

RURAL SMALL & MICRO-ENTERPRISES DEVELOPMENT PROGRAMME

**Report of the
Review and Support Mission
prepared for the Government of the Netherlands**

October 1998

Foreword

The Indo-Dutch Project Management Society has been implementing the "Rural Small and Microenterprises Development Programme" funded by the Government of the Netherlands. The project has been in operation for a few years and the Government of the Netherlands considered it desirable to have its progress reviewed and, therefore, constituted a Review and Support Mission for this purpose. This report presents the views of the Mission.

In the preparation of this report, the Mission has had to draw upon the expertise and time of many professionals, institutions and agencies and acknowledges with gratitude the ready assistance it received. In particular, the Mission would like to acknowledge the support, cooperation and assistance it received from Mr. Sadananda, Director of the Indo-Dutch Project Management Society and his colleagues, and Dr. Shoba Raghuram and Dr. Ben Witjes of HIVOS.

The Mission interacted with the management and field staff of the NGOs associated with the Project, and also with the officials of the Government and Banks. The Mission thanks them very much indeed for the assistance received and the frank exchange of views.

The Members of the Governing Council of the Indo-Dutch Project Management Society generously gave of their time for discussions with the Mission. These discussions were of considerable assistance in the work of the Mission.

The Mission had the privilege of meeting women members of the Self-Help Groups and other beneficiaries of the Project. This interaction and the sharing of their experiences and views were of great assistance in appreciating the dimensions of the Project. The field visits were a unique experience and sharpened the perceptions of the Mission of ground realities. The Mission places on record its deep appreciation of the cooperation extended to it by the participants in the Programme and thanks them for the time spared by them in meetings and discussions.

This report is presented in full awareness of the complexity of this Project in terms of its novelty of approach and objectives, set against a backdrop of public, particularly of women's, participation. If the recommendations made herein result in furthering the objectives of the Indo-Dutch Project Management Society, the Mission would consider its efforts having been worthwhile.

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EXECUTIVE SUMMARY

The Indo Dutch Project Management Society, Bangalore (IDPMS) has been implementing the "Rural Small and Micro Enterprises Development Programme" (RSMEDP) funded by the Government of the Netherlands in selected areas of Karnataka State. The project has been in operation for a few years and the Government of the Netherlands considered it desirable to have its progress reviewed and, therefore, constituted a Review and Support Mission for this purpose. The Mission, between 3rd and 14th August 1998, held discussions with persons associated with the programme and also visited selected project activities. On the basis of these discussions and field impressions, the Mission has arrived at certain conclusions and recommendations.

The long-term objectives of the RSMEDP are the creation of viable income generating opportunities in the non-farm sector of the rural economy, the promotion of sustainable self-employment and, the promotion of the development and establishment of small and micro enterprises. The imparting of skills of entrepreneurship in the rural community is a major focus. The activities are based on local resources and on skills available. Where necessary, skills are imparted through training programmes. The programme is being implemented in the erstwhile composite districts of Mysore and Dharwad in Karnataka State.

The project ends in 1999. The total outlays are Rs. 411.54 lakhs for project activities and Rs. 108 lakhs for the Programme Management Unit. Of the former, 85 per cent is funded by the Government of the Netherlands and 15 per cent by the

Government of Karnataka while the latter is fully funded by the Government of the Netherlands. Taking into consideration the current scale of expenditure, there is likely to be a balance of unutilised funds at the end of 1999 of Rs.54 lakhs. It would be necessary to ensure that the consolidation of the results of the project is not hampered due to lack of funds in the year 2000. This could be avoided by funding continuing to the extent there is a balance beyond 1999.

The outlay envisaged on the Programme Management Unit was Rs. 108 lakhs. The expenditure till August 1998 has been Rs. 121.94 lakhs, in excess of the funding for the full project period ending 1999. The enhancement of the outlay to Rs. 225 lakhs, or an additional Rs. 117 lakhs, is under the consideration of the Government of Netherlands. It is hoped that the escalation would be sanctioned early.

The physical targets of the project can be said to have been achieved to the extent of 61 per cent by the end of 1997. Given the same pace of performance, the achievement would be about 90 per cent by the end of the project period. In evaluating the project, it would be relevant to note that the IDPMS, in implementing the RSMEDP, does not deal with conventional social aspects of the community. It is rather unique in its attempt to enhance both skills and incomes in the rural community, involving basic changes in social attitudes with regard to women's participation in group activities outside their homes. Though the programme was not planned specifically for women, the larger proportion of participants consists of women. The training in skills and entrepreneurship development has resulted in a social change in these groups. The feeling of empowerment is visible and is a demonstration of the benefits of economic development.

The project has generated both direct and indirect benefits. Real benefits have accrued in terms of income generation while the indirect benefits, even if the numbers are currently small, include women's empowerment and development of self confidence. There would be a demonstration effect in the neighbouring areas. The imparting of training to develop or sharpen skills has been a major achievement by IDPMS.

An important element of the RSMEDP is the access to credit that it provides. The IDPMS has, through this project, made small and micro entrepreneurs aware of the procedures and mechanisms for availing of credit facilities offered by the Grameen Banks and Government programmes. It has assumed a role of advocacy on behalf of these entrepreneurs by establishing the linkage between them and the managers of the banks and by demonstrating that they are "bankable". The bank managers have also been sensitised to the needs of this sector. Self-reliant characteristics have been inculcated in the Self-Help Groups which encourage savings and better management practices.

The IDPMS has developed an expertise in credit systems that it offers to the rural banks to increase both their reach and the availability of credit in the non-farm sector. It could train non-government organisations (NGOs) so that they could extend rural enterprise development programmes even after the project comes to an end.

The Self-Help Groups through which the RSMEDP has been implemented are largely made up of women. The members of these groups have been empowered to gain access to the credit facilities offered not only by the rural banking system but also through various government programmes. The skills imparted to them and the

ABBREVIATIONS

ASTRA	Application of Science and Technology in Rural Areas (a Society)
Chit Fund	A rotating savings and credit fund
DIC	Districts Industries Centre
DWCRA	Development of Women and Children in Rural Areas
EDP	Entrepreneurship Development Programme
Grameen Banks	Regional Rural Banks
IDPMS	Indo-Dutch Project Management Society
IGA	Income Generating Activity
IRDP	Integrated Rural Development Programme
Lakh	1,00,000
MFI	Micro- Finance Institutions
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organization
NPA	Non Performing Assets
OBC	Other Backward Class
PMRY	Prime Minister's Rozgar Yojana- to help unemployed youth to take up economic activities
PMU	Project Management Unit, sometimes also Project Monitoring Unit
REDP	Rural Entrepreneur Development Programme
RFI	Rural Finance Institutions
RMK	Rashtriya Mahila Kosh, a Government of India Scheme for assistance to NGOs working with women's savings / credit groups
RRB	Regional Rural Bank (also called Grameen Bank)
RSMEDP	Rural Small and Micro Enterprises Development Programme
Sangha	a Self- Help Group
SC	Scheduled Caste
SHG	Self- Help Group
SIDBI	Small Industries Development Bank of India
SME	Small and Micro Enterprise
ST	Scheduled Tribe
TRYSEM	Training Rural Youth for Self Employment
UBSP	Urban Basic Services for the Poor, now called Swarna Jayanthi Shari Rojgar Yojana. This is a scheme of the Government of Karnataka

INTRODUCTION

The Indo-Dutch Project Management Society (IDPMS) has been implementing the project "Rural Small and Microenterprises Development Programme" (RSMEDP) since 1995, after an interim phase between 1993 and 1995. The project, cited as Activity No. IN00420, is funded by the Government of the Netherlands. It was considered desirable to conduct a review of the project. Accordingly, a Review and Support Mission was constituted with the following members:

Mr. P. Padmanabha, IAS (Retd), Mission leader

Dr. Leela Gulati, Centre for Development Studies, Thiruvananthapuram

Prof. J. Mohan Rao, Department of Economics, University of Massachusetts at Amherst, USA

Ms. Hedwig Siewertsen, Associate Consultant, FACET BV, The Netherlands.

The main objectives of the Mission were to –

- assist RSMEDP in further improving the quality of its activities
- make recommendations for the future of IDPMS
- suggest improvements in financial reporting of the programme
- indicate whether a more formal support structure to IDPMS is required and if so, the broad framework of such support.

These broad objectives were spelt out in greater detail in the Terms of Reference provided to the Mission. These are reproduced in Annex I to this report. Briefly, the aspects that were included related to the economic and credit activities of the project, the issues relating to involvement and participation of women in the economic activities established, and the future directions of IDPMS itself.

The Members of the Mission held preliminary discussions with the Director and other members of the IDPMS staff on July 29-30. Tentative plans for the field visits were also drawn up at this time and required background materials were gathered

and/or requested from IDPMS. The substantive part of the Mission - field visits and discussions together with deliberations among the Mission Members - was carried out from 3rd to 13th August starting with a formal briefing session with the Director, IDPMS. A debriefing session at New Delhi followed this phase in which the Mission leader and Ms. Siewertsen participated. Subsequent weeks were devoted to drafting the Report in several iterations. The places visited and related details are presented in Annex II.

Discussions were held with NGOs associated with the project, representatives of the banks concerned and officers of the Government of Karnataka. Interactive meetings were also held with the women members of the Self-Help Groups (SHGs), micro-entrepreneurs and others. Similar discussions were held with the professional staff of IDPMS, followed by a meeting with members of its Governing Council. The persons with whom discussions were held are indicated in Annex III.

Chapter I

OVERVIEW

1.1 Brief history of the project

In 1980, the Government of Karnataka formulated a scheme called the "Construction of Industrial Sheds Project" which envisaged the construction of work sheds, work-cum-residence sheds, and common facility centres for the development of handlooms, handicrafts, leather, sericulture, small scale industries and Khadi and Village industries. The Government of the Netherlands funded this project. The project was to be implemented in four years (1980-84) but, due to slow progress, this period was extended to 1987.

1.1.2 An evaluation of the industrial sheds project was carried out in 1986, which raised certain basic issues with regard to the elements of the project and its progress. Based on the recommendations of this evaluation, it was agreed that before a second phase was contemplated, the gains of the project should be first consolidated during an interim phase. This included completion of incomplete sheds, improving infrastructure at several locations and the like. One of the important conclusions was that a Project Management Unit (also referred to as Programme Monitoring Unit in one document) should be established for the management of the interim phase and the second phase.

1.1.3 The latter recommendation was the genesis of the establishment of the Indo-Dutch Project Management Society (IDPMS), first as a cell within the official structure and later as an independent society in February 1988.

1.1.4 A further review mission was conducted in 1988, which recommended an area approach in place of a sector approach. It also suggested that the activities should harness and develop latent entrepreneurial talents in the local community and that, while doing so should pay particular attention to women and the disadvantaged. On the basis of these recommendations, the Rural Small and Micro Enterprises Development Programme (RSMEDP) was formulated in 1991 and submitted for funding to the Government of the Netherlands. Though the RSMEDP was considered as commencing in 1993, delay in formal approvals till 1994 resulted in its actual commencement in 1995. It has been extended to December 1999 as of now. The project period is from 1995 to 1999.

1.1.5 The RSMEDP is being implemented in the two districts of Mysore and Dharwad. A conscious choice of these districts was made on the basis of various criteria of development¹. The latter included differentials in per capita income, levels of development and potential for development, manageability, infrastructure facilities conducive to implementation, presence of good NGOs and the like. Within these two districts, further selection of the specific areas of operation of the project was made after detailed studies on the potential for micro enterprise development. The latter included an assessment of availability of resources for such enterprises and concentrations of appropriate skills in the different taluks in these two districts. The types of possible micro-enterprises, based on resource availability and local skills that could be established were assessed taking into account (i) the availability of raw materials, (ii) the range of products that were being produced or that could be produced, (iii) the technology available, (iv) the markets for existing products and for new products, (v) the availability of support from banks for setting

¹ This is discussed further in Chapter IV

up or running such enterprises, (vi) the management and technical skills available and (vii) the employment potential.

1.1.6 Based on these considerations, the following taluks were selected²:

<u>Mysore</u>	<u>Dharwad</u>
(includes the new district of Chamaraja nagar which was formerly part of Mysore district)	(includes the new districts of Haveri and Gadag which were formerly part of Dharwad district)
Hunsur, Chamarajanagar, Nanjungud and Kollegal	Kundgol, Shirhatti, Haveri, Ranebennur, Savanur and Shiggaon

1.2 Objectives and Strategy

The long-term objectives of the RSMEDP are (i) the creation of viable income generating opportunities, (ii) the enhancement of sustainable self-employment and (iii) the promotion of the development and establishment of small and micro enterprises. These objectives are expected to lead to the self-sustained improvement of the socio-economic conditions of the people in villages and smaller towns through their involvement. The development of entrepreneurship in the rural community is a major focus. In other words, the main objective of the programme is to encourage the establishment of either group or individual economic enterprises in the rural community and in the smaller towns and to demonstrate strategies for this purpose.

1.2.2 The economic activities envisaged in the project are in the non-farm sector of the rural economy. These activities are based on local resources and on the skills available.

² New districts have been carved out of the erstwhile districts of Mysore and Dharwad. Chamarajanagar district was formed from part of the old Mysore district while Haveri and Gadag districts were carved out of the old Dharwad district.

The latter would, in some circumstances, be developed through training and existing skills would be enhanced.

1.2.3 The increasing involvement of women in these activities would be a major element. Such involvement would be in an individual capacity or as part of a family enterprise or in an economic activity managed by a group of women (the Self-Help Groups or Sanghas). The other major elements include training for development of skills, entrepreneurial training for management of the enterprises, and financial assistance from the rural banking institutions.

1.2.4 The assistance and involvement of existing government and private training institutions and organizations have been sought. The utilization of these institutional capacities has contributed to the activities relating to human resource development. The programme involves close association with both government and private organizations and with the credit institutions.

1.3 Field Operations

The activities of the RSMEDP are carried out through NGOs already operating in the area selected. The NGOs are inducted as partners taking into consideration their experience, how long they have been in the field, their capacity in terms of staff and credibility in the local community and other relevant factors. The strategy adopted by RSMEDP is not to intervene directly in the field, but to introduce economic activities through existing NGOs. In some cases, partner NGOs have had to be identified or changed after selection of the area of operation. It has sometimes been a difficult task for IDPMS to identify suitable partner NGOs for the implementation of the project's activities.

1.3.2 IDPMS has the skills in determining the appropriate activities in an area, the ability to provide training for upgrading or inculcating skills and providing entrepreneurship development programmes. It also has the links necessary with the banking system to access credit. It makes these skills available to the NGO, which the latter translates into action. IDPMS and the NGO concerned are, in effect, partners in the creation of enterprises and entrepreneurs in the RSMEDP.

1.3.3 IDPMS operates the RSMEDP elements through the Self-Help Groups (SHGs) already established by the NGOs as part of their normal activity in the community. It also identifies individual micro-entrepreneurs with the help of the NGOs.

1.3.4 Generally, IDPMS avoids direct interventions in the field. Any interventions that are considered necessary are usually with the assistance of and through the NGOs so as to avoid a multiplicity of approaches to the beneficiaries. However, there have been cases where such direct interventions have been necessary but these have been undertaken only where circumstances did warrant such direct participation. It need hardly be emphasised that direct interventions are best kept to the minimum to avoid complacency on the part of the NGOs and the possible creation of a dependency syndrome among the beneficiaries who, at some time, would have to be on their own.

1.3.5 IDPMS started to work with about 10 NGOs in Mysore district, but the collaboration was not always successful due to various reasons. This necessitated more direct interventions by IDPMS staff because the beneficiaries had to be catered to. In this district, RSMEDP activities are presently implemented through three NGOs. These are (i) the PMSR (People's Movement for Self Reliance), with the objectives of empowerment of dalits through political action, community organisation and social education, (ii) SUMANA

(Society for Rural Development), with the objectives of empowerment of rural women through socio-economic activity, community organisation and service activities in sectors such as health, environment, literacy, and (iii) The Chamarajanagar Parish Society (CPS).

1.3.6 SUMANA and PMSR were introduced to the district authorities and the bank managers, which resulted in refinancing possibilities from the National Bank for Agriculture and Rural Development (NABARD) and under the Rashtriya Mahila Kosh (RMK) scheme for the SHG's promoted by the NGOs. IDPMS assisted PMSR in the creation of a credit co-operative society of dalits. Other activities include development of skills and training, the organisation of entrepreneurship development programmes, introduction of new products, better exposure to markets and training of NGO staff in credit management.

1.3.7 In Dharwad district the collaboration with NGOs would seem to be more impressive. The following NGOs work with IDPMS in the development of SMEs:

Indian Development Services (IDS)

Chaitanya Institute for Youth & Rural Development (Chinyard)

Karnataka Integrated Development Services (KIDS)

SPOORTHY, voluntary organisation for rural development

Charmodyog Kaigarika Sahakari Sangh Niyamit (CKSSN)

Grassroots Education and Environment Network (GREEN)

Ujwala Rural Development Service Society (URDSS)

Shri Lingabasaveshwar Gramodyoga Seva Sangh (SLIGS)

1.3.8 The size, experience in the field and professionalism of these NGOs vary considerably. Some of the NGOs are established recently, while others have been in Dharwad for over 15 years. There are also differences in the size and financing among these NGOs. For example, IDS and Chinyard receive funds from abroad, while the others are dependent on local funding. Such differences in financial sources and strength seem also to influence the agenda that NGOs pursue.

1.3.9 The activities undertaken in Dharwad are very similar to those in Mysore, except that in Dharwad there has been a strong emphasis on technical skills training (Spoorthy and Chinyard have training facilities) for unemployed youth and women. After the training, the trainees are assisted in starting a business.

1.3.10 NGOs promote and create Self-Help Groups and identify people interested in taking up income generating activities. IDPMS trains the members in credit management and links the groups to the formal financial institutions or to the Government credit schemes. It also organises and finances acquisition of technical skills and entrepreneurship development training. The NGOs recruit field staff who are familiar with community work and group formation, while IDPMS pays for and trains this staff in promoting economic activities.

1.3.11 The needs of the various NGOs are very different and depend on the objectives, capacity and target groups chosen by the NGO. Nevertheless, IDPMS has succeeded in implementing its activities through these organisations in a flexible way. The representatives of NGOs confirmed that they benefited by their association with IDPMS.

1.3.12 IDPMS is often constrained to induct as its partner an NGO whose structure or expertise may not be optimal for the implementation of the RSMEDP. From the point of

view of IDPMS, some of the NGOs lack professionalism in their approach and management, are reluctant to maintain transparency in financial management, are likely, in a few cases, to misuse funds, lack interest in economic activities or have an approach and attitude towards enterprise development that differs from that of IDPMS (especially if they are financially independent of IDPMS), and resent close monitoring of their activities even though the IDPMS has functional responsibility for the RSMEDP. In some cases, IDPMS is looked upon as a donor agency with the consequent assumption that the NGO has full operational freedom. This could result in different perceptions of the methodology or sub-elements of the programme.

1.3.13 Some of the NGOs, on the other hand, consider that there is too much regimentation in the methods of working and too heavy a burden of reporting. The contract period with the NGOs is also said to be inconveniently short, with the added constraint of delayed release of funds, resulting in difficulties in building up the staff or operating with a long-term perspective. IDPMS and the NGOs seem to share a "grey area" in which mutual responsibilities are not clear. This grey area seems to relate mainly to areas of field intervention, methodology applied and monitoring procedures. It would appear that there is further scope for these differences and conflicting perceptions to be ironed out. Before a partnership is developed and before the programme elements are sought to be implemented in an area, it would be beneficial if a complete needs analysis of the NGO and its beneficiaries is made by IDPMS and mutual confidence established.

1.4 Status of the project – Resources, Targets and Achievements

Financial Resources

1.4.1 The outlay on the RSMEDP for the five years 1995-99 is as follows:

<u>Programme Activities</u>	<u>Amount in lakhs</u>
Government of the Netherlands 85 % of requirements	349.82
Government of Karnataka 15 % of requirements	61.72
Total Outlay for Activities	411.54
Outlay on Programme Management Unit, funded by Government of the Netherlands	108.00

The expenditure on activities has been as follows, in lakhs:

1995	1996	1997	1998 up to August	Total
37.91	63.14	85.40	43.23	229.68

The maximum expenditure so far as been Rs. 85.40 lakhs. Assuming that the same scale of expenditure would be incurred in 1998 and 1999, the total utilization of funds till the end of the project would be about Rs. 357.40 lakhs as against the total outlay of Rs. 411.54 lakhs. The balance of unutilised funds at the end of 1999 would be about Rs. 54 lakhs.

1.4.2 The RSMEDP activities would continue for a few months after the end of 1999. Also, it would be necessary to ensure that advances made to NGOs have been fully utilized for project activities. There would thus be a phase of consolidation of the activities. It would be unfortunate if this phase of consolidation were to suffer due to want of funds at a

time when they are critically needed. It is, therefore, recommended that the balance of funds at the end of 1999 is made available to IDPMS for this purpose.

1.4.3 The cost of the Project Management Unit, which includes the costs of the headquarters unit of IDPMS and its two district offices, was estimated at Rs. 108 lakhs. These funds were provided fully by the Government of the Netherlands. By August 1998, the expenditure on the PMU, was Rs. 121.94 lakhs which is in excess of the provision for the full project period ending 1999. A proposal has been submitted to the Government of the Netherlands for enhancement of the total allocation for the Project Management Unit from Rs. 108 lakhs to Rs. 225 lakhs through additional funding of Rs. 117 lakhs (NLG 5,40,000). This is still under consideration. It is hoped that this additional funding for the Project Management Unit would be sanctioned early.

Physical Targets

1.4.4 The project envisaged that the programme would cover 5800 persons. Up to the end of 1977, the number of persons inducted into the programme was 3576 of whom 27 dropped out. Of the 3549 that have directly benefited from the programme, 1357 represent enterprises established, 2 have found independent employment, 827 have had their incomes or skills enhanced, and 868 are expected to stabilize as enterprises shortly. In the case of the balance of 495 persons considerable follow up work seems still necessary. Including the latter, the achievement is about 61 per cent at the end of 1997, which is quite satisfactory.

1.4.5 The plan for RSMEDP in 1998 is to include 2316 persons within the programme. Of these, 1159 would be enterprises which would be established, 936 would need particular attention with regard to credit and marketing inputs before they stabilize,

while 221 would require considerable efforts before they could be considered as successes. Even excluding the latter, if the programme inducts the others, the achievement would be nearly 90 per cent.

1.4.6 The programme elements till the end of 1999 would include consolidation of enterprises and the Sanghas, ensuring that the beneficiaries "in progress" are trained and establish income generating activities, strengthening of the marketing mechanisms, etc. Also, if the demand for the products of the leather and kasuti enterprises were to increase, it would be beneficial to train some more women in these skills. In general, the coverage envisaged by the project would be achieved.

1.4.7 In terms of the numbers covered, the RSMEDP could be considered successful. The key issues would be the sustainability of the enterprises created, the retention and upgrading of the skills imparted, and the replicability of the programme.

Achievements

1.4.8 In assessing the achievements of the RSMEDP it would be necessary to keep in mind certain special features of the programme. These include the short time during which the project has been implemented and its primary objective of establishment of enterprises.

1.4.9 The project has been in operation over the last three and a half years. It still has another year and a half for completion. While the learning process could be said to be over, in assessing the results it would be realistic to recognize that the RSMEDP does not deal with conventional social aspects of the community. It is rather unique in its attempt to enhance both skills and incomes in the rural community, involving as it does basic changes in

social attitudes with regard to women's participation in activities outside their homes and coordination with numerous agencies, including rural credit institutions.

1.4.10 The primary aim of the project is to establish micro-enterprises in the non-farm sector through the infusion or improvement of technical skills, facilitating access to credit and markets and imparting entrepreneurial ability. Emphasis has, therefore, been on the low and medium income strata of the rural population and not on the most disadvantaged. The choice of groups has been mainly from those capable of responding to the mode of operation of the programme

1.4.11 The project has had both quantitative and qualitative results. The former, which are mainly economic, are discussed separately. The qualitative benefits include the empowerment of women to the extent that the members of the Self-Help groups or Sanghas are now able to articulate their concerns, have knowledge of elementary management practices and the confidence to negotiate with local credit managers. Even if the numbers are small, the project has demonstrated the link between economic advantage and empowerment as reflected in attitudinal changes and assertive self-confidence. Even in cases where some women have substituted manual labour with micro-enterprise with only marginal monetary benefits, the fact that they now work under more congenial circumstances, with less drudgery, and have a little more time for their household responsibilities, the results are beneficial in social and health terms.

1.4.12 As mentioned earlier, the poorer sections of the community have not been covered by the project. These sections do not have the economic strength to make even a minimum contribution. In their cases, the scheme of establishment of enterprises which requires a contribution in terms of either finance or time would not be suitable. The

establishment of credit co-operative societies may be a possible course of action. This could be attempted as an experimental measure at some time.

1.4.13 The imparting of training to develop or sharpen existing skills is a major element. The achievement in this regard is apparent and noteworthy. An innovative measure has been the organizing of entrepreneurship training programmes in the Community Polytechnic in Havanur for those who have acquired skills as students of the polytechnic. This training would enable them to start enterprises of their own since they acquire knowledge of elementary business organization, including marketing, and procedures for accessing credit. It is recommended that this association with existing technical institutions such as polytechnics be enhanced and such programmes instituted over wider areas.

1.4.14 Apart from training inputs, IDPMS has, through the RSMEDP, introduced improved technologies in many cases. This is a significant contribution in the rural setting. It would be essential for the participating NGO to ensure constant attention to both retention of skills and upgrading of technology.

1.4.15 In the implementation of the project an area approach was envisaged. However, within the two selected districts the activities would seem to be rather scattered, adding to the costs of inspection and monitoring both in terms of outlay and time. The demonstration effect is also weakened. It would seem desirable to spread the activities over adjacent villages in an increasing circle so as to optimize resources in IDPMS of time, expertise and funds. Admittedly, such an area approach presumes the presence of a capable NGO. Where there is such an NGO, or more than one, the area approach in a more rigorous sense could be adopted.

1.4.16 In some areas of Dharwad district new NGOs have been inducted into the project. This had to be done because some NGOs opted out of the project. The performance of these new NGOs would have to be particularly monitored in view of the short time left for completion of the project. This is recommended to avoid overloading the elements in the final phase of consolidation.

