employment intensity of 169.77 persons per fixed investment (crore) when measured in terms of

employment per unit (crores) of fixed investment. The value of the same is 432.00 when measured in terms of employment per unit (crore) of original value of Plant and Machinery. Rural areas show a higher employment intensity compared to urban areas.

**Table 1.22: Employment Intensity by Sector**

Sector	Employment (Lakh)	Fixed Investment (Crore)	Employment/ Fixed Investment (Crore)	Employment/ Original Value of P&M(Crore)
Rural	234.09	107293.93	218.17	494.39
Urban	174.75	133522.53	130.88	369.52
All	408.84	240816.46	169.77	432.00

Source: 4<sup>th</sup> All India Survey MSME India (2006-07)

Similarly, employment intensity of micro segment is pretty higher (179.29 persons per crore of fixed investment) than small sector (22.68). Similar trend is observed when it is estimated using variable of original value of P & M.

**Table 1.23: Employment Intensity by Type of Enterprise**

Sector	Employment (Lakh)	Fixed Investment (Crore)	Employment/ Fixed Investment (Crore)	Employment/ Original Value of P&M(Crore)
Micro	405.52	226174.82	179.29	478.83
Small	3.32	14641.64	22.68	33.37
All	408.84	240816.46	169.77	432.00

Source: 4<sup>th</sup> All India Survey MSME India (2006-07)

From the data given above, it is clear that micro segment dominates in terms of share of enterprises and employment over small segment

especially in rural areas (99.94% of the units and 99.52% of employment). The micro segment, quite large in terms of its share in number of enterprises as compared to small segment in both rural and urban areas, had highest share in investment in P&M and fixed capital amongst both segments, both in rural and urban areas. According to the data compiled by MSME (2009), the working enterprises distributed in rural areas come to 200.19 lakhs (55.34%) when compared to 161.57 lakhs (44.66%) in urban areas.

An impact evaluation study by NABARD (2006) found that in Andhra Pradesh, around 51 % of the beneficiaries who had taken microcredit had not undertaken any income generating micro entrepreneurial activities. Instead, they utilized it for purchasing agricultural inputs or to meet expenses in connection with education, marriage, medical expenses or other purposes. An impact evaluation study conducted by NABARD (2010), disclosed that the beneficiaries were able to set up small scale units with the available microcredit from SHGs. But, they require more finance for starting operations on large scale, showing that the credit available from SHG or micro enterprises are not sufficient to meet the whole financial requirements of the members. It also indicates that the income generated from such enterprises is only moderate.

A study conducted by Price WaterCoopers (PWC), the following pattern of credit usage by the Indian microcredit SHG member is revealed (Planning Commission, 2002, Report of Special Group on Targeting Ten Million Employment Opportunities per year):

- Approximately 63 percent of total credit availed by the rural poor is used for consumption purposes.
- Only 37 percent of the total credit availed by the rural poor is for productive use.
- The overall share of organised sector in credit flow to the rural poor is around 16 per cent.
- The study gave the following reasons for this distortion:
  - Non-availability of credit for consumption needs from the organised sector.
  - Very high transaction cost to the borrowers from the organised sector.
  - Rigidity of terms and conditions for a loan from organised sector.
  - Delay in sanction of loans by the organised sector.
  - Very high rate of defaults under the Government Sponsored Programmes has led to reluctance on the part of the banks to extend credit to rural poor.
  - Non-availability of credit from the organised sector, like commercial banks and developmental banks limits the credit flows to the unorganised sector and accordingly limits the productivity improvement in this sector.

Hence it is imperative to study the magnitude of availability of microcredit among the rural people, the pattern and extent of utilization for



productive, the formation of micro enterprises and the generation of employment and income from micro enterprises and livelihood projects. The following section goes into the current microcredit scenario of the State of Kerala, giving emphasis on employment and income generation.

### **1.5 Microcredit And Micro Enterprise Scenario In Kerala**

It is well recognized that micro and small scale enterprises (SSEs) bring in faster economic growth to a nation. It leads not only to economic development but equitable distribution of resources also. It is for this reason that micro and SSEs exist in large numbers, employing many people even in industrialized countries in the world. In India, though The Industrial Policy Resolution 1956 favoured heavy industry in general, SSEs are considered to be within the broader framework Micro, Small and Medium Scale Enterprises (MSMEs). It is estimated that MSME's contribution is as high as 90 per cent of enterprises worldwide and its role in creating employment opportunities, investments and exports is remarkable (Ministry of Industry, Government of India Report, 2007). The pivotal role of MSMEs in reducing poverty and wider distribution of wealth in India resulted in the enactment of Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006). Since then, in India, SSEs and SMEs have been brought under the common umbrella as Micro, Small and Medium Enterprises (MSME).

Before the enactment of MSME Act in 2006, all the micro and small scale enterprises were classified as Small Scale Industries (SSI). The data pertaining to the details of SSIs/MSMEs in the state for the years from 2007 – 08 to 2011 – 12, is given in Table 1.24.

**Table 1.24: Year wise details of SSIs/MSMEs registered in Kerala**

<b>Year Wise Details of SSI/MSNE registered in Kerala during the period 2007-08 to 2011 - 12</b>					
<b>Sl. No</b>	<b>Year</b>	<b>No. of SSI/MSME Units</b>	<b>Total Investments 9 in lakhs)</b>	<b>Value of goods and services produced (in lakhs)</b>	<b>Employment Generated (Nos)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1	2007-08	11186	189760.31	588100.13	116189
2	2008-09	8421	56595	1322155.38	48111
3	2009-10	9322	73046.34	255894.6	60876
4	2010-11	10882	14365.53	478669.81	84878
5	2011-12	11079	190642.75	584985.35	79181

Source: Directorate of Industries & Commerce>

The data reveal two facts: there is fluctuation in the annual investment, value of goods produced and employment generation: there is consistent growth in the sector or rather there is a decline.

The trend in Human Development Index (HDI prepared by United Nations Development Programme (UNDP)) of the country shows improvement over the years and the country stands at 134<sup>th</sup> rank (HDI value – 0.547) globally among 187 countries. The HDI value of the country was 0.344 in 1980; 0.410 in 1990 and 0.461 in the year 2000. During 2005, the HDI value was 0.504 which got enhanced to 0.542 in 2010 and again improved to 0.547 in 2011. Similar to the global HDI, the Planning Commission of India also prepares Indian Human Development Index in which, state of Kerala ranks first, followed by Delhi, Himachal Pradesh, Goa and Punjab. India prepares a comprehensive index considering three major dimensions of human development: health, education and income.

**Table 1.25: Components of Human Development Index, Kerala - 2007-08**

<b>Components</b>	<b>Kerala</b>	<b>India</b>
Health Index	0.817	0.563
Income Index	0.629	0.271
Education Index	0.924	0.568
<b>HDI</b>	<b>0.790</b>	<b>0.467</b>

*Source: India Human Development Report (2011)*

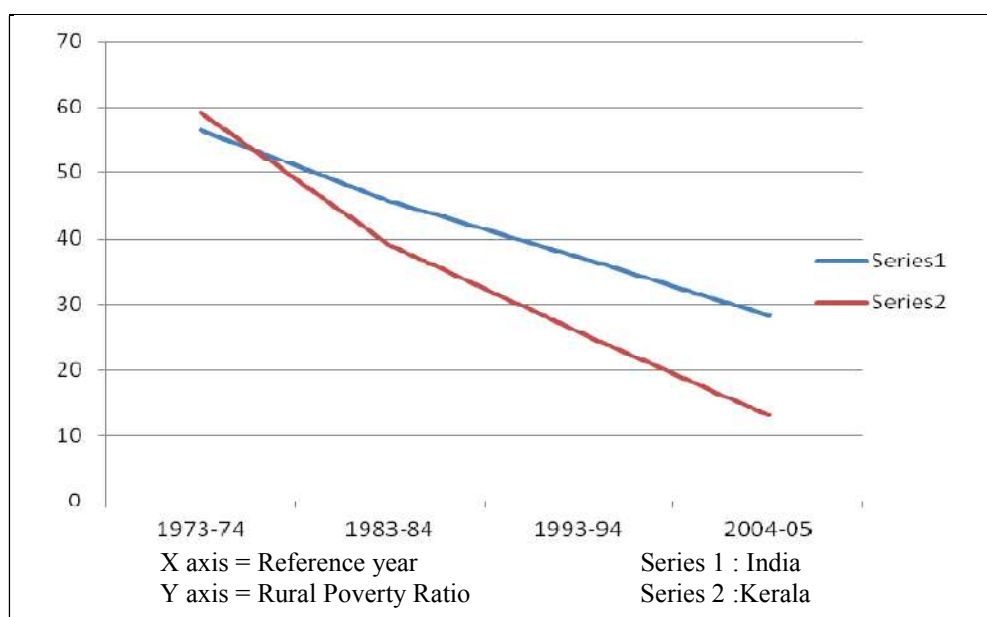
The data indicates that Kerala is ahead of all other states with regard to health, income and education indices. For all these components, Kerala is well above the national average. The life expectancy at birth in Kerala is 74 years.

### **1.5.1 Altering Pattern of Poverty of Kerala**

According to the Human Development Report 2010, published by UNDP, the multidimensional poverty index (MPI) of India was 0.296, with a poverty of 41.6% (in terms of PPP \$ 1.25 per day). The official percentage of population below poverty line is estimated based on the household consumer expenditure survey carried out by National Sample Survey Organization (NSSO). When compared to other developing countries, India has a considerably good record in addressing the poverty issues.

When all the states in India are compared, Kerala occupies a better position in reducing poverty. Kerala's advantages are considered to be high quality population, high GDSP (Gross Domestic State Product) and per capita income compared to national averages, relatively low poverty, excellent banking network and high financial literacy. In order to analyse the changing trends in poverty of people in rural India and Kerala for four

decades starting from 1973 – 74 to 2004 -05, a comparative data are given in Figure 1.12



Source: Handbook of Statistics on Indian Economy (2010 – 11)

**Figure 1.12: Change in Trends of Rural Poverty of Kerala and India**

For all the decades, Kerala showed a better status than the country average of poverty. Though both the country and state average show decreasing trend in poverty, the percentage of decrease in poverty rate is higher for Kerala for all the decades.

The data on poverty based on Tedulkar Committee estimation is also analyzed here. Kerala shows the lowest poverty position compared to other south Indian states. The rural poverty ratio of rural Kerala was 12 per cent in 2009 – 10 and the same of urban Kerala stands at 12.1 per cent (Economic Survey, 2011-12). The comparison of poverty ratio between Kerala and south Indian states is given Table 1.26.

**Table 1.26: Poverty Ratio of South Indian States (in per cent)**

Sl. No.	Category	Name of State	1993-94	2004-05	2009-10
1	Rural	Kerala	33.9	20.2	12
		Tamil Nadu	51	37.5	21.2
		Andhra Pradesh	48.1	32.3	22.8
		Karnataka	56.6	37.5	26.1
		All India	50.1	41.8	33.8
2	Urban	Kerala	23.9	18.4	12.1
		Tamil Nadu	33.7	19.7	12.8
		Andhra Pradesh	35.2	23.4	17.7
		Karnataka	34.2	25.9	19.6
		All India	31.8	25.7	20.9

Source: Economic Survey (2011-12) (NSSO 66th round) Govt. of India

The poverty ratios of rural Kerala indicate a decreasing trend over the years. It was 33.9 per cent in 1993-94 and 20.2 per cent in 2004-05. The figures are the lowest among other South Indian States. The same trend is continuing over the years by the state. Compared to all India level poverty, the Kerala poverty ratios are much lower. It has also to be noted that the specific poverty line 2009-10 for Kerala state is fixed at monthly per capita income of ₹ 775.30 which is above the poverty line fixed by 23 other states. The corresponding figures for Karnataka, Tamil Nadu and Andhra Pradesh are ₹ 629.4, ₹ 639 and ₹ 693.8 respectively.

### **1.5.2 Community Based Microfinance Institutions in Kerala**

The Community-based Microfinance Institutions (CBMFIs) model has high significance in poverty reduction and income generation. It generates possibilities for emergence of a viable option since such

organizations are non-exploitative, member-based and member-managed. Members benefit directly from the savings and the profits. Self Help Groups, women's federations and cooperatives are member-owned and managed organizations. Thus CBMFI's direct loans from banks and other formal financial organizations is the path to getting financial services to the poor (NABARD, 2012).

The SHG federations are prevalent in the states of West Bengal, Andhra Pradesh, Kerala and Tamil Nadu. In Andhra Pradesh, the federations are registered under the Mutually Aided Cooperative Societies Act which provides autonomy for the federations with reduced government intervention. In Kerala, the federations are promoted through the Kudumbashree programme, while the Tamil Nadu Government promotes the federations under its Vazhndhu Kaatuvom and Mahalir Thittam projects. PRADAN, MYRADA, DHAN and CARE are the prominent NGOs in India that promote SHG federations in large scale.

### **1.5.3 The Role of Non-Governmental Organizations(NGOs) as a Microfinance Institution**

The vacuum created by formal financial institutions in serving the poor is effectively employed by microfinance institutions. MFIs currently include commercial banks, development banks, credit societies, co-operatives and a variety of licensed and non-licensed non-banking institutions. It is identified that, there are mainly four forms of MFIs (Dichter, 1999) which constitute the world of formal microfinance.

- Formal institutions like commercial and development banks
- Semi-formal institutions like Non-Governmental Organizations (NGOs)

- Credit Unions
- Savings banks (including national and postal savings schemes)

A study by World Bank (1996) revealed that commercial banks accounted for 78 per cent of the total number of outstanding microcredit. NGOs, on the other hand, accounted for only nine per cent, savings banks just two per cent. Similarly, in terms of number of clients, commercial banks and credit unions showed significantly higher overall outreach than NGOs. But NGO's outreach, on an average, was deeper (Mall and Mishra, 2013). However, the reach established by the NGOs is criticized as narrow in the sense that they do not reach the very poor people. NGOs are also more aggressive in expanding their portfolios. The outreach of NGOs in terms of female based programmes is high as 63 per cent. Similarly, NGO loan portfolios are also showing a rapid growth.

NGOs aims at an all round development of the poor by providing financial services, information regarding healthcare, family planning, education and other social activities. They initiate training to poor women, mobilize group savings and extend credit support to members for generation of self employment and to make the poor credit worthy (Chowdhury, 2009). The NGOs play expanded roles as direct lender of finance to the poor, product developer, provider of managerial assistance, guarantor between the banker and the poor and lender of training services (Mall and Mishra, 2013). However, NGOs aiming at poverty reduction need to assess the impact of their services on user's livelihood (Johnson and Rogaly, 1997).

Also, arguments are prevalent that, many NGOs and MFIs do not reach the poorest and they do not attain financial sustainability (Rajendran and

Raya, 2011). It has been cited by Basu and Srivastva (2005) that at the all India level, only five percent of poor have access to microfinance with significant variations across states. Following the initiatives of NABARD, in 1990s an attempt has been accelerated by NGOs to establish a linkage, connecting commercial banks, NGOs and informal local self help groups. It experienced a dramatic success in reaching the poor and linking them with formal banking system. Though it is a dominant model for the mass outreach banking for the poor, its presence in some areas is still only modest (Laxmi and Archana, 2005).

In 2005–06, NABARD had initiated a pilot project ‘Micro Enterprise Development Programme’ (MEDP) to motivate and assist members of matured SHGs to take up income generating activities on a sustainable basis, in nine districts in nine states, involving 14 NGOs. Since then the sphere of MEDP has grown tremendously. During the year 2011–12, 1914 Micro Enterprise Development Programmes (MEDPs) were conducted for 56,292 members on various location-specific farms, non-farm and service sector activities. So far, 164,948 participants had been covered under the enterprise development programme. At this juncture, the details of the progress made by Kerala on microfinance coverage (as on 2012) are discussed.

#### **1.5.4 The progress details of the state on Microfinance coverage**

The progress details of the state regarding microfinance coverage are given in Table 1.27



**Table 1.27: The progress details of the state on Microfinance coverage**

<b>Microfinance Details for the state of Kerala</b>	<b>Number/ Amount in Rupees</b>
Total Number of Microfinance Institutions (MFIs) operating in the State	15
Number of MFIs having HQ (Head Quarters) in the State	11
Number of Banks providing Microfinance in the state	40 (Public Banks – 18; Private banks – 6; RRBs – 2; DCCBs – 14)
Total number of SHGs under SBLP in the state	615714
Total savings – Client Outreach – Number	8619996
Total SHG savings with banks (Rs. in Lakhs)	41371.11
Total credit-client outreach – Number	3060762 (MFIs – 822960; Banks – 2237802)
Total portfolio outstanding (Rs. in lakhs)	218139.47(MFIs-40216.83; SHG – 177922.64)
Number of districts covered by MFIs	14
Out of which number of poorest districts	4
Poorest districts identified	Idukki, Palghat, Wayanad and Kasargod

*Source: The Bharat Micro Finance Report - Quick Data (2012)*

According to the Annual report 2012 – 13 of Microfinance Institutions Network, significant growth for the microfinance industry is noted in all the regions excluding Andhra Pradesh. The states like West Bengal, Tamil Nadu, Kerala, Bihar, Assam and Uttar Pradesh showed notable increase in microfinance penetration.

The state of Kerala ranks last in the microfinance penetration in the Southern region of the country. The figures are also very low when compared to other states. Kerala records just 3.4 per cent in terms of portfolio outstanding and 4.9 per cent in client outreach. But some state government

programmes like Indira Kranthi Pathakam in Andhra Pradesh and Kudumbasree in Kerala were showing progress positively (Sa-Dhan Quick Survey, 2008; NABARD, 2012).

### **1.5.5 A Brief note on of Kudumbasree as a Poverty Eradication Mission**

The State Poverty Eradication Mission called Kudumbasree (Kadiyala, 2004) needs special mention in this context.. The mission works on collective action of women through capacity building of three-tiered community based organizations (CBOs) known as Community Development Societies (CDS).

The efforts of the Government of Kerala in the year 1991 along with the United Nations Children’s Fund (UNICEF) were integrated into a Community – Based Nutrition Programme (CBNP) in Urban Alappuzha town to improve health and nutritional status of children and women. CBNP initiated collective action by participating women members through forming and developing the capacity of three-tiered CDS. Women from families identified as poor, using a nine –point non-income based index were selected. The member women were organized into neighbourhood groups (NHGs) of 20 – 45 families. Each group elected a five member committee to develop, coordinate and facilitate community development plans and action. NHG were federated at the ward level as area development societies (ADS), and these, in turn, were federated at the municipal level as CDS. By 1994, the CDS approach was extended to the rural areas of Malappuram, one of the 90 most underdeveloped districts in India. Based on the positive experiences in urban Alappuzha, Government of Kerala scaled up the programme in 1998 to cover the entire state under the name ‘Kudumbasree’. It is an interdepartmental programme with representation from 19 line departments. The Mission works on four major principles for community development: convergence of various government programmes, participatory

antipoverty planning and implementation, formation of thrift and credit societies and the development and nurturing of microenterprises.

The flagship poverty eradication programme of the government - Kudumbasree - covers the entire rural area and comprises of about 1,35,572 neighbourhood groups, 13,199 area development societies and 991 community development societies. It mobilized a sum of ₹ 376.06 crores as thrift and re-distributed to its members in 2011. The mission also offers 2,34,756 self employment opportunities to women below poverty line, which has succeeded in making significant dent on poverty of the state (Kalyani and Seena, 2012).

For comparison, the district-wise details on microcredit based group and individual enterprises in Kerala as on 31<sup>st</sup> March, 2000 and 31<sup>st</sup> March 2008 are given (Table 1.28):

**Table 1.28: District wise list of Micro Credit Based Enterprises in Kerala as on 31-03-2000 and 31-03-2008**

Sl.No	District	1999-2000		2007-2008	
		Group	Individual	Group	Individual
1	Thiruvananthapuram	79	1,421	601	3,133
2	Kollam	25	1,150	308	2,048
3	Pathanamthitta	16	337	195	961
4	Alappuzha	70	1,458	398	1,881
5	Kottayam	17	390	179	1,100
6	Idukki	8	92	528	338
7	Ernakulam	201	937	789	2,850
8	Thrissur	63	688	363	1,090
9	Palakkad	34	1,146	421	2,210
10	Malappuram	41	542	310	1,255
11	Kozhikode	64	1,032	520	1,819
12	Wayanad	8	64	81	133
13	Kannur	43	1,101	203	2,865
14	Kasaragode	12	246	159	1,061
	Total	681	10,604	5,054	21,754

Source: Compiled from the records of office of MSME, Kerala and Annual Report – Kudumbasree, (2008 -09).

Though there are micro enterprises operating in all districts, it is more pertinent to analyze the turnover returns from such enterprises. The next section analyses this.

### 1.5.5.1 Turnover Returns from micro-enterprises

It is critical to analyze the turnover (in ₹) from micro enterprises as it is indicative of the success or failure of investment by beneficiaries. Table 1.29 gives the turnover of microenterprises (in ₹) for both individual and group initiatives.

**Table 1.29: Turnover Returns from micro-enterprises**

<b>Turnover (In ₹)</b>	<b>Individual (%)</b>	<b>Group (%)</b>
< 10000	52	49
10001-25000	13	14
25001-50000	13	14
50001-100000	10	11
> 100001	11	12
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Aajeevika (2011), Ministry of Rural Development*

More than half (52 per cent) individual micro enterprises get turnover only less than ₹ 10,000 in one year. Similarly almost half of the total group enterprises also get only less than ₹ 10,000 as turnover. Only 11 per cent individual enterprises and 12 per cent group enterprises get a turnover greater than ₹ 1,00,000 annually.

### 1.5.5.2 Problems with the sectors

It is relevant to understand the problems with different sectors of micro enterprises. The following table (Table 1.30) reveals issues related to production enterprises.

**Table 1.30: Problems with the sectors**

Sl. No	Problems	Percentage
1	Poor quality	7
2	Packing	3
3	Branding	1
4	Lack of advertisement	9
5	Price	48
6	Competition	21
7	Lack of knowledge	3
8	All the mentioned	2
<b>Total</b>		100

*Source: Aajeevika (2011), Ministry of Rural Development*

The data reveals that price (48 %) and competition (21 %) are the two major problems faced by micro entrepreneurs. Lack of advertisement (9%) and poor quality (7%) of the products also affect them.

### **1.5.6 Livelihood project promoted by micro credit in Kerala**

One important issue relates to the effectiveness of these programmes in generating employment and income for the beneficiaries. There seem to be many cases of failures reflecting situations where either there has been outright misappropriation of funds for consumption or purposes other than income generating activities (NRLM, 2009). In many cases the increase in income is insufficient to achieve the objective of taking the household above the poverty line. Another important problem is that the initial increase in income is often not sustained over a longer period. In other words, the self-employment activity often deteriorates over time, instead of becoming a self-sustaining viable enterprise.

The National Commission for Enterprises in the Unorganized Sector (2009) pointed out that the most critical problems faced by the small enterprises are shortage of credit, lack of marketing facilities, absence of adequate infrastructure, procurement of raw materials and competition from large units.

**The major findings of the Commission are:**

- Investment in terms of value of fixed assets is very low in small enterprises; the average value of fixed assets is about ₹39, 000/- per enterprise.
- These enterprises earned very low value added per worker. They seem to be engaged in self exploitation for ensuring subsistence livelihood. Therefore, they require some assistance from the state or other institutions for the promotion of their livelihood through various means.
- Nearly 40% of these enterprises are operated from household premises, 12% without a fixed structure and 7% are mobile. Only 30% operate from fixed premises with permanent structure.
- Nearly 64% reported they were stagnant and less than 20% reported expansion possibilities.
- Majority of these enterprises were not registered with any agency.

**1.6 Critique of the Programme**

The micro finance sector has experienced some setbacks in the last few years. The hype and euphoria about the microcredit programme is increasingly on the wane. The efficacy of the microcredit programme in

terms of enterprise formation, income generation and employment has been in doubt, particularly in the light of empirical studies elsewhere.

It is often debated in the field that many MFIs are not reaching the poorest in the society. Microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004). Poverty is not just lack of income. Wright (1999) argues that by increasing income to an extent to the poor may not necessarily reduce poverty. It clearly depends on what the poor do with this money. Microcredit, to be effective, needs a proper combination of supply – side and demand – side factors (Chowdhury, 2009).

Some schools of thought remain skeptical about the role of micro-credit in income development (Hulme and Mosley, 1996). Poor households do not benefit from microfinance; it is only non-poor borrowers (with incomes above poverty lines) who can do well with microfinance and enjoy sizable positive impacts. More troubling is the finding that a vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans. Lack of monitoring often results in diversion of micro credit for consumption activities or other non-productive uses. The promoters in the field like local self government authorities and non-governmental organization have a critical role in the implementation and monitoring sides of the programme.

Many studies have pointed out that in the absence of any special skills with the clients of microcredit the fund is being diverted in consumption and ends up in investment in non-productive assets by which the very purpose of establishment of such a mission gets defeated.

India had the largest microcredit operation in the world with a growth rate of 62 per cent per annum in terms of number of unique clients, 88 per cent per annum in terms of portfolio over the five years 2005 -10 and around 32 million borrower accounts around in 2010, (M-Cril Microfinance Review, 2012). Though the Indian microfinance industry was predicted to be reaching at its peak during the years of 2011 and 2012, over the period since 2007 the industry faced major setbacks resulting in a decline of nearly 35 per cent in the number of effective client accounts in March 2011. A Quick Study by Sa-Dhan (2012) revealed that many of the microcredit clients have stopped microenterprise activities and have started doing wage labour for their livelihoods. Another study conducted by MicroSave (2012) has also brought out results almost in the same line, showing the overdependence on informal sources of credit at a high interest rate in the absence of microcredit. SHG - Bank Linkage Programme has also recorded a slowdown in the provision of bank loans to the SHGs (Provisional Data by NABARD, 2012). The main reason for the crisis in the field was attributed to over-indebtedness of microcredit borrowers due to absence of entrepreneurial activities, lack of employment and income generation, substantial multiple lending beyond the repayment capacity, lack of monitoring and absence of proper guidance. The report on the state of the sector by NABARD (2012) revealed that 17 per cent of the client households utilized the loan for consumption purposes which leads to lack of repayment. Despite positive impacts of microcredit, many researchers question the efficacy of microcredit in reducing the poverty and unemployment rate among the hardcore poor households (Hasan, 2003; Rahman, 1998; and Datta, 2004). But some state government programmes like Indira Kranthi Pathakam in Andhra Pradesh and Kudumbasree in Kerala



were showing positive momentum (Sa-Dhan Quick Survey, 2008; NABARD, 2012).

The microcredit programme was vigorously implemented in the South Indian states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala, but there has been a serious decline in the growth of microcredit lending in recent years in some of these states. Dakshin Bharat Microfinance Report (2008) discloses the lowest reach of poorer districts among the South Indian states is recorded in Kerala (with only 75 per cent reach of poorer districts ; 4 lakhs clients) after Andhra Pradesh (100%), Tamil Nadu (100%) and Karnataka (91.2%). Further, the International Food Policy Research Institute has estimated that India has more than 70 million microcredit borrowers, of whom only 6 million live in below one dollar a day. It indicates that the majority of borrowers are above one dollar poverty line. It lights to the fact that the providers have not really reached the large numbers of poor and the poor are still out of the microcredit availability. It is estimated that between 350 and 400 million people live below the poverty line in India, which means that between 70 and 80 million households need microfinance services. Only eight per cent of all poor rural households have access to microfinance products where the average loan outstanding is ₹ 5,500 (Chakravarthi and Ravi, 2011; Nasir, 2013). The state of Kerala ranks last in portfolio outstanding and client outreach among South Indian states. Kerala records just 3.4 per cent in terms of portfolio outstanding and 4.9 per cent in client outreach.

Johnson and Rogaly (1997) assert that the provision of microfinance can give poor people the means to protect their livelihoods against shocks as well as to build up and diversify their livelihood activities. Therefore while

analysing the impact of microfinance, the overall impact of the microfinance services on the livelihoods of the poor also needs to be taken into consideration. They argue that in addressing the question of the impact of microfinance, NGOs must go beyond analysing quantitative data detailing the numbers of users, and volumes and size of loans disbursed, to understand how their projects are impacting on clients' livelihoods.

### **1.7 Context of the Study**

In this context, the present study attempts to find the status of microcredit programme in Kerala, focusing on the availability of microcredit, its utilization, interest rates and repayment. The focus of the study is on generation of employment and income through micro enterprises and livelihood projects.

As an economic tool, microfinance performs a major role in lifting the poor from the clutches of poverty. It came as a successful substitute to many ineffective poverty alleviation programmes. The situation of poverty leads to manifold troubles such as decreased health, illiteracy and reduced quality of life. Poor people attempt to struggle against this situation through group savings and loans – microcredit. Microcredit programmes are appropriate in reducing the poverty by increasing the days of employment and income with the help of promotion of micro entrepreneurship. Microcredit activities primarily focus on individuals and reach community as the end result. The initial framework proposers identified four domains of microfinance interventions, individuals, households, enterprises and community (Sebstad et al., 1995).

The income has been provided for households by micro enterprises but their performance is largely dependent on the characteristics of the households. It

is a very conclusive argument that microenterprise intervention not only has impacts on programme participants but also on other household members through intra-household dynamics. Hence it is relevant to study the microcredit mechanism as a tool for generating income through employment in micro enterprises.

Further, there is a necessity to probe into an argument related to the availability of microcredit to the needy. There has been erratic distribution of microcredit among the poor people as many researchers have pointed out (Dakshin Bharat Microfinance Report, 2008; Kunt and Kappler, 2012). The utilization of available microcredit is also important in this regard as many of them have used it for consumption smoothing. Repayment is affected if there is no/less money generated from micro enterprises. The situation may result in re-dependence on money lenders and worsening of the financial position. A study is a necessity in this regard, covering all relevant issues cited in the context of Kerala.

Having located the major operational drawbacks of microcredit in particular, the present study is a deliberate attempt to analyze and evaluate the general state of microcredit and NGO initiated micro entrepreneurial attempts and livelihood projects in Kerala, giving emphasis to employment generation and income generation. If the new wave of lending to the poor through microcredit is effectively handled, it can create miracle in successful poverty alleviation and sustainable development. In this context, the study is presented optimistically to be best used among policy makers, NGO professionals, donors and supporters of microcredit, active practitioners, students, social activists, corporate microfinance players and the society at large.

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## Chapter 2

### REVIEW OF LITERATURE

*Contents*

- 2.1 *Introduction*
- 2.2 *Rural Finance to Microfinance: A Transformation*
- 2.3 *Microfinance and Poverty Alleviation: Its Efficacy and Effectiveness*
- 2.4 *Challenges of Microfinance*
- 2.5 *Research Gaps*
- 2.6 *Summary*

*The chapter presents a detailed review on the current area of research and pertinent issues that form the central theme of the study. The chapter travels through various ways by which Microfinance turned to be an innovative credit instrument to replace old rural credit mechanisms. Studies connected with all relevant variables are drawn so as to study the present situation and to find the research gaps. Extant literature on challenges of microfinance is also studied to know the possible problems which may confront in future.*

## **2.1 Introduction**

This chapter reviews various studies of theoretical and empirical nature to identify major problems of rural credit markets, experiments in the rural credit market and evolution and evaluation of microfinance as a major alternative to formal credit to the poor. The review of literature extends to the mechanism of microfinance, major institutional interventions in microfinance delivery, its utilization and entrepreneurial aspects, income-generation, repayment and empowerment facets. Further, the chapter makes an attempt to bring to light major challenges and hindering factors preventing microcredit holders to become micro-entrepreneurs. The last section of the chapter tries to identify the possible research gap in the area.

The decennial All India Debt and Investment Surveys indicated that the decade of 1960s and 1970s centered the institutional credit sources, especially after the nationalization of the banks in 1969 and introduction of the lead bank scheme (Sriram, 2005). Though the institutional intervention continued in the rural markets, it dropped marginally in 1980s and slanted in favour of agricultural credit schemes. Thus the policy level initiatives had been diverted towards agricultural targets instead of rural credit to the poor and weaker sections of the society.

The banks and other institutions in the formal financial sector were reluctant to serve the rural poor for a number of reasons. The risks and uncertainties in the rural credit market were marked due to the inability of the poor to provide adequate physical collateral, high transaction costs for the lending institutions due to burdensome banking procedures while dealing with large number of borrowers with small amount, information asymmetry

about the borrowers of poor strata and repayment related risks and costs (Sapovadia, 2003-04). The next section presents the way of transformation from old rural financing methods to an innovative method of micro financing.

## **2.2 Rural Finance to Microfinance: A Transformation**

### **2.2.1 Flaws of Rural Credit Markets**

The rural credit market plays an integral role in the development of a country like India. The views on rural credit markets put forth a paradigm that there are many imperfections and flaws associated with rural credit markets. These imperfections are subjected to various facets of uncertainties and future implications of the credit market transactions. Mostly the imperfections are due to information asymmetry which may lead to morale reduction and end up in irregular or no repayment (Laha and Pravat, 2009). The rural credit market basically suffers three broad information problems, namely, screening, incentives and enforcement problems (Hoff and Stiglitz, 1990). The screening risk arises out of assessing the varying risks of the borrower which comes with adverse selection. The problem of borrowers' incentives is regularly referred to as 'moral hazard'. This is another phenomenon arising from incomplete information (Milgrom and Roberts, 1992). Enforcement risk is exactly a situation where the borrower is able, but unwilling to repay (Besley, 1994). To overcome this risk, banks should design appropriate and suitable strategies which may minimize information gap and facilitate easy access to credit to the rural poor (Bell, 1990).

