WORKING PAPER 167

SIGNIFICANCE OF INCOME GENERATION ACTIVITIES UNDER MICRO-FINANCE: A STUDY OF MICRO-FINANCE GROUPS IN WAYANAND DISTRICT, KERALA

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INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE
2005

SIGNIFICANCE OF INCOME GENERATING ACTIVITIES UNDER MICRO-FINANCE: A STUDY OF MICRO-FINANCE GROUPS IN WAYANAD DISTRICT, KERALA

Emil Mathew*

Abstract

The present paper discusses the necessity of promoting income-generating activities (IGAs) under micro-finance programmes. Under micro-finance programmes, the principle of joint liability ensures access to credit. In the absence of remunerative IGAs, peer pressure forces the members to borrow loans from various sources at the time of repayment and results in indebtedness. The present paper examines the factors influencing the members to undertake IGAs and puts forth some policies to promote productive activities.

Introduction

Kerala has a unique position among the states of India, with its remarkable achievements in social development indicators, even in the absence of great economic growth. As a state in a third world country like India, its achievements in social indicators such as low rate of population growth, higher educational standards, and low infant mortality rate are comparable to that of the developed countries of the world. Kerala's accomplishments reveal that the well-being of the people can be improved and social, political and cultural conditions can be transformed even at low levels of income, when there is appropriate public action (Ramachandran 1996; Kannan 2000; Parayil 2000). Some scholars (Heller 1996; Tornquist 2000) argue that the active participation of civil society and the responsiveness of the government to this has enabled the State to achieve a higher standing in social development indicators. On the other hand, economic accomplishments of the State in terms of employment generation, per capita income and growth rate of the productive sectors of the economy are very poor. High unemployment coupled with low productivity in the State forces large

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I am thankful to Prof. D. Rajasekhar for guiding me in this research. Thanks are also due to two anonymous referees for their valuable suggestions to an earlier version.

segments of the people to depend on remittances from the Gulf countries. There has been growing debate on this aspect of perverted growth of Kerala as the State stands out as an alternative to the neo-liberal idea of economic growth (Tharamangalam 1988). These scholars are of the opinion that the growing fiscal deficit (George 1997), absence of additional employment opportunities and low growth rate of the economy may undermine the very existence of this model of development.

The sustainability of the Kerala model of development has been debated and discussed by many scholars (Franke and Chasin 2000; Parayil 2000), as the economic achievements are very marginal. The democratic decentralisation popularised and promoted by the Left Democratic Government in the State under the People's Planning Campaign held out hope that local area development through community-based participation could contribute significantly to the development of a region. The campaign took its inspiration from the 73rd and 74th constitutional amendments of the Government of India in 1992, which required the state governments to delegate administrative functions to lower level bodies. The campaign has received wider popular attention through the enormous support and participation of the masses.

According to the veteran CPM leader E.M.S Namboodiripad, the programme envisaged acceleration of economic growth without sacrificing the welfare and democratic achievements of the past (Isaac and Tharakan 1995). Realising the shortcomings of the State on economic grounds, the advocates of the campaign argue that the economy can recover from stagnation in the productive sectors mainly through mobilisation of funds from voluntary services, beneficiary contributions in development projects, small savings through SHGs of women and loans from financial institutions (Tharakan and Rawal 2001; Mohanakumar 2002). Thus they repose their hopes in the newly emerging democratic decentralisation and its potential to accomplish development through locally initiated plans. Moreover, they argue that the devolution of power and financial resources to the local self-governing institutions (LSGIs) can ensure mass participation of the people, and thus express the hope that this can overcome the drawbacks of centralised planning. In 1996, the LDF government of the State under democratic decentralisation had devolved 35–40 per cent of the State Plan Fund to the LSGIs for formulation and implementation of the Ninth Plan. It was a process of devolving functions and State resources from the Centre to the elected representatives at lower levels so as to facilitate greater direct participation by the citizens in governance. The main idea behind the devolution was to ensure that whatever could be done at a particular level should be done at that level itself and not at higher levels.

Under the LSGIs, comprehensive area development plans were prepared under mass participation in micro-level planning. There were three tiers of LSGIs in the State: Grama Panchayat at the lowest level, Block Panchayat at the block level and Zilla Panchayat at the district level. Accordingly, gramasabhas were constituted below the grama panchayats to identify local development problems, analyse the factors responsible and put forward suggestions for solutions. Neighbourhood groups (NHGs) were constituted under each gramasabha, which consisted of representatives from 40 to 50 families and acted as grassroots fora for direct participation of citizens in local governance. NHGs acted as supplements to gramasabhas and in most cases acted as executive committees to gramasabhas and, hence, needed to be viewed as democratic institutions of general governance (Isaac *et al* 2002).

Meanwhile in 1999, the Government of Kerala implemented a State Poverty Eradication Mission called *Kudumbashree*[1] under the LSGIs and brought the NHGs under its purview. The *Kudumbashree* mission launched by the state government with the active support of the Government of India and NABARD had adopted a group approach for wiping out absolute poverty from the state through community-based organizations. The programme introduced under the LSGIs in Kerala has a three-tier structure with NHGs at the grassroots level, Area Development Society (ADS) at the ward level and Community Development Society (CDS) at the panchayat level. It is assumed that the women who participate in the NHGs at the grassroots level can discuss their local issues at the gramasabhas held at the ward level. NHGs received wide popularity, since the government had decided to spend 10 per cent of the Plan fund for women through these groups. By 2001, the programme was implemented in all the 991 panchayats of Kerala.