1.4.17 The RSMEDP could be said to have achieved its objectives in large measure and demonstrated that its strategies are workable. Refinements and improvements are certainly possible with regard to some elements, but the project indicates that the approaches to the issues with which it is concerned are valid. In particular, it demonstrates the possibility of creating jobs where the rural community lives, with consequent impact on migration to urban areas.

Chapter II

ECONOMIC CONSIDERATIONS

2.1 Scope and Plan of the Chapter:

This Chapter analyses the main economic dimensions of IDPMS field operations and makes a number of recommendations with a view to increasing the sustainable net benefits of income and employment generation from enterprise creation. The issues addressed in this Chapter include: (1) identification of the strategy or model and the underlying economic rationale by which IDPMS conducts its field operations; (2) description of programme inputs and outputs in both quantitative and qualitative dimensions; (3) analysis of resource and market constraints on enterprise creation; and (4) examination of the 'viability' of enterprises created. Implications for the viability of the whole programme and its replicability are considered separately in Chapter VI.

2.1.2 The contents of this Chapter may overlap with that of the other Chapters. It hardly needs to be added that overlap is nonetheless inevitable if the integrity of the analysis, argument and recommendations is to be maintained. This is especially the case in relation to the ensuing Chapter which deals with questions of micro-finance and the experience with self-help credit and banks in the project areas of IDPMS and, to a lesser extent, Chapter V which focuses on the linkages with other institutions (banks, technical centres, government agencies) that IDPMS has been able to establish.

2.1.3 A brief indication of the plan of the Chapter is in order. Section 2.2 examines the *IDPMS model* in terms of its goals, instruments and basic rationale. In general, non-

governmental actions in economic development may be rationalised in purely economic-efficiency terms on the grounds of both government and market failure and in socio-economic terms when the additional criteria of social equity and political viability are added. Beyond this, however, IDPMS has also developed a unique vision and *modus operandi* in its chosen sphere of small- and micro-enterprise (SME) development which this section identifies. Section 2.3 provides a selective description and illustrative analysis of the economic activities pursued in a number of field projects that this mission visited. It is not meant to be an exhaustive account of all the enterprises/areas the mission visited, much less of the enterprises started up by IDPMS. Section 2.4 examines the main economic dimensions of programme outcomes in terms of field inputs and field outputs, both direct and indirect. Direct outputs include new enterprises created, employment generation and income augmentation. Indirect outputs include the spread of better techniques that not merely add income but also reduce effort and drudgery, skill upgradation even when there are no immediate income gains, and employment gains for the educated in the NGO sector. Apart from directly generating income and employment, field operations also have spillover benefits beyond the project areas, in both economic and socio-political terms. Important direct inputs are skill development, entrepreneurship training, group motivation and technical assistance in enterprise formation. Indirect inputs include social empowerment and providing linkage with banks and government organisations.

2.1.4 Section 2.5 identifies constraints on enterprise development based on an analysis of findings from field visits. The principal constraints are (1) scale and scope diseconomies in IDPMS operations given the relatively small initial resource base, short time horizon and learning costs; (2) the continuing difficulties of small- and micro-enterprises (SMEs) in accessing bank loans and thereby graduating into more competitive and efficient

entities; and (3) problems of market demand: in demand management where markets are local and in demand assessment and marketing where markets are non-local. Section 2.6 dissects the crucial issue of the *viability* of enterprises created by IDPMS. On the question of economic viability of SMEs, certain conceptual issues are raised and addressed. The assessment of enterprise viability is complicated by several considerations: the relatively short duration over which IDPMS itself and most of the enterprises have been in operation and the associated costs of learning; the prior expectation of relatively high rates of enterprise mortality; the conceptual treatment of various components of IDPMS costs; the incompleteness of the available data base on project benefits; the question of externalities and spillover benefits (beyond project enterprises) generated by field operations; and the fact that there may be a gap between social versus private benefits and costs in view of various market failures. Conclusions on viability are based on best judgments of relevant parameters.

2.2 Goals, Instruments And Rationale

Goals

The principal goal of IDPMS is the creation of viable income-generating non-farm employment opportunities in rural areas. This is sought to be done by enabling rural people to employ themselves through the creation of small and micro enterprises. The distinctive element in the IDPMS programme is the focus on creating rural *enterprises* which generate self-employment and, where this becomes viable, wage employment. In this regard, it differs from government programmes that are aimed at creating wage employment directly (e.g., food-for-work, rural public works projects or other wage-employment generating schemes). The IDPMS approach requires that the beneficiaries themselves play a major role in initiating

a project idea, assessing its feasibility, putting it into operation and ensuring its economic viability and sustainability. In other words, the approach requires that enterprise control or *effective ownership* is in the hands of the beneficiaries themselves. The reverse side of the coin is that risks associated with the enterprise are also to be shouldered mainly by the beneficiaries.

2.2.2 The need to augment rural employment and income opportunities requires little justification in the Indian context. Low incomes and pervasive poverty can be traced to low productivity levels within and outside agriculture, endemic unemployment or underemployment and sharp inequalities in asset distribution and social status. In such a context, without efforts to enhance rural people's incomes, most other development programmes are likely to be stalled. For example, public investment in schools will not be fully utilised if people lack private purchasing power to meet the out-of-pocket costs as well as the opportunity costs of sending their children to school. Similarly, rural road investments will not be economically viable if economic activity does not grow to generate sufficient demand for transport. Even the success of programmes that are not primarily motivated by income generation but rather by considerations of social or inter-generational equity and sustainability (e.g. the empowerment of women, reduced environmental degradation or lowered fertility rates) hinge on achieving income gains.

2.2.3 As would be seen below, IDPMS operates preponderantly through the intermediation of NGOs. Its effectiveness therefore depends to an important degree on the capacities of NGOs. The latter is not a given parameter because IDPMS inputs are also designed to build the NGOs' capacities the better to fulfil its own goal of SME growth. The NGOs that IDPMS has had to work with frequently have non-commercial activities such as

health as their main focus. Inducing them to move into SME development activities requires motivating them to change their attitudes and training them in new tasks. In other words, IDPMS operations require building up *intermediary institutions* as an intermediate product in the pursuit of the basic goal.

2.2.4 Together with income and employment generation, IDPMS activities also generate certain by-products or joint products such as increased empowerment of beneficiaries, women in particular; a greater likelihood that beneficiaries will demand greater accountability from local and higher-level government agencies; improved delivery of a range of infrastructural, health and education services, etc. It is clear that such payoffs are not the main focus of IDPMS interventions; indeed, they do not appear in the organisation's formal statements. Nevertheless, discussions with IDPMS staff revealed that such benefits that are not specific to the production activity of any SME are nevertheless considered to be valuable. The appropriate treatment of non-project-specific benefits will be considered in Section 2.4 in conjunction with the question of economic viability of SMEs.

Instruments

2.2.5 IDPMS is fundamentally a technical services agency in the development of rural small and micro-enterprises (SMEs) although it is also a donor agency since the government of Netherlands is its chief source of finance. In a real sense, IDPMS is itself an entrepreneur in the business of kick-starting rural SMEs. Given also that IDPMS has to spread its activities over an environment lacking infrastructure, human capital and other basics, its operations are rather decision-intensive. Decision areas may be classified under three major heads: *areas, agents and activities*.

2.2.6 Following the recommendation of a previous evaluation mission in 1988, IDPMS chooses geographical *areas* rather than economic *sectors* in which to promote enterprises. The choice of areas is governed, ideally, by comparative advantages that may arise from the availability of natural resources, of traditional skills and of underemployed labour. The initial choice of districts was based on their ranking in terms of a range of economic and social characteristics. Following this ranking, Mysore, Dharwad, Bijapur, Raichur and Gulbarga were selected as suitable for SME development. Operations since 1995 have been focused on the districts of Mysore and Dharwad. Mysore has a per capita income close to the state average, a relatively high rate of poverty incidence and a comparatively high allocation of Zilla Parishad development funds. Dharwad is rather more backward. It was also chosen on the ground that Zilla Parishad funds allocation based on need and potential was highest for the district and because it had better agricultural resources than Bijapur and Gulbarga, factors believed to favour a greater probability of success in SME development. In general, the IDPMS choice of areas is weighted in favour neither of the most backward regions nor of the most developed districts but tends rather to focus on the middling districts.

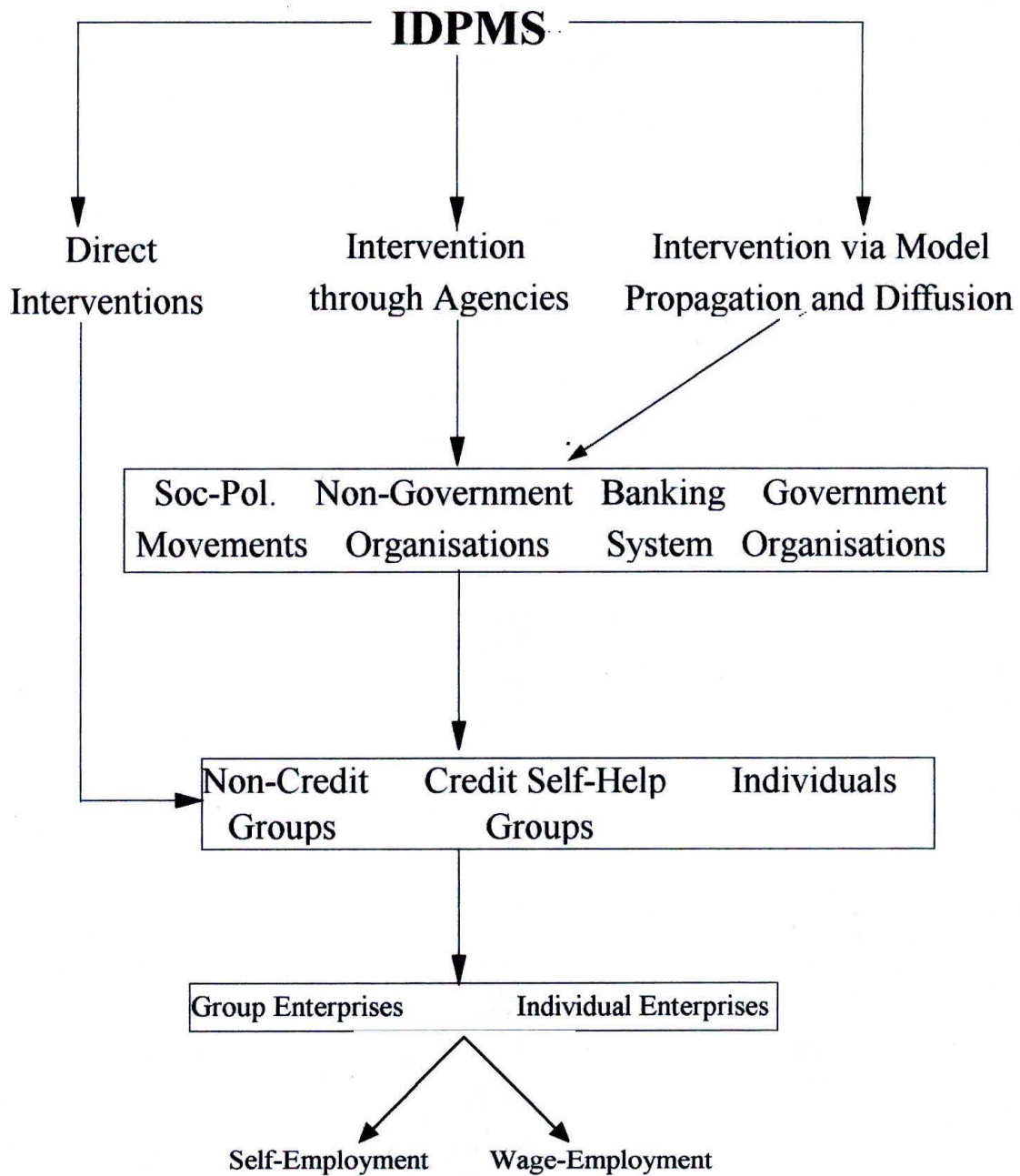
2.2.7 In practice, logistical reasons also enter in the choice of areas. The chief of these is the availability of a minimal of what may be called "social infrastructure" i.e., a group of people who have been brought enhance their general awareness and to create a modicum of empowerment. In many cases, groups - now known as self-help groups or SHGs - are organised to encourage collective saving and provide within-group credit for consumption credit requirements. The development of social infrastructure paves the way for a variety of development activities including SME creation. Without it, organising for entrepreneurial and skills training or the provision of other technical inputs in SME development becomes an

uphill task. But the creation of social infrastructure is itself a specialised activity that is largely beyond the IDPMS purview although IDPMS, in the early phase, did assume this responsibility as well in a number of taluks. It is rather the province of social and political movements, NGOs (particularly for SHGs) and, to an extent, government agencies. As a consequence, IDPMS area choices have been strongly conditioned by the availability of social infrastructure taking into account the compatibility of the goals of these other agencies with the IDPMS objective.

2.2.8 In field operations, IDPMS has relied on a number of *agencies* including NGOs, technical institutions, banks, government organisations and IDPMS itself. *Figure 1* presents the channels through which IDPMS operations are (or may be) carried out. The three possible channels are direct intervention, intervention through agencies such as NGOs and banks, and intervention via model propagation and diffusion. As noted above, in the early phase, IDPMS was directly involved in the organisation of SHGs and training their members in SME operation. In addition, IDPMS has had to step in where other agents have failed by design or circumstance. Such direct involvement with groups and individuals in developing enterprises should be distinguished from IDPMS' necessarily "direct" involvement with beneficiaries in providing technical inputs. Properly speaking, this latter type of involvement is indirect and arises from the fact that NGOs or movements that organise beneficiary groups often lack technical expertise in providing training or other inputs required to create enterprises.

Figure 1

CHANNELS OF INTERVENTION FOR SME DEVELOPMENT



2.2.9 Intervention through other agencies has been the mainstay of IDPMS operations and NGOs have been the chief direct agents of IDPMS in the field. IDPMS has also played a key role in developing the NGOs own capabilities as institutions engaged in creating SMEs. In addition, it has been instrumental in creating critical linkages between the beneficiaries and beneficiary groups on the one hand and banks, technical institutions and government agencies on the other. Especially in relation to NGO involvement, IDPMS has relied on a flexible model of partnership without a rigid demarcation of tasks. Finally, IDPMS has not yet attempted to propagate and diffuse its own model of SME development outside its own project areas, an option that deserves to be explored in the future.

2.2.10 The practically necessary reliance on agencies that develop the social infrastructure also implies that IDPMS does not have direct control over the choice of individual beneficiaries. This does not mean that IDPMS has no choice in the broad types of candidate beneficiaries. In general, the groups described above as social infrastructure tend to be fairly homogeneous internally since, in the Indian context of extreme social and economic heterogeneity, this is virtually a *sine qua non* for their proper functioning. This also means that subject only to the availability of diverse SHGs and other groups, IDPMS is free to decide the sort of socio-economic groups with which to work. It is fair to say that IDPMS does not have any socio-economic *target group* as such. Given its focus of SME development, its choices appear to have been made primarily with that end in view. In short, beneficiary choice is the result of a complex set of determinants including the types of groups developed by available NGOs in the chosen project areas. Within these constraints, IDPMS tends to choose groups and individuals that give SME development the best chance for success.

2.2.11 Perhaps the most important decision in developing SMEs is the choice of a set of economic *activities* appropriate to the area, agent and beneficiaries at a given project site or village. This choice is the essence of the entrepreneurial content of SME development since it implicates not merely the technical or production skills of the beneficiaries in their capacity as workers but also, in their capacity as directors of the enterprise, their ability to assess demand, costs, financing and marketing requirements both in the present and future. Not surprisingly, this has proved to be one of the main stumbling blocks in the development of SMEs and in sustaining them once developed. Ideally, the decision is made by the beneficiary rather than made for her even though IDPMS may play an important role in pre-project search for options, access to technology, etc. The difficulty arises not merely from the risk and uncertainty of making an investment whose payoffs stretch into the future but from the poor economic capacity of the typical beneficiary to shoulder the burden. In many cases, therefore, overcoming the reluctance of trainees to become entrepreneurs has not succeeded. Rather, would-be entrepreneurs have not infrequently turned to the NGO or IDPMS itself for encouragement if not to have the choice of activity and the decision to establish the enterprise taken for them.

Rationale

2.2.12 Any assessment of the rationale of the IDPMS model briefly described above must take account of three issues: (1) the macroeconomic context within which rural industries must be established; (2) the general rationale for non-market, non-state intervention in micro-credit and micro-enterprise development and alternative models for such intervention; and (3) the strengths and weaknesses, in relation to the opportunities and constraints, of the specific model developed by IDPMS.

2.2.13 Consider first the macroeconomic context of rural India. The IDPMS focus on employment and income generation through enterprise creation is especially appropriate at the present juncture of rural development in India. Although food output grew at a robust rate of 3.5 per cent per annum during the 1980s, the pace has slowed considerably during the 1990s to a mere 1.7 per cent per annum despite the unusual succession of ten normal monsoons. Moreover, even the faster rate of output growth during the 1980s generated employment growth that failed to keep up with labour force growth. This failure is especially worrisome for the already impoverished rain-fed regions in the country which have not seen much of the benefit of irrigation or yield-advancing techniques. These are also the regions where underemployment especially in the agricultural slack seasons is widespread. These observations imply that non-farm output growth is a pressing imperative to lift people out of poverty and to take up the underemployment and unemployment slack left by agricultural labour shedding.

2.2.14 At the same time, there has been a significant rise in the non-farm share of rural employment. As much as 70 per cent of the increase in the rural labour force between 1977-78 and 1989-90 was absorbed in the rural non-agricultural sectors even though the average share of the latter was only about 15 per cent of the rural labour force at the beginning of the period. Moreover, at an all-India level, this period was also marked by rising real wage rates in rural areas. It might appear that rural industries have started to meet the aforementioned imperative. While this obviously seems to be the case at least in part, scholars have debated whether the relative rise in non-farm employment was due to the *push* of poverty and "distress" i.e., the compulsions of survival of those left behind by a growing but labour-shedding agricultural sector, or whether it was due to the *pull* of rising demand and higher wages.

2.2.15 It has seemed natural to suppose that the association between rising wages and rising non-farm employment must reflect the pull of demand. Further, the impetus to non-farm expansion (which may come from within or outside the rural economy) has been attributed to *rising government expenditures* in rural areas, on revenue and capital account (Sen, 1996)¹. But whatever be the source of demand, the demand-pull explanation also implies that surplus labour had been exhausted and rural India had entered a new phase in which wages are determined by demand and supply. However, it would be difficult then to understand the continuing concern with unemployment and underemployment throughout the period (not just in the post-1991 reform years).

2.2.16 Rising rural wages and slowed employment growth can be explained by an alternative hypothesis which does not make the (implicit) assumption of full employment. In this argument, an autonomous rise in rural wage rates (due perhaps to increased bargaining power of labourers) explains both the falling ratio of employment to output within agriculture as also the concomitant fall in poverty rates. A relative rise in non-farm employment can still occur provided a source of demand can be identified. One such source is government expenditure as argued by Sen. Another source is the rising share of real wages in agricultural output that rising wage rates in fact imply. If the marginal propensity to consume out of wages is higher than that for non-wages and if the propensity to consume rural non-agricultural goods is particularly so, then the rising wage share would also explain the necessary demand-side fillip to non-agricultural rural production (Rao, 1998). From a policy standpoint, this undercuts the importance of allocative efficiency and restores the importance of actions to promote rural employment, effective demand and the rate of investment.

³ The reference cited are listed at the end of this Chapter.

2.2.17 Given the above-described context and trends, the IDPMS focus on rural SMEs particularly in relatively backward rain-fed districts commends itself from a development standpoint. For one, rural SMEs tend to be highly labour-intensive so they are a useful vehicle for raising the employment gain from investment. Given that investments are also often tiny, they lend themselves to seasonal and part-time employment, a flexibility that the middle and lower deciles of the rural population would find attractive. For another, to the extent that such gains in employment improve the bargaining power of workers in wage determination, there is liable to be further income gains for these sections. Also, both of these sources of income gain will tend to feed the rural demand for non-farm services and manufactured goods and thus set up a virtuous circle of expansion. Finally, for many rural areas, it is necessary to bring jobs and enterprise opportunities to where the people are rather than hope that migrations will ensure equality of opportunities. People may be unwilling or unable to migrate in ways that promote economic efficiency. This point is also tied to the growing problems of India's urban areas.

2.2.18 Consider next the general rationale for non-market, non-state intervention in micro-credit and micro-enterprise development. Under textbook conditions, governments are expected to provide a range of infrastructure services and the market to develop enterprises suited to utilising these services and private resources fully and efficiently in goods production. Given these ideal conditions, there would be little need for a third agency such as non-governmental organisations at least for purposes of carrying out economic activity. Such agencies arise, however, when these ideal conditions are not met.

2.2.19 The soil in which IDPMS functions is rife with market and state failures. Market failures in the IDPMS areas include labour underemployment, insufficient creation of

human capital and monopolistic vested interests in labour, credit, marketing and other areas. Underemployment implies that available labour resources command a price that does not reflect their economic opportunity cost. Neither is the potential for SMEs and the associated employment opportunities realised. The reason for these economic losses has to do with market failures in respect of human capital, credit, insurance and market information. The market neglects both general education and job-and-enterprise-specific training because many of the benefits of such training accrue to the economy as a whole rather than to the enterprise that would invest in such training (externalities). On the other hand, individuals fail to invest in training for the same reasons and also because they lack access to finance to carry them through the training period. Similarly, potential SME entrepreneurs lack ready access to market information and marketing channels. The market may fail to furnish such information because marketing channels are monopolised and the middleman would rather keep his monopoly than part with market knowledge.

2.2.20 Banks too are notorious for their tight-fistedness in relation to potential SME investors. In part, this is justified by the high cost of administering formal credit in small doses to informally organised enterprises: there is a basic incompatibility between the modes of organising formal banks and informal enterprises. Another reason usually cited is that SMEs fail to satisfy the credit-worthiness criteria of banks. But this claim bears closer examination. To the extent that default rates are higher for SMEs (a 'fact' that can itself be called into question in some contexts) and to the extent, in turn, that these higher rates of default are due to the general environment of low human capital, poor market information and other non-credit failures, the lack of credit-worthiness is itself a result of market failures. Resolution of the latter would serve to reduce the default rates and thereby raise the profitability of banks in SME lending. But such a resolution is not in the interest of

individual bankers either since they would see no direct quid pro quo between expenditures to reduce systemic failures and their private profitability. Credit-worthiness is also often tied to the furnishing of collateral assets and/or personal guarantees of liability by third parties. Lacking the requisite collateral, even very profitable SME investments must go unfinanced as testified by the astronomical informal lending rates (in the range of 4-10 per cent *per month*) cited by many of those interviewed by the Mission in the IDPMS areas. Without *institutional solutions* addressed to resolving these various market failures, the economic potential of SMEs must remain unrealised. The local rural economy then remains trapped at a low level of development. It must be noted that institutional solutions must not only be technically adequate to the problems at hand but they must also overcome any *political resistance* to mounting those technical solutions that is apt to arise from local vested interests ranging from the employer-patron to the monopolistic middleman or moneylender and also the family patriarch. Mr. C.Y. Bhardwad, an articulate trustee of NGO Chinyard, in fact stated that organisers were sometimes forcibly prevented from carrying out the task of bringing potential beneficiaries together.

2.2.21 The potential for SME development may also remain arrested due to government failures arising from poor design, insufficient resources, improper implementation, corruption and other resource leakages, and political interference in the prosecution of programmes intended to provide infrastructure or resolve the sorts of market failure noted above. Such failures help account for the poor state of transport and communication in many of the areas visited, the lack of proper sanitation facilities in villages and the like. Even government programmes supposedly designed to help the poor and help them employ themselves are often subverted. Thus, a good part of priority sector credit for the rural poor that is channelled through IRDP, DWCRA and other similar programmes

either ends up in the wrong hands or, by encouraging default and political dependency, scares away formal credit that would otherwise have reached people capable of starting up SMEs. Government agencies, as indicated by the Chief Executive Officer of the Mysore Zilla Parishad, are undergoing a “culture change” that is making them less critical and more open to NGOs. A couple of well-known NGOs have been asked to take up, essentially on a sub-contracting basis, the management of hospitals, community irrigation, primary health centres and the like.

2.2.22 To be sure, the existence of IDPMS is not addressed to all these failures (e.g., lack of sanitation or schools, or the poor status of roads). The IDPMS approach must necessarily function within the parameters defined by existing markets and existing state agencies. Rather, IDPMS selectively addresses some critical functions such as training, credit, marketing, and technology diffusion or upgradation. In each of these areas, the justification for IDPMS intervention is that there are important externalities that neither markets nor government have succeeded in internalising entirely. This is strengthened by considerations of social empowerment and other joint products that intervention brings with it. The choice of these specific functions for intervention rather than others is rationalised on the grounds that effective resolution of market and government failures is both feasible and desirable given adequate social infrastructure and a suitable agency.

2.2.23 The strengths and weaknesses of the IDPMS model will be taken up in more detail in later Sections of this Chapter where its actual contribution is discussed. It is sufficient here to briefly note the distinctiveness of the IDPMS model against the backdrop of existing approaches including new initiatives of donor-financed NGOs in the sphere of micro-finance, programmes spearheaded by the government and its various agencies

including the banking system. On the side of government, rural non-farm development has been addressed in part through the provision of wage employment directly and extending credit assistance including subsidies to the poor to acquire productive non-land assets to supplement their incomes. In addition, various supports and subsidies have been extended to cottage industries including handlooms and handicrafts. While this approach has indeed produced positive results in limited areas of traditional non-farm activity or otherwise created employment, the production impacts have remained limited because of low accountability in implementation leading to leakages. Moreover, these programmes do not seriously address the problems of SME development in non-traditional activities or for new markets.

