INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN: 2278 – 0211 (Online)

An Impact Study Of Micro Finance System On The Enterpreneurial Development Of Andhra Pradesh, India

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Abstract:
Poverty and unemployment are the twin problems faced by the developing countries. According to the Planning Commission more than one third of India's total population i.e. 320 million live below the poverty line (BPL).Policy makers in India have realized the need for generating employment opportunities at a large scale to bring millions of population above the poverty line. As nearly 70 percent of the population live in rural areas and many of them suffer owing to seasonal unemployment, underemployment and disguised unemployment, the Government brought out a number of schemes with an aim to generate employment. The development planners realize the need for transition from income generation to self-employment and from self-employment to entrepreneurship development. Todaymicrofinance forms a part ofalmost all development intervention targeted at poverty alleviation. TheNew micro finance approaches have emerged in India involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards.The micro finance programmes and institutions have become increasingly important components of strategies to reduce poverty or promote Micro and Small Enterprise Development (MSED). One of the most important micro finance approaches, pioneered by Non-Governmental Organizations (NGOs)is to create links between Commercial Banks (CBs) and NGOs and informal local groups. Micro finance through Self Help Groups (SHGs) is propagated as an alternative system of credit delivery for the poor. This paper attempts to give a comprehensive overview of all aspects of micro finance in India in general and Andhra Pradeshin particular regarding the different institutions involved in its promotion, the different modes of delivery, its weakness and the challenges etc. This study mainly focuses on the impact of micro finance system on the entrepreneurial development of Andhra Pradesh.

Key words:*Micro finance, poverty alleviation, SHG, entrepreneurial development, refinance, Grameen bank, income generating activities*

1.Introduction

The concept of micro finance was originated around 27 years back by Professor Mohammad Yunus, Bangladesh. He introduced the concept of “Grameen Bank” in 1975in Chittagong University Campus as an experiment. The term ‘Grameen’ means ‘rural or village’ andthese Grameen banks provide loans to thepoor who do not have anything to put up for collateral.Micro finance is recognized and accepted as one of the new developmentparadigms for alleviating poverty through social and economic empowerment of the poor. It involves the provision of thrift, credit andother financial services and products, with the aim to raiseincome levels and improve living standards of the people below the poverty line by creating income generating activities (IGA). The Task Force on supportive policy and regulatory framework for micro finance has defined it as “Provision of thrift, credit and other financial services and products for very small amounts to the poor in rural, semi-urban or urban areas for enables them to raise their income levels and improve living standards”.

The year 2005 hasbeen declared as “Microcredit Year” by the United Nations by considering the utmost importance of micro finance. The G8 Member States havealso reaffirmed the crucial importance of microfinance as a development tool. The 2004 action plan of the G8, adopted at Sea Island in June 2004, is entitled “applying the power of entrepreneurship to the eradication of poverty”. Hence Microfinance constitutes the heart of total finance system. “Facilitating Remittances to Help Families and Small Businesses”, “Improving the Business Climate for Entrepreneurs and Investors”, “Providing Housing and Clean Water by Supporting the Development of Local Financial Markets” and “Expanding Access to Microfinance for Entrepreneurs” are the four strategies announced. The action plan also mentions that **“**Sustainable microfinance can be a key component in creatingsound financial market structures in the world's poorest countries” and foresees thatwith the support of the World Bank-based ConsultativeGroup to Assist the Poor (CGAP), G8 countries will work to launch a globalmarket-based microfinance initiative.

Microfinance scheme provides a wide range of financial services to people whohave little or nothing in the way of traditional collateral. It helps them to build up assets,survive crises and to establish small business to come out of poverty. Besides extendingsmall loans (micro-credit), microfinance programme provides various other financial andnon-financial services such as savings, insurance, guidance, skill development training,capacity building and motivation to start income generating activities to enhance theproductivity of credit. This innovative programme is reaching the poor people especiallywomen and has an impact on their socio-economic development as well as theirempowerment. Hence this programme is becoming popular and emerging as a powerfulinstrument for poverty alleviation in many countries of Asia, Africa, Europe andAmerica.

1.1.Meaning And Function Of Microfinance

The Asian Development Bank (2000) defines microfinance as the "provision ofbroad range of services such as savings, deposits, loans, payment services, moneytransfers and insurance to poor and low income households and their micro-enterprises".The Task Force emphasises that microfinance will cover not only consumption andproduction loans, but also loans for other credit needs such as housing and shelter. The Micro Financial Sector (Development and Regulation) Bill, (2007) definesmicrofinance as the provision of financial assistance and insurance services to anindividual or an eligible client either directly or through a group mechanism for anamount, not exceeding rupees fifty thousand in aggregate per individual for small andtiny enterprise, agriculture, allied activities or an amount not exceeding rupees one lakh fifty thousand in aggregate perindividual for housing or other prescribed purposes. The beneficiaries under this scheme may be landless labourers and migrant labourers;artisans and micro-entrepreneurs; disadvantaged cultivators of agricultural land includingoral lessees, tenants, and share croppers; and farmers owning not more than two hectaresof agricultural land.

1.2.Microfinance In India

It has been estimated that India has 37 percent of the world's population earning less than $1 a day, of which 60 percent are women (Human Development Report 2003). Most of the deprivation comes from lack of access to economic resources as well as being subordinated at the level of the family, community and the socio-political arena. Today microfinance forms a part of almost all development intervention targeted at poverty alleviation. These micro finance programmes and institutions have become increasingly important components of strategies to reduce poverty or promote Micro and Small Enterprise Development (MSED). One of the most important micro finance approaches, pioneered by Non-Governmental Organizations is to create links between commercial banks and NGOs and informal local groups. Recognizing their importance, both Reserve

Bank of India and National Bank for Agriculture and Rural Development (NABARD) have been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems.

The birth of microfinance movement in India can be traced to 70's with an aim to alleviate poverty by delivering financial services to the poor. The basic idea was to enable poor to access the financial services so that poor can have an asset base and initiate income generation activities. The movement was initiated in India by the joint efforts of NGOs and CBOs. Self Employed Women Association (SEWA) is considered one of the pioneers of the microfinance movement in India. In the last two decades microfinance movement has gained a lot of prominence in India which can be divided into two distinct phases:

- Phase I: 1970's to1991
- Phase II: 1991 to the present time.

In the Phase II, formal financial sector in India also joined the microfinance movement. It was realized that the main limitations banking sector in serving the poor were related to high transaction cost, high cost of mobilization, especially when the banking sector had to follow regulated interest rate structure and asymmetric information in the financial sector. In such a situation, it was found that Self Help Groups could be an ideal delivery model to meet the financial needs of the poor.

In India, the first initiative to introduce microfinance was the establishment of Self-Employed Women's Association (SEWA) in Gujarat in 1972 which established their own bank known as SEWA Bank in 1974. In the midst of the apparent inadequacies of the formal financial system to caterto the financial needs of the rural poor, the first major effort to reach these rural poor wasmade by NABARD in 1986-87, when it supported and funded an action research projecton 'Saving and Credit Management of Self-Help Groups' of Mysore Resettlement andDevelopment Authority (MYRADA). In order tomeet their credit requirements, in July 1991 RBI issued a circular to the commercialbanks to extend credit to the SHGs formed under the pilot project of NABARD. Duringthe project period different NGOs like Association of SarvaSeva Farms (ASSEFA),Madras; People's Rural Education Movement (PREM), Behrampur; ProfessionalAssistance for Development Action (PRADAN), Madurai; and CommunityDevelopment Society (CDS), Kerala promoted hundreds of groups. In February 1992, NABARD launched a pilot project i.e., SHG- BankLinkage Programme (SHG-BLP) which could be considered as a landmark development inbanking with the poor.NABARD's activities are related toforming strategic linkages and expanding the range of formal and informal agencies which can work as Self Help Group PromotingInstitutions (SHPIs).

