LITERATURE REVIEW

2.1. Introduction:

Research interest in the subject is recent. Even so, the broader context of the role of SHGs, microfinance and microenterprises and their response to development challenges in meeting the first millennium development goals is of greater interest to researchers. Thus, a large number of studies and research articles are available. The greater focus is on SHGs and microfinance their inter-relationship. There are some mentions about microenterprises; however, these are passing references and are not suggestive of any in-depth study having been made. A deep intellectual understanding of the nature, sustainability, efficiency of microenterprises in creating opportunities for sustainable employment appears to be missing in available literature.

Most studies lacked in articulation of the research problems and the methodologies applied. These findings of these studies appear to more of impressions and less about the dynamics of the process. Some studies by the practitioners Mayoux Linda, Vijay Mahajan, Thomas Fisher, Malcom Hopper etc. have suggested that livelihood aspects of microenterprises be critically studied; microfinance in itself is not the panacea for poverty alleviation. Hence, the microenterprises operated by SHGs require a critical and scientific scrutiny by a thorough the empirical study and interaction with the subject. With this consideration in mind, this researcher has reviewed literature in the context of the present study.

A comprehensive bibliography was compiled before commencing the literature review, from which select works were subject to a critical review. The review included some basic theoretical works, historical reports, empirical research articles in academic journals, books based on field studies, and the documented experiences of professionals. A few recent books that discussed the relevant concepts were also reviewed.

The concept of microenterprises is recent and is still a developing one. For better understanding the concept clearly, it was also necessary to review literature on SHGs, Microfinance and Microenterprises. References were also found on SHGs and microenterprise related to non-farm sector, rural industrialization, rural development
and entrepreneurship development and there were reports of multidisciplinary approach to the subject.

Since the late 1990s, specifically 1997-98, there are increasing references to SHGs, Microfinance and Microenterprise in studies related poverty alleviation, non-farm sector and self employment. Microfinance and microenterprise are interrelated, but they are different in meaning and purpose. However, it is noted that the two terms are used interchangeably. This study makes a very clear distinction between the two terms.

The literature review has helped in understanding the evolution of various enterprises in society. The development of microenterprises is a recent phenomenon. Enterprises were mostly categorized as big, medium and small. Now, with their establishment, microenterprises are the fourth category. Microenterprises are owned by individuals, governments, groups of individuals or SHGs, cooperatives or even NGOs.

Literature study has helped in the conceptual understanding of entrepreneurship and, theron, a conceptual understanding of microenterprise. A study of literature on group dynamics and social group work has helped to develop a connections between two concepts i.e. microenterprise and Self Help Groups.

This chapter is in two parts:

Part I: A literature review with its focus on SHGs, Microfinance and Microenterprises, and the relationship of microenterprises with SHG and microfinance. Methodology adopted by earlier researchers, themes, theoretical connections, and the aim and objectives of these studies.

Part II: A learning, observations, issues emerged from the literature and framing of hypothetical assumptions for the study.

**Part I**

2.2. Literature Review:

A clear understanding of terminology is necessary in order to develop the conceptual framework necessary for this study.
Microfinance: A good definition of microfinance was provided by Robinson: “Microfinance refers to small-scale financial services for both, credits and deposits that provided to people who farm or fish or herd; operates small or micro enterprises, where goods are produced, recycled, repaired, or trade; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing countries, in urban and in rural areas”. (Robinson, Marguerite S, 1998). Microfinance is not limited to credit and savings. Depending on the needs of the situation, microfinance also includes micro insurance, remittance services, and micro pensions. It is an instrument or means - somewhat like the fuel needed to run vehicles. It is seen as a basic requirement for any economic activity in the present economic condition. Microfinance is deeply concerned with the poor and those who have limited or no access to formal financial services.

SHGs: Self Help Groups (SHGs) are voluntary associations of people formed to attain a collective goal. The members of a self help group are homogeneous with respect to social background, heritage, caste or traditional occupations that come together for a common cause to raise and manage resources for the benefit of group members.

Self Help Groups are small informal associations created for the purpose of enabling members to reap economic benefits out of mutual help, solidarity and joint responsibility. These small and homogeneous groups involved in saving and credit activities are capable of taking care of the risks through peer monitoring (Rajasekher, 1997).

The study uses the definition provided by NABARD. “Self Help Groups (SHGs) are voluntary associations of people formed to attain collective goals. People who are homogeneous with respect to social background, heritage, caste or traditional occupations come together for a common cause to raise income and manage the resources for the benefit of group members”. (NABARD, 1995). SHGs with more than twenty members in a group are not considered. The group approach of SHGs is used as a means for the safe and effective means for delivering microfinance.

Enterprise: Enterprise is an economic initiative to produce or provide a service which involves a risk, and is undertaken to earn a profit. It is also a source of income.
to the entrepreneur. Enterprises create jobs and income earning opportunities for the people who are connected to them.

**Microenterprises (Small and tiny enterprises):** Microenterprises are not easy to define. They usually include very small Street vendors, carpenters, tailors (and such trades people), machine shop operators, peasant farmers and so on. Microentrepreneurs come in all types, and their businesses in many sizes. This diverse group of self-employed people requires a support to grow and improve. Their numbers are large and they provide various kinds of services and employment and employment opportunities. Microenterprises contribute significantly to economic growth, social stability and equality. The sector is one of the most important vehicles by which people in low-income groups can come out of poverty. This is all the more important if we consider that the people in this group have limited education and do not possess the necessary skills necessary for jobs in the formal, organized sector. In India Micro enterprises are identified as those businesses having an investment of less than Rupees10 lakhs and employing not more than ten persons. *(Micro, Small and Medium Enterprise Act, 2006).*

**2.3. Empirical and Contemporary Works:**

**Morduch Jonathan (Dec, 1999):** ‘The Microfinance Promise’, is a pioneering study on microfinance institutions and their sustainability. The work has been referred to and cited by researchers and scholars across the world. The study applied the case study method to discuss and review microfinance practices in various countries. MFI approaches and strategies - mostly from the developing countries of Asia and Latin America (Grameen, SEWA, and Banco-sol)- are reviewed.

