

## Microfinance to Microenterprises-A Study

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### **Abstract:**

*A sound financial system backed by strong banking sector is a pre-requisite for overall economic development and financial stability. No doubt, banking industry and banking services have expanded. However, the problem of exclusion continued even after social control of banks. In the midst of the apparent inadequacies to cater to the financial requirements of the poor, an innovation in the credit delivery system named Self-Help Groups emerged. This paper attempts to study potential and performance of SHGs in promoting self- employment among the SHG members and to understand its impact on income and employment. Microfinance is not an end in itself. SHGs are a strategic instrument to eradicate poverty and to realise the objective of economic development and empowerment of the poor. Microfinance in one stroke cannot transform the livelihood of the people. The data compiled clearly indicates positive impact of SHG lending on income and employment and a move towards self-employment development. The challenges confronted with the SHGs in moving towards self-employment are both internal and external in nature. Microcredit can effectively work and promote further success, only when it works only when loan offered directed is productively utilised. There is the need for creating awareness among the rural folk about the rational use of funds borrowed. Mentoring is the need of the hour.*

### **Keywords:**

*Microfinance, Microenterprises, Non-Governmental Organisations, Self-Help Groups Self-employment.*

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## **1. INTRODUCTION**

A sound financial system backed by strong banking sector is a pre-requisite for overall economic development and financial stability. Prior to nationalisation, banking services in India considered as the property of the rich. It was only with social control, banks, rural orientation of commercial banks started in a systematic way. The main objective of nationalisation was to provide banking services at the doorstep of the customers and to include the excluded. No doubt, banking industry and banking services have expanded. However, the problem of exclusion continued even after social control of banks. Even the institutional source of finance could not meet the credit needs of the poorer sections and those at the bottom of the pyramid (Adams and Fitchett, 1992). In the midst of the apparent inadequacies to cater to the financial requirements of the poor, an innovation in the credit delivery system named Self-Help Groups and micro financial institutions emerged in India.

### **Self Help Groups**

Self Help Groups are voluntarily forming informal and homogenous groups. A SHG consists of 10-20 members. The members are encouraged to save on regular basis. They use the pooled resources to meet the credit needs of the group members. The groups are democratic in nature and collectively make decisions. Since the members are neighbours and have common interest, cohesiveness is one of the characteristic features of the group. Regular savings, periodic meetings, compulsory attendance, proper repayment and systematic training are the salient features of the SHG.

### **2. Objectives of the study**

The main objective of the survey is to assess the potential and performance of SHGs in promoting self-employment among the SHG members and to understand its impact on income and employment in the study area.

### **Methodology: Primary Data**

The micro-level empirical study based on a field survey confined to villages of Kundapur Taluk of Udupi district of Karnataka State.

### **2.2. Coverage of Sampling Units**

For the purpose of field study out of 98 villages, 10 villages selected for the study. Samples of 190 members for Kundapura Taluk were selected on a random basis. For the study, SHGs promoted by promoted by Sri Kshetra Dharmastala Rural Development Project (SKDRDP), Navodaya SHG sponsored and promoted by South Canara District Cooperative Bank Ltd (SCDCC, Bank) and Karnataka Government sponsored Stree Shakthi groups are selected. Out of 190 members 90 members(18 groups) promoted by SKDRDP 80 members(16 groups) sponsored by South Canara District Cooperative Bank Ltd, and 20 members(4 groups) from the group promoted by the government at the rate of 5 members per group is selected for the study. The secondary data was obtained from various published works such as books, reports, journals, articles, magazines, periodicals, publications from NABARD and other publications from the banking industry and electronic web materials.

### **3. Findings of the Study**

#### **Socio-economic profile of SHG members**

In case of SKDRDP, out of 90 members, 46 members (51.1 per cent) are in the age group of 30-40 years. Similarly, in case of Navodaya, out of 80 members, 42 members (52.5 per cent) are in the age group of 30-40 years. In case Stree Shakthi also, out of 20 members, 11 members (55 per cent) are in the age group of 30-40 years. Out of 90 SKDRDP group members, approached 55 members (55, 5 per cent) have studied up to high school. Out of 80 Navodaya group members 38 (47.5 per cent) have studied up to high school. Of the 20

members of Stree shakthi group of Karkala, 11 members (55 per cent) have studied up to high school, which is the highest. OBCs have predominance in SHG membership. There is hardly any representation of upper caste in the 18 groups studied.

