Chapter 2

REVIEW OF LITERATURE

2.1. Introduction

Self-Help Groups, especially of women, are emerging in different parts of the country as grassroots mechanism to provide credit out of group funds. Creative utilization of these funds for productive purposes is of paramount importance for the economic development of its members. However finance alone will not be sufficient for micro enterprise promotion. Other inputs are required especially in a market led approach for sustainable development of micro enterprise. The mere provision of credit does not foster self-employment amongst women in the absence of facilitation and comprehensive micro enterprise development support. Several small entrepreneurs fail to achieve sustainable projects because a major share of their project funds are diverted to debt servicing. In this context, management of group funds by the poor especially women providing sustainable livelihood opportunities through micro enterprise development becomes important. It is worth studying the environment in which the SHGs resources can be successfully managed for promoting micro enterprises.

Both in India and across the globe several studies have been brought out on the effectiveness of micro finance programmes in solving the problems of unemployment, poverty and empowering women. An attempt is made in this chapter to review the contributions made by various experts with a view to identify the unexplored areas.

2.2. Entrepreneurship and Micro Enterprises

According to Antony Jacob (2002), the success rate of micro enterprises promoted through SHGs in Kerala is very low. In his study on “eco friendly micro enterprises of
women SHGs for sustainable livelihood systems in Kerala” conducted among different
SHGs promoted by 11 NGOs published in 2002, he points out that the SHG based micro
enterprises are built up on a weak foundation. Lack of vision on the part of the NGOs and
local government bodies, lack of monitoring and follow up, lack of training, unsuitable
assistances like subsidies and excessive dependency on the promoting institutions are
responsible for the low performance of these enterprises. According to him a more
professional approach in managing these enterprises, state level federation of SHGs and
SHG based micro enterprises, developing right perspective on globalization, better quality
standards and planned training programmes will make these enterprises sustainable.

Himachalan and Shankara (2002) highlight the fact entrepreneurship involves taking
risks and coordinating the factors of production towards prosperity in an uncertain
environment. Globalization has an adverse impact on emerging women entrepreneurs
especially in the rural areas. Severe competition by male counterparts, ill treatment, non
availability of raw materials, financial constrains, problems of managerial deficiency,
technical know how, inability of take economic and social risks, sense of inferiority in
women, lack of specialized training, lack of sufficient infrastructure facilities, lack of
proper encouragement from the government, etc are some of the barriers to women
entrepreneurship. In order to attain the proclaimed objective of women empowerment
through micro finance, economic independence and improved self-perception is important.
Women entrepreneurship is a means to this end.

Kotaiah (1997) pointed out that micro enterprises and micro entrepreneurs have major
constraints which inhibit their access beyond local markets. The constraints being market
information, inability to scale up production and services due to inadequate capita, inability
to adopt technological transformation to meet the quality standard required by the market,
lack of standardization, lack of adequate infrastructural support, absence of what is called “Brand Equity” to enter niche markets and tendency to remain small.

Kumaran (2002) evaluated the role of self help groups in promoting micro enterprises through micro credit in Pune district of Maharashtra and found that 37.93% of total entrepreneurs were in the age group of 25 to 30 years and 20.69% were in the age group of 31 to 35 years. The most common enterprises were tailoring and dairy. About 45.23% of the capital was raised from the SHGs and 29.39 percent of the capital came from banks as loans. The promotion of technical and back up services helped the micro enterprises to achieve sustainability to a great extent.

Ajlt Kanitkar (1996) points out that there is evidence that entrepreneurship has been a forced choice for people in distress in the villages. His views on grass root entrepreneurship are based on a number of case studies of micro enterprises from different states of India. He says that the entry profile of the rural entrepreneurs, occupational mobility, facilitating factors of entry into business, choice of business, size of business, business management, etc are crucial factors for the sustainability of small enterprises. In his study, many of the rural entrepreneurs opt for informal sources like local money lenders for fund mobilization and many times banks are the last resort for them.