The group approach practiced by the MFIs has shown considerable promise in safe delivery of finance as well as timely repayment by the borrowers. An interesting observation in the study was that many of the MFIs did not just provide microfinance; they also offered a variety of support services to the poor beneficiaries of microfinance. These services were necessary for the proper and effective utilization of microfinance. In some cases, MFIs kept aside a portion of the loan amount which could be used to fund the training of the members. Some MFIs were connected to institutions that offered services like building capacity and capability, training and
consultancy and so on. The aim and objective of these services was to maximize the benefits of the microfinancing.

The viability of Micro Financing is a matter of concern. Most MFI s are sustainable only at high rates of interest which is in the region of 38-40%. The author notes that even the pioneering Grameen Bank still needs grants to operate its microfinance services. It is yet to sustain itself. The alternative to grant support is to keep interest rates high, along with adequate collateral from the client. However, it is not clear why, if Indian banks can offer microfinance at 10-12%, MFI s should charge 38-40%. This leads one to wonder whether the profit motive is more important than the need to alleviate poverty.

However, the study is about microfinance and its sustainability; not much has been written about micro enterprises. The nature of the microenterprise that the group members have started are equally worthy of study as, ultimately, they determine the sustainability of livelihood and the ability to repay on time.

Ghate Prabhu (2007): ‘Indian Microfinance Rapid Growth,’ is a detailed review of the microfinance sector in India. The report is based on secondary data and the available literature and contains a comprehensive discussion on the microfinance sector in India.

In the section, ‘Microfinance Plus’ (op-cit, p. 210), the chapter on ‘Some Ongoing Research on Indian Microfinance’ Ghate suggests that MFI s must make provision for business training or livelihood counseling to its clients. This will enhance the skills, increase productivity, and also bring about improvements in production, marketing and financial management among the borrowers. Social service provisioning along with the financial provisioning enhances the quality of impact of microfinance. The research on ‘SEWA’, points out that the training imparted on business and financial skills also empowers the borrowers take risks, visualize scenarios in the long term. The training imparted to the borrowers in SEWA has helped to change their business perspective. However, these aspects are not discussed in further detail and, as a result, there is not much clarity on the matter. But the author emphasizes (op.cit, p. 211) and accepts that training inputs on social services to clients of microfinance are important along with financial training.
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The report also refers to a study carried out by EDA Rural Systems in association with APMAS on ‘Lights and Shades’ on the SHG phenomena in 2006. Here 21% of the SHGs were in group entrepreneurship. It is not the general practice that every group will be opting for enterprise. The study was conducted in four states of India – two each from the south and north. The data given in the study shows the percentage of groups/SHGs joined the group enterprises are – in Andhra Pradesh - 25%, Karnataka- 16%, Orissa -14%, and in state Rajasthan -14% (op.cit,p. 45). The study found that SHGs are in need of various inputs to build capacity and capabilities. The study clearly underscored the necessity for MFIs to have both a financial and social mission…. (op.cit, p. 94)

**Karmarker K.G. (1999):** Microenterprises face constraints such as the inability to grow due to a lack of resources, inadequate infrastructure like water, power, markets, insufficient market information, inability to access finance, the absence of a brand image, lack of standards and standardization, absence of clear cut government policy etc. Karmarker further shares the experiences of various countries like China, Malaysia, Singapore, Thailand, Japan and Korea where a unified concentrated approach was adopted by all the concerned institutions, organizations, NGOs, and government for the promotion of microenterprise. Further, he says that India too needs to take certain hard decisions to strengthen and develop the microenterprises sector for better employment and economic growth of rural India ( ibid,p. 163).

After several decades of centralized planning it is now clear that government alone cannot ensure employment. The industrial and agricultural sectors are also unable to absorb the growing labour force. Microenterprises- whether they are in informal, unorganized or in the organized sectors- can provide opportunities for gainful employment and bring about changes in the social structure (op.cit, pp.175-176.).

**Karmarker K.G. (2008):** Karmarker-who worked with NABARD on microfinance-, accepts that a good number of SHGs are struggling to graduate from the microfinance to the microenterprise stage. A lack of marketing linkage affects SHGs’ progress to the microenterprise stage. He adds that many NGOs and agencies are not in a position to provide SHGs with the requisite backward and forward linkages and market survey reports. This affects setting up of microenterprise in a sustainable manner. He also observes that SHGs are used as delivery channels for insurance or products
manufactured by big organizations, e.g., Hindusthan Unilever, ICICI, etc. However, the supply chain is not strong enough to make the SHG’s enterprises a sustainable one (Ibid., pp. 41-44).

However, it is difficult to agree with Karmarker’s comments on NGOs. By definition, NGOs are not-for-profit and, hence, are unlikely to have the resources to impart these kinds of skills. It is also not their primary role. If, indeed, such a role is expected of NGOs, a strong institutional support, created by the government and the MFIs, is necessary. Some MFIs do play a role by providing such services along with their financial inputs. But, as Karmarker mentions, commercial banks in the country view SHGs as a social programme rather than an important component of a viable financial programme (ibid., p. 42). This also tends to limit their vision and understanding. The kind of philosophical belief of an organization obviously impacts the role and implementation strategy of the financial institutions.

