

**MICRO CREDIT- A TOOL FOR ENTREPRENEURSHIP DEVELOPMENT THROUGH SELF HELP GROUPS**

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**Abstract**

Microcredit is the extension of very small loans (microloans) to those in poverty, designed to spur entrepreneurship. For the individuals who lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit, microcredit has emerged as a significant instrument to address the problem of lack of access to credit and also indirectly attack poverty and unemployment, thus leading to inclusive growth of our economy.

The pumping of microcredit through Self help groups (SHGs) to churn development at the bottom of the pyramid has not realised the objective of inclusive growth on a sustainable scale. This study focuses on the reasons why microcredit programmes help the women borrowers to just survive only, by improving their socio economic status temporarily, but do not help them to develop sustainable entrepreneurial capabilities. It analyses the reasons for lack of sustainable entrepreneurship development among selected SHG women in Madavaram municipality in the suburbs of Chennai, inspite of their reasonably easy access to microcredit.

**Key Words:** Microcredit, Inclusive growth, SHGs, Entrepreneurship Development

**INCLUSIVE GROWTH OF INDIA:**

India's post 1990's economic growth has made it one of the world's fastest growing economies in the world. Its GDP growth rates of up to about 9% in the last few years is historically unparalleled except by the neighbouring China. With the rapid growth rates, however, come new

challenges and new questions. One such challenging question concerns the spread of the benefits of growth across different segments of society.

To ensure that growth has been well distributed, India's Planning Commission has made Inclusive Growth their explicit goal in the eleventh five-year plan. The concept of Inclusive Growth has dominated discussions across India. Its popularity has sparked intense discussions among politicians, economists, policymakers and the general public. In addition, Inclusive Growth has been the focus of studies by bilateral and multilateral aid agencies such as the UN, World Bank, Asian Development Bank, Foundations such as the ICICI Foundation, NGOs, and Civil Society Organizations alike.

#### **Inclusive Growth:**

Inclusive growth is a process, in which, economic growth, measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of the following four dimensions:

- 1. Opportunity:** the economy generating more and varied ways for people to earn a living and increase their incomes over time.
- 2. Capability:** the economy providing the means for people to create or enhance their capabilities in order to exploit available opportunities.
- 3. Access:** the economy providing the means to bring opportunities and capabilities together.
- 4. Security:** the economy providing the means for people to protect themselves against a temporary or permanent loss of livelihood.

#### **Inclusive Growth and Micro credit:**

In a world where almost half the population live on less than \$2.50 a day, **micro credit** is one of the better tool for poverty alleviation, economic growth and development in emerging economies like India. Microcredit is the extension of very small loans (microloans) to those in poverty, designed to spur entrepreneurship. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor.

Microcredit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh. In that country, it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as *pre-bankable*; thus, microcredit is increasingly gaining

credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun.

## **History of Microcredit**

### **Review of literature**

Ideas relating to microcredit can be found at various times in modern history. Jonathan Swift inspired the Irish Loan Funds of the 18th and 19th centuries. In the mid-19th century, Individualist anarchist Lysander Spooner wrote about the benefits of numerous small loans for entrepreneurial activities to the poor as a way to alleviate poverty. Ideas relating to microcredit were mentioned in portions of the Marshall Plan at the end of World War II.

In the 1950s, Akhtar Hameed Khan began distributing group-oriented credit in East Pakistan. Khan used the Comilla Model, in which credit is distributed through community-based initiatives. The project failed due to the over-involvement of the Pakistani government, and the hierarchies created within communities as certain members began to exert more control over loans than others.

The origins of microcredit in its current practical incarnation can be linked to several organizations founded in Bangladesh, especially the Grameen Bank. The Grameen Bank, which is generally considered the first modern microcredit institution, was founded in 1976 by Muhammad Yunus. Yunus began the project in a small town called Jobra, using his own money to deliver small loans at low-interest rates to the rural poor. Grameen Bank was followed by organizations such as BRAC in 1972 and ASA in 1978. Microcredit reached Latin America with the establishment of PRODEM in Bolivia in 1986; a bank that later transformed into the for-profit BancoSol. Though the Grameen Bank was formed initially as a non-profit organization dependent upon government subsidies, it later became a corporate entity and was renamed Grameen II in 2002. Muhammad Yunus was awarded the Nobel Peace Prize in 2006 for his work providing microcredit services to the poor.

### **Microcredit and Entrepreneurship Development through SHGs:**

A lack of access to financial institutions also hinders the ability of entrepreneurs to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable (existing for continuing future use). Provision of cheap credit to the poor to enable them to undertake income generating activities has been considered an important

means of poverty alleviation by the Central government and Reserve Bank of India. Microcredit has emerged as a significant instrument to address the problem of lack of access to credit for the poor and also indirectly attacking the poverty and unemployment.

