Chapter 1

INTRODUCTION

Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practiced in varying forms in different countries and has come to be regarded as an important tool for poverty alleviation. In 1998, proclaiming 2005 as the International Year of Microcredit (UNO resolution 53/197 of 15 December), the General Assembly of United Nations Organizations requested that the year's observance be a special occasion for giving impetus to micro credit programmes throughout the world. The Assembly asked all those involved in poverty eradication to take additional steps to make available credit and related services for self-employment and income-generating activities to an increasing number of people living in poverty. Governments, NGOs, the private sector and the media were invited to highlight the role of micro credit in poverty eradication, its contribution to social development, and its positive impact on the lives of the poor.

Microfinance services have grown rapidly during the last decade and have come to the forefront of development discussions concerning poverty reduction. Despite this growth, as concluded in the Rural Asia Study, rural financial markets in Asia are ill-prepared for the twenty-first century. About 95 percent of some 180 million poor households in the Asian and Pacific Region (the Region) still have little access to institutional financial services (Asian Development Bank, 2000). “We can put poverty in the museum, if we collectively believe in creating a poverty free world. Poor people and especially poor women, have both the potential and the right to live a decent life and micro credit helps to unleash that potential” (Dr. Muhammad Yunus, 2006).
Different terminologies like micro finance, micro credit and Self Help Groups are interchangeably used with an emphasis on the provision of credit to the poor. The Task Force on Micro finance appointed by NABARD defines the term 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". Micro finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro enterprises. Microfinance services are provided by three types of sources:

- formal institutions, such as rural banks and cooperatives;
- semi-formal institutions, such as non government organizations; and
- informal sources such as money lenders and shopkeepers.

Micro credit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families (Micro credit Summit, 2002). Of course definitions differ from country to country, but some of the defining criteria used include-

- Size - loans are micro, or very small in size
- Target users - micro entrepreneurs and low-income households
- Utilization - the use of funds - for income generation, and enterprise development, but also for community use (health/education) etc.
- Terms and conditions - most terms and conditions for micro credit loans are flexible, easy to understand, and suited to the local conditions of the community.
1.2. **Relevance** of Micro Finance in Rural Development

Development practitioners, policy makers, and multilateral and bilateral lenders recognize that providing efficient microfinance services for the poor segment of the population is important for a variety of reasons.

I. Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and the efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology thus microfinance helps to promote economic growth and development.

ii. Without permanent access to institutional microfinance, most poor households continue to rely on meager self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities.

iii. Microfinance can provide an effective way to assist and empower poor women, who make up a significant portion of the poor and suffer disproportionately from poverty.

iv. Microfinance can contribute to the development of the overall financial system through integration of financial markets.

1.3. **Micro Finance as a Poverty Alleviating Measure**

Across the globe micro finance programme has been implemented with the twin objectives of poverty eradication and women empowerment. Through micro finance hitherto neglected rural poor by formal financial system are able to avail various financial services
and establish their own asset base. The provision of micro credit also enabled them to increase their purchasing power. Access to credit also helped the poor to undertake income generation programmes and thereby increase their income. Participation of women in SHGs in India helped thousands to develop alternative skills for livelihood initiatives. SHG bank linkage programme in India promoted by NABARD is the largest micro finance programme in the world in terms of its reach. About 21 percent of the Grameen Bank borrowers and 11 percent of the borrowers of the Bangladesh Rural Advancement Committee, a microfinance NGO, managed to lift their families out of poverty within about four years of participation. Without exclusively targeting the poor, the unit desas of the Bank Rakyat Indonesia (BRI) have also assisted hundreds of thousands of households in lifting themselves out of absolute poverty over the past decade (Sugianto, 1998).

