

**Micro Enterprise Scenario and Innovative
Micro-Credit Delivery Systems In India: A Special Focus on
Rural Artisan Clusters**

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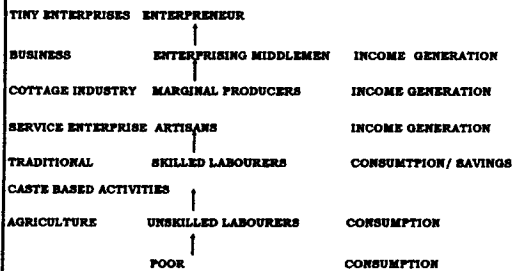
NATIONAL INSTITUTE FOR MICRO, SMALL AND MEDIUM
ENTERPRISES (NI-MSEME)
(Formerly Known as NATIONAL INSTITUTE OF SMALL
INDUSTRY EXTENSION TRAINING (NISET)
(An Organization of Ministry of MSME, Government of India)
Yousufguda, Hyderabad - 500 045 (INDIA)

Micro Enterprise - in General

- > An enterprise having employment of up to five workers can be regarded as a micro enterprise.
- > A micro enterprise can be individual or family based.
- > Owned by an individual, perhaps supported by one or two family members, engaged in income generating activity.
- > May be trading, selling food or clothing in street stalls or making and selling handicrafts.
- > Very little investment in fixed assets and inventory is minimal and the business may operate on a cash basis.
- > These enterprises may be quite unstable and footloose.

RURAL LIVELIHOODS

RURAL ENTERPRISE

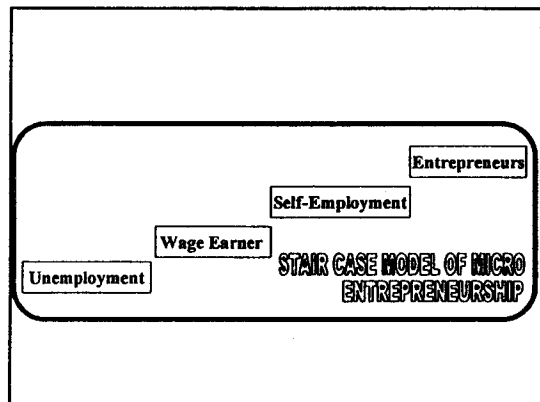


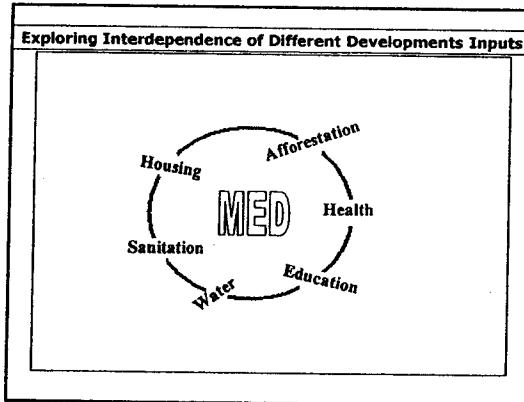
RURAL MICRO ENTERPRISE NEEDS

- SKILLS
- INPUTS
- TECHNOLOGY
- INFRASTRUCTURE
- INSTITUTIONAL CREDIT
- MARKETING
- MANAGEMENT

CHARACTERISTICS OF RURAL MICRO ENTERPRISES

- The general definition of a micro enterprise as an entity employing less than five persons and generating income from non-farm production, services and trade encompasses a wide range of activities filling all the gaps left by agriculture, including:
- > Year-round seasonal enterprises tuned to the agricultural cycle;
 - > Full or part-time enterprises (in rural areas, these are rarely tradesmen or shopkeepers who are not also farmers);
 - > Individual or family enterprises or enterprise employing full-time or casual outside labour;
 - > Fixed or itinerant enterprises, particularly petty trading;
 - > Enterprises with a sole line of business or with multiple lines substituting for one another, according to market needs, or clustered in order to share risks and avoid standing out from the social milieu.