The access to credit is denied to the poor because they face certain imperfections in the banking system such as complicated procedures, lengthy lending process, political interference, distant location and even cultural gaps

(Rajasekhar, 1996, Prasad, et.al, 2011; Brau and Woller, 2004). The clients are often unable to secure loans from banks because they don't have the business track record, established credit or collateral that traditional firms require (Temple, 2009). Although governments in many parts of the developing countries were sought to offer and expand informal credit to rural sectors, many of the beneficiaries lacked adequate resources to get the credit (Midgley, 2008). The rural poor respond to the lack of financial services from formal, organized sector and commercial banks by reducing farming inputs, internalizing risks, diversifying their activities which lead to sub-optimal asset allocation and most unwise asset utilization (Hess, 2003). The poor who are denied formal finance will eventually turn to informal money sources such as friends, relatives, traders, landlords or private money lenders. The informal financial sources will charge high rates of interest ranging from 50 percent to 100 percent, depending upon the period of credit (Ekumah and Essel, 2001; Rosenberg et.al, 2009; Financial Express, 2004)). A survey conducted by MicroSave, a global consulting firm in the field of microfinance, in Andhra Pradesh indicated that traditional moneylenders are charging interest at 36 – 120 per cent per annum on their informal credit to the poor and it may even go upto 160 – 225 per cent per annum for weekly money lending by outsiders of the village (Chakraborty and Parnika Sokhi, 2012).

The combined effect of all these would be a vicious circle of poverty and they turned out to be poorer (Kumar, 2006). The efforts, plans and regulations put down by the central and state governments and other policy makers will be in vain when the poor becomes poorer by the debt trap. The challenge before the strategy makers is to find an innovative approach of reaching the poor in a low-cost and an inclusive way on convenient terms.

### **2.2.2 Experiments in the Rural Credit Market**

Identifying the problems in rural credit markets, governments of the developing countries have been introducing new schemes and strategies to the rural credit market (Tilakaratna, 1996). In India, several schemes like Employment Assurance Scheme (EAS)/ Sampoorna Gram Rozgar Yojana (SGRY), Indira Awaas Yojana(IAY), Swarnajayanti Gram Swarozgar Yojana (SGSY), Integrated Child Development Scheme (ICDS), National Old Age Pension Scheme (NOAPS) etc., were launched and operated in a big way (Planning Commission, 2009). The programmes like SGSY suffered from interest rate ceilings problems, information asymmetry and moral hazard due to adverse selection of borrowers (Shylendra, 2009). Hence, such programmes resulted in subsidizing the rich by levying the poor (Braverman and Gusach, 1993). Along with it, long run sustainability of the financial institutions was also in question. As some poverty alleviation programmes introduced by developing nations during this time were also unsuccessful due to problems of targeting, poor utilization and misappropriation of funds , they ended up in poor recovery (Gaiha et al, 2001). However, informal lending agents and private money lenders were deemed to be better in terms of better credit information regarding clients, interest income, reduced cost and improved recovery rate (Christen, 1989). Deliberations and amendments were to be brought to mingle excellent qualities in both methods. This necessitated the creation of a new credit mechanism merging the good features of formal and informal lending schemes.

### **2.2.3 Microfinance as an Innovation to Replace Rural Credit**

Developing countries all over the world have accepted microfinance programmes as a financial innovation to poverty alleviation, combining the



merits of formal and informal financial lending mechanisms. A nation can be identified as economically strong and viable only if none of its citizens are without work and access to basic amenities. A major restraint in to the participation of the rural households in economic growth is their lack of access to the formal financial services. If the poor has the ability to access and use the formal credit, then they are better capable of managing the vulnerability, risk and uncertainties of income variations. The informal options cannot ensure safety, liquidity, return and convenience.

The significance of microfinance in reducing vulnerability and poverty presumes that the credit and financial aids available to the poor promote self-employment and income generating activities which results in increased income, reduced risk, better education, good health and better living conditions. Apart from this, microfinance can contribute to the empowerment of women by providing them economic and social exposure and increased mobility.

However, the effectiveness of microfinance is skeptical and a matter of controversy. There are enormous literature available, citing both positive and negative aspects of microfinance delivery. Various authors have conducted good number of studies on varied aspects of microfinance and contributed a lot to the concept and operations. Here, various views on microfinance contributed by different authors are presented in three different sections:

- a) Microfinance and institutional support
- b) Availability of microfinance to the rural poor

- c) Microfinance and rural development : its efficacy and effectiveness
  - Utilization of funds
  - Income Generation
  - Pattern of repayment
  - Empowerment

### **2.2.3.1 Microfinance and institutional support**

The increased popularity of Microfinance has increased the number of players in the field. In the Indian scenario, the major contributors include governments, non-governmental agencies, co-operatives, commercial, development and regional rural banks with the apex control from the directives of National Bank for Agriculture and Rural Development (NABARD). Even private banks and money lenders contribute to some extent because of the high repayment results shown by many microfinance groups.

In India, the promotional institutions are basically of three types: 1) Government 2) banks and 3) Non- Governmental Organizations. All these groups are equally good in promoting and operating SHGs, but all have to be in a position to foster and nurture the SHGs (Satish, 2001).

### **2.2.3.2 Governmental Initiatives and Microfinance**

The policy offering subsidized credit through conventional channels, such as government lending agencies, was widely considered to be a failure, because the default rates were very high and wealthier farmers tended to capture most of its benefits (Ghatak, 2002). The growth of microfinance in India has been in response to the failure of institutional initiatives of rural

credit, and exploitation attached to informal system of credit (Singh, 2004). The major shortcomings of Governmental initiatives of Microfinance have been identified (Desai, 2009) as overlapping of objectives in various schemes, lack of sharp focus on objectives, bypassing grass root level governing institutions, improper delivery systems, lack of proper supervision and misuse of subsidies. The objective of NABARD is to give undivided attention to the problem of providing all types of production and investment credit to various rural sectors like agriculture, small scale and cottage industries such as handicrafts to artisans and to other allied activities in an integrated manner (Prusty and Chaudhari, 2009).

The best option for the policy makers will be the overall co-operation between government and different developmental agencies which can play a significant role in poverty eradication (Begum and Zamon, 2004; Tucker and Tellis , 2005). As a result, in India the promotion of self-help groups began in 1992 with the introduction of SHG – Bank Linkage programme initiated by NABARD (Patel, Neha, 2008). Other than SHGs, there are a variety of credit lending models as associations, bank guarantees, community banking, co-operatives, credit unions, Grameen model, group model, individual model, intermediary model, non-governmental organizations, Rotating Savings and Credit associations, village banking and small business units (Jaiswal, 2007). But the leading models in India include Grameen Banking, SHGs, Regulated financial institutions and credit co-operatives (NABARD, 2012).

To achieve its full potential, microfinance must become a fully integrated part of a developing country's mainstream financial system rather than being confined to a niche of the development community (Littlefield and Rosenberg, 2004). But challenge before the government today is finding

ways to integrate full range of microfinance services with the mainstream financial systems and markets. The year 1992 marked the formal beginning of microfinance in India. Although the growth was cautious and erratic in the initial years, since 2000, the microfinance sector had grown at a fairly significant pace in the country (Sharma, 2005). As rightly suggested by Bass Stephen and John Rouse (1997), most approaches to poverty alleviation focus on income and subsidy measures. However, there is a growing realization that these measures alone are not sufficient and attention needs to be given to social and institutional dimension as well.

### **2.2.3.3 Commercial Banks and Microfinance**

The efforts of Central and State Governments of India were directed towards an integrated system to incorporate rural credit and delivery to key financial structure, with the co-operation of the banking system. The situation was that the rural poor required small but regular, urgent loans but their options were restricted to programmes designed and approved by the government, which did not cater to their needs (Laxmi R, and Gupta, 2001). Hence, to bridge the gap between demand and supply in microfinance, the spread of Bank-SHG linkage programme of NABARD has been quiet high with the three southern states of Andhra Pradesh, Tamil Nadu and Karnataka accounting for about 67% of the bank loan and refinance released (Nair, Tara S, 2000). In terms of reaching physical targets, the programme seems to have done quiet impressively (Shylendra, 2004). The results so far achieved appear to be the outcome of the persistent effort made by NABARD in mobilizing a large number of NGOs and financial institutions through cheaper refinance and capacity building support.

It can be observed that, banks also extend their full support to the microfinance sector. Commercial banks are the major component in the SHG- Bank linkage programme. In addition to this, banks participate in financing Microfinance institutions (MFIs). These banks support microfinance sector with soft loans. Also, the banks offer finance to the MFIs directly or finance the clients in partnership with NGOs. Under the SHG- Bank Linkage programme, NGOs and banks interact with the poor, especially women, to form small homogeneous groups (Bansal, 2003). The state intervention in this sector considerably improved the outreach of the banking system and expanded rural credit. Even banks in private sector and other financial institutions are actively seeking entrance to rural microfinance sector (Roy, 2007). Also, at repayment rates in the upper ninety percentage range, SHG- Banking is highly profitable for the banks relative to other financial products, despite interest rates which are among the lowest in developing countries.

But Malcom, Esipisu, Moahnty and Rao, suggested that any commercial bank can profitably mobilize poor people's savings and provide loans to them without the need for special systems or new institutions. The Indian experience is promising because it has demonstrated that, microfinance can be delivered sustainably by commercial banks (Srinivasan, Girija, 2002). Instead of creating new institutions to deliver microfinance, groups of poor people have been able to link into the existing banking infrastructure. Statistics on bank performance also indicate that banks have rather gained in terms of improved NPA, quick recycling of funds, higher profit and access to new clients (Kallur and Biradar, 2001) among the poorest class. Credit needs of the poor are very small. Perhaps an amount equal to 5% of the bank credit

accumulated as NPA in the banking system would be more than sufficient to meet their credit needs (Thingalaya, 2002).

It is to be recognized that no real or imaginary walls should exist between microfinance and the broader financial system (Fernado, 2007). At this juncture, microfinance is considered as the lower end of the broader financial system rather than as an isolated marginal sector that needs to be served only by narrowly focused niche market MFIs. Dusuki (2008) says that the failure of commercial banks to provide financial services to the poor, coupled with disadvantages of informal markets, is the major reason for the invention. The key challenges faced by the microfinance sector include lack of access to finance on favorable terms from commercial banks (Bekele and Jacobs, 2008). Although commercial banks sit on excess liquidity, they are quite reluctant to lend money to women entrepreneurs due to gender bias. Jackson and Islam (2005) found the main reason why regulatory authorities are inclined to regulate and supervise microfinance is to ensure that reckless lending does not threaten the stability of the wider financial system. Some commercial banks are unable to economically administer microcredit programmes (Snow, 1999). In spite of tremendous pace of SHG movement, there has been little innovation on the part of banks (Bhatia and Bhatra, 2004).

The inability of the rural poor to mobilize deposits and limited links to financial markets make it difficult for them to expand without continued access to wholesale funds from governments and international donors (Berger, Marguerite, 2004). It is desirable and indeed essential that commercial banks should be involved in microfinance and if not, any impact of microfinance over global level would be negligible (Bell, Harper and

Mandivenga, 2002). Still, the commercial banks and other financial institutions in the formal financial sector could not be given the entire responsibility of feeding the microfinance clients. The bank-linkage programme calls for proper orientation and sensitization of the branch functionaries so that; they adopt a positive and constructive approach in its financing NGOs and SHGs (Gaur, 1996). It would be healthier to introduce the Grameen System in India, since the banking network already exists (Malcom, 2003). What is needed is a system for reaching the poor, which demands the minimum of institutional change and the SHG system serves the purpose. But in the opinion of Harper, Berkhof and Ramakrishna (2005), the agricultural credit societies and co-operative banks have played a limited role in linking SHGs to formal financial institutions. Banks, however, are the financial institutions and not rural development institutions and they may not possess the instruments and facilities to provide non-financial services to clients which make their projects profitable, viable, credit worthy and help in good loan repayment rate (Pathak, 1992). But through the linkages with SHGs, banks can ensure that the services are provided.

#### **2.2.3.4 NGOs and Microfinance initiatives**

In addition to banks and formal financial institutions, NGO and agencies involved in the development work, were attending to the needs of poor beneficiaries on a funding basis. They started with credit-like delivery models. They demanded that, the beneficiaries pay back the funding that they had received. The success of the SHG –Bank Linkage Programme is mainly due to promotion of these SHGs by many NGOs. The cost of group formation was subsidized by NGOs through grant funds. Later, this cost may have to be built into the overall transaction cost.

The entry of NGOs into microfinance in the nineties initiated some pioneering efforts in providing financial services to the low-income strata of society (Sinha and Patole, 2003). The NGOs have appeared as the savior of countless number of people without food, cloth, education and basic health facilities (Begum and Zamon, 2004). The objective of NGOs is to eradicate rural poverty and the empowerment of poor, developing their institution and creating ability through appropriate distribution of assets and capacity. The NGO-mediated self help group model of community mobilization and microfinance provision was largely successful in terms of increasing social, human and financial capital (Brook and Hillyer, 2008). Some NGOs are also capable of providing sustainable microfinance services (Berger, 2004). But their inability to mobilize deposits and limited links to financial markets make it difficult for them to expand.

The NGO-MFIs (the major source of MFIs in India) disburse loans from the line of credit which is provided to them by a financial institution (Ghosh, 2005). The advantages of intermediation of funds through NGOs are manifold. It leads to reduction in time of identification of credit worthy people, documentation and recovery. The fall in transaction cost is not less than 40 per cent. Along with developing saving and credit facilities, the NGO engage in (1) providing basic education, (2) developing a sense of health and hygiene, (3) encourage family planning (4) creating awareness about environment protection (5) Most importantly, nurturing an environment of gender equality.

In the combined form, NGOs are at the forefront to promote SHG and provide microfinance to them (Rajagopal S, 2006). Microfinance has been developed over the past several years as an effective tool to combat poverty,



especially in rural areas, and bring about development (Reddy et.al, 2006). Along with its service offerings, most NGOs help to strengthen the SHGs by accessing their operations, and offering advice on capacity building. It acts as a support organization to the SHG. The gap that exists in the supply of and demands for poor-friendly financial services provides much scope for NGOs to step into the financial arena (Action Aid, 1998). An increasingly large number of NGOs have done so through the groups of people. It is also to be noted that due to technical training and escort services provided to the entrepreneurs, the microenterprises set up by the members of SHGs promoted by the NGOs and banks were more viable and sustainable (Kumaran, 2002).

Contrary to this, Ahmed (2000) opines that, a vast majority of the poor among the poor are not yet covered by NGOs. NGOs prefer the not so poor and better educated clients which are against the stated objectives of the NGOs. It is supported by Malcom (2002) by stating that, SHGs are probably less likely to include poorer people than Grameen groups. At the same time, the credit from informal and institutional sources plays an important role in rural development in Asia. The role of informal resources and SHGs is important in supplementing the limited resources of financial institutions and their limitations in assisting the unorganized rural poor (Karmaker, 1997). In addition, globally a visible trend of the commercialization of microfinance with NGO transforming themselves into regulated financial institutions or non-banking financial institutions is seen (Nair, 2005).

Gupta R C (1994) stresses that, overtime, NGOs have contributed effectively towards income generating activities through small loans. However, in terms of maintaining their finances and utilizing them optimally and productively most NGOs operating in remote areas do not use the

modern tools of financial management. This important aspect gets neglected due to the pre-occupation of NGOs with the day-to-day routine and problems faced in running such credit programmes without adequate training.

#### **2.2.3.5 SHGs and their role in Microfinance**

It has been described by many researchers in the field that the main characteristic of rural financial markets is active involvement of money lenders, traders, relatives, friends and other informal groups along with the formal institutions like banks, NGOs, co-operatives and development banks (Srivastava, 2009; Kitti, 2009; Bhattacharjee and Stephen, 2004). These groups will charge exorbitant rate of interest. From instances of Nepal and Bangladesh, Poudyal (2007) observed that women have to borrow money from village money lenders at a very high interest rate to keep up the repayment of microcredit. Along with charging excessively high interest rates, money lenders tend to undervalue collateral and often allow racist/sexist attitudes to guide lending decisions (Chowdhary, Ghosh and Wright, 2005). A large number of urban poor, especially women, continue to depend on the local money lenders and often become easy target of exploitation (Sriram, 2007). Basu and Srivastva (2005) articulated that despite the substantial efforts and vast network of rural banks, the rural poor have very little access to formal finance and informal sources remain strong. Mwenda and others (2004) have found that the non-existence of effective financial services in rural areas affects people in many ways, not limited to lack of credit for agricultural expansions, to the long distances to banking services and payments in urban areas and the high risk involved in carrying cash on these long journeys.

To solve the asymmetry many experiments had been initiated in the direction and now India hosts the maximum number of microfinance models, both in indigenous as well as in modern microfinance practices. The models range from pure 'home –spun' varieties like SHGs and co-operatives to the adapted models like 'Grameen Bank methodology and the for-profit corporate models. The SHG model evolved in NGO sector. Among the very many models, SHG models have become very popular and viable.

Self Help Group (SHG) is a vehicle through which the concept of micro-finance is carried to the unreached and under reached sections of the rural poor. It is a voluntary association of poor formed with the common goal of social and economic empowerment. The Working Group (RBI, 1996) commented on the progress of SHGs in India as – (a) SHGs help to generate and collect small thrifts (b) SHGs have been able to meet credit needs of the rural poor (c) SHGs show high recovery rate, and (d) less transaction cost due to assessment of need, disbursement, monitoring and supervision (Satish, 2001). Meenabigai (2005), points out major objectives of SHG programme as (i) creating self-employment opportunities (ii) establishing large number of micro enterprises in the rural areas and (iii) bringing every assisted family above the poverty line. This group approach will involve organization of the poor into SHGs and to improve their capabilities (Ghatak, 2002). More efforts have been made to involve women members in each SHG.

The group is not merely a savings and loan association, but serves as an affinity group that provides a platform for a range of issues (Srinivasan, 2003). SHG may initially lend out of its own pool of funds and after gaining some experience with lending, it may borrow from a microcredit institution for lending to members. Thus the financial self help groups in low income

countries consists of two basic types – Rotating and Accumulating Savings and Credit Associations or ROSCAs and ASCRAs (Bouman, 1995).

The SHG-bank linkage programme promotes the setting up of organized groups of the rural poor into SHGs and then links them to local banks branches (Stavrakakis, Mcleod and Francis, 2008). Transaction costs are reduced as the SHGs hold a group account and take out loans as a group to on-lend to members. They add bank's monitoring costs. They meticulously record their members' savings, repayment, loans and interest as well as financial information on the SHG as a whole. In addition to this, every year SHGs follow an internal grading procedure to ensure high standards. Thus, forming SHGs and carrying financial intermediation through them disproves the notion that the poor cannot save (Sriram, 2007). Another study on Swarnajayanthi Gram Swarozgar Yojana (SGSY) by Gangi (2002) reveals that the poor people also have the capacity to run an enterprise by coming together as SHGs. Thus the incidence of poverty in the country has been reduced (Karmaker, 2002; Das, Rimjhim Mousumi, 2004).

Schweigert (2006) explains that the community initiatives during the past seventy years have attempted to address social problems such as poverty, racism, drug abuse and lagging educational outcomes. One of the most common practices prevalent among such initiatives is provision of credit through SHGs. The approach is to make SHGs, the focal point to route all credit to members. Almost all notional funding organizations and government schemes advocate forming of SHGs and thus providing or linking with credit (Katara, 2007). Future course of action for the SHGs in the areas like taking up the cause of women's right, fight against corruption, educational development

of the villages, imparting health education and entrepreneurship development (Ahmed,1999; Chavan, Pallavi and Ramkumar, 2002).

Though SHGs emerged in response to inadequate services provided by the existing governmental and non-governmental institutions which had left the poor in lurch, the groups are, by and large, restricted to certain pockets of the country. Therefore, there is an urgent need for both at governmental and non-governmental level to activate this movement and spread it in different parts of the country where the poor are largely concentrated (Kumaran, 2011; Kumaran 1997). The SHG as an institutional arrangement could positively contribute to the economic and social empowerment of rural poor and the impact on the latter was more pronounced than in the former (Puhazhendi and Satyasai, 2000). Ramakrishnan and Krishnamurthy (2003) and Shylendra, 1994) are also of the view that, SHG is a viable organizational set up to disburse microcredit to the rural poor for the purpose of encouraging them to enter into entrepreneurship activities.

In addition to providing an effective credit access to the poorest class, the operation of SHGs have been cost – effective with an assurance of repayment for the banks, as the study by Kallur and Biradear (2001) points out. Stimulating Self help capacity of the poor does spark off the entrepreneurial enthusiasm, risk mitigation mechanisms in low income households; it also serves as entry road to overcome poverty and addressing other crucial social concerns. Kumaran (97-98) strongly believes that, although several measures have been taken by the government to link SHGs with financial institutions, the number of such groups are relatively low.

It has been proved in the study conducted by Manimekalai (2001), that, after the intervention of SHGs, the education of children has been better cared of, land less labour households could acquire some land and cultivate their own, the expenditure on both food and non-food items have increased and the SHG member households are able to manage budget without deficit. MYRADA (2001) extols that the Savings and Affinity Groups (SAG) approach must begin with what people have (thrift and affinity) rather than what they do not.

But Rao (2001) while assessing the functioning of women SHGs found that the groups have spread their reach by serving a larger clientele with some amount of credit, but financial deepening of credit system through SHG movement still remains a far cry. Though SHGs could be created fairly easily, overall they failed in the first three years of their existence to enable members to realize their potential benefits (Shylendra, 1998). As a result, the SHGs failed to make any significant impact on the socio-economic life of the women members. The reasons identified for the failure include wrong approach followed in the SHG formation, misconception about the SHGs goals, lack of clarity, failure in team building et cetera.

Vasimalai (2000) clearly gave an answer to this as the federations go through three distinct phases, namely, initiation, consolidation and growth with sound processes and it would take at least three years for any federation to be viable. Seibel, Dieter and Dave (2002) identified that the SHG – Bank Linkage programme can act as an effective mechanism.

The key to future success lies in retaining the basic character and strength of SHGs along with integrating them appropriately with outside

systems to meet the needs of the members in an enduring way. This calls for highly coordinated efforts among all the stakeholders at different levels. To enhance their responsiveness, accountability and transparency, there should be an institutional and functional linkage with the SHGs (Bandyopadhyay, Yugandhar and Mukherjee, 2002) and a suitable policy mix (Jain, Pankaj, 1996; Greeley Martin, 2003; Nair, 2001). But regional imbalances, livelihood diversification through enterprises, non-financial requirements and expertise needed for setting up of business, lack of capital for Microfinance Institutions (MFIs) are some of the challenges faced by the microfinance industry (Thorat, 2005).

### **2.2.2 Availability of Microfinance to the rural poor**

Though microfinance is meant to socially and economically uplift rural poor, it is skeptical in the real sense whether the deserved ones among the poor is adequately served or not. There are many studies done on the subject. Some views are presented in the section.

Conventional banks avoid loans to the poor because of lack of collateral, high transaction costs, lack of information, small size of loans and contract enforcement problems (Khan, 2006). As a result the poor approached informal money lenders with flexible terms. But with the emergence of microfinance, social relations and networks work as social collateral that substitute conventional collateral. Muller and Miltin (2007) stated that the community driven process incorporates self help as one of the strategies to achieve affordability, but more importantly, also to embed a social process across the community. In addition to all these, influence of NGOs, SHGs and peer group pressure ensure proper and prompt repayment.

These institutions obtain their funds from two major sources: one is financial markets and the other is donors and socially responsible investors (Gutierrez and Serrano, 2007). Tassel (2000) strongly felt that the incidence of default will rise under joint liability when a single member, who would otherwise pay back his loans chooses not to do so, because the cost of covering additional group members' payments exceeds the bank imposed punishments. Also, it is difficult for the poor borrowers to start repayment immediately after the borrowing since the income may not have started to flow from income generating activities. This difficulty will force the poor to depend back on money lenders or informal finance providers especially at times of repayments (Jain and Mansuri, 2002). Thus it is found that dependence on informal sources was more among micro-finance groups than non-members. Solomon and others (2002) also opined that, the need for collateral and the accompanying rigid repayment schedule made it problematic for those who experience uneven cash flow to benefit from the programme.

The study by Muniratnam (1997) concludes that the credit discipline of the group, prompt savings and repayment discipline, effective leadership, action against defaulters and regular meetings of group members have contributed to the success of the groups. Tamilselvi and Rathakrishnan (2004) are of the view that the group leader is the key person on whom the success of the SHG depends on.

But most of the poor households reached by the microfinance organizations are near the poverty line – they were the richest of the poor (Navajas and others, 2000; Clark, 2004; Hickson, 2002). The urban poor are more likely to be borrowers, but rural poor borrowers are more likely to be among the poorest. It is also found that lower income communities in rural



areas have benefitted less than their not-so-poor counterparts in the urban areas, an observation that is consistent with findings in other studies (Makina and Lousia, 2004; Mahajan, 1999).

It is suggested by Qazi (1997) that groups should be allowed to grow in an evolutionary manner. Any outside intervention to hasten the process may leave the gap, which could lead in future to cleavages. If the microcredit system works properly with the group acting as a collateral substitute, the linkage model overcomes the untraceable problem of collateral provision by the poor (Satish, 2005; Agarwala, 2007).

### **2.3 Microfinance and Poverty Alleviation: Its Efficacy and Effectiveness**

Development of rural poor in the country is considered to be a major step towards achieving balanced regional development. Rural development in general should aim at improving the living standard and in particular the income of the poor ensuring regular employment in agriculture or allied activities (Sethi and Gill, 2007). The programme provides employment in agriculture, farm activities and also in non- agricultural, non-farm activities (Sarangi, 2007). Through available literature, the section measures the efficacy and effectiveness of microfinance in connection with rural development in five different angles.

- Utilization of microfinance available with the rural poor for entrepreneurial activities
- Employment generation through micro – entrepreneurial activities
- Income generation through employment in entrepreneurial activities

- Pattern of repayment through income generated through micro – entrepreneurial activities
- Influence of microfinance in women empowerment

### **2.3.1 Utilization of microfinance available with rural poor for entrepreneurial activities**

The members of the microfinance and microenterprise programmes who received loans and extensive technical assistance may be expected to increase their income, but it is questionable whether the benefits they accrue as individuals and households have a significant impact on the wider incidence of poverty (Midgley, 2008). The poor of the developing world have the potential to solve the poverty problem through their own efforts provided that the structures of the state regulation and planning which had long suppressed their entrepreneurial talents are removed.

The poor and the poorer people, especially women all over the world, with an access to credit offered for productive purposes by microfinance institutions, generated their own small scale employment in agriculture, food processing, dairying, crafts and petty trading (Rosintan and Cloud, 1999). But the level of impact of microcredit is measured on the basis of how they use the credit (Snodgrass and Sebstad, 2002). The benefits that people gain from receiving microcredit depends on the use they make out of this productive capital.

It has been found by Dunn and Arbuckle (2001) that the microcredit beneficiaries in Peru use credit for both household and enterprise needs and they make use of many formal and informal financial techniques to meet their short and long – term household and enterprise needs. In Jammu and

Kashmir SHG members used about 38.3% of microcredit received for economic and productive activities whereas 15% of the respondents used it for household and personal expenses. Using the microcredit, 26.7% people met family expenses, 8.3% used it for social purposes and the rest 11.7% saved it for hard days (Lodhi and others (2006). Hitherto, assessments of the effectiveness of Indian microfinance institutions in achieving their economic and social goals have largely identified only limited success (Megicks, Mishra and Lean, 2005; Copestake and others, 2010).

In some group schemes, the average loans size is rupees 2000, which is too little to alleviate poverty (Mahajan, 2005). It cannot be said that microcredit by itself can prompt economic growth. In reality, microcredit is barely adequate even as an instrument for poverty alleviation, leave alone the economic growth.

One of the major reasons for popularity of microcredit is the performance of loan recovery where anything below ninety-five percent is considered unsatisfactory by donor organizations (Shillabeer, 2008). However, loan recovery does not give any indication of whether people have really made income from their productive investment of microcredit or not. It is not sure that the poor are able to pay back the loans without suffering additional destitution. Hartungi (2007) observes that poor people tend to use loans to meet basic needs than to invest in income generating activities and this makes the sustainability of MFIs a question. The group based lending would be more successful than individual lending.

### **2.3.1.1 Employment Generation through micro-entrepreneurial activities**

The objective of any microfinance programme is to generate income to poor through self – employment/entrepreneurial or wage employment

activities. The poor, by receiving microcredit, invest in productive micro-entrepreneurial activities and thus generate direct and indirect employment to the members and raise their income levels. This section reviews various impact assessment studies of microfinance with respect to employment generation through micro-entrepreneurial activities.

The first comprehensive impact study on microcredit utilization was done by Hossain (1988) which noted that the most express outcome of microcredit has been on the accumulation of capital by the poor. About one-third of the members were unemployed before they joined microfinance group programme and with microcredit, they became involved in some self-employment activities. Involvement in such self employment programme increased their sources of income and thus reduced vulnerability, repayment problem and crisis risk management.

A group based microcredit lending mechanism generally offers credit for a variety of purposes. It provides small amount of credit to the needy for productive capital, working capital, training and social bonding between one another. These together will contribute for self and wage employment (Khandker, Samad and Khan, 1998; Rosintan and Cloud, 1999; Latifee, 2003; Panda, 2009; Dunn, 2005). There was an increase of 22 per cent in employment among clients in Kenya after joining microcredit programme (Neill et.al, 1994). An increase in self employment among the poor with access to credit had resulted in an increase in rural wages (Khandker and Chowdhury, 1995; Latifee, 2003). Dunn and Arbuckle (2001) found that the microcredit beneficiaries in Peru got nine days extra employment per month. Approximately 40,000 members of microcredit programme got over 4.3 million workdays per year which was equal to 17,414 full time jobs, out of which

6,259 were paid positions for non-household members. In Bosnia and Herzegovina, impact of micro enterprises was recorded as a gradual reduction in unemployment rate from 39 per cent in 2001, to 37 per cent in 2002 and to the lowest rate of 32 per cent in 2003 (Dunn, 2005). An Indian impact study also revealed that there was an increase in annual employment days among the beneficiaries (Panda, 2009).

Bates (2005) deems that there are reasons for using micro enterprise development as a community development policy tool. It is a method of optimizing the use of indigenous resources for economic stabilization and growth and further it is a method of wealth generation for groups that have historically been isolated. He notes that the microenterprise programmes have created or retained jobs.

Regardless of the positive impact of microfinance revealed by several studies all over the world, many microfinance beneficiaries claimed that they were unable to use the loan productively for employment and income generating activities due to severe poverty, educational needs of children, illness of family members, illiteracy problems, disaster and other needs (Haque and Itohara, 2009; Mamun and others, 2011; Rao, 2004)). With these limitations of low capital and expertise, such micro enterprises are operating in basic products with high competition. This will reduce profit margin and productivity and will result in lower socio-economic status.

The basic reason for this phenomenon is the way in which people use funds. The socio-economic benefits on microcredit borrowing were entirely influenced by how they planned to use such funds (Snodgrass and Sebstad, 2002). But the ability to take hold of such opportunities is not the

same at different levels of poverty. Microcredit may even harm the poor who do not have the capacity to absorb credit (CGAP, 2006; Leeuv, et.al., 2009).

### **2.3.1.2 Income generation through employment in entrepreneurial activities**

Microfinance helps the low income people to reduce risk, improve business management, raise productivity, obtain higher returns on investments, increase their incomes, and thus to increase their quality of their lives (Rena, 2008). Microfinance has also proved successful in supporting the economically active poor to improve their businesses and livelihoods. The potential and capacity of the poor for entrepreneurship development are encouraged with the availability of small loans and donor funds (Rajagopal and Sairam, 2007; Conrad, 2008).

Microcredit was primarily established as financial aid to bridge the capital gap unfilled by commercial, rural banks and co-operatives. Thus it provides productive capital to deal with risk and involve in entrepreneurial activities (Otero, 1999). It also helps to build assets and create wealth among poor. Though there is cost relating to administration and legal formalities, the benefits from microcredit programme will outweigh such costs (Nair, 2003)

It is found by a series of studies that the incomes of the households engaged in microenterprises activities increased more rapidly than those who do not have any such activities to involve (Hulme and Mosely, 1996, Schreiner, 1999 (a), Snodgrass and Sebstad, 2002, Schreiner, 1999(b). There was a significant increase in income from 15 percent to 38 per cent in the average income level between 2002 and 2004 of the people in Bosnia and Herzegovia after joining microcredit programme (Dunn, 2005). A recent study by Bangladesh Institute of Development Studies and World Bank in

Bangladesh indicated that microfinance promoted consumption smoothing and asset building (Latifee, 2003). Increase in self employment increases the number of sources of income for the households and increase in real wage (Khandker and Chaudhari, 1995 and noted that in India a significant increase of 11.4% in the household income, 9.75% in the asset position and 42.5% in savings by of the participants than non-participants of the programme (Littlefield et.al, 2003; Panda, 2009).

Gibbons and Kassim (1990) found a significant increase of 55% in the monthly household income of the participants after participation in the microcredit programme. Amanah Ikhtiar Malaysia (1990) observed an increase in household income for 98% of the members. Similar increase in household income has been noted: 10-12% in Indonesia and around 30% in Bangladesh and India (Hulme and Mosely, 1996). Conclusions from some major studies also demonstrated a positive effect on household consumption and income, especially for female borrowers (Pitt and Khandker, 1998; Khandker, 1998).

However, many impact studies showed depressing findings about income generation. Following the criticisms of previous impact studies conducted by funding agencies and microfinance advocacy groups, independent evaluations (eg. Morduch, 1998; Coleman, 1999) were done by many researchers in the field. On an analysis of 5,000 households in rural Morocco over two years, it was found that the impact of microfinance on consumption to be negative and insignificant. There were other studies indicating no impact of microfinance on new business creation and women empowerment (Stratus, 2010; Dennis, 1998). Microenterprise programmes reach only a small portion of the most-disadvantaged because the able members only try self – employment.