2.2.24 Many have come to accept the view that external intervention in micro-finance is warranted by the overcautious attitude if not deliberate intransigence of bank managers in lending to SMEs. NGO initiatives in micro-finance seem inspired by this hypothesis. While there may be an element of truth in this proposition, it is scarcely the whole story as our previous discussion makes clear. So long as the underlying weaknesses of market and state remain, what is needed is a *concerted* approach to the linked failures in respect of human capital, market information *and* credit rather than any one of these areas in isolation. A concerted approach establishes linkages that serve to internalise external benefits which, in turn, raises the prospects for SME viability. For the same reason, banking system initiatives to address SME growth remain partial as they pay little attention to inputs complementary to credit and are therefore unable to effect a real change in the volume of lending. A NABARD-initiated system of supplementary credit delivery through NGOs and SHGs linking 4,600 SHGs with banks, has managed to disburse only Rs. 11.84 crores as at the end of March 1997 (Agrawal, Puhazhendhi and Satyasai, 1997).

2.2.25 The IDPMS alternative consists basically in providing a co-ordinated set of technical inputs that simultaneously address the various critical gaps that prevent SMEs from achieving commercial viability. The IDPMS model correctly identifies key constraints on non-farm enterprises in terms of empowered people, production and managerial skills, fixed and working capital credit, and markets. It aims to promote rural micro-enterprises by (1) creating human and institutional capital; (2) breaking the constraints on credit; (3) playing a catalytic entrepreneurial role; and (4) seeking to integrate broader basic needs into the enterprise development programme. In summary, IDPMS is practically unique in filling an important *niche* in the development of SMEs and rural industrialisation. In our view, its model of operations is broadly appropriate to its chosen objective.

2.3 The Economic Activities of SMEs: Field Observations

This section provides a selective description and illustrative analysis of the economic activities pursued in a number of field projects that this mission visited. It is emphatically not an exhaustive account of all the enterprises/areas the mission visited, much less of the enterprises started up by IDPMS. The visits were carefully planned to include meetings with SHGs, NGOs, banks and other local experts. In several cases, we had the opportunity to interview the entrepreneurs in some detail trying to understand the sort of economic calculus they were employing and also to understand the business strengths and weaknesses of their efforts.

Mysore District

2.3.2 *Mallinathpura*: The case of Mallinathpura (Hunsur Taluk, Mysore) typifies many self-employment activities that return subsistence rates or local rates of wages for IDPMS

beneficiaries. The village is peopled by a settled tribe of Kurubas and is, therefore, socially homogeneous and devoid of caste distinction. Nevertheless, households differ in terms of land owned which affects the extent of their employment possibilities within agriculture. Being a dry area, male labourers find work for 6, at most 8, months while women can find work for no more than 6 months. The Kurubas have traditionally also spun wool and woven wool kambli for sale in near and distant markets. IDPMS worked with three *sanghas* or SHGs of 55 families at various stages in its involvement. Traditionally, women spin and men weave. Traditional spinning using hand and exposed thigh is laborious and frequently interrupted by men walking in as women had to cover themselves. IDPMS introduced them to a pedal-powered metal spinning machine, the Medleri Charaka (with a subsidy varying between 75 per cent and 100 per cent provided by the Zilla Parishad), which raised per hour productivity between 150 per cent and 250 per cent after training. The spindle also eased the drudgery women faced with the old technique.

2.3.3 The enhanced spinning capacity of the sanghas allowed women as well as their men (who wove the yarn into kambli) to employ themselves fully in the lean season even as they continued to work their fields in the agricultural seasons. Seasonality in wool supply and in the kambli market (with kambli prices varying as much as between Rs. 170 and Rs. 300 each) means that beneficiaries stock up on wool and hold back the blankets for best economic results. This means, in turn, that they must have adequate working capital. IDPMS has been able to link the spinning sanghas with the Cauvery Grameen Bank (the RRB for Mysore) which lends up to Rs. 40,000 to each sangha based on initial sangha savings (the IDPMS intermediation serves as signal of the sangha's capability and good credit to the bank). This service is valuable since the low rates of the RRB are not widely accessible and credit is severely rationed. Although all loans are collateralised, movables

such as materials and finished goods are quite unreliable for this purpose. Nonetheless, the bank tends to exclude from the SHG those who are essentially asset-less just as the sangha membership is confined to the landed if small/marginal peasants.

2.3.4 The IDPMS contribution clearly includes introduction of the spindle, training in spindle operation and maintenance and of course enterprise operation, linkage with the RRB and follow-up advice on marketing, etc. For the beneficiaries, this has raised off-season employment and earnings with a spillover benefit to the underemployed outside the project insofar as the limited existing employment opportunities get spread around. To be sure, the sangha households are now exposed to the additional risk of the wool and kambli markets but, as gathered from discussions with them, they seem willing to live with that.

2.3.5 *Nanjangud* : The women's group in Nanjangud town were remarkable for two reasons: they were from the *dalit* castes and had clearly benefited in terms of empowerment and self-confidence from joining the sangha and had gotten training from IDPMS. They were engaged in a collective enterprise to produce bags and products other products made from rexine and jute, and also wood in-lay work. The enterprise was housed in a shed given rent-free by government and with sewing machines provided interest-free by IDPMS. What was not very clear, however, was whether they were on top of the market in terms of responding to changing demands and the competition. IDPMS was providing post-project support in product design and marketing. The earlier group of 20 had already shrunk to 8 in 1997 in the face of market and productivity problems when they were given a second round of training (the first round was for 6 months) to make the switch to jute. This experience was broadly reproduced in another group which had been trained to produce wood in-lay products.

2.3.6 *Kuderu Mole* and *Dasanur* : Sisal products are produced from the fibre of sisal plants. A mixed-gender group of twenty-two members of the Uppar Shetties of Kuderu Mole, a people skilled in working locally available sisal, were selected by IDPMS for EDP training and forming an SHG. The men, who cut the plants and extracted the fibre, were trained to switch from manual to machine extraction of the fibre. Marketing is done by both sexes. Besides increasing their incomes (albeit at prevalent wage rates of Rs. 25-35), the group has been able to secure increases in its collective saving and also secure a revolving credit from the government DWCRA scheme. A recurrent theme in many groups, including the Uppar Shetties, is that younger women often leave on account of marriage. Some members also set up shop on their own. The Mission was unable to study the group dynamics of collective enterprises but learnt that they were rather more unstable in Mysore than in Dharwad.

2.3.7 A unique experiment in training is the case of the SHG at the nearby Dasanur village. Unlike Kuderu Mole, the training was provided under IDPMS auspices by a woman from Kerala to women who had no previous (traditional) skills in working sisal. The trainer has herself become a resident in the village. Products made include coasters, mats and bags. In recent months, the group has suffered reverses due to lack of group cohesiveness, absenteeism and the like. Moreover, the 'enterprise' came to be seen as an 'employer' with the women collecting standard wages at Rs. 15 a day unrelated to output produced.

2.3.8 *Therambally* : Situated in Kollegal taluk of Mysore, Therambally is part of a thriving silk-reeling area. Prior to intervention, women had been wage workers in this local industry. After IDPMS training, 12 silk-reeling enterprises were set up with labour being divided within each family: silk reeling being conducted by women and men and cocoon procurement and yarn sales being the province of men. During the last 6 months, 8 of these units have

established a second charaka. This intervention has been made through the People's Movement for Self Reliance (PMSR), an activist NGO which is part of the dalit political movement. Over a 3-year period, IDPMS imparted SME training to 400 youths of whom 150 have established their own enterprises. Of these 150, 125 are dalits and the other 25 non-dalits. Apart from silk-reeling, a number of petty shops and service enterprises were also set up by the trainees.

2.3.9 IDPMS has played an interesting role in the development of PMSR. Prior to the IDPMS link, PMSR had been a political organisation with primary interests in social welfare activities among the dalits. Exposure to IDPMS led them to take a leading role in local SME development. As disappointing experience accumulated in accessing outside formal credit, PMSR set up its own credit co-operative society to which the trainees were inducted. The Government of Karnataka contributed Rs. 50,000 as seed money and the present fund is about Rs. 2 lakhs. The co-operative now follows the simple rule of providing loans only for working capital leaving the enterprise to meet its own fixed capital requirement.

2.3.10 The co-operative has 30 SHG members. Individuals are given loans ranging from Rs. 500-3000 depending on their own equity investment. The typical self-employed person earns Rs.40 a day which is about twice the prevalent female wage and a little over the prevalent male wage. However, individual enterprises suffered much instability (sickness and mortality) in the first two years due to poor knowledge and experience in markets, products and pricing. A radio-and-TV training programme was ineffectual chiefly for want of credit. Since 1997, the record has improved considerably.

2.3.11 The silk-reeling enterprise of Prabhakara and his mother is a shining example of success. Besides the marketing and procurement services of Prabhakara himself, the enterprise engages the labour of 4 relatives on wages. Yarn output and quality depend on workers' skills but also on weather conditions. Profitability also depends on Prabhakara's skill (and luck) in making yarn purchases, playing the ups and downs of the market and calibrating his purchases and production plans accordingly. Like other PMSR entrepreneurs, Prabhakara got a loan of Rs. 3000 from PMSR. His own investment is Rs 15000 which he has obtained by joining a rotating credit ('chit fund') group. While the implicit interest rate on this loan seems rather high, it is evidently justified by the rather high net profits that Prabhakara (reluctantly) revealed he was making i.e., Rs. 7000 in 10 days which works out to an annual profit of Rs. 231,000. Even if Prabhakara's accounting of 'net' profits is missing cost elements such as the true cost of the chit fund loan or the opportunity cost of his own time, it is clearly a flourishing success by any standard.

Dharwad District

2.3.12 All of IDPMS operations in Dharwad are in the dry areas. The region has undergone high rates of agricultural mechanisation in cash crops despite a large pool of surplus labour of the numerous landless and marginal landowners.

2.3.13 *Ranibennur* : Spoorthy is an NGO intermediary at Ranibennur that works closely with IDPMS particularly in the area of training. Through SPOORTHY, IDPMS has been organising 3 to 5 months residential training programmes for 18-25 year olds, both men and women, drawn from the local villages and towns. These are people who have completed high school and want to learn new trade skills as in radio-TV repairs, motor winding, screen printing, etc. At the time of the Mission's visit, there was a class of trainees in motor

winding most of whom seemed keen about the learning as well as the prospect of starting up on their own. Although the training is largely free, trainees are required to pay Rs. 100 as earnest money.

2.3.14 Ningraj Irani is a young man of 21 who underwent SPOORTHY-IDPMS training in screen printing in 1996 and started up his own enterprise in August that year with a total investment of Rs. 6000. The training programme was preceded by some market research by SPOORTHY who also came up with the idea for the programme and identified a class size of 20 as reasonable in relation to demand. The training lasted 2 months. Prior to this training, Irani was engaged in signboard painting. The intermittent orders he got secured him an average of Rs. 1000 per month. These days he carries on with that old job whenever he has a slack in his main line business which is screen printing.

2.3.15 Irani's screen printing business averages around Rs. 4500 in monthly sales. Raw material costs amount to Rs. 2100, repairs add Rs. 200, rent and power total up to Rs. 230 and interest on loans adds another Rs. 50. Net monthly income is therefore Rs. 2000. In other words, the enterprise has doubled Irani's monthly income and keeps him fully occupied. Irani clearly enjoys good credit with the local private bank as also the co-operative. While he owes nothing on his own business, he has lent out Rs 5000 to a friend which will be returned to him in 1999 with approximately 36 per cent interest at which point he will be able to build separate premises for his business (presently, the business is operated in his father's house). He has also been able to secure a Rs. 10000 loan from the bank for his brother to purchase an auto-rickshaw.

2.3.16 *Kanavalli* : Sanjay Baligar got his electrical/electronic repairs training from Spoorthi for 4 months in 1996 following a diploma in mechanics from a Haveri polytechnic institute.

Though he had held a job as supervisor in Bangalore in 1994-95, this returned only Rs. 1000 monthly. Besides he wanted to be his own boss. Following the training, Baligar set up a small electrical repairs shop. In 1997, he decided to diversify into cable TV with the purchase of 2 dish antennas. He had needed Rs. 42000 for the total investment in the shop and in the cable business. But the bank rejected his application and so did the Prime Minister's Rozgar Yojana. This only steeled Baligar's resolve to succeed. In the end, he borrowed Rs. 17000 from his brother and phased out his investment plans.

2.3.17 Baligar makes a net total of Rs 2000 monthly from the electricals shop. Indeed, he is able to employ an assistant who takes care of much of the repairs jobs while Baligar attends to the cable business. The running profit from the latter is Rs 600 monthly not counting the "income" that he will have from the Rs. 500 deposit that each customer is required to make. It is clear that Baligar's is a going enterprise except for one difficulty. He now has a rival in the cable business. The rival is not technically competent which Baligar is but is in it for the image that the business gives him. But the market will support only one of them and Baligar stated that he is close to buying out his rival. He also has plans to diversify as a selling agent for TV sets and other durables.

2.3.18 *Haveri Polytechnic* : An interesting recent development is that IDPMS has linked up with a polytechnic in Haveri for the purposes of trade skills and entrepreneurship training. Apart from bringing in young men and women from the surrounding areas, it is expected that the polytechnic's own graduates will also be trained to start their own enterprises which, in view of their job market prospects, may be a very good thing.

2.3.19 *Neghur* : Several small entrepreneurs were met in the village of Neghur. The households that we met in the wool spinning-cum-weaving business were not dissimilar to

those that we met at Mallinathpura, Mysore. But the impression one gathered was that levels of skill were higher and net incomes garnered more than just subsistence or prevalent wages in the area. Thus, a blanket (of somewhat superior type than at Mallinathpura) that sold for Rs. 400 cost 3 days' labour in weaving and 2 days' labour in spinning. Even taking Rs. 50 as the wage rate and with raw material costs at Rs. 50, the enterprise returns a net or pure profit of Rs. 50-100 per kambli depending on allowance for rent. This is a clearly profitable enterprise. We were also surprised to learn that the village cobbler who recently set up with IDPMS training makes Rs. 2500 per month which is assuredly more than the prevalent wage rate.

2.3.20 *Tadas* : One of the most interesting groups we met is the Akkamahadevi SHG in village Tadas started under the tutelage of an NGO named Chinyard. The sangha was 27 months old at the time of our visit and had been in the process of shifting from being a pure credit co-operative to the business of starting up an enterprise. Members had been field labourers for the rich even though they owned typically 2-acre unirrigated parcels. As a thrift institution, the SHG gathered Rs. 10 per member on the 9th of each month; another deposit of Rs. 10-25 was voluntary and collected on the 26th. The group had an internal loan rate of 24 per cent per annum and sureties had to be provided by two other members. Loans up to a maximum of Rs. 5000 were given for consumption and increasingly for production purposes.

2.3.21 Under the NABARD refinance scheme, the SHG had also secured Rs. 45000 as loan (at Rs. 2250 per member) which was presently lent out towards petty businesses such as provision stores, dairying and the like. But the SHG is seriously contemplating starting up a chilli powder (pounding, packaging and selling) collective enterprise. To this end, it had

engaged in that business on a pilot basis renting pounding machinery from a nearby village. One of the chief requirements of the business will be securing the grinding/pounding machine for Rs. 16000 and securing a pukka building for operations and dry storage. The latter is critical to the business from the viewpoint of securing quality and being able to make advantageous seasonal purchases. The cost of the building will add another Rs. 10000 to investment while working capital (mainly chillies in process) will amount to about Rs. 20000.

2.3.22 The women had done their homework very well. At full operation, they anticipated a net profit per member of Rs. 350 per week. At this rate, their total earnings would rise substantially not only because of much reduced underemployment but also by virtue of owning the enterprise. As for the internal division of labour within the SHG group enterprise, the women expressed enthusiastic confidence that they would pull together as a group. But it would seem that it is not organisation or credit mainly that is the constraint on this enterprise. Rather, the constraints have to do with the extreme seasonality of the market for the raw material, the business subtleties of material buying and the need to market through channels that do not threaten to swallow up the main part of the profit. In other words, it is the *uncertainty* of the market and of marketing margins that is presently holding back the investment. We were immensely impressed with the acumen the women had already acquired and the zeal with which they reported the results of their pilot operations. They were making fine calculations on the choice between having a sales person of their own versus selling to a Hubli contractor. When the option of creating a small sales group within the sangha was suggested, the women responded very positively. We found it fascinating to see these women first-hand, both individually and collectively, coming to grips with the task of taking an entrepreneurial leap into an uncertain but potentially profitable enterprise. We were also struck by how well-knit the group was.

2.3.23 Another interesting enterprise started by Chinyard-IDPMS is that of training for making compressed cement blocks or bricks for construction. The bricks have certain clear advantages (such as not requiring plastering) over the conventional brick at roughly similar prices. At the time of our visit, training involving about 10 young men was in progress with two compression machines. The machine had been devised at ASTRA, an appropriate-technology research centre in Bangalore. A young trainee we spoke to had recently turned trainer and spoke of his plans to start a brick-making enterprise. The enterprise would employ 4 persons and produce 500 bricks a day at Rs. 3.50 a piece or a daily revenue rate of Rs. 1750. Costs total up to Rs. 1500 a day consisting of Rs. 400 for sand, ash and mud, Rs. 700 for cement, Rs. 200 for the implicit rental price of the machine and Rs. 200 for labour at Rs. 50 a day. At these costs, the net profit works out to Rs. 250 a day. Capital investment consists of Rs. 50000 for 2 compression machines and another Rs. 15000 for building and land. Clearly, the enterprise is capable of returning a handsome rate of return on capital. The technology has the characteristic traits of a local enterprise that can go national: it uses local materials and local labour and indigenous technology to meet local demand; but when generalised across the countryside, it could yield benefits (especially in terms of both housing and employment) on a national scale. As learnt later from Director Jagadeesh of ASTRA, the successful diffusion and dynamic adaptation of such technologies depends on creating an *infrastructure* for on-going support and advice. Such infrastructure ought to be seen as an investment for a whole process of industrialisation rather than specific to any single activity.

2.3.24 *Kabamur and Tumarikopa* : Finally, we met three groups of women at Kabanur all organised by Chinyard. Two of these were engaged in the skilled art of making embroidered designs on sarees (Karnataka Kasuti as it is called); another was engaged in stitching inner

garments. The two groups engaged in Kasuti work were distinct from each other in that one consisted of somewhat better off young women who engaged in the activity as a way of meeting their discretionary expenses or saving prior to marriage. The other consisted of erstwhile labourers for whom the earnings were part of their subsistence. The third group was funded by the DWCRA scheme. While some had their own machines to stitch the garments, they also shared those machines free with the other members of the group who lacked the machines.

2.4 Economic Dimensions Of Programme Outcomes, 1995-98

Visits to the field showed clearly that the IDPMS contribution lies in both economic and social areas, in quantifiable and non-quantifiable dimensions, and in direct and indirect forms. Direct outputs have been most obvious in the form of generating increased incomes and employment through SME development. Enterprises have been started by both individuals and groups. They are to be found in the services sector as also in manufacturing. While many have generated self-employment exclusively, others have also generated wage employment. It is also noteworthy that IDPMS projects also generate employment in the NGO sector. In some notable cases, IDPMS generates for beneficiaries only a rise in productivity which the latter may choose to realise at least in part as a reduction in drudgery or work-time rather than as increase in income. Indirect outputs include the fact that some IDPMS beneficiaries or ideas migrate or travel beyond the project areas which may have a pollinating effect in the recipient areas. Another form of indirect output is the empowerment of beneficiaries, especially women. Such empowerment was clearly visible in the boldness and self-confidence, articulateness and high motivation that many of the women and men

evinced on our visits. Yet another important form of IDPMS benefit is the building up of institutional capacities and insights (whether for the NGOs or the banking system). Such institution-building is a form of investment whose payoffs are not necessarily immediately or directly visible in the project areas only.

Direct Outputs

2.4.2 Having described the SMEs created in some detail, it is appropriate to consider the overall output magnitudes involved. Table 2.1 presents data on the *number of enterprises* created under IDPMS interventions in both Dharwad and Mysore.

TABLE 2.1 : ENTERPRISES CREATED UNDER IDPMS INTERVENTIONS

YEAR	DISTRICT	TYPE OF ENTERPRISE		TOTAL
		INDIVIDUAL	GROUP	
1995	Dharwad	--	--	141 (56%)
	Mysore	--	--	110 (44%)
	TOTAL	--	--	251
1996	Dharwad	69 (48%)	74 (52%)	143 (46%)
	Mysore	109 (65%)	59 (35%)	168 (54%)
	TOTAL	178 (57%)	133 (43%)	311
1997	Dharwad	268 (88%)	36 (12%)	304 (39%)
	Mysore	404 (86%)	65 (14%)	469 (61%)
	TOTAL	672 (87%)	101 (13%)	773
1995-1997	Dharwad	--	--	588 (44%)
	Mysore	--	--	747 (56%)
	TOTAL	--	--	1335

Note: In the last column, figures in parentheses give district shares of the total while those in the other two columns give shares of individual and group enterprises.

2.4.3 The rate of growth in enterprise numbers rose from 24 per cent between 1995 and 1996 to 148 per cent between 1996 and 1997. However, though impressive in itself, this rise in growth is tempered by the fact that the proportion of *group enterprises* in the new enterprises created was considerably higher in 1996 (43 per cent) than in 1997 (13 per cent). In terms of *number of beneficiaries* (people who received IDPMS training but who may or may not have gone on to start an enterprise), there were 1086 in 1995, 932 in 1996 and 1582 in 1997 yielding a cumulative total of 3600 for the three years.

2.4.4 Turning to district-wise performance in terms of enterprise creation, the number of new enterprises rose in both districts by a factor of about 6 over the 3-year period. However, Dharwad's share of total enterprises created fell sharply from 56 per cent in 1995 to 46 per cent in 1996 and fell back further in the following year to 39 per cent. For 1997, both districts witnessed a fall in *the proportion of group enterprises* although the fall was much steeper for Dharwad. The decline in the importance of group enterprises is a bit worrisome not merely because group enterprises imply, other things remaining the same, a greater beneficial effect on employment and incomes but also because when groups hang together, they can more readily reap the benefits of co-operative procurement or marketing or credit and also withstand market fluctuations better through mutual aid in times of distress. That the decline itself may be a purely random outcome due to numerous individual circumstances cannot be ruled out. Nevertheless, a systematic reason for the decline may be the growth of fissures within beneficiary groups after the initial period of camaraderie following training. Note also that the break-up of an *existing group enterprise* may be followed by the creation of several new individual enterprises thus producing a multiplier change in enterprise composition that exaggerates the real change. Another possible factor is that there was a significant shift from direct IDPMS involvement to NGO mediation in the

creation and motivation of self-help groups. It seems plausible that direct IDPMS involvement tended to produce more group enterprises than was the case under NGO direction. The whole issue of the changing composition of enterprises needs to be investigated more systematically with a view to identifying the factors that may account for the sustainability of group enterprises.

2.4.5 *Employment creation and income generation* is the most important contribution that IDPMS can make given the nature of the areas in which it operates. Both Mysore and Dharwad districts have a number of taluks which are essentially rain-fed. IDPMS operates mainly among these taluks. At most sites we visited, people told us about the unemployment of the population, especially women, during the lean seasons. "Most women are very idle but have no idea what to do." But exactly how far such employment creation will go over time and across space depends on the strengths of the roots of those enterprises.

2.4.6 At this point, some relevant distinctions other than that between individual and group enterprises may be made. Many IDPMS enterprises elicit non-farm employment only or chiefly in the agricultural off seasons. In most such cases, it would be fair to say that there is a quantitative addition to people's incomes and employment but whether there is a major qualitative rupture in the economic status of the beneficiary is apt to be a bit more controversial. In other cases, the beneficiary (as with Prabhakara or Baligar) becomes a full-time manager-entrepreneur-worker in his enterprise. In such a case, few would doubt that there is a qualitative change in economic status. Even so, the distinction between the two cases ought not to be exaggerated or rather is essentially quantitative rather than qualitative. A further distinction is that some enterprises go on to employ others as wage labourers. The

distinction between surplus-producing and non-surplus-producing enterprises is not a categorical one but a contingent, quantitative one. Finally, we may note the further point that surplus-producing enterprises may go on to accumulate capital and therefore achieve expansion or diversification. This would not be within reach for SMEs that only managed to cover wage opportunity costs. Apart from the motive of accumulation, enterprises may also be distinguished in terms of their ability to bear risk. In general, underemployed workers can be expected to have a very low capacity to bear risk while their entry into an SME operation may entail an indivisible commitment of their labour time which might impose a risk cost on them that they may not be willing to shoulder. Such risk aversion makes for a low rate of initial entry into SME ventures. Further, it also means that in the event of an adverse shock from the market, the enterprise may very well fold rather quickly and the erstwhile entrepreneur return to his labouring occupation. But whether accumulation or subsistence, safety or risk exposure, the relevant distinctions are not categorical ones.

2.4.7 Apart from adding to people's income and employment, there are also benefits in terms of *reduced drudgery of effort*. An example is the gain experienced by the wool spinners of Mallinathpura. These women not only increased their productivity 2-to-3 fold but also were able to avoid the pain of the traditional model of spinning. In most cases where people have switched from wage employment to self-employment, there is also a qualitative gain in terms of a sense of autonomy and freedom in both work process and income generation

Indirect Outputs

2.4.8 In any market-oriented enterprise, benefits and costs are confined to just those that the enterprise itself must or will give recognition to. Typically, for an individualistic entrepreneur (whether she cares for assuring her subsistence only or whether she also wants to produce a surplus to augment her consumption or savings), this implies that any external benefits produced or external costs incurred by her enterprise will be essentially ignored. Thus, only actual and opportunity costs that the enterprise itself must pay for and only actual and perceived benefits that she herself captures will be counted in. This distinction between internalised benefits/costs versus externalities is not quite the same as that between quantitative benefits/costs versus qualitative ones.

2.4.9 The most important point concerning the IDPMS projects is not merely that the projects have generated indirect benefits in the form of *women's empowerment and greater assertiveness* in the public sphere. Wherever IDPMS has operated through SHGs or indeed itself created SHGs from scratch, it has served to strengthen or even create social infrastructure whose value cannot be measured only in terms of the SMEs created or employment generated. For such social infrastructure pays off in a wide range of areas, economic, political and social. It is also the case that the projects are beginning to have demonstration effects in the surrounding areas. Thus, there are instances in the project areas of women forming groups on their own and starting up group or individual enterprises.