The studies have, in general, shown that microfinance services have also had a positive impact on specific socioeconomic variables such as children’s schooling, household nutrition status, and women’s empowerment (Johnson S and B. Rogaly, 1997). Microfinance institutions (MFIs) have also brought the poor, particularly poor women, into the formal financial system and enabled them to access credit and accumulate small savings in financial assets, reducing their household poverty. However, researchers and practitioners generally agree that the poorest of the poor are yet to benefit from microfinance programs in most countries partly because most MFIs do not offer products and services that are attractive to this category. Thus, to increase the overall impact of microfinance on poverty reduction, it is essential to extend a wide range of services on a continuing basis to the poor who are still excluded from the benefits of microfinance.
1.4, Micro Finance and Women Empowerment

Micro finance programmes for women are promoted not only as a strategy for poverty alleviation, but for women’s empowerment as well (Mayoux, 1996). Since the early 1980s, empowerment has become a key objective of development. Empowerment has been considered both as an end and as a means of development. There has been a steady accretion of literature on the subject ever since the concept gained wide acceptance among academic and policy makers. Depending on the context concerned, empowerment is defined variously.

In our present context, empowerment may be defined ideally as ‘a continuous process where the powerless people become conscious of their situation and organize themselves to improve it and access opportunities, as an outcome of which women take control over their lives, set their own agenda, gain skills, solve problems and develop self-reliance.5

The formation of Self-Help Groups is “not ultimately a micro-credit project but an empowerment process” (Micro-Credit Summit, 2002). The concept aims at empowering women and thus lifting their families above the poverty line. It is a gradual process resulting from interaction between group members through awareness and capacity building. Building capacity refers to the strengthening of the ability to undertake economic, socio-cultural, and political activities, and enhancing self-respect. The capacity to undertake economic activities includes ownership and control of productive resources and alternative employment opportunities at local levels. It has been proved that economic empowerment could have a positive impact in other spheres as well: enhanced social, legal, and political status (Linda Mayoux and Susan Johnson, 1996). The capacity to undertake socio-cultural activities encompasses the ability to participate in non-family group meetings, to interact effectively in the public sphere, to create mutual dependence
and to ensure mobility and visibility. The capacity to undertake political activity includes the ability to fight injustice, to organize struggles, and to create an alternate power structure at the local level.

Within the SHG approach, empowerment is embedded at many levels. The impact of the SHG on the various dimensions of the empowerment of women depends on the backwardness, prevailing cultural practices, and demographic profile of the area.

1.5. Why Focus on Women

Women seem to be more sensitive than men to the extremes of poverty and its consequences. The poorest families are most dependent upon women's productive work. Labour force, participation of women and their proportional contribution to the total income of the family are the highest in households with the lowest economic status. For these households, the woman's capacity to work, her health, her knowledge and her skill endowments are often the only resources to call upon for survival. Women are the critical actors in the process of extricating their families out of poverty. When studying women and men separately one can more easily understand the causes of poverty. By revealing a woman's role in society, what her needs are and how much she works one can get guidance on how to break out of poverty and how the resources to the poor people in the world should be distributed. About 10 percent of the world’s income and only 1% of the world’s assets are received by women though they represent 50% of the world’s population and perform two-thirds of the work in the world (ILO report, 1980).

Women in low-income households have numerous obstacles preventing them in their work and every day life. The double burden of being poor and being a woman makes it even more difficult for these women to improve their life-conditions. As a woman one gets the
worst place at the market place and the men do not take their business very seriously. Being a poor women and from a rural area makes other people in society look down on them.

Approximately 60% of the clients of micro-finance institutions throughout the world are women, though this percentage drops in programs only offering individual loans or offering relatively high minimum loan amounts (Ireen Dubel, 2002). Basically three arguments are used to prioritize women’s access to micro-finance services:

1.5.1 Poverty Argument

Women are disproportionately represented among the world’s poor. In the 1995 Human Development Report, UNDP reported that women are 70% of the 1.3 billion people living on less than one dollar per day. Increased access to productive assets, like working capital and training, micro-finance helps mobilize women’s productive capacity to alleviate poverty.