According to Alia El Mahdi & Magued Osman (2000), any attempt to provide support to small or micro enterprises would be more effective in increasing employment and productivity if it targeted already existing enterprises as opposed to start-ups. The authors have jointly conducted a study on the effectiveness of small and micro enterprise finance in employment creation in Egypt. The aim of this project was to determine whether having access to credit has a positive impact on the small enterprise. Positive impact could mean: a) the opportunity to start-up and sustain the business; b) the ability to sustain or develop
an already existing activity; and c) the ability to create or increase permanent employment opportunities at acceptable and increasing wage levels. The study concludes that providing micro-finance to enterprises would be successful in creating employment, raising productivity and eventually developing the worker’s skills in the case of firms that are already established rather than the start-ups.

Study by Aliva Mohanty (2004) exposes the problems faced by micro entrepreneurs especially those promoted under different Govt. sponsored programmes. Her findings are based on a study conducted in 3 districts of Orissa namely Phulbani, Sambalpur, and Cuttack following a stratified multistage random sample survey. It is found that out of 34280 small Scale Industrial Units set up in Orissa during 1990-91 to 2001-02 only 2341 have been set up by women entrepreneurs. It is suggested that NGOs can contribute to provide technical know how, marketing support and process of entrepreneurship development among women. The Governmental agencies need to increase and expand their support and service in a proactive and liberal manner as in the rural areas. A vigorous drive to enlist more socially backward and SC and ST women to take to such micro-enterprises should be made by the development catalyst in the Govt, and Non-Govt. Sector.

The study by Nirmala Kanina D’Cruz (2003) reveals that it is not the aspiration of women that have turned them into entrepreneurs; they have taken up this career in the absence of any other means of contributing to the family income. Most of them started businesses only after all their attempts to secure a regular, secure, salaried job failed. With the objective of identifying some of the key familial, social, and psychological factors that promote / inhibit entrepreneurship among women in Kerala, she has conducted a detailed study of some 200 women entrepreneurs registered with the industries department in Thiruvananthapuram district. Personal traits such as economic independence, self-reliance,
and need for achievement helped entrepreneurial success. Likewise, the higher the education of a woman, the less she is attracted to entrepreneurship. However, the more a woman is educated, the higher her chances of success in business. She concludes that for purposes of training as a group, female entrepreneurs have to be treated entirely different from male entrepreneurs, in several respects including socio-cultural, familial, and psychological factors.

According to Anim and Machete (1998), establishing and strengthening linkages between small suppliers and large buyers is one way to promote the growth of Micro and Small Enterprises. They have conducted a research study on 35 buyers and 49 sellers in the Northern Province of South Africa. The major objective of their study was to find out the determining factors of business linkages and the factors limiting or preventing the growth of establishing business linkages. Constraints to linkages identified included limited application of new technologies by small suppliers, lack of incentives promoting business linkages from the government, and poor quality and high prices of products supplied by small suppliers.

Mridul Eapen (2003) has reported that the social background of the entrepreneur in terms of the father’s occupation plays a significant role in the decision to diversify and in the choice of the activity undertaken. Some familiarity with the activity in terms of the experience acquired either through familial contacts or by working in a related unit appears to be an essential first step in setting up a small-scale enterprise. With the objective of re-examining the role of linkages in a process of rural industrialization, she has conducted a field survey of some 100 small enterprises in Palakkad district of Kerala state. The study reveals that local entrepreneurship tended to ensure higher local labour absorption and also a greater cognisance of rural demand conditions in investment decision-making. Location
plays an important role in determining the type of diversification and the nature of linkages generated. She concludes her study with a strong plea for a policy for promoting indigenous entrepreneurship through the evolution of newer organisational forms which are, in any case, warranted to overcome the proliferation of tiny units in Kerala.

An attempt to study women entrepreneurship in Kerala was carried out by Pilai and Anna in 1998. Their objective was to find the social, political, and economic factors that prevented entrepreneurship development. A randomly selected sample of 102 women entrepreneurs in the Ernakulam-Kochi area was surveyed. The study showed that entrepreneurs depended on financial support from the State and that familial assistance was used only as a secondary source of help. Another conclusion was that women in Kerala were “not coming forward to take industrial ventures which demand initiative and dynamism.”