Microfinance institutions (MFIs) serve as a supplement to banks and these institutions not only offer micro credit but also provide other financial services like savings, insurance, remittance and non-financial services like individual counseling, training and support to start own business and the most importantly in a convenient way.

1.2.1. Delivery Models Of Microfinance

The concept of microfinance involves informal and flexible approach to the creditneeds of the poor. Broadly, the microfinance deliverymethods can be classified into six groupswhich are as follows:

1.1.1.1.Grameen Bank Model

Grameen Bank model is one in which microfinanceprogramme participants are organised into groups of five members who makemandatory contribution to group savings and insurance fund. Each member maintainsindividual saving and loan account with the bank and after contributing to thesavings fund for a fixed time the group members receive individual loans from the bank for six months to one year duration

1.1.1.2. Joint Liability Group Model

In this model, 4 to 10 individuals are organised in a group known as a JointLiability Group (JLG) and can avail bank loans against mutualguarantee and there is no condition of their own saving fund. All members sign a jointliability contract, making each one jointly liable for repayment of the loans taken by allindividuals in the group. In India, NABARD is using this model for providingcredit to the tenant farmers, cultivating land either as oral lessees or share croppers, andsmall farmers who do not have proper title of their land holding.

1.1.1.3.Individual Lending Model

This is a straightforward credit lending model in which micro-loans are given directly to the borrowers in which the financial institutions have to make frequent and close contact with individual clients to provide credit products customised to the specific needs of the individual. It is most successful for larger, urban-based, production-oriented businesses.

1.1.1.4.The Group Approach

In this model, 10-20members are organised to form a group who make regular savings offixed amount in a common fund. After some period the group is linked to a financial institution for getting credit andthese institutions issue loans in the name of group and whole group is considered responsiblefor repayment. In India, the Group Based Credit Deliverymethod known as SHG-BLP is a predominant method of providing microfinance.

1.2.1.5.Village Banking Model

This is an expansion of the group approachin whicha Village Bank is developed by grouping 30 to 100 low-income individuals who seek toimprove their lives through self-employment activities. The bank is financed by internalmobilisation of members' saving fund as well as loans provided by the sponsoring MFIs.

1.2.1.6.Credit Unions and Co-operatives

A credit union is a democratic, non-profit financial co-operative which is ownedand governed by its members, who are at the same time the owners and the customers oftheir cooperative society. These are created by the persons belonging to thesame local or professional community or sharing a common interest and provide a wide range of banking and financial services to its members.

1.2.2.<u>Channels Of Micro Finance</u>

In India microfinance operates through two channels:

- SHG – Bank Linkage Programme (SBLP)
- Micro Finance Institutions (MFIs)
-

1.2.2.1.Shg – Bank Linkage Programme

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under this model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings periodically and from these savings, small loans are provided to the members for income generation purpose. The SHGs are self-sustaining with some support from NGOsand institutions like NABARD and SIDBI.

1.2.2.2.Micro Finance Institutions

The institutions which have microfinance as their main operation are known as Micro finance institutions. These institutions lend through the concept of Joint Liability Group (JLG), is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reasons for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

- High transaction costs – generally micro credits fall below the break-even point of providing loans by banks
- Absence of collaterals – the poor usually are not in a state to offer collaterals to secure the credit
- Loans are generally taken for very short duration periods
- Higher frequency of repayment of installments and higher rate of Default

Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in microfinance sector constitute MFIs which account for about 42 percent of the microfinance sector.

In India, there is a wide variety of institutions in public as well as private sectorwhich provide microfinance to the poor. These institutions can be broadly divided intotwo types viz., traditional formal financial institutions and Microfinance Institutions (MFIs). The traditional financial institutions comprise ofCommercial Banks, Regional Rural Banks and Cooperative Banks. They providemicrofinance services in addition to their general banking activities and are referred to asMicrofinance Service Providers. On the other hand MFIs are different types of financialinstitutions whose main financial activity is providing microfinance only. Many of theseinstitutions are NGOs, Mutually Aided Co-operative Societies (MACS) and Non-Banking Financial Companies (NBFCs).The following figure shows the institutional arrangement of microfinance disbursement in India:

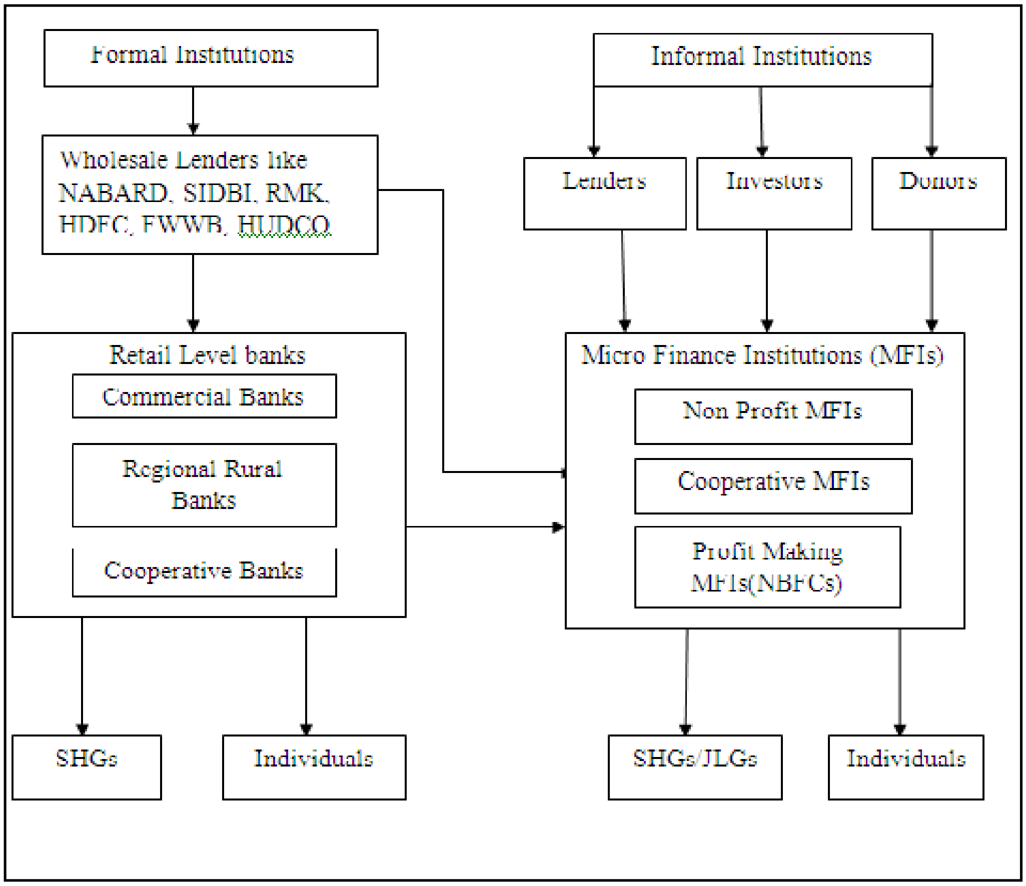

Figure 1:Institutional Arrangement for Microfinance Disbursement in India
Source: www.nabard.org