Micro-Enterprise Cluster in India

- A Micro Enterprise cluster is a geographical concentration of Firms & various service providers
- Isolation has been the main problem of many clusters.
- Cluster development means reducing firm isolation by strengthening linkages & coordinating actions & resources for development

Cluster Micro Foundations & Macro Level Policy Options

- Decentralization & Development
- Focus on Needs and Region Level
- Employment Generation
- Supporting Minimum Safety Nets
- Region Specific Poverty Elevation
- Equity in Distribution
- Focus on Rural Infrastructure
- Holistic Approach & Stakeholders
- Converging Systems & Deliverable

MICROFINANCE IN INDIA

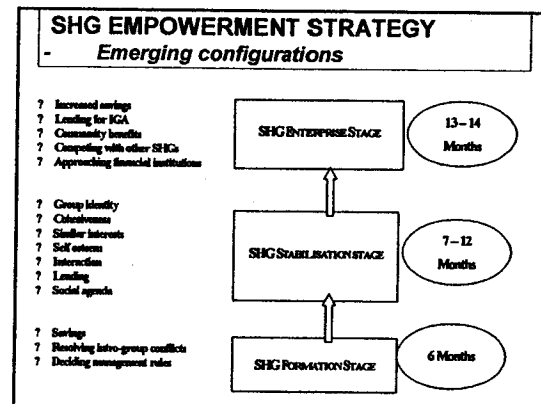
Microfinance needs to be defined by the concept than by the size of finance.

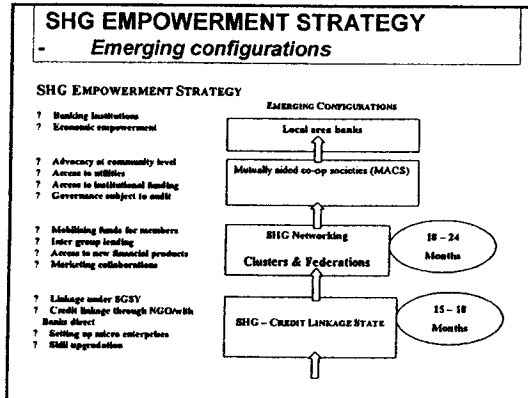
- The broad characteristics
 - targeting the poorest of the poor
 - organizing the poor into group mode
 - inculcating thrift habit among members of the group
 - quick disbursement of small and short term loans
 - loans without stipulation of collaterals
 - market determined interest rates
 - participatory credit decision
 - transparency in operations
 - default management through peer and moral pressure.
 - provision for package of financial and non financing services for poor.

Micro Credit Delivery Mechanism- Objectives

Empowerment of poor is incomplete without social benefits. It is therefore considered important to collocate micro finance with social issues like literacy, health care, nutrition, etc. The micro credit delivery mechanism aims to fulfill the criteria of effectiveness, equality, efficiency, stability, and transparency in its mission.

- Gradual shift from subsistence credit for consumption leads to sustainable credit for income generation activities.





- LIMITATIONS OF MICRO CREDIT FOR RURAL ENTERPRISES**
- Assumption that the poorest wish to be self-employed
 - Assumption that credit is the main financial service needed by the poor
 - Assumption that credit can automatically translate into successful micro enterprises
 - Assumptions that those marginally above the poverty line do not need micro credit and giving it to amounts to mistreating
 - Assumption that micro credit institutions can all become financially self-sustaining

- Major Crafts Studied**
- Meenakari (Embossing)
 - Archery / Teer-Kaman
(Bow & Arrow)
 - Pottery / Terracotta
 - Stone Carving / Stone Utensils
 - Bamboo Products
 - Carpet Weaving
 - Leather Products

- Constrains observed**
- Migration of Artisans to nearby towns for livelihood
 - Traditional crafts are not remunerative
 - Lack of new skills
 - High cost of transportation
 - Lack of financial support
 - Exploitation by middlemen
 - Lack of sustained market
 - Draught situation prevailing in the area
 - Seasonal markets
 - Threat from master craftsmen

- Observations**
- o Hard working, eager to learn new skills
 - o Soft spoken, gentle and have regard and respect for others like to continue traditional crafts with new and marketable designs.
 - o High cost of raw materials like Silver in meenakari escalating the product price frequently
 - o Low literacy level
 - o Social Stigma to work on activity not related to the community
 - o Depletion of forest cover in the vicinity
 - o Women exhibit interest in activity participation