Among the few empirical studies of the psychological traits of entrepreneurs in India, an important one is that of Rani (1996) in Vishakapatnam which examined the socio-economic background of women entrepreneurs, analyzing their motivational factors, major strengths and weaknesses against their environmental threats and opportunities. It also investigated the degree of work-home conflict and its effects on enterprise performance. The sample of 100 entrepreneurs showed that women entrepreneurs belonged mostly to nuclear families. Irrespective of the fact that they had supportive families/husbands which made home management easy, the women seemed to give priority to their families rather than to their enterprises.

An evaluation study was conducted by P. Purushotham (2006) regarding the performance of SGSY programme among 1410 swarojgaris in 14 states. The study also included the involvement of various stakeholders including the key implementing functionaries such as
PDs, DRDA, BDOs, Bankers, PRI leaders, NGOs and SHPIs in the best performing districts. The major objective of the study was to examine the rationale and feasibility of programme guidelines concerning important functions, concepts such as key activities, activity clusters, networking, lock-in period, loan repayment schedule etc. He concluded that the emphasis on group approach, which the PIAs as well as banks prefer, is the only striking different one could notice between the IRDP and the present SGSY.

Kaza (1997) investigated why banks were not able to meet their targets for women enterprises in Baroda. He also found the over-riding importance of family for women and instances such as marriage, childbirth or even a crisis in the family led to the closure of enterprises started by women. Financial institutions are therefore hesitant to give loans to women entrepreneurs; they might quit even a well-running business for the sake of their families. This factor also leads women to locate their enterprise near their homes even if it means compromising on business interests.

Vinze (1987) studied the socio-economic background and the factors that contributed to entry into business of women entrepreneurs in Delhi. Corroborating with the above findings, she highlighted the cultural aspects. It is harder for women to take ‘calculated risks’ that are essential to entrepreneurship, as they are the custodians of society in the maintenance of cherished values, habits, and accepted norms of conduct.

2.3. SHGs and Micro Enterprises

Gariyeli and Vettivel (2003) examine the dynamic self-help movement of Tamilnadu which has created a revolution and has become the women’s own movement leading to their social, economic and political empowerment. The programme Mahalir Thittam which made a humble beginning in 1989 as an IFAD assisted pilot project in 2 blocks in
Dharmapuri district in Tamilnadu today covers all the 29 districts, 385 blocks and 12619 Panchayats in Tamilnadu and will soon make its presence in all the hamlets and habitations in the state.

According to Erhard, Kropp and Suran (2002), the SHG bank linkage programme in India spearheaded by NABARD has brought about significant changes in the rural villages. With the introduction of “SHG-Banking” a highly flexible financial service structure has been made available to poor households, which allowed them to stabilize their irregular income flow and to increase their income in most cases. SHG-Banking is an ideal combination of the formal banking sector’s “banking with the poor” and “banking by the people” through informal SHGs. Today SHG bank linkage programme has become the largest microfinance programme in the world in terms of outreach. Active participation of the SHG members, active involvement of NGOs, low interest rate charged by the SHGs, acceptance of the programme by the formal banking sector, coordinated effort by NABARD in policy formulation and capacity building, etc. have helped to make the programme successful.

Ramalingam (1987) studied SHGs through case study method and reported that the group system failed where the members had come together only for the sake of taking loan and the group pressures did not work because the group did not have a very cohesive structure and the group comprised members of both the poor and the non-poor classes.

Hans Dieter Selbel and Harishkumar Dave (2002) reported that the SHG bank linkage programme in India has brought about several benefits to its various stakeholders. Though the interest rate charged from SHGs is comparatively low, still the banks are in a position to make profits and a part of it is spent in SHG promotion, training capacity building, etc.
Malcolm Harper (2002) has found that the SHG bank linkage programme promoted by different Self Help Promoting Institutions like banks, NGOs, VVV clubs, SHG federations, etc have brought about significant economic freedom to the rural poor. In his study on SHG bank linkage programme by SHPIs he examines the different ways in which Self Help Promotion Institutions (SHPIs) promote Self Help Groups (SHGs) and suggests ways and means to enhance the efficiency and quality of the SHG promotion process and thus to improve the extent and level of financial service provision to rural people now without access to formal financial services. According to him, it is high time for the NABARD to look into the areas of monitoring quality SHGs, redesigning of incentive schemes for NGOs in SHG promotion, increased involvement of banks in SHG promotion, monitoring of SGSY and other govt, and sponsored schemes.