1.5.2 Efficiency and Sustainability Argument

Women’s repayment records are superior to those of men and women tend to be more cooperative with the programmes of micro-finance institutions. As women in some countries are less mobile than men, they will not tend to “take the money and run.” All this contributes to the efficiency and sustainability of the institution. In addition, by assisting women to increase their income, the welfare of the whole family improves, as women spend more of their income on their households. Assisting women generates a multiplier effect that enlarges the impact of the micro-finance institutions’ activities.
1.5.3 Equality and Empowerment Argument

Providing women with access to micro-finance programmes is seen as an effective means for empowering women and thus promoting gender equality. The World Bank Report (1991) has observed that "women are central to the success of poverty alleviation efforts in the short and medium as in the long run." The World Bank President, James Wolfensen, mentioned that micro level financial schemes help people help themselves by starting small income generation projects and businesses. They are a particularly effective way of reaching women, thereby helping incomes and well being of their children and families. This business approach to the alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity.

Micro credit has ushered in a new era of hope to the poor and women. The effective management and development of women's resource, i.e., their abilities, interest, skills and other potentialities are of paramount importance for the mobilization and development of human resource. Yet, many women do not assert themselves owing to social inhibitions and disabilities.

1.6 Micro Finance - Global Scenario

The system of micro-credit was first developed by Professor Mohammed Yunis through his Grameen Bank Model who noted the prohibitively high interest rates paid by the poor. His effort in alleviating poverty through micro finance is recognized world wide and he was honoured by awarding the Nobel Prize for peace in 2006. Nearly 100 countries, including developing and developed countries, have begun copying this model. There has been increasing awareness and realization among developing countries of Asia-Pacific, Latin America and Africa that financial services to the poor and disadvantaged, particularly women, hold the key to their mainstreaming with the development of the
country. While the formal banking sector in most of these countries may not be in a position to provide such services in a cost-effective way, financial intermediation by various agencies in the non-formal sector has gained urgency and importance in these countries.

Microfinance has been given due recognition by various world bodies and the Microcredit Summit held in Washington in 1997 resulted in 137 countries gathering together to launch a campaign for reaching 100 million of the world's poorest families, especially the women from such families, with credit for self-employment along with other financial and business services by the year 2005. In 1998, proclaiming 2005 as the International Year of Microcredit (UNO resolution 53/197 of 15 December), the General Assembly of United Nations Organizations requested that the year's observance be a special occasion for giving impetus to microcredit programmes throughout the world. In the wake of this, a number of initiatives have been made by the government, banks, financial institutions) and the voluntary sector to enhance the flow of credit and other financial services to the poor.

In 2000, the world leaders assembled at the United Nations and declared the Millennium Development Goals (MDG) initiative. The first and foremost of which is to have the proportion of people below the poverty line by 2015 form the level in 1990.

1.7. **Micro Finance Scenario in India**

The need for rural credit in India had been recognized even before independence by the erstwhile British Government as early as 1793 when it issued regulations for Taccavi loans to farmers and subordinate tenants for various purposes. The measures initiated to reduce indebtedness and regulate money lending activities for agricultural purposes failed to provide a long-term solution. The Cooperative Societies Act which was passed in 1904 to provide necessary legislative support to the financing of agriculture and regulating credit in
the interest of cultivators then signaled the entry of credit for agriculture from the institutional sector. Since then, and till the late 50’s, cooperatives have been the major institutional source for all agricultural loans.