The *Kudumbashree* programme is similar to the Grameen Bank model of micro-finance programme in Bangladesh. Here, the *Kudumbashree* programme gives equal importance to the social and economic implications of group lending. It is based on the theoretical understanding that people belonging to similar socio-economic characteristics with prior knowledge about one another help individual borrowers without physical collateral to access credit. Group lending works on the principle of joint liability and, instead of any physical collateral, the social collateral among members in a group guarantees the loan. Thus, the thrift and the credit enables the poorest of the people without any collateral to acquire loans from the small savings contributed by those who had so far been considered as unbankable. The loans realized from these groups provide an opportunity for them to initiate micro enterprises and thereby improve their income and living standards. Thus, the major objective behind the promotion of NHGs is to promote the economic development of the local areas through these community-based organizations. The women constitute the main target of the programme, as its focus is to attain economic development of the family through the women. It is assumed that the income generated from the micro enterprises undertaken by the women provide economic self-sufficiency to them (Isaac *et al* 2002).

Kerala is the first state in India to have adopted the micro-finance programme as part of the decentralisation efforts of the State and this initiative has given wider popularity to the programme. Micro-finance is not of recent origin in Kerala, as even before the implementation of the *Kudumbashree* programme, many NGOs with development initiatives had adopted the group lending approach of Bangladesh for their savings and credit operations. These NGOs channelled a significant proportion of their development initiatives through micro-finance groups. Development and growth of these groups under various NGOs do not follow a uniform approach and most of their activities are concentrated on those pockets where socially and economically deprived sections exist. However, the *Kudumbashree* programme received wider popularity as it was introduced uniformly throughout the State. Moreover, identification of the beneficiaries of various government schemes was based on the membership in these programmes. This prompted NGO initiated group members to register under the government programme and some of them did register and maintained dual membership in the government programme as well.

The present paper examines the various income-generating activities (IGAs) undertaken by the micro-finance group members, as SHG/NHGs have been viewed as credit institutions facilitating their members to take up economically productive activities. In the light of the peer pressure from the group members at the time of repayment, the paper argues that it is necessary to undertake IGAs with the loan amount borrowed from the programme. While making such a statement, the paper examines the proportion of micro-finance loans allocated for productive purposes by SHG/NHG members, and the contribution of SHGs/NHGs to the total investment on IGAs. Moreover, the study looks at the benefits from the various IGAs undertaken with micro-finance loans to the total incomes of households. By using a logit regression analysis, the study analyses the various factors that facilitate members to take up IGAs.

Theoretical Background

Credit market transactions have significant future implications, and a credit transaction is said to be complete only when the amount borrowed is repaid on time. It is generally the duty of the lender to see that the borrowers repay both the amount borrowed and the interest on it on time. Thus, lenders face two types of risks such as the willingness and the ability of the borrowers to repay loans (Bhatt 1983). In order to ensure that the members selected make timely repayments and reduce the risks of default, lenders have to screen the creditworthiness of borrowers and monitor the activities for which they have borrowed the loan. However, the costs involved in these functions of selection, monitoring and ensuring repayment or transaction costs[2] are very high in individual lending operations and, hence, the proponents of group lending have advocated the advantages of lending to groups.

Under group lending, the functions of selection, monitoring and ensuring repayments are transferred from the lenders to the borrowers and the loans are issued based on the principle of joint liability. Thus, it enables those members without any physical collateral to access loans based on social collateral where the other members guarantee the repayment of the loan. In order to ensure such a joint liability, the members are self-selected based on their familiarity with one another, as those who belong to similar socio-economic groups. Moreover, it is desirable to have smaller groups, as large numbers of members in a group leads to free-rider problems (Olson 1965). Homogeneous groups guarantee repayment of loans and, moreover, reduce the costs of obtaining information about the creditworthiness of borrowers and supervision of loans. Groups with similar risks ensure peer monitoring and avoid the exploitation of the less risk groups by the risky ones (Stiglitz 1990; Sharma and Zeller 1997).

In order to facilitate the members to make timely repayment, incentives are instilled through group lending programmes. Social sanction or the social ostracism is often used as the negative incentive for the members to avoid non-cooperative behaviour. Under this, groups with social connectedness or social cohesion, repayment can be ensured through the use of negative incentive of loss of social reputation. In other words, the peer pressure and the willingness of the group to apply peer pressure on the delinquent borrowers result in successful group lending (Wydick 1999).

Generally, credit institutions give importance to the sustainability of the programme. They check whether the group is able to sustain the programme in the long run without any external assistance. In order to realize this, the group should be able to recover the loans on time. However, giving undue importance to the repayment rate of the credit programme overweighs the dispensing and recovery of loans rather than the issue of whether women develop meaningful control over their investment activities (Goetz and Gupta 1996) and source of repayment. The micro-finance programme is ideologically designed to achieve women's contribution to family welfare and assist poor women to obtain socio-economic empowerment, but often the positional vulnerability of the women is exploited at the time of repayment (Woolcock 1999). Owing to their limited mobility and other culturally imposed restrictions, the use of social sanctions often impose pressure on them and they face difficulties from their partners and household members at times of repayment. The attitude of the officials forces them to repay loans regardless of their helpless situations and creates tensions and acts as a new form of social and institutional dominance over women. Chavan and Ramakumar (2002) argue that often social pressure forces them to borrow from moneylenders to repay the loans. Moreover, such debt liabilities increase through recycling at the time of repayment and, therefore, the debt burden continues (Rahman 1999).