1.3.Micro Enterprises Development Through Microfinance

Micro enterprises or small businesses are in integral part of anyeconomy which forms an importantsource of livelihoods for majority of the people. These enterprises are referred to as home based work or self-employment taken up on a small scale. These enterprises as businesses operated by poor or group of poorpeople with support of sponsoring organizations and operated eitherby individuals or individuals along with their family members (Midgley,2008). According to ADB Report 1997, the major objectives of microenterprisedevelopment projects are, "poverty alleviation, womenempowerment, employment generation and enterprise development". Micro enterprises can be developed undertwo different frameworks: livelihood promotion and growth orientedenterprise development. Livelihood promotion programmes have main objective of poverty reduction and in the process the programmes help to increase the productivity of the enterprises. Whereas growth orientedprogrammeshave main objective ofenterprise development. These programmes attempt to have microenterprises to achieve the high level of sustainability and long term growth by providing services like training, technical assistances, creditand business skill. The livelihood programmes make a short term impact onpoverty by creating self-employment whereas growth oriented microenterprise development programmes make long term impact onpoverty. However, the problem with long term growth orientedprogramme strategy is that it reaches only a smaller number ofenterprises. Livelihood promotion programmes on the other hand can reach much higher number of poor people.

Microenterprise is an occupation choice of millions of the poor who workindividually or along with their unpaid family members to earn adecent living. MFIs use micro enterprise as a strategyto address the poverty of its members. Several studies havefound that income levels of households engaged in micro enterprisesthrough their microfinance programs have been improved.

1.4.Micro-Finance In Andhra Pradesh

The Government of Andhra Pradesh (GoAP)aimed toprotect the poor who depend on access to consistent and dependable finance to help smoothpatchy income streams and avert financial crises. The GoAPformulated The Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2010to protectthe poor.The direct effect of the enactment of this Act has been to deny millions of India's poorest citizens' access to basicfinancial services. The impact of the AP Act has the potential to affect 450 million people. Since the AP Act wasadopted, MFI disbursements in Andhra alone have diminished from Rs. 5,000 crores ($1.13 billion) to a mere Rs 8.5 crores($1.9 million), creating a severe shortage of much needed finance to the rural poor.

• The rationale for the AP Act is not to protect the poor, but to protect the uncompetitive government-backed Self-Help Group ("SHG") program run by the Society for the Elimination of Rural Poverty ("SERP").

• The GoAP claims that private sector MFIs are exploiting India's poor by charging usurious interest ratesand practicing coercive recovery techniques cannot be substantiated and, based on numbers from SERP, it appearsthat the suicide rates amongst MFI borrowers are dramatically lower than the statistical average in the entire stateof Andhra Pradesh.

• Private sector MFIs have demonstrated to be the most scalable and sustainable way of helping the Indiangovernment meet its stated policy of encouraging "financial inclusion" for the 450 million people in India who arecurrently "unbanked", i.e., with no access to basic finance.

• If the World Bank provides the much discussed $1 billion in funding to the government-backed SHG program inAP, it will be complicit in snuffing out the private sector from Indian microfinance.

• The Reserve Bank of India ("RBI") and central government must take immediate and decisive action to supersede,suspend or repeal the AP Act and introduce sensible legislation on a federal level which allows the private sector togrow and flourish.

• The Malegam Committee's recommendations and their broad acceptance by the RBI give rise to a number ofconcerns, and the constraints proposed around loan limits, interest rates, provisioning norms and capitalrequirements must be revisited to avoid unintended and deleterious consequences that could permanently impactprivate sector MFIs.

• MFIs represent the only viable way for lenders to recover their loans to MFIs, given their relationship with the endcustomers. MFIs must be given the time to undo the damage inflicted by the AP Act and to recover the loans from borrowers.

2.Review Of Literature

The issue of poverty is as old as human history. Before the industrialization, poverty was seen as a phenomenon thatwas inevitable. Economical productivity increaseddramatically, leading mostly industrialized countries to have a production that is more than sufficientto create a minimum living standard for their population (Brittanica, 2011). Hulme et al (2001) identified four factors that causesfor poverty viz., trade, bad governance, low quality of natural resources and naturaldisasters etc. Stiglitz (1998) has proven that market failure is one ofthe most fundamental causes of poverty, especially financial market failure since this limits theavailability of financial resources to the poor due to information asymmetry and high fixed costs thatare charged for providing small-scale loans. Improving access to creditby providing loans is necessary to reduce poverty since it will contribute to strengthen thepoor's productive assets and thereby invests in the development of human capital (World Bank, 2001).Jalililan and Kirckpatrick (2002) among others found that development of the financialsector has a significant impact on poverty reduction in developing countries. However, in mostdeveloping countries the financial markets are thin which makes it difficult or impossible for the poorthe achieve access to finance (Schrieder and Sharma, 1999).

'Microcredit' refers to the act of providing the loan whereas 'Microfinance' is the act of providingthese same borrowers with financial services, such as savings institutions and insurance policies' (Sengupta and Aubuchon, 2008).Since the establishment of the Grameen Bank in Bangladesh, many Microfinance Institutions (MFIs)have emerged in various countries and continents. According to the most recent data of theMicrofinance Information Exchange Market (MIX) there were 1,395 registered MFIs in 2008 with a totalgross loan portfolio of $44.2 million and 86.2 million active borrowers worldwide (Mix Market, 2009).Thegrowth of MFIs leads to an expansionof services like microsavings, flexible loan repayments and insurance etc. (Sengupta and Aubuchon,2008).

Simanowitz(2002) cited by Nalunkuuma (2006) argues that povertyreduction is a process of increasing income and economic stability. Johnson and Rogaly (1997) emphasized the effects ofmicrofinance on income, vulnerabilities, empowerment, health and educationof the clients' children.Maanen (2004) states that microfinance is banking the un-bankable,bringing credit, savings and other essential financial services within the reachof poor who are unable to offer sufficientcollateral. Microfinance can embrace a range of financial services tomeet the needs of poor people, both protecting them from fluctuating incomesand other shocks and helping to promote their incomes and livelihoods(Rogaly 1999) Fisher and Sriram (2002) considered MFIs have beenseen as instruments for poverty reduction.Micro credit refers to small loans made by MFIs to the poor to pursue self-employment and start small businesses. Microcredit is as a major tool inreducing poverty and plays a facilitating role in the process of economicdevelopment: therefore it should be provided to meet the existing needs of thepoor (Hulme et al, 1996) cited by Nalunkuma (2006).Micro credit is generallyconsidered to be an effective tool for reaching the poor and stimulating thetransformation of the vicious circle of poverty into a virtuous cycle ofeconomic development (Lont and Hospes, 2004)But in contrast with the above literature, Hulme and Mosley (1996) indicate that credit plays afacilitating and not a leading role in the process of economic development.Microfinance Institutions refer to financial institutions which provide financialservices to the poor who are typically excluded from the formal bankingsystem for lack of collateral (Murdoch 2000). Lack of access to credit is readilyunderstandable in terms of the absence of collateral that the poor can offerconventional financial institutions coupled with the various complexities andhigh costs involved in dealing with large numbers of small, often illiterateborrowers (Montgomery and Weiss 2005). MFIs attempt to overcome these barriers through innovative measuressuch as group lending and regular savings schemes.