Karmarker also sees the challenges that must be overcome to reignite the spark in group-based micro-enterprise model (ibid., P. 46).

.. However, the promise of SHGs in terms of as blocks for development and in rising economic levels in rural areas has yet to be borne out. The evolution of micro credit into microenterprise has not necessarily taken place. For, the average size of loan taken is still small, with initial cycle of credit used for the consumption rather than the productive investment. Essential inputs and support services to undertake and sustain rural enterprises have not been effective... (Karmarker, 2008, )

Saguna, B (2006), had conducted a study in the Chittor district of Andhra Pradesh, “Empowerment of Rural Women through Self Help Groups”. An attempt was made to determine the relationship between the SHGs and level of empowerment among their women members in rural areas and the resulting impact on rural women’s status. Primary data was collected through stratified sampling of a total of 300 SHGs from three revenue divisions of the district. Secondary data was collected from various sources. The tools used for data collection were interview schedules, personal interviews, and observation and official documents.

The author has explained in detail the concept and theme of empowerment and discusses their current status of SHGs in India. The author has used literature study and empirical data to give the reader a good understanding of these themes.
The author suggests that the SHGs go through three stages - group formation, capital formation and skills development, and the start of economic activities to generate income.

Special case studies are discussed to provide specific evidence to highlight the various types of empowerment processes which the women of the SHGs had undergone. The study revealed that a majority of the loans taken by the members was invested in income generation activities. The outcome helped in their economic empowerment.

The economic activities that were financed were dairy activity (18.67%), business related (18%), animal husbandry (12.33%). A significant portion - 19.67% - the loans were not used for the purposes for which they were taken. However, the author has not clarified the circumstances and the reasons for this. Possible reasons are a lack of market access, lack of skills and capacities of members or lack of business guidance etc. In any case it is indicate of a gap in the analysis. Unless and until our understanding of this gap is clear, it may be difficult to understand and predict possible failures and plan preventive action to reduce such incidences (op.cit, p. 198).

The research also points to the problem in the marketing of the products made by the SHGs. Often the quality is poor and they are unable to compete with similar products made on commercial scales by larger entities. The products are sold in local markets and access to larger markets is limited. SHGs that have government contracts and are well connected have some exposure to state and national level exhibitions and are able to promote sales.

The ‘Group’ approach has had a positive effect in getting women to be socially and economically empowered (op.cit, p. 200). But study also pointed out instances in which the dominant group leaders exploit poorer and less empowered members.

The case studies show that economic empowerment has been the most visible effect of SHGs. SHG members share their experience of empowerment more enthusiastically than any other benefit they may have derived from ‘Group’ activity. (ibid, pp. 205-222). However, the author also admits to the difficulty in measuring social empowerment.

The study falls short in some areas. For example, it does not mention whether the SHGs that were studied were BPL or NBPL. This study also indirectly reinforces the
perception that SHGs need qualitative guidance and support to derive the benefits of micro-financing. At the same time, the support and training needs are not identified.

**P.J.Christabell (2009),** carried out an empirical study to know and understand the contribution of microfinance in bringing about changes among the members of the SHGs in the Ullor panchayat in Kerala. The study is an effort to determine the effect of microfinance on the development of various capacities—economic, social, democratic, and political—among the members of SHGs. The availability of microfinance provisions and access to it has helped to develop the self confidence of the women members of SHGs and provided opportunities for self employment (p. 34).

The study covered a sample of 34 SHGs out of 163 in the Ullor panchayat by a two staged sampling process. The study used the qualitative tools of data collection - case studies, observations, schedules (open- and close-ended). The main theme of the study is ‘microfinance’ and its role in the building of capacities SHG members. The author presented evidence from a review of literature to support the claim that microfinance has transformed the borrower-members from a state of unemployment to a state of self-employment. Yet, in another place in the same work, references are made to literature which reports that the benefits of microfinance have not reached the extremely poor in society (op-cit, pp 51-52). Thus, it is evident that the author has is unable to arrive at a definite conclusion.

The author also mentions that the members do not have the capacity to manage the large amounts of credit. Some women set up enterprises with the help of their husbands. However, the businesses could not attain a minimum turnover in volumes and value to become profitable. An example was given by the researcher in which the wife puts up the capital and the husband provides the entrepreneurial inputs (op.cit,p. 56). The author has criticizes the approach of microfinance and its excessive emphasis on self employment when, in reality, the targeted—poor-beneficiaries may lack the capacity to start and sustain an enterprise. (op-cit,p.59).

The author has mentioned that livelihood development needs local level participation but it is not clear about whose participation and at what level? The author also questions whether group—based enterprises model is the right template in all cases (op.cit, p. 61). Due to the inherent risks, if some members of the group are
entrepreneurial and some are dormant risky borrowers, microfinance may not yield the desired outcomes. The author also stresses that skilled, trained and conscientious members of SHGs can effectively invest the credit in the profitable ventures.

Christabell also cites (Berger 1989), who concluded from his studies that credit is not the cure for the problem of unemployment. Other institutional problems, too, must be addressed-illiteracy and low education levels. Poor management skills also hamper the efforts of the women micro-entrepreneurs to increase their income. Berger recommended training and technical assistance-oriented to the informal sector-would be helpful to the women. He also made a pertinent observation that the women’s traditional responsibilities as homemakers could restrict them from serious participation in such training programs. Other obstacles to the growth of microenterprises are structural in nature-government socio-economic policies and strategies. (op.cit, p.62).

