

GOVERNMENT INITIATIVE FOR PROMOTING MICRO-ENTERPRISES IN RURAL INDIA: A CASE OF SGSY IN UTTAR PRADESH

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ABSTRACT

This study analyses the process of micro-enterprise development based on social capital created under a government initiative i.e. Swarnjayanti Gram Swarozgar Yojana (SGSY) - a rural self-employment scheme - through establishing self-help groups (SHGs) for sustainable development in India. In particular, the study discusses the process of enterprise development and highlights how self-employment programmes can help Indian poor to bring them above the poverty line by building their capacity in terms of technical and entrepreneurial skills. The study is based on a primary survey of 107 self -help groups (SHGs) in the State of Uttar Pradesh, by administering a structured questionnaire. The study also identifies critical issues at each stage of the programme development, starting from the process of group formation to initiation of economic activities. Findings of the study suggest practical insights for developing SHG based micro-enterprises in profitable and sustainable manner.

Introduction

Development planning in India has adopted several approaches for generating employment and alleviating poverty under the Five Year Plans (Kakwani and Subbarao, 1990; Gaiha *et al.*, 2001), which can broadly be categorised into two parts (i) schemes for self-employment generation by enhancing the skills and capabilities of beneficiaries for undertaking economic activities, and (ii) schemes for wage employment generation by undertaking labour intensive activities in rural areas and creating sustainable rural

infrastructure. Several government schemes on self-employment were initiated to assist selected families of target groups in rural areas to bring them above the poverty line by taking up entrepreneurial ventures (Dreze, 1990; Vyas and Bhargava, 1995), but failed to achieve their goals due to limited coverage in overall process of enterprise development. In the process of self-employment generation, most of the schemes aimed at providing either training or limited financial assistance to the selected beneficiaries without proper guidance for starting new entrepreneurial ventures.

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Based on the vast experience and analysis of various development programmes, a comprehensive self-employment generation initiative named as the *Swarnjayanti Gram Swarozgar Yojana (SGSY)*, was launched in April 1999 as an integrated programme for self-employment of the rural poor to bring them above poverty line in three years time by organising them into Self-Help Groups (SHGs) and building their capacity in terms of technical and entrepreneurial skills for establishing micro-enterprises/ income generating activities through bank credit and government subsidy. While formulating the programme, due emphasis was laid on process orientation and avoidance of design-deficiencies with respect to identification of key activities, planning for activity clusters, building the entrepreneurial capacity of *swarozgaris*, ensuring adequate credit support, establishment of forward and backward linkages, and market and technology supports. A group based approach was envisaged for improving the effectiveness of the scheme through the formation of social capital in the form of Self-Help Groups (SHGs).

The SHG model, as of today, has become the preferred intervention for a variety of development programmes, especially for micro-credit, micro-enterprise development and poverty reduction (Adams, 1996; Creevey, 1996; Fisher and Sriram, 2002; Lahiri-Dutt and Samanta, 2006). All over the world, micro-enterprise development initiative has received a lot of attention for being a participatory strategy that can potentially alleviate poverty by including the disadvantaged groups in the process of development (Bhatt, 1997; Banerjee, 1998; Gaiha, 2000; Premchander, 2003). Inayatullah and Birley (1997) argued that the most important aspect of development lies in economically empowering the individuals by enhancing their entrepreneurial skills for managing sustainable enterprises. They further argued

that micro-enterprise is one of the most important means by which vast numbers of people throughout the world seek to improve their well-being. It is observed that the process of micro-enterprise development by involving poor has great potential for increasing bottom-up citizen participation, empowering communities with economic opportunities, and bringing social and political changes at the grassroots level (Holt and Ribe, 1991; Hulme and Mosley, 1996; Seelos and Mair, 2006). Self-help groups were introduced as a means to reduce poverty and to promote capacity building for assisting rural communities in their efforts to utilise resources, access information and to gain better access to savings and credit (Mandal, 2005; Moyle *et al.*, 2006).

Besides Swarnjayanti Gram Swarozgar Yojana (SGSY) several other agencies have taken up programmes for supporting SHG movement, including National Bank for Agriculture and Rural Development (NABARD), Rashtriya Mahila Kosh (RMK, an autonomous organisation promoted by DWCD), Swa-Shakti Project of the Department of Women & Child Development (DWCD) and Watershed Development Projects of Ministry of Rural Development, Mahila Samakhya of the Department of Education, Jeevika Project of Government of Gujarat etc. Therefore, it becomes imperative to understand the process of enterprise development based on self-help group initiatives in a holistic manner.