A work done by Pitt and Khandker (1998) was revisited by Roodman and Modruch (2009). The assumptions and findings of the primary study were all robust evidences supporting the positive impacts of microfinance. But reworking the primary study data (Pitt and Khadker, 1998), Roodman and Modruch came with a new conclusion that there was little to confirm that microfinance had any real role in poverty reduction. They added that there was not much solid evidence to prove that microfinance improved the lives of the clients in measurable ways. There are arguments to show that microfinance is better used for consumption smoothing than investing in enterprises (Dichter, 2006). Microfinance can assist basic consumption needs rather than stimulating enterprising activities. It is true that consumption smoothing will reduce risk and vulnerability, but it can steer the poor to use microfinance for non-income generating, non-existent income in an unsustainable way. Growing dependence on microfinance coupled with unsustainable, non/low productive activities will force the poor to depend on outside financial agencies and money lenders to at least cover the high interest. The poor becomes in the debt trap forever afterwards (Srinivasan, 2010). The indebtedness due to unsustainable use of microfinance is common place in India and across other developing countries. It is very prevalent in India and Bangladesh (Banking with the poor, 2009; Ghokale, 2009).), in Peru (Kevany, 2010), in Balkans (Bateman, 2011) and in Bosnia and Herzegovina (Cain, 2010).

There is a huge problem of ‘displacement’ (new micro enterprises displace existing micro enterprises) effect among micro entrepreneurship. The net result is only some additional jobs or small amount of extra income (Osmani (1989); Quasem (1991); Bateman, (2011), Weiss et.al, (2003). Even



some long-standing supporters of microfinance now agree that the positive impact of the programme is getting weak. Policy interventions have to be adopted to promote microfinance as an income generating and growth strategy. Client feedback and monitoring also play a major role in developing this along with broad reach to the hard core poor.

### **Pattern of Repayment**

The pervasive assumption of microfinance programme is that borrowers utilize loan proceeds in productive, micro enterprises and repay their loans out of the revenue thus generated. But certain studies found that the clients regularly use the resources from other sources to repay their loans. The section reviews various studies pertaining to repayment of loans.

Many microfinance institutions have a reputation of maintaining a very enviable record of repayment of their debts – almost at 95-98 percent level- and also enabling the poor to earn their livelihood through sustainable business. Such organizations are measured in terms of performance of loan recovery where anything below ninety-five percent is considered unsatisfactory by donor organizations (Shillabeer, 2008; Ghosal (2009).

Premchander (2001) advocated that the monitoring helps to find out whether the project activities are on the path that was charted out and to make sure that there are no serious deviations. It is also true that too many rules make the monitoring difficult while inadequate discipline would lead to weaker groups. Another observation is that the programme staff are not active in loan monitoring where as peer group monitoring is very active (Hung, 2003). The peer groups members are jointly liable for each other's loan. They are active in screening, monitoring and enforcing loan transactions,

ensuring generation of income from their activities and prompt repayment. The loan repayment rate by borrowers of Grameen Bank was excellent that only 0.5 per cent of loans to 975 borrowers were overdue beyond one year, only 3.3% weekly installments (Hossain, 1988). Amanah Ikhtiar Malaysia (AIM) reported that they could serve 82 per cent of the total poor and hardcore poor households in Malaysia with 99 per cent repayment rate (Mamun and others, 2011). Typically, the microfinance institutions issue credit on frequent repayment on a group setting (Armendariz and Morduch 2005). It usually starts within 1-2 weeks after loan disbursement. Weekly collection of repayment instalments is believed to reduce default risk in the absence of collateral and make lending to the poor viable. On the other hand, it also dramatically increases MFI transactions costs, thereby limiting the set of loan sizes and client types that are profitable under this model (Field and Pande, 2006). Microfinance practitioners all over the world advocate that more frequent repayment schedule improves the repayment rate (Jain and Mansuri, 2003).

Many impact studies have shown that women have better repayment rate than men. A study by Gibbons and Kasim (1990) on Amanah Ikhtiar Malaysia (AIM)'s microcredit operations, found that the overall repayment rate was 78% which was much lower than the repayment rate achieved by Grameen Bank (97-98%). However, the repayment rate among women alone was at 95%.

There were negative impacts on client's self – esteem which may stem from stress relating to the pressure to repay loans (Dunn and Arbuckle, 2001). Though any MFI is obliged to take any legal action against the poor if they fail to repay, the social obligation and group pressure are still there

(CGAP, 2006). Thus the clients will depend on selling of own assets or borrow from outsiders. Selling productive assets reduces the household income and increases the repayment liability and thus the poor becomes poorer.

If one member fails to repay, then it is the responsibility of fellow members of the group to repay it, or put pressure (peer pressure) on the member to pay off her debt. Otherwise, subsequent loans will be denied. This feature gives customers important incentives to repay promptly, to monitor their neighbours, and to select responsible partners when forming groups (Fugelsang and Chandler 1993). But at the same time, it acts as a social pressure which forces the defaulter to take loans from outsiders and money lenders.

The efforts required in the whole process from evaluation to collection of loans demand much more administrative efforts resulting in higher administration costs and lower efficiency and productivity (Satta (2006); Varma, 2007; Sankar (2007). Rajagopalan (2009) opined that high transaction costs restrict the outreach of MFIs to rural areas. Due to this, the credit given to the poor and needy for enterprise development and income generation failed miserably on account of non repayment (Dichter, 2007. Heobserved that most of the microcredit given for enterprises were actually used for consumption.. Though consumption smoothing is a survival technique for short-term, it is debt trap in the long-term (Dichter and Harper, 2007; Morduch, 2005; Bateman and Chang, 2009).

However the reach of microfinance to the needy is catered to a great extend by the microfinance institutions. Rigorous monitoring on utilization of

microfinance for income generating purposes, correct scheduling of repayment and adequate training may help microfinance to decline inequality of the poor during rapid economic growth by increasing the elasticity of poverty reduction.

### **2.3.1.3 Women Empowerment**

Apart from self and wage employment, some entrepreneurs like to be and proud to be their own bosses (Balkin,1992; Latifee, 2003). Holvoet (2005) notes that women's group membership, more intensive training and group meetings seriously shift overall decision making patterns from norm-guided behavior and male decision making. Access to financial services can make vital contribution to the economic productivity and social well-being of poor women (Kabeer, 2005).

The SHGs enhance the status of women as participants, decision makers and beneficiaries and bring out the supremacy of women in molding the community in the right perspective and promote the initiative of women in taking entrepreneurial ventures (Karmaker, Ranjith and Ghosh, 2002; Mulani, 2003; Mayoux (1998).

A study by Puhazhendi and Jayaraman (1999) found that the participation of women on economic front, income from different activities for the members, participation of women in social front, impact of group on literacy, housing facilities and consumption and food security are also the factors influencing women's participation.

In the context of bridging gaps in gender inequality, increased attention is being paid to enable women to become active partners in decision making, implementation and evaluation of all interventions initiated for energizing,

organizing and sustaining their livelihoods, as Reddy (2002) pointed out. Self confidence of women, health consciousness of women, participation of women in house management increase after participation in the SHG and their interaction styles also improve (Carr, Marilyn, 1996; Sudharani, Umadevi and Surendra, 2002; Lalitha, 2003). NABARD (2003) reports that there have been wholesome changes in perspectives and living standards of SHG members on account of ownership of assets, increase in savings and borrowing capacity, income generating assets and increase in income.

#### **2.4 Challenges Of Microfinance**

Several studies (Butt and Tang, 1998; Godquin, 2004; Wydick, 1999; Sharma and Zeller, 1997; Jain and Mansoori, 2002; Huppi and Feder, 1990; Stiglitz, 1990) have acclaimed the high repayment ability of programme and considered it as a measure of success. This is based on the assumption that correct repayment shows the financial capacity of the (woman) borrower, initiatives for income generation activity and sustainability of the micro enterprises.

However, the reality behind the correct repayment was the presence of peer pressure oriented tightly structured installment system. The scenario will naturally force the poor borrowers to take loans from informal credit sources (Jain and Mansoori, 2002; Chavan and Ramkumar, 2002). Dependence on informal credit sources and money lenders was more among microfinance members than non members and borrowers faced negative shocks at the time of repayment (Ahmed, 1999). Likewise, the merits of groups in terms of repayment of loans existed only if the other members of the group do not have the same density of shock (Bratton, 1986).

The findings of Hulme and Mosley (1996) showed that poor households do not benefit from microfinance. More crucial is the fact that the vast majority of these poor borrowers actually end up with less incremental income after getting microloans. Monitoring plays a significant role in it. But unfortunately supervision from authorities is really weak after the initial examination of documents and people selection. As per a report by Planning Commission, India (2008), the process of monitoring activities in the block level was found to be very poor. Only 25 % of respondents in the block committees were monitoring the activities of the SHG members and in Bihar, Chattisgarh and UP, the block level monitoring of the functioning of activities was almost non-existent. The problems of monitoring as reported involved limited manpower to carry out such an exercise and lack of initiative.

There are many other corresponding factors in the generation of income or output. Among them the most important one is recipient's entrepreneurial skills and lack of basic education or experience. A study conducted by Massachusetts Institute of Technology (MIT) found no impact on measures of health, education or women's decision making even after participation in microfinance (Banerjee, et.al, 2009; Zinman, 2009).

According to Karnani (2007), most people do not have the skills, vision, creativity and persistence to be entrepreneurial and income generating. Mahajan (2005) is of the view that microcredit is a necessary but not a sufficient stipulation for enterprise development. Enterprising requires other inputs such as identification of right livelihood opportunities, selection and motivation of the micro – entrepreneurs, training at different levels on different modes and even regulatory matters to a small extent. In the absence of all these, microcredit by itself works only on some limited set of familiar

activities like livestock maintenance, petty trading and small level of kitchen gardening.

The ability to identify and tap suitable opportunities differs among entrepreneurs. It also depends on their ability to access information and ability to act upon in terms of risk and return. Individual attributes affect discovery of entrepreneurial opportunity. It is made up of psychological and demographic factors (such as motives, attitude to risk, education and training, career experience, age and social status). Economical, political, legal, socio-cultural factors, infrastructure and marketing skills are all factors deciding success. (Epke, Mat and Razak, 2010; Robert, 2007).

Microfinance promotes inefficient micro-enterprises in large number that leads to over-supply of enterprises and unhealthy competition among entrepreneurs (Batemen and Chang, 2009). At this juncture microenterprises are forced to survive by drastic cost-cutting strategies, or else will end up in very low or no profit margin. Some enterprises may even run into losses and the poor entrepreneurs will be in a position to sell out whatever little assets they have. A World Bank study in Bangladesh found only very marginal improvements for borrowers of microcredit (Khandker, 2006).

Though microcredit programmes are intend for the poor and economically disadvantaged, there is a huge support to the view that microfinance providers and donor agencies should charge low interest rate to microcredit so as to make the programme financially viable and economically sustainable (Adams and Von, 1992; Yaron, 1992; Shankar, 2006; Chavan and Ramkumar, 2004). Planning Commission, India (2009) also asserts that the present ceiling of loan amount is very low and interest rate charged on such

microcredit is very high for people at Below Poverty Line (BPL). Ekumah and Essel (2001) also put forward a point that women in Ghana have a genuine fear regarding the programme because of the high interest rate and stiff repayment modalities. Jonathan Morduch (2008) reported that interest was charged between 20 per cent and 40 per cent per microloan per year after taking inflation into account.

Microfinance is not the solution to global poverty, but neither is health, or education, or economic growth. There is no one single solution to global poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerful tool (Yunus, 2003; Daley, 2007).

For poverty reduction microfinance needs both complementary supply-side and demand-side factors. Without a supportive macroeconomic, trade and industry policy framework, micro-enterprises will remain micro, with no backward or forward linkages or employment and income creation possibilities. This is the crux of the so-called graduation problem of micro-borrowers, as highlighted in the editorial in *Daily Star* (Dhaka, Dec. 12, 2008). So long as this is not complemented by the government's facilitating growth of marketing network, reliable energy supplies and a dose of fiscal incentives to the small exporters, the full potential of the micro-credit sector would remain untapped.

## **2.5 Research Gaps**

Microfinance in general and microcredit in particular focus clearly on tapping enterprising abilities of poor, especially living in rural areas. Differences of opinions were found in the availability and utilization pattern



of microcredit. Microfinance supports the poor in not only granting credit on relaxed norms, but also through effective training. Still, the impact of microcredit on the poor is a matter of debate.

In this context, the present study aims at analyze the current state of microcredit in the state of Kerala giving special emphasis to availability of microcredit for the really deserving, and various factors determining the availability and the utilization pattern of microcredit. The study also probes the role of microcredit in establishing microenterprises and aspects of employment generation and income generation through micro enterprises and livelihood projects in Kerala.

The repayment record of an SHG is considered to be one of the many success factors of microcredit operation. It is clear from the literature survey that peer pressure and social pressure work as threatening forces for ensuring repayment. Since the entire group is collectively responsible for the repayment, there are likely chances that members may under-supply their effort. Homogeneity of the group, solidarity among the members, attitude of the entrepreneurs and responsibility of the SHG as a whole are important for microfinance to end up as micro enterprise. Keeping all the factors open, the study seeks to examine the major factors relating to income and employment generation parts of micro enterprises.

## **2.6 Summary**

The imperfections of the rural markets made it difficult to collect relevant information about the poor especially those who are living in rural areas. Formal institutions were reluctant to serve those poor who do not possess any collateral or skills. At this juncture, microfinance evolved as an

effective strategy replacing physical collateral. However, the impact studies differ in the opinion regarding the effectiveness of microfinance. Studies have pointed out that there are hindrances for the poor to avail microcredit. Utilization pattern of microcredit for income generation purposes is also not uniform. They have all highlighted the fact that high repayment by women is not always a success indicator, but the result of the social pressure. This resulted in a situation where the beneficiary once again depends on private money lenders for timely repayment, which defeat the purpose of microfinance. Also, there are criticisms on higher interest rate. For analyzing these factors, the chapter reviewed various studies on institutional framework for microfinance, its availability among the poor and its influencing factors, utilization and its contributing factors. The various view points of scholars all over the world are presented on efficacy and effectiveness of microfinance in rural development. The chapter also presents major research gaps.

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# Chapter 3

## RESEARCH METHODOLOGY

<i>Contents</i>	3.1 <i>Conceptual clarifications and Operational Definitions</i>
	3.2 <i>The Research Problem</i>
	3.3 <i>Relevance of the study</i>
	3.4 <i>Objectives of the study</i>
	3.5 <i>Major Hypotheses</i>
	3.6 <i>Research Methodology</i>
	3.7 <i>Limitations of the study</i>
	3.8 <i>Chapterisation of the Thesis</i>

*The chapter aims at presenting the research methodology used in the study. The chapter starts with operational definitions of the important concepts and terms used in this study. This is followed by statement of the research problem, the relevance of the study, objectives of the study and major hypotheses. Later, discussion of the research methodology, statistical tools of data analysis and limitations of the study are presented. The last part gives a brief description of the chapters of this thesis.*

### **3.1 Conceptual Clarifications and Operational Definitions**

This section presents the conceptual and operational definitions of the important variables and terms used, in recognition that there are alternative definitions and viewpoints. It will help a more meaningful comprehension of the various concepts used in the study.

#### ***Microfinance***

Micro Finance is defined as the ‘programme that provide credit to self employment and other financial and business services to very poor persons’ (World Bank 1997). Micro Finance is defined by Asian Development Bank as ‘the range of services is expanded in the Asian Development Bank’s definition which defines Micro Finance as the provision of a broad range of services such as deposits, loans, payment services, money transfers and insurance to poor and low income households and micro enterprises’ (ADB 2000). The Task Force on MF established by NABARD defines Micro Finance as the ‘Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards’ (NABARD 1999). In a much narrower sense, microfinance is often referred to as microcredit for tiny informal businesses of micro entrepreneurs, the services being mainly delivered by non-governmental organisations (NGOs) oriented in a social context (Christen, Lyman & Rosenberg, 2003).

#### ***Microcredit***

The term microfinance is sometimes used interchangeably with the term micro credit. Micro credit refers to small loans to poor for self-employment, entrepreneurial activity or livelihood projects. Therefore,

microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005). As per Micro Credit Special Cell of the Reserve Bank Of India (RBI), the loan amounts up to the limit of ₹ 25000/- could be considered as microcredit and this amount could be gradually increased up to ₹ 40000/- over a period of time which roughly equals to \$500 – a standard for South Asia as per international perceptions (Biswas, 2007).

### ***Micro Enterprise***

International agencies like ADB, World Bank, USAID and the European Commission view such enterprises as micro enterprises employing less than 10 persons. A microenterprise is a type of small business, often registered, having five or fewer employees and requiring seed capital of not more than \$35,000 (Association for Enterprise Opportunity – AEO). In Indian context micro enterprises are defined by The Micro, Small and Medium Enterprises Development Act, 2006 as those enterprises which engaged in the manufacturing or production of goods where the investment in plant and machinery does not exceed twenty five lakhs rupees. In case of service industries such enterprises where the investment in equipment does not exceed ten lakhs rupees

An operational definition for microenterprise is given by **Kudumbasree** is as follows:

- 1) An enterprise with investment ranging from ₹.5000 to ₹ 250,000,
- 2) Turn over between ₹ 100000 and ₹ 500000,
- 3) Generating at least ₹ 1500 per member per month,
- 4) iv An enterprise fully owned, managed and operated by members themselves (OME)

For clarity and operational purpose, the study takes the definition given by Kudumbashree excepting the turnover and income criteria since the enterprises started by the SHG members with lesser turnover and low income need also to be included in the study.

### ***Livelihood project***

Livelihood is defined as adequate stocks and flows of food and cash to meet basic needs. A livelihood project comprises of the capabilities, assets (including both material and social resources) and activities required for a means of living. (Chambers and Conway, 1991). A livelihood provides the support for the enhancement and exercise of capabilities, and capabilities enable a livelihood to be gained. The study takes a livelihood in its simplest sense as a means of gaining a living.

### ***Income Generation***

The study considers income generation as creation of income from business or productive activities of micro enterprises and/or livelihood projects established or nurtured with the help of micro credit granted through self help groups.

### ***Employment***

The study considers employment as full time or part time remunerative jobs, irrespective of its nature as skilled, semi – skilled or unskilled; created by micro enterprises formed by the members of the self help groups with the help of micro credit.

## **3.2 The Research Problem**

The contribution of microcredit in low income societies has been globally endorsed, particularly its role in employment and income generation.



Policy makers and NGOs in India hailed the arrival of microcredit in the country and considered it as a means of eradicating poverty and empowering women.

India has the largest microcredit operation in the world. Over the five year period 2005 -10 the growth rate was 62 per cent per annum in terms clients and 88 per cent per annum in terms of portfolio and around 32 million borrower accounts in 2010 (M-Cril Microfinance Review, 2012).

Though the Indian microfinance industry was predicted to reach its peak during the years of 2011 and 2012, over the past few years, particularly since 2007, the industry has been facing major setbacks. For example by March 2011 there was a decline of nearly 35 per cent in the number of effective client accounts. The SHG -Bank Linkage Programme also reported a slowdown in the provision of bank loans to the SHGs (NABARD, 2012). A Quick Study by Sa-Dhan (2012) revealed that many of the microcredit clients have stopped microenterprise activities and have started doing wage labour for their livelihoods. Another study conducted by MicroSave (2012) has also brought out results almost in the same line, showing the overdependence on informal sources of credit at a high interest rate in the absence of microcredit. The report on the state of the sector by NABARD (2012) revealed that 17 per cent of the client households utilized the loan for consumption purposes which leads to lack of repayment. The main reason for the crisis in the field was attributed to over-indebtedness of microcredit borrowers due to absence of entrepreneurial activities, lack of employment and income generation, substantial multiple lending beyond the repayment capacity, lack of monitoring, and absence of proper guidance. Despite positive impacts of microcredit, many researchers question the efficacy of microcredit in

reducing the poverty and unemployment rate among the hardcore poor households.

The microcredit programme was vigorously implemented in the South Indian states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala but there has been a serious decline in the growth of micro credit lending in recent years in some of these states. There was a major crisis in Andhra Pradesh on account of high interest rate, multiple lending, diversion of investment funds for consumption, etc., leading to high indebtedness of the borrowers and lack of repayment.

In this context, the present study attempts to find the status of microcredit programme in Kerala, focusing on the availability of microcredit, its utilization, interest rates and repayment and also the generation of employment and income through micro enterprises.

### **3.3 Relevance of the Study**

It has been asserted the world over that as an economic tool, microfinance performs a major role in lifting the poor from the clutches of poverty. It came as a successful substitute to many ineffective poverty alleviation programmes. Therefore, studies on the efficacy of the micro credit programme as well as the strategy of implementation become imperative.

There have been several studies in India and in Kerala about microfinance and micro credit programmes in general. Very few studies have been reported in India on the efficacy of the programme in relation to microenterprises, employment generation and income generation. Most of the studies in Kerala have been about Kudumbasree programmes. None of the

studies addressed the issues pertaining to micro credit programmes of NGO supported SHGs in Kerala and the efficacy of these programmes in terms of income generation and employment.

The issues confronting the implementation of microcredit programme will reduce the potential of the programme to make significant contribution to generate employment and income to the low income groups through the establishment of micro enterprises. The studies addressing these issues would be relevant to the economic planners and policy makers, the banks and financial institutions, the NGOs and the SHG sector.

### **3.4. Objectives of the Study**

The broad objective of the study is to analyze the state of microcredit in Kerala with special reference to employment and income generation through microenterprises. Study covers the availability of microcredit in Kerala for the needy, the extent of utilization of microcredit for establishing microenterprises, employment, income generation and loan repayment.

The specific objectives of the study include:

- 1) Get an overall assessment of the micro credit programme in India and in the state of Kerala
- 2) Study the availability of microcredit to the needy in Kerala and to identify different factors influencing the availability of microcredit
- 3) Study the interest rates and repayment details of microcredit received by the SHG members.

- 4) Analyse the extent of utilization of microcredit for micro enterprises and livelihood projects and identify different factors influencing the utilization of micro credit
- 5) Identify the extent to which these microenterprises / livelihood projects generate employment and income
- 6) Study whether the micro enterprises established by individuals and groups are viable business units
- 7) Analyse the feedback from the SHG members, who have availed micro credit and who have not availed micro credit, regarding the usefulness of the micro credit programme.

### **3.5 Major Hypotheses**

The hypotheses for the study have been formulated based on the literature survey and exploratory study. A comprehensive list of hypotheses is given as Annexure IV at the end of the report.

**Some of the major hypotheses formulated and tested in the study include the following:**

- 1) There is no significant influence of different selected socio-economic factors on the availability of micro credit to the SHG (Self help group) members.
- 2) There is no significant association between different selected socio-economic factors and utilization of micro credit for microenterprises / livelihood projects.
- 3) Micro credit does not make any significant contribution to family income of the borrowers.

- 4) There is no agreement in the ranking about the factors affecting the availability of microcredit of the respondents who availed and did not avail microcredit
- 5) There is no significant difference in the proportion of SHG members having arrears in microcredit repayment in less than 30 years age group and greater than 30 years age group.

### **3.6. Research Methodology**

#### **3.6.1 Method of Data Collection**

The study is descriptive and analytical in nature. The research has been carried out by collecting Primary data and Secondary data. The major sources of secondary data comprised of research reports, journal articles, reports published by government and non-governmental organizations etc.

For primary data, two studies were conducted:

- (a) Sample Survey among members of SHGs.
- (b) Survey among micro entrepreneurs.

#### **a) Sample Survey among members of SHGs**

A survey was conducted among two groups of respondents: SHG members who had taken micro credit loans and SHG members who had not taken micro credit loans.

Simple random sampling was used for the survey. Three districts were selected for the study - Ernakulam, Alappuzha and Malappuram, on the basis of per capita income ranking of the districts in Kerala. Ernakulam

has the highest income ranking, Alappuzha the middle ranking and Malappuram, the lowest ranking.

Thirty SHGs were selected from these districts, with 10 from each district. Ten respondents were selected at random from each SHG, making the total respondents 100 in each district. Hence total sample size was 300 for the survey among SHG members. The ten respondents selected from each SHG two were SHG members who had not taken microcredit loans. Hence the sample size of 300 included 60 respondents who had not taken loans. Two pre-tested research schedule were used for data collection.

b) **Survey among micro enterprises**

Thirty micro enterprises have been selected for the study, with one unit from each of the 30 SHGs initially identified. Judgment sampling was used for selection of the microenterprises.

### **3.6.2 Research Instrument and data collection**

Two research schedules was prepared for the survey among SHG members (one for SHG members who had taken micro credit loan and one for SHG members who had not taken loans) and they were pre-tested through a pilot study. The research instruments are given in Appendix I and II at the end of the report. Respondents were interviewed, using the research schedule. Over seventy percent of the interviews were conducted by the researcher personally. Trained investigators were used for the remaining interviews.

For the survey among micro entrepreneurs, another research schedule was prepared and pretested among five micro entrepreneurs. Structured interviews were held with these respondents.

### **3.6.3 Period of the study**

The data collection for the Survey among members of SHG was conducted during the period from January 2013 to June 2013. The survey among micro entrepreneurs was conducted during the period September 2013 to November 2013.

### **3.6.4 Pilot Study**

**Validation of the research problem** was done with the help of discussion with ten SHG members who have taken microcredit and five SHG members who have not taken microcredit. The rationale of the problem was discussed with NGO leaders and bank officials dealing with microcredit. For this purpose interviews were carried out with officials of five NGOs and five Banks in two districts.

**A pilot survey** was conducted among 25 beneficiaries of microcredit who had taken microcredit and 10 SHG members who had not taken microcredit with the research instrument prepared for the survey among SHG members. Suitable modifications were made to the research instruments based on the input received from the pilot study.

### **3.6.5 Tools for analysis**

The data gathered from the sample of SHG members and entrepreneurs were tabulated and analysed using the Statistical Packages for Social Sciences (SPSS). The major statistical tools used for data analysis include chi-square test, t – test, Mann-Whitney test, Z – test for proportions, etc. For comparing the opinion regarding major issues connected with availability of microcredit among relevant sub samples, Kendall's W has been used. A

factor analysis was done for identifying major dimensions of the factors which influence the availability of microcredit among the SHG members. Descriptive statistics were also used for data analysis.

### **3.7 Limitations of the Study**

In spite of all the methodological care and measurement precautions that were taken in the study, certain limitations that have been perceived in the current research are acknowledged here:

- The geographical scope of the study was limited to three districts and these districts may not truly represent the state.
- The sample sizes for the various studies may not be large enough.
- The opinions of the respondents may be biased in favour of SHGs and microcredit. There might have been tendencies among the respondents to amplify or filter their responses.
- In the study of the micro enterprises, data on the performance of enterprises were given by the entrepreneur respondents and these data were not allowed to be cross checked with the records of the units, in spite of the good efforts of the researcher.

### **3.8 Chapterisation of the Thesis**

This section presents the organization of chapters of this study.

**Chapter – 1: Introduction** – This chapter begins with the introduction to the topic with its historical perspectives. Thereafter, international initiatives and developments of microfinance followed by evolution and progress of the same in India and Kerala are presented in detail. It also discusses the micro entrepreneurial scenario of the country and the state in detail.



**Chapter – 2: Review of Literature** – This chapter starts with flaws of rural credit market and discusses microfinance and institutional support, availability of microfinance to the poor, microfinance utilization, entrepreneurial activities, employment generation, income generation aspects, various view points on women empowerment and attribute of beneficiaries on repayment. It also discusses various challenges of microfinance and concludes with some deliberations on research gaps.

**Chapter – 3: Research Methodology** – The chapter covers operational definitions, significance of the study, research problem, objectives and hypothesis. This is followed by methodological details and limitations of the study. Then chapterisation follows.

**Chapter – 4: Data Analysis** – The chapter presents report of data analysis of the two studies in Part 1 and Part 2: the survey among SHG members and survey among entrepreneurs of micro enterprises. As part of the report on survey among SHG members, a detailed analysis on the socio-demographic factors of the members of the SHGs, the availability of microcredit to them, its utilization aspects, employment and income generation particulars are presented. In part 2 details of the finding related to the working of the micro enterprises are presented.

**Chapter – 5: Summary of Findings and Recommendations.** The chapter presents the major findings of the study. Policy recommendations are also presented.

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<b>Contents</b>	<b>Part I:</b>
	<b>4.1 Survey Among Members of the SHGS</b>
	4.1.1 Socio - Economic and Demographic Profile of the respondents
	4.1.2 Self Help Group and Delivery of Microcredit
	4.1.3 Eligibility for Microcredit - Conditions
	4.1.4 Microcredit Availability: Hypothesis Testing
	4.1.5 Microcredit Utilization: Hypothesis Testing
	4.1.6 Generation of employment and Income from Micro Enterprises: Hypothesis testing
	4.1.7 Repayment of Microcredit: Hypothesis testing
	4.1.8 Comments on Microcredit Programme from all respondents
	<b>Part II:</b>
	<b>4.2 Survey Among the Micro Entrepreneurs</b>
	4.2.1 Nature of business
	4.2.2 Details of Microcredit
	4.2.3 Utilization of microcredit: Generation of income
4.2.4 Generation of employment	
4.2.5 Repayment of microcredit	
4.2.6 Major problems faced by micro entrepreneurs	
4.2.7 Opinion on the improvement of social status of respondents	

The chapter deals with detailed account of analysis of data with hypothesis testing. Data was collected from two sources (i) Survey among the members of the SHGs; and (2) Survey among micro entrepreneurs. The chapter presents data analysis from the two studies.

**Part – I**

**4.1 Survey Among the Members of the SHGS**

The Microcredit programme has received wide appreciation from government, non-governmental organisations and multilateral agencies. Microcredit has emerged as one of the major strategies to encourage entrepreneurship among the poor. It is postulated that it can effectively generate employment, income and empowerment of women through self help group system and sustainable income generating micro enterprises. The study seeks to analyse the role of microcredit in promoting micro-enterprises and in income generation among the rural poor in the state of Kerala. This section of the study attempts to analyse the following key areas of microcredit from the points of view of the members of the SHGs.

- ⇒ Socio - Economic and Demographic Profile of the respondents
- ⇒ Microcredit Availability: Hypothesis Testing
- ⇒ Microcredit Utilization: Hypothesis Testing
- ⇒ Generation of Income and employment from Micro Enterprises: Hypothesis Testing
- ⇒ Repayment of Microcredit: Hypothesis testing
- ⇒ Comments on Microcredit Programme from all respondents

**4.1.1 Socio - Economic and Demographic Profile of the Respondents**

In the present study, the extent and mode of utilisation of microcredit granted through NGO initiated Self Help Groups (SHGs) have been analysed in detail. The respondents have been selected from three districts –

Malappuram, Alappuzha and Ernakulam. As the study is based on rural females, all the respondents are females, selected from panchayats. The data required have been collected from 300 members of Microcredit women SHGs, selecting 100 members from each district. These 100 members of the SHGs from each district include those who have taken microcredit (80 members) and those who have not taken microcredit (20 members).

First, the profile of the respondents, their socio-economic conditions and group specific factors are analysed. The **demographic profile** of the respondents include age, marital status and size of the family in terms of number of members.

#### 4.1.1.1 Age of the respondents

It is assumed that an educated young female member is more likely to be participating in income generating activity rather than staying at home. Alternatively an aged female member may prefer to stay at home due to low productivity. The respondents are divided into five age groups and their numbers are presented in Table 4.1.

**Table 4.1: Age – wise distribution of respondents**

Age (in years)	Respondents		Cumulative Percent
	No: of Respondents	Percent	Percent
Below 30	2	0.7	0.7
30-40	101	33.7	34.4
41-50	143	47.7	82.0
51-60	48	16.0	98.0
Above 60	6	2.0	100
<b>Total</b>	<b>300</b>	<b>100</b>	

Source: Field Survey

The data on age-wise analysis of the respondents reveal that there has been a fair representation of SHG members from different age groups, inclusive of women below 30 and above 60. The majority of the respondents are in the age group of 30 to 50 years (82%). It is pertinent to note that the women below the age of 30 are negligible (0.7%). This indicates the relatively less participation of young women in SHG activities. It is also noted that even women who are above 60 years participate in SHG and microcredit programme (2% of the respondents).

The mean and standard deviation of age of all respondents are given in Table 4.2:

**Table 4.2: Mean and Standard Deviation of the age of the SHG Members**

Age of all respondents	Mean Score	Standard Deviation
(a) Age of respondents (in years) who have availed microcredit	44.29	7.69
(b) Age of respondents (in years) who have not availed microcredit	40.33	6.45
(c) Age of all respondents (in years) (Combined of (a) and (b))	43.5	7.62

Source: Field Survey – SPSS Output

The mean age of all the respondents combined in the study comes to 43.5 years and standard deviation is 7.62.

It is evident from the data that the mean age of respondents who availed microcredit (44.29 years) is higher than the mean age of the respondents who

have not availed microcredit (40.33 years). It is noted that microcredit from the SHG is taken more by the elder respondents than the younger respondents.

#### 4.1.1.2 Marital Status of the respondents

The marital status is another important demographic variable describing the social profile of the respondents. In marital status also, the total respondents were drawn from different classes: single, married, separated and widowed. Table 4.3 presents the data.

**Table 4.3: Marital Status of the members of the SHGs**

Marital Status of the respondents	Total	
	No: of Respondents	Percent
Single	12	4
Married	256	85.3
Separated	18	6
Widowed	14	4.7
<b>Total</b>	<b>300</b>	<b>100</b>

*Source: Field Survey*

The data on marital status show that the sample respondents have been drawn from different categories in terms of marital status. Table 4.3 reveals that unmarried ladies seldom participate in SHG and microcredit activities. Among the respondents only 4% are single unmarried women. The majority (853%) respondents are married women with 10.7 percent widows and separated.'



### 4.1.1.3 Size of the family of the respondents

Data on family size of the respondents are presented in Table 4.4.

**Table 4.4: Size of the family of SHG Members**

No: of Members in the family	Total		Cumulative Percent
	No: of Respondents	Percent	
Up to 4	90	30.0	30.0
5 – 6	185	61.7	91.7
7 – 8	22	7.3	99
9 and Above	3	1.0	100.0
<b>Total</b>	<b>300</b>	<b>100</b>	<b>-</b>

Source: Field Survey

The respondents from families with varying family sizes have been included among the sample, as the data exhibit. Data further show that 70 percent of the respondents are from families with more than four members. The indication is that SHG participation is more from large families. However only seven percent of the respondents represent families with seven or eight members.

The data on mean and standard deviation of the size of the family of the respondents is presented in Table 4.5.