Microfinance is considered to be a solution for overcoming poverty. Providing credit seems to be away to generate self-employment opportunities for the poor.(Khandker, 1998).According to Guerin and Palier (2005), the primary objective ofmicrofinance is the provision of financial aid on a small scale to those who areon the fringes of society, too overwhelmed by the formal restrictions andprocedures of the organized sector, too vulnerable to help them and leftout of the mainstream. It isargued that microfinance institutions (MFIs) are in position to enhance theability of the poor to move out of poverty as well as to prevent those abovethe poverty line from sliding into poverty (QoriniIwan, 2005).Montgomery and Weiss points out that the case for microfinance as amechanism for poverty reduction is simple. If access to credit is improved, the poor can finance productive activities that will allow incomegrowth (Montgomery andWeiss, 2005). Proponents ofmicrofinance consider that poor's access to credit boosts income levels,increases employment at the household level and thereby alleviates poverty.Also that, credit enables poor people to overcome their liquidity constraintsand undertake some investments. Furthermore that credit helps poor people tosmooth out their consumption patterns during the lean periods of the year.Zeller and Sharma (1998) argued thatmicrofinance can help to establish or expand family enterprises, potentiallymaking the difference between grinding poverty and economically secure life.Fisher and Sriram (2002) stress that access to microfinance servicesprotects the poor against the often severe consequences of fluctuatingincomes, ill health, death and other emergency expenditures. Despite theoverwhelming claims that microfinance credit works best for the poor people,Johnson and Rogaly (1997) argue that poorest borrowers become worse off asa result of credit and that it makes them vulnerable and expose them to highrisks.

The above literature forms thebedrock to explore into the role of microfinance in poverty reduction by generating employment opportunities.It has been argued that to break the poverty trap is to encourage petty entrepreneurship among the poor, in order to foster production surpluses (Varghese, 2005). This is accomplished by increasing the capital component of the entrepreneurial production function to leverage the individual's human capital, since in the short run the productivity of human capital cannot be significantly improved.The resulting elimination of the energy deficit leads to capital accumulation, consumption smoothing, and the possibility of sustained future production. Accordingly, micro-credit, as the means to increased capital, is the primary input to kick-start the entrepreneurial production process. (Midgely,2008).

Microfinance has a very important role to play in development according to proponents of microfinance.UNCDF (2004) states that studies have shown that microfinance plays three key roles in development:

- It helps very poor households meet basic needs and protects against risks,
- It is associated with improvements in household economic welfare,
- It helps to empower women by supporting women's economic participation and so promotes genderequity.

Mayoux (2001) states that while microfinance has much potential and the main effects on povertyhave been:

- Credit making a significant contribution to increasing incomes of the better-off poor, includingwomen,
- Microfinance services contributing to the smoothing out of peaks and troughs in income and
- Expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Microenterprise is "very small-scale business, esp. owner-operated with few employees" (Webster's New Millennium™ Dictionary of English, 2003-2005). The term "microenterprise" refers to a very small-scale, informally organized business activity undertaken by poor people. According to Schreiner&Woller "Microenterprises are tiny businesses; most have one employee, the owner" (Schreiner&Woller, 2003).

Credit is the single problem faced by the micro entrepreneurs and providing access to credit will help these poor people to successful enterprise is not true. Nair (1998) identifies two streams of thoughts on the impact of microfinance on poor producers. First stream identifies credit as the most important input for poverty alleviation and believe that credit will go to some productive investment and that will help in reducing poverty.

Credit → Productiveinvestment → Self-employment → Poverty Alleviation

This belief is based on the assumption that all credit goes to productive investments. Poor also have some consumption need and the credit not necessarily always go to productive investment. In a study on 20 MFIs across different states of India it was found that "Microfinance is making a significant contribution to both the savings and borrowings of the poor in the country. The main use of microcredit is for direct investment. There is of course some fungibility, depending on household credit requirements at the time of loan disbursement, despite MFI insistence on loan use for enterprise which is the most pronounced in the Grameen model"(Sinha, 2005).

In a study at Tanzania by Kuzilwa it was found that Credit has been instrumental to the success of the enterprise at different stages of the life cycle of these businesses.In this study it was emphasized that need for credit level need not be decided by the ceiling rather it's better to go by the absorptive capacity of the firm (Kuzilwa, 2005). He also discussed his findings based on a framework.

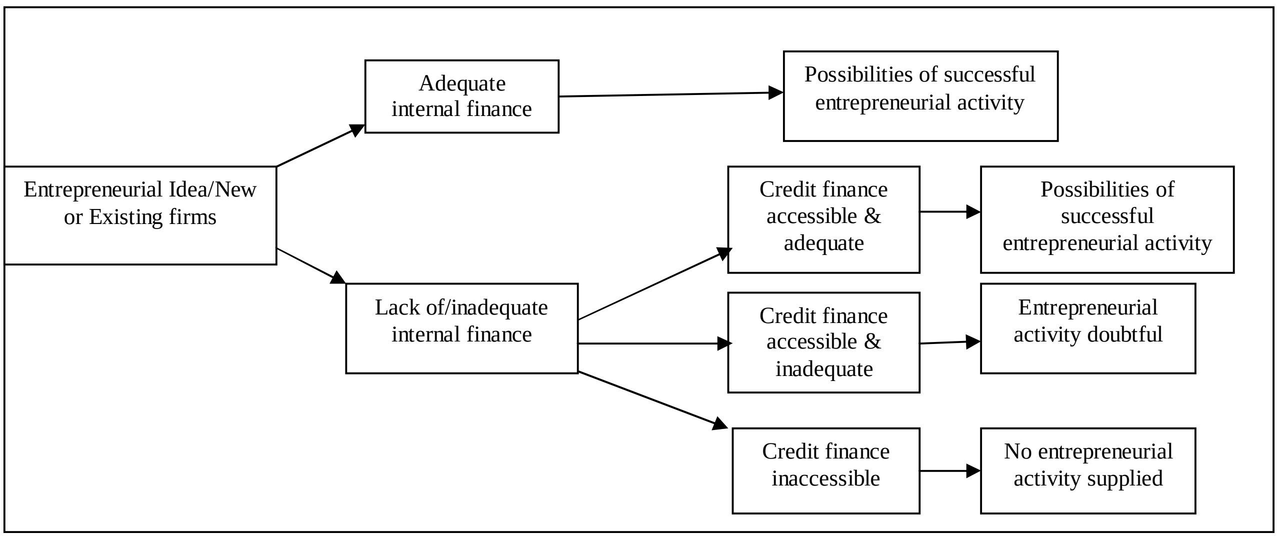

Figure 2: Credit and Successful entrepreneurial Activities: Possible options (Kuzilwa, 2005)

Microenterprises often operate on short term cycle and that is why there is need of short term loan in small amount for them. In order to run their business they require sufficient amount of capital constantly and on time. Alagappan&Nagammai stated that "One of the foremost problems of any entrepreneur is finance. Availability of adequate finance at reasonable cost at the required time is the need and expectation of any entrepreneur including the owners of small scale industries" (Alagappan&Nagammai, 2003). The major problems with formal financing are inadequacy and delayed processing. Microfinance has tried to avoid these two problems but are lacking on part of their cost of lending.