Methodology

Objectives of the Study: The study aims at analysing the process of micro-enterprise development under *Swarnjayanti Gram Swarozgar Yojana (SGSY)* based on a primary survey of 107 self-help groups (SHGs) in the State of Uttar Pradesh, by administering a structured questionnaire. The study identifies critical issues at each stage of the programme development, starting from the process of

group formation to initiation of economic activities in a profitable and sustainable manner. Finally, the study suggests practical insights for organising entrepreneurial activities for sustainable development in the long-run and discusses how the government initiative can help Indian poor to cross the poverty line by building their capacities in terms of technical and entrepreneurial skills for establishing micro-enterprises/ income generating activities.

Sample Data and Analysis : This paper is based on purposively selected 107 SHGs with working micro-enterprises in the area of food processing, textiles, furniture and furnishing under the *Swarnjayanti Gram Swarajgar Yojana (SGSY)* in the State of Uttar Pradesh. In the process of selecting working SHGs, discussions were conducted with the officials of the Department of Rural Development, Government of Uttar Pradesh to identify the potential districts. The selected SHGs belonging to 26 districts of Uttar Pradesh were then contacted for personal interviews with the help of a structured questionnaire. The groups were surveyed to collect their responses on the process of group formation, linkage with banks, nature of business and constraints faced by them in undertaking the entrepreneurial activities. The collected data were analysed with simple analysis using the Statistical Package for the Social Sciences (SPSS).

Profile of Self - Help Groups (SHGs) : The profile of SHGs were analysed in terms of age of the group, membership, gender composition, member composition by above and below poverty line and age and education profile of the respondents. The profile analysis clearly indicates that most of the groups were more than three years old and started their economic activities after receiving loan-cum-subsidy from the bank. In terms of membership, 54 per cent were females and 93 per cent were below poverty line members,

with average membership of 11 persons (Table 1). As SHGs are the primary unit of analysis, most of the responses were collected from the office-bearers/group leaders of these SHGs and majority of them belong to the age group of 26-45 years with an average age of 37 years. The educational profile of the respondents indicates that most of them were literate and nearly one-third have higher school and above.

Table 1 : Profile of Surveyed SHGs (N=107)

S.No.	Profile	N	%
1.	Age of groups (years)		
	d"3	10	9.4
	4-7	72	67.3
	>7	25	23.4
	Average	5.9	
2.	Size of groups and gender composition		
	Total male members	543	45.7
	Total female members	644	54.3
	Average size of group	11	
3.	Members by living of standard		
	APL members	84	7.1
	BPL members	1103	92.9
4.	Age of group leader (years)		
	<25	8	7.5
	26-35	38	35.5
	36-45	46	43.0
	46-55	15	14.0
	Average	37.4	
5.	Educational profile of group leader		
	Illiterate	29	27.2
	Primary	26	24.3
	Jr.High School	15	13.6
	High School	12	11.7
	Intermediate	17	15.5
	Graduate /PG	8	7.8

Results and Discussion

Process of SHGs Formation : The *Swarnjayanti Gram Swarojgar Yojana (SGSY)* is well designed and well documented with clear cut objectives of self-employment generation through entrepreneurial and skill development which ultimately lead to establishment of micro-enterprise at the grassroots level. The scheme emphasises group formation by creating networks that build social capital which accumulates at each stage of group development/ evolution. Each stage of SHG evolution has been given due importance and a time-frame for promoting sustainable employment and income generation for people living below poverty line. The results across the country have shown that group formation and development is not a spontaneous process in most of the cases, as group formation is largely motivated by NGOs and block level officials. Therefore, for proper development of group activities, the scheme envisages the provision of involving support organisations i.e. Non-Government Organisations (NGOs) to work at the grassroots level. These support organisations have been associated from group formation stage to promotion of micro-enterprises. In general, District Rural Development Agency (DRDA) has taken the help of the NGOs, mainly up to group formation and social mobilisation stage.

The process of group formation leading to micro-entrepreneurship development creates networks of people who learn to trust each other within the group. The social capital arises from norms of reciprocity and networks that the programme creates both between individuals and institutions such as bank and government agencies, fosters relationships between entities and institutions that were previously disconnected. Further, development of human capital through training and skill upgradation enables members to work effectively towards attaining the economic

goal of group formation i.e. initiating sustainable and profitable micro-enterprises.