The long run sustainability of group lending programmes, ensured through the repayment performance of the group, does not always ensure a sufficient condition for the success of the programme, if members continue to depend on further micro-finance loans or outside sources of money at the time of repayment. Therefore, they should monitor the proper utilisation of the loan in a way that members use the loan for productive activities that generate income. Utilisation of the loan for productive purposes ensures the flow of income and enables them to repay their loans from the income thus generated. In other words, it reduces unnecessary dependence on other sources at the time of repayment and, hence, reduces debt indebtedness. Moreover, if necessary action is not taken to prevent such dependence, indebtedness increases over a period significantly.

Alba and Park (2003) examined the importance of micro credit in economic development of rural Bangladesh. According to them, the Grameen Bank credit has had major impacts on four main interrelated development indicators such as employment, productivity, income level and nutrition. The Bank has created new employment for about one-third of its unemployed members and significant additional employment for underemployed members. They argue that members perform well in terms of high repayment rate, but unless they are able to progress from lower incomes to higher incomes, they may become permanently dependent on the bank for survival. Thus a credit programme must support a wide range of economic activities and the Bank highlights the significance of IGA in poverty alleviation.

There are some studies on the potential of the IGAs undertaken by micro-finance group members. A study on the factors determining the earnings of the SHG members in Pondicherry by Nirmala *et al* (2004) shows that around 80 percent of the SHG members have initiated IGAs and the majority of them are engaged in non-farm activities that are traditional and less remunerative. They have argued that the larger credit borrowed by the members and the trend towards higher asset possession reduced the monthly earnings of the members. This may be because of the instalment-based repayment and loans being taken again immediately after borrowing when the investment is not generating earnings. Thus their borrowings have a negative effect on their earnings where members do not have any incentive to make investments in IGAs.

Rajasekhar (2005) has done a study on the non-farm activities undertaken by the SHG members of three states of India. It revealed that most of the credit is provided for consumption smoothing and for undertaking traditional occupations like agriculture and livestock, whereas only a small proportion is used for non-farm activities. According to him, there are many exogenous and endogenous factors behind this and these are the lack of opportunities for women, their inability to obtain larger credits due to smaller savings, lack of marketing facilities and socio-cultural barriers.

The present paper describes the IGAs undertaken by the SHG members of both government organised and NGO organised groups. The study shows that in a region where the majority of the population depends on agriculture for their livelihood, SHGs provide an immediate remedy and help them to meet their consumption expenses. However, such allocations for consumption may create problems at the time of repayment. Hence, the paper examines the necessity of undertaking IGAs with SHG loans. Moreover, it tries to identify factors that play an important role in taking up IGAs.

Growth of SHGs/NHGs in Wayanad

The present study on micro-finance groups has been conducted in the Wayanad District of Kerala. It is one of the backward districts of the State with a high density of tribal population. Wayanad is a border district and is close to Karnataka and Tamil Nadu states. Almost 37 per cent of the district is forest area and 54 per cent of the land is used for cultivation. The original inhabitants of this region are tribals, who belong to the economically and socially deprived classes and hence the most vulnerable sections of this region. Wayanad has about 8 lakh population and this forms only 2.5 per cent of the total population of the state. About 22 per cent of this population is SC/ST and tribals constitute 82 per cent of them.

Wayanad has both NGO promoted SHGs and *Kudumbashree* promoted NHGs. The *Kudumbashree* programme was introduced in this district in two phases, in 1999 and in 2001. By 2001, the programme had been introduced in all the 25 panchayats of the Wayanad District. Prior to the introduction of the *Kudumbashree*, various voluntary organisations that promoted SHGs were established in this region. Some of them were secular organisations, whereas others were religious organizations engaged in the promotion of the economic and social upliftment of the people. Among religious organisations, church based organizations have been very active and one such church based organisation is Shreyas, which is a diocese based institution established in the 1970s. Before the advent of the SHGs, they had introduced community-based organizations called credit unions. These were savings and credit groups and were comparatively larger in size with a membership of 150 to 300 members. Generally, men were the members of these groups. Their larger size led to the inherent problems of management and lack of peer monitoring (Rajasekhar 2000). These groups ensured repayment mainly through closely-knit networks based on religious grounds and the parish priests had a big say in these groups. However, they slowly moved on to the idea of smaller groups of 10 to 20 members each and paid more attention to the savings and credit operations. Later, they laid emphasis on women centred programmes, as they thought that compared to men, women maintain good credit and saving records (Morduch 1999) and, also it is easy to reach every family through women.

Moreover, some NGOs like the Wayanad Sarva Seva Mandal (WSSM) and High Land Development Agency (HILDA) came to the forefront in the direction of self-help group formation. It is significant to note that all social and economic developmental initiatives like training programmes, watershed development programmes, awareness programmes and so on undertaken by the NGOs were channelled through SHGs. In other words, the SHGs were considered agencies for the identification of the beneficiaries of various development-oriented programmes. Moreover, participation in SHGs was considered a prerequisite to avail benefits from such voluntary organizations. These NGOs assisted them in the identification of members, formation of groups, management of the SHG operations, monitoring the day-to-day functions, granting loans through banks, ensuring repayment of the loans borrowed etc. It was a great help for those who had been depending on banks for a long time, and who did not have reliable access to institutional credit for a variety of reasons including lack of access to collateral.