Christabell also reports that, in Kerala, NGOs like the Bharat Sevak Samaj (BSS) do provide training on microenterprise, so that SHG members can participate in income generating activities (op.cit,p.140). The statistics are encouraging- out of the 323 women surveyed 63(20%) are engaged in income generation. The women started trade and small business units rather than production and manufacturing where the risk of sale is higher. Most of the members had taken up activities related to their traditional skills and used available the natural resources (p. 168). About 50% of women had started their activities-enterprises after joining the groups. This shows that groups do support and help members to take up the enterprises/self employment (op.cit,p. 170). In the study, nearly 54% businesses are run in the entrepreneurs’ own premises or land. 57% enterprises of SHGs’ members are home based. A third of production and processing units were run by SHGs in a group form (op.cit,p.172).

A matter of concern is the absence of coordination among the members of the SHGs and at local and panchayat levels. This affects the working of the SHGs and their effectiveness. Coordination is a necessary perquisite for the development and growth of SHGs and their effectiveness in promoting and sustaining SHGs (op.cit,p. 176). The author also found that 80% of the members of SHGs are not engaged in any enterprises. The reasons are well known- lack of skills, technical experiences and proper training. MFOs have failed in providing the necessary training in
entrepreneurial development or skill up-gradation for its borrowers. It was also recommended that MFOs/MFIs must incorporate proper training and skills upgradation in the microfinance package (op-cit, p.177). Christabell concludes with the assertion that mere microfinancing will achieve very little; it must be supported with training and capacity building in order to meet the stated objectives of SHGs in creating income generating opportunities to alleviate poverty.

**P. Christuraj and S. Saraswathy (2009)**, studied the socio-economic changes and empowerment among the SHG members. Their focus was on the group approach and the resultant benefits. The socio-economic changes were measured with twenty parameters with parameter rated on a scale of one to five. The study concluded that the group approach has resulted in socio-economic changes among the members. (op-cit,p.2).

The study also found that membership of SHGs gained them better access to a variety of services. Being a part of a group also enabled members to voice their concerns-against exploitation, living conditions and other issues- more confidently. Thus being a part of a SHG went beyond credit financing. It also enabled collective action by the poor and marginalized to bring about the desired changes to their lives. This would not have been possible otherwise. It would not be wrong to say that SHGs are creating space for marginalized and poor women members to explore new horizons (op-cit,p.4).

**Sinha Debotosh (2008):** In his study, Sinha reported the experiences of women who set up businesses after joining SHGs.(ibid, pp 6-33). They had joined with their husbands in their businesses (ibid,pp 26-61) experienced considerable growth. A common constrained, voiced by the women was insufficient training inputs and lack of institutional support. Sinha suggested a need- and local resource -based training inputs to enable SHG members to take up suitable economic activities that are based on locally available raw material.

**Murty G.R.K, Samanta Pradeep Kumar (2008):** In the section on public and private partnership, the authors have clearly stated that microfinance alone is not the panacea for eradicating poverty. It is just one of the tools to help the poor to develop themselves. The delivery of microfinance must be backed by support to address other issues related to their socio-economic status. Some of the concerns are ill- health and
poor nutrition, poor education levels, lack of capacities and capabilities, and so on. It is only when the right environment is created that people will be in a condition to work to put the credit to good use. The authors suggest that corporate sector take up some responsibility for creating an enabling environment and strengthen the SHG movement. However, no specific proposals have been put forward. The authors also recommend that the government increase its efforts to develop skills and capacities.

**Bhide and Mehta (2004):** Bhide and Mehta emphasized that education is paramount in enabling an individual to escape poverty. Thus, investment in education must be accompanied by making available income generating opportunities.

**Harper Malcom (2005)** says in his writing that government should provide the public services which enable poverty-stricken people to take advantage of the synergies between nutrition, education and family planning and so they can exit poverty. Thus, along with microfinance, other issues also must be taken care off while working on the poverty alleviation strategies. He further adds telling- that need for achievement motivation has been seen as the driving force for an individual to take risk and venture in to business.

**Titus Mathew(2002),** says “attention to microfinance services must be a part of wider policy engagement with poverty alleviation and as he suggested above, with micro-enterprise, including a deep understanding of their role in providing livelihoods and contributing to national economic development” (Beyond Micro credit, p. 316.).

**Fisher Thomas and Sriram M.S (edited,2002),** edited the book “Beyond Micro-Credit – Putting Development Back into Micro- Finance”. Several practitioners and thinkers have contributed critically on the various aspects and the changes required in the present micro-credit and microfinance sector in the Indian context. It has been discussed that there are two schools under the microfinance sector one is poverty and second is microfinance for earning profit through inclusion. There is a critique on financial school of thought of microfinance and concludes that development of the poorest by providing micro-credit will not bring the change in poverty alleviation state. Hand-holding and support is necessary. The authors have quoted the example of microfinance institutions who have clubbed micro-credit package with capacity building, business and financial counseling, and another support services. Such
initiatives have yielded better results in the use of credit and income generation among beneficiaries. The microfinance services must be integrated and which encompass both credit and business support services to the clients of microfinance (op.cit p. 74).

...Micro credit is necessary but not a sufficient condition for microenterprises promotion. The success of microenterprises depends on a whole range of resources (e.g., natural human, social, financial) and opportunities (e.g., markets, the policies and institutional environment) other input are required not just business support and training, but also the identification of livelihood opportunities, establishing market linkages for inputs and outputs, adapting technologies, organizing producers, sub sectoral analysis and policy reforms (ibid,p.75).

BASIX –MFI goes beyond minimalist micro-credit approach by integrating the provision of wide range of technical assistance and support services. BASIX goes even further by developing infrastructure and developing market connections for the small enterprises who are its microfinance borrowers. This is called wider livelihood approach (ibid,p.29). Such evidence from literature supports the view on integrated holistic services by MFIs, (ibid, p.140). The SEWA bank-MFI/ union provides training inputs and financial literacy training to its borrowers (Fisher Thomas and M.S.SRIRAM, 2002).