**Table-1.1**  
**Employment Generated Prior to SHG Loan**

| <b>Man -days employment</b> | <b>SKDRDP No.</b> | <b>%</b>     | <b>NGs No.</b> | <b>%</b>     | <b>SSGs No.</b> | <b>%</b>     | <b>Total %</b> |              |
|-----------------------------|-------------------|--------------|----------------|--------------|-----------------|--------------|----------------|--------------|
| 150-200                     | 31                | 100.0        | 29             | 100.0        | 5               | 100.0        | 65             | 100.0        |
| 201-250                     | 0                 | 0.0          | 0              | 0.0          | 0               | 0.0          | 0              | 0.0          |
| 251-300                     | 0                 | 0.0          | 0              | 0.0          | 0               | 0.0          | 0              | 0.0          |
| Above 301                   | 0                 | 0.0          | 0              | 0.0          | 0               | 0.0          | 0              | 0.0          |
| <b>Total</b>                | <b>31</b>         | <b>100.0</b> | <b>29</b>      | <b>100.0</b> | <b>5</b>        | <b>100.0</b> | <b>65</b>      | <b>100.0</b> |

*Source: Field Survey data. SKDRDP(Sree Keshtra Dharmasthala Rural Development Project). NGs- Novodaya Groups. SSG-Stree Shakthi Groups*

During the survey, questions relating to role of groups in generating self-employment before and after acquiring membership administered to the members and the information collected presented in Table-1.1. Before SHG, lending 99.4 per cent of person-days employment generated remained in the range of 150-200 days per year. Employment generation before acquiring membership in SHG is negligible.

#### **Additional Employment generated after loan utilisation**

Table-1.2 presented shows the income generated by the members after acquiring membership in SHG. In case, SKDRDP out of 90 members 55 members could contribute to employment generation. This number was just 31 prior to SHG membership. 47 members (85.4 per cent) have generated person-days employment in the range of 150-200. Total of seven members (12.7 per cent) have generated person-days employment in the range of 201-250 and 1 member has generated person-days employment in the range of 251-300.

**Table-1.2**  
**Employment Generated After SHG Loan**

| <b>Man -days employment</b> | <b>SKDRDP No.</b> | <b>%</b>   | <b>NSSG No.</b> | <b>%</b>   | <b>SSG No.</b> | <b>%</b>   | <b>Total %</b> | <b>Value</b> | <b>p</b> |      |
|-----------------------------|-------------------|------------|-----------------|------------|----------------|------------|----------------|--------------|----------|------|
| 150-200                     | 47                | 85.4       | 39              | 79.6       | 11             | 85.0       | 97             | 82.9         | 5.495    | .482 |
| 201-250                     | 7                 | 12.7       | 9               | 18.4       | 2              | 15.0       | 18             | 15.4         |          |      |
| 251-300                     | 1                 | 1.9        | 1               | 2.0        | 0              | 0.0        | 2              | 1.7          |          |      |
| Above 301                   | 0                 | 0.0        | 0               | 0.0        | 0              | 0.0        | 0              | 0.0          |          |      |
| <b>Total</b>                | <b>55</b>         | <b>100</b> | <b>49</b>       | <b>100</b> | <b>13</b>      | <b>100</b> | <b>190</b>     | <b>100.0</b> |          |      |