2.4.10 Even where IDPMS operations do not generate a direct income gain, the operations are not without benefit. Thus, many trainees fail to open up SMEs but have nonetheless gained in terms of new *production and economic skills* which will help them survive the market economy better. They may still go on to start up their own enterprises

though they may not have done so within the artificially restricted time horizon of the project. Yet again, enterprises that fail for any reason need not be taken to be without any positive benefit since failure does not mean that the entrepreneur will not be able to pick up the pieces again. On the contrary, failures may train entrepreneurs just as surely as successes.

2.4.11 The IDPMS contribution to employment should not be viewed only in terms of the "direct" beneficiaries. IDPMS also contributes to the employment of a number of skilled personnel in the NGO movement. In another time and place, some of these people may have gotten employed in government agencies or in the private sector. It is possible that these other sectors are shedding labour owing to the compulsions of fiscal and market pressure. If so, the *employment generated by IDPMS in NGOs* has genuine additionality.

2.4.12 It is reasonable to ask whether IDPMS projects help alleviate the incidence of officially defined poverty or contribute to social objectives other than through the SMEs created. It seems fairly clear that IDPMS does not have a fixed *target group* as such among the rural population (whether these are the poorest people or poorest regions or skilled artisans or even women). Rather, its objective is defined in terms of enterprise creation and employment generation. As such, it chooses groups appropriate to each area, activity and agent to achieve its own goal of generating rural employment and incomes by creating SMEs. Any apparent selectivity must be understood to be the indirect fallout of constraints on the ground rather than a planned result directed by objectives. Specifically, this has meant that IDPMS has tended to select beneficiaries from the small and marginal land-owning households rather than from the landless labour households.

2.4.13 Another apparent 'bias' is the relatively high (close to 70 per cent) female proportion of beneficiaries is relatively high. But this can be explained in terms of a number of operational factors in implementation rather than as a clear objective of IDPMS although the latter is, to some extent, acknowledged by the staff. First, women members preponderate among the SHGs started by NGOs who may have women's empowerment as a key objective. Second, women tend to join IDPMS groups for SME development in greater numbers and, as many told this mission, are as a rule more co-operative and achieve a higher success rate. Finally, it has been stated that in the taluks IDPMS operates in, there is a strong proclivity on the part of men to seek work largely in agriculture.

Financial Expenditures: Economies of Scale and of Learning

2.4.14 A variety of inputs from IDPMS serve to generate the outputs described above. The most important of these inputs are skill acquisition and training, technology diffusion and upgradation, entrepreneurial training, marketing, and the contribution of some capital to the SMEs under its purview. IDPMS also establishes institutional connections between beneficiaries and banks and government agencies that directly or indirectly helps the promotion of SMEs. The nature of these inputs and institutional linkages have been described elsewhere in this report.

2.4.15 The structure of IDPMS financial expenditures and their trends over time are now considered. IDPMS expenditures are conveniently divided into programme expenditure and management (or programme management unit - PMU) expenditure. The former are expenses clearly identified with field operations i.e., in enterprise development, whether incurred by IDPMS staff or by IDPMS agencies. PMU expenditures are "management

costs” whether they are incurred at the Bangalore headquarters or in field offices. This does not mean that PMU expenditures are unrelated to enterprise development since they include the costs of technical inputs that may be directly or indirectly supplied by headquarters personnel. For example, they include salaries paid to a marketing consultant whose services are utilised by the SMEs under IDPMS. It has not been possible to identify the *fixed costs* of IDPMS or, conversely, the long-run variable costs that depend exclusively on the number of SMEs created (or are in operation).

2.4.16 The programme and management expenditures for the three years 1995 to 1997 are indicated in Table 2.2.

TABLE 2.2: PROGRAMME AND MANAGEMENT EXPENDITURES
(Rs. Lakhs)

YEAR		ITEM OF EXPENDITURE		
		PROGRAMME	MANAGEMENT	TOTAL
1995	Actual Exp.	37.9	34.8	72.7
	At 1995 prices	37.9 (15,406)	34.8 (14,146)	72.7 (29,552)
1996	Actual Exp.	63.1	25.1	88.2
	At 1995 prices	57.3 (14,580)	22.8 (5,802)	80.1 (20,382)
1997	Actual Exp.	85.4	30.0	115.4
	At 1995 prices	80.6 (11,225)	28.3 (3,941)	108.9 (15,166)
1995-1997	Actual Exp.	186.4	89.9	276.3
	At 1995 prices	175.8	85.9	261.7 (19,285)

Note: (1) Actual expenditures have been deflated by the consumer price index for industrial workers to get constant-price expenditures. (2) Figures in parentheses are expenditures per new enterprise created in the relevant year.

2.4.17 For the three full years of operation 1995-97, Table 2.2 shows that programme and management expenditures amounted to Rs. 175.8 lakhs and Rs. 85.9 lakhs (in real terms) yielding a total of Rs. 261.7 lakhs. Total expenditures grew faster during the last year than in the second year of the 3-year period. PMU costs as a proportion of total expenditure have fallen from 48 per cent in 1995 to 28 per cent in 1996 and to 26 per cent in 1997. The falling ratio of PMU to field expenditures suggests that IDPMS has been riding a learning curve. This is also indicated more directly by the real expenditure per enterprise created which has fallen steadily from Rs. 29,552 in 1995, to Rs. 20,382 in 1996 and on to Rs. 15,166 in 1997. For the 3-year period as a whole, *per enterprise expenditure has been Rs. 19,285*. Note also that whereas programme expenditure per enterprise created in 1997 fell to 73 per cent of its 1995 level, PMU expenditure per enterprise fell to 28 per cent of its 1995 level. These trends reflect some combination of both *learning economies and scale economies in IDPMS operations*. The relative importance of learning and scale could not be deciphered since expansion in scale coincided with what was undoubtedly a period of learning for the organisation. While learning economies can be expected to decline in the future as IDPMS consolidates its projects rather than embark on new forms of field operations, the extent of that decline is difficult to predict. On the other hand, there is reason to believe that there remain unexploited scale economies that IDPMS could benefit from especially in the matter of acquiring more specialised knowledge and expertise for developing SMEs.

2.4.18 Much the same point (concerning both learning and scale economies) is indicated by the breakdown of expenditures by agency - expenditures at headquarters, in district offices and through NGOs - shown in Table 2.3.

TABLE 2.3: THE CHANGING STRUCTURE OF EXPENDITURES
(Rs. Lakhs)

	Programme Expenditure			PMU Expenditure		
	1995	1996	1997	1995	1996	1997
Headquarters	24.6	16.2	25.2	32.5	19.7	19.6
%	(64.9)	(25.7)	(29.5)	(93.4)	(67.7)	(65.3)
Districts	1.7	6.5	9.1	2.3	8.1	10.4
%	(4.5)	(10.3)	(10.7)	(6.6)	(32.3)	(34.7)
NGOs	11.6	40.4	51.1	--	--	--
%	(30.6)	(64.0)	(59.8)	--	--	--
Total	37.9	63.1	85.4	34.8	25.1	30.0

Note: (1) Actual expenditures have been deflated by the consumer price index for industrial workers to get constant-price expenditures. (2) Figures in parentheses are expenditures per new enterprise created in the relevant year.

2.4.19 Expenditures on both programme and PMU were overwhelmingly concentrated at headquarters in the first year. But thereafter there has been a sharp rise in the share of PMU expenditures in the district offices at the expense of headquarters. Similarly, programme expenditures accounted for by Bangalore have fallen significantly over the period while expenditures through NGOs and at district offices have increased. The initial concentration at headquarters may be explained by a combination of two factors. First, the initial fixed costs of promoting the programme would have had to be concentrated in Bangalore. As the scale of field operations expanded, headquarters inputs could remain relatively constant thus realising scale economies. Second, a considerable amount of effort was expended in 1995 at directly establishing self-help groups (SHGs) whereas in subsequent years, IDPMS had learnt to rely much more on field staff and especially NGOs.

2.5 Constraints In SME Development: Credit, Marketing and Scale

SME development is held back principally by constraints of credit, marketing and scale. Small- and micro-enterprises face continuing difficulties in accessing bank loans and thereby graduating into more competitive and efficient entities. Problems of market demand and market assessment hold back SME creation and raise the mortality rate of existing enterprises. In many sectors, the small size of enterprises is a serious handicap in achieving market competitiveness in the face of urban or modern-sector competition.

Credit

2.5.2 Credit constitutes a major constraint, perhaps *the* major one, on SME development. This is no less the case with the SMEs developed or sought to be developed by IDPMS. The specific issues connected with IDPMS experience and its evaluation are taken up separately in Chapter 3. The present discussion is intended to place that experience in a more general context of rural informal credit.

2.5.3 In the rural areas and groups which IDPMS deals with, the prevalent informal lending rates range between 3 per cent and 10 per cent (sometimes more) *per month*. The relatively high costs of administering micro lending and the difficulties of acquiring borrower information or monitoring the use of funds have largely ensured a continuing role for informal lending in rural India. While part of the premium in informal lending rates may be explained along these lines, it is also the case that the moneylender, by virtue of his local informational base, often enjoys a monopoly premium. This advantage accrues to him as the incumbent lender or 'insider'. At these interest rates, many investment possibilities in the rural SME sector cannot be realised even if they are highly profitable relative to investment

projects that are routinely funded in the formal sector. In addition, many rural people must also confront the need for consumption loans arising from seasonality of employment and incomes, and occasional lumpy expenditures. Informal financing of these needs further drains their incomes and thus limits self-financing of investment as well.

2.5.4 Subsidised credit through various government programmes have helped to some extent in reducing dependence on informal credit. But these programmes have run into problems arising from poor design, leakages or corruption, and politically-motivated credit allocation and loan moratoria. Moreover, financial sector reforms introduced since 1991 may lead to further marginalisation of rural areas and their poorer populations. Some erosion in the resource flow to rural areas has already occurred in the period 1991-96 (Majumdar, 1997). It is in this context that new initiatives have been undertaken or are being proposed to tackle the credit constraint on SMEs. The new initiatives in micro-finance entail lending through NGOs at market rates of interest. The funds are secured through both donors and corporate investors. Much of this is aimed at the poorest including women. The SEWA bank, NGOs like MYRADA and the NABARD-initiated SHG-Bank Linkage Project are the ones usually mentioned in the Indian context. SEWA has been able to reach about 50,000, mostly urban-based women borrowers, MYRADA has reached about 60,000 borrowers under the NABARD SHG-Bank link formula. Together with a sprinkling of similar NGO-based initiatives, these add up to just a few hundred thousand of micro borrowers (Kaladhar, 1997). The more formal rural financial institutions such as the Regional Rural Banks follow rather more straightforward banking practice in insisting on collateral assets and third-party guarantees. Thus, in the (old) integrated Dharwad district, micro-lending during 1997 constituted a mere Rs. 9 lakhs involving some 150 SHGs out of a total lending of Rs. 315 crores.

2.5.5 What the new initiatives aim at is a quantum change in the quality and quantity of credit reaching the poor. This is to be achieved alongside the commercial viability of the lending agency thus avoiding any interest subsidy and implying interest rates considerably lower than the moneylender's but also substantially higher than the formal rate. 'High quality credit' meaning very low rates of default (in the lender's perspective) and money available for both consumption and production (from the borrower's viewpoint) is also to be ensured. Superior delivery is to be achieved by avoiding the old government financial institutions and relying on more agile NGOs.

2.5.6 However, given the still very small volume of microfinance passing through either the NGO or the banking system, two issues arise: (1) what are the operational constraints to higher volume? (2) what institutional framework can be employed to raise the volume to significant levels?

2.5.7 Evidence suggests that NGO-SHG intermediation has helped banks reduce transactions costs by about 20-40 per cent as compared to direct lending (Majumdar, 1997). Default rates have also been similarly reduced from about 22 per cent to negligible levels while transactions costs of borrowers have been reduced by about 85 per cent. But the issue that has not been addressed is the costs at which these improvements have in fact been achieved. Unlike reduced transactions costs, reduced default rates are not social gains to the extent that they involve pure transfers from borrowers to lenders.

2.5.8 While intra-SHG lending has surprisingly low default rates, it also tends to be at rather high rates of interest (often 36 per cent) and mostly for consumption purposes. The high interest rate is of course lower than the informal rate and encourages saving. But a

lower rate would presumably help raise investment. One hypothesis to explain the high-rate policy is that the SHGs do not expect high-productivity investment to take place.

2.5.9 The main assumption of recent banking and NGO initiatives appears to be that commercial viability of lending is compatible with rural agricultural and non-agricultural SME lending. The conditions that might make this so, however, have received far less attention. Much of the attention has been focused on the purely micro-administrative aspects of lending such as accessibility, flexibility and low-cost operations. While these are indeed important elements of any serious reform, they scarcely exhaust all the economic considerations relevant to the objective. Put differently, the new initiatives focus on minimising administration costs and raising loan recovery rather than improving the viability of the SMEs and thereby achieving an increase in loan demand, greater scale economies in administration and lower rates of default, whether wilful or otherwise.

2.5.10 What the existing approaches ignore is that *viability is also a systemic issue*, not just an individual bank or individual enterprise issue. Market failures in terms of unemployment, underinvestment in human capital and training, local monopoly in marketing or information together with government failures must be addressed if SME credit is to achieve a quantum leap. The IDPMS approach, as described in Section 2.2, may be understood as an appropriate though small-scale effort in the right direction.

Markets and Marketing

2.5.11 SME activities in IDPMS areas include both the provision of services and the production of manufactured goods. The former typically have highly local (usually village) markets while the latter may have village, area (taluk) or more distant markets. Services

demand are somewhat easier to anticipate than is the case for manufactured goods and marketing itself is not typically a problem. On the other hand, the viability of enterprises is easily threatened by excessive competition given the narrow local market. Finally, service activities are typically subsistence enterprises and so there is not much prospect of a substantial return to managerial or entrepreneurial skills.

2.5.12 Table 2.4 provides a classification of the main SME activities in IDPMS areas. Activities are classified in terms both of nature of product (manufactured goods versus services) and proximity of market (village, district and extended areas).

TABLE 2.4 A MARKET-BASED CLASSIFICATION OF ACTIVITIES

SERVICES	MANUFACTURED GOODS	
VILLAGE	TALUK/DISTRICT	EXTENDED MARKET
Retail shops	Jute-rexin bags	Wool yarn
Service shops	Sisal products	Wool kambliis
Screen-printing	Chilly powder	Wood inlay
Desk-top publishing		Silk reeling
Cable TV		Cocoons
Motor rewinding		Dairying
TV and radio repair		Lambani crafts
		Kasuthi
		Compressed Bricks
		Cement bins
		Leather products
		Musical drums

2.5.13 The problem posed by narrowness of local markets in services is illustrated easily. In the case of Sanjay Baligar's cable TV operation, the entry of just one other player was sufficient to spoil the highly local market for the service. While Baligar expects to

emerge successful from this contest, it could easily have been otherwise. Ningraj Irani's screen printing business is clearly a success case. But he was quick to point out that many in his training cohort who had started similar shops suffered from want of steady demand. In short, the local market for these and other services tends to be plagued by instability so that SMEs are apt to suffer high rates of mortality or sickness.

2.5.14 In the case of already *established* small manufacturing businesses, middlemen often control access to market information and markets and thereby exact a high margin from the SMEs. As for new areas or new markets for established crafts, market assessment is tricky business and individual micro entrepreneurs may end up in the thrall of these intermediaries unless innovative channels are devised. While it is clear that IDPMS projects should aim to tap not local markets alone but also urban or distant markets, the marketing means for achieving this are not easy to come by. Greater reliance must be placed on exhibitions, emporiums and showrooms rather than contractors, merchants and other traditional channels. IDPMS beneficiaries clearly have a tough time anticipating or judging the markets they face. For example, in the case of traditional artisanal products such as lambani crafts, there is need to distinguish between market segments that want functionality and standard patterns and those that can appreciate the idiosyncratic creativity of individual artisans. IDPMS projects could collectively tap the institutional market by appealing to image advertising i.e., the customers could be persuaded to buy the products and advertise the fact that they use only rural-artisanal products. Another example is the case of chilli powder where the fear of adulteration is very real and reliance on middlemen suspect. In this instance, co-operative marketing channels need to be devised that avoid excessive middlemen margins at the same time as they achieve scale economies.

Scale of Operations

2.5.15 This brings us directly to the question of the scale of SME operations. It is almost an axiom of the modern world that large scale confers competitive advantages not only in production itself but also in marketing, finance, and the ability to adapt to changing conditions. High-volume production confers many economic advantages. Nevertheless there are sectors of manufacturing which support a wide array of techniques and production scales. SMEs can and do achieve competitive niches based on the local availability of natural resources, specialised, often traditional, skills and the advantages of flexible production that small scale brings.

2.5.16 The IDPMS experience appears to have engendered support especially among NGOs working for IDPMS for the view that only individual small enterprises had any real prospect of success since group enterprises had routinely run into self-management problems. While this seems evidently to be the case in the sphere of production (where we saw only a few group enterprises), the NGOs also conceded that the scope for co-operation in the pre- and post-production activities had not been given sufficient opportunity. Group enterprises in procurement, marketing and, of course, credit would seem to have a clear comparative advantage. The case of PMSR whose effort at building a credit co-operative has been quite successful illustrates the possibilities.

2.5.17 More generally, sickness and mortality among SMEs in sectors where they have some clear basis for competitive advantage in production appears generally to be related to constraints of marketing and finance. But these are also problems that may be amenable to solution through co-operatives which can achieve scale economies. This is not to say that scale diseconomies in production do not matter. But these diseconomies cannot

be easily separated from the actual arrangements for marketing or finance that exist. That is to say, there may be a Catch-22 sort of dilemma: efficient marketing requires high volume and reliable production whilst high volumes and continuous output in turn require efficient and reliable marketing. This is equally true for agro-products as for the artisanal/manufactures sectors. If SMEs are to develop in their areas of 'natural' comparative advantage, the dilemma would obviously have to be resolved at the marketing and credit ends by introducing larger scales through co-operative arrangements.

2.5.18 Especially in manufacturing, rapidly evolving consumer preferences and production technologies entail quickly changing market conditions. For SMEs to adapt and survive in these evolving markets, it is obviously necessary that they are able to modify and improve their production skills and technologies. Hence, the introduction of a new technique may not be enough to ensure the *sustained* viability of SMEs. Once again, co-operative institutions must be created to meet the dynamic technology and training needs of the producers. Once again, the provision of such *overhead* services involves scale economies which the individual enterprises could not by themselves achieve.

2.6 Viability & Replicability

The purpose of this section is to analyse the crucial issues of the *viability* of enterprises created and the *replicability* of the IDPMS model. On the question of economic viability of SMEs, certain conceptual issues are raised and addressed. The assessment of enterprise viability is complicated by several considerations: (1) the relatively short duration over which IDPMS itself and most of the enterprises have been in operation and the associated costs of learning; (2) the prior expectation of relatively high rates of enterprise

mortality; (3) the conceptual treatment of various components of IDPMS costs; (4) the incompleteness of the available data base on project benefits; (5) the question of externalities and spillover benefits (beyond project enterprises) generated by field operations; and (6) the fact that there may be a gap between social versus private benefits and costs in view of various market failures. Conclusions on viability are based on best judgments of relevant parameters.

2.6.2 As to replicability of the model, this is of course closely tied to enterprise viability on the one hand and, on the other, the resource base of IDPMS. Our recommendation for the near term (through 1999) is that IDPMS consolidate its efforts and experience by concentrating on existing areas/projects rather than expand into new ones. But there are also indirect methods of replicating success via institutional development, training of NGOs and government agencies, and refinement and diffusion of the model through research and dissemination of lessons learnt. This is dealt with in Chapter VI

2.6.3 The question of viability is, in one sense, easily resolved. A firm is viable if and only if it has the ability to meet its costs and survive in the market. This is the criterion of market or *financial viability*. Costs and benefits are just those resource expenditures and revenues respectively which the firm itself must reckon with. In particular, all costs incurred in establishing and maintaining the firm as a going business constitute the firm's costs. But basic questions may be raised regarding the adequacy of this criterion in regard to the appropriate notion of costs and the nature of markets involved.

2.6.4 *Nature of Markets Involved* Financial viability is not necessarily the same as the criterion of *economic viability*, much less can it be equated to a criterion of *socio-economic viability*. Differences among these notions arises depending on the nature of markets and

social or economic context in which the enterprise operates. These differences ultimately show up as different lists and/or valuations of the benefits and costs involved.

2.6.5 The Range of Costs and Benefits If an enterprise is financially viable, then, so long as there are potential entrepreneurs capable of recognizing and willing to respond to the opportunity for financial gain, it ought to be able to come up on its own. But if financially viable firms must nonetheless be externally coaxed into existence, then, should the external costs of intervention also be included in the costs of start-up? In the present context, this translates into whether and, if so, what portion of IDPMS costs should be recovered by firms' revenues.

2.6.6 Before addressing these substantive issues, it is useful to clear the deck of certain other, relatively technical complications. One such complication has to do with the potential for wide variability in enterprise performance. In any given period of time, we ought to expect some enterprises to be making losses and turning sick, even ceasing to exist, while others flourish making profits in excess of all normal costs. Focus must therefore be on *average performance* of all SMEs in a particular activity or even in the whole programme, not individual enterprises.

2.6.7 Even so, a bad (good) year for an industry may show up an abnormally large (small) proportion of sickness so that even the average for a particular year may be misleading. Allowance has therefore to be made for the *state of an industry* in the year of evaluation relative to its long-term average state. A particular instance of this complication arises in the case of IDPMS enterprises all of which have been in existence for at most three years. One may reasonably expect that some part of this period (perhaps all of it particularly in the case of more recently started SMEs) involved a *learning process* during which

performance will not fully reflect potential. The learning in question here is not confined to the SMEs themselves but also includes learning on the part of IDPMS and its agencies. Errors in this process must therefore be allowed for.

2.6.8 A related observation is that, especially in the case of SMEs, mere short-term sickness may nonetheless kill off an enterprise with a healthy future. Even if an enterprise can expect to survive through the long-term, any adverse movement in the short run may kill it. This is symptomatic of the failure of the market for capital or insurance. The point is that financial liquidity problems put an SME's future in jeopardy much more quickly than is the case with large enterprises with diversified outputs and/or ready access to bank credit. This is a primary reason why SMEs experience a higher rate of 'normal' mortality compared to large firms.

2.6.9 This last point about market failures brings us to the more general consideration of the nature of markets raised above. This has been discussed at some length in Paras 2.2.12 to 2.2.25 so that it is sufficient to state the general conclusions without repeating that discussion here. Market failures in the IDPMS areas include labour underemployment, insufficient creation of human capital and monopolistic vested interests in labour, credit, marketing and other areas. Such failures imply that SMEs that are in fact 'economically viable' may turn out to be financially unviable. The former assesses the resource expenditures at their true opportunity costs to society rather than at prices paid in imperfect markets.

2.6.10 When economic viability of an activity differs from financial viability, state action in the form of subsidies or taxes is considered appropriate. If an activity provides greater net benefits than is directly captured by the enterprises engaged in it, a subsidy equal

to the difference is optimal. If an activity entails costs that enterprises engaged in it do not themselves incur, then, those enterprises ought to be taxed to that extent. A clear case, perhaps the most important in the present instance, of market overvaluation of a resource is the case of underemployed labor that finds employment in the SMEs initiated by IDPMS. The market wage overstates the true cost of labor. However, setting the wage cost equal to zero is also problematic. A zero accounting wage does not take account of the fact that it would justify drawing capital away from more capital-intensive into these labor-intensive activities on a large scale the consequence of which will be to reduce surpluses over wages and thus the rate of investment in the economy. Hence, a 'shadow wage' somewhere between the market wage and zero is usually recommended in economic evaluation of viability in these market conditions.

2.6.11 Apart from the matter of proper economic valuation that arises due to market failures and imperfections in the rural Indian context, three other questions are also relevant.

2.6.12 The first has to do with the 'hidden subsidy' that the SMEs under IDPMS aegis do receive at least in their start-up phase. Apart from some exceptions where some government subsidy is also tapped, most of this subsidy is from IDPMS itself in the form of its own management and operating or field costs. One question here is how much subsidy is in fact involved to ensure market viability. This cannot be easily identified without more detailed data and analysis, for example of the startup and on-going subsidy elements involved and of IDPMS costs that are *properly allocable to its SMEs*. The other, more important question is to determine whether the SMEs created have been viable after taking into account the appropriate amount of IDPMS costs that represent the hidden or startup subsidy.

2.6.13 A second issue, a more special case of the first issue above, is whether the costs of creating 'social infrastructure' in its areas should be included among the costs of SME development by IDPMS. As with all infrastructure, it would be erroneous to attribute and recover such costs from the enterprises benefited because no one-to-one identification between costs incurred and beneficiaries can be made. Rather, such infrastructure costs are best met as a general social subsidy where considerations of ability to pay and socio-economic equity alone would be relevant. Again, available data preclude separation of the costs associated with social infrastructure creation from those of SME creation proper.

2.6.14 Finally, it is certainly possible to go even beyond economic viability to social-political benefits and costs. From a social-political standpoint, viability has not merely an economic-efficiency dimension but also the dimensions of internalising social concerns in economic calculation and ensuring the political viability of the whole social order. At least in this context, whether economic calculation can be separated from the socio-political is open to doubt. Thus, should the economic viability criterion be extended to include such benefits as women's empowerment or the potential costs of social disruption that might result in the absence of the interventions being evaluated?

2.6.15 In view of the many considerations that appear relevant to evaluating enterprise viability and the paucity of adequately precise data on enterprise performance, IDPMS costs and the market context, only a broad indication regarding viability is possible at the present time. A particular difficulty is that the precise extent of employment gains has not been easy to determine. Nor do we have a break-up of the SMEs created in terms of the range of their financial profits or surpluses over costs. Nevertheless, it is possible to go some distance toward saying something meaningful about the overall viability of the SMEs

created by the programme on the basis of assumptions that appear broadly applicable to the rural Karnataka context..