Mahajan Vijay (1997): Mahajan, critically analysed the status of microfinance and its functioning in India. In this scenario, all microfinance borrowers are required to take up self employment as source for the livelihood. (Is micro -credit the answer to poverty eradication?pp.8-9). The poor often do not opt for the self employment or for enterprise development; they first seek wage employment, which is an easier and faster means to provide for their daily necessities.

Enterprises promotion was a focus of development activity until the early 1990s. Many involved in those endeavors felt that the minimal growth of micro-credit diverted attention from the challenges of promoting enterprises. Finance was often not the overriding constraint. Yet, thinking and practice on wider needs of enterprises progressed little since the early 1990s. It is now gradually gaining importance under the name of business development services. (Beyond Micro-Credit, p. 27)

... Economic development is there for as much about empowerment, of individuals and groups, as about incomes and individuals assets. For many poor people the only route to
empowerment is through collective endeavors that can overcome the severe limitations imposed by individual isolations... (ibid, p. 28)

MFOs must develop the skills and capacities of the staff they recruit for microfinance-related work. Their competencies must be upgraded through a human resource development initiative so that they can guide and counsel the poor borrowers of microfinance. A well-trained staff can integrate the financial as well as development objectives, mobilize resources, help with costing and marketing, and so on (ibid, pp. 312).

**Joshi-Pant, Deepali (2006):** Joshi-Pant dealt with contemporary issues in her book ‘Social Banking’. She mentions that SHGs succeeded in gaining access to what formal financial institutions failed to do as their loans were not linked to the provision of credit. Microfinance for the poor/women is now widely recognized as a strategy for poverty alleviation, employment and economic empowerment. The author further explains how microfinance helps the poor increase their income, build viable businesses, and reduce their vulnerability to external shocks. It is also an instrument for self-empowerment and enables women, who bear the double burden of being poor and being women, to become agents of economic change (ibid, p. 13). She mentions—along with SHGs’ new intermediation, some much wider transformations of institutional framework are required. (ibid, p. 12).

Micro-credit addresses most of these problems as it incorporates innovative financial practices. Micro-credit implies small loans extended to groups of poor persons who undertake self-employment projects that in turn generate income, enabling them to provide for themselves and their families. The targeted population comprises poor women and micro-entrepreneurs of low income households (Social Banking, p-129,).

Joshi, further critically brings some basic questions to examine the worth of microcredit. **Is micro credit a panacea? Is it the Holy Grail for development practitioner? Does it successfully provide a safety net for the poor—even the asset-less and the destitute—in all situations? Does it combat economic uncertainties, loss of livelihood, seasonal unemployment or natural disasters? Can it effect distributive justice and ensure growth with equity which will enable the poor to access development recourses and use them to their best advantage? (p-13)

**.... New levels of sustainable economic activity require adequate backward and forward links to technology, infrastructure and markets. Credit is not the sole input, but one of the inputs for development ...**
State spending on infrastructure and the social sectors need to be increased. SHGs are useful models of development - they are able to provide timely credit and are creating new social opportunities for the lowest strata of the population, who still need to be uplifted and integrated with the mainstream of society (ibid, p.14).

Formal commercial banks have some constraints: (1) They are unable to distinguish the credit worthy borrowers from non credit worthy borrowers. (2) They lack the pre-sanction and post-loan monitoring processes and supervision is weak. Thus, they do not have the capacities to monitor and ensure productive use of the loan. In traditional banking, it was not the expected practice by the staff of banks. But in the new challenges, the changes and inbuilt mechanisms need to be developed as microfinance is now considered a priority sector in social banking. Human resources development and skills and capacity development of staff with a multidisciplinary background may help in managing the challenges that are present in the microfinance sectors (ibid, p. 128). Such a structured approach may help in enterprise development and provide means of livelihood to the poor. Joshi-Pant also stressed the need for an integrated approach for financial services and the nurturing of SHGs. Non-subsidy driven micro-credit by MFIs and banks will assure the success of microfinance strategy. Several models of social banking in the world were studied.

**Grameen bank model**: This model of microfinance only provides the microfinance to the poor who want to take up self employment as a means of earning an income. Such individuals are required to join a group. There are clusters of 6-7 groups each. Each cluster is closely monitored and supervised by bank representatives on a weekly basis.

**Bank Rayat Indonesia**-Unit Desa System: This is the largest state owned bank in Indonesia. Loan interest rate is 1.5% per month. It functions as a business organization and does not provide any training to people. Unit Desa System is a sister organization of the same bank. Here no group lending by the bank but the loan to individual. This is a self sustainable model of MFI.

**Banco-sol-Bolivia, NGO turning in to a bank (1986)**: This is a unique example of an NGO transforming into a bank. In 1992, PRODFM’s NGO formed into a bank with the support of three funding agencies ACCION, USAID and Canadians Calmeadon Foundation. This model follows the group approach. 6-8 local business people are the group members and called solidarity group. Interest is charged at the rate of 24% p.a.
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and this model has achieved operational self sustainability. (Banco-Sol) participates in group lending to micro-entrepreneurs at the commercial rates.

*The New paradigm:* The poverty school of thought, where a government and donors provide subsidized credit to the poorest of the poor. The financial sector provides credit at market rates of interest to economically active, which poor microentrepreneurs hardly able to afford it. They also support them with proper supervision and building their existing skills and capabilities to run their enterprises efficiently so that a healthy cash flow is generated. In turn, this enables the microentrepreneurs to pay back the loan taken and become eligible for fresh financing for expansion and growth of the enterprises. This model sustains both the MFI and the micro-entrepreneurs. Both approaches stress on group financing.