- Factors for Success**
- Efforts to retain the inherited trades – improve the conditions
 - Choice of the activity to the beneficiary
 - Enhanced self confidence through training for problem solving skills
 - Regular contact with Govt. Officials/Local Leaders
 - Decision making abilities promoted
 - Control over income and expenditure
 - Involvement in community affairs

ni-msme interventions

- ni-msme has set up an exclusive cell N-Cube for networking and
- capacity building of NGOs and SHGs. The Cell specialises in
- Promotion Micro Finance through self help groups
- Some of the key activities of ::
 - - Training programmes on micro finance, micro enterprises for NGOs and SHGs.
 - - Entrepreneurship Development Programmes
 - - Preparation of project profiles for self-employment schemes
 - - Industrial potential surveys
 - - Evaluation of Self-employment schemes, KVIC schemes etc.
 - - Evaluation/Appraisal studies of NGO activities.

Training Programmes on Micro-Finance

- Project Approach for SHG Micro Enterprises
- Contents:
 - Potential Survey for identification of income generating activities
 - Preparation of project report for micro-enterprises
 - Appraisal of projects and bank finance for micro-enterprises
- For Whom:
 - Officials in-charge of project preparation of SHG Micro Enterprises representing Government/ Finance Corporation/ DRDA/ DPIP
 - Representatives of Federations/ MACTS of SHGs/ Local Area Banks/ Networking Agencies

Training Programmes on Micro-Finance

Promotion of Income Generating Micro enterprises for SHGs

- Contents:
- Potential Survey for selection of income generating activities.
 - Project Preparation and appraisal, Feasibility Study of activities.
 - Credit Linkage with Banks, rating of SHGs and credit norms
 - Monitoring of Micro-enterprises
- For Whom:
- Officials in-charge of project preparation of SHG Micro Enterprises representing Government/ Finance Corporation/ DRDA/ DPIP
 - NGOs working for promotion and funding of SHGs.
 - Officials of Commercial Banks/ Co-operative Banks entrusted with the assignment of micro financing SHGs.

Training Programmes on Micro-Finance

Project Preparation Skills for Micro-enterprises through SHGs

- Contents:
- Concept and design for project formulation, project evaluation.
 - Collection and presentation of data to facilitate planning for finance and mktg.
 - Calculation of Project Appraisal parameters.
 - Profiling economics of micro enterprises.
- For Whom:
- Officials in-charge of project preparation and implementation of SHG Micro Enterprises of Government/ Finance Corporation/ Banks
 - NGOs working for promotion and funding of SHGs.
 - Representatives of federations/ MACS/ of SHGs seeking credit linkages with financial institutions/ funding agencies.

Training Programmes on Micro-Finance

- Product Identification & Marketing Strategies for Self-Help Group Micro Enterprises
- Contents:
 - Potential survey for identification of opportunities in market.
 - Marketing concepts for micro enterprises, preparation of project report.
 - Product designing and market launching
 - Project monitoring and evaluation.
- For Whom:
 - Officials in-charge of project preparation and implementation of SHG Micro Enterprises of Government/ Finance Corporation/ DRDA/ DPIP
 - Representatives of developmental financial institutions/ NGOs/ funding agencies/ training institutions.
 - Representatives of federations/ MACS/ Local area banks/ networking agencies.

Training Programmes on Micro-Finance

- Implementation Strategies for Swarnajayanti Gram Swarozgar Yojana
- Contents:
 - Review of ongoing poverty alleviation programmes for weaker sections.
 - Institutional support for micro enterprises, identification & formulation of projects.
 - Credit and marketing facilities, role efficacy of promotional agencies in implementation.
 - Essentials of effective management in Rural Development programmes.
- For Whom:
 - Officials of DRDA implementing SGSY Scheme, commercial & regional banks, Central and State Agencies concerned with welfare of weaker sections.
 - Representatives from specialised corporations like Backward classes, Schedule Castes, Tribes corporations and women's welfare.
 - Officials engaged in promotion of rural entrepreneurs from DIC/ KVIC.