1.7.1. Expansion of Banking Network

The last four decades witnessed a rapid growth of the banking network in India under the guidance and initiative of the Reserve Bank of India (RBI). A vast cooperative branch-banking network was developed in the 50’s and 60’s for purveying agricultural credit. The nationalization of the Imperial Bank of India in 1955, 14 major commercial banks in 1969 and another 6 commercial banks in 1980, the setting up of the Farmers Service Societies (FSS) in 1973 and Regional Rural Banks (RRBs) in 1975 have enabled the creation of an extensive financial infrastructure for taking banking to the far-flung rural areas. As a result, the rural and semi-urban areas of the country are served today by more than 1,50,000 retail credit outlets comprising over 92,000 cooperative societies, 12,128 branches of DCCBs, 14,142 branches of RRBs, and 20571 rural and 12,283 semi-urban branches of commercial banks. In other words, there is at least one retail credit outlet for a rural population of 4,700 (based on 1991 Census).

1.7.2. Focus on the Poor and Weaker Sections

With the establishment of RRBs for serving the poor exclusively, and a direction to the commercial banks to route at least 10% of net bank credit to the weaker sections, a clear policy environment was created for providing small loans to the poor. This dispensation was in addition to the cooperatives which were the earliest institutional channel for credit to the rural poor. The direction to the banks to provide credit to the poor on their own accord was also preceded by the implementation of focused programmes by both central and state governments, viz., Small Farmers Development Agency (SFDA), Marginal
Farmers and Agricultural Labourers (MFAL), Drought Prone Area Programme (DPAP), etc. In absolute terms, there has been a phenomenal growth in the flow of institutional credit for agriculture from a level of Rs. 885 crore in 1970-71 to Rs. 38,054 crore in 1998-99.

1.7.3. Dependence of the Poor on Informal Sources

The magnitude of the dependence of the rural poor on informal sources of credit can be observed from the findings of the All India Debt and Investment Survey, 1992, which shows that the share of the non-institutional agencies (informal sector) in the outstanding cash dues of the rural households continued to be quite high (36%) even though the dependence of the rural households on such informal sources had reduced marginally from 38.8% to 36% over the last decade (1981 - 1991).

Agricultural purposes constituted the bulk of the lending of the banks in the rural areas, and it was the landless agricultural and non-agricultural labourers, rural artisans and asset-less poor who had not received adequate attention from banks.

1.7.4. Wage and Self Employment Programmes

Several programmes to improve the incomes of the disadvantaged sections of the society have been implemented in the past that promoted self-employment opportunities through credit supported asset creation. Additionally, several programmes for rural housing, drinking water supply, sanitation etc. have also been designed and implemented, not only as a means of providing these basic services to the poor, but also for providing wage employment opportunities to them. Over the years, special poverty alleviation wage and self employment programmes like Jawahar Rozgar Yojana, Indira Awas Yojana, Employment Assurance Scheme, Integrated Rural Development Programme (IRDP),
Development of Women and Children in Rural Areas (DWCRA), Training of Rural Youth for Self Employment (TRYSEM), etc. have been implemented by the GOI and state governments for creation of wage and self-employment opportunities. Besides, there have been programmes like Scheme for Development of Women and Children in Urban Areas, Self-employment Scheme for Urban Unemployed etc., with exclusive focus on urban poor.

At the forefront of the self-employment programmes was the Integrated Rural Development Programme (IRDP) which was not only the largest micro finance programme in the country, but also by far the largest of such programmes in the world. With a view to involving the rural women more intensively in economic activities, DWCRA was launched in 1982-83 covering 50 districts as a sub-scheme of IRDP with exclusive focus on providing credit, training and management skills to poor women and was subsequently extended to all districts in 1994-95. As at the end of January 1999, about 2.45 lakh groups were formed covering more than 38 lakh rural women. The training component for capacity building of the borrowers under these programmes was provided by TRYSEM, which aimed at providing basic technical and managerial skills to the rural youth from families below the poverty line to enable them to take up self-employment in the field of agriculture, industries, services and business. Since its inception in 1979-80, about 41.42 lakh rural youth have been trained. The GOI has since decided to restructure the existing rural self-employment programmes like IRDP, DWCRA, TRYSEM etc. by launching a new programme known as Swarnjayanti Gram Swarozgar Yojana (SGSY) from April 1999. The Prime Minister's Rozgar Yojana (PMRY), launched in 1993, aimed at assisting educated unemployed urban youth in establishing self-employed ventures. The scheme was later expanded to cover rural areas also.
1.7.5. Banking for the Poor