**Aloysius Fernandez, Myrada** (2002) has found that membership in self-help groups and their consequent involvement in the various activities of the group has great impact on the social status and empowerment of the women members of such groups. In his study that was conducted by ORG - MARG for Myrada in four states of southern India, members of older SHGs have a positive influence on their share in the family income. Members of the old group emerge as more confident, financially more secure, more in control of their lives, and in a stronger position vis-a-vis their family members. However, many SHG members consider SHGs as just a means for savings and advances and not as a means for creating a regular source of income. He concludes that new strategies are required to improve the performance of SHGs in these areas.

**Puhazhendi and Badatya** (2002) report that the SHG linkage programme has helped 15 percent of its beneficiaries to cross poverty line in the eastern regions of the country. In his impact assessment on SHG bank linkage programme, NGO promoted groups edge over
Bank promoted groups on targeting the weaker sections, spreading SHG bank linkage programmes in more inaccessible areas, improvement in assets, savings, income and employment generations, capacity building and human resource development, etc. In order to ensure a greater acceleration of economic empowerment, future strategies must focus more and more on training and capacity building of members besides ensuring adequate linkage supports. Also, SHGs’ role may further be enhanced through its involvement in developmental programmes implemented in the areas.

Lalitha and Nagarajan (2002) reported that bigger the size of the groups, lower is the group cohesion. Thus, the size of group is inversely related to cohesiveness. It is found out from the study that 45 percent of the sample respondents were not satisfied with the present size of loans. There is an emerging gap between credit expectation and credit supply and unless this gap is reduced, the social momentum of the project may be adversely affected in course of time.

Debadutta K. Panda (2000) had conducted a case study of all the 102 members of 6 SHGs in Mayurbhanja and Keonjhar districts of Orissa. This study clearly shows that the Self Help Group concept not only provided financial services to the rural poor, but also acted as a lunching pad for livelihood intervention. Proper capacity building and linkage of SHGs to mainstream organizations has really succeeded in poverty alleviation and social enrichment. He has found that the innovation of Self Help Groups was not only to provide a range of financial products to the rural households, but also to facilitate livelihood promotion and protection. To attain that level, the Self Help Groups are to be empowered both externally and internally. The empowerments of Self Help Groups are mainly dependent on the level of linkages with other institutions, organizations and individuals.
Nongbri and Tiplut (2000) have found that there is a direct relationship between choice of activity and labour requirements, in a situation where women are already overworked and poorer women in particular are more likely to have excessive workloads. Where a new enterprise has high labour requirements, poor women are unlikely to become involved, even if it has an attractive profit potential. These findings are based on a study in 2000, by the Asian Institute of Technology (AIT) on the popular income generation programmes undertaken by the self-help groups under an IFAD assisted project in three villages in the District of Ukhrul, in the State of Manipur, northeast India. The experience of these women suggests that for poorer women, an income-generating activity is suitable if it:

- has low labour requirements (and can be combined with domestic tasks);
- requires existing skills or know-how (i.e., it is incremental rather than new for the women);
- has low start-up costs (i.e., no major requirements for capital expenditure);
- produces a rapid cash cycle (i.e., the women do not have to wait six months to a year for it to generate cash);
- has ease of marketing (i.e., is suitable for year-round markets with easy physical access); and
- allows women to control it and its resulting income (i.e., their husbands will not claim it).

This study summarizes the data and findings of five separate studies of business linkages in South Africa. While separate, each of these studies shared a focus on the nature and performance of business linkages between small, medium and micro enterprises (SMMEs) and larger firms, and they thereby permit some pooling of results. The summary draws evidence from the ancillary studies to propose that, of the two primary motivations for
business linkages with traditionally disadvantaged SMMEs (i.e., directly commercial versus community service objectives), it is those linkages based on commercial interest that seem to generate the most dynamic and profitable SMME businesses. Based on this finding, the author proposes that linkages should be based on economic and not social objectives, lest the relationship become distracted from sustainable business growth. Other major findings include: access to capital, capacity-building and information is needed for successful linkages; mentoring by larger firms can be useful to SMMEs; and, those who provide support to SMMEs through training or business assistance ignore market conditions at their own (and their clients') peril.