**Table 4.5: Mean and Standard Deviation of the size of the families of Respondents**

Size of the family of respondents	Mean Score	Standard Deviation
(a) Size of the family of respondents (in number of members) who have availed microcredit	5.16	1.20
(b) Size of the family of respondents (in number of members) who have not availed microcredit	4.88	1.01
(c) Size of the family of all respondents (in number of members) (Combined of (a) and (b))	5.11	1.17

Source: Field Survey – SPSS Output

The mean score on average family size of respondents shows that the average family size of respondents who have availed microcredit is slightly higher (5.16) than that of respondents who have not availed microcredit (4.88). The combined mean score of size of the family of all respondents comes to 5.11 members. It is noted that when compared to the average household size of Kerala (4.3 members, as per Census 2011, Government of India), the average family size of the respondents is higher. It is thus evident that people from larger family background have come forward to take microcredit.

The next section presents the **economic profile of the respondents** which includes economic status, living conditions and exposure to banking activities of the respondents. This information is valid as microenterprise programmes assist poor people to build human, financial, and social capital for the development of micro businesses that will lead to improvement in the current status of living of the microcredit users.

#### 4.1.1.4 Number of Earning members in the families of SHG Members

The number of earning members in families of SHG members is an important feature that indicates the income level and financial status of respondents. The data regarding earning members in the respondents' families other than the respondent is presented in Table 4.6.

**Table 4.6: Earning Members of the families of respondents excluding the respondent**

No: of Respondents earning members other than the respondent	Total Respondents	
	No	Percent
1	271	90.3
2	29	9.7
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

Data presented in Table 4.6 reveals that 271 respondents (90.3%) belong to families with only one earning member other than the respondent. There are only 29 respondents (9.7%), with two earning members excluding the respondent in their families. The data exhibit that most of the respondents are from families with single income earner which signifies comparatively lower financial status of the respondent. Further, the data on occupation of the heads of the household is pertinent so as to know the nature of job of the single income earner of the respondents' families.

#### 4.1.1.5 Occupation of the Heads of Household

The occupation of the heads of the respondents' family is presented in Table 4.7.

**Table 4.7: Occupation of the Heads of Households of the respondents**

Occupation of the head of household of respondents	Total	
	No: of Respondents	Percent
Agriculture	3	1
Drivers and cleaners	49	16
Carpenter, Mason, Painter	29	9.7
Coolie and Daily wage worker	98	32.7
Domestic help and cook	7	2.3
Mechanic & Electricians	24	8
Fish vendors	14	4.7
Sweeper, Peon, Helper and watch man	20	6.6
Toddy worker & Bar attender, Hotel staff and House boat worker	21	7
Private Company jobs and Stitching Worker	18	6
Sales man/girl	18	6
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

It is to be noted that the heads of the family of all the respondents have occupation in the unorganized sector. Out of the total, 32% family heads work as ‘Coolies’ and 16.3% family heads work as drivers or cleaners. No head of the household works in the organised or government sector. This indicates the economic backwardness of the respondents and their families.

#### 4.1.1.6 Family Income from any other source (other than main family income)

From the review of literature and pilot study it is observed that borrowers with higher household income or income from more than one source have shown better chance of repayment of the loans. Table 4.8 presents the status of the family of the respondents on other source of income than the main income of the family.

**Table 4.8: Family Income from Any other source**

Family Income from Any other source	Total	
	No: of Respondents	Percent
SHG members with family income from other sources	13	4.3
SHG members with no family income from other sources	287	95.7
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

The data on income from other sources of the SHG members reveals that there are 287 respondents (95.7%) who do not have any income from other sources than the main occupation of the head of the household. Only 13 (4.3%) SHG members have income from sources other than the main income earned by the head of household. Those who have income from other sources

mentioned only three jobs, namely; agriculture (6 members), home tuitions (6 members) and kitchen gardening (1 member).

#### 4.1.1.7 Average Family Income per day (Other than income from microenterprises)

The average family income per day from all sources is an important variable to ascertain the economic status of the respondents. The income considered here does not include income of respondents from microenterprises. The data are presented in Table 4.9.

**Table 4.9: Average family Income per day of the respondents**

Family Income per day (₹)	Total respondents	Percent	Cumulative Percent
Below or equal to 100	13	4.3	4.3
101 - 200	50	16.7	21
201 - 300	73	24.3	45.3
301 - 400	90	30	75.3
401 - 500	47	15.7	91
501 - 600	23	7.7	98.7
Above 600	4	1.3	100
<b>Total</b>	<b>300</b>	<b>100</b>	<b>-</b>

Source: Field Survey

The data shows that for over 75 % of the respondents, the daily family income is less than ₹ 400. For 21% of the respondents, the daily income is ₹ 200 or less. The income is ₹100 or less for 13 (4.3%) respondents. On the whole, the daily family income of 91% of the respondents is ₹ 500 or less.

The average family income per day of the respondents ranges between ₹ 80 and ₹ 700, with a mean family income of ₹ 344.92 with standard deviation ₹ 127.32. However, none of the respondents would qualify for the

BPL category. The income limit for households for qualifying as a SHG member under the BPL (below poverty line) list has been pegged at about ₹ 27,000 per annum (Rs. 2,250 per month per household or ₹ 75 per day), according to the methodology approved by the Union Government.

#### 4.1.1.8 Ownership of land by the respondent/ family

The ownership of land is considered to be one of the major indicators to assess the economic status of the clients (Census, 2001, Government of India). The analysis has been done to see whether the SHG members or their families own land or not. The respondents are divided into: those who own land and those who do not own land. The data are presented in Table 4.10.

**Table 4.10: The Ownership of land by the respondent/family**

Status of Ownership of land	Total Respondents	
	No: of Respondents	Percent
Respondents who Own land	288	96
Respondents who do not own Land	12	4
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

The data reveals that the majority of the respondents (96%) or their families own land. Only 12 people (4%) do not own land. It may be noted that all the 12 respondents who do not own land have availed Microcredit from their respective SHGs.

#### 4.1.1.9 Ownership of Houses by the respondents/ families

Possession of a house by either the respondent or her family is also considered to be an important indicator of economic stability and status. Table 4.11 gives data about the ownership of house by the respondent or her family.

**Table 4.11: Ownership of Houses by the respondents/ families of the respondents**

Status of Ownership of House by the respondent/ family	Total	
	No: of Respondents	Percent
Own house	264	88
Do Not own a house	36	12
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

Data show that majority of the respondents (88%) live in their own houses. The remaining 12% live in either rented houses or with relatives.

#### **4.1.1.10 Exposure of SHG members to banking activities**

The ability to open and operate a bank account is considered as the beginning of financial, economic and social empowerment of rural poor. In Kerala, there are 57,28,876 households which avail banking services out of a total of 77,16,370 households (74.24%) (Census of India, 2011). Here the analysis has been done to find out the status of bank account of the SHG members *before* joining the microcredit programme.

##### **4.1.1.10.1 Status of bank account of the respondents with a commercial bank before joining Microcredit activities**

Disbursement and repayment of Microcredit are usually done through a bank account. Hence, opening and maintaining a bank account will become mandatory for Microcredit beneficiaries. Though the approach called ‘SHG – Bank Linkage model’ has been successful in creating linkage between commercial bank, NGOs and SHGs, its outreach is still modest in terms of proportion of poor households involved. The analysis has been done to see whether the members of the SHGs already had started an account with a commercial bank before joining the SHG (Table 4.12).

**Table 4.12: Status of account (before joining SHG) of the respondents with a Commercial Bank**

Status of Bank account of respondents	Total	
	No: of Respondents	Percent
SHG members had bank accounts before joining SHG	127	42.3
SHG members did not have bank accounts before joining SHG	173	57.7
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

The data indicate that more than 57% of the respondents did not have any bank account before joining the SHG.

#### 4.1.1.10.2 Status of SHG members regarding loans taken from a Commercial Bank before joining SHGs

A formal commercial bank will normally verify financial and economic status of persons before issuing loans to them (RBI Master Circular, 2012). The analysis is made to observe the status of respondents with respect to loans taken from any commercial bank(s) before they joined the self help group. Table 4.13 checks whether the respondents had taken loans from commercial banks before joining SHGs.

**Table 4.13: Loans taken by respondents from any Commercial Bank before joining SHG**

Status of respondents regarding loans taken from a Commercial Bank before joining SHG	Total	
	No: of Respondents	Percent
Took Loans before joining SHG	82	27.3
Did not take loans before joining SHGs	218	72.7
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey



Data reveal that 72.7 per cent of the respondents had not taken any loans from commercial banks before joining SHGs. Table 4.12 indicated that 127 respondents had bank account before joining self help groups and out of that 82 respondents (64.6%) had taken loans from commercial banks.

#### 4.1.1.10.3 Have SHG Members taken any Loans from any co-operative bank/ society before joining SHG?

The co-operative banks or societies offer loans to people with average, less or flexible income on easy terms. The analysis verifies how many of the SHG members had taken loans from the co-operative sector before joining self help groups. Table 4.14 depicts the status of respondents regarding loans taken from co-operative banks or societies.

**Table 4.14: Have SHG Members taken any Loans from any co-operative bank/ society before joining SHG?**

Status of respondents regarding loans taken from a Co-operative bank/society	Total	
	No: of Respondents	Percent
Took loans before joining SHG	280	93.3
Did not take loans before joining SHG	20	6.7
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

The table 4.14 reveals that 93.3 per cent of the respondents had taken loans from co-operative bank or primary cooperative societies before joining the groups. This is an indication that the respondents require outside loans to support their financial difficulties.

### 4.1.2 Self Help Groups And Delivery Of Microcredit

Self Help Group (SHG) plays a vital role in extending financial services to the poor, and contributes to the alleviation of poverty. SHG members include people from more or less the same socio-economic conditions. An analysis is made to understand the following:

- Source of Fund to the SHG
- The size of membership in the SHGs
- Status of Membership of the members in the SHG
- Duration of the membership of the respondent in the SHG

#### 4.1.2.1. Source of Fund to the SHG

An analysis is made here to understand the major sources of fund to the SHGs. The fund thus raised is distributed to the members of the SHG to start income generating enterprises and to meet domestic or personal emergencies. Some of the SHGs raise funds from their own sources. Some of them receive resource from their NGOs. Some SHGs operate chit funds to raise resources. Table 4.15 reveals the sources from which SHGs pool money to lend to their members as reported by the respondents.

**Table 4.15: The Source of the fund to SHG for lending as reported by the respondents**

Source	Total	
	No: of respondents	Percent
Weekly savings	218	72.7
NGO funding	47	15.7
Chits fund collection and other sources	35	11.6
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey.

About 73 percent of the respondents reported that weekly savings are the major source of funds for SHGs for their lending. Funding by NGOs supporting the SHG has been reported by 16 % and Chits fund collection is reported by 12 per cent respondents as a source of fund.

#### 4.1.2.2. Size of Membership in the SHGs

The groups considered in this study are formed by 14 to 20 members of the more or less same locality. The details of the size of membership in the SHGs, as reported by the respondents, are given in Table 4.16.

**Table 4.16: Number of Members in the Self Help Groups**

No: of members in the SHG	No: of respondents	Percentage
14	62	20.7
15 -17	120	39.9
18-20	118	39.4
<b>Total</b>	<b>300</b>	<b>100</b>

*Source: Field Survey*

Almost 80 per cent of the respondents reported an SHG membership size of 15 to 20 members.

Others reported a membership size of less than 15.

#### 4.1.2.3. The Status of the membership as ordinary member or office bearer in the SHG

The respondent can be an ordinary member or an office bearer. Table 4.17 presents the status of the respondent in the SHG.

**Table 4.17: Status of the membership of Respondents in the SHG**

Status of the membership of respondents in SHG	Total	
	No: of respondents	Percent
Ordinary Member	251	83.7
Office Bearer	49	16.3
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

Majority (83.7%) of the respondents are ordinary members in the SHGs. Only 16.3% of the total respondents have been office bearers in their SHGs.

#### 4.1.2.4 Duration of Membership of respondents in the Self Help Groups

Duration of membership of respondents in the self help group determines the experience and ability to go forward with the group members and the group's activities. Table 4.18 shows the duration of membership (in years) of respondents in their respective SHGs.

**Table 4.18: Duration of Membership in the SHG**

Duration of Membership (in years)	Total	
	No: of Respondents	Percent
1 - 3	166	55.4
3.1 - 6	112	37.3
6.1 - 9	10	3.3
9.1 - 12	12	4.0
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Field Survey

Around 55 per cent of the respondents have been with the SHG upto 3 years. Members with experience in the range of 3.1 to 6 years form 37 per

cent of the respondents. Over 7 per cent of the respondents have been with SHGs for more than six years. The study considered only respondents with at least one year of experience in their current SHG as the study aims to collect data on entrepreneurial activities of the respondents.

#### **4.1.2.5 Mode of delivery of microcredit**

The availability of microcredit heavily depends on the delivery mechanism of microcredit. The study examines the mode of delivery of microcredit by dividing it into two: (i) mode of delivery to individuals and (ii) mode of delivery to groups. From the review of literature and pilot study, it is understood that there are three common modes of distributing microcredit to individuals. These are (a) through SHG (b) directly from NGOs; and (c) directly from bank.

##### **4.1.2.5.1 Mode of delivery of microcredit to individuals**

The microcredit disbursement mechanism to individual microcredit holders differ from SHG to SHG. The opinions collected from 240 respondents who took microcredit covered in the study are presented in Table 4.19.

**Table 4.19: Mode of delivery of Microcredit to individuals**

<b>Mode of delivery</b>	<b>No: of Respondents</b>	<b>Percent</b>
Through SHG	177	73.8
Directly from bank	32	13.3
Directly from NGO	31	12.9
<b>Total</b>	<b>240</b>	<b>100</b>

*Source: Field Survey*

Majority of the respondents (73.8%) reported that individual microcredit was delivered only through their respective self help groups. Microcredit delivery through SHG is considered to be the safest mode as the group members personally know the entrepreneurial and repaying capacity of the individual members. Of the remaining respondents, 13.3 percent opined that microcredit was delivered directly from the bank and 12.9% reported that NGOs directly distribute it. Obviously, individual microcredit is delivered mainly through SHGs.

#### 4.1.2.5.2 Mode of Delivery of Microcredit loans to Groups

The modes of delivery of microcredit to groups, as reported by the respondents, are presented in Table 4.20

**Table 4.20: Mode of delivery of Microcredit to groups**

Mode of delivery	No: of Respondents	Percent
Directly from bank	179	74.6
Directly from NGO	61	25.4
Through SHG	0	0
<b>Total</b>	<b>240</b>	<b>100</b>

*Source: Field Survey*

Data reveal that the microcredit granted to the groups is given directly by the banks, as reported by more than 75 percent of the respondents. At the same time, around 25 percent of the respondents opined that the group is given microcredit directly by NGOs. No group under study is given microcredit directly by the SHGs.

The survey also brings to light the fact that all the members of the group have to sign the loan documents. The theory of peer pressure works

well in this mechanism. It is also informed by the respondents that the cheque for the requisite microcredit is handed over to the group as a whole, not to individuals separately.

But it is also reported that the weekly collection made by the SHGs is used for giving thrift loans to the needy, depending on the approval of the members of the group. Such thrift loans will have to be repaid in weekly installments to the SHG in due course so that other members can take loans in turns.

#### **4.1.3 Eligibility for Microcredit - Conditions**

The delivery of microcredit is subjected to certain rules and conditions prescribed by different channels of intermediaries from time to time. From the literature and pilot study it is understood that the eligibility conditions specified to sanction and distribute microcredit by these organisations differ considerably. The next section analyses various terms and conditions for sanctioning microcredit to the SHG member.

##### **4.1.3.1 Eligibility conditions for granting microcredit by *Banks* to the SHG members as reported by the respondents**

There are certain pre-conditions, on the satisfaction of which banks provide groups or individuals with microcredit. NABARD has developed a 15 point index for rating groups and a group is eligible for microcredit from banks only on the basis of this. The criteria include composition, age of the group, attendance in weekly meetings, participation in discussions, No: of Respondents of savings, savings and loan recovery, style of functioning, interest on loans, utilization of savings on loans, recovery of loans, repayment capacity, maintenance of records and bye-laws or group rules.

There have been varied responses received from the respondents to an open-ended question regarding the eligibility conditions. These responses are grouped and the results are presented in Table 4.21.

**Table 4.21: The Eligibility Conditions prescribed by banks to get microcredit to the SHG members as reported by respondents**

Eligibility Conditions	Total (n= 300)*	
	No: of Respondents	Percent
Age of the group	204	68
Regularity of meetings, attendance and participation in meetings	130	43.3
NGO recommendations	126	42.0
Worth of the business plans	112	37.3
Maintenance of records	47	15.7
Repayment capacity, History of correct repayment	38	12.7
Good working of the group	10	3.3

Source: Field Survey

\*Owing to multiple reporting total reporting is more than 300.

In the study, 68 percent of the respondents reported age of the group as the primary criterion of the banks to grant loans to any SHG. The next in importance is ‘regularity of the meetings, attendance and participation in such meetings,’ as reported by 43 percent of the respondents. Almost an equal number (42 percent) of the respondents reported that NGO recommendations formed the basis to issue microcredit by banks. ‘Maintenance of records’ and ‘Repayment capacity, History of correct repayment’ are relatively less significant, as reported by 16 percent and 13 percent of respondents, respectively.



It is pertinent to note that only 37 percent reported ‘Worth of the business plans’ as a norm for providing microcredit.

#### 4.1.3.2 Eligibility conditions by the NGOs for granting microcredit to the SHG members as reported by the respondents

Eligibility conditions to grant micro credit differ from banks to NGOs. In the survey, NGOs have laid down written rules and regulations for granting credit to the members of the SHG individually or group-wise. The various factors are presented in Table 4.22.

**Table 4.22: Eligibility Conditions to get microcredit to the SHG members from NGOs as reported by respondents**

Eligibility Conditions	Total (n= 300)*	
	No: of Respondents	Percent
Prompt repayment	186	62
Co-operation among members	96	32
Duration of membership	83	27.7
Opinion from SHG	45	15
Attendance in meetings	39	13
Record keeping	34	11.3
Purpose of loan	32	10.7

Source: Field Survey \*Owing to multiple reporting total reporting is more than 300.

‘Prompt repayment’ is the basic condition to grant micro loans from NGOs to its members, as reported by 62% respondents. Other major factors include ‘Co-operation among the members’ (32%) and ‘Duration of membership in SHG’ (28%). While factors such as ‘Opinion from SHG’ (15%), ‘Attendance in meeting’ (13%) and ‘Keeping of records’ (11.3%) are important, ‘Purpose of loan’ (10.7%) is relatively the least important factor.

#### 4.1.3.3 Eligibility conditions by the SHGs for granting microcredit to the SHG members as reported by respondents

Like banks and NGOs, respective SHGs also prescribe certain conditions upon its members to become eligible for microcredit. The responses are presented in Table 4.23

**Table 4.23: Eligibility Conditions to get microcredit from SHGs as reported by respondents**

Eligibility Conditions	Total (n = 300)*	
	No: of Respondents	Percent
Correct repayment and repayment capacity	162	54
Decision by all the members of SHG	90	30
Duration of membership	46	15.3
Co-operation and good relation among members	37	12.3
Attendance in meeting	33	11
Decision by SHG leaders	9	3

Source: Field Survey

\*Owing to multiple reporting, total reporting is more than 300.

According to 54% of the respondents, 'Correct repayment of the previous loan and repayment capacity' are the major conditions to get a micro credit sanctioned from SHG. As reported by 30% of the respondents, sanctioning of loan depends upon the 'Decision taken by all the members' in the SHG. Other factors reported include 'Duration of membership' (15.3%), 'Co-operation and good relation among members' (12.3%) and 'Attendance in SHG meetings' (11%). Only 3% of the members believe that it depends on the 'Decision of SHG leaders'.

In summary, while ‘Age of the group’ is the primary consideration for the bank, ‘Prompt repayment’ and ‘Repayment capacity’ are major concerns of NGOs and SHGs respectively in granting microcredit.

#### **4.1.4 Microcredit Availability: Hypothesis Testing**

It is assumed that micro enterprises generate income and employment and thus lead to sustainable, overall development of the member households. The employment generating and income generating activities depend heavily on eligibility, availability, distribution and sufficiency of microcredit delivered to the members of the SHG. This section analyses the availability of microcredit.

##### **4.1.4.1 Microcredit taken by Respondents**

The study was designed to include respondents who have availed microcredit and those who have not availed microcredit. The status of respondents whether they have availed microcredit or not is presented in Table 4.24.

**Table 4.24: Status of Microcredit Availed by the respondents**

<b>Status of Microcredit availed</b>	<b>No: of Respondents</b>	<b>Percent</b>
Microcredit Availed	240	80
Microcredit Not Availed	60	20
<b>Total</b>	<b>300</b>	<b>100</b>

*Source: Field Survey*

The total 300 respondents comprised of 240 (80%) who had taken microcredit from their SHGs and 60 (20%) who have not taken microcredit.

#### **4.1.4.2 Survey among beneficiaries regarding microcredit availability**

This part deals with the opinion of the SHG members regarding factors influencing the availability of microcredit to beneficiaries. The section presents three points of view:

- Availability of Microcredit : The respondents' point of view (Availed microcredit)
- Availability of Microcredit : The respondents' point of view (Not availed microcredit)
- Comparison between availability of microcredit: Combined responses.

##### **4.1.4.2.1 Availability of Microcredit : Views of the Respondents who availed micro credit**

Basis on the review of literature and pilot study, certain factors which affect the availability of microcredit to the ultimate beneficiaries of microcredit have been identified. These factors are (i) Education (ii) Socio-economic background (iii) Participation in the group's activities (iv) Repayment capacity (v) Closeness to the leaders and (vi) Financial urgency. A Likert ranking scale was administered to know the opinion of the respondents about the availability of microcredit. Respondents were asked to rank these factors with any of the five ratings specified such as: (1) Strongly Disagree – SD, (2) Disagree – D, (3) Not Sure, (4) Agree – A (5) Strongly Agree – SA. The results are tabulated and presented in Table 4.25.

**Table 4.25: Responses about the factors leading to the availability of micro credit (collected from SHG Members who availed Microcredit)**

Factors influencing the availability of microcredit to the SHG members	Opinion of SHG members who availed Micro credit				
	SD	D	Not sure	A	SA
Members with more education have better chance for getting microcredit	0 (0)	42 (17.5)	60 (25)	65 (27.1)	73 (30.4)
Members with better socio-economic background have better chance for getting microcredit	2 (0.8)	26 (10.8)	66 (27.5)	56 (23.3)	90 (37.5)
Members who are more active in SHG activities have better chance for getting microcredit	35 (14.6)	32 (13.3)	30 (12.5)	75 (31.3)	68 (28.3)
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG	46 (19.2)	15 (6.3)	43 (17.9)	64 (26.7)	72 (30)
Members with greater financial need have better chance for getting microcredit	1 (0.4)	29 (12.1)	76 (31.7)	78 (32.5)	56 (23.3)
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit	34 (14.2)	58 (24.2)	39 (16.3)	56 (23.3)	53 (22.1)
Members who are very close to the leaders of the SHG have better chance for getting microcredit	5 (2.1)	21 (8.8)	81 (33.8)	79 (32.9)	54 (22.5)

Source: Field survey. (The values in brackets denote percentages and others denote No: of Respondents distribution.)

Regarding the factors deciding the availability of micro credit, the respondents who availed microcredit expressed the following views:

- About 58 percent of the respondents, who availed microcredit, either strongly agree (SA) or agree (A) that education is the main consideration for granting microcredit.

- Among the respondents, 61 percent reported that socio-economic background of the respondent is the major factor responsible for getting microcredit from SHG. In fact 38 per cent of the respondents strongly agree with the statement.
- About 60 per cent of respondents feel that active members of the SHG have better chance of availing microcredit.
- Fifty seven per cent of the respondents reported that the very poor do not become eligible for individual microcredit from SHGs since repayment is a serious consideration. However, 26 per cent of the respondents do not subscribe to this view.
- Another important factor for getting microcredit is the financial needs of the members and members with greater financial needs have better chance for getting microcredit, according to 56 per cent of the respondents who have availed microcredit.
- It is generally assumed that members who participate in training, seminar and other programmes of the SHG have better chances for getting microcredit. While 45 percent of the respondents subscribes to the view, as many as 38 percent do not agree.
- Over 55 percent of the respondents agree that closeness to the leaders of the SHGs is a major consideration for getting the microcredit sanctioned.

#### **4.1.4.2.2 Availability of Microcredit : Views of respondents who have not availed micro credit**

The opinion regarding availability of microcredit has been collected from respondents who have not availed microcredit so far (n = 60). The same is presented in Table 4.26.

**Table 4.26: Availability of Microcredit: Views of respondents who have not availed any micro credit (collected from SHG Members who did not avail Microcredit)**

Factors influencing the availability of microcredit to the SHG members	Opinion of SHG members who have not availed Micro credit				
	SD	D	Not sure	A	SA
Members with more education have better chance for getting microcredit	30 (50)	16 (26.7)	5 (8.3)	7 (11.7)	2 (3.3)
Members with better socio-economic background have better chance for getting microcredit	27 (45)	18 (30)	9 (15)	2 (3.3)	4 (6.7)
Members who are more active in SHG activities have better chance for getting microcredit	34 (56.7)	11 (18.3)	10 (16.7)	2 (3.3)	3 (5)
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG	16 (26.7)	30 (50)	9 (15)	5 (8.3)	0 (0)
Members with greater financial need have better chance for getting microcredit	25 (41.7)	20 (33.3)	10 (16.7)	3 (5)	2 (3.3)
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit	43 (71.7)	8 (13.3)	5 (8.3)	1 (1.7)	3 (5)
Members who are very close to the leaders of the SHG have better chance for getting microcredit	26 (43.3)	19 (31.7)	7 (11.7)	3 (5)	5 (8.3)

Source: Field survey. The values in brackets denote percentages and others denote No: of Respondents distribution

About the factors deciding the availability of micro credit, the respondents who did not avail microcredit expressed the following views:

- Regarding education, only 15 percent respondents agreed to the point whereas 77 percent of the respondents did not subscribe to the view that members with more education have better chance for getting microcredit.

- Similarly, only 10 percent respondents showed agreement to the statement that members with better socio-economic background have better chance for getting microcredit. Majority (75%) of the respondents did not feel the same is correct.
- There were only 8.3 percent respondents who had agreed that active members do have better chance for getting microcredit, but 75 percent had disagreed to this.
- It is generally believed that since repayment capacity is a major consideration, the very poor do not become eligible for individual micro credit. The argument is true only to 8.3% respondents. However, 77 percent of the respondents did not subscribe to the view.
- There were only less than 9% percent respondents who agree that members with greater financial need have better chance for getting microcredit. But 75 percent of the respondents did not hold this view, true.
- While 6.7 percent respondents agree that members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit, but as many as 85 percent of the respondents were disagreeing with the view.
- Further, 75 percent of the respondents did not agree with the view that members who are very close to the leaders of the SHG have better chance for getting microcredit.

#### **4.1.4.2.3 Responses on availability of microcredit of the two groups: A Comparison**

A comparison between the responses given by the members of the SHGs who have availed microcredit and who have not availed microcredit



will help to identify the major differences regarding the factors affecting the microcredit delivery. Here, the comparison of the responses is made primarily with the help of rank and means score (Table 4.27).

**Table 4.27: Comparison of the response about the factors leading to the availability of micro credit – Mean and Rank Score**

Factors influencing the availability of microcredit to the SHG members	Opinion of SHG members who availed Micro credit			Opinion of SHG members who did not avail Micro credit		
	Mean score	Percentage score	Rank	Mean score	Percentage score	Rank
Members with more education have better chance for getting microcredit	3.70	74.0	2	1.92	38.4	5
Members with better socio-economic background have better chance for getting microcredit	3.86	77.2	1	1.97	39.4	3
Members who are more active in SHG activities have better chance for getting microcredit	3.45	69.0	5	1.82	36.4	6
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG	3.42	68.4	6	2.05	41.0	1
Members with greater financial need have better chance for getting microcredit	3.66	73.2	3	1.95	39.0	4
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit	3.15	63.0	7	1.55	31.0	7
Members who are very close to the leaders of the SHG have better chance for getting microcredit	3.65	73.0	4	2.03	40.6	2

Source: Field Survey – SPSS output.

By giving score (weight) to the response of each factor as 1, 2, ..5 to strongly disagree, disagree, ... strongly agree, mean score for individual is worked out for each factor and index was worked out by dividing the mean score by five (the maximum score of each statement) and multiplied by 100. These mean score were ranked to identify the preference of each factor. This was done in the case of both those who availed the loan and those who did not avail the loan.

The members who have taken microcredit have considered better socio-economic background (77 %) and education (74 %) of the member as the deciding factors for availing loan from the SHG. But the members who have not availed microcredit consider repayment capacity and closeness to the leaders of SHG as the major factors for loan availability. Among the group, 41% regard these factors as important.

Both the groups consider (63% and 31% respectively) participation in training as the least important factor (7<sup>th</sup> Rank) in getting the loan. Active participation in the group activities is considered as the second last item (36.4%) by those who have not availed loan and given 5<sup>th</sup> rank by those who have availed loans (69%).

Also, the agreement in the ranking about the opinion of the respondents is being tested. The hypothesis in this connection and its result are given below:

**Hypothesis 1:** There is no agreement in the ranking about the factors affecting the availability of microcredit of the respondents who availed and did not avail microcredit.

<b>Kendall's W = 0.095</b>	<b>Chi square (between ranks) = 0.667</b>	<b>P-value = 0.414</b>
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The agreement in ranking by both the groups was done by using Kendall's Coefficient of Concordance. Kendall's W computed was **0.095** which is very near to zero and whether the W value computed is significantly different from zero is tested with the Chi square and it is found to be non significant. Hence it can be concluded that there is no agreement in the ranking about the factors influencing the loan availability done by the two groups of respondents who availed and who did not avail microcredit. Thus the Hypothesis 1 has been proved and accepted. Based on the opinion of the respondents who availed the loan, the major factors leading to the availability are better socio-economic background (77.2%) and more education (74%).

#### **4.1.4.2.4 Availability of microcredit: Factor Analysis on the view points of SHG members**

A factor analysis is done for identifying major dimensions of the factors which influence the availability of microcredit. Respondents expressed their views regarding the different factors which influence the availability of the microcredit. Altogether there are seven sub items (factors) and the responses to these sub items were subjected to factor analysis with principal component analysis as extraction method and with varimax rotation with Kaiser Normalization. Bartlett's Test of Sphericity and KMO measure of Sampling Adequacy were performed to confirm the suitability of the data for Factor Analysis. After that, Kaiser's criterion was used while performing factor analysis in order to decide what number of factors (dimensions in

this case) to retain. Then several iterations were used in order for the items with low loadings on each of the factors to be eliminated.

**Table 4.28: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.826
Bartlett's Test of Sphericity	Approx. Chi-Square	1169.931
	df	21
	Sig.	.000

Source: SPSS data.

Chi-square value computed while performing Bartlett's test of sphericity is 1169.931 which is highly significant and significance level is  $<0.001$  which meets the criteria of value lower than 0.05 in order to perform factor analysis. KMO measure of sampling Adequacy is 0.826 which exceeds the minimum value of 0.6 for good factor analysis.

After these preliminary steps, Factor Analysis with Principal Component Analysis as an extraction method has been performed. The analysis of the yielded results is presented below:

Communalities at the initial stage and after extraction were given in Table 4.29. Results shows that the extraction values of all variables are sufficiently high. Communalities give the total variability of each variable explained before and after extraction. After the extraction, more than 65 percent variability in all the variables was explained by all factors in the analysis.

**Table 4.29: Communalities before and after extraction**

<b>Factors</b>	<b>Initial</b>	<b>Extraction</b>
(1) Members with more education have better chance to get micro credit from the SHG.	1.000	.692
(2) Members with better socio- economic background stand better chance for getting micro credit from the SHG.	1.000	.826
(3) Members who are more active in the SHG activities have better chance of getting the micro credit from the SHG.	1.000	.799
(4) Since repayment capacity is a serious consideration in giving micro credit, the very poor do not become eligible for individual micro credit from the SHG	1.000	.782
(5) Members with greater financial need have better chance of getting micro credit from the SHG.	1.000	.695
(6) Members who participate in training, seminar and other programmes of the SHG have better chance of getting micro credit from the SHG	1.000	.677
(7) Members who are very close to the leaders of the SHG have better chance of getting micro credit from the SHG	1.000	.769

Source: Extraction Method: Principal Component Analysis, SPSS data.

After the extraction, more than 65 percent variability in all the variables was explained by the retained factors.

Table 4.30: Total Variance Explained

Factor No.	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	(1) Members with more education have better chance to get micro credit from the SHG.	4.087	58.389	58.389	4.087	58.389	58.389	2.847	40.668
(2) Members with better socio- economic background stand better chance for getting micro credit from the SHG.	1.153	16.472	74.862	1.153	16.472	74.862	2.394	34.194	74.862
(3) Members who are more active in the SHG activities have better chance of getting the micro credit from the SHG.	.507	7.247	82.109						
(4) Since repayment capacity is a serious consideration in giving micro credit, the very poor do not become eligible for individual micro credit from the SHG	.423	6.042	88.152						
(5) Members with greater financial need have better chance of getting micro credit from the SHG.	.345	4.923	93.074						
(6) Members who participate in training, seminar and other programmes of the SHG have better chance of getting micro credit from the SHG	.304	4.339	97.414						
(7) Members who are very close to the leaders of the SHG have better chance of getting micro credit from the SHG	.181	2.586	100.000						

Source: SPSS Output

Furthermore, the column Total under Initial Eigen values in the table of total variance explained shows different eigen values - what amount of the variance in all variables is explained by the corresponding number of components (dimensions in this case). Using Kaiser Criteria only those factors which have eigen values greater than 1 is taken as extracted factors. In this case, there are 2 such dimensions, meaning that 2 factors should be extracted from the whole data set.

The table also shows that about 74.862% of the total variance in all the variables of the model is explained by the two factors. Using the Kaiser's criterion for extraction of factors, the performed Principal component Analysis in this case leads to the extraction of only two factors, meaning that all the seven variables (questions) should be regrouped to form only two quality dimensions.