Microenterprise sector is very diverse in terms of its size, type, market and several other characteristics that it is difficult to define a boundary for Microenterprise and define it in proper words. Probably, this is the predominant reason behind lack of official definition for microenterprise. Awasthi (2004) mentioned that it is very unfortunate that there is no official definition available for microenterprise in the country. But he considers the units employing less than six workers under the category of microenterprise.

Schreiner and Leon (2001) defined microenterprise as "Firms owned by the self-employed poor that use microfinance". These definitions are the simplest definition for Microenterprise. According to Schreiner and Leon (2001) complex definition of microenterprise should have three components i.e. type of activity, investment limits and number of employee. He defined microenterprise as an informal activity run by poor with an investment limit of less than 0.1 million and employing less than five workers.Describing the potential and importance of microenterprise and microfinance Rangarajan stated that "If a serious impact on the economic conditions of the rural poor has to be made, a much larger flow of credit to support a much broader production base is required. Self-help groups (SHGs) have to graduate into promoting micro enterprises. Though' micro enterprises are not a panacea for the complex problems and chronic unemployment and poverty in rural and urban areas, yet promotion of micro enterprises is a viable end. Effective strategy for achieving significant gains in income and assets for poor and marginalized people"(Rangarajan, 2005).

Therefore it is evident that MFIs are meeting the needs of the poor to some extent and havea positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

3.Methodology

In India, Micro finance and its linkage with Self-groups occupied a paradigm place in the socio-economic development of the rural population. Their role is significant in extending credit not only in generating income but also in generation of the employment opportunities by establishing micro enterprises.The objective of the present study is to evaluate the impact of micro finance system in the entrepreneurial development.The impact study in the present work has been assessed through the growth of MFIs and their services to both rural and urban population. Consistent with the objectives of the study, different techniqueshave used for the analysis of the data. The data pertaining to the study has been analyzed and presented in tabular forms to make the findings meaningful and easily understandable with simple statistical tools of analysis like ratios, percentages etc. The present study is based on two sources of data viz., primary data and secondary data. The primary data is the first hand information collected from the beneficiaries of micro finance system directly to know the impact of the scheme on their lives. The primary data is collected through direct interview method from sample population.The secondary data related to present study is mainly collected through secondary sources which include various periodicals, magazines and websites etc.

3.1.Objectives Of The Study

The main objective of the micro finance system is to improve the economic, health, educational and social status of rural poor by providing them assistance and creating employment opportunities.This study has been designed mainly to focus on the extent of entrepreneurial development through income generating activities and the constraints underlined in it.This paper is an attempt to review the available literature on the role of microfinance in promoting microenterprise.

With this background the present study "An Impact study of Micro finance system on the entrepreneurial development of Andhra Pradesh, India" has been formulated withthe following objectives:

- To explore the need and importance of promoting microenterprise.
- To explore the importance of microfinance for promoting microenterprise.
- To trace the genesis and development of micro-finance system in Andhra Pradesh
- To evaluate the performance of the micro-finance systemin Andhra Pradesh
- To study the extent of entrepreneurial development through various income generatingactivities
- To analyse the changes in the social conditions of the micro-finance beneficiaries
- To measure the impact of micro-finance system on the economic conditions of thebeneficiaries.
- To identify the constraints in the access of micro credit.

3.2.Significance Of The Study

In developing countries microenterprises are the major source of employment and livelihoods for the poor. In the last decade microfinance has been important component in microenterprise finance. It was a myth that microenterprise finance is for poor and therefore it cannot be financially viable. In the recent years many microfinance institutions (MFIs) have shown that despite their objective of serving poor they can be financially viable.

In the present context, microfinance is becoming controversial regarding its role in poverty alleviation; there is a need to define the role of microfinance.

4.Analysis

Since independence unemployment and poverty has been two major challenges before India. Several efforts in the form of self-employment programmes have been made to fight these two challenges. All self-employment programmes do not lead to microenterprise development. But, one of the important variant of self-employment programme is microenterprise development. In several countries micro and small enterprises constitutes a large part of the total work force. Interest in the promotion of microenterprise as an engine of growth (Pisani& Patrick, 2002) and as poverty alleviation tool (Ortiz, 2001) in the developing world is gaining importance. But one needs to understand the difference between anti-poverty programme and microenterprise development programme. The objective of microenterprise is to make the poor self-sufficient whereas antipoverty programmes are the means to support the poor to fight against poverty. Hence, microenterprise development programmes needs a self-sufficient and sustainable approach. Promotion of microenterprises requires financial capital as one of the critical resources. Poor are the most disadvantaged in terms of access to credit through formal sources. Both, market and government failed to provide access to credit to the poor. Lack of access to the credit has always been a major hindrance in promoting microenterprises. According to Singh (2002), "In India, the need for microfinance is higher as the demand for credit to start micro-enterprises by the poor people could not be met by the institutional initiatives of rural finance up to large scale. Due to the failure of percolation theory of social development, poor people are highly dependent on non-institutional sources of credit. Growth of micro-finance in India has been in response to the failure of institutional initiatives of rural credit and exploitation attached with informal system of credit". This paper is an attempt to analyze the role of microfinance as a tool to promote sustainable micro entrepreneurship.

India lives in her 6,38,345 villages with 24 crore poor engaged in micro enterprises. As per the Government of India's Ministry of Micro, Small and Medium Enterprises (MSES) Annual report of 2008-2009, there are 133.68 lakhs (in number) micro enterprises in India. Poverty in India is widespread with the nation estimated to have a third of the world's poor. The poor recovery rate of formal rural financial markets has further aggravated the situation by impinging their already fragile viability. In order to enlarge the flow of credit to the hard-core poor, the NABARD launched a scheme of organizing them into self-help groups (SHGs) and linking the SHGs with banks, in 1992. There are three distinct modes to route the credit to micro enterprises. Under the first mode, banks lend directly to the SHGs for lending to micro entrepreneurs. Under the second mode, banks provide loans to the NGOs for lending to the SHGs and ultimately to the micro entrepreneurs. Under the third mode, banks extend credit to the SHGs with the NGO as the facilitator.

Keeping pace with the banks, the Government of India has taken a number of steps to alleviate the poverty of the villages. A number of programmes have been designed to augment the flow of credit to the poor with varying degrees of implicit and explicit subsidies. The main thrust of these credit programmes has been the provision of financial assistance to the poor at a concessional rate of interest coupled with capital subsidy to enable them to rise above the poverty line.

Microenterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in microenterprises as business owners and employees.If successful, entrepreneurship is likely to result in a Small-Medium-enterprise (SME) whichincludes a variety of firms: village handicrafts makers, small machine shops, restaurants, and computer software firms – that possess a wide range of sophistication and skills, and operate in very different markets and social environments. In most developing countries, microenterprises and small-scale enterprises account for the majority of firms and a large share of employment. Finally, it has been noted that, "SMEs constitute the most dynamic segment of many transition and developing economies. They are more innovative, faster growing, and possibly more profitable as compared to larger-sized enterprises."Hence, the role of entrepreneurship in reducing poverty in Low Developed Countries (LDCs) is promising.