Mohanty Smrutirekha (2004), studied credit needs and the related institutional aspects of rural artisans in Orissa. The needs and requirements these artisans-turned-micro-entrepreneurs were examined with empirical evidence. Mohanty showed that these microenterprises are home-based, and their products are commonly sold in the local markets. The study also reported difficulty in obtaining adequate raw material-mostly supplied by co-operatives. The enterprises also suffered from lack of proper market access, poor infrastructure- roads, warehousing, power etc. There was also no agency to support the artisans in obtaining appropriate technology, getting suitable market access and the right price for their products. (pp. 44-45).

Microenterpreneurs in rural areas mostly come from traditional artisan backgrounds. It is there a matter of interest to know whether the SHGs support the traditional occupations or whether the microenterprises are based on entirely different skills. This is a matter of concern to the current study. It also will help to understand why it so?

Seibel Hens Dieter and Uben Parhusip (1990): The vast majority of micro-entrepreneurs do not have access to Institutional finance. The conventional approach to financing microenterprises faced the hurdle of high transactional cost to both lenders and the borrowers. The financial institutions could not afford credit subsidy and the borrowers-the micro entrepreneurs- could not pay market rates of interest. SHGs have helped in finding a way out. They have helped micro entrepreneurs realize their full potential. The cohesive nature of SHGs instilled a collective goal, group peer pressure ensured discipline among the members, and group savings served as
collateral. Thus, SHGs made for more reliable intermediaries. In 1986, the workshop held by the Asian and Pacific Regional Agricultural Credit Association (RACA) in Nanjing, China, the members adopted a novel programme involving a financial system built around Self help Groups. The SHGs would serve as grassroots intermediaries between banks and rural microenterprise (Harper M, edited, 2003, pp. 12-13).


The study revealed that middle-aged women were more interested in becoming entrepreneurs. 42% of the women had started a microenterprise to increase income level. 33% of women respondents found employment through a microenterprise, which made them self reliant. 88% women earned a profit from their microenterprises. However, the study makes no mention of the systemic contribution to the results. It is important to know how these microenterprises were set up and developed.

The researchers also found that the micro-entrepreneurs to whom credit was provided were not extremely poor. They recommended that micro-credit must be made available to the poorer sections and not just to the credit-worthy. Effective use of the Micro credit is as important as access to it. The study further recommended that micro credit should be accompanied by support in the form of capacity building and training programmes for economically deprived communities. It must be assumed that the poor members are in need of such inputs. The study also accepted that micro credit provided through SHGs helps in promotion of income generation activities that offer opportunities to make the members economically independent and change their social status too (Lazar D. & Palanichamy, P, edited, pp 232-242).

**Chinnammai, S. (2008):** The author conducted an empirical study – ‘Micro credit and Upliftment of Women through Education’ in Vellore district. The study found that women do not receive proper technical and science inputs. Thus a special provision must be made for guidance and counseling services to women. This approach may
help them to develop. This study also reinforced the potential for socio-economic changes among the members of SHGs. (ibid, pp. 256-267)

Mahalakshmi, V. (2008): In her evaluative study, the focus is on micro insurance for the poor borrowers of micro credit. The study hardly mentions about the need of insurance covered for microenterprises of poor by MFIs (ibid, pp. 387-398).

For a big enterprise, while providing loan by financial institutions its insurance is also made compulsory requirements. Why microenterprises’ finance need not ask for the insurance coverage for microenterprises is also the research interest will been inquired?

Stemper Gloria Almeyda (1996): Stemper describes ‘finance’ as one factor in developing micro enterprises. The other important factors are training, marketing and technology. The author also describes the practices of MFIs, NGOs and Banks in Latin America. “Solidarity groups and training before lending to women entrepreneurs, reduces the risk in lending to their microenterprise. After the training, women are asked by the NGOs to get formed in solidarity groups, which assured and control the risk factors for the MFIs for safe lending of micro-credit”. It is important to note that, for women micro-entrepreneurs, it is a matter of survival rather than profit as most of them are excluded from the public life. The group acts as guarantee.

Bhat, K. & Durai Raj,K (2008): It is an evaluative study conducted among the PMRY beneficiaries by using a proportionate sample of 400 individual entrepreneur beneficiaries from the Union Territory of Pondicherry. The study mentions the various problems faced by the beneficiaries of the programmes but there is no discussion on the group based approach to develop and promote entrepreneurs under the PMRY. This programme had included the SHGs’ concept and approach in its implementation. Under the PMRY loans are provided to groups of five individuals or to established SHGs. Many small and microenterprise development programs in US, Bangladesh and in Mexico, to which microfinance loans are provided through groups of entrepreneurs, have benefited by reducing the problems and better support.(Lazar D. & Palanichamy,P, edited,pp-492-500)

Farida Handy, Ranade, Kassam (2007): In their study on non-profit and for-profit women entrepreneurs in the city of Pune, they found that all the non-profit
entrepreneurs who worked for women and children receive a high payoff from promoting social causes. In contrast, there is no single unifying payoff for for-profit entrepreneurs. Family background and support did play an important role for both sets of entrepreneurs. They found that experience in the sector, social class, caste and education influence entrepreneurial behavior and that this influence differs by sector. The entrepreneurs studied were from middle or from higher income groups. The researchers also experienced that women entrepreneurs gave more importance to family than their business or enterprises. Most of them started with a low –risk enterprises to avoid any disturbance of family responsibilities. Family responsibility may not be get disturbed due their enterprises. The women considered financial stability at home to be essential before they turned to entrepreneurs. Then its an interesting to know how and why the BPL SHGs members are opting and getting in to staring a microenterprise.