As NGOs were actively participating in the SHG promoting operations, they were not ready to welcome the newly introduced *Kudumbashree* programme of the State Government. According to them[3], the newly emerging organizations may duplicate the existing ones. However, some people expressed their willingness to take part in the Government programme as participation in this would guarantee benefits from the Government, as it identifies the beneficiaries of various developmental schemes based on their participation in these programmes. This was because, according to the Ninth Plan, 10 per cent of the Plan outlay of the LSGIs had been directed to women component plans and was channelled through NHGs.

As the beneficial schemes of the Government considered the participation in NHG as one of the criteria for the identification of beneficiaries, members who had already joined the NGO programme started registering in the *Kudumbashree* programme. Gradually, the initial tussle between membership in the NGO and *Kudumbashree* programmes got minimised when NGOs stopped their resistance to their members taking part in the *Kudumbashree* programme. Similarly, most of the panchayats stopped their insistence on members leaving the NGO programme and to maintain single membership in the government programme. Thus, it led to the emergence of dual membership in NGO and government programmes, in the case of those groups, which had been initiated by the NGO programme. Similarly, the newly emerging Government programme, because of its wider popularity in ensuring services to the people from Government, established projects in those places where the NGOs could not flourish in their operations. This led to two broad classifications of micro-finance groups, such as those SHGs with dual memberships in both the programmes and those with a single membership in the Government programme. NGO officials promoted the SHGs, whereas panchayat officials promoted the NHGs. Even though terms like SHGs and NHGs are used to make a distinction between government and NGO initiated groups, there is not much difference between them as far as their internal day-to-day operations are concerned. Generally, panchayat ward members have established *Kudumbashree* groups. Most of them were established because of the interest and the initiative extended by the panchayat ward members. Since the panchayat ward members are politically elected representatives of the people, there are higher chances of political biases while establishing such groups and disbursing the benefits.

Sample Selection

The present study makes an analysis of the micro-finance programmes initiated both by the NGOs and the Government organisations of Wayanad District. The study selected two panchayats, Sulthan Bathery and Noolpuzha, randomly from the Sulthan Bathery block, where micro-finance programmes are flourishing. Since the total number of NHGs (government-initiated groups) and SHGs (NGO-initiated groups) or the universe is not available due to problems of dual[3] membership, we have selected equal numbers of groups from these panchayats. Accordingly, 8 NHGs and 8 SHGs were selected from each of these panchayats and a total of 32 NHG/SHGs were selected randomly. From each of these groups, 6 members were randomly selected and thus a total of 192 members were selected for the study. The study collected information about the socio-economic profile of the members and their group characteristics, such as years of experience in the group, number of members in the group, participation in the training programmes prevalent in the group and kind of monitoring existing at the group level. The study also collected information pertaining to the loan amount received by the members, their purpose of utilisation, and income generated from the activity undertaken with the SHG loan.

Analysis of the Data

The present study has selected 16 SHGs and 16 NHGs from the two panchayats and there is not much difference between these two categories as far as their internal operations are concerned. Classification is based on the agency that initiated them. However, the average years of experience of the groups differs, as most of the NGOs started their micro-finance operations prior to the initiation of the *Kudumbashree*. The average number of years of experience of the NHGs is 2.31, whereas it is 3.38 for the SHGs. Years of experience represent the experience of the members in the programme and this varies based on the year of initiation of the group. *Kudumbashree* groups have their duration of experience based on the year in which the government initiated them, whereas that of the NGO groups have years on the NGOs initiated them, regardless of when they joined the government programme.

The socio-economic classification of the member can be seen from the caste/tribe of the member, their education and per capita income. About 35 per cent of the members are tribals as this region has the highest proportion of the tribal population. The proportion of tribals is greater among government initiated NHGs and constitute about 50 per cent of the members. This high concentration of tribals among NHGs is because of the lack of interest on the part of NGOs to promote high-risk tribal members whose capacity to make repayments is low. The average years of education are 5.8 for NHG members, whereas it is 7.79 for SHGs. Illiterate members constitute 26 per cent of NHG members. Per capita income of the members varies from Rs. 640 to Rs 4,420 among SHG members, whereas it varies from Rs 58 to Rs 4,702 among NHG members. Thus, there is a higher distributional variation in per capita income among NHG members.

About 97 per cent of the members revealed that they joined the programme mainly to obtain financial benefits especially in the form of loans. In order to get loans from the programme, the members are supposed to make saving contributions periodically and generally this is the amount that the least able member of a group can contribute. After attaining a certain amount of savings the groups can start issuing loans and once the groups perform better in terms of their internal loan dealings, they can apply to external sources such as banks, NGOs and revolving funds for loans. Generally, external loans are issued for productive purposes and are required to be repaid on time. Since all the groups had registered under the government programme, they received a revolving fund of Rs10,000/- from the panchayat. Thirteen of them had received bank loans and six groups had received loans from NGOs. In the case of external loans also, members themselves decided the loan allocation within the group. Generally, the rate of interest is 24 per cent for group loans, whereas for external loans, the interest rate is fixed by the external agency. Even though the members consider the revolving fund almost like a grant, it is required to be repaid to the panchayat in case of the collapse of the group. In other words, it acts as a binding force to prevent the collapse of the group. It is intended to be used for productive purposes, but in some of the groups, the members share this fund among themselves in equal amounts. Some of the groups have added the revolving fund to the collective amount of the group.