Table 4.31: Rotated Component Matrix<sup>a</sup>

Factors	Grouped Components	
	Socio – economic Factors of the respondents	Active participation of the respondents in SHG
Members with more education have better chance for getting microcredit	0.744	
Members with better socio-economic background have better chance for getting microcredit	0.866	
Members who are more active have better chance for getting microcredit		0.86
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG		0.849
Members with greater financial need have better chance for getting microcredit	0.781	
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit		0.787
Members who are very close to the leaders of the SHG have better chance for getting microcredit	0.869	
Extraction Method: Principal Component Analysis.		
Rotation Method: Varimax with Kaiser Normalization., SPSS data.		

Rotated component matrix will give the correlation of each of the variable with extracted factor. In Table 4.31 many of the coefficients are found to be blank. This has occurred by suppressing all the coefficients less



than 0.5. These loading are useful for explaining what each factor explains. Thus first factor is a combination of four socio – economic factors such as education, better socio- economic background and financial background of the SHG members along with the closeness of the members with the leaders of the SHG. The relationship between these factors and availability of microcredit has been analyzed. Thus the statement ‘Members with higher socio economic status have better chance of getting micro credit’ is tested at this juncture.

Second factor is made up of a combination of other three factors such as activity of members active in the SHG; consideration for repayment by the members and participation in training, seminar and other programmes by the SHG Members. These three factors indicate the active participation in SHG. So the major factors influencing the availability are socio-economic factors and also their participation in SHG.

#### **4.1.4.2.5 Hypothesis testing of the opinion of the respondents for individual statements on availability of microcredit**

The opinions of all the respondents who have availed and who have not availed microcredit has been analyzed with the hypothesis individually for all the statements. All the statements are individually tested with the help of Mann – Whitney U values.

The hypotheses formed in connection with the responses of the SHG members regarding the availability of microcredit are as follows:

**Hypothesis 2:** There is no significant difference between the opinion about the ‘relationship between education of the respondents and availability of microcredit’ among the respondents who have taken microcredit and who have not taken microcredit

Mann – Whitney test is used for testing the difference between the opinion on relationship between education of the respondents and availability of microcredit among the two categories of respondents. The test is conducted for both types of respondents – those who have availed microcredit and those who have not availed microcredit. Table 4.32 gives the summary of the results.

**Table 4.32: Mann-Whitney test – Education of the respondents and Availability of microcredit**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members with more education have better chance for getting microcredit	3.7	1.92	2044.5	8.791**

Source: Field Survey data; SPSS output \* \*- represents significance at 0.01 levels.

The results of Mann – Whitney shows that there is significant difference between the opinions expressed by two groups of respondents – those who have availed and those who have not availed microcredit – regarding the influence of education for the availability of microcredit. The test result U value is found out to be 2044.5 (with Z value = 8.791 at 0.01 significance levels). It has to be inferred that the respondents who have taken microcredit hold the view that education is an influencing factor to get microcredit from SHG. Hypothesis is thus rejected.

**Hypothesis 3:** There is no significant difference in the opinion that ‘members with better socio-economic background do not have better chance for getting microcredit’, among respondents who have taken microcredit and who have not taken microcredit.

The hypothesis is tested with the help of Mann – Whitney test and the difference between the opinion on relationship between better socio-economic background of the respondents and availability of microcredit among the two categories of respondents is checked. The test is conducted for both types of respondents – those who have availed microcredit and those who have not availed microcredit. Table 4.33 gives the summary of the results.

**Table 4.33: Mann-Whitney test – Socio economic background of the respondents and availability of microcredit**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members with better socio-economic background have better chance for getting microcredit	3.86	1.97	1870	9.136**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.

Test results exhibit that there is significant difference between the opinions of two classes of respondents: those who have availed microcredit and those who have not availed regarding the association of better socio-

economic background and chance of getting microcredit. Mann – Whitney U test returns the test value of 1870 and Z value of 9.136 (at 0.01 significance levels). Thus hypothesis 3 is rejected. The inference here is that, the respondents who have taken microcredit feel that the better socio-economic background of the respondents is a reason to get microcredit.

**Hypothesis 4:** There is no significant difference in the opinion that ‘Members who are more active in the SHG do not have better chance for getting microcredit’ among the respondents who have taken microcredit and those who have not taken it.

The hypothesis 4 has been tested with the help of Mann – Whitney U for both the categories of respondents – those who have taken and those who have not taken microcredit. The summary of the results - testing whether there is any significant difference between the opinion regarding the relationship of active participation of the respondents in the SHG activities and microcredit availability – is given in Table 4.34.

**Table 4.34: Mann-Whitney test – Active participation of the respondents in the SHG activities and availability of microcredit**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members who are more active in SHG activities have better chance for getting microcredit	3.45	1.82	2863	7.395**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.

The results of Mann – Whitney test shows that there is significant difference between the opinions expressed by two categories of respondents regarding the active participation of respondents in the SHG activities and better chance of getting microcredit from the SHGs. The U test results returns the value of 2863, with the Z value of 7.395 (at 0.001 significance levels). Thus hypothesis 4 is rejected stating the difference between the opinions of all the respondents. Those who have already taken microcredit carry the view that more active members hold the chance of getting microcredit easily from the SHG.

**Hypothesis 5:** There is no significant difference in the opinion that ‘very poor do not become eligible for individual micro credit from SHG’ among the respondents who have taken microcredit and who have not taken it.

The Hypothesis 5 is tested with the help of Mann – Whitney U value. The opinion regarding the statement ‘the very poor also become eligible for individual microcredit from the self help group’ is collected from both classes of respondents (respondents who have taken microcredit and who have not taken it) and the summary results are presented in Table 4.35

**Table 4.35: Mann-Whitney test – Financial conditions of the respondents and Availability of microcredit from the SHG**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG	3.42	2.05	3395.5	6.472**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.

The results of the Mann – Whitney test U disproves the hypothesis 5 and is rejected proving that the opinion is significantly different among the respondents who have taken and who have not taken microcredit regarding the relationship between the financial condition of the respondent in relation to repayment capacity and availability of microcredit from SHGs. The U value comes to 3395.5 and Z value 6.472 (at 0.01 significant levels). The respondents who have taken microcredit hold the view that the very poor do not become eligible for individual microcredit from SHGs.

**Hypothesis 6:** There is no significant difference in the opinion that ‘Members with greater financial need do not have better chance for getting microcredit’ among the respondents who have taken microcredit and who have not taken it.

The hypothesis is tested with the help of Mann – Whitney test and the results are summarized in the table 4.36. For conducting the test, opinions from respondents who have availed microcredit and who have not availed microcredit are collected.

**Table 4.36: Mann-Whitney test – Financial needs of the respondents and Availability of microcredit from the SHG**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members with greater financial need have better chance for getting microcredit	3.66	1.95	1861.5	9.14**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.

The Mann – Whitney U result of 1861.5 at 1% significance level shows that the opinion of respondents who have taken microcredit about ‘members with greater financial need have better chance for getting microcredit from their SHGs’ is significantly different from the opinion of the same among respondents who have not taken microcredit. The Z test result returns a value of 9.14 ( $p < 0.001$ ). Hence, Hypothesis 6 is rejected. It is clear that more respondents who have taken microcredit support this view than the respondents who have not taken microcredit.

**Hypothesis 7:** There is no significant difference in the opinion that ‘Members who participate in training, seminar and other programmes of SHG have no better chance for getting microcredit’ among the respondents who have taken microcredit and those who have not taken microcredit.

The summary of the results returned by Mann – Whitney U test is given in Table 4.37

**Table 4.37: Mann-Whitney test – Participation of the respondents in training, seminar and other programs and availability of microcredit from the SHG**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit	3.15	1.55	2592	7.842**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.

The Mann – Whitney U test result (  $U = 2592$ ,  $Z = 7.842$  at 1% significance level) explains that the opinion - ‘member who participate in training, seminar and other activities of SHGs have better chance for getting microcredit’ - among the respondents who have taken microcredit is significantly different from those who have not taken microcredit. Hence, Hypothesis 7 is rejected. Thus it is inferred that majority of respondents who have taken microcredit believe the view that members who participate in training, seminar and other programs of the SHGs have better chance of getting microcredit

**Hypothesis 8:** There is no significant difference in the opinion that ‘Members who are very close to the leaders of the SHG do not have better chance for getting microcredit’ among the respondents who have taken microcredit and those who have not taken microcredit

**Table 4.38: Mann-Whitney test – Closeness to the leaders of the SHG and Availability of microcredit from the SHG**

Statement	Mean score		Mann-Whitney U	Z-value
	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit		
Members who are very close to the leaders of the SHG have better chance for getting microcredit	3.65	2.03	2329.5	8.344**

Source: Field Survey data; SPSS output \*\* - represents significance at 0.01 levels.



This hypothesis is tested with the help of Mann – Whitney U test. The result (**U = 2329.5 and Z= 8.344 at 1% significance level**) confirms that the opinion regarding ‘the closeness of members with the leaders of the SHG and better chance for getting microcredit’ among the respondents who have taken microcredit is significantly different from the opinion of the same among the respondents who have not taken microcredit. The majority of respondents (73 percent) agree to the view that closeness to the leaders of SHG is a factor in obtaining microcredit. Thus Hypothesis 8 is rejected.

The results and interpretation of the tests in summary are given below:

**Comparison of Opinion of the two groups regarding the factors leading to availability of microcredit (SHG members who have taken microcredit and not) using Mann Whitney U test**

Results of comparison of opinion of the two group using Mann Whitney U test is given in Table 4.39

**Table 4.39: Results of comparison of opinions of SHG members who availed microcredit and who did not avail microcredit using Mann Whitney U test**

Factors	Mean Score of opinions of SHG members who availed micro credit	Mean Score of opinions of SHG members who did not avail micro credit	Mann-Whitney U	Z-value
Members with more education have better chance for getting microcredit	3.7	1.92	2044.5	8.791**
Members with better socio-economic background have better chance for getting microcredit	3.86	1.97	1870	9.136**
Members who are more active have better chance for getting microcredit	3.45	1.82	2863	7.395**
Since repayment capacity is a serious consideration, the very poor do not become eligible for individual micro credit from SHG	3.42	2.05	3395.5	6.472**
Members with greater financial need have better chance for getting microcredit	3.66	1.95	1861.5	9.14**
Members who participate in training, seminar and other programmes of the SHG have better chance for getting microcredit	3.15	1.55	2592	7.842**
Members who are very close to the leaders of the SHG have better chance for getting microcredit	3.65	2.03	2329.5	8.344**

Source: Field Survey data; SPSS output \* - represents significant at 0.01 levels.

All the factors identified here are tested with the help of Mann-Whitney U test statistic and found very relevant results. The Z – Value (at 0.01 significance levels) is found out for opinion of respondents regarding all factors.

#### **4.1.4.2.6 Availability of microcredit in relation to Specific factors**

The previous section dealt with the conditions laid down by different intermediaries, mainly banks, NGOs and SHGs upon beneficiaries to sanction microcredit and modes of delivery of the same. An opinion survey was taken to analyse the opinion of the respondents regarding the availability of microcredit. Though the members of the SHG are eligible to get microcredit as per rules and principles, there exists a huge gap between those who are eligible and those who get microcredit. This section analyses the availability of microcredit to the beneficiaries, in relation to the factors such as age, marital status, status and duration of membership in the SHGs and average family income of the respondents.

##### **4.1.4.2.6.1 Relationship between age and availability of microcredit**

Age is considered to be one of the important factors for getting microcredit from the SHGs. The survey included respondents of different age groups and the present analysis (Table 4.40) tries to find out whether any relationship exists between age of the respondents and microcredit availability.

**Table 4.40: Relationship between age of the respondents and microcredit availability**

Age group (in years)	Total respondents No:	Respondents: Microcredit Aailed	
		No: of respondents	Percent of the Total Respondents
Below 30	2	0	0
30-40	101	74	73.3
41-50	143	116	81.1
51-60	48	45	93.8
Above 60	6	5	83.3
<b>Total</b>	<b>300</b>	<b>240</b>	<b>80</b>

Source: Field Survey.

The data indicates that age is an important factor in availing microcredit among the respondents. An increase is recorded in availing microcredit with respect to an increase in age of the respondents except in the age above 60 years. It is to be noted that there is no respondent who availed microcredit in the age class of Below 30 years. A hypothesis is formulated at this juncture and tested to know the relationship between age of the respondents and availability of microcredit.

**Hypothesis 9:** There is no association between age of the respondent and availability of microcredit

It is tested with the help of Chi-square test and the result of the test is given below.

**Table 4.41: Chi- Square Test Result (Age of the respondents and availability of microcredit)**

Calculated Value	Asymp.Sig. (2 - sided)	Conclusion	P value
18.049	<0.001	Significant	<b>0.001</b>

Source: SPSS Output

The Chi-square value found out between age of the respondents and availing of microcredit reveals that there exists a statistically significant association between these two variables. Hence, Hypothesis 9 is rejected indicating the fact that age is a significant factor in availing microcredit from SHGs. As age increases, the availing of microcredit also tends to increase.

#### 4.1.4.2.6.2 Marital Status of the respondents and availability of microcredit

Another important variable considered here for analysis is marital status of the respondents. It is taken here to find whether there exists any relationship between marital status of the respondents and availability of microcredit or not. Here the respondents are divided into two categories as 'Married' and 'Unmarried, Separated and Widowed women'.

**Table 4.42: Relationship between Marital Status of the respondents and Microcredit availability**

Marital status of the respondents	Total Respondents	Respondents: Microcredit Aailed	
	No: of Respondents	No: of Respondents	Percent (on Total Respondents)
Married	256	203	79.3
Unmarried	12	12	100
Separated and/or Widowed	32	25	78.1
<b>Total</b>	<b>300</b>	<b>240</b>	<b>80</b>

Source: Field Survey.

There are more than 79 percent of the married respondents who have taken microcredit. It is to be noted that all the unmarried respondents have taken microcredit from the SHGs. But all of the unmarried (12 respondents) are in the age classes of above 30 years. It iterates the fact that the age is an important factor in taking microcredit than marital status of the respondents. However, more than 78 percent of the respondents who are in the 'Separated and/or widowed category have taken microcredit.

#### 4.1.4.2.6.3 The Status of Membership in SHG as 'Office bearer and Microcredit availability

The member can take role of an ordinary member or a leader. The leadership roles definitely contribute to the economic and social empowerment of the members. An analysis has been made to check the relationship between status of the membership in the group and availability of microcredit. The details are listed in Table 4.43.

**Table 4.43: The Status of membership of respondents in the SHG as office bearer and Microcredit Availability**

Status of the member	Total	Microcredit Aailed	
	No: of Respondents	No: of Respondents	Percent
Ordinary Member	251	191	76.1
Office Bearer	49	49	100
<b>Total</b>	<b>300</b>	<b>240</b>	<b>80</b>

Source: Field Survey

Out of 251 ordinary members, 191 (79.6%) have taken microcredit. But, out of 49 office bearers, all (100%) have taken microcredit.

#### 4.1.4.2.6.4 Duration of membership and Microcredit availability

The membership in the SHG is mandatory for the respondents in accessing microcredit and starting microenterprises. The microcredit extended to members of the SHGs also depends on the duration of membership in the group. It is perceived that the higher the duration of the membership in the SHG, the better is the social contact and level of income. Here an analysis is made to understand whether there exists any relationship between 'Duration of membership of respondents in the SHG' and 'availing of microcredit' from the SHG.

**Table 4.44: Association of Duration of Membership in the SHG with availability of Microcredit**

Duration of Membership ( in years) of the respondents	Total	Microcredit Availed	
	No: of Respondents	No: of Respondents	Percent
1 - 3	<b>166</b>	109	65.7
3.1 -5	<b>86</b>	83	96.5
More than 5 Years	<b>48</b>	48	100

Source: Field Survey

The data show an increase in availing microcredit with an increase in duration of membership of respondents in SHG. It is clear that higher the duration of membership, higher is the per cent of microcredit availing. Similarly, the per cent of respondents who have not availed microcredit shows an inverse relation between the duration of membership and availing of microcredit. A hypothesis is formed and tested (Hypothesis10):

**Hypothesis 10:** There is no significant association between ‘Duration of membership in the SHGs’ and ‘Availability of microcredit’

The hypothesis – association between the duration of membership in the SHG and availability of microcredit – is tested through Chi-Square test and the result is given below:

**Table 4.45: Chi- Square Test Result (association between the duration of membership in the SHG and availability of microcredit)**

Calculated Value (Chi-square)	Df	Conclusion	P value
55.16	1	Significant	<b>0.001</b>

Source: SPSS Output

The Chi-square result shows that there is significant association between duration of membership and availing of microcredit from the self help group and hence the Hypothesis 10 is rejected. It has to be inferred here that higher the duration of membership, higher is the availability of microcredit.

#### **4.1.4.2.6.5 Average Family income and Microcredit Availability**

An analysis has been made to understand the relationship between the average family income of the SHG members and their status of availing of microcredit. The analysis is presented in Table 4.46.



**Table 4.46: Average family Income per day of the SHG Members who availed microcredit**

Family Income per day (₹)	Total respondents	Microcredit Availed	% of respondents who availed microcredit
		No: of Respondents	
Below or equal to 100	13	13	<b>70.6</b>
101 – 200	50	36	
201 - 300	73	47	
<b>Income upto ₹300</b>	<b>136</b>	<b>96</b>	
301 - 400	90	76	<b>87.8</b>
401 - 500	47	41	
501 - 600	23	23	
Above 600	4	4	
<b>Income above ₹300</b>	<b>164</b>	<b>144</b>	

Source: Field Survey

The data presented in Table 4.46 indicates that there are more respondents (87.8%) in the higher income class of ₹ 301 – 600 who have availed microcredit. In the lower income class – i.e., income upto ₹ 300 – the respondents just above 70% have taken microcredit from the SHGs. It is pertinent to note that the people with higher income get more chances to participate in SHG microcredit activities and to avail microcredit. People with higher income level (above ₹500) have all availed microcredit. Similarly, all the respondents with daily income up to ₹ 100 have taken microcredit. More than 60 per cent of them have taken relatively smaller amount of individual microcredit. Thus it is understood that the average

family income of the respondents and status of microcredit availed are related.

### **Average family income per day of the respondents: Mean and Standard Deviation**

The mean and standard deviation of average family income of all respondents are found out to determine the relationship between their average family income and availing of the microcredit. It is presented in Table 4.47.

**Table 4.47: Average family income of respondents – Mean and SD**

<b>Average income per day of all respondents</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Average family income per day of respondents who have <b>availed</b> microcredit	355.42	8.623
Average family income per day of respondents who have <b>not availed</b> microcredit	302.92	11.276

*Source: Field Survey – SPSS Output*

The minimum average family income of the total respondents is ₹ 80 and maximum is ₹ 700 per day. Mean income is higher for the respondents who availed the microcredit than those who did not avail the microcredit. The mean score of average family income per day for those who availed microcredit is ₹ 355.42 and the same for those who did not avail is ₹ 302.92 with a standard deviation of 8.623 and 11.276 respectively. It is also inferred that more people with higher income have availed microcredit than people with lower income.

The average family income is an effective indicator for analyzing the financial background of the family of the respondents. A **comparison of the average family income per day of the respondents** who have availed

microcredit and who have not availed microcredit will be useful to know whether the difference in the average family income is significant or not. Hence the following hypothesis is formed in this regard.

**Hypothesis 11:** The difference in the average family income of the respondents who have availed microcredit and who have not availed microcredit is not significant.

The hypothesis is tested by using independent t-test. Table 4.48 presents the results of the test.

**Table 4.48: Comparative analysis of average family income per day of the respondents**

Respondents	N	t-value	P-value
Average income per day of respondents who have availed microcredit	240	2.892**	0.004
Average income per day of respondents who have not availed microcredit	60		

Source: Field Survey – SPSS Output

The result was found to be significant, indicating that the difference between daily average family income of the respondents who availed and who did not avail microcredit is significant ( $t = 2.892$  at 0.01 significant levels). It is worthwhile to mention that the people with higher income get more chances to participate in SHG microcredit activities and to avail microcredit and thus Hypothesis 11 is rejected.

#### 4.1.5 Microcredit Utilization: Hypothesis Testing

The microcredit taken by the members of the SHG is supposed to be utilized for productive, income-generating, entrepreneurial activities. Microcredit is generally employed to set up and run income generating micro enterprises. Such projects are mainly of two types: (a) Individual projects and (b) Group Projects.

The details of the deployment of microcredit taken by the respondents for individual and group projects as well as consumption purposes are presented in Table 4.49

**Table 4.49: Respondents who have used loans for Individual and Group Projects as well as consumption purposes**

Microenterprises	No: of Respondents	Percent
Respondents who started Individual projects	11	4.6
Respondents who started Group projects	168	70.0
Respondents who used the loan for consumption purposes	61	25.4
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

About 75% reported that they used the loans for income generation programmes. There are 61 respondents (25.4%) who reported that they used the loans for consumption purposes.

While 70 per cent of the respondents used the funds to finance group projects, 4.6 percent used the loans for individual income generation projects.

#### 4.1.5.1 Number of microenterprises established

Details of the number of microenterprises established by the respondents by availing and using microcredit are given in Table 4.50.

**Table 4.50: Number of microenterprises established**

Particulars	Micro enterprises established	Percentage
Individual projects	11	23.4
Group projects	36	76.6
<b>Total</b>	<b>47</b>	<b>100</b>

Source: Field Survey

In total, 47 microenterprises initiatives have been established by the respondents. Of these, 36 are group microenterprises and 11 are individual microenterprises.

#### 4.1.5.2 Amount of Microcredit received by members of the SHG:

Details of the amount of microcredit received by individual projects are presented in Table 4.51

**Table 4.51: The amount of micro credit taken – Individual microenterprises**

Loan amount (in ₹)	No: of Respondents	Percent	Cumulative percentage
Less than or equal to 10,000	0	0	0
10,001 – 20000	7	63.6	63.6
20,001 – 30000	1	9.1	72.7
30,001 -40,000	0	0	72.7
40,001 – 50,000	1	9.1	81.8
50,001 – 60,000	0	0	81.8
60,001 – 70,000	0	0	81.8
70,001 – 80,000	1	9.1	90.9
Above 80,000	1	9.1	100
<b>Total</b>	<b>11</b>	<b>100</b>	<b>-</b>

Source: Field Survey

For seven of the 11 individual projects, the loan received was in the range of ₹ 10,001 – 20,000. Only one person had taken micro credit exceeding ₹ 80,000. She had taken a loan for ₹1, 50,000 which is the highest amount of individual loan in all the SHGs under study. It has been utilized to start a ladies beauty parlour business.

The amount of microcredit loans taken by groups, as reported by respondents who belonged to these groups is presented in Table 4.52.

**Table 4.52: Amount of micro credit taken – Group Loans**

Loan amount (in ₹)	No: of Respondents	Percent	Cumulative percentage	No: of Respondents - projects
Less than or equal to 50,000	20	11.9	11.9	6
50,001 – 1,00,000	32	19.1	31	8
100,001 – 1,50,000	35	20.8	51.8	9
1,50,001 -2,00,000	15	8.9	60.7	3
2,00,001 – 2,50,000	6	3.6	64.3	0
2,50,001 – 3,00,000	21	12.5	76.8	5
3,00,001 – 3,50,000	0	0	76.8	0
3,50,001 – 4,00,000	4	2.4	79.2	1
4,00,001 – 4,50,000	0	0	79.2	0
4,50,001 – 5,00,000	35	20.8	100.0	4
Above 5,00,000	0	0	100.0	0
<b>Total</b>	<b>168</b>	<b>100</b>	<b>-</b>	<b>36</b>

Source: Filed Survey

The maximum group loan was ₹ 500,000 and 35 beneficiaries (20.8%) reported having received by their groups micro loans in the range of ₹ 4, 50,000 - ₹ 5,00,000.

More than 19 percent respondents are in the loan class of ₹ 50,001 – 1,00,000. Nobody has received loan above ₹ 5,00,000.

Of the 36 projects financed, 26 had an investment of ₹ 200,000 or less, with 14 of them having an investment of ₹ 100,000 or less.

The national average of microcredit amount for a group loan stands at ₹ 2,35,700 per project according to the country study conducted by NABARD (2013 – 14). Here, in the study also, the average loan amount for a group loan as reported by the respondents comes to ₹ 2,37,083, which is very close to the national average.

#### 4.1.5.3 Sufficiency of Microcredit received by the members of the SHGs

The section analyzes whether microcredit disbursed to respondents was sufficient to individuals or groups to start microenterprises or not. Table 4.53 shows the opinion of 179 respondents who are engaged in microenterprises regarding the sufficiency of the amount of microcredit disbursed to them.

**Table 4.53: Was the Microcredit sufficient to start a Microenterprise?**

Opinion of the respondents regarding Sufficiency of Microcredit(MC)	No: of Respondents			Percent (Total)
	Individual Micro Credit	Group Micro Credit	Total	
Microcredit was sufficient	8	106	114	63.7
Microcredit was not sufficient	3	62	65	36.3
<b>Total</b>	<b>11</b>	<b>168</b>	<b>179</b>	<b>100</b>

Source: Field Survey

The amount of microcredit sanctioned to individuals for livelihood projects differs from microcredit to group for starting microenterprises. The amount of individual microloan sanctioned to eight respondents (72.7%) was

reported to be sufficient. But the rest 3 members (27.3%) who carry individual projects had opined that the fund was insufficient to start a business. They run a cattle farm, beauty parlour and a photostat shop respectively.

There are 106 group entrepreneurs (63.1%) who felt that fund was sufficient to start a group enterprise whereas 62 members (36.9%) opined that it was insufficient.

In summary, more than 63 per cent respondents who took group micro credit found microcredit sufficient to start a micro enterprise where as the 36.3% respondents believe that the fund was not sufficient to start an enterprise.

#### 4.1.5.4 Effective Utilization of Microcredit by Beneficiaries

The microcredit is distributed to the SHG members to start productive, income generating microenterprises and prompt repayment is encouraged from the self generated revenue. But there are instances where the credit taken from SHG is being utilized for purposes other than the purpose for which it is meant to be used. The effectiveness of microcredit programme lies on the fact that whether respondents have utilized microcredit for productive purposes or not. The study seeks to analyse the same in this section.

Table 4.54 provides the details in this regard.

**Table 4.54: Microcredit Utilisation by beneficiaries**

Purpose	No: of Respondents	Percent
Respondents who used microcredit for Productive Income Generation Programme	179	74.6
Respondents who used microcredit for Consumption	61	25.4
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey



Of the total of 240 respondents who have availed microcredit, 179 members (74.6%) utilized micro credit for productive income generation programmes. But 61 respondents (25.4%) have used microcredit either for consumption or for repayment of previous debt.

#### 4.1.5.4.1 Diversion of microcredit for consumption

**Table 4.55: Details regarding diversion of microcredit for consumption purposes**

District	Sl. No.	Nature of microcredit	No: of Respondents SHG members	Microcredit taken ₹	Total Microcredit taken ₹
Malappuram	1	Group	3	30,000	Group Microcredit = <b><u>1,45,000</u></b>
	2	Group	3	30,000	
	3	Group	4	30,000	
	4	Group	3	25,000	
	5	Group	2	20,000	
	6	Group	2	10,000	
	7	Individual	1	10,000	Individual Microcredit = <b><u>40,000</u></b>
	8	Individual	1	10,000	
	9	Individual	1	10,000	
	10	Individual	1	10,000	
<b>TOTAL (Malappuram)</b>					<b><u>1,85,000</u></b>
Ernakulam	11	Group	2	75,000	Group Microcredit = <b><u>3,20,000</u></b>
	12	Group	2	50,000	
	13	Group	2	50,000	
	14	Group	2	50,000	
	15	Group	3	35,000	Individual Microcredit = <b><u>Nil</u></b>
	16	Group	5	30,000	
	17	Group	5	30,000	
<b>TOTAL (Ernakulam)</b>					<b><u>3,20,000</u></b>
Alappuzha	18	Group	2	50,000	Group Microcredit = <b><u>2,50,000</u></b>
	19	Group	5	1,00,000	
	20	Group	5	50,000	Individual Microcredit = <b><u>Nil</u></b>
	21	Group	5	50,000	
<b>TOTAL (Alappuzha)</b>					<b><u>2,50,000</u></b>
<b>Grant Total (₹) of all Districts</b>					<b><u>7,55,000</u></b>

Source: Field Survey

Comparing the amount of microcredit diverted for consumption, Ernakulam district stands at the top with ₹ 3,20,000 which consists only Group Microcredit. The lowest amount of microcredit diversion is recorded at Malappuram district (₹1,85,000). Though Alappuzha district does not have any individual microcredit holders who diverted credit for consumption, it stands in the middle with ₹ 2,50,000 in diversion rank. Only Malappuram district has individual microcredit holders (four individuals) who diverted ₹ 10,000 each for consumption. Alappuzha district has the smallest number of members (17 members – all are group microcredit holders) who diverted the credit whereas both Malappuram (17 group and 4 individual microcredit holders) and Ernakulam has 21 members (all are group microcredit holders) who diverted the money for other non-productive purposes. The total microcredit diverted for non-productive activities for three districts together comes to ₹ 7,55,000.

#### 4.1.5.4.2 Analysis of Utilization: Fully or Partially?

On analyzing the extent of utilization of microcredit by members of the SHGs, some of them utilized it fully for productive, entrepreneurial purposes, but some others used it partially for the same. Table 4.56 presents the data on utilization extent of microcredit by the respondents.

**Table 4.56: Analysis of Utilization: Fully or Partially?**

Extent of Utilization of microcredit	Respondents	
	No: of Respondents	Percent
Fully utilized for income generation purpose	141	58.8
Partially utilized for income generation purpose	38	15.8
Not utilised for income generation purpose	61	25.4
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

The data reveals that 141 (58.8%) respondents who have taken microcredit for productive income generation purposes have utilized it fully for the purpose. But 38 respondents (15.8%) have reported that they utilized the funds only partially for entrepreneurial purposes. As discussed earlier, there are 61 respondents (25.4%) have not utilized the microcredit for productive purpose at all.

#### 4.1.5.4.3 Number of Micro enterprises initiated by SHG Members: A District wise comparison

A comparative analysis has been made to understand the number of individual microenterprises and group microenterprises initiated by the respondents in three different districts covered under study, namely, Malappuram, Alappuzha and Ernakulam. Table 4.57 illustrates this.

**Table 4.57: Details regarding diversion of microcredit for consumption purposes**

District	Individual Projects		Group Projects		Total	
	No: of Respondents	Percent	No: of Respondents	Percent	No: of Respondents	Percent
Malappuram	4	36.3	14	38.9	18	38.3
Ernakulam	2	18.2	12	33.3	14	29.8
Alappuzha	5	45.5	10	27.8	15	31.9
<b>Total</b>	<b>11</b>	<b>100</b>	<b>36</b>	<b>100</b>	<b>47</b>	<b>100</b>
<b>Percent (Out of 47)</b>		<b>23.4</b>		<b>76.6</b>		<b>100</b>

Source: Field Survey

The data in Table 4.3 reveals that the study covers 47 micro entrepreneurial projects in three sample districts of Kerala. Out of 47 enterprises, 18 are in Malappuram, 14 are in Ernakulam and 15 are in Alappuzha. Among the 47 income generating microenterprise projects, 11

(23.4%) are individual microenterprises and 36 (76.6%) are group projects. In Malappuram, four individual projects (36.3%) and 14 group projects (38.9%) have been established. In Ernakulam, two individual projects (18.2%) and 12 group projects (33.3%) have been set up. There are five individual (45.5%) and 10 group (27.8%) enterprises in Alappuzha.

#### 4.1.5.4.4 Utilization of microcredit: Comparison between income generation purpose and consumption

The microcredit disbursed to the members of the SHGs has been utilized for starting microenterprises and for consumption as well. This section presents a comparative analysis between productive utilization and diversion of microcredit among individual microcredit holders and group microcredit holders.

Here the respondents who have taken microcredit for starting individual enterprises (n = 15) and group projects (n = 53) are considered. The association between microcredit granted and consumption is given in Table 4.58.

**Table 4.58: Microcredit and consumption: A comparative analysis**

Type of microcredit projects	Microcredit taken	Diverted for consumption		
	No: of Respondents (No: of Respondents projects for which the credit granted)	No: of Respondents (No: of Respondents Projects for which the credit granted)	Percent	No: of Respondents (No: of Respondents Respondents involved)
Group microcredit	53	17	32.1	57
Individual microcredit	15	4	26.7	4
<b>Total</b>	<b>68</b>	<b>21</b>	<b>30.8</b>	<b>61</b>

Source : Field survey

Out of 15 individual loan holders, 11 (73.3%) have started microenterprises and four (26.7%) have utilized it for consumption purpose. The data also shows that out of microcredit granted for 53 group microcredit projects, credit for 17(32.1%) projects (with 57 respondents) was diverted for consumption purposes.

#### **4.1.5.4.5 Relationship between different factors and utilization of microcredit**

This section of the study analyzes the relationship between different factors and utilization of microcredit. The study considers the influence of the following factors on the utilization of microcredit for productive, income generating enterprises.

- Average family income
- Age of the respondents
- Marital Status of the respondent
- Status of membership in the SHG

These factors are analyzed in the following sections in detail.

##### **4.1.5.4.5.1 Average family income of the respondents and utilization of microcredit**

One of the major determinants of utilization of microcredit is the family income of the respondents. An effort is made to understand the relationship between average per day family income of the respondents and the utilization of microcredit. Table 4.59 presents a comparison between microfinance availed and utilized by respondents with different income levels.

**Table 4.59: Average family income of the respondents and utilization of microcredit**

Family Income per day (₹)	Total Respondents	Microcredit availed		Microcredit Utilized for productive purposes	
		No: of respondents	Percent (Out of 300)	No: of respondents	Percent (Out of 240)
Below or equal to 100	13	13	100	12	92.3
101-200	50	36	72	26	72.2
201-300	73	47	64.4	39	83
301-400	90	76	84.4	51	67.1
401-500	47	41	87.2	29	70.7
501-600	23	23	100	19	82.6
Above 600	4	4	100	3	75
<b>Total</b>	<b>300</b>	<b>240</b>	<b>80</b>	<b>179</b>	<b>74.6</b>

Source: Field Survey

The data reports that out of 240 respondents who took microcredit from their groups, 179 respondents (74.6%) have utilized it for entrepreneurial purposes. Among those who have utilized microcredit, the lowest income class (Below or equal to ₹ 100) has the highest (92.3%) usage for productive purposes. The productive utilization was relatively low for the people with an average family income between ₹ 300 – 500. A hypothesis is formed and tested at this juncture.