*Source: Field Survey data*

In case Navodaya, out of 80 members 49 members could contribute to employment generation. This number was just 29 prior to SHG membership. 39 members (79.6 per cent) have generated person-days employment in the range of 150-200. Total of nine members (18.4 per cent) have generated person-days employment in the range of 201-250 and 1 member (2 per cent) has generated person-days employment in the range of 251-300. In case of Stree shakthi 11members (85 per cent) have generated person-days employment in the range of 150-200 and 2 members have generated person-days employment in the range of 201-250. This percentage was zero before SHG membership. Higher income and increased employment are due to SHG lending. This

pleasant situation will augur well for the rural sector in particular and economy in general. Thus, microfinance enables the poor sections of the society to venture into self-employment to increase their income levels and standard of living. Impact of SHG lending on employment and income generation is quite significant. However, between the groups, the impact of SHG membership on employment generation differs. P value signifies the differences in employment generation between groups in Kundapur taluk. In case of SKDRDP group members contributing for employment generation in the range of 150-200 person-days is (85.4 per cent) But the impact of SHG lending is insignificant (p=.484) when compared with Navodaya and Stree Shakthi.

### **Income Generated Before and After SHG membership**

Access to finance is a means to accomplish the goal income generation. Microfinance is not an end in itself. SHGs are strategic instrument to eradicate poverty and to realise the objective of economic development and empowerment of the poor. Microfinance in one stroke cannot transform the livelihood of the people. It is a continuous and laborious process. In the initial stages loan is utilised for emergent needs. In the later stages, poor employ funds in income generating activities.

**Table-1.3**  
**Income Generated Prior to SHG Loan**

| Income per month<br>₹ | SKDRDP<br>No, | %     | Navodaya<br>No. | %     | Stree<br>Shakthi<br>No. | %     | Total | %     |
|-----------------------|---------------|-------|-----------------|-------|-------------------------|-------|-------|-------|
| Below 10000           | 75            | 83.3  | 63              | 78.5  | 11                      | 55.0  | 149   | 78.4  |
| 10000-20000           | 15            | 16.7  | 16              | 20.0  | 6                       | 30.0  | 37    | 19.5  |
| 200001-30000          | 0             | 0.0   | 1               | 1.5   | 3                       | 15.0  | 4     | 2.1   |
| Total                 | 90            | 100.0 | 80              | 100.0 | 20                      | 100.0 | 190   | 100.0 |

*Source: Field Survey data*

Table-1.3 presented above indicates the data pertaining to income generated by the members before joining the group.

**Table-1.4**  
**Income Generated After SHG Loan**

| Income per month<br>₹ | SKDRDP<br>No. | %     | NSSG<br>No. | %    | SSG<br>No. | %    | Total % | Value | p     |
|-----------------------|---------------|-------|-------------|------|------------|------|---------|-------|-------|
| Below 10000           | 30            | 33.3  | 24          | 30.0 | 8          | 40.0 | 62      | 32.6  | 2.267 |
| 10000-20000           | 41            | 45.5  | 38          | 47.5 | 9          | 45.0 | 88      | 46.3  |       |
| 20001-30000           | 19            | 21.2  | 17          | 21.2 | 3          | 15.0 | 39      | 20.5  |       |
| 30001-40000           | 0             | 0.0   | 1           | 1.3  | 0          | 0.0  | 1       | 0.5   |       |
| Total                 | 90            | 100.0 | 80          | 100  | 20         | 100  | 190     | 100.0 |       |

*Source: Field Survey data*

Table-1.4 presented above indicates the data pertaining to income generated by the members before joining the group. In case of SKDRDP of Kundapur 75, members (83.3 per cent) were below ₹10000 income level before joining the group. It is heartening to note that after joining the group the number of members in this income level has drastically reduced to just 30 (33.3 per cent). Before joining the group, members with income between ₹10000-20001 were 15 (16.7 per cent). But after joining the group, members in this income category went up to 41(45.5 per cent). Before joining the group, members with income above ₹ 20000 were zero.