Microenterprise development through microfinance is considered as a mechanism for poverty reductionbased on its capacity to generate employment and raise earnings. Therefore, microfinance and Microenterprisealways go hand in hand. Several literatures on microenterprise sector carry two views on Micro Enterprises, each one withdifferent policy implications. The causes for the MEs are that the workers cannot find a job in the formal sector due to their low skills and generalemployability (underemployment view) and some workers choose thissector for its flexibility and earnings opportunities (micro entrepreneur view). However it can be viewed that microenterprisedevelopment can be an effective mechanism for poverty reduction through market-driven, productive activities.Microenterprises should be supported because they fulfil many priorities of development economics.They favour the development of the private sector, the promotion of women and the implementation ofcommunity development by private initiative; and they reduce poverty and contribute to a fairer income distribution, (OECD, 1993). They also increase employment as small and microenterprises are usually morelabour intensive.

Microfinance for microenterprises is important as banks in all cases may not come forward to issue small loans. Most microenterprises start their existence without any institutional help. The entrepreneur usuallyobtains the small amount of finance from his own savings or from his family. In order to improve the business,these microenterprises borrow additional capital from lending institutions (Levitsky, 1990). However, thebanking system causes "imperfections in financial markets that constrain small borrowers' access to credit"(Webster, 1991). The reasons are (Waterfield, 1993): (i) banks are biased in favour of lending to large enterprises, (ii) lending to small and microenterprises is considered to be risky, (iii) the administrative costs oflending to small enterprises are high and can sometimes reduce the profitability of such loans to (almost) zero,(iv) small and microenterprises are often unable to give precise information about themselves, (v) small andmicroenterprises can rarely provide securities or collaterals for their loans. When formal financial marketscannot fulfil the needs of small and microenterprises, informal markets will do so, but usually at usuriousrates, which jeopardize the survival of small businesses (Human Development Report, 1993). In such circumstances, it is expected that SBL Programme initiated by NABARD as a microfinanceinitiative through group mode would be able to reach the unreached poor venturing into microenterprises. Accordingly, a study wasconducted in Andhra Pradesh covering three districts with the focus on the issue of promotion of Income Generating Activities(IGAs) andMicro Enterprises (MEs) by SHGs.

Based on information on the infrastructure available, the stage of development of the sector and the various initiatives being taken, credit potential for non-farm sector and Other Priority Sector has been estimated at Rs. 4234.68 crores and Rs. 5700.10 crores (excluding SHGs) respectively for the year 2006-07. The major issues that need attention are:

- Strengthening of District Industries Centre: The District Industries Centre is the focal point for development of industrial activity in a district. It has to be properly equipped to give technical and other assistance to the prospective entrepreneurs. Model Projects as also details of suppliers of machinery, raw material etc. needs to be available with it and DIC may also conduct entrepreneurship development camps etc.
- Synergy among various developmental agencies: There is a need for greater coordination among all the agencies involved in development of the Non-Farm Sector such as - District Industries Centre, Various Departments of the State Government, Banks, KVIC, KVIB, Handloom and Handicrafts departments, NGOs etc. The programmes of all the agencies need to be synergised and integrated in a common plan.
- Marketing:There is a need for shift of focus from production to marketing in the artisan and village industry sector. Quality, competitive price, unique designs, technology are important for marketing of products. For enhancing the market access and creating new markets for the products of rural non-farm sector, marketing entrepreneurship' may be encouraged. Marketing oriented training programmes for the entrepreneurs in rural areas may be conducted.
- Handloom sector: The Weaver Societies are in poor state and many are not eligible for credit assistance from the banking channel. State Government may take initiatives for reorganisation of the societies. There is a need for diversification of product ranges, development of designs, improvement in quality and proper marketing support. Banks may consider providing adequate investment and working capital to the weaver-entrepreneurs through the artisan credit cards.
- Handicraft: The state is rich in handicraft activities, but the artisans are not able to get the benefit. Some of the suggestions for development of this sector are - (a) Setting up of separate Ministry/ Department for the development of Handicrafts sectors at the State Level. (b) Abolition of sales tax on handicrafts (c) Adequate supply of raw material (wood) for handicrafts artisans through the State Forest Department at subsidised rates for wood based crafts. There is a need for greater

focus by the banking sector to meet the needs of this sector. The Banking Sector may make use of the Swarozgar Credit Card Scheme and Artisan Credit Card Scheme for meeting the credit needs in a hassle free, flexible manner.

- Adequacy of credit: Bank may give adequate attention for providing adequate and hassle free credit to the units in Rural Non-Farm Sector.

Banks may have to ensure the followingfor development of this sector:

- The Banks should fix branch wise targets for financing of non-farm units. The credit need of Rural Non-Farm Sector units may be properly assessed as per the recommendations of Shri P. R.Nayak committee.
- Many rural entrepreneurs having entrepreneurial traits may be lacking monetary resources of their own for setting up units/ implementing projects in rural areas. Banks may consider encouraging such entrepreneurs by extending interest-free margin money assistance by availing assistance from NABARD under its 'Soft Loan Assistance for Margin Money'.
- Banks may provide loans to rural enterprises collateral free loans as per the stipulations of Reserve Bank of India. Banks may become a member of CGTSI, which will help the entrepreneurs to get collateral free loan.
- Cluster approach may be adopted in financing non-farm sector activities.

4.1.Government Sponsored Programmes

To enable implementation of programmes sponsored by government by banks the following issues would need to be addressed:

- Awareness has to be created regarding centrally sponsored credit linked subsidy programmes in the district and relevant departments implementing the schemes could take up the initiative for the same.
- Systematic planning is required for identification of right beneficiaries under all Government sponsored programmes for grounding of the schemes successfully.
- Proper training and counselling before selection of beneficiaries would help to ensure that the support goes to people who have the adequate skill to take up the identified activities.
- Constitution of a recovery team with concerned officials from implementing agencies, Mandal Revenue Officer, Mandal Development Officer, Sarpanch would elicit more interest from bankers particularly for financing Government Sponsored programmes.

- Regular monitoring and meetings between bankers and Government departments implementing the programmes, will facilitate lending and recovery.
- Implementing departments in association with banks could consider conduct of evaluation studies, which will enable refinement in existing schemes, to remove bottlenecks and ensure better implementation of schemes.