2.6.16 Within the project areas, female daily wage rates range between Rs. 20 and Rs. 30 in the lean season; the corresponding range for male wage rates is Rs. 30 to Rs. 40. The beneficiary gender ratio is approximately 70 per cent female. Applying this ratio to the wage rates, the *weighted average project wage rate* works out to Rs. 28 daily. As regards rural underemployment, beneficiary responses generally suggest that females are underemployed for about 6 months in the year and males are underemployed for about 4 months. Hence, the *weighted average project underemployment rate* works out to 5.4 months per annum or, say, 135 days (assuming a working year of 300 days). Thus, a subsistence enterprise in the project area which we define as one that gives its owner year-round employment, yields *on average* Rs. 3,780 per annum. These numbers seem broadly applicable to a majority of the SMEs created under the programme. Moreover, most such enterprises appear to be able to meet their on-going material and capital costs although there are others which produce a definite profit over and above wages for their owner and some others that appear to be unable to cover their own capital costs. Hence, a broad generalisation that the SMEs created are financially viable on their own *without* counting any of the costs of IDPMS seems applicable.

2.6.17 However, the latter costs are far from being negligible at least relative to the revenues of the SMEs. The total cost of IDPMS operations works out, when reckoned on a per-enterprise-created basis, to as much as Rs. 19,285 (see Table 2.2). This is about 5 times as much as the annual net revenue of Rs 3,780 for a subsistence enterprise noted above. It does not seem unreasonable to suppose that a high proportion of IDPMS costs are indeed

allocable to the SMEs created. If so, the 'typical' (subsistence) enterprises created must be reckoned to be *financially* non-viable. But it turns out to be otherwise, at least under the parameters assumed, when we consider the *economic* viability of these SMEs.

2.6.18 If we assume that all of the IDPMS costs or 'investments' incurred to date have been necessary to the development of the SMEs created to date and that no further supports are called for in respect of those SMEs, that all of the enterprises created are one-person subsistence enterprises which afford only lean-season employment for that one person, and that the shadow wage is half the wage prevalent, then, the net economic profit of the average enterprise is Rs. 1,890 (one half of the net income of Rs. 3,780). If we further suppose that the social discount rate is 12 per cent, then the net present value of the average IDPMS-SME is Rs. 15,750. Given that the various assumptions made above probably err on the side of underestimating the net benefits of the SMEs created, this figure compares quite favourably with the total cost of IDPMS operations of Rs. 19,285. Recall that the social benefits of empowerment and any economic spillover benefits have not been included in the above calculation. In addition, all of IDPMS costs have been taken to be attributable to the SMEs. Hence, within the limitations of available evidence, we would be justified in concluding that the SMEs created have, on average and in rough terms, achieved economic viability.

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Chapter III

CREDIT ISSUES

3.1. Introduction, Rural financial services in India and Karnataka

Background on the rural financial sector:

Over the past decades, formal financial services in the rural areas consisted mainly of directed lending programmes focusing on agriculture, and to a limited extent, savings mobilisation. Currently the mandate concerning directed credit requires that commercial banks lend 40 per cent of net bank credit to the priority sector with sub targets of 18 per cent to agriculture, 10 per cent to weaker sectors and different sub-targets under the small-scale industries sector, linked to the loan size. The priority sector also includes the Government directed programmes which involve provision of capital subsidy along with credit and a major role to the Government agencies in the identification and selection of borrowers. However, in the implementation of Government sponsored schemes the results have not always been as expected. Instead of developing a sustainable ongoing client -bank relationship, the Integrated Rural Development Programme (IRDP) and other Government sponsored programmes have tended to become ad-hoc, temporary operations in lending.

3.1.2 Since the nationalisation of the major commercial banks (1969), the number of bank branches in the rural areas has increased substantially. Although this enhanced outreach of the financial sector has led to an increased credit flow in agricultural and related activities, the performance of the rural financial institutions turned out to be poor. A high level of overdues, political interference, subsidised uneconomic interest rates, high transaction costs and pressure to write off non -performing assets have led to the non-

viability of many of the rural financial institutions. Despite the large rural banking network in place (more than 153,000 rural credit outlets in India), the vast majority of the rural population still has limited access to formal financial services.

New Developments:

3.1.3 The reform of the financial sector in India started with the Narasimham Committee report in 1991 which stated that the performance of the commercial banks, co-operatives and Regional Rural Banks (RRB) should be improved. A number of measures have been taken, including deregulation of interest rates, financial and managerial restructuring, including recapitalisation of RRBs, and introduction of prudential accounting norms. As increased recovery rates and reduced risk in lending operations have now become the main focus of those involved in formal lending operations in rural areas, the credit needs of the rural poor which are small, frequent and involving high transaction costs, are hardly met.

3.1.4 Bank managers who in the past were evaluated on the amount of credit disbursed in the priority sector, are now evaluated on the repayment rate and the decrease in Non Performing Assets (NPAs) in their area of operation. The reform measures should lead to a better performing financial sector where the full responsibility for all aspects of the credit decisions remains with the banking sector and where sustainable client-bank relationships can be built up.

3.1.5 Since the early nineties, there has been an increasing interest in developing microfinance markets. Studies and pilot projects have indicated that the poor are bankable and as a consequence, rural alternative financing schemes have emerged rapidly. The latest

report on banking sector reforms (April 1998) recommends that the banking policy should facilitate the evolution and growth of micro credit institutions including Local Agricultural Banks (LABs) and specialised NGOs.

Micro finance schemes implemented by banks:

3.1.6 Today there are two micro finance schemes which operate nation wide and which are not implemented through governmental organisations. Both the National Bank for Agriculture and Rural Development, being an Apex level financial institution (NABARD) and the Small Industries Development Bank of India (SIDBI), a subsidiary of the Industrial Development Bank of India, started a microfinance scheme involving Self-Help Groups (SHGs), Nongovernmental Organisations (NGOs), Micro-Finance Institutions (MFIs) and Commercial Banks. The objective of the schemes is the creation of supplementary credit supply for meeting the needs of the rural poor, by combining flexibility, sensitivity and responsiveness of the informal credit systems with technical and administrative capabilities of professional financial institutions.

NABARD schemes:

3.1.7 The NABARD- SHG linkage scheme was launched in 1991-92 and has the following characteristics:

- NGOs promote, train, organise and monitor the SHGs, consisting of 10 to 25 members (with financial support of NABARD);
- After 6 months of saving and internal lending, the SHG is eligible for a bank loan (12 per cent interest/year). The loan amount depends on the needs of the SHG within a prudential framework based on the amount of savings collected by the group.
- The bank loan is repaid half yearly with a total repayment period of 5 years. The loan can revolve in the SHG according to the policies of the group members. The interest income thus generated (between 24 per cent and 36 per cent/year minus 12 per cent to be paid to the bank) accrues to the group.

3.1.8 NABARD refinances commercial banks (6.5 per cent/year) which lend to the SHGs (12 per cent/year). The banks can also lend their own funds to the SHG without NABARD refinance. It assists in the organisation of exposure and awareness programmes for bankers with the help of NGOs and MFIs.

3.1.9 Another scheme of NABARD is the support and bulk lending programme aimed at NGOs. NABARD provides Revolving Fund Assistance to selected NGOs at a service charge (interest is 10.5 per cent/ year, NGO onlends for 12 per cent/year).

3.1.10 The purpose of both schemes is to improve access to financial services for (poor) people in rural areas. Under the last scheme it is envisaged that NGOs become sustainable financial intermediaries through the bulk-lending programme. The other scheme targets SHGs as future clients with direct access to commercial banks. In this case the NGOs assume the role of promoting, training and monitoring of the SHGs.

3.1.11 So far the experiences gained countrywide are encouraging. The repayment rate is close to 100 per cent. A total of 150,000 families have benefited from the scheme, 9000 SHGs have been linked to banks, and Rs. 250 million have been lent (of which half is lent under the bulk lending scheme through 15 NGOs).

SIDBI scheme:

3.1.12 The more recent SIDBI microfinance scheme operates solely through NGOs and MFIs. SIDBI funds are lent to NGOs (9 per cent interest) with a good track record, who onlend these funds to SHGs (at interest rates not exceeding 15 per cent). SIDBI finances capacity building activities for NGOs, in the form of a grant, in order to create more professional financial intermediaries. However, following the financial sector reform policies, actually most of SIDBI's efforts are geared towards monitoring and controlling activities, in

Financial Services in the State of Karnataka:

Lead Banks -

3.1.14 The State of Karnataka is divided into areas which are assigned to a specific Lead Bank. The Lead Banks for Mysore and Dharwad districts are the State Bank of Mysore and the Vijaya Bank respectively. The Lead Bank is responsible for the supervision of the Regional Rural Banks (Grameena Banks) in the area, and for the transfer of loan capital to the Regional Rural Banks (RRBs). NABARD covers the losses made by the RRBs, the Lead Bank not having a financial responsibility for the losses of the RRBs.

Regional Rural Bank:

3.1.15 The RRB in Mysore District is the Cauvery Grameena Bank with a network of 51 branches. In Dharwad District the RRB is the Malaprabha Grameena Bank with a network of 215 branches, out of which 143 branches are profit making. This RRB is among the best performers in the country. Since 1994 the bank has set off its accumulated losses and since then has made a profit. Every rural field branch of the bank has a fixed service area, which comprises between 20 and 70 villages.

3.1.16 Karnataka has a better banking network than many other States, with 19 nationalised banks, the State Bank of India and its 7 associate banks, 25 private sector banks and 13 Regional Rural Banks. A total of almost 4500 (1075 RRB and 3425 commercial banks) bank branches have been set up, of which more than 2300 are in the rural areas. There are almost 4300 primary co-operative agricultural credit societies at village level, 177 primary co-operative agricultural and rural development banks at taluk level, 19 district

co-operative central banks and one Apex co-operative bank at State level. The co-operative banks provide long term credit for agricultural activities.

3.2. Financial schemes being used by RSMEDP beneficiaries:

3.2.1 Description -

The RSMEDP beneficiaries use the following financial services (formal and informal):

i) SHG linking programme of NABARD, described in para 3.1.7

ii) Dalit Women's Multi-Purpose Co-operative Society.-

This is a co-operative bank of scheduled caste and scheduled tribe members which has been established in Kollegal in Mysore district with the support of IDPMS because formal bank credit has been restricted due to a high default rate in the area. It is also called the Dalita Mahila Vividha Uddesha Sahakara Sangha.

iii) DWCRA -

The Development of Women and Children in Rural Areas (DWCRA) scheme is UNICEF funded and provides revolving funds to SHGs consisting of rural women, who want to undertake productive activities. The fund is implemented by the District authorities through the Block Development Officers, who select the beneficiaries and appraise the loans. The maximum amount of the revolving fund lent to an SHG is Rs. 25,000.

iv) Rashtriya Mahhila Kosh -

This is a programme of the Central Government to assist NGOs working with women's saving and credit groups. The scheme provides the NGOs with capital (at 8 per cent interest/year) which can be used for onlending to the SHGs (at 12 per cent interest/year).

This scheme has been taken advantage of in Mysore district by SUMANA, a partner NGO of IDPMS.

v) Prime Minister's Rojgar Yojana Scheme -

This is a Central Government sponsored scheme designed for unemployed youth to take up economic activities. The scheme is implemented by the District Industries Centre (DIC) and focuses on manufacturing and services activities. Proposals for setting up agricultural and trading enterprises are not considered. Beneficiaries are entitled to receive other support services in the field of marketing, infrastructure and technology, via the DIC.

vi) Chit funds and money lenders (informal financial services) -

A Chit Fund is the Indian version of a ROSCA (Rotating Savings and Credit Association), whereby a group of people get together to save fixed amounts. The pooled contributions are lent to the member who offers the highest interest. The interest amount is often deducted from the amount and distributed among group members after giving a cut to the "organiser" (often a local businessman). Interest rates charged by moneylenders vary between 3 per cent and 100 per cent per month.

vii) Individual loans -

Individual loans can in principle be obtained from all the bank branches. The loans require collateral (fixed assets) up to 100 per cent of the loan amount and a guarantor. Many bank branches do not give individual credit to small or micro entrepreneurs as a result of the strict criteria concerning recovery rates, which are defined by the banking sector reform committee. The risk of default is considered too high.

3.2.2 *Assessment of performance of the various schemes in the RSMEDP in Mysore and Dharwad districts -*

i) SHG- bank linkage scheme -

In Mysore district most well established SHGs are refinanced through the RMK and DWCRA schemes. The SHG-bank linkage scheme has not yet been implemented, which can be explained by the poor performance of the RRB, contrary to the performance of the RRB in Dharwad District.

The credit disbursed by banks through the SHG linking scheme in Dharwad district is Rs. 900,000 for 106 SHGs (97/98). Most of the credit was disbursed through the Malaprabha Grameena Bank (RRB). The total number of SHGs in the district is 540, of which 90 per cent consists of women's groups. The SHGs are promoted and supported by 3 NGOs (India Development Services (IDS), Chaitanya Institute for Youth and Rural Development (Chinyard) and Bharatiya Grameena Seve Samsthe (BGSS), the first two NGOs being partners of IDPMS).

In 1998, IDPMS conducted a survey to study the impact of the NABARD- SHG-Bank linkage in Mysore and Dharwad districts. The survey covered 77 bank branches in rural and semi-urban areas, out of which 40 branches were implementing the SHG scheme. The major reason for the scheme not being implemented by the other banks is the non-existence of SHGs, which can be explained by the absence of NGOs.

Presently the motivating factors for bankers to lend under the SHG scheme are the targets and directives given by the Regional Office which oblige them to lend to SHGs. If it can be proved that lending to SHGs is profitable, an attitudinal change in field level bank managers can be achieved. The success of the SHG – bank linkage scheme is highly dependent on their willingness to lend.

ii) The Dalit Women's Multipurpose Co-operative Society in Kollegal in Mysore district, which includes a co-operative bank, has 600 members, Rs. 400,000 in liabilities (shares, savings and seed capital from the Co-operation Department) and till date the bank has provided 225 loans varying from Rs. 500 to 3,000. The instalments are monthly and the interest rate is fixed at 24 per cent per year. Loans should be used for productive purposes. The advantage in this type of institution is that it is a members based bank (self managed and financed), and there would be transparency in management and exercise of prudence in borrowing external capital. However, its establishment requires a long period of group promotion and training, and due to the small size of capital only a limited number of small loans can be given.

iii) DWCRA, PMRY and RMK schemes -

There are some positive points to the DWCRA, PMRY and RMK schemes. These include increase in availability of working capital for rural women and youth, enhanced access to bank credit for those who normally would not have this advantage, promotion of SHG methodology through subsidised schemes, and familiarisation of bank managers with group lending schemes. Poor people also get an incentive to save. However, certain deficiencies in these schemes need attention. These include the absence of a building up of a clear bank-client relationship, the lack of a technical and financial appraisal of credit needs, and long time for processing and disbursement of credit resulting in credit not being available when needed. The selection of beneficiaries is often influenced by local politicians, with the possibility that SHGs are especially created for accessing credit. There is also lack of support services for improvement of skills, training and marketing which are needed to successfully use the credit in enterprise development.

iv) Chit Fund and informal sector lending -

One entrepreneur (silk reeler in Kollegal) made use of credit from a Chit Fund in order to meet his credit need. Many poor people in rural areas make use of such informal lending to meet emergency needs or on special occasions such as wedding. Chit Funds and other informal schemes help rural people to overcome occasional cash shortages in a flexible way and can improve thrift among poor people. However, interest rates are often high, there is dependence on other participants in the Chit Fund and the reliability of the organiser is crucial.

v) Bank loans for individuals -

The Mission met only one entrepreneur (male) who had received an individual bank loan. Individual loans are tailor made financing, obtained after technical screening of the proposal and carry relatively low interest rates. However, they require collateral which makes it very difficult for poor people and women who do not generally have household assets in their name. Bank managers are reluctant to give individual loans due to repayment problems, and the high transaction costs of micro credits for the banks.

3.3 Findings and observations on credit activities of IDPMS under the RSMEDP:

The credit component of the RSMEDP was reviewed through discussions with IDPMS staff, interviews with financial services users in the project area, meetings with bank branch managers at field level, lead bank managers, NABARD managers and others involved in microfinance, interviews and meetings with NGOs managers and field staff, and through documentation on the financial sector reforms, district credit plans, SHG schemes and IDPMS' monitoring reports.

3.3.2 The role of IDPMS in the delivery of financial services with a view to developing small and micro enterprises has evolved in the following activities:

- Introduction of economic activities in programmes of NGOs
- Creation of awareness on credit issues in NGOs and entrepreneurs.
- Advocacy and lobbying for micro finance policy and credit for the nonformal sector with bank managers and authorities.
- Sensitisation of bank managers on gender issues and the SHG methodology
- Linking SHGs, NGOs and banks in order to enhance credit disbursement to poorer people involved in SMEs.
- Providing linkages between small and micro entrepreneurs and banks through entrepreneurship training programmes.

3.3.3 In order to achieve these objectives IDPMS has undertaken activities based on the credit push and credit pull strategy, which includes entrepreneurs being made aware of the existence of financial services and their characteristics, and bankers being convinced that SMEs in the rural areas are bankable. In practical terms IDPMS staff has undertaken the following activities in the past 3 years:

- Acting as resource persons in training of SHGs
- Organising and conducting training in credit management for SHGs
- Organising and conducting training in gender issues for bankers
- Assisting NGOs and SHGs in having enhanced access to formal credit
- Organising network meetings with local bank managers and NGOs.
- Promoting SHGs and stimulating them to undertake saving and credit activities
- Assisting in the creation of a co-operative bank for the dalits in Kollegal.
- Introducing SHGs to the idea of using their own savings for credit purposes.
- Evaluating the impact of the NABARD-SHG linkage scheme in the two districts covered by RSMEDP.
- Linking SHGs to existing (governmental) credit schemes.

3.3.4 The SHGs are encouraged to make regular savings, draft their internal rules and regulations, hold regular meetings, lend funds internally before availing of bank loans, and to use credits for productive activities.

3.3.5 Besides these direct interventions, IDPMS also supports NGOs financially and technically, in promoting, monitoring and training SHGs. NGO field staff is paid for by IDPMS, but employed by the NGO.

3.3.6 The results achieved by RSMEDP in the period 1995 – 1998 is as follows. In Dharwad district, as of June 1998, 95 SHGs have been formed and trained with around 1,500 members, the total savings is Rs. 577,000, the cumulated amount of internal loans is Rs. 774,545, DWCRA loans of Rs. 472,400 have been obtained by 25 groups, and 12 groups obtained loans from a commercial bank under the SHG linking scheme, totalling Rs. 116,000. In Mysore district, as of March 1998, 46 SHGs were formed and trained with 784 members (95 per cent women), the total savings achieved is Rs. 163,000, and 18 groups have been linked to the DWCRA scheme with loans varying between Rs. 5,000 and 40,000.

Assessment of achievements:

A change of attitudes:

3.3.7 When RSMEDP started its intervention in SME development, the attitude of bankers towards financing SMEs was one of over caution. SMEs were generally disqualified from obtaining loans because the potential micro-entrepreneur lacks technical skills, might have a relative who is a defaulter to the bank, does not have collateral, and is likely to become a defaulter. Against this scenario, the main achievements of IDPMS under the

RSMEDP are that the attitude of bankers regarding micro entrepreneurs has changed, the gap between the credit providers and the potential borrowers is reduced, and NGOs have strengthened their expertise in micro finance issues.

3.3.8 The IDPMS has also made entrepreneurs aware of the existence of the various credit schemes and assisted them in the credit application procedures. Through IDPMS about 50 SHGs have gained access to external finance. Through improved cash flow management, the dependence of entrepreneurs on the moneylender has been considerably reduced. Bankers have been sensitised to the idea that rural (and/or poor, and/or female) entrepreneurs are bankable. Bank managers have been familiarised with gender issues and IDPMS has introduced well functioning SHGs to the bankers for refinancing. Through IDPMS, bank managements in Dharwad and Mysore district are more open and willing towards financing SHGs.

The beneficiary groups

3.3.9 IDPMS has reached a variety of beneficiary groups. These include:

- i) Some clients who are subsistence producers, who work in a group enterprise, have low entrepreneurial skills or business characteristics. Examples are the leather group in Laxmeshwar and the bag producers and wood inlay manufacturers in Nanjangud. These women's groups do not have access to resources. The machines are provided by IDPMS, raw material is bought for the groups and marketing of the products is done with the assistance of either IDPMS or the NGO. The beneficiaries have no vision on enterprise development and can be considered as employees in an income generating activity, which is set up by IDPMS and/or the NGO. The women are merely interested in improved living conditions through the generation of higher income (socio-economic empowerment).

- ii) Most of the beneficiaries of the RSMEDP are so-called pre-entrepreneurs with little business experience, a short-term view on enterprise development, little or no assets/collateral and with a limited economic focus. Through skills upgrading, entrepreneurship training and business development services (marketing) these entrepreneurs can eventually overcome barriers towards becoming micro entrepreneurs. The benefits from the SHG scheme for these "pre-entrepreneurs" are obvious: through a reduced dependency on money lenders in case of emergencies they do not lose their working capital and, therefore, their income.
- (iii) Some beneficiaries are micro entrepreneurs with a full time business activity and a mid term vision on enterprise development. Such persons have some assets and a few employees (relatives or wage earners). Examples are the cable television provider and screen printer in Ranibennur and the silk reeler in Kollegal. Their products have a local market, which is easily accessible without assistance. This type of beneficiary has access to normal bank loans as they own assets which can be used as collateral.

3.3.10 The RSMEDP has a wide range of beneficiaries. The question is whether IDPMS and the NGOs have adopted, even if unconsciously, a selective approach in providing assistance to the various types of beneficiaries, with consequent constraints on replication of RSMEDP activities.

3.3.11 In some cases IDPMS has provided enterprise groups with equipment and/or raw material. The groups are expected to repay these investments as soon as the enterprise starts making a profit. In the case of some of the beneficiaries, who could be described as subsistence producers, the return of the equipment or its cost is doubtful. Such groups would appear to be more "grant worthy". The main objective of their activities is not the generation of a profit that can be reinvested in the enterprise. The women members of the mentioned SHGs seem to have joined the enterprise in order to gain self-confidence and improve their living conditions. The credit can become a burden that the women's group cannot bear, and

the enterprise becomes dependent on the assistance of IDPMS and/or the NGO for its continuation.

3.3.12 As against such direct assistance by IDPMS, in most cases the funding of the SHGs is partly through their own investment and partly through credit. This differential treatment may give rise to problems since other SHGs could view this as discriminatory. While noting that the SHGs to which assistance by way of equipment has been directly given by IDPMS are very few, it is recommended that it would be best to avoid the adoption of different approaches for similar types of entrepreneurs in the same area.

3.3.13 IDPMS has to distinguish between the provision of demonstration equipment for training purposes and actual investment, by way of equipment, in enterprises. The purchase of the brick-making machine for the trainees in building materials in the Chinyard training centre is typically an investment in technical training. The trainees should be able to purchase the machine themselves if they start an enterprise. IDPMS should avoid unconsciously creating a dependency syndrome.

3.3.14 Enterprises which depend on the financial support of IDPMS for the purchase of raw material and marketing of their products are not economically viable and cannot be replicated elsewhere. Financial support can only be justified in the case of investments for training and at the most, as a means to kick-start enterprises.

3.3.15 IDPMS should be careful in linking SHGs to Government sponsored programmes like DWCRA. As the appraisals of these credits are not based on technical and financial criteria or the amount of savings, the risk of excessive credit being granted to relatively young SHGs exists. Although the demand for easily accessible financial services

may appear to be considerable, the absorption capacity of those involved in income generating activities and micro enterprises, is often limited.

3.3.16 *Validity of the approaches:*

(i). What is the role of the NGOs?

The role of the NGOs in a programme such as the RSMEDP would vary within districts and over time. They should not need to do “hand holding” of the SMEs or to monitor the saving and credit groups indefinitely. The self-confidence to manage production and marketing and ability to directly access the formal banking system should have been inculcated in them by the time the IDPMS withdraws. However, the NGO, whose presence in the area would continue, could assume a role of adviser and consultant if called upon to do so.

Some NGOs might be interested in becoming financial intermediaries. NGOs that specialise in financial intermediation can, in the long run become sustainable through the margins made on lending operations. Other NGOs are interested in the promotion of SHGs as a means to empower the beneficiaries. Such NGOs could, as suggested above, continue to have a monitoring and consultant’s role in financial intermediation activities and would have to attract funds (local or international) in order to be able to pursue their activities.

(ii) Did IDPMS reach the right target group?

In the NGO approach applied by IDPMS, it has had to accept the beneficiaries identified by the former. The NGOs that are active in the areas of intervention selected in the beginning of the RSMEDP did not have enterprise development and financial services as

their core activities. Their main focus was on social issues. It is to the credit of IDPMS that it has been able to orient and train these NGOs towards economic development through promotion of SMEs.

For some of the beneficiaries the economic approach of "their" NGO came just in time. The Dalit Movement, supported by PMSR in Kollegal, Mysore district which started 10 years back as a social empowerment programme and has recently been looking for opportunities in economic activities is an example of this scenario.

Other SHGs are still in the stage of gaining self-confidence and becoming empowered. It is questionable whether such weak groups should start with economic activities which might turn out to be not viable. (Examples would be the wood inlay and bag producer groups in Nanjangud).

On the other hand, some entrepreneurs may have been excluded from the services of IDPMS, because the NGO's initial activities like social empowerment were not geared towards them. Existence of professional organisations like business associations, chambers of commerce or organised groups of trainees with skills acquired from technical training institutes could become another target group for establishing bank linkages.

(iii) Did the credits enhance enterprise development?

The credit component of RSMEDP consists mainly of the organisation of saving and credit groups. For a woman who is member of a SHG, her membership is the only means of having capital which is controlled by herself. The group's capital cannot easily be withdrawn in order to be used as household income. The members of SHGs become less dependent, in

case of emergencies, on other informal sources of credit like moneylenders. Most of the loans given within the SHG are used for emergencies or consumption.

The money obtained from external sources is most often used to increase the amount of working capital: wool, chillipeppers or leather can be purchased when available. In these cases the credits are of great benefit to the enterprises, creating economies of scale and being able to purchase raw material when it is cheap, being important factors in enhanced profit generation.

In order to enhance enterprise development the following salutary rules could be suggested:

- IDPMS should only link SHGs or SMEs to financial institutions, if the beneficiaries have some kind of business orientation, such as an idea or a skill or financial resources, or a combination of these.
- Credits from formal financial institutions should be used for productive purposes only. If the beneficiaries do not have an entrepreneurial spirit the credit can become a burden because of misuse and / or wrong investment decisions.
- In order to avoid misuse of external credits IDPMS should convince the banks that credit made available when necessary and quickly is likely to be used for the proposed investments. When disbursed in the wrong period, the chance of default increases.