However, after joining the group, 21.2 per cent of the members graduated to this income level. In case of Navodaya, number of members in income below ₹ 10000 was 78.5 per cent before joining the group. But after joining the group, number of members below ₹ 10000 income level came down to 30 per cent. Members with income between ₹ 10000-20000 went up from 20 per cent to 47.5 per cent. Members with income between ₹ 20001-30000 went up from 1.5 per cent to 21.5 per cent. In case of Stree Shakthi 55 per cent of the members were incomes below ₹ 10000 before joining the group. After joining the group, number of members with income below ₹ 10000 came down to 40 per cent. Members with income between ₹ 10000-20000 went up from 30 per cent to 45 per cent. In case of Navodaya groups of Kundapur taluk, (47.5 per cent) impact of SHG lending on income generation is significant at ( $p=.894$ ) as when compared with SKDRDP (45 per cent) and Stree Shakthi (45 per cent).

#### **Microenterprises Undertaken by SHG Members**

Table-1.5 contains data on the type of different self-employment ventures before joining SHGs and the type of self-employment ventures after joining SHGs promoted by different promoters in Kundapur taluk. The data compiled clearly indicates the move towards self- employment development in the case of all SHGs promoted by different NGOs though there exists significant differences in the pace of graduation in different Taluks.

**Table-1.5**  
**Before and After Joining SHGs- Kundapur /Taluk**

| Enterprise      | SKDRDP |       | Navodaya |       | Stree Shakthi |       | Total  |       |
|-----------------|--------|-------|----------|-------|---------------|-------|--------|-------|
|                 | Before | After | Before   | After | Before        | After | Before | After |
| Diary           | 3      | 14    | 2        | 9     | 2             | 3     | 7      | 26    |
| Tailoring       | 2      | 5     | 2        | 4     | 1             | 1     | 5      | 10    |
| Jasmine         | 2      | 2     | 2        | 2     |               | 3     | 4      | 7     |
| Petty Business  |        | 1     |          | 1     |               |       |        | 2     |
| Canteen         | 1      | 2     | 1        | 1     |               |       | 2      | 3     |
| Papad Making    |        | 1     |          | 1     |               |       |        | 2     |
| Poultry         |        | 1     |          | 1     |               |       |        | 2     |
| Pandal Services | 1      | 2     | 1        | 2     |               |       | 2      | 4     |
| Cloth Business  |        | 2     | 1        | 1     |               |       | 1      | 3     |
| Catering        | 1      | 2     | 1        | 3     |               | 1     | 2      | 6     |
| Gujri Business  |        |       |          |       |               |       |        |       |
| Phenyl          |        |       |          |       |               |       |        |       |
| Bakery          |        | 2     |          | 1     |               |       |        | 3     |
| Fish Business   | 1      | 2     | 1        | 2     |               |       | 2      | 4     |
| Total           | 11     | 36    | 11       | 28    | 3             | 8     | 25     | 72    |

*Source: Field Survey data*

Table-1.5 indicates on the type of different self-employment ventures before joining SHGs and the type of self-employment ventures after joining SHGs promoted by different promoters in Kundapur taluk. In the case of SKDRDP promoted SHGs, prior to joining of SHGs, they had only 11 microenterprises. After joining the SHGs, the number of self-employment business increased to 36 of different varieties. In case of Navodaya group had only 11 microenterprises. After joining the SHGs, the number of self-employment business increased to 28 of different varieties. In case of Stree Shakthi group had only 3 microenterprises. After joining the SHGs, the number of self-employment business increased to eight of different varieties. The major implication emerges from the above study is that there is a move from micro finance for enterprise development. Diary, found to be the most important income generating activity benefited from microfinance. Before acquiring membership in SHG, only seven members were involved in diary enterprise. Nevertheless, after acquiring membership in SHG 27 members took up diary to earn their livelihood. Diary occupation is simple for the members to venture into. Tailoring is another important and very popular occupation among women in rural area and important income generating venture for the SHG members. Number of members venturing into tailoring doubled from five to 10 after acquiring membership in SHG. In the study area, total self-employment ventures undertaken by the SHG members before acquiring membership was 25 and after membership self-employment ventures increased to 72. Further, SKDRDP's role in self-employment development is superior when compared to Navodaya and Stree Shakthi.