4.2.Micro-Finance In Andhra Pradesh- Evolution

- Development of Women and Children in Rural Areas**:** The evolution of group concept goes back to 1982-83 with the implementation of the Development of Women and Children in Rural Areas (DWCRA) as a sub component of the Integrated Rural Development Programme (IRDP) by Government of India with the support of the State Governments and UNICEF. The objective of DWCRA programme was 'to empower the rural women living below the poverty line by way of organising them into groupsto create sustainable income generating activities through self-employment.
- Women's Groups under the Total Literacy Campaign: In early 1990s, women were organized into MahilaMandalisas part of Total Literacy Campaign. Thesewomen groups spearheaded the anti-liquor movement in Nellore District. The savings movement of 'Save a Rupee a Day' started thereafter by these MahilaMandalis which later led to 'Podupu Lakshmi' (Podupu means savings and Lakshmi is the goddess of wealth) movement.
- 3.South Asia Poverty Alleviation Programme: The South Asia Poverty Alleviation Programme (SAPAP) was implemented during 1995-2000 by the UNDP in 20 mandals of three drought prone districts, viz, Kurnool, Mahbubnagar and Anantpur. The objective of the programme was to combat rural poverty through social mobilization and active participation of beneficiaries in grass roots development. It relied on a three-pronged strategy, i.e., social mobilization of the poor, skill development and capital formation.
- 4.Indira KrantiPatham Project: Indira KrantiPatham (IKP), a scaled up versions of the SAPAP model with more focus on livelihood component. The project aims to build strong institutions of the rural poor and enhance their livelihood opportunities so that the vulnerability of poor is reduced. IKP consists of two projects, viz, Andhra Pradesh District Poverty Initiatives Project (APDPIP) and Andhra Pradesh Rural Poverty Reduction Project (APRPRP) and is implemented

in 864 mandals out of a total 1127 mandals in the State. Society for Elimination of Rural Poverty (SERP), an autonomous body registered under the Societies Registration (Telangana) Act, has been established for management of IKP, which is implemented by SERP through DRDAs at the district level.

4.3.Initiatives Of NABARD in Andhra Pradesh

NABARD has created a favourable policy climate for the healthy growth of the micro finance in the country. The following initiatives were taken by NABARD in Andhra Pradesh.

- Critical Rating Index(CRI) for rating SHGs has been designed by NABARD and it has been accepted by the State Government for use of banks, DRDA and other partners.
- Appraisal Format developed by NABARD for use by bank branches, has been operationalized by many banks in the state.
- Micro Credit Plan for SHGs suggested by NABARD, forms basis for credit assessment by banks for financing SHGs. Loan Monitoring formats devised by NABARD for review and monitoring of SHG portfolio at branch and controlling office level have been adopted by the Banks in the State.
- Standard Accounting Package (SAP) for SHGs has been evolved with NABARD's initiative and the same is being operationalized in the State.
- Smart Card Project is being implemented through five branches of Andhra Pradesh GrameenaVikas Bank in Srikakulam and Visakhapatnam districts with the objective of capturing the SHG transactions at the group meetings and updating the records at the bank through the use of computers.
- Capacity building of stakeholders:From District Collectors to the Village level workers, Project Directors to the members of Self Help Groups and master book keepers, CEOs of the Banks to the managers and clerical staff of the banks have been provided training for propagation of SHG concept in the State. As at the end of March 2006, around 85000 people were trained by NABARD.
- Enhancing Ground Level Credit flow to the SHGs: Refinance support is provided to the banks at concessional interest rates to enable them to enhance ground level credit to the Self Help Groups. NABARD provides 100percent of the bank loan as refinance to the advances extended the banks to the micro finance institutions

for meeting requirements of the rural poor towards consumption and production purposes.

- NABARD has cumulatively provided refinance assistance of Rs.18635 million under the SHG-Bank linkage programme to the banks in Andhra Pradesh.

The sustainability of the microenterprises depends on the availability of forward and backward linkages, enabling infrastructure, adequate marketing arrangements, appropriate supply support mechanism for raw materials, updated technological support, etc.

S. No.	**Microenterprises**	**Members**	**Percent**	**IG Activities***	**Members**	**Percent**
1.	Flour Mills	6	6.8	Cloth Shop	10	7.7
2.	Tailoring	11	12.5	Small Hotels	10	7.7
3.	Kirana Shop	13	14.8	Kirana Shop	3	2.3
4.	Small Hotels	3	3.4	Bangles Selling	2	1.5
5.	Jute Bag Making	5	5.7	Cycle/Bottle Brush Making	6	4.6
6.	Dairy Animals(CBCs)	18	20.5	Fish/Egg Selling	3	2.3
7.	Dairy Animals(GMCs)	11	12.5	Embroidery	3	2.3
8.	Sheep Rearing	5	5.7	Knives Selling	16	12.3
9.	Snacks/Pickles Making	3	3.4	Mid-Day Meal Cooking	4	3.1
10.	Knives Making	2	2.3	Tailoring	10	7.7
11.	Bangles Shops	2	2.3	Vegetable Selling	5	3.8
12.	Bakery unit	1	1.1	Weaving	14	10.8
13.	Chicken Selling	1	1.14	Pottery	3	2.3
14.	Saloon	1	1.1	Shoe Selling	2	1.5
15.	Photoframe Making	1	1.1	Input Purchase for Crops	16	12.3
16.	Motor Cycle Rep.	1	1.1	Carpentry	3	2.3
17.	Musical Instruments	1	1.1	Tamarind Tree leasing	3	2.3
18.	Lathe Works	1	1.1	Flower Selling	2	1.5
19.	Catering Services	1	1.1	Dairy Animals(Fodder)	15	11.5
20.	Crane Machine	1	1.1	--------	-------	-----
Total		88	100.0	Total	130	100.0

Table 1: Various Microenterprises and IGAs promoted by SHG members

Present study analyses impact of microfinance system on the growth of MEs in Andhra Pradesh, their investment and return on investment etc. Micro finance is provided to the beneficiaries for establishing micro enterprises, their working capital requirements etc. In order to know the impact of microfinance on micro entrepreneurs several parameters such as gross income, cost of production both variable and fixed, volume of sales, net profit/income were computed per day/week/month basis which were later annualized.

The study revealed that microfinance provided loans to members for initiating various IGAs, consumption purposes, settlement of old debt taken from moneylenders and contingency purposes such as health and education related expenditure etc. Purchase of inputs for agriculture, petty trade, tiffen centres, kirana shops, cloth business, vegetable vending etc. dominated the purposes for which production loans were availed.

Table 1 show that a total of 88 members had set up MEs with creation of assets. Dairy units (33 percent) constituted the major share followed by kirana shops (14.8 percent), tailoring units (12.5 percent), flour mills (6.8 percent), jute bag making (5.7 percent), snacks and pickles making (3.4 percent).

No.	**Microenterprises**	**Total Cost***	**Prod. Value**	**Net income**	**Sales/ OC**	**NI/ Sales**	**Sales/ TC**	**NI/Re. of Invest.**
1.	Flour Mills	49133	59700	10567	121.5	17.7	108.5	0.13
2.	Tailoring	33828	43575	9747	128.8	22.4	119.3	0.20
3.	Kirana Shop	71919	92381	20462	128.5	22.1	123.4	0.23
4.	Small Hotels	88066	110333	22267	125.3	20.2	122.9	0.23
5.	Jute Bag Making	27132	38415	11283	141.6	29.4	136.1	0.34
6.	Dairy Animals(CBCs)	25205	33025	7820	131.0	23.7	140.8	0.21
7.	Dairy Animals(GMCs)	25466	34950	9484	137.2	27.1	133.4	0.23
8.	Snacks/Pickles Making	71120	101600	30480	142.9	30.0	134.6	0.32
9.	Knives Making	91266	127516	36250	139.7	28.4	122.8	0.23
10.	Bangles Shops	32350	42000	9650	129.8	23.0	125.6	0.25
11.	Bakery unit	102996	151725	48729	147.3	32.1	124.1	0.23
12.	Chicken Selling	41555	65000	14445	134.8	25.8	131.3	0.30

No.	Microenterprises	Total Cost*	Prod. Value	Net income	Sales/ OC	NI/ Sales	Sales/ TC	NI/Re. of Invest.
14.	Photoframe Making	111525	135525	24000	121.5	17.7	121.2	0.21
15.	Motor Cycle Rep.	23800	38250	14450	160.7	37.8	135.6	0.30
16.	Musical Instruments	17550	31250	13700	178.1	43.8	151.5	0.40
17.	Lathe Works	17450	28250	10800	161.9	38.2	117.5	0.20
18.	Catering Services	25600	40000	14400	156.3	36.0	147.4	0.42
19.	Crane Machine	75400	90000	14600	119.4	16.2	108.3	0.12
20.	Sheep Rearing	67350	87250	13750	110.3	12.4	110.2	0.20

Table 2: Investment and Returns from ME units

Total cost = variable cost + fixed cost

Variable cost = Labour cost + Material cost + Interest on working capital etc.