Efficiency of financial services delivery:

3.3.17 The SHG-banks linkage established by IDPMS has resulted in lower transaction costs for the banks in lending to the rural people. The externalisation of some elements in the credit cycle (appraisal, disbursal, supervision and repayment) makes it more likely that bankers would favourably consider the rural poor as future clients.

i) *Programme costs*

The costs of organising the SHGs, training the bankers and linking the two in order to create a client - bank relationship should also be considered. The investments in terms of time and money to undertake these activities are worthwhile if the beneficiaries actually establish activities that would need credit. It is, therefore, recommended that the IDPMS should assess the future needs and intended productive activities of the beneficiaries before it starts establishing bank linkages.

ii) *Bank's costs:*

If the NGO withdraws from an area where it has been promoting SHGs, the costs to the bank of managing SHG credit would increase (loan recovery, monitoring, identification of new groups). The SHG linkage has to be proved profitable to the bankers. Only on this basis can the sustainability of the programme be guaranteed. It is recommended that IDPMS should assist the banks in conducting studies on viability of the SHG linkages. Issues, in this context, would include, for example, minimum outstanding amount of credit needed in order to cover the costs of lending (break even portfolio), the number of groups which could be dealt with by one bank field staff member (credit officer).

Another cost element for the banks is the identification of NGOs that can become financial intermediaries. SIDBI and NABARD have funds for training and monitoring for NGOs. In this context, lessons could be drawn from the experience of M-cril. This organisation developed a rating system for financial intermediaries, which is now the main instrument of SIDBI in the identification of partner organisations. It is recommended that IDPMS could take up such assignments in assessing the strengths of the NGO and training the staff of potential financial intermediaries.

SHG lending can be made more cost effective if the SHGs are clustered in, for example, federations or so called "NIDHIs". IDPMS could play an important role in this clustering process.

iii) *NGO as financial intermediary:*

If banks are only willing to lend to SHGs through NGOs (as is the case with SIDBI and in the RMK scheme), the NGOs should make an income-expenses analysis before the decision to become a financial intermediary is made. Simulations done by Rajasekhar (April 1998)⁴ suggest that without grant money an NGO cannot run a SHG programme on a sustainable basis. Therefore, it is recommended that IDPMS assists its partner NGOs in making the calculations and drawing conclusions on whether or not the NGO should become a specialised agency for micro finance.

3.4. Future of financial services for SME and IGA:

National policy level:

The Committee on banking sector reforms states in its report of 1998 that the main issue in rural and small industrial credit is to evolve a system whereby the rural finance institutions (RFIs) at the district and subdistrict level can be constituted into a third tier of banking. According to the Committee this requires a banking policy which facilitates the emergence of microfinance institutions which are autonomous, cost-effective and competitive in their operations. Therefore, they should be linked with the rest of the financial system through equity and resource linkages. NABARD and SIDBI provide assistance through funds and institution building support. In other words, the present priority sector

⁴ Rajashekhar, D. 1998. Donor Loans and Sustainability : Simulation Exercises. Paper prepared for a workshop on *Donors' Loan Policies : Constraints and Fund Management*, DSI, Bangalore and ISEC, Bangalore.

lending may be given up in favour of microfinance. Furthermore, the Committee states that growth in the number of accounts held by poor people can become a main target, instead of the present target of 40 per cent of the outstanding credit which should be geared to the poor.

Scope and need for credit:

3.4.2 External credit is mainly needed to finance working capital (wool, chilli peppers, silk cocoons), which enables entrepreneurs to make use of economies of scale and seasonal availability of raw material. A condition is that the credit should be available at the right moment, that is to say when the raw material is available at optimum cost. This "right in time" argument should be stressed in the training of field branch bank managers. Credit, which is made available at the wrong moment, may lead to misuse and as a consequence result in default problems.

3.4.3 Trading activities, which cater for the local village market, are much easier to finance through the SHG as they do not need a careful costing and pricing analysis. Moreover there is no dependency on an (risky) external market and marketing skills.

3.4.4 Credit needs for consumption and emergencies can be met by the internal funds of the SHGs made up of savings. The credit amounts needed by the actual beneficiaries of RSMEDP vary most often between Rs. 5,000 to buy, for example, a pushcart to Rs.50,000 to buy a stock of, for example, chillipeppers or silk cocoons.

The bankers policies:

3.4.5 The reluctance of bankers towards the SHG linking programme is caused by the mix of evaluation criteria which is actually applied. On the one hand, as suggested by the

Committee on bank reform, bankers are evaluated on financial criteria like recovery rate and the decrease in NPAs. On the other hand, bankers are evaluated on the basis of social oriented objectives of achievements of targets set for priority sector lending. The mix of these two sets of evaluation criteria makes field branch bank managers reluctant to deliver financial services. They consider SMEs as high risk clients who might default, and as a consequence, decrease the performance of the portfolio of the bank manager. Incentives to field branch managers to implement the SHG linkage scheme should not be based on socially oriented criteria. It should be demonstrated to them that financial services delivery to SHGs can be profitable and that, through product development, new markets can emerge.

3.5. Proposed interventions and recommended future orientation:

IDPMS has developed an expertise in credit systems that can be the basis of future interventions in the field of financial services. First of all IDPMS has to define its strategy in the field of SME financing. It is recommended that IDPMS should carry out a needs assessment with those involved in the field of micro finance. If the needs are identified, IDPMS should assess whether these could result in a demand for the expertise that it has developed. In other words, it should be determined whether the target groups/ future beneficiaries are prepared to pay for the proposed services of IDPMS.

Possible interventions of IDPMS at the level of the beneficiaries:

3.5.2 On behalf of the banks, the IDPMS could market the services that the banks offer, for a service fee. It could also conduct credit management training for SHGs and assist them in the write up of credit request and bank procedures. Also, while avoiding direct intervention with issues relating to credit, grants or venture capital, it could assist the SHGs

in the procedures. To achieve economies of scale it could organise SHGs in clusters or associations.

Possible interventions of IDPMS at NGO level:

3.5.3 NGOs whose objectives are compatible with the IDPMS' objective of creating enterprises and enhancing credit access for potential entrepreneurs, should be supported. NGOs and IDPMS should interact as complementary organisations. NGOs are people based, they know the field reality and IDPMS has technical expertise and funds for pilot actions.

3.5.4 It should not present itself as a donor. Being a service-based organisation, the emphasis should be on transfer of technical expertise and project management. Activities undertaken by the NGOs should not depend on long term financing of IDPMS. From the beginning it should be clear that IDPMS can only finance pilot actions to demonstrate the effectiveness of its approach. IDPMS funding should only be used to reduce risks at the NGO level. However, IDPMS could link NGOs to donor agencies interested in enterprise development and micro finance.

3.5.5 IDPMS should stress the importance of SHGs becoming independent clients of the banks (if the NGO does not have the intention to become a specialised financial intermediary).

Possible interventions of IDPMS at bank level:

3.5.6 Bank management could be sensitised on issues relating to SME financing through exposure visits, networking, seminars, and orientation workshops. IDPMS should demonstrate to bank managers that financing of SHGs can be profitable.

3.5.7 Banks should be trained in proper matching of financial services as, for example, determining which client needs what type of credit. The bank management could be advised on the manner of expanding the market for credit through closer contacts with future clients. At the same time, they should avoid "overfinancing" of SHGs which means giving large external credits with long repayment periods.

3.5.8 IDPMS could suggest to government the advantages of adopting a policy of subsidising training rather than subsidising interest.

New products and Services of IDPMS:

3.5.9 IDPMS could become a rating agency for NGOs specialising in financial intermediation on the basis of an acceptable approach and methodology.

3.5.10 IDPMS can also become a capacity building institution for NGOs that are interested in developing their knowledge of and skills in economic activities such as enterprise development and financial services. It could also develop into a training institute in financial and credit management for SHGs.

3.5.11 The IDPMS should market its services based on its unique experience in operating the RSMEDP. Its services can be "sold" to either local institutions like banks, NGOs, Government Institutions and Technical Institutions or donor agencies.

3.5.12 It should not try to become a financial institution but should rather make use of existing institutions which have much more resources and experience in this field. It should attempt to tap NABARD funds to enhance credit facilities for SMEs and IGAs in rural areas. In this context, the experience in other States of organisations such as EDA, M-cril, PRADAN and MYRADA could be studied.

3.5.13 IDPMS could undertake consultancy assignments in financial viability issues as described earlier.

3.5.14 In order to implement these recommendations, IDPMS would have to strengthen its staff and acquire strong financial expertise. It does not have specialists in micro finance. To acquire such expertise it would be necessary to invest in staff training and external expertise. The special budget line said to be available from the Government of the Netherlands for obtaining external expertise could be used to buy expertise on micro finance methods and management from India or abroad. Product development would also need attention. Expertise could be inducted for carrying out the needs assessment and "market research" which would result in new products and suggest new markets for the future financial intermediation services of IDPMS.

vast majority of the programme's beneficiaries, were from either landless families or families with marginal or small holdings, part or whole of which had to be sold or pledged.

4.3 Training

Given the above background, the focus of the programme has rightly been on technical and entrepreneurial training. More than 70 per cent of the trainees have been women with their proportion in 1998 as high as 85 per cent. As can be seen from Table 4.4, 3600 men and women have been trained during 1995 – 1997. If we add the numbers trained in 1998 as well, the total goes up to 5707.

TABLE 4.4 TOTAL NUMBER OF PERSONS TRAINED 1995 - 1998

Districts	1995	1996	1997	Total (1998)
Dharwad	513	472	775	1760 (1057)
Mysore	573	460	807	1840 (1050)
Total	1086	932	1582	3600 (2107)

Source : RSMEDP at a glance, IDPMS, Bangalore , 28th July, 1998

4.3.2 The distribution between the districts is more or less even, with 49 per cent located in Dharwad and 51 per cent in Mysore. The number appears to have increased substantially in both districts during 1997 –1998. In both Dharwad and Mysore, the number trained in 1998 was twice as large as in 1995.

4.3.3 Figures of the choice of trainees by gender is available for some selected years for the two districts. Table 4.5 presents this dimension on the basis of available data.

TABLE 4.5 DISTRIBUTION OF TRAINEES BY GENDER 1995,1997

Year	Dharwad		Mysore		Total		Per cent
	Men	Women	Men	Women	Men	Women	Women
1995 *	142	605	287	255	429	860	67%
1997	104	671	145	662	249	1333	84%
1998	321	736	165	885	486	1621	77%
Total	425	1407	310	1547	735	2954	80%

Source : Activities by years and Districts, RSMEDP for 1995.
RSMEDP at a Glance for 1997 and 1998

Note : * 1995 calculated from activities sheet.

4.3.4 The proportion of women trainees has fluctuated somewhat between the three years for which figures are available but over the three year period 80 per cent of the trainees have been women. It is worthwhile noting, however that the numbers of male trainees in Dharwad tripled in 1998 compared to that in 1997 and exceeded the number in Mysore by 100 per cent.

4.4 Enrolment and Drop out

It is noteworthy that while a much larger number of persons were enrolled initially for training the number actually undergoing training was less. Table 4.6 gives details of the total number enrolled and the drop outs in the two districts for 1995 and 1996. For the subsequent two years 1997 and 1998, information is not available.

TABLE 4.6 ENROLMENT, DROPOUT RETENTION OF TRAINEES

Mysore				Dharwad			
Year	Total Trainees	Drop out	Retention No %	Total Trainees	Drop out	Retention No %	
1995	1309	818	491 37%	1043	530	513 49%	
1996	475	45	430 90%	772	250	472 65%	
Total	1784	863	921 52%	1765	780	985 56%	

Source : RSMEDP at a glance, IDPMS, Bangalore , 28th July, 1998

4.4.2 The number of drop outs as well as their proportion were rather large in 1995. Mysore seems to have done rather badly in 1995 with only 37 per cent of those enrolled being retained. Dharwad did better with the retention ratio of 49 per cent. The situation improved remarkably in 1996 with retention ratio of 90 per cent in Mysore and 65 per cent in Dharwad. Obviously, what seems to have happened is that in the year 1996 better selection procedures were followed in enrolling members as compared to the initial year of 1995. Performance in both districts was better with smaller enrollment. Of the total number of trainees of 3549, the overall retention rate over the two years was 1906 or 54 per cent.

4.4.3 The issue of very high drop out rates, has still to be addressed seriously. Some analysis and information on those women and men who leave after joining would be worthwhile. Do they leave immediately or give up sometime after the training has started? What are the factors that force them to give up? These social and cultural issues need to be understood to improve the performance of the programme in the future.

4.5 Enterprises Established

Between 1995 and 1997, the number trained annually increased by 50 per cent from 1086 to 1582, with the total number trained adding up to 3600. During these three years, the number of enterprises established has also been steadily increasing. In 1995 only 23 per cent of those trained could form enterprises whereas in 1997 virtually half the number trained could establish enterprises. This can be seen from the Table 4.7. The proportion of members who could establish enterprises over the three year period was 37 per cent.

TABLE 4.7 ENTERPRISES ESTABLISHED

Year	Total Trained	Enterprises Established	Per cent
1995	1086	251	23%
1996	932	311	33%
1997	1582	773	49%
Total for 3 years	3600	1335	37%

Source : RSMEDP at a glance, IDPMS, Bangalore , 28th July, 1998

4.5.2 It can be seen from Table 4.8 that there was difference between the two districts in regard to the proportion of trainees setting up business. Educational levels and literacy skills are much better in Dharwad as compared to Mysore but the success rate in the establishment of enterprises was higher in Mysore and the gap became even larger with the passage of years in this regard . By 1997, while in Mysore 58 per cent of the trainees in that year could set themselves up in business, in Dharwad the corresponding rate was only 37 per cent.

TABLE 4.8 DISTRIBUTION OF ENTERPRISES - MYSORE & DHARWAD

	Mysore			Dharwad			Total		
Year	Total No. of Trainees	Enterp.	%	Total No. of Trainees	Enterp.	%	Total No. of Trainees	Enterp.	%
1995	(573)	141	25	(513)	110	21	(1086)	251	23
1996	(460)	168	37	(472)	143	30	(932)	311	33
1997	(807)	469	58	(775)	304	39	(1582)	773	49
Total (1995 – 97)	(1840)	778	42	(1760)	557	32	(3600)	1335	37

Source : RSMEDP at a glance, IDPMS, Bangalore , 28th July, 1998

4.6 Individual and Group Enterprises

Overall it would appear on the basis of the figures available for 1996 and 1997, that far more persons trained get absorbed in individual enterprises than group enterprises. This can be seen from Table 4.9. It is also notable that between the two districts, it was in Mysore that relatively far more individual enterprises could be established than in Dharwad.

TABLE 4.9 INDIVIDUAL AND GROUP ENTERPRISES

Year	Dharwad		Mysore		Total		Per cent
	1996	1997	1996	1997	1996	1997	
Individual Enterprises	69 (337)	268	109 (513)	404	178 (850)	672	79%
Group Enterprises	74 (110)	36	59 (124)	65	133 (234)	101	43%
Total Enterprises	143	304	168	469	311 (1084)	773	71%

Note : Figures in parenthesis are totals

Source : RSMEDP at a glance,

4.6.2 While only 25 per cent of enterprises established in Dharwad during the two completed years of 1996 and 1997 were individual businesses, the corresponding proportion in Mysore district was as high as 81 per cent. Such a pronounced preference for individual enterprises or group enterprises in Mysore as compared to Dharwad has possibly much to do with the differences in the type of activity that was promoted and taken up in the two districts.

4.7 Enterprises in Progress

The proportion of trainees who succeeded in setting up enterprises, individual or group had, as already stated, improved from 23 per cent in 1995 to 49 per cent in 1997, taking both districts of Mysore and Dharwad together. The position in 1997 was still better if note is taken also of enterprises reported to be in progress. As against 773 enterprises established in that year, 631 were reported as in progress. Thus the total fruition rate, that is the proportion of trainees absorbed in enterprises, would improve for 1997 from 49 per cent to 90 per cent once the enterprises in progress actually get established. The comparable proportions for 1995 and 1996 work out to 35 per cent and 46 per cent respectively.

4.8 Income Generation

Right from the outset, since the project was intended to impart training and technology upgradation and business management, it was reasonable to expect that those who receive training and then set up their business would normally gain in terms of additional income generation. Also, since the trainees were to be mostly women, it was also

fairly reasonable to expect that the principal beneficiaries of such additional income generation would be women. Of course, through these women the benefit would accrue to the household to which they belonged.

4.8.2 Although no disaggregated information was readily available about the gender dimension of the enterprises that were established by the trainees, it would appear that women trainees did not lag behind male trainees in this matter. In fact, going by the information supplied about the formation of self help groups for gaining access to formal credit, it would appear that the women might have proved themselves to be ahead of their male counterparts in not only setting up enterprises but also participating actively in those related activities which would ensure the success of their enterprises.

4.9 Choice of Activities

An assortment of 23 crafts or trades and 6 credit raising groups have been identified for income and skill generating interventions in the group formations under the programme. The number enrolled in each of the trades and activities appears to fluctuate over the three year period.

4.9.2 About 681 persons were trained under the Rural Entrepreneurship Development Programme under the RSMEDP. Of these, 243 were only given the entrepreneurship training and were not trained in a skill. However, they have used the entrepreneurship training they got to set up enterprises on their own. The rest, namely 438 have set up individual micro enterprises by obtaining credit on their own and not as members of any credit group. The latter have been classified as "integrated service centres" which is a

misnomer. They are, in effect, individual entrepreneurs who have been given both entrepreneurship and skill training.

4.9.3 Table 4.10 indicates the number of micro enterprises assisted as members of credit groups, under the various schemes.

TABLE 4.10 CREDIT GROUPS – MICRO ENTERPRISES ASSISTED UNDER VARIOUS SCHEMES

1	REDP	243
2	DWCRA	289
3	Mahila Samakhya	60
4	UBSP	60
5	Grameen Banks - IG thro' SHG	551
	Total	960

MEs = Micro enterprises, IG = Income generation

Source : RSMEDP hand out on activities and total expenditure

4.9.4 Of all the persons in credit groups, the one with the largest members is that of SHGs. Of the 1621 who joined credit groups, 551 opted to join SHGs possibly because of two reasons. First, perhaps they could not join government schemes like DWCRA, REDP or ISC. Second, the incentives offered by NABARD in terms of credit for the micro level groups, the members commit themselves to regular savings and collectively guarantee individual borrowings of members. The programme has been able to nurture the SHGs very successfully. This is a painstaking and time consuming process in which formal institutions can play only a limited role.

4.10 Self Help Groups

The number of persons who have joined SHGs is still considerably smaller than the number of enterprises which have already been set up. In addition, a large number of enterprises are in the process being established. So the scope for expanding the coverage of SHGs is still wide. Even those who benefit initially from governmental schemes need to be covered in due course.

4.10.2 Government schemes like DWCRA, REDP, UBSP also involve formation of groups of women with the idea of giving them technical training and then setting up group income generation activity. With the beneficiaries of these schemes also joining SHGs, the culture of collective commitment to honouring of individual obligations of members combined with regular savings can be spread. Perhaps this can be achieved through more active co-operation with government officials and agencies.

4.10.3 Given the ground reality that a substantial portion of rural women in Karnataka are illiterate, particularly those who need income and employment desperately, the task of building the capabilities must be extremely challenging.

4.10.4 Even those who may have had some little schooling as children may have lapsed into virtual illiteracy. It is therefore for urgent consideration whether as part of training in craft and entrepreneurial skills, separate components to impart functional literacy should also be included. This will also reduce considerably the dependence of those trained on outside help for maintenance of accounts. Alternatively and so as not to reduce the focus

of the RSMEDP, the official agencies in charge of literacy development could interact with the SHGs separately.

4.10.5 On the basis of information supplied to the Review Mission, it is found that some 76 SHGs involving 963 women and 90 men are currently active, as indicated in Table 4.11.

TABLE 4.11 DETAILS OF SELF HELP GROUPS

Districts of Mysore and Dharwad

Activities	Groups	Total
Wool related	14	188
Savings groups	16	251
Lambani craft	11	171
Miscellaneous	35	443
Total	76(M 7, W 69)	M 90, W 963 =1053

Source : Status of Self Help Groups June 98, IDPMS

Note : Activities in which there are only men are footwear, vermi-composting, rope making, pipe making, wool weaving, etc

4.10.6 The activities of these groups range from making foot wear, vermicomposting, rope making, wool weaving and pipe making. Women and men engage in different groups and activities. Only in one activity are men and women involved in the same group. In all, there were 7 men's groups and 69 women's groups. Of these, 91 per cent of the SHGs were of women and only 9 per cent were of men. The groups were spread over the entire districts of Mysore and Dharwad. The largest number of these groups was engaged in activities related to wool spinning and weaving followed by Lambani craft.

4.10.7 In the discussions at both Dharwad and Mysore with the banking and NABARD officials the assessments were very positive in regard to the role of the programme in motivating members and ensuring that they fulfilled their commitments

4.11 Concluding Observations

It has taken four years of hard and painstaking dedicated work to identify committed NGOs and mobilise persons who could be trained to set up and manage small enterprises. Getting women from these villages to come out and join groups must have been the hardest of tasks. The project now has been able to make its presence felt and strike roots in both districts, but perhaps more so in Dharwad. The strategies to initiate and motivate the groups have been different. Several approaches have been attempted depending upon the circumstances in the villages. In some places, the intervention is through NGOs, in some direct. In others, interventions have been through the government initiated poverty alleviation programmes. In still others the banks have come forward. Almost all approaches have been tried. New NGOs who are committed and are willing to co-operate wholeheartedly and help with the programme are also reported to be coming forward.

Chapter V

INSTITUTIONAL LINKAGES

Creation of awareness of economic opportunities and providing information on the mechanisms of availing of such opportunities are essential elements of the RSMEDP. To be able to do so, strong links would have to be developed with organizations and agencies involved in closely associated activities that could support, augment and sustain the activities of IDPMS. These would include the credit institutions, the NGOs, and various official agencies. The development and strengthening of such institutional links is an essential part of the strategy of the project.

5.1 Links with NGOs:

The RSMEDP is implemented through NGOs. The choice of the NGO in an area would be guided by the experience it has in field work, its capacity in terms of personnel and communication skills and its acceptability by the community in which it operates. None of the NGOs now associated with the programme have had experience in income generating activity through establishment of micro-enterprises, accessing credit or developing and providing entrepreneurial guidance. The IDPMS has had, therefore, to inculcate these skills in the NGO itself. In this sense, the programme has involved institution building within the associated NGO. It is necessary that the thinking and approaches of IDPMS be institutionalized within the NGO so that both may work successfully as partners in implementing the RSMEDP.

5.1.2 The interface between the IDPMS and the NGOs is well established. Experience would seem to indicate that it is more effective to operate through well run and

similar minded NGOs. One or a small number of such NGOs operating in a larger area would achieve both purposes of strong institutional links and development of an internalized common approach.

5.2 Links with Credit Institutions:

The IDPMS has developed fairly strong links with financial institutions such as NABARD, the Grameen Banks and official agencies that provide assistance. These links must not only be strengthened but also sustained by continuous interaction with these institutions. As suggested elsewhere, the association with these institutions and ability to liaise with them could be enhanced through induction of their representatives on the Technical Advisory Committee.

5.2.2 In particular, strong links with NABARD would be of great advantage. The information available in the NABARD documentation would help in formulating field plans. Also, NABARD has innovative schemes for development of expertise within IDPMS and for the rural banking sector. The IDPMS could explore how it could avail of these schemes.

5.2.3 At this point a question could be raised whether IDPMS should charge a fee for the services it renders to the rural banks. The latter have benefited from the expertise of the IDPMS in enhancing their business through induction of new clients and have derived benefit from associating with it in sensitizing themselves to rural credit needs. In a sense, the IDPMS has been performing services, which would normally have been paid for by the banks if carried out by their field agents. It could be argued that IDPMS would be entitled to some compensation from the banks for its contribution. However, this is a question that needs careful consideration. A demand of this nature could weaken the links now established and

erode the confidence that the rural banks currently repose in the IDPMS. It would be rather premature to assert that IDPMS has established itself either in size or capacity to be able to influence a decision on this matter in its favour. This point would merit consideration only at a more appropriate time.

5.3 Links with official agencies:

The core of the RSMEDP is the setting up of enterprises in the rural areas. Major elements in this process are the development of skills of the beneficiaries and imparting of training in management of such enterprises. There are many training programmes relating to skill formation and entrepreneurial development in existence. These are provided by the Department of Industries and Commerce through the District Industries Centres. There is also a wide network of Rural Industrial Training Centres, Industrial Training Institutes, and Polytechnics.

5.3.2 The IDPMS has established liaison with the District Industries Centres and has been taking advantage of these facilities. Such an association must be sustained and strengthened. Assets already created in the public sector would be intensively utilized and it would also facilitate the official agencies in performing their role to a greater degree.

5.3.3 There are other programmes that are relevant to the RSMEDP. These include the schemes of IRDP (Integrated Rural Development Programme), TRYSEM (Training Rural Youth for Self-Employment) and DWCRA (Development of Women and Children in Rural Areas). The IRDP has many elements, including attention to rural industry. The integration of some of the activities of RSMEDP with the IRDP would be advantageous. Under TRYSEM, rural youth are trained in various crafts but there is no post-training

mechanism to help the trainees establish their own enterprises or businesses. They could be inducted into the RSMEDP. Under DWACRA women are trained in activities similar to those envisaged in the RSMEDP. However, as in the case of TRYSEM, there is no follow up. This gap could be filled by RSMEDP.

5.3.4 Other official agencies whose experience in skill formation and marketing could be of advantage would include the Coir Board, the Sheep Development Board, and similar organizations. Assistance for enhancement of technology could be had from the Regional Design Technology Development Centre, the Karnataka Council for Science and Technology and the Society for Application of Science and Technology in Rural Areas (ASTRA). These are premier institutions in the development of appropriate technologies.

5.3.5 There are private institutions with which IDPMS could establish links in furtherance of the objectives of RSMEDP. These include the private polytechnics and training institutions. Links with local established industrial units and factories could also be developed. The latter have a legal obligation with regard to the training of apprentices, which could be gently taken advantage of.

5.3.6 Similar links would have to be established with cooperative organizations for credit and marketing purposes to ensure long term sustainability of the enterprises created under this project.