K. Shobha (2008), conducted a study of women entrepreneurs of Coimbatore, Tamil Nadu. They were motivated to entrepreneurship to supplement family income and to come out of poverty. Non-economic motivating factors were - the desire to be independent, make productive use of spare time, interest in a particular area of work and advice and encouragement by friends and relations. The main problems faced by these women were difficulty in obtaining material, labour issues, problems in availing the credit, competition, inadequate knowledge of government schemes and programs, difficulty in acquiring new skills, harassment, lack of marketing facilities and networking, lack appropriate technology and equipment etc.

In both the above studies, the women entrepreneurs were mostly in the middle age group of urban areas. Their children were sufficiently grown up and the husbands were busy with their jobs. Such a situation left the women with enough spare time to consider entrepreneurship and was able to devote enough time to their ventures. However, in a situation where a woman is compelled to take up entrepreneurship as the only livelihood option, the pressures and priorities are likely to be different. The focus on income and profit will be different.

Vyas Jayshree (2008): While working with SEWA, author found that -

"Banking with poor self employed women... It is becoming increasingly clear that access to financial service alone is not enough for poor people to transform their economic activities in
to profitable economic enterprises. Access to market, information, technical know-how and social support services are as important as money, if the poor are to share in economic growth. If poor are going to build incomes, assets and livelihood in substantial ways, they need access to - market information and commercial linkages, technologies and methods to improve production, market infrastructure, health and social security services, information and to know how to develop entrepreneurial abilities and representation on the decision making bodies” (Microfinance in India, 2008, p. 266).

Thanksy Francise Thekkekkara (2008): In her article, ‘Impact of SGSY on SHGs’, the author mentions that SGSY was conceived as a holistic programme for microenterprise development. The program included, chiefly, capacity building, organization of poor, planning of cluster of activities, infrastructure building technology, credit and marketing (GOI’s SGSY guide line, ibid, p.189,).

Thekkekkara cites Bokil’s (2003) study of women enterprises in six districts of Maharashtra and concludes that, while microenterprise facilitated through SHGs have enhanced women’s financial status, it has also increased their work burden. Thus, gender roles and responsibilities need to change for women’s development…. (Microfinance in India, p. 191)

Since the mid-1980s, women micro and small entrepreneurs have received increased attention and assistance from government. Microenterprise is seen as having particular advantages for women e.g. their flexibility and locations (at or near their homes), ease of entry into and links with local markets. Women entrepreneurship is considered to have important “trickle down” effects on wider poverty alleviation and gender inequality”.

“Today’s primary focus on microfinance may blur the knowledge that women in micro and small enterprises need to be assisted by holistic strategy and comprehensive programme that addresses not only women’s lack of access to produce resources, but also their difficulties in accessing labour opportunities and their low skill levels. While ILO as a member of UN council of the Micro Credit Summit at Copenhagen, supported this goal, it should be said that microfinance is not a panacea. The provision of microfinance is only one instrument among others that will help female micro and small entrepreneurs to grow and develop. Poverty is a complex phenomena with multiple causes of which the lack of access to capital is only one” (Swa-Shakti Bulletin, Jan-June 2003, pp 105-111,).
The government must provide the infrastructure where the training and guidance are imparted. The members must receive training in microenterprises so that the credit availed by them may be used productively (Samal A.P, cited by Das, Nanda and Rath, p. 82,).

There is literature claiming that networks play a significant role in the development and promotion of business. Theories have been put forth to support this assertion. Networks are “Those features of the organization such as networks norm and trust that facilitate co-ordination and co-operation for mutual benefit” (Bennett Lynn, 1997). Networks are also defined as “local clubs, temple association, work groups and other form of association beyond the family and kinship groups” (Srinivasan, pp 99-100). Thus, SHGs are a form of social capital and an effective measure to accelerate pace of economic development in the country (op.cit, p. 91). It is the responsibility of all the stakeholders to support and help to strengthen the social capital which emerge from SHG and their networks, which are usually called federations. The author further says that training and skills development of SHGs will help members to earn a better livelihood, offer employment options, employ their productive capacities and use available finance in a proper and productive manner

Mayous Linda (1995,2007): Linda explains two approaches to micro-credit initiatives- market and empowerment. Author explains that both the approaches to micro-credit development have a number of inherent tensions. She makes it clear that microenterprise development for women is unlikely to be an all-win, bottom-up solution to wide a range of development problems. Micro-credit cannot be seen as a substitute for welfare or direct efforts to support labour and address gender inequality. Even in terms of the narrow aim of increasing beneficiary incomes, microenterprises development is unlikely to succeed for the vast majority of poor women (rather than a small number of better-off women) unless it is part of a transformed wider agenda. There are particularly serious implications for reliance on microenterprise as the main focus of a wider strategy for poverty alleviation and change in gender inequality (Examining Self Help Groups, 2007, p.137, ).

In the realm of income generation and production, women’s capacity development would need to incorporate aspects of production that include drudgery reduction, technology choice and innovation, occupational health, promotion of sustainable
options and cost reduction through application of local materials... Mere production capacities, however, are not adequate to address the goals of empowerment, as women must be enabled to understand the terms on which their produce is negotiated in the marketplace. The awareness and knowledge of the operational and management aspects will enable women to monitor their own interests even if they choose to appoint an intermediary topic on their behalf. Women of SHGs also must be trained in collectivism and networking among groups for outsourcing, purchase of raw materials and selling of the products (ibid, p. 124,).