It is observed that groups in the initial stages lend for consumption purposes, as it is an important need expressed by the members. Later, it is suggested that the loan be used for productive purposes, as IGAs enable the members to earn extra income and make timely repayments. IGA can be undertaken individually or collectively. In the present study, IGA is examined from an individual perspective, that is, whether the member has undertaken the IGA or not regardless of whether it is an individual activity or collective effort. Collective supervision of the utilisation of the loan is suggested, as the group is responsible for repayment of the loan. The study makes a classification of the IGAs undertaken by both the NGO and Government initiated groups.

Table 1: Income Generating Activities Undertaken by Micro-finance Group Members

IGA undertaken	Nature of the group		Total
	NHG	SHG	
No loan received	3 (3.1)	-	3 (1.6)
Consumption only	61 (63.5)	68 (70.8)	129 (67.2)
Agriculture	2 (2.1)	4 (4.2)	6 (3.1)
Milch animal rearing	23 (24.0)	23 (24.0)	46 (24.0)
Business	1 (1.0)	1 (1.0)	2 (1.0)
Small enterprise	6 (6.3)	-	6 (3.1)
Total	96 (100)	96 (100)	192 (100)

Source: Primary Data

Note: Figures in parentheses indicate percentages

About three members had not received any loans through the micro-finance group. A majority of the members used the loans only for consumption. The proportion of the productive activities was more among NHG members (32) as against SHG members (28). Table 1 shows that only 31 per cent of the members had undertaken IGAs. Some of the members who had undertaken IGAs with the SHG loan stated that they were continuing to follow the activity that they had undertaken before joining the group. This constituted about 42 per cent of the members who adopted IGAs and the loan from the SHG enabled them to pursue the activity with some more investment. Among those who had undertaken the activity, milch animal rearing constituted a major category. This is a traditional occupation of the people where the skills required are low and most of them have previous experience in this activity. Small enterprises undertaken by the members refer to soap making unit and candle making unit. Thus, a risk aversive characteristic was visible among the members. Even though 31 per cent of the members had undertaken IGAs, the proportion of the total loan allocated for productive purposes varied from one member to another.

Table 2: Proportion of the Total SHG Loan Allocated for Productive Purposes by the Members

Nature of the group	Amount of loan received through SHG (Rs)	Proportion of the loan used for production					
		Consumption only	Up to 25%	25%-50%	50%-75%	Above 75%	Total
NHG	Up to 2500	24 (77.4)	1 (3.2)	2 (6.5)	3 (9.7)	1 (3.2)	31 (100)
	2501-7500	24 (63.2)	1 (2.6)	3 (7.9)	3 (7.9)	7 (18.4)	38 (100)
	Above 7500	13 (54.2)	2 (8.3)	-	5 (20.8)	4 (16.7)	24 (100)
Total		61 (65.6)	4 (4.3)	5 (5.4)	11 (11.8)	12 (12.9)	93 (100)
SHG	Up to 2500	25 (100)	-	-	-	-	25 (100)
	2501-7500	12 (92.3)	-	1 (7.7)	-	-	13 (100)
	Above 7500	31 (53.4)	1 (1.7)	5 (8.6)	10 (17.2)	11 (19.0)	58 (100)
Total		68 (70.8)	1 (1.0)	6 (6.3)	10 (10.4)	11 (11.5)	96 (100)

Source: Primary Data

Note: Figures in parentheses indicate percentages

Table 2 shows that about 60 per cent of the SHG members received total loan amounts above Rs 7,500/- from the SHG since formation, whereas it was only about 25 per cent for NHG members. The proportion of the loan used for productive purposes shows that there was an association between the amount of loan and the allocation of loan for productive purposes. As the total amount of loan increased from up to Rs 2,500 to above Rs 7,500, the proportion of members using the loan only for consumption decreased. In other words, the allocation of the loan for productive purposes increased, as the total amount increased.

The costs of investment of the activity varied from one IGA to another. Most of the SHG/NHGs contributed only a certain proportion of the total costs of investment of the activity. Table 3 shows the contribution of the micro-finance loan to the total investment cost of the activity.

Table 3: Contribution of the Micro-Finance Loan to the Total Investment Cost of IGA

Nature of the group	IGA undertaken	Contribution of micro-finance loan to the total cost of undertaking the activity				Total
		Up to 25%	25-50%	50-75%	75-100%	
NHG	Agriculture	1 (50.0)	-	1 (50.0)	-	2 (100)
	Milch animal rearing	2 (8.7)	5 (21.7)	9 (39.1)	7 (30.4)	23 (100)
	Business	1 (100)	-	-	-	1 (100)
	Small enterprise	-	-	1 (16.7)	5 (83.3)	6 (100)
Total		4 (12.5)	5 (15.6)	11 (34.4)	12 (37.5)	32 (100)
SHG	Agriculture	-	-	1 (25.0)	3 (75.0)	4 (100)
	Milch animal rearing	1 (4.8)	6 26.0)	8 (38.1)	8 (34.8)	23 (100)
	Business	-	-	1 (100)	-	1 (100)
Total		1 (3.6)	6 (21.4)	10 (35.7)	11 (39.3)	28 (100)

Source: Primary Data

Note: Figures in parentheses indicate percentages

Even if micro-finance group is a contributor to the IGA of the members, loans issued through SHG/NHG need not always cover the total investment cost. If the cost of the activity is higher and the contribution from the micro-finance is lower, then members need to depend on sources other than SHG/NHG, as there is a limit to the extent, which they can depend on SHG/NHG loan. In case of about 40 per cent of the IGAs, 75- 100 per cent of the total investment cost is borne by the NHGs and SHGs. A major portion of the total investment cost of milch animals rearing was borne by the SHG/NHGs. Contribution of NHGs to the total cost of the business was only up to 25 per cent. A large proportion of the smaller cost consuming undertakings such as small enterprises (soap making units) was borne by SHGs. An examination of the activities shows that micro-finance groups were major contributors to the majority of IGAs, which did not require heavy investment. There is not much difference between loans from SHGs and NHGs in this regard. In the case of IGAs like business and to some extent agriculture and milch animal rearing however, the contribution of group loans was lower, as the total cost of investment of the activity was high.