**Hypothesis 12:** There is no significant association between average family income of the respondents and use of microcredit for productive income generation purposes

It is tested through independent t-test and is presented below:

**Table 4.60: Comparison of Average family income among those who availed the microcredit for income generating activity and those availed for consumption**

Table No.	Micro credit utilized for	N	Mean	Std. Error Mean	t-value	P-value
4.5 (a)	Income generating activity	179	350.67	10.388	0.943 <sup>ns</sup>	0.347
	Consumption	61	369.34	14.882		

Source: Field Survey – Output of SPSS

The t- value found out for average family income of respondents who utilized microcredit for income generating activities and who utilized it for consumption is 0.943 (at 0.05 significant levels). The result shows that the relationship is non-significant. Also, P- value is found out to be 0.347 which also shows that there exists no significant association between average family income of the respondents and their microcredit utilization pattern. Thus it can be concluded that the average family income of the respondents is not a deciding factor in determining the nature of utilization of microcredit by the respondents. The utilization of microcredit for productive income generation purpose is independent of their average family income.

Hence, t value test for Table 4.5 support the Hypothesis 12 formulated for the study and it is proved.

#### 4.1.5.4.5.2 Age of the respondent and utilization of microcredit

The next factor analyzed is the age of the respondents and its relationship with the utilization of microcredit. Table 4.61 shows this relationship.

**Table 4.61: Age of the respondent and utilization of microcredit**

Purpose	Age (in years)							
	Below 30		30-40		41-50		51-60	
	No: of Respondents	%	No: of Respondents	%	No: of Respondents	%	No: of Respondents	%
Income generating activity	55	74.3	87	75.0	33	73.3	4	80.0
Consumption	19	25.7	29	25.0	12	26.7	1	20.0
Total	74	100.0	116	100.0	45	100.0	5	100.0

Source: Field Survey

The table shows that 74.3% of the respondents below 30 years used microcredit for income generating activity whereas the rest (25.7%) used it for consumption. There are 75% people in the age class of 30-40 who used microcredit productively, but 25% diverted it to consumption. Similarly, in the age group of 41-50, 73.3% used it productively, but 26.7% used it for consumption. In the higher age class of 51-60, 80% used it for productive purpose, whereas 20% used for consumption. It is observed that the ratio of microcredit used for income generation and consumption is more or less the same in all the categories. Thus it is understood that age is not a significant factor for microcredit utilization. To test this, Hypothesis 13 is formed and tested.

**Hypothesis 13:** Age is not a significant factor for microcredit utilization for productive income generation purposes



This is tested with the help of Chi- Square test.

**Table 4.62: Chi- Square Test Result (Age and microcredit utilization)**

Calculated Value ( $\chi^2$ )	Df	Asymp.Sig. (2 - sided)	Conclusion
0.128	1	<0.001	Non-Significant

Source: SPSS output

The Chi-Square test result of  $\chi^2 = 0.128$  indicates that there exists no significant association between age and microcredit utilization. Hence, Chi-Square test result supports the Hypothesis 13 formulated for the study and it is proved.

#### 4.1.5.4.5.3 Status of the membership in the SHG and utilization of microcredit

Another major variable to be considered in utilization of microcredit is the status of membership of the respondents in the SHG (as an office bearer or an ordinary member). A respondent may be an ordinary member or an office bearer in her SHG. This section analyzes whether utilization of microcredit is influenced by the status of respondents' membership in their group.

**Table 4.63: Status of the membership in the SHG as office bearer and utilization of microcredit**

Status of the membership in the SHG	Total respondents	Microcredit utilized for Income generating activity		Microcredit utilized for consumption, non-productive purposes	
		No: of Respondents	Percent (n = 240)	No: of Respondents	Percent (n = 240)
Ordinary Member	191	132	69.1	59	30.9
Office Bearer	49	47	95.9	2	4.1
<b>Total</b>	<b>240</b>	<b>179</b>	<b>74.6</b>	<b>61</b>	<b>25.4</b>

Source: Field Survey

Table 4.7 presents the relationship between status of membership of respondents in the SHG (as office bearer or an ordinary member) and utilization of microcredit. There are 69.1% ordinary members who utilized microcredit for income generation activities whereas the 95.9% office bearers used it for the purpose. Similarly, 59 ordinary members (30.9%) diverted the microcredit to consumption and non-productive purposes, but only 2 office bearers (4.1%) diverted it.

**Hypothesis 14:** The respondent's status in the SHG as an ordinary member or an office bearer does not affect the utilization of microcredit for productive income generation activities

The same is tested with the help of Chi-Square and the result is presented below:

**Table 4.64: Chi-Square Test Result (Status of the member and utilization)**

Calculated Value ( $\chi^2$ )	Df	Asymp.Sig. (2 - sided)	Conclusion
14.784	1	<0.001	Significant

The chi-square result shows that there exists a significant relationship (at 1% significance level) among status of membership as an office bearer in the SHG and utilization of microcredit. The data further reveals that ordinary members divert the microcredit for consumption more than the office bearers and hence status of membership of the respondent in the SHG is found out to be an important influencing factor.

The Chi-Square test result here does not support the Hypothesis 14 formulated for the study and it is rejected.

#### 4.1.5.4.5.4 Duration of membership of the respondents in the SHG and Utilization of microcredit for productive purposes

The duration of membership of the respondents in the SHG is another decisive variable in the utilization of microcredit for productive purposes. A hypothesis is formed in this connection: **Hypothesis 15:** The duration of membership of the respondents in the SHG and use of microcredit for productive purposes are not related.

For the purpose of analysis, the respondents are divided into two groups – SHG members with a shorter experience of less than three years and SHG members with a longer experience of more than three years. The hypothesis is tested with the help of Z test for two proportions. The summary of the results is given in Table 4.65.

**Table 4.65: Duration of membership of the respondents in the SHGs and their utilization of microcredit for productive purposes**

Duration of membership of respondents in SHGs	Total number of respondents	No: of Respondents cases with repayment arrears	Percent of cases with repayment arrears	Z - Value	P- Value
Less than 3 years	109	47	43.12	5.942*	0.001
More than 3 years	131	14	10.69		

Source: Field Survey.

The test results show that there is significant relationship between duration of membership of respondents in the SHG and its productive utilization. It is an indication of accountability of respondents with higher experience in SHG that most of them utilize microcredit for productive, income generating activities whereas respondents of relatively shorter duration of less than three years tend to divert more. The Z value found out

for the two proportions of respondents is 5.942 (at 0.01 significance levels) and hence the Hypothesis 15 is rejected. Both the duration of membership of the respondents in SHGs and use of microcredit for productive utilization are highly related.

#### 4.1.5.4.5.5 Marital Status and utilization of microcredit

Another determinant factor influencing the utilization and diversion of microcredit considered here is marital status of the SHG members. For the purpose of this analysis, the respondents are categorized into two categories: (1) Married and living with husband, and (2) Unmarried, separated and widowed (living single). The same is shown in Table 4.66 below.

**Table 4.66: Marital Status and Microcredit utilization**

Marital Status	Total respondents	Microcredit utilized for Income generation purposes		Microcredit utilized for consumption, non-productive purposes	
		No: of Respondents	Percent	No: of Respondents	Percent
Married	203	160	78.8	43	21.2
Unmarried, Separated & Widowed	37	19	51.4	18	48.6
<b>Total</b>	<b>240</b>	<b>179</b>	<b>74.6</b>	<b>61</b>	<b>25.4</b>

Source: Field survey

The data shows that there are 78.8% married women respondents who have utilized microcredit for productive, income generation purposes where as the other category percentage is 51.4%. Similarly for consumption also, the unmarried, separated and widowed people diverted microcredit to an extent of 48.6%, but only 21.2% of married women diverted the microcredit.

**Hypothesis 16:** There is no significant association between Marital Status of the respondent and utilization of Microcredit for employment generation activities.

This is tested with the help of Chi-square and the same is given below:

**Table 4.67: Chi- Square Test Result (Marital Status and Utilization of microcredit)**

Calculated Value ( $\chi^2$ )	Df	Asymp.Sig. (2 - sided)	Conclusion
13.005	1	<0.001	Significant

The Chi-square result ( $\chi^2 = 13.005$ ) shows that that there exists a significant relation between the purpose of utilization and marital status of the respondents. Result further shows that more women who are married are utilizing the loan for income generating activity than unmarried, separated and widowed women. The SHG members who are married show more responsibility in productive utilization of microcredit. The reason could be inferred that respondents who are married are supported by their spousal income for washing out the risk of loss from entrepreneurial activities if any, and even for meeting consumption expenditure to an extent. The respondents who are single, separated or widowed are not supported with any of such income and they find microcredit as one of the convenient sources to meet their domestic emergencies.

Thus the Hypothesis 16 is rejected and existence of a significant relationship between marital status and purpose of utilization is proved.

#### **4.1.6 Employment And Income Generation Through Micro Enterprises**

The micro entrepreneurial activities are basically viewed in two forms. The former is individual projects, which are organized and controlled by one individual with or without the help of a few employees. The latter (group projects) will be organized by more than two members of the same self help group. The study does not attach any technical difference between micro enterprises and livelihood projects. In a wider perspective, micro enterprises encompass livelihood projects also.

##### **4.1.6.1 Generation of Employment through micro enterprises and livelihood projects**

By and large, the efficiency of microcredit programs is judged mainly by the kind of employment it generates. Hence, it is essential for this study to understand whether the SHG members are able to generate quality employment through microcredit. The major attributes of employment generated by microenterprises are detailed here considering individual microenterprises and group enterprises separately:

- Nature of employment generated by micro enterprises or livelihood projects
- Number of days of employment generated by micro enterprises or livelihood projects
- Generation of employment to people other than respondent(s) of micro enterprises or livelihood projects

##### **4.1.6.1.1 Nature of employment generated by Micro enterprises (ME) or Livelihood projects (LP)**

The employment generated by the micro enterprises can be in two forms – Full time employment and Part time employment to the respondent

(s) who are involved in the entrepreneurial activity. Full time employment here refers to employment to the SHG members for not less than five days in a week. Part time employment is employment for less than five days in a week. Table 4.68 depicts the nature of employment generated by micro enterprises in the study.

**Table 4.68: Nature of employment generated by microenterprises (ME) or livelihood projects (LP)**

Nature of employment	Individual ME/ LP (n = 11)		Group ME/LP (n = 36 projects)	
	No: of Respondents	Percent	No: of Respondents ME projects	Percent of ME projects (Percent of respondents)
Full – Time*	1	9.1	6	16.7
Part - Time	10	90.9	30	83.3
<b>Total</b>	<b>11</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>

Source: Field Survey. (\*-- Full time employment denotes employment for not less than 5 days in a week)

For individual projects only one member of the SHG is benefitted with full time employment. The reason for this is the lack of time due to their current employment like domestic help, daily wage work, tuition, etc., and the fear of failure of micro enterprises. For group projects, six projects offer full time employment to 29 SHG members, which contribute only less than 17 percent of the total employment. Part time employment is offered by 30 micro enterprises with 139 respondents. It is inferred here that more than 83 percent of the entrepreneurial projects offer only part time employment of less than five days in a week to its participants.

#### 4.1.6.1.2 Number of days of employment generated by micro enterprises or livelihood projects

The section deals with the total number of days of work the respondents get in a week from micro enterprises. This determines the quality of employment generated. Table 4.69 presents a comparative data on days of work generated in a week for individual projects and days of work generated in a week for group projects.

**Table 4.69: Number of days of work in a week generated by microenterprises (ME) or livelihood projects (LP)**

No: of Respondents days of work in a week	Individual ME/ LP		Group ME/LP	
	No: of Respondents	Percent	No: of Respondents ME projects (No: of Respondents)	Percent of ME projects (Percent of respondents)
1 – 3	9	81.8	25	69.4
4 – 6	2	18.2	11	30.6
<b>Total</b>	<b>11</b>	<b>100.0</b>	<b>36 (168)</b>	<b>100 00)</b>

*Source: Field Survey. Figures in brackets denote number and percentage of respondents involved.*

Almost 82 percent individual micro entrepreneurs of the SHGs generate only 1- 3 days of work in a week. There are only two individual micro enterprises (18.2%) which generate 4 – 6 days of work in a week. Similarly in group enterprises, 25 projects (69.4%) generate 1 – 3 days of work in a week, whereas 11 group projects (30.6%) generate 4 – 6 days of work in a week. It is understood here that the days of work generated by the micro enterprises under study are very moderate.



#### 4.1.6.1.3 Employment of other people in microenterprises

The section studies how many other people are employed in micro enterprises run by members of the SHGs. For this, individually run microenterprises and group run enterprises are separately taken.

**Table 4.70: Generation of employment for people other than respondents from micro enterprises**

No: of Respondents people got employment from ME	Individual ME/ LP		Group ME/LP	
	No: of Respondents	Percent	No: of Respondents ME projects	Percent of ME projects
1 – 3	2	18.2	21	58.4
4 – 6	0	0	9	25
More than 6	0	0	3	8.3
No employment generated to other people	9	81.8	3	8.3
<b>Total</b>	<b>11</b>	<b>100.0</b>	<b>36</b>	<b>100</b>

Source: Field Survey.

Only two individual micro enterprises could offer employment to people outside the SHG. Majority of the individuals do kitchen gardening as a part of their entrepreneurial activity since they can manage it efficiently by themselves without much outside help. But the profit and scale of operation will be very low in this case. On the other hand, more than 58 percent of group projects generate employment to 1 – 3 outside people other than SHG members and 25 percent of group projects give employment to 4 – 6 outsiders. There are more than 8 percent (3 group enterprises) enterprises which provide employment to outsiders for more than 6 days. However, as a whole the generation of employment through micro enterprises is very insufficient.

#### **4.1.6.2 Income generation through micro enterprises with hypothesis testing**

A micro enterprise is evaluated in terms of total business generated, total income it earns, number of people employed, number of days of work it offer sand the wage content it offers to all the people involved. The total investment needed and microcredit utilized is also compared at this juncture, to measure the extent of diversion in utilization.

##### **4.1.6.2.1 Financial performance of the micro enterprises in terms of average of each parameter**

The microenterprises are generally evaluated on the basis of income generated per year in relation to the annual turnover and money utilized on the project. Here, the following parameters are considered for evaluating the financial viability and performance of the micro-entrepreneurial projects:

- a) Total investment
- b) Total money utilized in entrepreneurial projects
- c) Annual business turnover
- d) Average monthly wage content
- e) Average monthly income for each SHG member

For the purpose of analyzing the financial performance, individual and group projects are separately considered.

##### **4.1.6.2.1.1 Investment range of microenterprises**

###### **(a) Individual microenterprises**

The investment range of micro enterprises operated by individual respondents show that there is no respondent with an investment less than

₹ 10,000. The maximum investment of an individual microenterprise is ₹ 1,50,000. The range of investment is given in Table 4.71.

**Table 4.71: Investment Range of Individual Income Generating Projects**

Investment in ₹	No: of Respondents	Percent	Cumulative percent
10,000 – 40,000	8	72.7	72.7
40,001 – 70,000	1	9.1	81.8
70,001 -1,00,000	1	9.1	90.9
1,00,001 – 1,30,000	0	0	90.9
1,30,001 – 1,60,000	1	9.1	100
<b>Total</b>	<b>11</b>	<b>100</b>	<b>-</b>

Source: Field Survey

There are eight projects (72.7%) with an investment between ₹ 10,000 and ₹ 40,000. There is only one project in the investment range of ₹ 1,30,001 - ₹1,60,000.

**(b) Group microenterprises – investment range**

The investment details of group microenterprises is given in Table 4.72

**Table 4.72: Investment Range of Group Microenterprises**

Investment in ₹	No: of Respondents (Number of projects)	Percent	No: of Respondents (Number of respondents involved)	Percent
Less than or equal to 1,00,000	12	33.3	45	26.8
1,00,001 – 2,00,000	13	36.1	57	33.9
2,00,001 – 3,00,000	4	11.1	20	11.9
3,00,001 – 4,00,000	2	5.6	7	4.2
4,00,001 – 5,00,000	5	13.9	39	23.2
<b>Total</b>	<b>36</b>	<b>100</b>	<b>168</b>	<b>100</b>

Source: Field Survey

There are 12 projects (33.3%) with an investment of less than or equal to ₹ 1,00,000. Only two projects are there with an investment between ₹ 3,00,0001 – 4,00,000. An investment range between ₹ 4,00,0001 – 5,00,000 is there for five enterprises (13.9%).

#### 4.1.6.2.1.2 Average annual business turnover of microenterprises

The annual business turnover is an important indicator to measure the efficiency of the income generating microenterprises. The analysis is done separately for individual enterprises and group enterprises.

##### (a) Individual microenterprises

The business turnover of individual income generating microenterprises for a year is presented in table 4.73.

**Table 4.73: Average Annual Business Turnover: Individual Micro enterprises**

Average Annual Business Turnover in ₹	No: of Respondents	Percent	Cumulative percent
Below 10,000	2	18.2	18.2
10,001 – 25,000	5	45.4	63.6
25,001 – 50,000	1	9.1	72.7
50,001 – 75,000	2	18.2	90.9
75,001 – 1,00,000	1	9.1	100.0
<b>Total</b>	<b>11</b>	<b>100</b>	

Source: Field Survey

To assess any business, primarily it is valued in terms of its total turnover. Out of the total projects, 5 projects have a turnover range of ₹ 10,001 – ₹ 25,000. Only one project is there in the highest turnover

category of ₹ 75,001 – 1,00,000. No project has an annual turnover of more than ₹100,000.

**(b) Group Enterprises**

The analysis of annual business turnover for group microenterprises is presented in Table 4.74

**Table 4.74: Analysis on Annual Business Turnover -- Group Microenterprises**

Turnover in ₹	No: of Respondents groups projects	No: of Respondents	Percent	Cumulative percent
Below or equal to 1,00,000	15	49	29.2	29.2
100,001 – 2,00,000	8	38	22.6	51.8
2,00,001 – 3,00,000	5	30	17.9	69.7
3,00,001 – 4,00,000	4	16	9.5	79.2
4,00,001 – 5,00,000	0	0	0	79.2
5,00,001 – 6,00,000	4	35	20.8	100.0
<b>Total</b>	<b>36</b>	<b>168</b>	<b>100</b>	

Source: Field Survey

Over 51 percent of the group micro entrepreneurs have a turnover up to ₹ 200,000. About 20 percent respondents have turnover ranging from ₹ 5,00,001 – ₹ 6,00,000. No respondents have a turnover more than ₹ 6,00,000. Looking at the number of projects, a downward trend is seen to the higher amount of turnover. Though certain projects offer a higher turnover of above ₹ 5,00,000, such projects are less in number (only 4 projects). More than 50 percent of the projects offer an annual turnover of below ₹ 2,00,000 (on an average) which is very little considering the number of people involved in the group projects.

#### 4.1.6.2.1.3 Average monthly wage content analysis

Another important variable to be evaluated is average monthly wage content. The financial performance of any enterprise is evaluated on this parameter for both individual and group enterprises.

##### (a) Individual Enterprises

**Table 4.75: Average Monthly wage Content Analysis – individual income generating Micro enterprises**

Monthly Wage in ₹	No: of Respondents	Percent	Cumulative percent
0 – 500	1	9.1	9.1
501 – 1,000	8	72.7	81.8
1,001 – 1,500	1	9.1	90.9
1,501 – 2,000	1	9.1	100.0
<b>Total</b>	<b>11</b>	<b>100</b>	

Source: Field Survey

The data shows that, 8 projects (72.7%) are giving a monthly wage of 501 – 1,000. Wage content refers to the total wages and salaries received by all employees of an enterprise. All other categories have only one sample each. The maximum wage content recorded for an individual project is very low (₹ 2,000 per month).

##### (b) Group microenterprises

**Table 4.76: Average Monthly wage Content Analysis: Group Microenterprises**

Monthly Wage in ₹	No: of Respondents	Percent	Cumulative percent	No: of group enterprises
Below or equal to 3,000	53	31.5	31.5	21
3,001 – 6,000	59	35.1	66.6	8
6,001 – 9,000	5	3.0	69.6	1
9,001 – 12,000	20	11.9	81.5	3
12,001 – 15,000	31	18.5	100.0	3
<b>Total</b>	<b>168</b>	<b>100</b>		<b>36</b>

Source: Field Survey

Wage content refers to the total amount of wages received by all workers of a micro enterprise unit. There are 21 micro enterprises for which the total wage content is below or equal to ₹ 3,000 where as eight micro enterprise whose total wage content is above ₹ 3000. Three units each offer total wage content between ₹ 9,001 – 12,000 and 12001 – ₹ 15,000.

#### 4.1.6.2.1.4 Average Monthly income from microenterprises

The most important indicator of the profitability of any business is average monthly income generated by the entrepreneur. The analysis is made on average monthly income of a micro entrepreneur from microenterprises in the next section for individual and group microenterprises separately.

##### (a) Individual microenterprises

**Table 4.77: Average Monthly Income for each SHG member from individual income generating projects (excluding wages from microenterprises)**

Monthly Income in ₹	No: of Respondents	Percent
Net Loss or zero income	1	9.1
1 – 1000	6	54.5
1001 – 2000	0	0
2001 – 3000	1	9.1
3,001 - 4,000	0	0
4,001 – 5,000	3	27.3
<b>Total</b>	<b>11</b>	<b>100</b>

Source: Field Survey

Almost 55 percent of the individual projects earn a maximum monthly income of ₹ 1,000 per head. There are 2 projects (18.2%) which have an income between ₹ 4,001 to 5,000. However, there is one project which suffers loss. The maximum income received by a member from individual micro enterprises is ₹ 4,855.

**(b) Group enterprises**

**Table 4.78: Group Microenterprises-- Average Monthly Income for each SHG member (excluding wages from micro enterprises)**

Monthly Income in ₹	No: of Respondents Projects	No: of Respondents involved in the project	Percent
Net Loss or No income	2	7	4.1
1 – 2,000	16	61	36.3
2,001 – 4,000	13	78	46.4
4,001 – 6,000	2	9	5.4
6,001 – 8,000	1	3	1.8
8,001 – 10,000	1	5	3
10,001 – 12,000	1	5	3
<b>Total</b>	<b>36</b>	<b>168</b>	<b>100</b>

Source: Field Survey

There are 16 group entrepreneurs who earn a monthly income (average) below ₹ 2,000. Thirteen projects provide income between ₹ 2,000 – ₹ 4,000 a month on an average. Three projects offer an income in the range of ₹ 6000 to 12,000. Two projects report net loss.



**Table 4.79: Financial performance of the micro project in terms of average of each parameter**

Financial Parameters of micro enterprise	Individual		Group		Grand Total	
	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Total investment	35909.09	42884.62	242422.62	161320.4	229731.84	164295.3
Money utilized	35909.09	42884.62	234687.50	160812.4	222472.07	163271.5
Annual business turnover	38.91	26.741	35.21	20.786	35.44	21.126
Average monthly wage content of the people	1000.00	487.34	3348.21	1896.663	3203.91	1925.665
Average monthly income for each SHG member	1901.27	2188.773	2578.55	1910.127	2536.93	1928.434

Source: Field Survey

The table 4.79 exhibits that the average (mean) monthly wage content of the people in individual unit is ₹ 1,000 and group enterprise is ₹ 3,348. The mean monthly income for each SHG member from an individual project is just above ₹1,900 and for a group project is just above ₹ 2,500. Thus it is understood that, though the micro enterprises are capable of producing income, the magnitude of income to the micro entrepreneurs is very small.

#### **4.1.7 Analysis on Repayment of Microcredit With Hypothesis Testing**

The major difference between microcredit programme and other subsidized rural credit programmes was that microcredit insisted on repayment, on charging interest rate that covered the cost of credit delivery. That is how the programme could establish large-scale outreach profitably. Here, group members collectively guarantee on loan repayment, and subsequent repayment is dependent upon successful repayment by all group members. Solidarity among group members and the resultant peer pressure had proved to be very effective in dissuading the defaults as evidenced by prompt repayment – mostly above 90 per cent - attained by many microfinance institutions. Here, analysis is done to bring into light the following areas:

- Penal interest for non-repayment of microcredit
- Maximum interest rate of default on repayment of loans
- Arrears in repayment – Number of cases
- Reasons for non-repayment of microcredit
- Measures taken by SHGs to ensure repayment of microcredit
- Financial alternatives of the respondents for repayment in financial difficulty
- Peer pressure for repayment

##### **4.1.7.1 Penal interest for non-repayment of microcredit**

The opinion collected from the beneficiaries regarding the occurrence of penal interest charged by NGOs or SHGs on non-repayment of microcredit installments.

**Table 4.80: Opinion regarding Penal interest for non repayment of microcredit collected from respondents**

<b>Opinion regarding incidence of penal interest</b>	<b>No: of Respondents</b>	<b>Percent</b>
Yes	210	87.5
No	30	12.5
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

Penal interest is a penalty rate of interest charged upon a microcredit SHG member on repayment default. Majority respondents (87.5%) opined that there is penal interest on repayment arrears. On enquiry, it is found that they seldom commit default and most of them repay regularly, fearing the peer pressure. However, 30 respondents (12.5%) reported that there is no penal interest for repayment arrears.

The leaders of the SHGs also opined that there is penal interest on default from the very beginning itself. Normally, the penal interest ranges from 0.5% to 4% of the loan installment. But they have used it rarely because there are not many defaulters for microcredit repayment.

#### **4.1.7.2 Processing fee for the microcredit**

A fee is charged upon the SHG members for processing the application and sanctioning the microcredit to the ultimate SHG member. The details of processing fee reported by respondents are given in Table 4.81.

**Table 4.81: Processing fee for the getting microcredit**

<b>Fee (%)</b>	<b>No: of Respondents</b>	<b>Percent</b>
No fee	90	37.5
1.5	60	25.0
2.0	90	37.5
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

Knowledge of processing fee seems to be doubtful. More than 62% respondents opined that there is processing fee for microcredit. According to 25% beneficiaries, the processing fee is 1.5% but 37.5% respondents reported that it is 2% of the loan. On the other hand, there are 37.5% respondents who reported that there is no fee at all for processing microcredit.

#### 4.1.7.3 Arrears in repayment

The efficiency of microcredit programme is determined by its record of repayment. Normally, the programme is appreciated worldwide for the same feature. Here the respondents have also reported that there are very few cases of repayments default.

**Table 4.82: Arrears in repayment of loan – Number of cases**

<b>Response</b>	<b>No: of Respondents</b>	<b>Percent</b>
Number of cases of arrears	16	6.7
Number of cases of no arrears	224	93.3
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

Regular repayments are reported by 93 percent respondents. Only 16 (6.7%) respondents reported arrears. SHG leaders have also agreed that the repayment arrears are very low because there is high peer pressure, coupled with fear of increased penal interest at the event of default.

#### 4.1.7.4 Reasons for non-repayment of microcredit as reported by respondents

The reasons for non-repayment of microcredit installments, as reported by the respondents are presented in Table. 4.83.

**Table 4.83: Reasons for Non – repayment of micro loans as reported by respondents**

Response	No: of Respondents	Percent
Lack of entrepreneurial activity	90	37.5
Lack of profit	64	26.7
Lack of regular income	32	13.3
Family (personal) problems	24	10.0
Not mentioned any reason	30	12.5
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

The microcredit which is taken by the SHG member has to be repaid with arrear and interest in due course from the income generated from productive use of such finance. While 37.5 percent of the respondents cited ‘Lack of entrepreneurial activities’ as the reason for non-payment of loan, ‘lack of profit’ was reported by 26.7 percent. Other reasons include lack of regular income (13.3 percent) and family problems (10 percent). No clear reasons for non-repayment of interest or arrear of the loan were mentioned by 12.5 percent.

#### 4.1.7.5 Measures taken by SHGs to ensure repayment of microcredit

The methods for ensuring repayment of microcredit differ from SHG to SHG. The leaders of the SHG in consultation with all other members decide the methods suitable for the group. The details of such measures followed by the groups are given in Table 4.84.

**Table 4.84: Measures taken by the SHG to ensure repayment**

Response	No: of Respondents	Percent
Peer pressure	102	42.5
Charge penal interest	62	25.8
Reminding at the meeting	39	16.3
Collect from other members	37	15.4
<b>Total</b>	<b>240</b>	<b>100</b>

*Source: Field Survey*

While analysing the measures taken by the SHGs to ensure prompt and proper repayment, it was revealed that peer pressure (42.5%) was the most effective method, followed by penal interest (25.8 percent), reminding at the meeting (16.3 percent) and collecting from other members of the group (15.4 percent).

#### 4.1.7.6 Financial alternatives of the respondents for repayment in financial difficulty

In case of financial difficulty, a micro finance holder has to arrange the money from other sources. The sources are reported in Table. 4.85.

**Table 4.85: Method of arranging repayment in case of a financial difficulty**

Response	No: of Respondents	Percent
Outside loan	153	63.7
From personal source	60	25.0
From husband's income	24	10.0
From family income	3	1.3
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

Data reveal that majority (63.7 percent) seeks outside loan. All others manage the money from personal or family sources. The outside loan can include loan from money lenders.

#### 4.1.7.7 Peer pressure for repayment

Peer pressure is considered to be the most effective method for ensuring proper repayment of loan installments. The data regarding the presence of peer pressure is provided in Table 4.86.

**Table 4.86: Whether there was pressure from other members for repayment of loans?**

Response	No: of Respondents	Percent
Presence of peer pressure	208	86.7
No presence of peer pressure	32	13.3
<b>Total</b>	<b>240</b>	<b>100</b>

Source: Field Survey

More than 86 percent of respondents reported that there was peer pressure. The rest (13.3 percent) felt that there was no peer pressure.

All the leaders of the SHG opined that the microcredit mechanism operates on the concept of peer pressure at the time of default. It works well with the beneficiaries in ensuring repayment of the loan on time.

The repayment of microcredit by the respondents is dependent upon several factors. **Hypotheses** have been formulated and tested for repayment of microcredit in the section.

#### 4.1.7.8 Age of the respondents and repayment of microcredit

The section of analysis studies whether there exists any variation in the pattern of microcredit repayment by the members of the SHGs according to their age. The mean age of all the respondents comes to 43.5 years. For the purpose of analysis, the study divides the total respondents who availed microcredit (n = 240) into two proportions based on their age as respondents below 30 years and respondents above 30 years of age. The respondents of the study reported that there is high repayment pattern of above 93 percent which leads to the formulation of the hypothesis as follows:

Hypothesis 17: There is no significant difference in the proportion of SHG members having arrears in microcredit repayment in less than 30 years age group and greater than 30 years age group.

The hypothesis is tested with the help of Z test for testing two proportions. Table 4.87 presents the summary of the results.

**Table 4.87: Age of the respondents and repayment of microcredit**

Age class of the respondents (in years)	Total numbers of respondents	No: of Respondents cases with repayment arrears	Percentage of cases with repayment arrears	Z - Value	P-Value
Below 30	74	10	13.51	2.34*	0.019
Above 30	166	6	3.61		

Source: SPSS output/ primary data. \* Significant at 0.05 levels



The Z test results show that the relationship between age and repayment of microcredit is significant at 5 percent level ( $p = 0.019$ ) and hence hypothesis 17 is rejected. It means that there is significant difference in the pattern of repayment by the SHG members in accordance to their age. The results further show that younger SHG members (age below 30 years) commit more arrears in microcredit repayment than elder SHG members (age above 30 years). The percent of arrears comes to more than 13 to younger respondents and less than four to elder respondents. The respondents above 30 years of age exhibits more responsibility in the repayment of microcredit in due course.

#### 4.1.7.9 Marital Status of the respondents and Repayment of Microcredit

Another major variable considered in the study is marital status of the respondent in connection with repayment of microcredit. The respondents who have taken microcredit ( $n = 240$ ) are classified on the basis of marital status into four categories – Married, Single, Separated and Widowed. The cases of repayment arrears in each respondent category are shown in Table 4.88.

**Table 4.88: Number of respondents with microcredit repayment arrears in relation to marital status**

Marital Status of the respondents	No: of Respondents with repayment arrears	Percent of respondents with repayment arrears
Married	206	16
Single	12	0
Separated	16	0
Widowed	9	0
<b>Total</b>	<b>240</b>	<b>16</b>

Source: Field Survey

It is pertinent to note that all of the respondents who made arrears in microcredit repayment are in the 'Married' category. There are 12 respondents in the 'Single' category who are all above 30 years of age and none of them made any repayment arrears in microcredit they availed.

#### 4.1.7.10 Relationship between Average (daily) Family Income of the respondent and Microcredit repayment

The daily family income of the respondents and its relationship with their microcredit repayment is studied. Since the income of the family is a determinant variable in deciding the repayment ability of the respondents, the average family income per day of the respondent is being taken here. The maximum family income per day is recorded at ₹ 700. The respondents are proportioned into two categories – the respondents with income less than ₹ 350 and the respondents with income greater than ₹ 350. At this juncture the following hypothesis has been formulated.

**Hypothesis 18:** There is no significant difference in the repayment pattern of SHG members whose daily average family income is less than ₹ 350 and SHG members whose daily average family income is more than ₹ 350

The summary of the results are given in Table 4.89.

**Table 4.89: Number of respondents with microcredit repayment arrears in relation to their average family income**

Income class of the respondents (in ₹)	Total numbers of respondents	No: of Respondents cases with repayment arrears	Percentage of cases with repayment arrears	Z - Value	P- Value
Less than ₹ 350	126	5	3.97	1.739 <sup>ns</sup>	0.082
Greater than ₹ 350	114	11	9.65		

Source: Field Survey. ns= non significant at 0.05 levels

There are only five respondents (among 126 respondents whose average family daily income is less than ₹ 350) have arrears in microcredit repayment. There are 11 cases of arrears among 114 respondents whose daily average family income is more than ₹ 350. The hypothesis is tested with the help of Z test for testing two proportions. Z value is found to be 1.739 which is not significant at 0.05 levels (P value = 0.082). Hence, hypothesis 18 has been accepted.