Fixed cost = Interest on block capital + Depreciation cost

The return on investment for the ME units has been analysed on the basis of factors such as costs of inputs, price of output/services, gross income and net income, etc. The gross income has been worked out in terms of sale proceeds of output/services rendered. The cost of production was defined in terms of variable cost/operating cost and fixed variable cost of the unit. Considering the heterogeneity of investments and variations in scales of operations and investment in assets, the net income has been worked out per Re.1/- of investment for meaningful comparison across activities covered under the study. Economics of ME units was also assessed with ratios such as sales to operating cost, to total cost and net income to sales etc. have been worked.

For flour milling unit, the total cost was reported at Rs.49,133. The total income and net income worked out to Rs.49,700 and Rs.10,567 respectively. The annual net income per Re.1/- of investment worked out to Rs.0.13. The net income varied from rs.7,820 for dairy enterprise (CBCs of animal unit) to 48,729 for bakery unit. In terms of percentage ratio of sales to operating cost indicating current viability, ranged from 119.4 percent (crane machine unit) to 178.1 (musical instruments). The ratio of sales to total cost indicating profitability of enterprises ranged from 108.1 percent (flour milling) to 151.5 percent (musical instruments). The net incomes as percent to sales ranged from 16.2 for the crane machine unit to 43.8 for the musical instrument unit. The net income per Re.1/- of investment ranged from 0.12 for crane machine unit to 0.42 for catering services unit.

From the above table, it is clear that the annual net income realized per Re.1/- of investment varied depending upon the scale of operation. Relatively low net returns in other activities reveals that there are imperfections in provision of linkages regarding procuring raw materials, training and identification of marketing outlet and entrepreneurial abilities. It has been kept that the returns on investment would have been better had the drought not affected in the study districts.

4.4.Strategies To Promote Micro Enterprises

- From the study it was apparent that microfinance is necessary for benefits of poor but is not the sufficient condition for micro enterprise promotion. The entrepreneurial faculty needs to be enhanced through training at the individual memberlevel.
- The cluster approach need to be adopted to give a boost to certain activities like, cycle fibre making, photoframe making, jute bags making, etc.
- 3.Facilitation exercises like exploring new markets, development of new designs, etc. would help the beneficiaries a lot. NABARD's schemes for REDPs, ARWIND, MAHIMA& DEWTA may beconsidered for strengthening microenterprises.
- ME development among SHG members cannot be taken as Stand Alone Micro Enterprises (SAMEs). They need to be trained to venture into IGAs at the initial stage and at a later stage same may beup graded to an enterprise with asset creation and new business entity.
- SHG members do IGAs to supplement their income with the intention of augmenting family income andnot to seek out complete independence from the household enterprise.
- Village potential mapping with a sub sectorial analysis would play a substantial role in development ofMEs. Farm Sector MEs (FAMEs) may be encouraged in villages as there is effectivedemand for such enterprises and adequate linkages are also available around.
- CBOs should organise exposure visits for groups to new earning opportunities, organise visits to localmarkets and sharing of experiences with other members.

- Equal sharing of bank loans among SHG members is always emphasized. However, it was observed that afew members had a larger share of the bank loan in order to initiate MEs.

The Andhra Pradesh government has formed four committees to monitor MFIs viz., Implementation, Legal, Capacity Building and IT committees in the state. These four committees would work to improve the credit flows to self-help groups and also put in place an IT system for efficient implementation of the ordinance as reported by media. According to Rural Development Department Principal Secretary Sri. R.Subhramanyam, the implementation committee will be responsible for receiving and clarifying queries from the registration authority on a daily basis, reviewing complaints from public about MFI irregularities and checking if cases are booked on these. It will also talk to the banks for improving the credit flow.The legal committee will monitor the cases in High Court and Supreme Court and prepare detailed remarks in the cases filed by the MFIs against the ordinance.The capacity building committee will prepare material for educating the SHG members and the IT committee will guide the Centre for Good Governance team in consolidating the database.

It will also create and maintain a website for MFIs integrating the database of SHG-bank linkage, ration cards and borrowers data submitted by the MFIs so as to arrive at an integrated database of rural and urban indebtedness. This would also generate reports, which would show details of multiple and over lending and irregularities. All the committees will report on a daily basis.

5.Conclusion

Both microfinance as well as microenterprise has the common objective of poverty alleviation and creation of employment opportunities for the poor and therefore there is a need for both of them to come together and act for the larger objective of poverty alleviation There are also shortcomings with respect to the policy support for these microenterprises that need to be addressed for long term impact on microenterprise development. Microenterprise development is a self-reliant development strategy but it need to be supported by enabling environment and proper infrastructure support. For creation of enabling environment there is need for government and non-government entities to work together. Then only these microenterprises can grow and contribute efficiently towards the larger objective of poverty alleviation.

The success of micro-credit depends largely on the confidence of the bankers on the borrowers and vice-versa. The economic benefits of sustainable microentrepreneurship in LDCs are compelling, and its potential effects on the development process are equally promising. In terms of development and social impact, the microfinance industry allows significant improvements in quality of life for the microentrepreneurs of LDCs around the world. They can now stabilize the cash flow of their economic activity, bringing security to the enterprise. This allows them to better manage spending, which often generates savings; and this provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Finally, an access to banking and increased security promotes a sense of entrepreneurship, and thus their self-esteem and reputation increase. The initial small loan of usually less than $100 can eventually reintegrate these entrepreneurs into formal networks of the economy and foster the structural and sustainable development of local communities. Furthermore, estimates indicate that today only 5% of the micro-credit demand is fulfilled, thus, the microfinance industry is expected to grow significantly in coming years. Despite several challenges ahead, this emerging industry, and the process of sustainable microentrepreneurship combine to offer a potential alleviation solution to the poverty crisis of the 21stcentury, and into a sustainable future.

The financial institution need to put moreeffort in financing SMEs, their role need tobe felt by the SMEs in terms of growth and development. The financial institution whose role needs tobe visible in promoting SMEs growth and development is microfinance. SMEsthemselves should be more receptive to newideas and prepared to make financialcommitments to ensure growth.This study recommends that guidelines by microfinance institutions to finance SMEs

need to be flexible to accommodate the SMEsonly when financial institutions appreciatesand give technical assistant to the SME would be contributing to the SMEEIS toensure success in the SME sector.It is the researcher hope that microfinanceinstitutions in Nigeria will develop moreinterest in supporting the growth of SMEs.

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