#### **Subsidiary Source of Income:**

During the field study questions were administered on the members to know the additional source income and entrepreneurial activities undertaken by the members and the details of additional activities other than the main source of income is presented in Table-1.6. For Women who are in diary found additional income in jasmine cultivation, beedi rolling and vegetable cultivation. Women along with tailoring found readymade shop as an additional source of income. For pandal service providers catering is an additional source of income. For agricultural labourers, house cleaner is an additional source of income. For Jasmine growers, mehandi and beautician services are additional source of income.

**Table-1.6**  
**Details of Subsidiary Source of income**

| Activities          | SKDRDP |       | Navodaya |       | Stree Shakthi |       | Total % |       |
|---------------------|--------|-------|----------|-------|---------------|-------|---------|-------|
|                     | No.    | %     | No.      | %     | No.           | %     |         |       |
|                     | No.    | %     | No.      | %     | No.           | %     | No.     | %     |
| Catering services   | 4      | 7.4   | 3        | 6.2   | 0             | 0.0   | 7       | 5.9   |
| Jasmine cultivation | 17     | 31.5  | 10       | 20.8  | 2             | 12.5  | 29      | 24.6  |
| Housemaid           | 12     | 22.2  | 11       | 22.9  | 4             | 25.1  | 27      | 22.9  |
| Mehandi services    | 1      | 1.8   | 4        | 8.3   | 3             | 18.7  | 8       | 6.8   |
| Dairy farming       | 5      | 9.3   | 5        | 10.4  | 2             | 12.5  | 12      | 10.2  |
| Beedi Rolling       | 14     | 26.0  | 12       | 24.9  | 2             | 12.5  | 28      | 23.7  |
| Tailoring           | 1      | 1.8   | 2        | 4.5   | 3             | 18.7  | 6       | 5.1   |
| Poultry farming     | 0      | 0.0   | 1        | 2.0   | 0             | 0.0   | 1       | 0.8   |
| Total               | 54     | 100.0 | 48       | 100.0 | 16            | 100.0 | 118     | 100.0 |

*Source: Field Survey data*

In case SKDRDP of Kundapur taluk, for 17 women members (31.5 per cent) are engaged in jasmine cultivation and 14 members (26 per cent) are engaged in beedi rolling 12 members (22.2 per cent) are serving as house cleaner for generating additional income. Altogether 54 members are engaged in additional income generating activities. In case of Navodaya, 12 members (24.9 per cent) are engaged in beedi rolling 11 members (22.9 per cent) are serving as house cleaner, 10 members (20.8 per cent) are engaged in jasmine cultivation for generating additional income. Altogether 48 members are engaged in additional income generating activities. In case of Stree Shakthi, 4 members (25.1 per cent) are serving as housemaid, 3 each (18.7 per cent) are engaged in tailoring and mehendi services, 2 members each (12.5 per cent) are in jasmine cultivation, diary and beedi rolling for generating additional income. Altogether 16 members are engaged in additional income generating activities. Jasmine cultivation, beedi rolling, housemaid services are the dominant additional supplementary source of income.

### **Impediments in graduating towards Self-employment**

The challenges confronted with the SHGs in moving towards self-employment are both internal and external in nature. Internal challenges includes mainly centred around capacity building of SHG members to become self-employed. This study empirically proved that SHG members are from weaker sections of the society. Since money has alternative uses, there is wide scope for diversion of funds from productive use to unproductive uses. Since members are semi-literates, they need capacity building training in the enterprise management and in technical skills to venture into self-employment. The external challenges include technical and managerial backup services. The promoting agencies consider SHGs only as financial intermediaries for microfinance. For them developing self-employed entrepreneurs is secondary. They are more interested in more turnovers of funds by short-term credit, charging high interest rate and fixing repayment schedule within a year. In case of Stree Shakthi SHGs, the role of the government ceases the moment group formed. There is no technical agency to provide them technical and managerial backup.