#### 4.1.7.11 Duration of membership of the respondents in SHG and Repayment of Microcredit

The association between duration of membership of the respondents in SHG and their repayment pattern of microcredit is analysed. The relevant data is presented in Table 4.90.

**Table 4.90: Relationship between Duration of Membership and Number of cases of arrears in Microcredit Repayment**

Duration of membership of respondents in SHGs (in years)	No: of Respondents	No: of Respondents with cases of arrears	Percent of respondents with arrears in microcredit repayment (out of No: of Respondents)
Up to 3 years	109	3	2.8
3.1 - 6 years	109	6	5.5
6.1 - 9 years	10	0	0
Above 9 years	12	3	25
<b>Total</b>	<b>240</b>	<b>12</b>	<b>33.26</b>

Source: Field Survey

Table 4.45 signifies that there are only three respondents out of 109 respondents - with a shorter experience of maximum 3 years – who have microcredit repayment arrears. Similarly, among the SHG members with more than 3 years, but less than 6 years of experience (n = 109), only three respondents have arrears. In the third class of respondents with duration in the SHG for less than nine years, there is no case of arrears reported. The respondents with the highest experience of above nine years shows three cases of microcredit repayment arrears. Hence, it is clear that there is no clear pattern of repayment on the basis of repayment of microcredit.

#### **4.1.8 Comments on Microcredit Programme by the Respondents**

All the respondents were asked to comment on microcredit programme run by their SHGs. The respondents were asked to rank on five point scales – Strongly Agree, Agree, Not sure, Disagree, Strongly Disagree. The opinion statements are about the impact of microcredit on the rural poor. Comments taken from all respondents are presented in Table 4.91.

**Table 4.91: Comments of all respondents on Microcredit programme of the SHGs**

Statements	Respondents who Availed Microcredit (n = 240)					Respondents who have not Availed Microcredit (n = 60)				
	SD	D	Not sure	Agree	SA	SD	D	Not sure	Agree	SA
a. The microcredit programme of the SHG is very useful to members of the SHG	-	-	1 (0.4)	51 (21.3)	188 (78.3)	-	1 (1.7)	4 (6.7)	26 (43.3)	29 (48.3)
b. Microcredit programme of the SHG has increased the availability of finance to the neighbourhood	-	-	5 (2.1)	83 (34.6)	152 (63.3)	1 (1.7)	2 (3.3)	12 (20.0)	23 (38.3)	22 (36.7)
c. Microcredit programme has helped people to reduce their poverty	-	1 (0.4)	59 (24.6)	132 (55.0)	48 (30.0)	1 (1.7)	2 (3.3)	21 (35.0)	18 (30.0)	18 (30.0)
d. Microcredit programme has helped people to reduce their debts	-	-	22 (9.2)	96 (40.0)	122 (50.8)	1 (1.7)	3 (5.0)	11 (18.3)	15 (25.0)	30 (50.0)

Source: Field Survey. Figures in brackets represent percentage.

Major observations regarding comments on microcredit programme are as follows:

- More than 99 per cent respondents in the microcredit availed category have agreed that the microcredit programme of the SHG is very useful to members of the SHG. Also, more than 78 per cent of respondents who have availed microcredit and more than 48 per cent respondents who

have not availed microcredit have strongly agreed to that. No respondent in either category has strongly disagreed to the statement. Only one respondent in the second category (n=60) of respondents has disagreed.

- More than 97 per cent of respondents who availed microcredit and 75 per cent of respondents who have not availed microcredit have agreed that microcredit programme of the SHG has increased the availability of finance to the neighbourhood. No respondent disagreed to the statement, except three (5 per cent) respondents who have not availed microcredit.
- According to 85 percent of respondents in the first category (n = 240) and 60 per cent of the respondents in the second category (n = 60), microcredit programme has helped people to reduce their poverty. However, more than 24 per cent of respondents who have taken microcredit and 35 percent of respondents who have not taken microcredit have recorded 'Not sure/ No opinion' response.
- More than 90 per cent of people in the first category and 75 per cent of respondents in the second category have agreed to that microcredit programme has helped people to reduce their debts. It is interesting to note that 50 per cent of respondents in both categories have strongly agreed to the opinion. No respondent has disagreed in the first category and only four respondents (6.7%) have disagreed to the same. However, more than nine percent respondents in the first category and more than 18 percent respondents in the second category have expressed 'Not sure/ No opinion' to the statement.

**Part – II**

## **4.2 Survey Among the Micro Entrepreneurs**

A survey has been conducted among 30 entrepreneurs of micro enterprises promoted by the SHGs, from where respondents were drawn for the survey among SHG members. Ten units have been selected from each district- Malappuram, Alappuzha and Ernakulam. Interviews were conducted with the office bearers of such enterprises or group leaders. The details are collected on the following major areas:

- Nature of business and details of product/service
- Investment details
- Loan installments and interest rates
- Sales, Revenue and Profit details
- Employment details
- Empowerment details

The details are tabulated and presented in the following sections:

### **4.2.1 Nature/category of Business of Microenterprises**

The microenterprises formulate different feasible business options and many of them discuss and finalize the decision with the NGOs from which they are financed. Most of them conduct business at their own home or places near to their houses. Generally, the sizes of microenterprises are very small. The units under study conduct different forms of business based on training received and collective decision of the group. The members of the same SHG may be subdivided and form smaller groups and conduct different kinds of business. From each SHG, one business group is selected and studied. The

nature of microenterprise taken with its main product or service is given in Table 4.92:

**Table 4.92: Nature / Category of business of Micro enterprises**

<b>Nature of Micro enterprise business</b>	<b>No: of Respondents of enterprises</b>	<b>Percent</b>
Canteen business, Catering unit and Snacks making	8	26.7
Nightwear Trading Business and Tailoring Unit	6	20.0
Papad and Pickle making, Direct marketing and Tea powder trading	6	20.0
Coconut Processing and Mushroom cultivation	5	16.7
Agarbathy making and Floor mat making	3	10.0
Beauty Parlour	1	3.3
Goat Rearing	1	3.3
<b>Total</b>	<b>30</b>	<b>100.0</b>

*Source: Field survey*

The study seeks information from 30 microenterprises which conduct business at least for two years and are currently operational. In the study, more enterprises are engaged in the business of catering, snacks making, tailoring and nightwear manufacturing. Some related groups are combined and categorized. More than 27 per cent respondents are engaged in ‘Catering, Canteen and snacks making’ business, 20 percent respondents each are engaged in ‘Night ware trading, tailoring units’ and ‘Papad and pickle making, direct marketing and tea powder trading’ category respectively.



#### 4.2.2 Details of Microcredit received by the respondents

Analysis had been made to identify the amount of total microcredit received and total investment given to establish micro enterprises. The details are given as under:

**Table 4.93: Total Loan and Total Investment of micro enterprises**

<b>Nature of Micro enterprise business</b>	<b>Total Microcredit Received (₹)</b>	<b>Total Investment (₹)</b>
Canteen business, Catering unit and Snacks making	26,44,000	24,18,100
Nightwear Trading Business and Tailoring Unit	20,34,000	17,46,700
Coconut Processing and Mushroom cultivation	10,11,000	9,61,000
Papad and Pickle making, Direct marketing and Tea powder trading	8,25,000	6,47,000
Beauty Parlour	5,00,000	4,00,000
Agarbathy making and Floor mat making	3,26,000	2,75,000
Goat Rearing	50,000	40,000
<b>Total</b>	<b>73,90,000</b>	<b>64,87,800</b>

Source: Field Survey

The average microcredit received for 30 micro enterprises comes to ₹2,46,333 and the average investment for the same 30 enterprises comes to ₹ 216,260. About ₹ 26,00,000 is given for the category 'Canteen business, Catering unit and Snacks making'. Similarly, for 'Nightwear Trading Business and Tailoring Unit', around ₹ 20,00,000 is given. The

minimum amount granted as microcredit is for 'Goat Rearing' business (₹50,000).

#### 4.2.2.1 Details Regarding Bank Loan other than microcredit received

An analysis has been made to understand the status of bank loan taken by microenterprises in addition to the amount of microcredit to start business.

**Table 4.94: Details Regarding Bank Loan other than microcredit received**

Status of Further Bank Loan	No: of Respondents	Per cent
Further loans are taken in addition to microcredit	4	13.3
Further loans are <i>not</i> taken in addition to microcredit	26	86.7
<b>Total</b>	<b>30</b>	<b>100.0</b>

*Source: Field Survey*

The data reveals that 13 per cent micro enterprises have sought for additional bank loan further to microcredit.

#### 4.2.2.2 Monthly microcredit installments and Interest details

This section analyses the details of microcredit received by the entrepreneurs. It includes total microcredit received, monthly installment of microcredit, interest rate applied and number of installments allowed for completing the repayment.

**Table 4.95: Microcredit Installment Details – Per month**

<b>Nature of Micro enterprise business</b>	<b>Total Microcredit Received (₹)</b>	<b>Monthly Loan instalment (₹)</b>	<b>Interest (%)</b>	<b>No: of Respondents instalments</b>
Canteen business, Catering unit and Snacks making	26,44,000	57,120	14.5	53
Nightwear Trading Business and Tailoring Unit	20,34,000	51,980	15	45
Coconut Processing and Mushroom cultivation	10,11,000	21,340	14	54
Papad and Pickle making, Direct marketing and Tea powder trading	8,25,000	17,500	14.5	54
Beauty Parlour	5,00,000	10,650	15	54
Agarbathy making and Floor mat making	3,26,000	7,290	14	51
Goat Rearing	50,000	1,070	15	54

Source: Field Survey

The data reveals that the category of ‘Canteen business, Catering unit and Snacks making’ shows maximum amount of microcredit received and maximum loan instalment. The business of ‘Goat Rearing’ received the minimum microcredit (Rs. 50,000) and thus minimum loan instalment (Rs. 1,070). Two business units (namely ‘Canteen business, Catering unit and Snacks making’ and ‘Nightwear Trading Business and Tailoring Unit’) pay loan installments more than ₹ 50,000 per month.

### 4.2.2.3 Interest Rate

Table 4.95 provides the interest rates. The interest rates are in the range of 14 % to 15 %. These interest rates reported by the entrepreneurs are not very high. However, considering the normal bank lending rates, the rates are high. Added to these are the penal interest reported in Part one this chapter, which can be as high as four percent.

### 4.2.2.4 Average Monthly Sales/Turnover

The average monthly sales turnover is an important indicator to measure the efficiency of the income generating microenterprises. The information is presented **Table 4.96** here:

**Table 4.96: Average Monthly Sales/Turnover**

Nature of micro enterprise business	Average Monthly Sales/Turnover (₹)
Canteen Business, Catering and Snacks Making	1,64,600
Nightwear Trading Business and Tailoring Unit	68,690
Coconut Processing and Mushroom cultivation	63,500
Papad and Pickle making, Direct marketing and Tea powder trading	18,650
Beauty Parlour	12,000
Agarbathy making and Floor mat making	8,650

Source: Field Survey

The data discloses that only for one category there is a monthly turnover of above ₹ 100,000. The category of 'Canteen Business, Catering and Snacks Making' has maximum sales of ₹ 1,64,600/- . The other two categories with at least modest turnover are Nightwear Trading and Tailoring Unit and Coconut Processing and Mushroom cultivation. For all others

monthly turn over is very low. 'Goat Rearing' business has the least turnover of ₹ 4,800/- The average monthly sales value of 30 micro enterprises comes to ₹ 11,363/-, which is quite meager.

#### 4.2.2.5 Analysis of Labour Cost per day with wages as per MNREGA

Cost of labour for a worker is an important variable for measuring the impact of microcredit on poor people. Also, it is an indicator of the effectiveness of the programme. Here a comparison is made between the labour cost of the study (30 units) and minimum wages under Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA).

**Table 4.97: Comparison of Labour cost per day with Minimum Wages per day under MNREGA**

Nature of Business	Labour	Average wage per day (for 20 days a month)	Minimum Wage per day under MNREGA	Difference
Canteen Business, Catering and Snacks Making	19350	967.5	164	803.5
Coconut Processing and Mushroom cultivation	10050	502.5	164	338.5
Nightwear Trading Business and Tailoring Unit	3200	160	164	-4
Goat Rearing	200	10	164	-154
Agarbathy making and Floor mat making	1100	55	164	-109
Beauty Parlour	1,000	50	164	-114
Papad and Pickle making, Direct marketing and Tea powder trading	2300	115	164	-49
<b>Total</b>	<b>37,200</b>	-	-	-
<b>Average</b>	<b>1,240</b>	-	-	-

Source: Field Survey

Data reveal that only two business categories offer higher wage than minimum wages fixed under MNREGA. The ‘Canteen, Catering and Snacks Making’ business units offer maximum wage of ₹ 967.5 per day, which is higher than minimum wage under MNREGA. The next place goes to ‘Coconut Processing and Mushroom cultivation’ units, which offer ₹ 502.5 as wage per day. All the other categories provide lesser wage per day than the wages fixed under MNREGA. It can be concluded that microenterprises offer only moderate wage income to its beneficiaries.

#### **4.2.2.6 Profit per month from Microenterprises**

Profit is a major factor to be considered in evaluating the financial efficacy of any enterprise. Here an analysis is made to understand the sales, total cost profit or loss before microcredit repayment, microcredit installment to be made and finally the profit after microcredit repayment. The details are as under:

Table 4.98 : Profit per month from Microenterprises

Nature of Business	No: of Respondents Enterprises	Sales (₹)	Material (₹)	Labour (₹)	Other costs (₹)	Total cost (₹)	Profit / Loss before microcredit repayment (₹)	Microcredit Instalment (₹)	Balance of Profit after microcredit repayment (₹)
Canteen Business, Catering and Snacks Making	8	164600	34400	19350	11450	65200	99400	57,120	42,280
Coconut Processing and Mushroom cultivation	6	63500	12790	10050	3650	26490	37010	21,340	15,670
Nightwear Trading Business and Tailoring Unit	6	68690	7200	3200	1050	11450	57240	51,980	5,260
Goat Rearing	5	4,800	500	200	50	750	4,050	1,070	2,980
Agarbathy making and Floor mat making	3	8650	1400	1100	200	2700	5950	7,290	-1,340
Beauty Parlour	1	12,000	1,000	1,000	1,000	3,000	9,000	10,650	-1,650
Papad and Pickle making, Direct marketing and Tea powder trading	1	18650	3300	2300	400	6000	12650	17,500	-4,850
<b>Total</b>	<b>30</b>	<b>3,40,890</b>	<b>60,590</b>	<b>37,200</b>	<b>17,800</b>	<b>1,15,590</b>	<b>2,25,300</b>	<b>1,66,950</b>	<b>58,350</b>
<b>Average</b>		<b>11,363</b>	<b>2,020</b>	<b>1,240</b>	<b>593</b>	<b>3,853</b>	<b>7,510</b>	<b>5,565</b>	<b>1,945</b>

Source: Field Survey

The data presented here explains that maximum profit is recorded for the business of ‘Canteen Business, Catering and Snacks Making’ with ₹ 42,280 per month. The highest loss is shown by ‘Papad and Pickle making, Direct marketing and Tea powder trading’ business units (₹ -4,850). ‘Agarbathy making and Floor mat making’ (₹ -1,340) and Beauty Parlour (₹ -1,650) are also making losses.

Considering the 30 microenterprises covered in the study, the average labour cost comes to ₹ 1,240 a month. This is comparatively lesser than the minimum wage fixed by the government for the beneficiaries of the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)<sup>1</sup>. The minimum wages fixed for a worker under the scheme is ₹ 164 a day (Ministry of Rural Development, Government of India, Circular No. S.O. 82(E), dated the 14th January, 2011) with effect from April 1, 2012. Income per day for a worker engaged in a microenterprise comes only to ₹ 62 (for 20 working days in a month).

The detailed profit statement is summarized and presented as below:

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<sup>1</sup> The MGNREGA promises 100 days of work a year to each rural household at a pre-determined minimum wage rate. The minimum wage fixed by the government for a worker comes to ₹ 164 a day with effect from April 1, 2012.



**Table 4.99: Summary Profit Statement of Micro-enterprises (per month)**

<b>Nature of Micro enterprise business</b>	<b>Revenue (₹)</b>	<b>Total Cost (₹)</b>	<b>Profit before microcredit repayment (₹)</b>	<b>Microcredit Instalment (₹)</b>	<b>Profit after microcredit instalment repayment (₹)</b>
Canteen Business, Catering and Snacks Making	164600	65200	99400	57,120	42,280
Coconut Processing and Mushroom cultivation	63500	26490	37010	21,340	15,670
Nightwear Trading Business and Tailoring Unit	68690	11450	57240	51,980	5,260
Goat Rearing	4800	750	4050	1,070	2,980
Agarbathy making and Floor mat making	8650	2700	5950	7,290	-1,340
Beauty Parlour	12000	3000	9000	10,650	-1,650
Papad and Pickle making, Direct marketing and Tea powder trading	18650	6000	12650	17,500	-4,850
<b>Total</b>	<b>3,40,890</b>	<b>1,15,590</b>	<b>2,25,300</b>	<b>1,66,950</b>	<b>58,350</b>

Source: Field Survey

The categories of businesses making at least modest profit include canteen and catering, Coconut Processing and Mushroom cultivation, Nightwear Trading Business and Tailoring Unit and Goat Rearing. Others are not viable.

### 4.2.3 Utilization of Microcredit: Generation of Income

#### 4.2.3.1 Total Income generated by micro enterprises

Details have been extracted from profit, cost and revenue particulars. Wages given to micro entrepreneurs are added with profit to get total income details.

**Table 4.100: Total Income generated by micro enterprises (per month)**

category of enterprise	Profit after MC instalment repayment (P)	Wage received by entrepreneur from ME (W)	Total income (TI) generated by ME (W + P)	No: of Respondents Enterprises in each category (n)	Income generated per enterprise (TI /n)
Canteen Business, Catering and Snacks Making	42,280	19350	61,630	8	7703.8
Coconut Processing and Mushroom cultivation	15,670	10050	25,720	6	4286.7
Nightwear Trading Business and Tailoring Unit	5,260	3200	8,460	6	1410
Goat Rearing	2,980	200	3,180	5	636
Agarbathy making and Floor mat making	-1,340	1100	-240	3	-80
Beauty Parlour	-1,650	1,000	-650	1	-650
Papad and Pickle making, Direct marketing and Tea powder trading	-4,850	2300	-2,550	1	-2550
<b>Total</b>	<b>58,350</b>	<b>37,200</b>	<b>95,550</b>	<b>30</b>	<b>3185</b>

Source: Field Survey

The total income (TI) generated is calculated by adding the profit after microcredit instalment payment (P) with wage content received by the

entrepreneur (W) from the enterprise. The average income per enterprises is calculated by dividing the total income (TI) of the enterprise by the number of enterprises (n).

The highest income per month is generated by canteen, catering and snacks making enterprises (₹ 7703.80), followed by coconut processing and mushroom cultivation (₹ 4,286.70). There are three categories of enterprise which showed loss for their business. However, they recorded profit from their business before making microcredit installment payment. It is inferred, thus, that the profit generated from the micro enterprises is not sufficient to pay off even their immediate liabilities. The profit making units are showing very moderate profit so as to meet their direct liabilities and it is shared by more than six members of micro enterprise on an average. So, the income received from micro enterprise per head is also very negligible.

#### **4.2.4 Generation Of Employment From Micro Enterprises**

The efficacy of any business is evaluated not only on the basis of total business generated or total income it earns, but also in terms of number of people employed, number of days of work it offer and the wage content it offers to all the people involved.

##### **4.2.4.1 Employment generation in terms of number of days worked in a week**

The total number of working days in a week per SHG member is an important indicator of employment generation. This section analyzes the number of days of work generated for beneficiaries from microenterprises.

**Table 4.101: Number of days worked in a week**

Days of work in a week	No: of Respondents	Percent
6	12	40
5	4	13.3
4	8	26.7
2	6	20
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Survey

Table shows that the number of days of employment is low (less than 5 days) or 47 % of the units. Only two days of employment has been reported by six (20%) micro enterprises.

#### 4.2.4.2 Are the members employed fully?

The microenterprises are generating partial and full employment to the members in general. The responses regarding full time and part time employment are tabulated and given below:

**Table 4.102: Are the members employed fully?**

Response	Freq	Percent
Fully employed	12	40
Partially employed	18	60
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Survey

The table reveals that 60% of the members get part-time employment from microenterprise and 40% get full time employment.

#### 4.2.4.3 Average Wage Received by one employee per week

In order to study the total wage content involved in the business, the variable is tabulated and presented in Table 4.103.

**Table 4.103: Average Wage Received by one employee per week**

Average Wage (₹) per week	Freq	Percent
100 – 250	7	23.3
251 – 350	14	46.7
351 – 450	5	16.7
451 – 550	4	13.3
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Survey

About 23 per cent respondents receive weekly wage between ₹ 100 and ₹ 250. There are 14 units offering wages ranging between ₹ 251 and ₹ 350 per week. Nearly 17 per cent offer wages in the range of ₹ 351 – 450 and 13 per cent units provide wages in the range of ₹451 – 550 per week.

#### 4.2.5 Repayment of microcredit

The micro entrepreneurs were surveyed to know the particulars of repayment, especially the arrears on repayment, reasons for arrears, penalties for default, method of alternative sources of funds, etc.

##### 4.2.5.1 Promptness of the payment of microcredit installment

An examination is made to understand the promptness of micro entrepreneurs in repayment of microcredit installments. The data are presented in Table 4.104

**Table 4.104: Promptness of the payment of loan instalment**

Response from respondents on repayment of microcredit	No: of Respondents	Percent
Promptly paid	27	90
Not paid promptly (incidence of arrears for repayment)	3	10
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Survey

The data shows that 90 per cent respondents repay their loan installments promptly. However, 10 per cent commit arrears in repayment.

#### 4.2.5.2 Arrears on repayment

Here, the number of installments defaulted by the respondents are identified and presented.

**Table 4.105: Arrears on repayment**

No: of Respondents installments pending for payment	No: of Respondents	Percent
2	2	66.7
3	1	33.3
<b>Total</b>	<b>3</b>	<b>100</b>

Source: Field Survey

The data shows that only three respondents have committed default on repayment of microcredit. Out of this, two respondents (66.7%) have two installments pending and one respondent has one installment as arrear. Evidently, the repayment is prompt, although the units are performing badly.

#### 4.2.6 Major Problems faced by the units

Many of the micro entrepreneurs have started enterprises without any prior experience in this field. They face different problems in the fields of marketing, finance and human resource.

**Table 4.106: Major Problems faced by the units**

Problems	No: of Respondents microenterprises	Percent
Marketing Related	11	36.7
Finance Related	7	23.3
Human Resource Related	4	13.3
No problems	8	26.7
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Survey

More than 36 per cent units face marketing related problems like lack of marketing skills, low demand, lack of branding etc; 23 per cent units face financial problems like inadequacy of funds, high interest rate, lack of income to repay, etc. There are 13 per cent units which face problems related to human resources like lack of adequate manpower, lack of trained personnel, work related or group related disputes, etc. However, 26.7 units opined that they do not face problems of any sort. The management skill available to the micro enterprises is a serious constraint and the entrepreneurs are not in a position to define the problems their units face.

#### 4.2.7 Opinion on Improvement in the social status of the micro entrepreneurs

Provision of microcredit and involvement in the enterprising activities are supposed to help the beneficiaries to increase their family income but there is supposed to be a positive influence on their social status too. The opinion regarding this is tabulated and given as in Table 4.107:

**Table 4.107: Opinion on Improvement in the social status of the micro entrepreneurs**

<b>Opinion of the respondents regarding the improvement in the social status</b>	<b>No: of Respondents</b>	<b>Percent</b>
Significantly increased	4	13.3
Moderately increased	3	10
Not significantly increased	23	76.7
<b>Total</b>	<b>30</b>	<b>100</b>

*Source: Field Survey*

The study reveals that more than 76 per cent of the respondents were of the view that the participation in the microenterprises activity has not significantly increased their social status. But four respondents felt that the

microenterprise activities increased the social status of the beneficiaries significantly. The other three respondents (10%) felt that provision of microcredit and participation in the enterprise activities helped them to improve their social status moderately.



# Chapter 5

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Contents

- 5.1 *Major Findings of the study*
- 5.2 *Conclusions*
- 5.3 *Recommendations*
- 5.4 *Suggestions for Future Research*

*A summary of major findings is presented in the chapter, in the backdrop of detailed data analysis. The chapter proceeds to some specific recommendations. The study gives final wrap – up after suggesting some areas for future research.*

## 5.1 Major Findings of the Study

The broad objective of the study is to analyse the state of microcredit programme in Kerala, with special reference to employment and income generation through microenterprises. The issues covered include availability of microcredit to the needy, interest rates and repayment, factors influencing the utilization of microcredit for micro enterprises / livelihood projects and the extent to which these microenterprises / livelihood projects generate employment and income.

For primary data two studies were conducted – a sample survey among members of SHGs and a survey among entrepreneurs of microenterprises. The major findings of these studies are reviewed here.

### 5.1.1 Socio economic profile

- The survey among SHG members revealed a relatively less participation of young women below the age of 30 in SHG activities and the mean age the respondents is 43.5 years.
- Similarly, unmarried young ladies seldom participate in SHG and microcredit activities.
- Most of the respondents are from families with single income earner and no head of the household works in the organised or government sector. These indicate the economic backwardness of the respondents and their families.
- SHG participation is more from large families, as mean score of size of the family of the respondents comes to 5.11 members, which is higher than the state average in Kerala of 4.3 members, as per Census 2011.

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- The average family income per day of the respondents ranges between ₹ 80 and ₹ 700, with a mean family income of ₹ 344.92. The daily family income for the majority of the respondents is ₹ 500 or less. However, none of the respondents would qualify for the BPL category since the bench mark is ₹ 2,250 per month per household or ₹ 75 per day).
- There are only a very few respondents who do not own land or building and all those who have availed Microcredit from their respective SHGs own land or buildings.
- The study reveals that 58 % of the respondents did not have any bank account before joining the SHG and 73 per cent of the respondents had not taken any loans from commercial banks before joining SHGs. However more than 93 per cent of the respondents had taken loans from co-operative banks and the indication is that a large number of the SHG members did not have access to formal banking despite their credit needs prior to joining the SHG.

### **5.1.2 Microcredit availability**

- Individual microcredit is delivered mainly through SHGs and group loans are given directly by the banks.
- There is no uniformity in eligibility conditions to get microcredit from banks, NGOs and SHGs; ‘Age of the group’ is the primary consideration for the bank and ‘Prompt repayment’ and ‘Repayment capacity’ are major concerns of NGOs and SHGs, respectively.
- There is no agreement about the factors influencing the loan availability among the two groups of respondents who availed and who did not

avail microcredit. Mann – Whitney U test results return the conclusion that there is significant difference between the opinions expressed by two groups

- The members who have taken microcredit consider better socio-economic background and education as the deciding factors for getting loan from the SHG, while the members who have not availed microcredit consider repayment capacity and closeness to the leaders of the SHG as the major factors for loan availability.
- A factor analysis reveals that major factors influencing the availability of are socio-economic factors of respondents and their participation in SHG.
- People with higher income level (above ₹ 500) have all availed microcredit and the mean income is higher for the respondents who availed the microcredit than those who did not avail the microcredit
- It is note that there is no respondent who availed microcredit in the age class of below 30 years.
- All the unmarried respondents have taken microcredit from the SHGs. But all the unmarried respondents are in the age classes of above 30 years.
- All the office bearers of SHGs have taken microcredit.
- Higher the duration of membership in the SHG, higher the per cent of microcredit availing and it has to be inferred that higher the duration of membership, higher is the availability of microcredit.

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### **5.1.3 Microcredit utilization**

- The range of investment of an individual microenterprise is from ₹10,000 to ₹ 1,50,000 and there are eight projects (73%) with an investment between ₹ 10,000 and ₹ 40,000.
- For group micro enterprises, the investment range is from ₹ 100,000 to ₹ 500,000. The study shows that for about 70 % of the projects, the investment ranges from ₹ 100,000 to ₹ 200,000.
- For group microcredit, the average loan amount comes to ₹ 2,37,083, which is closer to the national average of ₹ 2,13,333.
- Over 63 per cent of the respondents who availed micro credit found the amount of loan sufficient to start a micro enterprise. Others found it inadequate and additional loans were taken by some groups.
- Significant diversion of micro credit for consumption has been reported in the study. While 75% of the respondent used the loans for setting up micro enterprises or livelihood projects, the remaining 25% used micro credit for consumption purposes.
- While 70 per cent of the respondents used microcredit group projects, five percent used it for individual income generation projects.
- Of the 75 % who used it for productive purposes, 16 % had only partially used for productive use. Part of the loan was diverted.
- On the whole, 41 % of the microcredit beneficiaries had diverted the funds from micro enterprises or livelihood projects.

- In total, 47 microenterprises have been established by the respondents. Of these, 36 are group microenterprises and 11 are individual microenterprises.
- There exists no significant association between average family income of the respondents and their microcredit utilization pattern.
- Among those who have utilized microcredit, the lowest income class has the highest (92.3%) usage for productive purposes. However, the pattern is not uniform for the other income categories.
- The study further reveals that ordinary members divert the microcredit for consumption more than the office bearers and hence status of membership of the respondent in the SHG is found to be an important influencing factor in the utilization of micro credit.
- Statistical test results show that there is significant relationship between duration of membership of respondents in the SHG and the productive utilization of micro credit.
- It is also found that the utilization of microcredit for productive income generation purpose by the respondents is independent of their age.
- There exists a significant relationship between the purpose of utilization and marital status of the respondents. Results show that the SHG members who are married show more responsibility in productive utilization of microcredit than unmarried, separated and widowed women.

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#### **5.1.4 Business performance**

- In terms of the business turnover, the performance of the micro enterprises is rather unviable. About 64 % of the units have an maximum annual turnover of ₹ 25000 and 91 % maximum annual turnover of ₹ 75000. No project has an annual turnover of more than R. 100,000.
- More than 50 percent of the group projects have an average annual turnover of below ₹ 2,00,000 which is very little considering the number of people involved in the group projects. The maximum annual turnover is ₹ 600,000.
- Almost 55 percent of the individual projects earn a maximum monthly income of Rs 1,000 per head.
- About 83 % of the group projects generate a monthly income of ₹ 4000 or less.
- The wage content (the total wage and salaries provided to all people who work in the unit) is very low in these micro enterprises. Among the individual projects the average monthly wage content is in the range of ₹ 501 to ₹ 1000 in 73 % of the units and the maximum monthly wage content reported is ₹ 2000.
- Even in the group projects the monthly wage content is very low. The range is ₹ 3000 to ₹ 12000. In 66 % of the units, the total amount paid as wage and salary in a month is ₹ 6000.

### **5.1.5 Employment generation**

- Among individual projects, only one member is benefitted with full time employment.
- In group micro enterprises, only 16.7 percent projects offer full time employment.
- Over 83 percent of the entrepreneurial projects offer only part time employment of less than five days in a week to its participants.
- Almost 82 percent individual micro entrepreneurs of the SHGs generate only 1- 3 days of work in a week. There are only two individual micro enterprises (18.2%) which generate 4 – 6 days of work in a week.
- Similarly in group enterprises, 25 projects (69.4%) generate 1 – 3 days of work in a week. It is understood that the days of work generated by the micro enterprises under study are very moderate.
- Only two individual micro enterprises could offer employment to people outside the SHG.
- On the other hand, more than 58 percent of group projects generate employment to 1 – 3 outside people other than SHG members.
- However, as a whole the generation of employment through micro enterprises is very insufficient.

### **5.1.6 Income generation**

- The capacity of micro enterprises in generating average monthly income for each beneficiary is very low for both individual and group projects



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- The mean monthly income for each beneficiary from an individual project is just above ₹ 1,900 and for a group project is just above ₹ 2,500.
- It is evident that though the micro enterprises are theoretically capable of producing income, the magnitude of income generated by micro enterprises is very small.
- The hype about poverty reduction through micro enterprises is not substantiated by the performance of these income generation projects.

#### **5.1.7 Repayment of microcredit**

- Regular repayments are reported by 93 percent respondents. There are only 16 cases (6.7%) of arrears reported in the survey.
- Major reasons for arrears cited by the members include 'Lack of entrepreneurial activities' and 'lack of profit'.
- The major measures taken by the SHGs to ensure prompt and proper repayment are peer pressure and charging of penal interest
- So the members ensure repayment by arranging money from outside loan or from some personal or family sources, in case of financial difficulty.
- It is found out that there is significant difference in the pattern of repayment by the SHG members in accordance to their age. Younger SHG members commit more arrears in microcredit repayment than elder SHG members
- It is pertinent to note that all of the respondents who made arrears in microcredit repayment are in the 'Married' category.

- Arrears in repayment are not connected with the average family income or duration of membership in SHG of the respondent. Most of these units are not financially viable.
- In spite of all these limitations, the SHG members were very positive about the potential contribution of micro credit of the SHGs. All SHG members who participated in the survey, irrespective of whether they had availed micro credit or not expressed the view that microcredit programme of the SHGs had increased the availability of finance to the neighbourhood.

#### **5.1.8 Findings on Survey on Micro entrepreneurs**

- The survey on micro entrepreneurs reveals that more than 86 per cent micro enterprises have not taken any bank loan in addition to the microcredit received to start a business. This indicates the sufficiency of microcredit in contributing to the initial capital of a micro enterprise.
- On the whole these micro enterprises are not viable units. Most of the units face serious problems. They face marketing problems, financial problems and HR problems.
- They are not able to reach viable level of operations. For example, the average monthly sales value of 30 micro enterprises comes to ₹ 11,363/-
- The average interest rate for the micro credit loan is 14.57 per cent. The interest rate ranges from 14% to 15%.
- The average labour cost per person employed comes to ₹ 1,240 a month. Income per day for a worker engaged in a microenterprise comes only to ₹ 62 (for 20 working days in a month).