Training Programmes on Micro-Finance

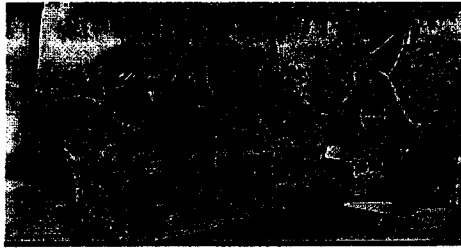
Assessment of SHGs for Promotion of Micro-enterprises

- Contents:
- Profiling of economics of micro enterprises, determination of indicators.
- Credit Linkages, Rating of SHGs and credit norms, efficacy of quality assessment of SHGs.
- Sustainability issues of micro enterprises: -Appraisal, - Monitoring, - Evaluation.
- For Whom:
- Officials in-charge of project preparation and implementation of SHG Micro Enterprises of Government/ Finance Corporation/ DRDA/DPIP
- Representatives of development financial institutions/ NGOs/ funding agencies/ training institutions/ banks engaged in promoting and financing SHGs.

NRCD (ni-msme) Presence in Rural Clusters

1. Crochet Lace Cluster -Narsapur, Andhra Pradesh - Around 2 lakh women benefited through cluster development interventions
2. Brass & Bell Metal Cluster-Hajo, Assam State- Around 350 minority artisans benefited through special micro-credit delivery system by State Bank of India
3. Brass & German vessels cluster, Pano, Bihar State-Nearly 500 women got benefited through special credit system developed by SBI & CANARA Bank
4. Handloom Cluster, Mubarakpur, Uttar Pradesh-400 Weavers & Master weavers benefited through SHG's and Converting SHG's into Producer Company.
5. Handloom Cluster, Barabanki, Uttar Pradesh-400 Weavers & Master Weavers benefited through SHG's & Converting SHG's into Consortium
6. Pottery Cluster, Chunar, Uttar Pradesh-400 artisans through product diversification & Micro-credit support and improved their living standards
7. Rice facts Cluster-Ahmedabad, Gujarat State-300 artisans got benefited through MCOF scheme of SBI
8. Surgical Instruments Cluster, Barpeta, West Bengal-300 block unit households got benefited through special micro-credit delivery system

SHG Meetings (1)



SHG Meetings (2)



UTILIZATION OF LOANS

- Agriculture
- Purchase of buffaloes, goats, sheep
- Tea stall
- Daily needs stores
- Tailoring, cloth accessories
- Petty shops
- Cycle repairing
- Mutton / chicken shops
- Fruits, vegetable vending

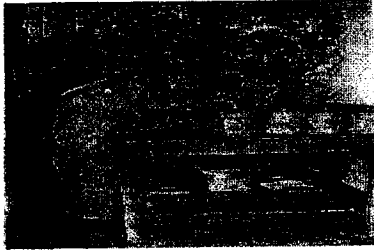
INCOME GENERATION ACTIVITIES

1. Vegetable Stall



INCOME GENERATION ACTIVITIES

2. Petty Shop



INCOME GENERATION ACTIVITIES

3. Buffalo Rearing



INCOME GENERATION ACTIVITIES

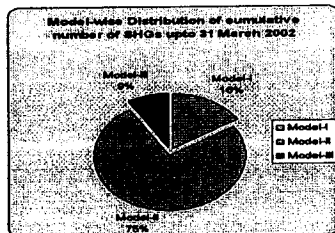
4. Cloth Store



THE IMPACT

PRE-FORMATION	POST-FORMATION
No Savings	-Regular monthly savings -Each member contributes Rs. 30 or Rs. 50 per month
Loans from money lenders at interest rate of 36% - 72% per annum	Loan from the group at 24% per annum
No income from savings	Interest income from savings at bank rate
Interest paid on loan taken goes to third parties	Interest paid on loan taken goes to group account
No money for meeting emergencies	Money available for meeting emergencies
No funds for starting income generating activities	Funds available for starting income generating activities
Poor awareness on health and development	Basic awareness on health and development

DIFFERENT MODELS OF LINKAGE...



DIFFERENT MODELS OF LINKAGE...