Jay a S. Anand (2002) has undertaken a study of women’s groups in Kerala to enquire into the performance of these groups commonly known as Self-Help Groups (SHGs) and Neighbourhood Groups (NHGs) and to identify the factors contributing to their failure or success so that the strategy may be replicated effectively for empowering rural women. She conducted her study in 15 SHGs and 5 NHGs functioning in Chungathara Panchayat of Nilambur Block in Malappuram District of Kerala State. A positive change has taken place in the attitude of the beneficiaries. They have realized that subsidies cannot, by themselves, make any permanent change in their lifestyles. They have started asking the questions, “will we get credit for starting a unit” instead of “what will we get.” The micro-finance programmes have enabled the poor to take up micro-enterprises by availing credit without outsiders dictating to them as to how and on what projects the loans should be used. It was found that there is a significant contribution of micro enterprises to the total family income of the beneficiaries’ thus micro credit has created a positive impact on the families of members. Factors other than investments made out of micro credit have also contributed to the increase in income derived from the activities of the groups. Members who had been carrying on some economic activity even prior to their joining the groups
were able to utilize the micro credit effectively for expansion and modification of their units and have benefited the most. The impact in terms of production also differed according to their initial socio-economic status.

The groups have provided a forum for women to express their concerns and articulate their aspirations for change (power within and power with) and enabled them to see and know what is happening outside the home. Several groups have become centers for initiating social action against the dowry system, alcoholism, illiteracy, and divorce.

2.4. Theoretical Framework for Analysis

In order to have a better understanding of the research problem under study an attempt was made to investigate the available theories related to the subject.

2.4.1 Economic Dysfunction Theory

During the second half of the 20th century credit for agriculture was accorded high priority. On the contrary the huge demand for finance from micro entrepreneurs was ignored by the formal financial sector. Until the 1990, the presence of informal enterprises - the street vendors like fruit sellers, vegetable and flower sellers - was generally perceived by policy makers to be a result of economic dysfunction. Another factor for the neglect of the informal sector came from the financial dualism model, a colonial heritage. Financial dualism holds that the formal financial sector co-exists with informal markets, the sectors operating with little or low interaction. In this model the formal financial sector, primarily urban serves the regulated, Institutionalized and monetized sector of the economy, while the informal market primarily rural serves what are believed to be the more limited sector of the traditional non-monetized subsistence economy (Germidis, Kessler and Meghir 1991).
Yet it is undeniable fact that micro enterprises provide an income stream for poor entrepreneurs. If the formal organized economy cannot absorb the surplus labour force through generation of more employment opportunities then why not help the informal enterprises that provide employment at least to the extent of removing the constraint they face. Consequently the demand for micro finance to encourage investment in micro enterprise slowly started growing in 1990s.

2.4.2 Tie Theory of Asymmetric Information

Asymmetric information theory was evolved by George Arthur Akerlof (1970) in his article “the market for lemons: Quality uncertainty and the market mechanism”. Despite the efforts of the government to spread rural banking, the two sectors have not only managed to exist but the local money lenders continue to lend at high interest rates. Although the formal lending institutions often have incurred huge losses and are at cross roads, the local money lenders have not only survived in some cases, they have actually thrived. The theory of asymmetric information states that the formal financial sector has failed in the lending operations despite various subsidy schemes in the rural areas and the informal sector lending thrives despite the high rate of interest because the informal sector has source of information about its prospective clients and does constant monitoring which the formal sector can never hope to have.

2.5. Research Gap

The studies reviewed in the chapter through light on women entrepreneurs in general and impact of SHG based micro finance programmes. However several questions remain to be answered: “To what extent have these micro-finance programs been successful in helping small enterprises to develop and offer employment opportunities? To what extent are they
able to reach the micro and small enterprises, self-employed or employers in the community? Do the enterprises initiated by SHGs function with long term vision? Studies on micro enterprises ran by SHGs over a period of time, their success and weaknesses, facilitating and inhibiting factors are scanty. The present study fills this gap.