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- This is less than the minimum wage fixed for a worker under MNREGA scheme which is ₹ 164 a day.
- Thus it can be concluded that microenterprises offer only moderate income to its beneficiaries in some selected categories of business.
- The survey on micro entrepreneurs also reveals that 90 per cent respondents repay their loan instalments promptly.
- But there is not much employment generation reported in the survey. However, among those who get employment, 60% get part-time employment and 40% get full time employment from microenterprise.
- The study reveals that more than 76 per cent respondents were of the view that the participation in the microenterprises activity has not significantly increased their social status.

## **5.2 Conclusions**

The study brings out some major conclusions:

Micro credit is liberally granted to individuals and groups associated with SHGs. Loan availability is not serious constraint, as none of the respondents in the survey among SHG members openly reported any difficulty in obtaining loans. However, there is no emphasis that the recipients of microcredit should be the poorest of the poor. Although the microcredit goes to the really deserving, it goes more to the socially, and educationally advanced among the poor, who have strong link to the SHGs.

Although there is some diversion of microcredit, quite a considerable portion of the funds are invested in micro enterprises. However, the

entrepreneurs generally lack the capacity to identify viable business opportunities and to manage the units successfully. Hence most of the units end up nonviable. Such units cannot create gainful employment or achieve income generation. This defeats the very purpose of microcredit. Success of the programme cannot be judged merely based on reasonably high level of repayment, which happens primarily on account of peer pressure.

The study outlines the extent to which microcredit is productively utilized and thereby how much income and employment have been generated. The study found that the microcredit programme has not been successful in contributing income and employment to the rural poor. Lack of monitoring created anarchy in utilization of microcredit for productive purposes. In many cases, 100 per cent of the microcredit has been used for consumption activities. The study seeks the dimension of microenterprises in bringing successful employment and income to the participants and their families. But as far as empowerment in general is concerned, the programme was found to be successful in bringing up the SHG member to the social front.

### **5.3 Recommendations**

#### **5.3.1 Recommendations to Policy makers and promotional agencies**

The microcredit programme has emerged as an alternative to the government sponsored poverty alleviation programme and if it is not implemented with proper monitoring, it is doomed to fail like the dozens of poverty alleviation programmes. There is already a definite decline in microcredit activity in the country since 2008, as reported by all agencies associated with the promotion of microcredit. Policy makers and monitoring

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agencies such as NABARD should take a proactive role in mentoring the programme so that it remains viable and sustainable in the long term.

SHGs and the financing institutions do not seem to take any serious role beyond financing such projects, but a host of services are required to promote viable microenterprises. Capacity building training programmes, entrepreneurship development programmes, guidance in feasibility studies and project implementation and training and mentoring support for managing the enterprise profitably are required to effectively promote micro enterprises. Providing microcredit without capacity building would be futile. Banks, NGOs and SHGs should redefine their role as capacity builders, rather than financing intermediaries.

NABARD and other organisations involved in micro finance generally set quantitative targets in term of number of SHGs formed, number of groups formed, number and amount of loans granted and the rate of repayment. From quantitative targets they should shift to qualitative targets and promote economically viable microenterprises that are sustainable.

A model of microenterprise development based on peer pressure based repayment is not sustainable in the long run and the microcredit tragedy of Andhra Pradesh is waiting in the wings.

Microcredit has become a lucrative private sector business and several corporate entities have established themselves in the sector, unscrupulously charging exorbitant interest rates and high penal interest. The government and agencies under the government such as the RBI should initiate measures to control the interest rates.

NGOs have a major role in sustaining the programme. Several NGOs have formed SHGs just for intermediation in the booming micro credit business. For genuine community based organisations there is a legitimate role to play and their intermediation should be for empowering women to become successful entrepreneurs. This needs capacity building among the target beneficiaries and capacity building for SHG functionaries.

There is more emphasis on group loans than individual loans, although the preference is more for individual livelihood projects than group promoted micro enterprises. Since individual livelihood projects are granted by and large by SHGs, supported by NGOs, there is shortage of funds to finance more individual projects. NGOs and SHGs should identify sources for mobilizing more resources to support individual livelihood projects.

Repayment or recovery would be easier in the case of group loans, much more than individual loans, particularly through peer pressure. Financial institutions would therefore be more comfortable with group loans. Financial institutions should review their micro credit portfolio to incorporate and encourage individual initiatives in micro credit entrepreneurship.

Loan repayment seems to be the primary concern of the banks. Moving away from collateral security, they are now relying on peer pressure to compensate for collateral. In the process, they ignore to consider the feasibility of the projects proposed for microenterprise. Project appraisal and appraisal of the entrepreneurial capabilities of the promoters should form an integral part of the appraisal process.

In addition to the efforts taken by NABARD to set up exclusive rural outlets for SHG products, banks should also come forward to design and fund

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initiatives to strengthen it further, especially where no such initiatives are there. The authorities can also organize experts in the field to organize value chain for procuring raw materials, packaging and general marketing of the produce.

### **5.3.2 Recommendations to the SHGs**

Various measures taken during the stage prior to formation of groups to further graduating the same to microenterprises are very critical in the development process of the self help groups. The continued existence of the groups is decided by the timely implementation and persistent monitoring of the activities. Some specific recommendations in connection with the findings of the study are listed below:

Ensure systematic and scientific approach in all activities of SHGs including clear cut definition of the goals for the groups, establishment of solidarity among the members, enforcement of bye-laws and internal rules, participative decision making and transparency in all operations of the groups. This approach will help in dealing properly with various stages of life cycle of groups.

The authorities must take due care in framing proper guidelines from the formation of the groups and it should be made transparent to all the members of the group. The line of authority to be followed by the intermediaries and by the group should be well defined and the members should be made aware about this. Also, all members should be educated about complicated procedures and complex terms.

Before implementing the economic activities, a thorough feasibility study should be done, including market study.

The continued role of NGOs from the formation of SHGs till they mature will help the groups to get rid of the vulnerability they face in the initial stages. NGOs must stay, work and monitor with the groups till they can stand and survive on their own.

Self help groups should be promoted to cover people at all rural households who are willing to join the programme and also quality in the existing SHGs should be strengthened with adequate fund allocation and sufficient investment allocation.

It is noted that the increased SHG – Bank Linkages provide more loans to the members for either initiating new economic activities or diversifying their existing activities. This has also helped the members to get increased income, generating asset base and producing employment. During stabilization period of the groups (after formation but before entering into the economic initiatives), the following measures can be taken into consideration for ensuring further improved functioning and long run sustainability:

Endorsement of an effective record keeping system inside the SHGs will help the members to envisage accurate allocation of funds and thus will be able to design suitable incentives for effective participation.

Effective planning and execution of capacity building activities in the group will help members to sharpen the skills on various aspects of group management and entrepreneurial activities.



Selection of training areas should be based on the requirement of skill set needed for graduating SHG members from micro-borrower to micro-entrepreneurs, taking into consideration their investment capacity, indigenous knowledge and availability of raw materials and demand for the product. The training should be formal and professional and should not be ad-hoc and informal. The training should be aimed at improving the quality of life of participants and increased income and days of employment.

Steps should be taken to ensure that the economic activities are more productive and remunerative than the activities they are doing traditionally. This will encourage them to devote more time and energy into the enterprise.

The normal gestation period for any SHG to normalize and stabilize for availing loan is considered to be one year. During this period, SHGs will go through the process grading by authorities from NGOs or banks to make them eligible for microcredit to start enterprise and economic activity. But in many instances, the groups are not sanctioned loans even after more than a year of its formation and group functioning. In order to avoid the time delay, the grading exercise can be entrusted with an independent and exclusive agency. Also, this will help grading to be impartial by avoiding the same agency involving in both forming and grading the group.

It will also help in cost reduction if a common service centre for packing with latest technology is introduced for such SHG products. The technology can either be made available to micro entrepreneurs regularly or the same can be transferred. The SHGs can be linked to research organizations for developing and sharing product specific technologies.

There should be adequate clarity on the role to be performed by each member in the group and the enterprise by which they should feel strong sense of leadership and functional autonomy. As the SHGs become strong and sustainable, the promotional agencies should transform their role to supportive level of promotional livelihoods.

The microfinance activities are aimed at obtaining desirable employment and taking full advantage of livelihood projects by promoting small and medium enterprises. The following measures will be helpful to improve the scenario further:

To obtain expected level of income and employment generation, adequate training and capacity building activities by competent professional authorities with greater seriousness should be imparted on both motivational and technological modules. Technical training should be delivered suitable for jobs for which there is demand in the market. Along with this, mentoring and other support services should also be provided.

Quality of the product is very crucial in the success of any product. Since many units deal with food products and baby products, hygiene is an essential factor. Proper training and monitoring play a very vital role in making them aware about it.

Proper strategies should be adopted for marketing the products. Exclusive exhibitions of SHG products can be arranged at district level or taluk levels. Proper distribution channels should also be defined and designed.

Clear definition of the roles of the members (co-entrepreneurs) in the enterprise will help to do their work without ambiguity. Overlapping of the

duties and resultant confusions can be avoided. Responsibility of each member should be properly designed and communicated.

Keeping of records appropriately will avoid future problems and misunderstanding among members. All the records should be submitted timely for verification and approval to the authorities. Sharing of profits should be defined properly and approved by every member well in advance.

Thorough monitoring on the utilization of microcredit is to be under scan since proper utilization will only serve the very purpose of microcredit. With the help of close monitoring and immediate correction will aid microcredit going from economic activities to diversion for consumption purposes. A consistent system of monitoring should be developed at block or taluk level and district level including field visits and physical verification of assets.

Continuous monitoring of the repayment without fail will help the authorities to know the pattern of income generation of the members. Verification on the sources of income from which they repay will throw light into the volume and sufficiency of income generated out of enterprise.

A proper evaluation of the activities of enterprise should be verified periodically by independent agencies and report on the same should be submitted to the intermediary, followed by immediate corrective actions.

### **5.3.3 General recommendations**

Apart from other recommendations, it is essential to look generally on the activities of SHGs and enterprises promoted by them. Some general

recommendations are put forward to ensure improved performance of the microfinance activities.

It is essential to consider women as productive members of the economy with a changed positive attitude and opinion by the society as a whole. This will help to faster the empowerment of women.

After the stabilization stage, steps should be taken to ensure that members of the group are conducting and participating in regular meetings. A greater role of NGOs is anticipated in this regard.

Non-cohesiveness of the groups and interpersonal differences should be removed through counseling, mentoring and organizing special training programmes. Rotation of office-bearers of the SHGs at regular intervals should be made mandatory. Awareness programmes should be conducted for all members emphasizing potentiality of SHGs rather than procedural and formal aspects of SHGs.

Beneficiaries should be given training on some general areas like health education, importance of schooling, formal education, spending and savings habits, special training programmes for school dropout children, special classes on school evils and prevalent social evils like crimes against women and children and their preventive measures.

Affinity- building programmes may be conducted to create and develop a healthy relationship among NGO functionaries, bank officials, SHG- office bearers and ultimate beneficiaries.

Funds should be kept apart for promoting and strengthening training material by preparing it in regional languages and training of trainers.

Fixation of interest should be done by government agencies and should be at par with the formal bank interest. Targets should also set for loan amounts and number of SHGs served and a target-linked reward should also be implemented.

Decentralizing the scheme region-wise would help to speed up the process of fund allocation and distribution. Thus both the authorities and beneficiaries can capture local resources and facilities. Use experts in the society extensively to popularize, debate and conclude the issues with workable solutions. For this, seek support from all forms of media also.

#### **5.4 Suggestions For Future Research**

The theoretical deliberations and empirical analyses in this study put forward insights into the effectiveness and impact of microcredit in promoting micro enterprises and in generating employment and income among the rural poor. Future research can be explored in a number of related areas and some of the possibilities are portrayed here:

- Many impact studies in this field focussed on effect of microcredit in poverty alleviation, women empowerment and sustainability of operations. But impact studies are less in the field of growing commercialization of microfinance. Further studies should be immediately directed towards this course as it may bring forth many threats to the very poor.
- Though microfinance was identified as a strategy to provide collateral free credit to the poor as an alternative to government sponsored subsidized credit programmes, studies are limited in the area of its

effectiveness. So, research should be encouraged on the usefulness of microfinance providers to work as a close substitute to failed subsidized programmes.

- The profitability of micro enterprises and outreach of operations are two distinct objectives of any microcredit programme. Research can be explored to develop a model to successfully run micro enterprises joining the features of profitability and larger outreach to include the very poor.
- Large scale empirical research possibilities are there in studying the impact of the social network dynamics for marketing the products of micro enterprises. The effectiveness of blending management concepts in all areas of entrepreneurship can also be researched.
- Effective monitoring and capacity building activities contribute to a large extent of success of micro enterprises. The impact of monitoring and training activities in nurturing entrepreneurship and its future implications can also be tried for future research.
- The fast growing number of SHGs and micro enterprises give way to tight competition among the members of different groups. The problem is more aggravated when the groups produce products of similar nature. Various aspects of such competition among SHGs can also be under scan for scholars.
- Research studies can be exploited to frame an effective model to test the feasibility of a holistic approach – combining the features of microcredit, community development, health education, women

empowerment, food security, sanitation awareness, social commitment and even village development.

- Many impact studies had noted that the very poor stood out the microcredit – micro entrepreneurial activities. Research can be attributed to check the viability of a two-layered mutually exclusive microfinance operation – one, to offer credit and services to the better poor and two, to provide the same to the very poor and very deserved.
- Another area to be researched is the impact of microfinance peer group operation in solving the social issues like child labour, child marriage, domestic violence, dowry, drinking water, sanitation, electricity issues and the like. Appropriate variables can be chosen to study.
- Impact of thrift and credit operations for village development can be tested through a research study.
- Efficacy of microfinance groups in acting as a larger platform for collective action to be taken up with government departments on social or economic issues can be a major area for research.
- Implication of peer pressure and strict monitoring on repayment in the light of recent suicides and tortures with regard to non-payment of microfinance instalments can be brought forth.
- Thrift, insurance, pension and certain services are also integral components of microfinance. But studies have shown that there is growing importance given to the aspect of microcredit, entrepreneurship and empowerment. Lack of importance attributed to such products can be studied.

- Eventual undermining of the main agenda of social upliftment of the rural poor is recorded worldwide, according to very many studies. Hence, more studies can happen in the direction of balancing acts of microfinance institutions between financial aims and social cause.



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**STUDY ON MICROCREDIT IN KERALA WITH SPECIAL REFERENCE TO EMPLOYMENT AND  
INCOME GENERATION THROUGH MICROENTERPRISES AND LIVELIHOOD PROJECTS**

**INTERVIEW SCHEDULE FOR SHG MEMEBERS AVAILING MICRO CREDIT**

**A. Basic Information:**

1. Name of the respondent : .....Place.....
2. Name of SHG: .....Name of NGO: .....
3. Area of residence : 1. Panchayat [ ] 2. Municipality [ ] 3. Corporation [ ]
4. Name of Panchayat / Municipality/ Corporation .....Ward No.....
5. Age of Respondent: 1. Below 30 [ ] 2. 30-40 [ ] 3. 41-50 [ ] 4. 51- 60 [ ]
6. Marital Status: 1. Single [ ] 2. Married [ ] 3. Separated [ ] 4. Widowed [ ]

**B. Social – Economic Conditions Of The Respondent:**

7. Number of members in the family : .....
8. Number of earning members in the family : .....
9. Occupation of head of household (if applicable): .....
10. Do you get any income from any other occupation? 1. Yes [ ] 2. No [ ]
11. If yes, mention the occupation : .....
12. Average family income per day : Rs.....
13. Does the family own land ? 1. Yes [ ] 2. No [ ]
14. Does the family own a house? 1. Yes [ ] 2. No [ ]
15. Is the family women headed? 1. Yes [ ] 2. No [ ]
16. If yes, are you the head of household? 1. Yes [ ] 2. No [ ]

**C. SHG Related Particulars:**

17. Have you opened an account with a nationalized bank? :
  - a) Before availing Microcredit 1. Yes [ ] 2. No [ ]
  - b) After Availing Micro credit: 3. Yes [ ] 4. No [ ]

18. Did you take any loans from any formal bank? : 1. Yes [ ] 2. No [ ]
19. Did you have any account with co-operative bank or co-operative societies? :  
1. Yes [ ] 2. No [ ]
20. Number of members in the SHG : -----
21. Are you an ordinary member or Office bearer? : 1. Ordinary Member  
2. Office bearer
22. How long you have been a member of the SHG? Years..... & Months.....
23. Has the SHG initiated programme for encouraging members to join insurance programme? 1. Yes [ ] 2. No [ ]
24. If Yes, Give details .....
25. Has the SHG got any small savings programme? 1. Yes [ ] 2. No [ ]
26. If Yes, Give details .....
27. Did you take any loans from thrift savings? 1. Yes [ ] 2. No [ ]
28. Has the SHG got any programme for emergency credit. 1. Yes [ ] 2. No [ ]
29. If Yes, Give details .....Maximum Amount .....Maximum Repayment Period .....
30. Does the SHG have any micro credit programme? 1. Yes [ ] 2. No [ ]
31. Source of the fund to SHG: .....
32. Does the SHG organise any of the following?: 1. Awareness classes [ ]  
2. Training programmes [ ] 3. Medical camps [ ] 4. Seminars [ ] 5. Any other service.....

**D. Microcredit**

33. What are the eligibility conditions for getting the loans from :

<b>A. Bank</b>	<b>B. NGOs</b>	<b>C. SHGs</b>
1.	1.	1.
2.	2.	2.
3.	3.	3.

34. Have you taken any micro credit from the SHG? 1. Yes [ ] 2. No [ ]
35. If yes, Loan amount: Rs.....

36. If yes, purpose of the loan :1. Productive Income Generation Programme [ ]  
2. Consumption [ ] 3. Debt repayment [ ]
37. If Income Generation Programme (IGP), was it an individual project or group project?  
1. Individual [ ] 2. Group [ ]
38. Nature of project: .....
39. Did you receive any training for starting the livelihood project or setting up the micro project?  
1. Yes [ ] 2. No [ ]
40. If Yes, specify the type of training. 1. Entrepreneurship [ ] 2. Technical [ ]  
3 Managerial [ ]
41. Had you taken any microfinance loan earlier 1. Yes [ ] 2. No [ ]
42. If yes, how many times? .....
43. Have you taken any micro credit from any other institution?  
1.Yes [ ] 2. No [ ]
44. In the case of individual loan, is the loan given to the individual directly from the bank or NGO or through the SHG?  
1. Directly from Bank. [ ] 2. Directly from NGO [ ]  
3. Through SHG [ ]
45. In the case of group loan, is the loan given to the group directly from the source or through the SHG?  
1. Directly from Bank. [ ] 2. Directly from NGO [ ]  
3. Through SHG [ ]  
Have you utilized the mf loan amount for the same purpose for which it was sanctioned? 1. Yes [ ] 2. No [ ]
46. Did you/ your group utilize the loan fully or partially for the project?  
1. Fully [ ] 2. Partially [ ]
47. If not fully utilized for the project, how much was used for other purposes?  
..... %

48. **Indicate your responses for the following statements on a five-point scale:**

Sl. No.	Statements	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
a.	Members with more education have better chance to get micro credit from the SHG.					
b.	Members with better socio-economic background stand better chance for getting micro credit from the SHG.					
c.	Members who are more active in the SHG have better chance of getting the micro credit from the SHG.					
d.	Since repayment capacity is a serious consideration in giving micro credit, the very poor do not become eligible for individual micro credit from the SHG					
e.	Members with greater financial need have better chance of getting micro credit from the SHG.					
f.	Members who participate in training, seminar and other programs of the SHG have better chance of getting micro credit from the SHG					
g.	Members who are very close to the leaders of the SHG have better chance of getting micro credit from the SHG					

**E. Employment & Income Generation**

49. What kind of employment does your project generate?  
 1. Full time Self employment[ ]      2. Part time Self-employment [ ]
50. Approximately how many days of work do you get in a week? .....per week
51. How much income does it generate per week (for the entrepreneur)? Rs. ....
52. Do you employ other people in your project?      1. Yes [ ]      2.No [ ]
53. [If yes] How many other people are employed in your project? .....
54. [If yes] On the average, how much wage do they all get per week? .....
55. How many people get employment?.....
56. On the average how many days of full time employment do all those employed get per week? .....
57. What is the total investment in your project?      Rs.....
58. How much money you have actually utilized?      Rs.....
59. What is the annual business turnover?      Rs.....
60. Average monthly wage content for all people      Rs.....
61. Average monthly income for each beneficiary      Rs.....
62. Net Profit (Annual)/ Loss      Rs.....
63. Do you find any problems in successfully managing the micro enterprise?  
 1. Yes [ ]    2. No [ ]
64. [If Yes], specify the problem areas 1.....2.....3.....

**F. Repayment of Loan**

65. Period for repayment of loan:      Year ..... Months.....
66. Did you repay all such loans?      1.Yes [ ]      2. No [ ]
67. Is there any grace period for commencement of repayment?  
 1.Yes [ ]      2. No [ ]
68. Was it adequate to start the livelihood project / micro enterprises?  
 1.Yes [ ]      2. No [ ]



69. Do you think the loan repayment period is adequate?  
1.Yes [ ] 2. No [ ]
70. What is the interest rate? ..... %
71. What is the processing fee for loan application? .....
72. Mention other fees or charges for obtaining the loan (if any)... ..
73. Are there any other fees/charges associated with sanctioning of microfinance loans? 1.Yes [ ] 2. No [ ]
74. If yes, in what form? 1. Processing Fee[ ] 2. Transaction Fee[ ]  
3. Any other [ ]
75. Mention the rate of penal interest for non repayment of loan:.....
76. In case of serious default in repayment, what will be the maximum interest, including penal interest rate? ..... %
77. Mention the total number of weekly installments for your loan for a year:  
.....
78. Do you have any arrears in repayment for your loan?  
1. Yes [ ] 2. No [ ]
79. If yes, number of installments of arrears: .....
80. What are the major reasons for non-repayment of loans by SHG members?  
1..... 2. .... 3.....
81. What are the methods taken by the SHG to ensure repayment?  
1..... 2. .... 3.....
82. If you have any difficulty in repaying the loan, how do you arrange the money for repayment  
1..... 2. .... 3.....
83. Will there be any pressure from other members of the SHG, if there are repayment arrears? 1. Yes [ ] 2. No [ ]

**84. Comments on Micro credit programme**

Kindly tick (√) the appropriate column:

Sl. No.	Statements	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
A	The micro credit programme of the SHG is very useful to members of the SHG.					
B	Micro credit I have taken increased my days of employment.					
C	Micro credit I have taken increased my family income					
D	Micro credit I have taken helped my family a lot.					
E	Micro credit programme of the SHG has increased availability of finance to the neighbourhood.					
F	Micro credit programme has helped people to reduce their poverty.					
G	Micro credit programme has helped people to reduce their debts.					

85. Do you think a lot of interest is paid for micro credit? 1. Yes [ ] 2. No [ ]

86. Do you have any suggestions to improve the effectiveness of the micro credit programme?

1)-----

2)-----

3)-----

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**STUDY ON MICROCREDIT IN KERALA WITH SPECIAL REFERENCE TO EMPLOYMENT AND INCOME GENERATION THROUGH MICROENTERPRISES AND LIVELIHOOD PROJECTS**

**INTERVIEW SCHEDULE FOR SHG MEMEBERS NOT AVAILING MICRO CREDIT**

**A. Basic Information:**

1. Name of the respondent : .....
2. Name of SHG : ..... Place .....
3. Area of residence : Panchayat [ ] Municipality [ ] Corporation [ ]
4. Name of Panchayat / Municipality/ Corporation ..... Ward No.....
5. Age of Respondent: 1. Below 30 [ ] 2. 30-40 [ ] 3. 41-50 [ ]  
4. 51- 60 [ ] 5. Above 60 [ ]
6. Marital Status: 1. Single [ ] 2. Married [ ]  
3. Separated [ ] 4. Widowed [ ]

**B. Social – Economic Conditions of the Respondent:**

7. Number of members in the family : .....
8. Number of earning members in the family : .....
9. Occupation of male head of household (if applicable) : .....
10. Do you get any income from any occupation? 1. Yes [ ] 2. No [ ]
11. If yes, mention the occupation: .....
12. Average family income per day: Rs.....
13. Does the family own land? 1. Yes [ ] 2. No [ ]
14. Does the family own a house? 1. Yes [ ] 2. No [ ]
15. Is the family women headed? 1. Yes [ ] 2. No [ ]
16. If yes, are you the head of household? 1. Yes [ ] 2. No [ ]

**C. SHG Related Particulars:**

17. Have you opened an account with a nationalized bank? :
- c) Before Joining SHG 1. Yes [ ] 2. No [ ] b) After Joining SHG :  
3. Yes [ ] 4. No [ ]
18. Did you take any loans from any formal bank? : 1. Yes [ ] 2. No [ ]

19. Did you have any account with co-operative bank or co-operative societies? :  
1. Yes [ ] 2. No [ ]
20. Number of members in the SHG : -----
21. Are you an ordinary member or Office bearer? : 1. Ordinary Member [ ]  
2. Office bearer [ ]
22. How long you have been a member of the SHG? Years.....& Months.....
23. Has the SHG initiated any programme for encouraging members to join any insurance programme? 1. Yes [ ] 2. No [ ]
24. If Yes, Give details .....
25. Has the SHG got any small savings programme? 1. Yes [ ] 2. No [ ]
26. If Yes, Give details .....
27. Did you take any loans from thrift savings? 1. Yes [ ] 2. No [ ]
28. Has the SHG got any programme for emergency credit. 1. Yes [ ] 2. No [ ]
29. If Yes, Give details .....
30. Does the SHG have any micro credit programme? 1. Yes [ ] 2. No [ ]
31. Source of the fund to SHG: .....
32. Does the SHG organise any of the following?: 1. Awareness classes [ ] .  
2. Training programmes [ ] 3. Medical camps [ ] 4. Seminars [ ]  
5. Any other service.....

**D. Microcredit**

33. Kindly state the reasons for not taking any micro credit from SHG/ NGO?  
1..... 2.....  
3.....
34. Do you think every one who needs micro credit do get credit?  
1. Yes [ ] 2. No [ ]
35. If No, Why 1.....  
2..... 3.....
36. Do you think all people who take micro credit use them for the purpose for which they are taken?  
1. Yes [ ] 2. No [ ]
37. If No, what percent of the people divert the funds for other purposes? .....%

38. Does your SHG prefer individual projects or group projects? 1. Individual projects [ ] 2. Group projects [ ]
39. Do you think the livelihood projects started with micro credit are successful? 1. Yes [ ] 2. No [ ]
40. If No, why? 1. ....2. ....3. ....
41. Do you think the group projects are successful? 1. Yes [ ] 2. No [ ]
42. If No, why? 1. ....2. ....3. ....
43. What are the eligibility conditions for getting the loans from :

A. Bank	B. NGOs	C. SHGs
1.	1.	1.
2.	2.	2.
3.	3.	3.

44. Indicate your responses for the following statements on a five-point scale:

Sl. No.	Statements	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
A	Members with more education have better chance to get micro credit from the SHG.					
B	Members with better socio-economic background stand better chance for getting micro credit from the SHG.					
C	Members who are more active in the SHG have better chance of getting the micro credit from the SHG.					
D	Since repayment capacity is a serious consideration in giving micro credit, the very poor do not become eligible for individual micro credit from the SHG					
E	Members with greater financial need have better chance of getting micro credit from the SHG.					
F	Members who participate in training, seminar and other programmes of the SHG have better chance of getting micro credit from the SHG					
G	Members who are very close to the leaders of the SHG have better chance of getting micro credit from the SHG					

45. **Comments on Micro credit programme** Kindly tick (✓) the appropriate column:

Sl. No.	Statements	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
A	The micro credit programme of the SHG is very useful to members of the SHG.					
B	Micro credit loan helped many families.					
C	Micro credit loans have increased family income for many people					
D	Micro credit loans have increased employment for many people					
E	Micro credit programme of the SHG has increased availability of finance to the neighbourhood.					
F	Micro credit programme has helped people to reduce their poverty.					
G	Micro credit programme has helped people to reduce their debts.					

46. Do you think a lot of interest is paid for micro credit? 1. Yes [ ] 2. No [ ]

47. Do you have any suggestions to improve the effectiveness of the micro credit programme:

1..... 2..... 3.....

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**STUDY ON MICROCREDIT IN KERALA WITH SPECIAL REFERENCE TO EMPLOYMENT AND INCOME GENERATION THROUGH MICROENTERPRISES AND LIVELIHOOD PROJECTS**

**INTERVIEW SCHEDULE FOR MICRO ENTREPRENEURS**

**A. BASIC INFORMATION**

1. Name of the respondent :
2. Name of the SHG :
3. Address of SHG :
4. Year of Establishment of SHG :
5. Year of Joining SHG as a member :
6. Microenterprise/ Livelihood project :
7. Year of establishment of Micro enterprise:
8. Address of Microenterprise :
9. Nature of enterprise : Group / Individual
10. Nature / type of business :

**B. Employment & Income Generation**

1. In the case of individual project, what kind of employment does it generate?
  1. Full time Self employment[ ]
  2. Part time Self-employment [ ]
2. Approximately how many days of work do you get in a week?  
.....per week
3. How much income does it generate per week (for the entrepreneur)?  
Rs. ....
4. Do you employ other people in your project? 1. Yes [ ] 2.No [ ]
5. [If yes] How many other people are employed in your project? .....
6. [If yes] On the average, how much wage do they all get per week? .....
7. [If group project] how many people get employment? .....
8. [If group project] On the average how many days of full time employment do all those employed get per week? .....
9. What is the total investment in your project? Rs.....
10. How much money you have actually utilized? Rs.....

11. What is the annual business turnover? Rs.....
12. Average monthly wage content for all people Rs.....
13. Average monthly income for each SHG member Rs.....
14. Net Profit (Annual)/ Loss Rs.....
15. Do you find any problems in successfully managing the micro enterprise? 1. Yes [ ] 2. No [ ]
16. [If Yes], specify the problem areas
  - 1.....
  - 2.....
  - 3.....

**C. Repayment of Loan**

1. Period for repayment of loan: Year ..... Months.....
2. Did you repay all such loans? 1.Yes [ ] 2. No [ ]
3. Is there any grace period for commencement of repayment? 1.Yes [ ] 2. No [ ]
4. Was it adequate to start the livelihood project / micro enterprises?  
1.Yes [ ] 2. No [ ]
5. Do you think the loan repayment period is adequate? 1.Yes [ ] 2. No [ ]
6. What is the interest rate? ..... %
7. What is the processing fee for loan application? .....
8. Mention the rate of penal interest for non repayment of loan:.....
9. In case of serious default in repayment, what will be the maximum interest, including penal interest rate? ..... %
10. Mention the total number of weekly installments for your loan for a year:  
.....
11. Do you have any arrears in repayment for your loan? 1. Yes [ ] 2. No [ ]
12. If yes, number of installments of arrears: .....
13. What are the major reasons for non-repayment of loans by SHG members?  
1..... 2..... 3.....



14. What are the methods taken by the SHG to ensure repayment?  
1..... 2. .... 3.....
15. If you have any difficulty in repaying the loan, how do you arrange the money for repayment  
1..... 2. .... 3.....
16. Will there be any pressure from other members of the SHG, if there are repayment arrears? 1. Yes [ ] 2. No [ ]

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**LIST OF HYPOTHESES**

**Hypothesis 1:** There is no agreement in the ranking about the factors affecting the availability of microcredit of the respondents who availed and did not avail microcredit.

**Hypothesis 2:** There is no significant difference between the opinion about the ‘relationship between education of the respondents and availability of microcredit’ among the respondents who have taken microcredit and who have not taken microcredit

**Hypothesis 3:** There is no significant difference in the opinion that ‘members with better socio-economic background do not have better chance for getting microcredit’, among respondents who have taken microcredit and who have not taken microcredit.

**Hypothesis 4:** There is no significant difference in the opinion that ‘Members who are more active in the SHG do not have better chance for getting microcredit’ among the respondents who have taken microcredit and those who have not taken it.

**Hypothesis 5:** There is no significant difference in the opinion that ‘very poor do not become eligible for individual micro credit from SHG’ among the respondents who have taken microcredit and who have not taken it.

**Hypothesis 6:** There is no significant difference in the opinion that ‘Members with greater financial need do not have better chance for getting microcredit’ among the respondents who have taken microcredit and who have not taken it.

**Hypothesis 7:** There is no significant difference in the opinion that ‘Members who participate in training, seminar and other programmes of SHG have no better chance for getting microcredit’ among the respondents who have taken microcredit and those who have not taken microcredit.

**Hypothesis 8:** There is no significant difference in the opinion that ‘Members who are very close to the leaders of the SHG do not have better chance for getting

microcredit' among the respondents who have taken microcredit and those who have not taken microcredit

**Hypothesis 9:** There is no association between age of the respondent and availability of microcredit

**Hypothesis 10:** There is no significant association between 'Duration of membership in the SHGs' and 'Availability of microcredit'

**Hypothesis 11:** The difference in the average family income of the respondents who have availed microcredit and who have not availed microcredit is not significant.

**Hypothesis 12:** There is no significant association between average family income of the respondents and use of microcredit for productive income generation purposes

**Hypothesis 13:** Age is not a significant factor for microcredit utilization for productive income generation purposes

**Hypothesis 14:** The respondent's status in the SHG as an ordinary member or an office bearer does not affect the utilization of microcredit for productive income generation activities

**Hypothesis 15:** The duration of membership of the respondents in the SHG and use of microcredit for productive purposes are not related.

**Hypothesis 16:** There is no significant association between Marital Status of the respondent and utilization of Microcredit for employment generation activities.

**Hypothesis 17:** There is no significant difference in the proportion of SHG members having arrears in microcredit repayment in less than 30 years age group and greater than 30 years age group.

**Hypothesis 18:** There is no significant difference in the repayment pattern of SHG members whose daily average family income is less than Rs. 350 and SHG members whose daily average family income is more than ₹350.

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