- Model I: SHGs formed and financed by banks
- In this model, banks themselves take up the work of forming and nurturing these groups, opening their savings accounts, and providing them bank loans. Upto March 2007, 17% of the total number of SHGs financed were from this category. This showed an increase of 3% over the position upto March 2006, reflecting an increased role of banks in promoting and nurturing SHGs.
- Model II: SHGs formed by NGOs and formal agencies, but directly financed by banks.
- This model continues to have the major share, with 70% of the total number of SHGs financed upto March 2007 falling under this category. Here, NGOs and formal agencies in the field of microfinance act only as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs.
- Model III: SHGs financed by banks using NGOs and other agencies as financial intermediaries.
- This is the model wherein the NGOs take on the additional role of financial intermediation. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This, in turn, is used by the NGO for on-lending to the SHGs. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like federations of SHGs are coming up as links between the bank branch and member SHGs. These federations are financed by banks, which in turn, finance their member SHGs. Other agencies like NBFCs are also emerging to take up this role. The share of cumulative number of SHGs linked under this model upto March 2007 continued to be relatively small at 9% but in years to come, this is expected to become a major delivery mode.

SUSTAINABILITY ISSUES

- efficient monitoring and objective oriented evaluation
- insurance for assets and borrowers to protect against passive risks of natural calamities, family & specific shocks
- default risk coverage schemes
- adapting graded risk based on accumulation of savings
- group guarantees from borrowers
- community monitoring of operation and assets

- risk rating of borrower
- building up collaterals for future
- setting benchmarks for performance and escape leverage for not reaching minimum level of performance
- developing product mix for economic activities to
- neutralize risks in the system.
- operating through special intermediaries
- gradual expansion of income generating activities based on lot experiments.
- standardization of appraisal procedures for credit linkages.

NETWORKING OF SHGs

1. To forge alliances for converging financial resources to be managed by themselves.
2. To provide credit support for needy member groups without the stipulations for formal collaterals. The rate of interest on such credit is to be much below the market rate.
3. To enable groups to represent their grievances on a common platform to government departments and funding agencies.
4. To facilitate community based activities at reduced costs.
5. To utilise the forum for resourcing of materials and marketing of products.
6. To access the benefits of government sponsored schemes in a convenient manner.

STRENGTHENING OF MICRO FINANCE

(i) Trainers Training for Promotional Agencies

- Counseling techniques
- Participatory appraisal techniques
- Sensing the needs of the groups
- Curriculum preparation for capacity building

(ii) Capacity Building Training for SHGs

- Entrepreneurial motivation
- Selection of activities
- Project formulation
- Financial & marketing management
- Skill up gradation (technical training)

A QUICK GLANCE

> The first anti-poverty program "Anthyodaya," aimed at the poorest of the poor, was started in Orissa, the most backward state of India. Encouraged by the success of the scheme, a national program was launched on a large-scale under the name Integrated Rural Development Program (IRDP) targeting below the poverty line families in rural areas.

> The Grameen Bank's experience indicates the vital importance of credit as an entry point of the upliftment program for the rural poor. If a program is to have an appeal for people living in abject poverty, it must offer them clear and immediate prospects for economic improvement.

➤ Since Micro credit is positioned as a development strategy for anti-poverty programs, microfinance is considered as financing for the poor. Similarly, the credit delivery systems through informal channels like Self-Help Groups are equated with microfinance.

➤ A SHG is a group of about 20 people from an economically homogeneous class, who come together for addressing their common problems. The concept of self help group has developed from the 'sufferers of same kind'. The self help groups bring together people with common experiences.

➤ The economic empowerment of the poor is not accomplished without social benefits. It is therefore important to co-locate microfinance with social issues like literacy, health care, nutrition etc. Empowering women through Self Help Groups prepares a cadre/network of master trainers for the sustainability of SHGs.

➤ Governmental or Non-Governmental Organizations (GOs or NGOs) will form and guide the SHGs with the emphasis on both thrift and credit activities. Through NABARD, local State-owned banks, commercial banks, and credit unions may obtain reasonably priced funds to lend on to groups.

➤ SHGs by dint of intrinsic dynamics and the money, which accrues to members, offer women the chance to make decisions, gain power over the local resources, and ultimately build confidence.

➤ The institutions promoting Self Help Groups are called Self Help Promotion Institutions (SHPIs). These institutions play a vital role in organizing the groups ensuring their proper functioning restraining them from internal collapse.

➤ Lack of funds in a Group will dry the opportunities of starting new business by the Group members and on the other hand, the surplus of funds will lead the Group to misutilize the funds by over-lending to its members. Hence, to balance these situations, a network shall be formed between different neighboring groups.

➤ In order to extend the reach of the banking system to cover the entire population below the poverty line, sustained efforts may have to be put into forming and developing Self Help Groups to new areas.