After the institution of social control in banks and their nationalization, a big thrust was given on provision of credit to the weaker sections by commercial banks while RJRBs were established to provide credit exclusively to the poor. The policies concerning rural credit through the banking system were hitherto pursued on certain assumptions such as, (i) the rural poor have no capacity to save, (ii) could only be developed through subsidy linked poverty alleviation credit programmes, and (iii) interest rates of credit from informal sources were exploitative, etc. These assumptions led to the policy orientation focusing on capital subsidies and low rates of interest on loans, target-oriented poverty alleviation programmes, credit guarantee for small loans, fixing of sectoral targets for disbursement of credit, soft lending terms including nil or very low down payment, long loan maturities and grace periods, relegation of savings as a source of funds, increasing reliance of the rural credit system on concessional refinance from higher financial institutions, etc.

The above policy framework often resulted in excessive target orientation in government-sponsored programmes, improper selection of clients, projects and leakages. Poor interest margins practically forced banks to cut down on appraisal and monitoring costs which further resulted in low recoveries stifling the recycling of credit which neither contributed to the sustained growth of the rural credit system nor adequately served the rural poor to make them self-supporting and self sustaining. The main constraint with regard to the flow of credit to asset-less poor borrowers, therefore, seems to be the comparatively high transaction cost to the banks in financing a large number of small borrowers who require credit frequently and in small quantities. The same holds true of the costs involved in providing savings facilities to the small, scattered savers in the rural areas. Both rural savers and borrowers with small amounts of the transactions also have to bear high
transaction costs while dealing with the banks due to distances, loss of earnings on being away from work while visiting bank branch, etc. Besides, the perception of risks in financing small borrowers who are unable to offer physical collaterals, the urban orientation of field staff and their mindset, inflexibility in their operations in terms of procedures and policies are the other constraints which restrict the outreach of the formal banking system to the poor. The poor also often perceive banks as alien institutions, which exist to serve the needs of others.

1.7.6. Emergence of Micro Finance

In the midst of the apparent inadequacies of the formal financial system to cater to the needs of the rural poor despite its phenomenal physical outreach, and with the active support and patronage of some NGOs, an informal segment comprising small, indigenous self-help groups (SHGs) has started mobilizing thrift and savings of their members and lending these resources among their members on a micro scale. The amounts involved are small, the processes followed are simple, but the operations seem to be successfully and effectively meeting at least the immediate needs of the poor. The potential of these SHGs to develop as local financial intermediaries to reach the poor has eventually gained wide recognition in many developing countries, especially in the Asia-Pacific Region. Many NGOs have played an active role in fostering the growth of SHGs in furtherance of their basic objectives.

As the concept of informal self help groups was relatively new, the National Bank for Agriculture and Rural Development (NABARD), the apex development institution with exclusive focus on integrated rural development, supported and funded in 1986-87, a MYRADA-sponsored action research project on *Savings and Credit Management of Self-Help Groups* for assessing its efficacy to help the target groups. Thereafter, in
collaboration with some of the other member institutions of Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 NGOs spread over 11 States in India to study the functioning of SHGs and possibilities of collaboration between banks and SHGs in the mobilization of rural savings and improving the delivery of credit to the poor. Further, 10 other initiatives in the NGO and formal banking sector which specifically aimed at improving the access of the poor to banking were studied and analyzed in great detail under a research programme funded by Government of Germany (GTZ).