According to Linda Mayoux (1995), female entrepreneurs have particular characteristics and they have developed strategies to overcome economic and other discrimination. They invest in and use social networks, and also exhibit a reluctance to take risks. There is a built-in tendency to diversify in order to minimize risks. According to her constraints faced by the women entrepreneurs are; a) lack of access to productive resources due to discriminations in property ownership and in employment b) lack of time because of unequal gender division of labour in unpaid productive and reproductive activities c) lack of skills due to lower levels of literacy and formal education d) lack of access to labour as a result of norms of gender hierarchy and separation and finding, e) lack of access to markets due to their exclusion from most lucrative markets.

Part II

2.4. Learning Drawn from the Literature Review:

2.4.1. Microfinance:

- There are two schools of Microfinance – The Poverty School and Finance/commercial School.
- Microfinance includes not just the provision of credit but also savings, insurance, money transfer, pension, etc.
- Microfinance in India is mostly limited to micro credit. (Prabhu, Ghate 2008, Harper M)
- Other products of Microfinance – insurance, pension, money transfer etc. are just in the emerging stage. (Thomas Fisher, M.S. Sriram, 2002)
• Microfinance delivery systems are diversified. There is no uniformity (Thomas F, Sriram. M.S, 2002)
• Microfinance alone will not alleviate poverty.
• Microfinance institutions need to build their capacities in various ways and various levels of their functioning.

2.4.2. SHGs, help their members in many ways:

• Through SHGs a spirit of collectivism is activated and group strength is developed among the members.
• Sharing starts among members, they share and pool their resources within and outside the group.
• SHGs enhance social capital, civil societies, social mobilization, cooperative spirit, local economic development, people’s participation, empowerment, organization of poor and people’s organizational leadership gets developed
• SHG members’ need training and counseling in areas like capacity building, skill development, organizational development, financial literacy, leadership development skills, livelihood trainings and federation of SHGs,
• SHGs have proved to be effective strategy for microfinance delivery to poor and marginalized.

2.4.3. Microenterprises are important aspects in the life of poor because they provide:

• Source for livelihood options.
• Source of income.
• Means of self and wage employment.
• Use of local natural and human resources.
• Microenterprise development is not considered a priority area in microfinance. However, recent writings indicate that it must receive serious attention and should be included in the microfinance agenda (the enterprise development approach, which was the focus in the 1980s but was later ignored in favor of microfinance).
• For the poor, enterprise development through groups seems to be better and have a greater chance of success than a venture by an individual.
Microenterprise promotion needs a range of support in the form of training, capacity building, management inputs, infrastructure, markets, transportation, consultancies, exemptions etc.

Challenges due to the globalization and sustainability of microenterprises need to be looked at carefully.

It is a hard task for the NGOs, GOs, MFIs, to guide and direct their clients for right selection of the enterprise, management of MEs and marketing their products.

Microenterprises are comparatively less studied than the SHGs and Microfinance. As income generation comes at latter stage in the life of SHGs and so it might be less studied and as the SHG based employment or microfinance getting experienced it might attract the researchers.

2.5. Observations / Comments:

- SHGs and Microfinance have received more attention of researchers and by practitioners than microenterprise.
- Sustainable microenterprise may make SHGs and microfinance more sustainable than at present.
- Along with the finance support, promotional support is equally important in the development of MEs.
- The problems and constraints revealed by the several studies on the shortcomings and ineffectiveness of the economic activities of SHGs like income generation and enterprise development are chiefly due to a lack of preference and poor understanding of the importance of enterprise development and inadequate infrastructure support all of which are essential for the development of the sector if it has to meet its objective of providing income generating opportunities.
- The studies reviewed by the researcher were found to have a superficial understating of the issue of microenterprise. The findings are a record of reality. What is needed is an in-dept critical analysis from a strategic viewpoint of what is happening. Hardly any serious study has been carried out of this sector with its dynamic multidisciplinary relations in response to the larger question of sustainable livelihood opportunities for the poor.
2.6. Issues and concerns that emerged from the literature review:

- Lack of capacity building and skill development of all the stakeholders. It is not only members of SHGs needed to be building their capacities but other stakeholder also lack the necessary skills and competencies to help and guide SHGs.
- Literature does not discuss the Availability, Accessibility and Adequacy of resources and services for SHGs to achieve sustainable progress and development of their livelihood or of microenterprises.
- The need is now being felt for Organizational development and management capacity of SHGs, to ensure the success of MEs. This requires timely and appropriate intervention by concerned stakeholders.
- Appropriate technology and micro-machinery are found to be a missing gap in the development of microenterprises even after microfinance is made available.
- The development of necessary infrastructural support must be initiated by the government so that the impacts will be long lasting and sustainable.
- Consultancy and guidance services for the SHGs have not discussed much in the literature.
- Related Policies and Programmes need to be integrated and more holistic.
- Business and social networks are still weak area to be worked on. Support and guidance could be the areas in which SHGs need intervention.
- Group vs. Individual enterprise development and microfinance inputs are not clearly understood from the present literature by the researcher.
- Institutional support is a crucial to the promotion and development of microenterprises of the poor and their role could be enhanced with qualitative interventions.
- Market access is a challenge and needs serious attention for assuring income and returns to the microenterprises.
2.7. Based on Critical Analyses of the Literature, Hypothetical Assumptions for the Study are:

- A sustainable microenterprise of SHGs leads to economic empowerment /development process of the members.
- Microfinance inputs only are inadequate to sustain Microenterprises; other factors like social engineering (the use of sociological principles for addressing social problems) training, skill development, capacity-building, access and availability of the resources, policies and programmes etc. also seem to be important.
- Microenterprise can be better promoted through SHGs.
- Group entrepreneurship is more promising than individual initiative.
- Institutions play a very crucial role in the development and sustainability of microenterprise of the SHG.
- Microenterprises may hold promise for further development of small and medium enterprises.