Table 2 shows some important findings of the survey with regard to group formation and management. As the scheme has been implemented through DRDA with the support of block office, majority of groups were formed as a result of the motivation of block employees in a target based approach. Generation of self-employment is considered to be the most important objective of group formation. Most of the groups have formal rules and regulations to direct the group members. Majority of the groups undertake regular monthly saving of a fixed amount, as decided by the group. Further, most of the groups meet regularly and exercise participatory decision-making for group's interest or to resolve any disputes among group members. The economic transaction i.e. crediting is considered to be the prime concern for most of the groups. Training is an important aspect for entrepreneurial orientation of the group's activities. About 52 per cent of the groups reported that induction training has been provided by the support organisations and were linked with banks through which they availed of subsidy-cum-loan facility.

Table 2 : Process of Group Formation and Stabilisation (N=107)

S.No.	Processes	N	%
(1)	(2)	(3)	(4)
1.	Community mobilisation & group formation		
1.1	<i>Motivation for group formation</i>		
	Friends/relatives	6	6.0
	Block Employees/ NGOs	88	82.0
	Gram Pradhan	7	7.0
	Self	5	5.0

(Contd.)

Table 2 : (Contd.)

(1)	(2)	(3)	(4)
1.2	<i>Objectives of group formation</i>		
	Employment generation	73	68.2
	Income generation	10	9.3
	Village development	2	1.9
	Others	22	20.6
1.3	<i>Rules & Regulations of group</i>		
	Yes	91	85.0
	No	16	15.0
2.	Group stabilisation and capacity building		
2.1	<i>Regular saving</i>		
	Yes	84	78.5
	No	23	21.5
2.2	<i>Regular meeting</i>		
	Yes	88	82.2
	No	19	17.8
2.3	<i>Decision-making process</i>		
	Participatory decision	79	73.5
	Based on majority	23	21.7
	President/secretary	4	3.6
	Others	1	1.2
2.4	<i>Major issues raised in meeting</i>		
	Monetary transactions	75	70.4
	Production related	12	11.1
	Personal problem of members	8	7.4
	Others	12	11.1
2.5	<i>Induction training</i>		
	Yes	56	52.3
	No	52	47.7

(Contd.)

Table 2 : (Contd.)

(1)	(2)	(3)	(4)
2.6	<i>Source of training</i>		
	Experienced members/ labourer	7	12.5
	Training camp by NGOs	21	37.5
	Government Camp	8	14.3
	Prior knowledge	17	30.4
	Others	3	5.4
2.7	<i>Bank linkage</i>		
	Yes	107	100.0
	No	0	0.0

Development of Micro-enterprises: Micro-enterprise development forms an essential element for promoting the well-being of the poor by providing significant income and employment generating opportunities, and by encouraging indigenous investment for greater sustainability. Given the high start-up and exit rates of micro-enterprises, there is a need for continuous assistance in terms of financing, assurance of raw material availability, premises and places for conducting business, equipments and other physical assets, technology, skills and access to markets, for increasing the chances of survival and growth of the micro-enterprises.

The stages of developing the micro-enterprises start from raw material sourcing to marketing of the final products. This section provides a detailed analysis on functioning of SHG based micro-enterprises. Important considerations involve product development, market research, storage of raw material, use of technology, training and skill upgradation, quality control standards, product packaging and branding, participation in organised exhibitions/fairs and other activities related to product development. It is clear from Table 3 that in the process of micro-enterprise

development, very few groups perform market research in order to identify the marketing potential of the products and to develop their products as per the consumer tastes. About 50 per cent of the groups maintain raw material buffer and source it from the nearby market. Further, about 43 per cent of the groups seek financial support to invest in their micro-enterprises.

The level of technology usage is low among the group enterprises due to high cost of technology. The products of 11 per cent groups are registered particularly in Food Product Order (FPO) for food processing groups, whereas majority of the groups have not registered their products. About 26 per cent groups have adopted quality control measures, whereas majority of the groups are non-adopters. Product packaging is significantly practised by majority (53 per cent) of the groups. However, most (71 per cent) of the groups sell their products as non-branded items. Market forces are the major determinants of product price in most of the groups. About 40 per cent groups reported participation in exhibitions/fairs to increase the market penetration of their products on one hand and promotion and advertising on the other.