Encouraged by the results of these studies on SHGs and other initiatives, NABARD launched in 1991-92 a Pilot Project on Linking SHGs with Banks. Steady progress of the pilot project led to the mainstreaming of the SHG-Bank Linkage Programme in 1996 as a normal lending activity of the banks with widespread acceptance. In the wake of the successful involvement of NGOs in promoting SHGs for the benefit of the rural poor in the 80’s, particularly the women, there have been some notable initiatives under the aegis of various state governments such as Community Development Societies (CDS) in Kerala, Uttar Pradesh Land Development Corporation (UPLDC) in UP, Mahalirthittan in Tamilnadu and under DWCRA and UNDP groups in Andhra Pradesh. These initiatives have tried to build NGO-like flexible and responsive structures within the formal systems. Some of them have also tried to develop structures of the poor themselves which take on the responsibilities usually shouldered by NGOs.

1.7.7. **Govt. Initiatives in Micro Finance**

Taking due note of the emergence of the NGO sector in the country and their endeavours to provide micro-credit and support to micro-entrepreneurs, several other institutions, agencies, ministries and government departments of the central and state governments have
started associating NGOs for reaching credit and other welfare services out to the rural and urban poor, particularly women. Rashtriya Mahila Kosh (RMK), Small Industries Development Bank of India (SIDBI), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC), National Housing Bank (NHB), and Ministries of Agriculture and Human Resources Development (Department of Women and Child Development) and Rural Development Department are prominent among them.

1.8. **SHGs in Kerala**

The success of SEWA of Ahmadabad, Myrada of Mysore, and several other experiments in different other parts of the country, has attracted many States for replicating this strategy. It has been widely accepted that the programme, if taken up and implemented in the right sense, would be very effective in poverty eradication and women empowerment. There are mainly three players involved in promoting SHGs in Kerala namely NGOs, *Kudumbbashree* mission and Local bodies under SGSY.

1.9. **SHGs and Micro Enterprises**

Poverty reduction is the major concern of rural development strategies in India. Experiences in implementing a wide range of rural development programmes in the country suggest that the incidence of poverty cannot be brought down through wage employment programmes alone. Creation of viable and sustainable self-employment through micro credit should be complementary to this strategy. Experience in different parts of India and across the globe have demonstrated that organizing the poor into Self Help Groups and entrusting the schemes directly to these groups is the best way to implement the anti-poverty programmes locally. "SHG route is one of the effective
methods of delivery of credit to the unreached poor. The focus is just not SHG, but poverty and its eradication through credit" (P. Kottaiah, 1997).

1.10. Unique Features of Micro Enterprises

1. A tool for poverty alleviation and would therefore target persons from economically disadvantaged classes for MED support.