### **4. Conclusion**

No doubt, small and simple idea has made a lot of difference (NABARD, 2017). We cannot neglect the role of SHGs to end poverty. Microcredit can effectively work and promote further success, only when it works only when loan offered directed is productively utilised. There is the need for creating awareness among the rural folk about the rational use of funds borrowed. Mentoring is the need of the hour. In India, there is no dearth of financial institutions to include the excluded. Demand side inclusive policies are the need of the hour. Besides the role of the government and financial institutions, non-government organisations and people's participation play an important role in this direction. Such a strategy argues well for the microfinance sector in general and the rural poor in particular. It will groom microfinance as the most sought after financial institution for the rural poor and the financially excluded.

### **Notes and References End Notes**

**SKDRDP:** Sri Kshetra Dharmastala Rural Development Project (SKDRDP), a voluntary organisation was started functioning in the year 1982 and microfinance is one key area which SKDRDP is handling since 1992. Since then the project has encompassed various aspects of the rural development to make rural living an enjoyable process. SKDRDP also took an active part in implementing the financial inclusion plan of the Government of India by working as Banking Correspondent and Business Facilitator (BC and BF) in several districts of Karnataka. Through this programme, SKDRDP is promoting Self Help groups enabling the poor people in the remote villages to access banking facilities at their doorsteps. SKDRDP, which was a not-for-profit lender until 2008, is a business correspondent (BC) and business facilitator (BF) - a Reserve Bank of India (RBI)-approved intermediary between the banks and these people. SKDRDP has formed 3.9 lakh SHGs (each self-help group has roughly 10 members) and 80 per cent of them are women. Of the 8.5

million SHGs spread across Indian states. Roughly, SKDRDP accounts for 5 per cent of these groups nationwide, but when it comes to loan outstanding, its share is at least 10 per cent. Overall, the 8.5 million SHGs have ₹ 61,000 crore of outstanding loans, far less than 1 per cent of the bank credit in India (which is little over ₹79 trillion). While bad loans are to the tune of 6.7 per cent of the ₹61000 crore SHG portfolio in SKDRDP' is six, 242 crore outstanding loan portfolio (as on 31 March 2017), bad assets are nil.

**Navodaya:** Like SKDRDP, Navodaya SHG provides wide range of microfinance services and a dominant NGO operating in the district. South Canara District Central Co-operative Bank (Navodaya) SCDCC Bank was established in 1914 and started promoting SHGs from 1999 onwards. The SHG promoted by this bank popularly known as 'Navodaya SHG'. Bank conducts training programme for its SHG members regarding SHG maintenance once in every 6 months. Apart from this, the bank arranges self-employment programmes, marketing facilities and health awareness programmes for its SHG members. The bank also provides credit and other facilities to SHG members and ensures better marketing facilities for their products; "Navodaya Grama Vikas Trust" was setup in 2004 in Kollur. The main objective of the trust is to empower women by training and enable them to access to credit from the bank for income generating activities.

**Stree Shakthi :** Since the adoption of five year plans in India, successive governments have adopted schemes to mitigate the incidence of poverty. Behind all schemes, poverty removal was the main agenda. Government also realised that unless the problem of poverty is erased the goal of economic development cannot be achieved. Creating income in the hands of the poor is the only way and is the vital strategy to achieve higher levels of economic development. Of the various poverty removal schemes state sponsored Swarnajayanti Grama Samruddhi Yojana (SGSY); a new version of the IRDP was launched in 1999. Weaknesses existed in the IRDP was identified and repackaged scheme named SGSY aimed at assisting the poor below the poverty line to venture into income generating schemes through the provision of bank credit and subsidy. This scheme also provides for involvement of NGOs, banks as agencies for promoting SHGs. In the year 2000-01 the Government of Karnataka launched a unique scheme called 'Stree Shakti Programme' through the provision of micro credit for the empowerment of women. This programme is implemented through the Department of Women and Child Development. Anganavadi workers and supervisors are actively involved and are instrumental in the formation of the group and the scheme is meant for the members should be from below the poverty line.

**Anganawadi:** A day care centre.

**Beedi Rolling:** A traditional method of tobacco use India and most of the Asian Countries.

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