The contribution of the activity to the total household income shows the real worth of undertaking a particular IGA. In order to examine the contributions of the IGA to the total household income, information pertaining to the annual income of the household and the income generated from the activity was used. A higher contribution of the IGA to the total annual income of the household shows that the activity was a major contributing factor to their income.

Table 4: Contribution of the IGA to the Total Annual Income of the Household

Nature of the group	IGA undertaken	Contribution of the IGA to the total annual income of the household					Total
		Loss	Up to 25%	25-50%	50-75%	Above 75%	
NHG	Agriculture	-	2 (100)	-	-	-	2 (100)
	Milch animal	1 (4.3)	7 (30.4)	11 (47.8)	2 (8.7)	2 (8.7)	23 (100)
	Business	-	-	-	1 (100)	-	1 (100)
	Small enterprise	1 (16.7)	5 (83.3)	-	-	-	6 (100)
Total		2 (6.3)	14 (43.8)	11 (34.4)	3 (9.4)	2 (6.3)	32 (100)
SHG	Agriculture	-	4 (100)	-	-	-	4 (100)
	Milch animal	2 (8.7)	13 (56.5)	1 (4.3)	4 (17.4)	3 (13.1)	23 (100)
	Business	-	-	1 (100)	-	-	1 (100)
Total		2 (7.1)	17 (60.7)	2 (7.1)	4 (14.3)	3 (10.7)	28 (100)

Source: Primary Data

Note: Figures in parentheses indicate percentages

Some of IGAs incurred losses and they constituted about 7 per cent of the members who had undertaken the IGA. It is significant to note that about 44 per cent of the NHG and 61 per cent of SHG IGAs had extra earnings up to 25 per cent of the total household income. Thus, in a majority of the households, which had undertaken IGAs, the activities contributed only a small portion to the total income of the household. Highly remunerative activities could not be undertaken with the group loan, as there was a limit to the micro-finance group loan investment. Moreover, wherever the contribution of SHG loan is low, the contribution from various sources other than SHG to cover the total investment cost is also low, as the members themselves come from a poor financial background. In the case of an activity that contributed more than 75 per cent to the household income, milch animal rearing stands out even though it forms only a small percentage. The study shows that contribution of the activity to the total income of the household is very low for a majority of the IGAs. It is difficult to assess individual impact of SHG/NHG loans on the total income of households as members depend on sources other than SHG/NHG for credit to undertake an IGA wherever the micro-finance loan cannot meet the total investment cost of the activity.

Regression Analysis: To estimate the factors facilitating members to undertake IGAs, a logit estimate has been made. These factors can be broadly classified under the three broad headings of member and household characteristics, group characteristics and monitoring mechanisms. The member and household characteristics are the socio-demographic classification of the members such as caste and tribe, education of the member, per capita income of the household, average loan amount received, number of years since joining the micro-finance programme and whether the members received any training programme or not. Group characteristics are whether the members belong to government-initiated or NGO-initiated groups and the number of members in a group. Monitoring mechanism is measured in terms of an index[4], and it encompasses monitoring by members in a group (internal monitoring) and monitoring by promoting agencies (external monitoring). This index measures the degree of monitoring prevalent in each group and it is assumed that good monitoring on the part of group members and promoting agencies in terms of the four levels of monitoring can promote IGA and enables members to generate income and repay the loans borrowed. As can be seen from Table 4, only 7 per cent of the members incurred losses, which is only a minority. Thus it is suggested that IGAs be undertaken by borrowers.

The dependent variable is a dummy, which measures whether the members undertook IGA, or not. Dummy=1 if the activity was undertaken and 0, otherwise. The description of the variables along with their respective expected theoretical signs is given in Table 5.

Table 5: Description of the Variables and Their Expected Theoretical Sign

Variables	Description	Expected theoretical sign
CASTE	Social categories such as caste, tribe etc. Dummy=1 if the member is a non tribal; 0, otherwise	+
EDUCN	Education of the member in terms of the number of years of schooling	+
PCI	Per capita income of the household (Rs)	+
AVGLNAMT	Average loan amount received (Rs.). Total amount received from the SHG/no. of loans	+
EXPYRS	Years of membership since joining the programme	+
TNGPRGM	Dummy=1 if the member has participated in the training programme; 0, otherwise	+
GRPSIZE	Number of members in a group	-
SHGNHG	Programme to which the member belongs. Dummy=1 if the member is SHG member; 0, otherwise or NHG	+
MNTINDEX	Monitoring index. It varies from 0 to 2	+

Since a remunerative IGA enables a person to repay the loans borrowed from the SHG/NHG and to improve his/her living standards, it is advisable to promote it. Moreover, only about 7 per cent of the members incurred loss while undertaking the activity and this is significantly smaller. The reason behind incorporating the above variables and the respective expected theoretical signs in the model has been discussed in the following section.