5.3.7 There are constraints in the establishment of small and micro-enterprises in the rural setting. The activities include both the provision of services and manufacturing. The former typically have highly local (usually village) markets while the latter may have village, area (taluk) or more distant markets. The demand for services are somewhat easier

to anticipate than is the case for manufactured goods. On the other hand, demand management becomes more of a problem in the case of the narrow local market. Finally, service activities are typically subsistence enterprises and so there is not much prospect of a substantial return to managerial or entrepreneurial skills. It is in this context that the linkages need to be developed with all similar minded organisations or institutions that are supportive of such activities.

5.3.8 IDPMS ought to make greater use of the banking system in creating training opportunities, in tapping market information and even creating a marketing infrastructure and of course in ensuring access to credit for its project areas.

5.3.9 The IDPMS has already developed many of these links. Excellent personal equations have also been established in most cases. The continuation of these links and their enhancement would be of great advantage to the RSMEDP.

Chapter VI

MANAGEMENT ASPECTS

The IDPMS was established as an independent society under the relevant law in February 1988. When the RSMEDP was first formulated in early 1990, the Programme Management Unit (PMU) was structured to include (i) an Indian co-team leader, (ii) an expatriate co-team leader, (iii) a senior financial expert, (iv) a senior economist, (v) a senior rural development expert, and (vi) district coordinators. There was no expertise relating to marketing even in the original formulation. However, due to delays in approval of the project and other reasons, this structure was given up.

6.2 The Governing Council initially included senior government officials such as the Director of Industries, the Director of Sericulture, the Economic Adviser to the Government of Karnataka and the Deputy Secretary of the Finance Department. The Director of Industries was, in fact, the Chairman for some time. It also had three local prominent persons nominated by the Government of the Netherlands, and a Secretary. However, during the interim phase its internal structure was weak. Its staff consisted of persons deputed from different organizations, it worked on a highly centralized basis and functioned as an extension of government. However, the implementation of the RSMEDP required a different work culture with the IDPMS having to interact with NGOs, Zilla Panchayats, rural banks and local community groups. Basic structural changes were, therefore, considered necessary.

6.3 In April 1994 the Government of the Netherlands commissioned a study of the management structure of IDPMS. A follow up study was conducted in March 1995.

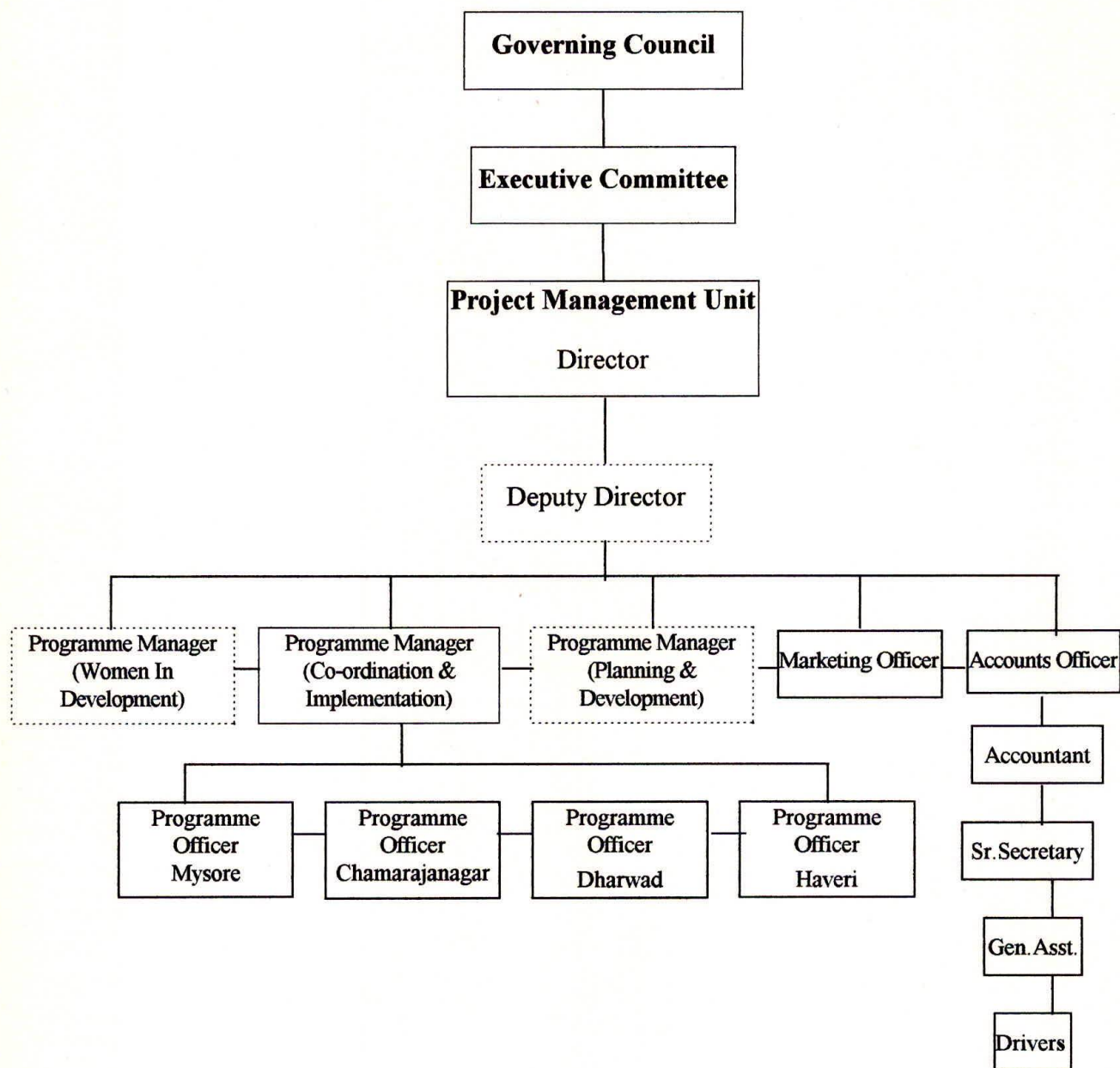
Based on the recommendations of these studies, the Governing Council was reconstituted with a nonofficial Chairman and an Executive Committee was formed for day to day functioning of the IDPMS. Certain internal restructuring was also carried out. The present structure of the IDPMS is illustrated in Figure 2 . At present, the positions of Deputy Director, Programme Manager (Women in Development) and Programme Manager (Planning and Development) are vacant.

6.4 The structure of the Programme Management Unit (PMU) of the IDPMS is crucial to the efficient implementation of the RSMEDP. While the Executive Committee and the Council provide the necessary administrative approval and support, the expertise available to the PMU is entirely within itself. For example, the areas in which the IDPMS could with advantage induct expertise include marketing, credit, and liaison with other institutions and the like. Its character is essentially that of a technical support team to rural enterprises and to be able to discharge this role, it must have the necessary expertise at all times. Systems would have to be set up which would provide expertise in various matters when required without adding to the costs in terms of permanent staff positions. To be able to access such expertise and technical advice, it is suggested that a Technical Advisory Committee could be constituted in which, apart from the Programme Director, experts could be invited to join. The latter could be paid sitting fees and provided transport for attending meetings. Also, other experts in specific areas could be invited for meetings. Members of this committee could be drawn from NABARD, training institutions and marketing organizations. This should fill the current gap in induction of expertise, at a reasonable cost.

Figure 2

INDO – DUTCH PROJECT MANAGEMENT SOCIETY

Organisation Chart



*Positions
vacant*

6.5 The issue of strengthening the technical level and enhancing the expertise within the IDPMS is important from a long-term point of view. The enhancement of the current level of competence within the IDPMS, high as it is, would still be necessary to render it combatively competitive in the future.

6.6 The IDPMS has had considerable success in transfer or induction of technology to the rural areas. One such example is the introduction of the compressed brick making equipment. However, technology does become obsolete or needs to be upgraded if the enterprise has to be competitive in the market. Systems must be developed for this purpose. While the IDPMS would be able to provide the necessary information while it is still present in an area, on its withdrawal it would have to be the mission of the NGO concerned to ensure that the enterprise is advised regarding new developments in technology or marketing. It would be necessary for IDPMS to discuss this with the NGOs and sensitize them to the technology issues. It could develop an information bank on such appropriate technologies which could be available "on tap" to NGOs.

6.7 The identification of products that would be marketable, of the markets and access to the latter needs more professional attention. Currently, the availability of skills is a primary criterion for location of project activity without a deeper study of the availability and extent of the market for the goods produced. The elements of training and skills would vary depending on whether the markets are local or distant. Also, the characteristics of the small enterprise include – easy taking up of the activity, reliance on local resources, ownership by family or by some members, small scale of operations, labour intensive, use of improved local technology, skills acquired outside the formal educational system, and working in an unregulated but probably competitive market. It would be necessary to conduct appropriate

studies for this purpose. The expertise is available in the IDPMS in its field offices but would seem to need the support of a marketing consultant. It would be desirable to induct expertise for this purpose through appointment of a middle level marketing expert in the headquarters. Experienced persons would be available from recent retirees from NABARD, Regional Rural Banks or marketing organisations.

6.8 The establishment of stronger links with NABARD through such mechanisms would also help IDPMS in using the very informative data bank of NABARD. The Credit Plans of NABARD, for example, would be very useful in the determination of location and nature of activities relating to establishment of enterprises.

6.9 The IDPMS would, as mentioned earlier, benefit through the induction of external expertise. In a similar manner, it should seek advice and assistance on the various elements of the programme such as design of products, marketing strategies and training from established institutions which have experience in such matters. The improvement of design of the products and better marketing, with constantly enhanced skills, would augment the returns from the enterprises and also ensure their long-term sustainability. The institutions with which collaboration for this purpose could be established include the Design Centres of Government, National Institute of Design, the Khadi and Village Industries Commission, Institute of Rural Management, and the Enterprise Development Institute. Some of these, such as the KVIC have training programmes also. A dialogue could be commenced by the PMU with such organisations which have expertise useful to IDPMS.

6.10 Organising a wing for this purpose as part of its structure could enhance the marketing and training capability of IDPMS. Funding for this purpose could be solicited from

NABARD by way of seed money. A professional from NABARD deputed to IDPMS can manage the wing.

6.11 The PMU monitors the RSMEDP through a system of internal reporting. Monthly reports are obtained from the Programme Officers in the districts, who are expected to compile these reports on the basis of information from the NGOs. However, in actual practice, the reports from the NGOs are said to be neither systematic nor complete, casting an extra load on the Programme Officers.

6.12 A half-yearly report is sent to the Netherlands Embassy at New Delhi. This is in a narrative form. It used to be very elaborate till recently but the current half-yearly report is in a simpler format.

6.13 A review meeting is held every month in Bangalore of the Programme Officers. The current progress of the activities, the corrective measures to be taken and other issues are discussed at these meetings.

6.14 The forms provide information on the basis of which annual figures are aggregated. The information on physical achievements is generally complete but information on qualitative results is meagre. In particular, it is difficult to assess economic results of the programme. While recognising that it would be difficult to obtain monthly quantitative information on qualitative aspects, it is suggested that six monthly case studies could be conducted in selected areas to obtain such information. Periodic in-house training on reporting requirements would seem useful and necessary.

6.15 Constant sharpening of the skills of the professionals in IDPMS would be desirable. For this purpose, in-house training programmes could be started with the inputs from the experts of the Technical Advisory Committee suggested earlier.

6.16 The IDPMS has a distinctive character which sets it apart from other NGOs that operate in the rural areas. It does not deal with social issues, or health, nor does it seek to promote social change. It is, as mentioned earlier, in the business of demonstrating that economically viable small and micro-enterprises can be set up and run successfully, with adequate inputs of training, credit and marketing support. The enhancement of the programme or its establishment in other areas would imply that the IDPMS as an organisational structure could be replicated. In considering the possibility of such replication, the strengths and weaknesses of the IDPMS, as illustrated below, would bear consideration.

STRENGTHS AND WEAKNESSES OF IDPMS

THE SHORT RUN PROGRAMME		THE LONG RUN PROGRAMME	
Strengths	Weaknesses	Strengths	Weaknesses
(Same as the Long Run)	Short time horizon	Training and skill development	Weak linkage to markets and marketing
	Planning uncertainty	Filling a crucial niche	Insufficient visibility and diffusion
	Learning costs	Institutional development (NGOs)	Diseconomies of scale and scope
	Uncertainty of costs	Links with Govt. offices, Banks, Tech. Instns.	Activity selection: dynamic viability
		Activity selection: static viability	Area selection: geo-graphical fragmentation
		Area selection: social infrastructure	Decision rules not always clearly defined
		Technology upgradation	

6.17 The weaknesses would seem to be the lack of sufficient expertise within the organisation and absence of a mechanism for induction, at optimum cost, of such expertise when needed. Also, the NGOs associated with the programme have insufficient skills regarding the business management aspects of small and micro-enterprises, including designs and marketing. This casts an extra responsibility on the IDPMS which necessitates its operating directly in the field.

6.18 The short time horizon of the project of five years is also small but the experience gained would permit the taking of a long -term view. The issue of replicability of the IDPMS as a model could be looked at from three perspectives as follows:

- The IDPMS could expand its area of operation – this would need expansion of professional and supporting staff, enhancement of liaison with related organisations and better control over the activities. It would also presume that capable NGOs are available for partnerships to be developed. This is an option that, with sufficient organisational restructuring, would be acceptable. To this extent, replicability of the activities would be achieved but it must be recognised that too vast an area would tend to dilute effectiveness of the IDPMS.
- Another organisation similar to the IDPMS could be established with specific area jurisdiction. This would seem appropriate if one were considering replicating the activities of RSMEDP in other States. The experience of IDPMS would be of great assistance in establishing such a new organisation of similar character. Replicability would be possible through this option too.
- The activities of the RSMEDP could be taken up by an existing NGO after being trained by IDPMS. This would seem the worst option since it would be an attempt at grafting a totally new mind-set in an organisation that has had a different agenda so far.

6.19 It would seem that the IDPMS model could be replicated subject to careful planning and with an assurance of adequacy of funds and expertise.

Chapter VII

NEW DIRECTIONS

The IDPMS is a niche organisation with a character and an area of interest and expertise that NGOs conventionally do not have. It provides a model for the development of small and micro-enterprises in the non-farm rural sector. Doubtless it has certain strengths and weaknesses but these do not detract from its rather unique character. The strengths include a decade of activity in the field, the last three years of which have had a specific focus of economic interventions, linkages with both official and nonofficial institutions including banks, strong internal capacity in training and skill development and experience in institution building through working with NGOs. It would, therefore, be reasonable to expect the IDPMS to mitigate its weaknesses and build on its strengths.

7.2 The IDPMS would do well to conduct internal brain storming and draw up a perspective of its future in the long term. The Mission has not had the time to deliberate upon the new directions that the IDPMS could consider or the choices that are appropriate. However, some general observations that the Mission arrived at are presented for consideration. It must be stated that there is no prioritisation in what follows.

7.3 One obvious suggestion would be that IDPMS could expand its horizon by extending its activities into other development sectors such as health, literacy, women's empowerment and the like. However, such expansion into totally new sectors would only result in diversion of attention from an activity in which it has rich experience and expertise. It would dilute its unique character with little benefit. This course of action is not recommended. The future of the IDPMS would clearly lie in enhancing its current role.

7.4 It would seem the opportune moment for the IDPMS to identify and tap new opportunities and forge new directions, which would give it greater visibility and influence in the task of development of rural industries. The RSMEDP as a concept would merit expansion both in scope and area.

7.5 The IDPMS has functioned mainly as a funding agency but has experience in developing field level organisations also, even if the latter is one step removed. Its experiences, including that of building up NGOs in this specialised programme, would be of value to similar organisations that may get established in the future. It is suggested that documentation of this nature should be prepared.

7.6 A data and information bank could also be built up on the basis of its experience, that would help other NGOs in learning of and sourcing assistance in training, credit, marketing and associated aspects.

7.7 There are well established official training facilities and rural banking systems but these do not always function in a client-friendly fashion. The IDPMS has had years of experience working the systems and has been able to establish effective linkages with the institutions concerned. It has an advantage that could be used to assist other NGOS, Self-Help Groups and associations of micro-enterprises that may not have been part of its programme to access and utilise these facilities. By doing so it would be enhancing its role in development of rural entrepreneurs.

7.8 Through association over the last few years, the credibility of the IDPMS in the view of these institutions and agencies has been established. It could play a supporting role to the latter and also sensitise them to field realities through seminars and workshops,

some of, which could be interactive with the client groups. Funding for such purposes could be sought from NABARD and official development agencies. This would add visibility to the IDPMS.

7.9 There is often little input in policy making from NGOs. The IDPMS could seek to fill this gap through the preparation of policy papers that reflect its experiences. These could be on specific aspects related to its expertise and activities. The Members of the Governing Council could intervene in this task for ensuring that these papers get due attention at the appropriate levels. The IDPMS could develop an advocacy role.

Chapter VIII

SUMMARY OF RECOMMENDATIONS

The report discusses various issues relating to the RSMEDP and the IDPMS in considerable detail and many conclusions and recommendations have been presented. The rationale for these conclusions and recommendations is given in some detail in the main chapters. This chapter presents a summary of the recommendations but the conclusions have not been repeated here. It is suggested that the conclusions should be read as important elements of this report. Detailed analytical presentations on the various elements of the RSMEDP are also included in the substantive chapters. These would also merit attention.

8.2 A brief indication of the rationale for each recommendation has been presented to render this chapter “reader friendly”. The substantive reasoning is in the relevant paragraphs of the concerned chapters. The paragraph numbers have been indicated for reference.

8.3 The IDPMS implements the RSMEDP through NGOs. It often has to induct as its partner a NGO whose structure or experience may not be optimal for the implementation of the RSMEDP. This sometimes gives rise to a grey area of unclear responsibilities and differing perceptions of the elements of the project and the methodology. It is recommended that before a partnership is established and before the programme elements are sought to be implemented, it would be beneficial if a complete needs analysis of the NGO and its beneficiaries is made by the IDPMS. [Paras 1.3.4 to 1.3.13]

8.4 The balance of unutilised project funds at the end of 1999 would be about Rs. 54 lakhs. The RSMEDP activities would continue for a few more months thereafter. There would be a period of consolidation of activities. To ensure that the phase of consolidation is not adversely affected due to lack of funds, it is recommended that the balance of funds at the end of 1999 is made available to the IDPMS. [Paras 1.4.1 and 1.4.2]

8.5 The allocation to meet the costs of management, in other words of the PMU, needs to be enhanced. A proposal has been submitted to the Government of the Netherlands for an additional allocation of Rs. 117 lakhs or NLG 5,40,000. It is recommended that this additional funding be sanctioned early. [Para 1.4.3]

8.6 The establishment of group enterprises is a strong element of the RSMEDP. They not only have a greater beneficial effect on employment and incomes but also an advantage in availing of the benefits of cooperative procurement and marketing or credit. However, there has been a fall in the proportion of group enterprises in 1997. This could be a random outcome but there could be other reasons such as the development of fissures within the groups or the shift from direct involvement of the IDPMS. The issue of the changing composition of the enterprises needs to be investigated more systematically with a view to identifying the factors that influence and sustain such enterprises. It is recommended that such a study be instituted by IDPMS. [Paras 2.4.2 to 2.4.4]

8.7 The narrowness of local markets for services or some types of goods influences the stability and sustainability of the SMEs. Middlemen often control access to market information and the markets and thereby erode the margins available to the SMEs. Assessment of markets and ability to access these are usually beyond the capacity of the SMEs. It would be necessary for IDPMS to devise innovative channels of marketing,

including reliance on exhibitions, show rooms and emporia. IDPMS could tap the institutional market by appealing to image advertising i.e., customers could be persuaded to buy the products and advertise them on their unique character that they use only rural artisan products. Cooperative marketing channels could also be established to mitigate the influence of middlemen. It is recommended that IDPMS consider these marketing possibilities further.

[Paras 2.5.11 to 2.5.14]

8.8 Large scale operations confer comparative advantages not only in production but also in marketing, finance and ability to adapt to changing conditions. Group enterprises in procurement, marketing and credit would seem to have such a clear comparative advantage. The enhancement of scale of operations could be achieved by adoption of cooperative arrangements for procurement, marketing and credit. The increasing adoption of this course is recommended. [Paras 2.5.15 to 2.5.18]

8.9 The RSMEDP covers a wide range of beneficiaries. In some cases, equipment and/or raw material has been provided by IDPMS though in most cases the investment has been met partly through investment by the members of the SHGs and partly through credit. Such differential approaches could be viewed as selective and inhibit the replication of the activities of the RSMEDP on a wider scale. It is recommended that it would be best to avoid different approaches for similar types of entrepreneurs in the same area. [Paras 3.3.10 to 3.3.12]

8.10 The provision of equipment for demonstration and training would be quite justified. However, providing such equipment to enterprises as part of investment or making available finance for purchase of raw material could create a dependency syndrome and, in the long run, weaken the SMEs. The adoption of such approaches could also reduce the

possibility of replication of the activities of the RSMEDP. The adoption of such approaches is best avoided. [Paras 3.3.13 and 3.3.14]

8.11 The appraisals for credit available from official programmes such as DWCRA are often not based on technical and financial criteria. There is, therefore, the risk of excessive credit being availed of because it is available. This could result in excessive credit burdens on relatively young SHGs due to lack of absorption capacity. It is recommended that care would have to be exercised while linking SHGs sponsored by IDPMS with such schemes. [Para 3.3.15]

8.12 It is to the credit of IDPMS that it has been able to train and orient NGOs towards economic activity through the establishment of SMEs. In course of time, the role of these NGOs would be transformed from one of “hand holding” to providing guidance in management and financial consultancy. In this process, it is recommended that their role as adviser and consultant should be encouraged. [Paras 3.3.16 (i) and (ii)]

8.13 The management of credit is crucial to the successful operations of the SMEs. In this context, in order to enhance enterprise development the adoption of the following salutary rules is recommended:

- IDPMS should only link SHGs or SMEs to financial institutions, if the beneficiaries have some kind of business orientation, such as an idea or a skill or financial resources, or a combination of these.
- Credits from formal financial institutions should be used for productive purposes only. If the beneficiaries do not have an entrepreneurial spirit the credit can become a burden because of misuse and / or wrong investment decisions.

- In order to avoid misuse of external credits IDPMS should convince the banks that credit made available when necessary and quickly is likely to be used for the proposed investments. When disbursed in the wrong period, the chance of default increases. [Para 3.3.16 (iii)]

8.14 The IDPMS in fact incurs some costs in organising the SHGs, orienting the bankers and linking the former with the latter. These costs, which involve both time and money, would be justified if the beneficiaries actually establish enterprises that would need and utilise the credit facilities. To ensure that these costs are optimised in terms of results, it is recommended that IDPMS should evaluate and assess the needs and prospective activities of the beneficiaries before establishing the linkages of the latter with banks. [Para 3.3.17 (i)]

8.15 If a NGO were to withdraw from an area where it has been promoting SHGs, the costs to the bank of managing SHG credit would increase with regard to loan recovery, monitoring and identification of new groups. It is, therefore, essential that the profitability of the SHG linkage be proved to the bankers so that the sustainability of the programme could be guaranteed. It is recommended that IDPMS should assist the banks in conducting studies on the viability of the SHG linkages. Issues, in this context, would include, for example, minimum outstanding amount of credit needed in order to cover the costs of lending (break even portfolio), the number of groups which could be dealt with by one bank field staff member such as the credit officer. [Para 3.3.17 (ii)]

8.16 Another cost element for the banks is the identification of NGOs that can become financial intermediaries. SIDBI and NABARD have funds for training of NGOs to function as such intermediaries. It is recommended that IDPMS could assume such a role of a rating agency and take up assignments in assessing the strengths of the NGO and training the staff of such potential financial intermediaries. [Para 3.3.17 (ii)]

8.17 SHG lending can be made more cost effective if the SHGs are clustered in, for example, federations or so called "NIDHIs". IDPMS could play an important role in this clustering process. [Para 3.3.17 (ii)]

8.18 If banks are only willing to lend to SHGs through NGOs (as is the case with SIDBI and in the RMK scheme), the NGOs should make an income-expenses analysis before the decision to become a financial intermediary is made. Simulations suggest that without grant money an NGO cannot run a SHG programme on a sustainable basis. Therefore, it is recommended that IDPMS could assist its partner NGOs in making the calculations and drawing conclusions on whether or not the NGO should become a specialised agency for micro finance. [Para 3.3.17 (iii)]

8.19 External credit is mainly needed to finance working capital which enables entrepreneurs to avail of economies of scale and seasonal availability of raw material. It is important that credit is available when needed as, for example, when raw material is available at optimum cost. The importance of the credit being needed at such critical points of time should be stressed in the training and orientation of bank personnel. [Para 3.4.2 to 3.4.4]

8.20 The apathy of bankers towards SMEs is, apart from other reasons, because they consider SMEs as high risk clients who might default and, as a consequence, decrease their performance. It is necessary to demonstrate that providing of financial services and assistance to SHGs can be profitable and that, through product development, new markets can emerge. It is recommended that the IDPMS could play a major role in this context. [Paras 2.2.20, 2.2.24, 3.4.5]

8.21 The IDPMS has developed an expertise in micro credit systems and procedures which few other similar organisations possess. This expertise could be made available to interested institutions and NGOs by way of a consultancy. It is recommended that the IDPMS could conduct a study of the need for this expertise and market its unique skills in this regard. [Para 3.5.1]

8.22 The IDPMS could market, on behalf of the banks and for a fee, the financial services that they offer. It could also conduct credit management training courses for SHGs and assist them in formulation and submission of credit proposals. In this context, to achieve economies of scale, as mentioned earlier, the IDPMS could organise SHGs into clusters or co-operative associations. [Para 3.5.2]

8.23 In the implementation of the RSMEDP, the IDPMS and the NGOs are partners, with the former playing the catalytic role. The IDPMS should not view itself as a donor but as a purveyor of technology and entrepreneurship ability. It is, therefore, recommended that the IDPMS should continue to play this role and act as an effective liaison between the banks, the NGOs and the beneficiaries. [Paras 3.5.3 to 3.5.5]

8.24 It is recommended that the IDPMS continue to play, and enhance, its role in sensitising bank management to SME financing and demonstrating that financing of SHGs can be profitable. It could do so, among other things, by training bank managers in determination and matching of credit and financial services to actual needs of SHGs and how to develop and maintain contact with such groups. [Paras 3.5.6 and 3.5.7]

8.25 Training is one of the most important elements of the RSMEDP. The IDPMS has valuable experience in organising training and utilisation of available training facilities.