2. One means for empowering women or for developing youth

3. A tool of general economic and enterprise development and as a means of strengthening an entrepreneurial culture

1.11. SHG Bank Linkage - A Boost for Micro Enterprises

The NABARD launched the pilot project on SHG bank linkage programme in 1992. Similar projects have been functioning in countries like Bangladesh, Malaysia, Korea, Philippines, and Indonesia. Beginning with 255 SHGs in 1992, the figure reached 620 in 1993-94 and 2122 by 1994-95. According to finance minister Mr. P. Chidambaram “the SHG bank linkage programme initiated in 1992 has come a long way. Until March 31, 2004 1.67 crore families had benefited through 10.79 lakhs SHGs financed by banks. While the SHG concept will be promoted vigorously, I am of the view that matured SHGs may be in a position to graduate from consumption or production credit to starting micro enterprises. An indicative target of credit linking 5.85 lakhs during the period up to March 31, 2007 has been set for NABARD, SIDBI, banks and other agencies”(2004-05 budget speech in the parliament). Through its Micro Finance Programme, NABARD aims to provide banking services to 100 million poor through one million SHGs by 2008.
<table>
<thead>
<tr>
<th>Up to end of march</th>
<th>No. of SHGs financed by banks</th>
<th>Cumulative number of SHGs financed by banks</th>
<th>Bank loan (in million)</th>
<th>Average loan size per SHG</th>
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<tbody>
<tr>
<td>1992-99</td>
<td>32995</td>
<td>32995</td>
<td>571</td>
<td>17306</td>
</tr>
<tr>
<td>1999-00</td>
<td>81780</td>
<td>114,775</td>
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<td>149050</td>
<td>263,825</td>
<td>4809</td>
<td>18228</td>
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<tr>
<td>2001-02</td>
<td>197653</td>
<td>461,478</td>
<td>10263</td>
<td>22262</td>
</tr>
<tr>
<td>2002-03</td>
<td>255882</td>
<td>717,360</td>
<td>20,487</td>
<td>28559</td>
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<td>553000</td>
<td>2550000</td>
<td>143190</td>
<td>56153</td>
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Source: MCID, NABARD, Mumbai
Despite the encouraging picture, as of now the total disbursement of credit is very limited and per household credit made available is very small. As of March 31, 2006, the average loan was Rs. 50913 per SHG and Rs.3637 per household. If a serious impact on the economic conditions of the rural poor has to be made, a much larger flow of credit to support a much broader production basis is required. It is in this direction that microfinance movement has to travel. SHGs have to graduate into promoting micro enterprises. Promotion of micro enterprises is a viable and effective strategy of achieving significant gains in income and assets for poor and marginalized.

In fact the evolution of SHGs can be found at three levels. At the first level households use microfinance to meet survival requirements where small savings and loans serve as a buffer in the event of an emergency or to smoothen consumption or even service previous
debt to give themselves more liquidity during lean times. At the second level subsistence needs are met through micro finance where a household begins to utilise micro finance to diversify its basket of income generating activities or to meet working capital requirements in traditional activities. At the third level as households reach a stage where they can assume a higher degree of risks, micro finance would be used to invest in setting up a new enterprise or expand the existing enterprise towards the end of sustainable development.

1.12. Significance of the Study

Age wise analysis of a million SHGs across the country indicate the startling fact that there are nearly 7 lakh SHGs that are in existence for over three years in India - perhaps an indication of the sustainability of the SHG system itself. Studies have revealed that a large number of members of SHGs are availing loans for income generation activities once their consumption needs are addressed (Nabard, 2005). Taking up micro enterprises with the intent of enhancing income level is a complex issue which needs a more holistic approach of appreciating skill levels, entrepreneurial spirit and dynamism, understanding market, technology and other factors. The task has to be handled with care in order to ensure that genuine concerns do not lead to failures of micro enterprises and increased debt burden and in turn to default. It brings into play the need for a hand holding strategy to enable the SHG members to cross over to micro enterprises stage.

A few questions which arise in this context are how far the SHGs in Idukki district have been successful in graduating themselves into micro enterprise stage. Do they move towards sustainability? If yes, what are the factors which influence sustainability of micro enterprises so that replicable models can be created? If not what are obstructing factors and challenges faced so that steps can be taken to overcome the barriers. Against this background the present study has been undertaken with the following objectives.
Objectives of the Study

- To assess the progress of SHGs in Kerala.
- To compare the performance of individual enterprises with group enterprises.
- To identify various factors that influence the sustainability of micro enterprises.
- To analyse the impact of micro enterprises on women empowerment.
- To recommend a replicable model for micro enterprise development

1.13. Summary

Ever since independence policy makers, developmental agencies and government bodies have been trying hard to alleviate the twin problems of poverty and unemployment in India. The new definition given by Amrtya Sen to Poverty as ‘deprivation of basic capabilities’ guided our policy makers and government to shift their focus from welfare to development. The concept of Self Help and SHG movement has revolutionized the credit delivery systems in rural villages. Through SHGs millions of women are enjoying accessibility to formal banking systems in India and as a result are able to undertake micro enterprises. However in a competitive market micro entrepreneurs find it difficult to maintain their units successfully.
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