To assist large number of weaker sections, banks have introduced novel approaches / innovations such as formation of Self Help Groups of weaker sections, specially of women and inculcating in them the habit of regular savings and rotating the savings amongst them for productive as also non-productive purposes and thereby creating awareness for regular repayments. It takes an indirect route, raises the voice of the poor people and eventually puts them in a better position for a more direct approach. Banks also have adopted the most simplified policy in respect of security, documentation, margin, repayment terms, disbursement schedule, model and period of repayment appraisal and sanction. The focus of banks has gradually shifted from big customers to small customers; from class banking to mass banking and from purely security oriented traditional lending to need based lending.

The micro credit, which is claimed to be contributing to women through SHG, was in existence prior to it in the name of IRDP, DWCRA, TRYSEM. With the view to rectifying the loop holes in the earlier programmes viz, IRDP, DWCRA TRYSEM, a holistic programme covering all aspects of self employment was introduced by the Government of India in 1999, which is popularly known as Swarnajanyanthi Gram Swarozgar Yojana [SGSY]. SGSY is a single cell self-employment programme for rural poor aimed at establishment of large number of micro enterprises.

#### **NABARD's SHG Bank Linkage programme:**

Many self-help groups, under NABARD's SHG-bank-linkage program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments. This model has attracted attention as a possible way of delivering microfinance services to poor populations that have been difficult to reach directly through banks or other institutions. By aggregating their individual savings into a single deposit, SHGs minimize the bank's transaction costs and generate an attractive volume of deposits. Through SHGs the bank can serve small rural depositors while paying them a market rate of interest. The SHG Banking Linkage Programme since its beginning has been predominant in certain states, showing spatial preferences especially for the southern region – Andhra Pradesh, Tamil Nadu, Kerala and Karnataka

**Table 1: NABARD's Grant assistance extended to various partners in SHG-Bank linkage programme - (As on 31 March 2011)**

**Rs in Lakhs**

Agency	Sanctions during the Year	Cumulative sanctions	Cumulative progress
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	No.	Amount	No. of SHG	No.	Amount	No. of SHG	Amount Released	SHG Formed	SHG Linked
<b>DCCB</b>	6	112.95	7850	108	793.31	66955	287.22	47203	31454
<b>RRB</b>	3	16.00	1350	120	445.44	49335	193.05	55548	36610
<b>NGO</b>	223	3601.03	69165	2847	12626.84	414338	4471.38	268791	175080
<b>FC</b>	47	12.62	1085	807	82.43	7628	73.68	17321	9642
<b>IRV</b>	3	43.92	2440	71	728.38	42923	80.97	12208	6749
<b>TOTAL</b>	282	3786.52	81890	3953	14622.40	581179	5106.30	401071	259535

Source: www.nabard.org

Micro credit is a structured program under which micro level loans are given to poor people especially to the poor rural women without collateral security. It is a group-based and intensively supervised loan program. The uniqueness of this loan program is that there is no requirement of collateral security. Anybody can apply for this credit and is eligible to receive credit. The purpose of the micro credit program is to give the loans to the poor people for self-employment that generate income, allow them to care for themselves and their family members.

There are three C's of micro credit program such as, character, capacity and capital (Yunus 2003). *Character* is explained as the historical records of the borrowers such as, how a borrower has handled his past debt obligations, what about his or her background, honesty and reliability to pay the credit etc. *Capacity* is termed as how much debt a borrower can handle easily, what about his or her income streams etc. Capital means current available assets of the borrower, e.g., borrower's real estate, savings and investment that would help him or her to repay the loan in time.

### **Need for the Study:**

The pumping of microcredit through SHGs to churn development at the bottom of the pyramid has not realised the objective of inclusive growth on a sustainable scale. This study focuses on the reasons why microcredit programmes help the women borrowers to just survive only, by improving their socio economic status temporarily, but do not help them to develop sustainable entrepreneurial capabilities. The positive socio economic impact of the microcredit on women borrowers are hardly a prolonged one. Hence, this paper analyses the reasons for lack of sustainable entrepreneurship development among selected SHG women in Madavaram municipality in the suburbs of Chennai, inspite of their reasonably easy access to microcredit.

### **Objectives of the Study:**

1. To study the effective utilization of microcredit by SHG members
2. To analyse the role of microcredit towards entrepreneurship development of SHG members.

#### Limitations of the Study:

1. The study was restricted to sample size of 5 SHGs comprising a total of 90 respondents.
2. The respondents of the 5 SHGs were residents of Madavaram municipality in the limited ward areas: 2, 3, 13 & 15
3. The respondents were at times not clear in their answers due to their personal inhibitions and shyness.

#### Research methodology:

Primary data was collected by means of a structured questionnaire comprising of multiple choice and bipolar type questions and through personal interviews. Secondary data have been obtained from Journals, published reports and websites. A descriptive study using simple percentage analysis has been done.