Table 3 : Activities by Groups in Developing Micro-enterprises (N=107)

S.No.	Processes	N	%
1.	Product development		
	Yes	32	29.9
	No	75	70.1
2.	Market research		
	Yes	28	26.2
	No	79	73.8
3.	Storage of raw materials		
	Yes	54	50.5
	No	53	49.5

4.	Source of raw materials		
	Local village	10	9.7
	Nearby market	49	45.8
	Distant market	25	23.6
	Self-produce	1	1.4
	Others	21	19.4
5.	Financial support from anywhere		
	Yes	46	43.0
	No	61	57.0
6.	Use of Technology		
	Yes	70	65.4
	No	37	34.6
7.	Registration of the products		
	Yes	12	11.2
	No	95	88.8
8.	Quality control standards for the products		
	Yes	28	26.2
	No	79	73.8
9.	Product packaging		
	Yes	57	53.3
	No	50	46.7
10.	Branding of the products		
	Yes	31	29.0
	No	76	71.0
11.	Basis of Product Pricing		
	Market based	73	68.1
	Minimum possible price	7	6.9
	Quality based	9	8.3
	Cost based	18	16.7
12.	Participation in exhibition/fares		
	Yes	43	40.2
	No	64	59.8

Constraints in Developing Micro-enterprises: The major constraints as reported by the members of SHGs have been documented, beginning from raw material sourcing to marketing of their products (Table 4). In case of raw material sourcing, which is the major cost component, majority of the groups reported lack of working capital as a major constraint. A number of groups (54 per cent) do not even consider raw material storage as an important business preposition. However, lack of working capital, high carrying cost and non-availability of storage place are common problems in procurement of raw materials. In using modern technology, lack of technical know-how is another problem faced by the groups followed by the problems associated with lack of capital and non-availability of technology. Importantly, the groups reported training needs regarding technical, managerial, production and marketing related activities. Poor packaging and product prices are the areas where the groups face market competition.

Table 4 : Constraints in Developing Micro-enterprises (N=107)

S.No.	Constraints	N	%
1.	Constraints in sourcing of raw materials		
	Lack of working capital	44	41.3
	Transportation	37	34.8
	Non-availability/ seasonality	19	17.4
	High cost of raw material	5	4.3
	Non-cooperation of members	2	2.2
2.	Constraints in storage of raw materials		
	Not important	57	53.6
	Lack of storage place	11	10.7
	High cost of carrying	19	17.9
	Lack of working capital	19	17.9
3.	Constraints in using modern technologies		
	Lack of capital	33	30.6

	Lack of technical know-how	48	44.4
	Lack of power/electricity	12	11.1
	Non-availability of technology	15	13.9
4.	Training needs for skills upgradation		
	Technical	79	73.9
	Managerial	19	17.4
	Financial	5	4.3
	Marketing	5	4.3
5.	Types of competition faced in the market		
	Quality	39	36.7
	Packaging	29	26.7
	Market price	30	28.3
	Others	9	8.3

Conclusions and Implications

The approach of group based initiatives in various developmental programmes across developing countries has generated enormous enthusiasm among government and non-government organisations (NGOs) for achieving their goals. These initiatives have been proved significantly successful in creating social capital for betterment of the society at large. The idea of attempting poverty reduction through the provision of uncollateralised loans-cum-subsidy to self-help groups (SHGs) for establishing micro-enterprises has gained momentum in the recent decade.

The *Swarnjayanti Gram Swarajgar Yojana (SGSY)* is one of the systematically designed programmes for self-employment of the rural poor, by organising them into Self-Help Groups (SHGs) and building their capacity in terms of technical and entrepreneurial skills for establishing micro-enterprises/ income generating activities through bank credit and government subsidy. The analysis of responses from SHGs with micro-enterprises indicates that the scheme has been very successful in

achieving social development through social entrepreneurial action. Social capital in the form of SHGs generates mutual support among the members in promoting social enterprise in a sustainable manner. As the success of enterprise depends on an efficient interaction between social, human and economic capital, a proper mix needs to be maintained in the process.

Analysis of the scheme indicates that the ongoing practices in developing micro-enterprises through SHGs lay much emphasis

on provision of credit and subsidy and less attention on enhancing human and economic capital among the group enterprises such as provision of business development services, entrepreneurial training and skill upgradation, technology acquisition and transfer and expansion of market access and marketing assistance. The study makes an in-depth analysis into these aspects, which need to be addressed for developing successful micro-enterprises at the grassroots level by involving poor families for rendering the community efforts viable, successful and sustainable.

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