➤ Rating of SHGs will facilitate the banks to take faster decisions on disbursing the loans to the Groups. Rating is given on the basis of several aspects – operations, punctuality of repayment and size, education, participation of members. Rating among SHGs will also increase their competitiveness.

➤ Credit Models of microfinance normally address the access of funds and delivery system. The various models available for funding Self Help Groups and Microfinance Institutions are: Conventional Models, Business Facilitator / Business Correspondent Model, Bank-MFI Bulk Lending Model and Partnership Model.

➤ Under the Conventional models, direct and indirect methods are the mostly used methods.

➤ Under the direct method, the SHGs have direct access to loans from financing banks based on their independent credit standing and savings/loan accounts of the group are maintained and operated at the financing branch. In the absence of necessary confidence for lending directly to SHGs:

➤ Indirect methods are adopted to route finances through intermediation of reputed Non-Governmental Organizations/SHPs.

➤ The institutions/persons to be engaged as Business Facilitators and Business Correspondents shall enter into a formal contractual relationship with the bank, which shall explicitly detail the functions, that they shall undertake on behalf of the bank, the precise terms and scope of the services, compensation, etc.

➤ Under the Bulk Lending to NGO-MFI model, an aggregate amount is placed with the NGO-MFI by the lending institution as a term loan or as a facility out of which the MFI draws funds for, on lending to SHGs or individuals.

➤ The unique innovation in Partnership Model is that the MFI evaluates, recommends, originates the loans, helps in disbursal and subsequently tracks and collects the loans.

➤ The Bank Led Model is ideal for banks with branches in the area of operation.

➤ Without savings, the poor are more vulnerable to hardships shocks and rely heavily on moneylenders in times of emergency or have to sell their limited assets. With access to the small savings deposit facilities, they would be able to escape the vicious circle of moneylenders and save their assets. Micro savings are the deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements.

➤ Micro insurance is the provision of insurance to low-income households. Poor households are especially vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents.

➤ Micro insurance is served through Insurer-MFI Partnership model, where the poor will have access to the insurance products through microfinance institutions. In this model, MFI acts as an agent for the insurance company, and the SHGs will act as clients to the MFIs on behalf of their members.

➤ The Self Help Groups are supposed to save regularly and perform credit activity, combining the group's requirement in terms of credit and enhancement of skills required for Income Generation activity, within the group, and facilitating easy access to credit.

➤ Micro enterprises cover the whole range of activities in manufacturing, trading and service involving the production of simpler consumer goods and offering of services catering primarily to the needs of rural and suburban households.

➤ The major parameters for rating are divided into Non-Financial Parameters and Financial Parameters. The rating of MFIs serves two purposes, one is the absolute use of rating so as to arrive at a funding decision and the other is to compare similar institutions. The rating of microfinance institutions has to capture the non-financial, financial and development parameters relevant to the sector.

➤ Microfinance sector is making use of the latest developments in the IT sector to enable the rural poor to make wide use of its services. The IT products like smart cards, Point-of-Sale kiosks, memory cards are becoming part of the microfinance operations.

LIMITATIONS OF MICRO CREDIT FOR RURAL ENTERPRISES

- Assumption that the poorest wish to be self-employed
- Assumption that credit is the main financial service needed by the poor
- Assumption that credit can automatically translate into successful micro enterprises
- Assumptions that those marginally above the poverty line do not need micro credit and giving it amounts to mistreating
- Assumption that micro credit institutions can all become financially self-sustaining

"Leave Agriculture but not Village"-Induced Clusters will be the best choice"

Some Mute Issues

- **When to stop lending to those risen above poverty line.**
- **How to ascertain asset creations as a result of micro credit**
- **Whether such assets have remained within these domain of the primary constituency**
- **To assess how far the rapport between income and asset creation has influenced and reduced gender subordination and gender inequalities at the house hold level**
- **Control over productive assets gained through microcredit programmes by women (who are the primary constituency) is still doubtful**

➤ **Dependency syndrome-dependence on promoting NGO**

➤ **Maintaining a total internal democracy within the structures of micro credit programme and keeping political interference under check and within limits**

Whether economic power has resulted in political empowerment at local governance level institutions i.e. gram panchayat level, taluk panchayat and Zilla panchayat level.

Thank you