Experience indicates that training is often the critical input, probably more valuable than interest subsidies. In this context, the IDPMS could, based on its experience, suggest to Government ways and means of enhancing both availability and quality of training facilities and better use of existing ones as a possible alternative to direct subsidising of interest.

[Para 3.5.8]

8.26 The IDPMS has, as mentioned earlier, developed unique skills and expertise with regard to SMEs and SHGs. It is recommended that this expertise should be exploited by the IDPMS by way of enhancing its role as a nodal agency for such activity. The way in which this could be done could include the following [Paras 3.5.9 3.9.13] :

- The IDPMS could establish itself as a rating agency for NGOs that specialise in financial intermediation, based on an acceptable approach and methodology.
- It could function as an institution that provides training and capacity building to NGOs that are interested in developing their knowledge and skills in economic activities such as setting up enterprises and financial services. It could also provide training in financial and credit management to SHGs.
- Its expertise could also be made available to institutions such as banks, other NGOs and donor agencies.
- It should further strengthen its association with NABARD and seek to enhance credit facilities for SMEs and IGAs in rural areas.
- It could undertake consultancy assignments relating to determining financial viability issues.

8.27 If the enhanced role envisaged for the IDPMS has to be implemented, it would have to strengthen its in-house financial expertise, particularly that relating to micro finance. To acquire such expertise, it would be necessary to invest in staff training and induction of external experts. For this purpose, it is recommended that the possibility should

be explored of obtaining assistance from the special budget line said to be available from the Government of the Netherlands for induction of such external expertise. [Para 3.5.14]

8.28 The choice of the taluks and of the villages within these has been largely conditioned by local factors, including the need to operate within areas in which the programme would have assured success. This is understandable in the initial stages of the RSMEDP. However, this has resulted in a wide dispersal of both the taluks and, within the taluks, of the villages. Such a dispersal has imposed extra costs in terms of travel, control and supervision. It is recommended that, to the extent possible, it would be advantageous to select areas which are contiguous for more cost-effective management. [Paras 2.2.6, 2.2.7, 4.1.1 to 4.1.5]

8.29 The objective of the RSMEDP is rightly the creation of economic opportunities in the non-farm sector of the rural economy. However, the IDPMS does not have any socio-economic target group as such among the rural population, whether these are the poorest people or the poorest regions or women. In particular, while there has been no deliberate targeting of women, they form a high proportion of the beneficiaries. Given its focus on SME development, its choices appear to have been made primarily with that end in view. Any apparent selectivity is more an indirect result of operational factors. However, it would be necessary to consider how far an element of deliberate selectivity that favours the poor and women could be introduced. It is suggested that, in future, the possibility of such a conscious orientation be also considered. [Paras 2.2.1, 2.2.10, 2.2.12, 2.2.13, 2.2.17 and 4.2.2]

8.30 Training has been a strong element of the programme. However, the drop out rate is high. This issue of drop out rates would have to be addressed. There could be a

variety of reasons for dropping out and it would be useful if these reasons could be identified with a view towards mitigating high drop out rates. It is recommended that a study be conducted on this issue. [Paras 2.2.18, 2.2.19, 4.4.1 to 4.4.3]

8.31 Women's groups are also formed under government schemes such as DWCRA, REDP and UBSP similar to those organised by the RSMEDP. The dissimilarities between the official programmes and the RSMEDP are recognised, particularly with regard to perceptions of the character of the financial help made available. However, the increasing induction of such women into the SHGs formed under the RSMEDP would help in developing and enhancing the culture of collective commitment to honouring individual obligations and of savings in the community. The possibility of such induction would merit consideration. [Para 4.10.2]

8.32 The SHGs could be very effective lines of communication for enhancing awareness of social and health aspects or for enhancing levels of literacy. How far such components, including imparting of functional literacy, could be built into the training programmes of the RSMEDP without diluting the latter would need consideration. Alternatively, and so as not to reduce the focus of the RSMEDP, the official agencies in charge of such programmes, including literacy development, could interact with the SHGs separately. It is recommended that the IDPMS could, in relation to this interaction, function as a facilitator. Such a role would also enhance the profile of the IDPMS in the local area. [Paras 4.10.3 and 4.10.4]

8.33 The RSMEDP is implemented through NGOs. The choice of the NGOs is based on various criteria. Since the NGOs associated with the programme have had experience in income generating activity through establishment of micro enterprises, the

IDPMS has had to inculcate these skills and the appropriate attitude in the NGOs. In this sense, the IDPMS has been involved in institution building. For a successful partnership to be evolve, it is necessary that the thinking and approaches of the IDPMS are institutionalised within the associated NGOs. To establish such a partnership, it is suggested that the IDPMS work with a small number of NGOs operating over a wider area. This would permit the development of strong institutional links and a common approach. [Paras 2.2.3, 5.1.1, 5.1.2]

8.34 The IDPMS has developed fairly strong links with financial institutions such as NABARD and the Grameen Banks. It is recommended that these links be further strengthened through the induction of the representatives of some of these institutions in the Technical Advisory Committee suggested to be constituted within the IDPMS. [Para 5.2.1 and 6.4]

8.35 The information available in the documentation produced by NABARD would be of great help in formulating field plans. Also, NABARD has many innovative schemes for development of expertise that could be taken advantage of for developing expertise within the IDPMS. The IDPMS could explore how it could avail of the benefit of these schemes and of the information available within NABARD. [Para 5.2.2]

8.36 The rural banks have benefited from the expertise of the IDPMS in enhancing their business through location of new clients and becoming sensitised to rural credit needs. It could be argued that IDPMS would be entitled to charge for this service. However, this is an issue that needs careful consideration. It is rather premature to assert that IDPMS has established itself either in terms of size or capacity to be able to charge for such service. It is suggested that this aspect be kept in mind for possible adoption at the appropriate time. [Para 5.2.3]

8.37 The IDPMS has developed effective links with official agencies and has taken advantage of officially established training facilities. It is recommended that these links must be maintained and enhanced to the advantage of the IDPMS. The agencies with which these links exist and should be maintained include [Paras 5.3.1 to – 5.3.9] :

- the Department of Industries through the District Industries Centres and the wide network of training institutions;
- the agencies in charge of programmes such as IRDP, TRYSEM, DWCRA, to explore the possibility of inducting the trainees of these programmes into the RSMEDP;
- agencies such as the Coir Board, the Sheep Development Board which have experience in skill formation and marketing;
- agencies such as the Regional Technology Development Centre, the Karnataka Council for Science and Technology, the Society for Application of Science and Technology in Rural Areas, for information on and adoption and upgrading of appropriate technology;
- private training institutions and local industries for training of apprentices;
- co-operative training institutions for credit and marketing skills.

8.38 The structure of the PMU of the IDPMS is crucial to the efficient implementation of the RSMEDP or similar programmes. Systems would have to be set up which would provide the PMU the expertise it may require at various points of time without adding to costs in terms of permanent staff positions. To be able to access such expertise and technical advice, it is suggested that a Technical Advisory Committee be constituted consisting of experts who would be invited to join. [Paras 6.2 to 6.5]

8.39 The IDPMS has considerable success in transfer or induction of technology in the rural areas. It would be useful to develop a system for identification of such technologies and for their upgrading. Such a system would also be of great assistance to other NGOs. It is recommended that the IDPMS consider the development of an information bank on such

appropriate technologies which could be available “on tap” to NGOs and other interested organisations. [Para 6.6]

8.40 The strengthening of the expertise on marketing in the PMU of the IDPMS would appear urgently necessary. It is recommended that a marketing consultant could be inducted in a middle level position for which experienced persons would be available from recent retirees from NABARD, RRBs or marketing organisations. [Para 6.7]

8.41 Induction of experts from NABARD on the Technical Advisory Committee or by recruitment of its staff as suggested above, would help in strengthening the links of the IDPMS with NABARD. This would enable using the very informative data bank and the Credit Plans of the NABARD for formulation and implementation of plans under the RSMEDP. [Para 6.8]

8.42 Collaboration with institutions such as the Design Centres of Government, National Institute of Design, the Khadi and Village Industries Commission, Institute of Rural Management and the Enterprise Development Institute would be very useful. Such collaboration would help in improving the design of products, strengthening market strategies and enhancing both content and quality of services. The IDPMS could consider establishing a wing for this purpose as part of its structure for which seed money may be available from NABARD. It is recommended that the IDPMS commence a dialogue with such institutions for advice and assistance on these elements relevant to its activities. [Paras 6.9 and 6.10]

8.43 The reporting systems established for monitoring the activities of RSMEDP are adequate. However, they necessarily concentrate on physical and financial aspects and do

not provide qualitative information. In particular, it is difficult to assess the economic and possible social benefits of the programme. It is recommended that case studies could be conducted periodically, say every six months, in selected areas to obtain such information. Also, periodic in-house training on reporting requirements would need to be established. [Paras 2.2.4, 2.4.1, 2.4.8 to 2.4.11, 6.11 to 6.14]

8.44 Constant sharpening of the skills of the professionals in the IDPMS would be desirable. In-house training programmes could be introduced with the assistance of the members of the Technical Advisory Committee suggested earlier. [Para 6.15]

8.45 It would seem that the IDPMS model could be replicated subject to careful planning and provided there is an assurance of adequate funds and expertise. The latter the IDPMS could provide. If the IDPMS model is sought to be replicated, it is recommended that either the IDPMS itself could expand its area of operations or a new institution on similar lines could be set up. The former has the disadvantage of possible dilution of control but the advantage of vast in-house experience. [Paras 2.2.9, 2.2.25, 2.6.1 to 2.6.18, 6.16 to 6.19]

8.46 The IDPMS is a niche organisation with a character and area of interest and expertise that NGOs do not conventionally have. This would be the opportune moment for it to identify and tap new opportunities and forge new directions, which would give it greater visibility. In this context, the following recommendations are made [Paras 7.1 to 7.8] :

- The IDPMS should not expand its activities by entering new areas such as health, literacy, women's empowerment and the like. This would only dilute its unique character;
- The documentation of the experiences of the IDPMS, including that of building up NGOs and orienting them to this special programme, would be a useful contribution;

- A data bank could also be built up on the basis of this experience that would help NGOs in learning of and sourcing assistance in training, credit, marketing and associated aspects;
- The experience and advantage that the IDPMS has in locating and using training facilities and rural credit systems could be made available to NGOs, SHGs and associations of SMEs through training and orientation programmes. This would enhance its visibility;
- The IDPMS could organise workshops and seminars for the managements of rural banks, official agencies concerned and NGOs to sensitise and orient them with regard to the elements of the RMSEDP and similar programmes;

8.47 There is often little input in policy making from NGOs. The IDPMS could seek to fill this gap through the preparation of policy papers that reflect its experiences. Such papers could be on specific aspects related to its expertise. It is recommended that the IDPMS attempt to develop such an advocacy role. [Para 7.9]

Annex I

REVIEW AND SUPPORT MISSION FOR RURAL SMALL & MICROENTERPRISES DEVELOPMENT PROGRAMME (RSMEDP)

TERMS OF REFERENCE

1. The Review and Support Mission (RSM) will broadly cover the following topics in respect of Rural Small & Microenterprises Development Programme (RSMEDP) now being implemented by the Indo-Dutch Project Management Society (IDPMS). Background Note 'B' (placed below) gives the salient features of RSMEDP and Background Note 'A' (placed below) gives some details of the evolution of IDPMS and the steps leading to the formulation of RSMEDP.
2. The RSM will commence this assignment on 29th July 1998 with a briefing session at the Royal Netherlands Embassy (RNE), New Delhi and will end this assignment on 14th August 1998 with a debriefing session at RNE. During that period, the RSM will visit the RSMEDP areas in the State of Karnataka, hold discussions, assess and report on the points noted in Clause 3 below.

The main objectives of this Mission will be :-

- To assist RSMEDP in further improving the quality of its activities.
 - To make recommendations for the future of IDPMS.
 - To suggest improvements in financial reporting of the programme.
 - To indicate whether a more formal support structure to IDPMS is required and if so, the broad framework of such support.
3. The main points to be covered by the Mission are as follows :-

I. Overview :

The Mission should;

- Review the model and the approach followed by RSMEDP.
- Indicate whether the model offers scope for replication in the other districts of the State and in other States with regard to timeframe, feasibility, investment, quality and quantity of services to be provided with separate focus on gender.
- Review the achievements of the programme vis-a-vis the long term / short term objectives.
- Discuss the possibilities of integrating the basic needs with proper enterprise development.
- Suggest where possible, benchmarks for actions / results based on Indian conditions.

II. Economic :

The Mission should ;

- Discuss whether microenterprises generate employment and economic growth.
- Discuss the challenges and possibilities for microenterprises in the new economic order.
- Comment on the mortality rate of microenterprises (taking into account the opinion emerging through international debate in this regard).
- Discuss the possibilities of pricing the support services provided and if so, how it should be made cost effective vis-a-vis the approaches - market determined or social and equity empowerment route.
- Express its views on the sustainability of microenterprises and criteria for sustainability, subsistence Vs, surplus, stable and secure employment vs. unstable enterprise.
- Discuss how microenterprises can become a sector that focuses people's actions instead of people being pushed around due to lack of alternatives.
- Discuss whether microenterprises can be serious players within the market.
- Assess the change in income and employment opportunities of the target groups.

III. Credit :

The Mission should ;

- Assess the role of banks, self-help groups in extending timely and affordable credit.
- Identify the bottlenecks faced by new entrepreneurs.
- Assess how effectively the different constituencies - poor and the not-so-poor-have been targeted for credit disbursement.
- Assess the opportunities for healthy competition in the context of deregulation.
- Indicate the role of credit-enterprise-market chain in poverty alleviation.
- Review the institutional mechanism for microfinance with separate focus on gender.
- Discuss whether it is necessary to provide long-term loans for acquisition of assets and working capital besides funding for subsistence and scaling up of funds is essential for sustainability.
- Address the need and possibilities for intervention relating to micro-credit, with special attention to the role of rural banks and other microfinance institutions.

In dealing with the above, the Mission may keep in view the recommendations of the Narasimham Committee on Credit.

IV. Women :

The Mission should ;

- Review and assess the various types of barriers women face in becoming microentrepreneurs.
- Address the interventions required for further strengthening the role of women entrepreneurs.
- Assess the impact in respect of decision-making, choice of expenditure, access and control over income and credit, opportunities for leadership and in general, about empowerment of women at different levels.

V. Institution :

The Mission should ;

- Suggest support systems / improvements to the existing support systems for transformation of trained individuals to entrepreneurs and for the enterprises already created.
- Suggest interventions needed to make the programme and the enterprises self-reliant and the relationship that should exist between IDPMS and the target group at the end of interventions / a given time frame.
- Indicate how the future activities may be supported by networking with NGO's, CBO's Government Organisations / programmes and other partners.
- Discuss the future trajectory for IDPMS as an institution.
- Suggest the possibilities for growth and strengthening of PMU taking into account the organisational, personnel and functional specialisation aspects, indicating the training needs and giving managerial advice.
- Suggest suitable structures / systems to recognise regional variations and to formulate local solutions.
- Discuss the role of IDPMS not as a donor but as a technical support team.
- Suggests approaches / methods to navigate in the aid market.

Annex II

FIELD VISITS OF REVIEW AND SUPPORT MISSION

MYSORE (Mysore and Chamarajanagar districts)

DATE	PLACE VISITED	NGO / OFFICES	ENTERPRISE
4/8/1998	Mallinthapura, Hunsur Taluk	Indo-Dutch Project Management Society (IDPMS)	Wool Spinning
	Target Group Members - Four (4) Groups	Chamundeshwari SHG Doddaswamy SHG Beeradevara SHG Hosurumaramma SHG	Self-Help Groups (SHGs)
	Chinnadagudihundi, Nanjangudu Taluk	Development of Women and Children in Rural Areas (DWCRA)	Wood-In-Lay / Rexine / Jute
	Dasanur, Nanjangudu Taluk	Indo-Dutch Project Management Society Training Centre	Sisal Fibre
	Kudermole, Chamarajanagar Taluk	Indo-Dutch Project Management Society Training Centre	Sisal Fibre
5/8/1998	Theramballi, Kollegal Taluk	People's Movement for Self Reliance (PMSR)	Silk Reeling
	Sathagala, Kollegal Taluk	People's Movement for Self Reliance (PMSR)	Micro enterprise Mobile Hotel Diesel and Petrol Sale Tender Coconut Sales
	Meeting of NGOs		
6/8/1998	Office of C.E.O., Zilla Panchayat Office of Joint Director, Industries Office of the Chairman, Cauvery Grameena Bank, IDPMS Programme Staff		

DHARWAD (Dharwad, Gadag and Haveri districts)

DATE	PLACE VISITED	NGO / OFFICES	ENTERPRISE
8/8/1998	Ranibennur	SPOORTHY	Screen Printing Cable Operator Beauty Parlour DTP & Screen Printing
	Kanavalli		Electrical Repair
	Dharwad	India Development Service (IDS)	
	Haveri	Community Polytechnic College (CPC)	Micro- Enterprises Development Programmes
	Negalur	India Development Service (IDS)	Wool Spinning and Wool Weaving
	Negalur	India Development Service (IDS)	Foot Wear
9/8/1998	Tadas	Akkamahadevi SHG	Chilli Powder
	Tadas	Chaitanya Institute For Youth And Rural Development (CHINYARD)	
	Tumarikopa Asthkatti Asthkatti Asthkatti Kabanur	Christu Jyothi SHG Akkamahadevi SHG Manjunath SHG Jagadamba SHG Shri Laxmi SHG Akkamahadevi SHG	Karnatak Kasuti Dairy Dairy Lambani Kasuti Karnatak Kasuti Garments
	Meeting of NGOs		
10/8/1998	Laxmeshwar Laxmeshwar	Durga Devi Sangha The Horn Products Group	Leather Group Horn Products
	Laxmeshwar	The Musical Instruments Group	Musical Instruments
	Laxmeshwar	The Footwear Group	Footwear
	Meeting with Bank Officials, Joint Director of Industries, Management Consultants.		

Annex III

PERSONS WITH WHOM DISCUSSIONS WERE HELD

MYSORE (Mysore and Chamarajanagar districts)

NAME	DESIGNATION	ORGANISATION
Mr. Ravindra	Project Director	Rural Education And Action Development Society (READS)
Mr. Jaya Prakash	Field Staff	
Mr. Neeliah	Director	Peoples Movement For Self Reliance (PMSR) - Kollegal
Mr. Nagasunder	Co-ordinator	
Mr. Mantaya	Field Staff	
Sister Alice Joseph	Coordinator	Society for Rural Development (SUMANA)
Dr. Zeb Watruocha	Consultant	

ENTREPRENEURS

NAME	ORGANISATION
Mallinathapura Hunsur Taluk	
Jayamma	Wool Spinning (four Self Help Groups)
Karagamma	
Halagamma	Hosur Maramma SHG
Nagamma	Doddaswami SHG
Meenakshamma	
Kempamma	Beeradevaru SHG
Parvathamma	
Mahadevamma	Chamundeshwari SHG
Ratnamma	
Sannamma	
Javaramma	
Sharadamma	
Nagamma	
Doddathayamma	
Mahadevamma	
Prema	
Maramma	
Sakamma	
Puttamma	
Nagamma	
Gowramma	
Sannthayamma	
Sushilamma	
Sunanda	
Rathnamma	
Sanne Gowda	
Maramma	

NAME	ORGANISATION
Nanjangudu Kempamani Shwetha Rajamma Parvathamma Savitha Shobha	Wood in-lay
Jayamma Channajamma Sumitra Manjula Mangala	Rexine Jute
Revamma Siddamma Madamma Mahadevamma Shivamma Savitramma	DWCRA Group
Kudremole Chikkthayamma Kamamma Lakshamma Dundamma Chandramma Sanmadamma	Sisal Fibre
Dasanur Prema leela Roopa Geetha Gowramma Vasanthakumari Bhagya Shobha Nagamma	Sisal Fibre
Therambally Puttamma Nagamma Chennajamma Neelamma Sujatha Chowdamma Prabhakar	Silk Reeling

NAME	ORGANISATION
Sathegala Udayakumar Nanjunda Shanbaraj Noorjahan Rusvendra	Micro-Enerprise

GOVERNMENT

NAME	DESIGNATION	ORGANISATION
Mr. Kaniram Mr. Jayaram	Chief Executive Officer Secretary	Zilla Parishat - Mysore
Mr. Raju S. Ms. Subamma	Child Development Project Officer Grama Sevika	Department of Women and Child Welfare --Nanjangudu
D.S. Vishwanath	Joint Director	District Industries Centre (D.I.C) -- Mysore

BANKS

NAME	DESIGNATION	ORGANISATION
Mr. Seetharam Mr. Jayaramu	Chairman General Manager SHG In-Charge	Cauvery Grameena Bank (C.G.B) -- Mysore
Mr. S. Rajan	Additional General Manager	National Bank For Agriculture and Rural Development (NABARD). -- Mysore

DHARWAD (Dharwad, Gadag and Haveri districts)

NAME	DESIGNATION	ORGANISATION
Mr. Srinivas .A.	Project Officer	SPOORTHY
Mr. Jagadeesh	Enterprise Motivator	
Mr. Ningraj Irani	Entrepreneur	Screen Printing
Mr. Veeresh Hiremath	Entrepreneur	Cable Operator
Ms. Renuka Kumar	Entrepreneur	Beauty Parlour
Ms. Leela Reddy	Entrepreneur	DTP & Screen Printing
Mr. Sanjay Baligar	Entrepreneur	Electrical Repairs
Mrs. Shymala Hiremath	Project Coordinator	
Ms. Veena Nadgier	Supervisor	
Mr. Kankeri H.P.	Enterprise Motivator	
Mr. Nagappa J.	Enterprise Motivator	India Development Service (IDS)
Mr. Haveri	Enterprise Motivator	
Mr. Hiremath B.H.	Trainer	
Building Materials	Trainees	
Mr. Kogurmah	Enterprise Motivator	
Ms. Bharmavva Uppar	Entrepreneur	Wool Spinning
Ms. Sundamma B.	Entrepreneur	Wool Spinning
Mr. Dharmanna Uppar	Entrepreneur	Wool Weaving
Mr. Parmesh S.S.	Entrepreneur	Foot Wear
Mr. Kubsad S.S.	Principal	
Mr. Hiremath	Faculty	Community Polytechnic College (CPC)
Mr. Naragund		
Mr. Bharadwad C.Y.	Managing Trustee	
Mr. Patil F.B.	Enterprise Motivator	
Mr. Narayana H.	Enterprise Motivator	
Mr. Mangalappa L.	Enterprise Motivator	Chaitanya Institute For Youth and Rural Development (CHINYARD)
Mr. Yadanvar	Designer	
Mr. Adnoor	Enterprise Motivator	
Mr. Megeri S.C.	Enterprise Motivator	
Mr. Lingareddy	Enterprise Motivator	
Ms. Geetha K.	Enterprise Motivator	
Ms. Renuka G.	Enterprise Motivator	

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Mr. Subhas M.S.	Director	Karnataka Institute of Management Studies (KIMS)
Mr. Neelagund K.S. Mr. Vivek Biligikar	Secretary Enterprise Motivator	Shri Lingabasaveshwara Gramodyoga Seva Sangh (SLIGS)
Mr. Yellappa I. Mr. Vasudeva Tollabandi	Enterprise Motivator Project Officer	Ujwala Rural Development Service (URDSS)
Mr. Rajashekar	Executive Director	Grass Root Education and Environment Network (GREEN)
Mr. Ashok Y. Ms. Pankaja K. Mr. Patil	Secretary Director Enterprise Motivator	Karnataka Integrated Development Service (KIDS)
Mr. Anand S. Mr. Parashuram S. Mr. Vilas	Designer Secretary Trainer	Charmodyog Kaigarika Sahakari Sangh Niyamit (CKSSN)
Mr. Basvanappa H.	Corporator	Laxmeshwar
Mr. Sunil Iraddi	Contractor	Laxmeshwar
Mr. Gopi Krishna	NGO-Consultant	Shirhatti

GOVERNMENT

NAME	DESIGNATION	ORGANISATION
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BANKS

NAME	DESIGNATION	ORGANISATION
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MR. Agasthi Math	Senior Manager	Malaprabha Grameena Bank (M.G.B.) -- Dharwad
Mr. Janardhan Rai	LDM	Vijaya Bank -- Hubli

**GOVERNING COUNCIL AND STEERING COMMITTEE, INDO-DUTCH PROJECT
MANAGEMENT SOCIETY BANGALORE**

NAME	DESIGNATION
Mr. Subba Rao	Chairman
Dr. (Mrs.) Shobha Raghuram	Chairperson, Executive Committee and Member, Governing Council
Prof. Vinod Vyasulu	Member, Governing Council
Dr. K.S. Krishna Swamy	Member, Steering Committee
Prof. K.S. Jagadeesh	Member Steering Committee

**HUMANISTIC INSTITUTE FOR CO-OPERATION WITH DEVELOPING COUNTRIES
(HIVOS) -- BANGALORE**

NAME	DESIGNATION
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Dr. (Mrs.) Shobha Raghuram	Deputy Director

IDPMS STAFF AND CONSULTANTS

NAME	DESIGNATION	ORGANISATION
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Mr. Vadiraj K.V.	Advisor	
Mr. Prakash Hegde	Marketing Officer	
Mr. Ramesh M.S.	Accounts Officer	
Mr. H.R. Adithya	Marketing Consultant	
Dr. Ananth Panth S.	Consultant	Indo-Dutch Project Management Society (IDPMS) -- Mysore
Mr. Thippeshappa C.	Programme Officer	
Mr. Varchasvi Rampure	Sales Promoter	
Mr. Manjunath G.	Consultant (Technical)	
Mrs. Leena Joseph	Trainer	
Mr. Sreepathy	Field Staff	
Mr. Mahesh Doddamane L.	Programme Officer - Hubli	Indo-Dutch Project Management Society (IDPMS) -- Haveri
Mr. Kiran U.	Programme Officer - Haveri	