Variable caste represents the social category, in terms of caste, tribe etc. Since the non-tribal members are economically better off and are more exposed to the changes taking place around and it is expected that non-tribals are more likely to undertake IGA. Moreover, the capacity of the tribals to meet inadequacies in the provision of group loans with credit from sources other than SHG to promote IGAs is low compared to non-tribal members.

Education of the members enables them to get exposed to the outside world and also to get to know about the significance of the IGAs in ensuring repayment of loans as well as the welfare of the household. Per capita income is another variable indicating the capability of the member to contribute from his/her share in case the programme is not able to contribute entire investment costs. Average loan amount shows the average contribution of the SHG/NHG to the total investment costs of the activity. Since, the amount and the number of loans received by a person varies from one person to another, it is desirable to take the average. Experience of years in SHG/NHG indicates the number of years of membership of a person in the micro-finance programme. The years of experience varies based on their initial membership in the micro-finance programme regardless of the duration of their membership in another agency. The greater the number of years of membership, the more likely the member is to undertake IGA, as more loans can be diverted to productive purposes. Training programme participation provides an incentive for members to undertake the activity efficiently, as it provides skills to the members.

The programme-government-initiated or NGO-initiated- in which the members participate is another variable among the group characteristics. Since SHG members are better experienced and are monitored by both the promoting agencies, it is expected that they are more likely to undertake the IGA. An index representing the ability of the group to monitor is captured in terms of a monitoring index and a higher value for the index represents that the group monitors efficiently and hence is more likely to undertake IGA.

The results of the regression are given in Table 6.

Table 6: The Results of the Logit Regression for the IGA Undertaken by the Members

Variables Constant	Coefficients -4.002697**	Standard error 1.558881	t value -2.57	Marginal effect -
CASTE	-.0293007	.5749247	-0.05	-0.0048523
EDUCN	.0511387	.0593151	.86	.0084469
PCI	.0001009***	.0000361	2.80	.0000167***
AVGLNAMT	.000207***	.0000651	3.18	.0000342***
EXPYRS	.4776648***	.1819498	2.63	.0788992***
TNGPRGM	1.151264**	.4737119	2.43	.2216345**
GRPSIZE	-.1580096*	.0955184	-1.65	-.0260995
SHGNHG	-1.698329***	.6546151	-2.59	-.2820148***
MNTINDEX	3.354903***	.6713585	5.00	.5541524***
Pseudo R square 0.3649				
Log likelihood function -75.017704				
Restricted log likelihood -118.1137				
Chi square186.19				
Degrees of freedom 9				
Significance level (.0000)				

*** Significance at 1% level; ** significance at 5% level; * significance at 10% level

Chi square test shows that the model is significant at 1 per cent level and 7 variables are significant excluding the constant, which does not explain much in the case of binary logit model. With respect to the sign, except CASTE and SHGNHG all the variables have received expected signs. Pseudo R square shows that the model explains about 36 per cent of the variations in the dependent variable.

Variables for per capita income of the household, average loan amount received by a member, years of membership in the SHG/ NHG, and the variable explaining the programme and monitoring index are significant at 1 per cent level. The variable SHGNHG however gets a negative sign implying that SHG members are less likely to undertake IGAs. Participation in the training programme is significant at 5 per cent level whereas group size is significant at 10 per cent level. Even though CASTE is not significant, it has received a negative sign implying that the non-tribal members are less likely to undertake IGAs.

Members belonging to the higher per capita income are more likely to undertake the IGA, as they can use their own income if the loan from the group is not sufficient to meet the entire investment costs. Moreover, a higher per capita income enables the members to support the activity in due course of time, once investment on that activity is undertaken. Higher average amount enables better scope for investment in productive activities, compared to a person getting a smaller amount. Thus the amount of loan received by a person from the group is one of the determinants of IGA. Therefore, members receiving higher loans are more likely to undertake IGA. Years of experience reveal that there is a significant improvement in undertaking IGA, as their stay in micro-finance increases over a period of time. This is because the members in the group can borrow from the group to meet their initial consumption purposes. Once consumption purposes are fulfilled, they can take up IGAs, which require higher amounts, which is availed at a later stage. Monitoring index shows that the higher the monitoring by the group and by the promoting agencies, the more likely it is that members undertake IGAs. Supervision by the internal and external agencies shows that monitoring is a determinant of the IGA. Marginal effect for the monitoring index showed that one unit increase in monitoring lead to 55 per cent likelihood that the members will undertake the IGA. Training programme is significant at 5 per cent level and the members are more likely to undertake IGAs once they undergo training. Hence, better training enables members to acquire skills to take up IGAs. Compared to those who have not undergone training, those who have taken training are 22 per cent more likely to undertake the IGA. Group size shows that the higher number of members in a group, the less likely it is that the members take up IGAs. This is because groups of larger size face the problems of free riding, as close monitoring is difficult as the number of members increases.

The variable representing the programme is significant and for those members with dual membership are less likely to undertake IGAs. The marginal effect for this variable indicates that compared to NHG members, SHG members is 28 per cent less likely to undertake the IGA. In most of the groups with dual membership in both programmes, the members are more likely to follow the instructions given by the NGO, as it was the agency that initiated them. These organisations monitored the repayment of the loans and their accounts and had not given attention to whether or not the members had undertaken the activity. Thus, an examination of the performance of the group only in terms of repayment by the promoting agencies and the same followed by the members forced them to concentrate on repayments, without giving due importance to the IGA. Moreover, there are some SHG members who said that the IGAs undertaken by them were not remunerative and hence resulted in failure as there were no supporting facilities, especially marketing opportunities and ready availability of raw materials. Hence, they were forced to terminate their activity.