#### Analysis and Findings:

**Table 2: SHG profile of the Sample Respondents:**

Name of the SHG Variables	Adhi Parasakthi	Sampangi	Jhansi	Thangamalar	Thazhampoo
Age of SHGs in years	6	8	8	7	5
No. of members	20	20	20	15	15
Meetings	Irregular	Regular	Regular	Irregular	Regular
Attendance	Regular	Regular	Regular	Regular	Regular
Training undergone for Self employment and Skill development	Yes	Yes	Yes	No	No
Training undergone for Social activities	Yes	Yes	Yes	Yes	Yes
Group Dynamics	Average	Good	Good	Poor	Average
% of members in income generation activities	80%	100%	90%	70%	80%
Continuous entrepreneurial	No	No	No	No	No

venture					
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Source: Primary Data

5 SHGs were selected from 3 wards of Madavaram municipality. Except for 2 groups, the remaining 3 have been regular in conducting the meetings. But all the 5 SHG members were keen, interested and regular in attending the meetings whenever conducted. All the SHGs have undergone training for social activities and they seem to be creating civic consciousness regarding health, hygiene etc. in their respective areas. But only 3 SHGs have undergone training for Self employment and Skill development.

Majority of the SHG members were engaged in income generation activities, using the microcredit availed by them. Generally, lack of mutual understanding, trust and cooperation among the group members seem to be the major inhibiting factor to take up joint economic activities. All the SHGs, though they were personally interested to run a sustainable entrepreneurial venture, were unable to do so due to the reasons analysed and discussed below through Table no.2, 3 & 4.

**Table 3: Details of Microcredit availed:**

Variables	Yes		No		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
<b>Credit is easily available</b>	48	53	42	47	90	100
<b>Credit amount is adequate</b>	77	85	13	15	90	100
<b>Credit is available in time</b>	36	40	54	60	90	100
<b>Loan application processing time is satisfactory</b>	30	33	60	67	90	100
<b>Terms of repayment is satisfactory</b>	70	78	20	22	90	100
<b>Usage of credit for productive purpose</b>	77	86	13	14	90	100

Source: Primary Data

53% of SHGs felt that microcredit is easily available though nearly 60% to 67% of them found loan application processing time to be long, unsatisfactory and credit not available in time. SHG members ranging from 78% to 86% were finding the adequacy of

credit amount, terms of repayment to be satisfactory and were using the microcredit for productive entrepreneurial activities.

**Table 4: Reasons for engaging in particular economic activity:**

Variables	Yes		No		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Access to microcredit	73	95	4	5	77	100
Training obtained	18	24	59	76	77	100
Suitability of capital requirement	68	88	9	12	77	100
Personal convenience	62	80	15	20	77	100
Rate of profit	19	25	58	75	77	100

Source: Primary Data

Access to microcredit was the major reason for 95% of 77 members engaged in entrepreneurial activity. Majority of them were engaged in trading of rice, dhal, textiles, palm leaf products in an informal manner, doing business in their neighbourhood and among their community members. Rate of profit and skill training they have obtained, were factors, least responsible for their economic activity.

**Table 5: Reasons for SHGs inconsistent entrepreneurial activities:**

Variables	Yes		No		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Inadequate financial management skill	71	92	6	8	77	100
Inadequate Book keeping skill	69	90	8	10	77	100
Inadequate working capital	73	95	4	5	77	100
Loan application processing procedure is complicated	69	90	8	10	77	100
Overburdened	58	75	19	25	77	100



<b>domestic reasons</b>						
<b>Inadequate infrastructure facilities</b>	70	91	7	9	77	100
<b>Poor cooperation among group members</b>	49	64	28	36	77	100

Source: Primary Data

It was ironical to find that all the SHGs were not engaged in continuous entrepreneurial ventures as mentioned in Table no.1. They were lacking the skill to plough back the profit back into business for its future prospects. Very poor financial management and book keeping skill possessed by them were the major reasons due to which they never perceived their entrepreneurial venture as a continuous one. Moreover, majority of them felt that loan application processing procedure is complicated. All these made them find inadequate working capital. They also felt that the infrastructure facilities were not adequate. Poor cooperation among group members and domestic problems were also reasons for their inconsistent entrepreneurial activities.

#### **Major findings:**

- The selected sample SHGs were satisfied with the easy access to microcredit.
- Availability of microcredit was the major motivating factor for them to engage in productive entrepreneurial venture.
- Their entrepreneurial ventures were not continuous due to the long time gap between the sequence of credits obtained, complicated loan processing procedure and inadequate infrastructure facilities.
- Due to poor group cooperation in handling the microcredit, many SHG members felt that it would be better to do individual business rather than as a group.

#### **Suggestions and Conclusion:**

- SHGs should be trained in adequate financial management and book keeping skill, so as to enable them to handle the microcredit efficiently.
- The gap between one loan and the other seem to be long and uncertain, which inspite of the availability of microcredit, demotivated them to continue their venture.
  - Equipping them with financial management and book keeping skill will enable them to plough back the profit and run the business without paucity of working capital until they receive the next loan. This will also help them to

improve their infrastructure facilities so as to run their business in the long run.

### **Conclusion**

SHGs were very eager and interested to do business in the long run due to the social and economic empowerment attained by them with the help of microcredit. But for the procedural complications associated with microcredit and other required knowledge lacking in them, they are sure to create the desired change leading to inclusive growth of our economy.

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