Policy Implications

It is desirable that micro-finance group members undertake IGAs, as it enables them to make timely repayment from the income generated from the activity rather than depending on other sources for repayment and becoming indebted at the time of repayment. Moreover, only about 7 per cent of the members incurred losses in the present study and, hence, more than 90 per cent of the activities undertaken were remunerative. Hence, the following steps need to be followed to promote the SHG/ NHGs and their ability to undertake IGAs.

- The loan amount issued by the SHG/NHG may not be sufficient for a person to make investments in IGAs. Hence, higher loan amounts need to be channelled to the members from external sources, wherever there is a limit to the sum allocatable by SHG/NHGs. However, a reliance on moneylenders' and borrowings from others might generate further indebtedness, as the members themselves belonged to a poor background. Under such situations, the external loans of the SHGs such as banks, NGOs and revolving funds should be adequate to support the activities.

- Most of them preferred to undertake agriculture and animal husbandry where the investments required are low as also the risks. Another activity undertaken by them is soap making which does not require much skill. Moreover, such products manufactured by them have easy marketability. If the marketing facilities are better, the risks of the members are smaller and they might undertake IGAs, which would generated higher incomes. Hence, promoting agencies should support the members with marketing opportunities and other facilities, such as the provision of raw materials so that the risks of the members are brought down and they are encouraged to take up IGAs. Moreover, promoting agencies should place greater emphasis on the utilisation of the loans in low risk activities rather than the repayment of loans.

- Monitoring index explains that members are 55 per cent more likely to undertake IGAs, if there is good monitoring by the group and also by the promoting agencies. It is necessary that at the time of issue of the loan, promoting agencies should ensure that the members in a group follow the purpose of utilisation of the loan, ensure skills for taking up the activities, and also the availability of raw materials and marketing facilities to support the activity.

- Training programmes help the members to develop the skills for undertaking various activities. Moreover, it reduces the occurrence of failures while running the activities. It is necessary to impart training opportunities to members, as training is a major determining factor for undertaking the activities.

- Groups should be small in size to prevent free riding and should promote close monitoring among members. Close supervision among the members helps them to encourage their co-partners to undertake IGAs.

Thus, micro-finance group loans should ensure that the members utilise the loans for productive purposes. In order to ensure this, both internal and external agencies should monitor the loans. Otherwise, the pressure to make repayments forces the members to depend on outside sources and results in indebtedness. As can be seen from the tables above, members should be provided with adequate loan amounts for undertaking investment, marketing support and training opportunities.

Conclusions

The present study examined the significance of undertaking IGAs, various activities undertaken by the members, contributions of the SHG/NHG to the activity and contribution of the activity to the incomes of households and determining factors behind undertaking IGAs under group lending programmes. The study attempted to look at micro-finance groups as community-based organisations for the promotion of economic growth in the context of the Kerala model of development. Thus, these groups should be viewed as institutions promoting local development of an area through the indigenous resources mobilised by the people. It is in this context that IGAs assume importance and it enables those members without any physical collateral to acquire loans at lower cost. Since group lending ensures repayment of loans borrowed through peer pressure among members, it is advisable to promote productive activities. Otherwise, the pressure to make repayments forces members to depend on other sources for loans at the time of repayment.

The success and sustainability of group credit depends on how far the programme is able to recover loans by itself without any external assistance. Thus it points to the sustainability of the programme in ensuring repayment from the members and it is for this reason that IGAs need to be undertaken. Otherwise, dependence on the SHG/NHG or any other source creates a permanent dependence on outside sources of credit and the indebtedness continues. Members are more prone to undertake low risk activities, which require lower skills and also provide marketing opportunities for their products. It is here that the significance of the promoting agency comes in and they should conduct training programmes, encourage the development of indigenous products and provide scope for marketing facilities.

Promoting agencies should give equal importance to the utilisation of the loan and to timely repayment. Wayanad is a region which has been going through an agrarian crisis, members of the programme are needy, both the tribals and non-tribals. However, the tribals have also been socially and economically deprived and they are the ‘outliers’ or neglected subjects of the Kerala model of development (Kurien 2000). An attempt to improve the financial conditions of the tribals through micro-finance groups should not result in their future indebtedness. Since most of the tribals do not have any alternative credit sources, it is necessary to look into the utilisation of loans borrowed by the tribals. Moreover, their financial conditions require promotion of IGAs, as the micro-finance programme provides cheaper credit to the members.

Thus in order to achieve the objective proposed by the *Kudumbashree* under decentralised planning, the programme needs to be extensively promoted by encouraging the members to undertake IGAs which should be remunerative and less risky. Moreover, marketing opportunities should be imparted to the group by the promoting agencies, as some of the activities have been forced to close down on account of the constrained local market and the constant competition from cheap products manufactured on a large scale. It is necessary to take extra care in the promotion of the products of micro-finance group members and hence the difficulty involved in undertaking the activity should be brought down.

Notes

[1] The genesis of the *Kudumbashree* can be seen from the Alapuzha Community Development Society of 1992. It had identified financially risky families below the poverty line on a nine-point criterion and the programme was successful in achieving the poverty alleviation targets. Later, the programme was introduced in all the panchayats of Malappuram. On 26th December 1994, the State Government through a special order directed all Urban Local Bodies in the State to set up Urban Poverty Alleviation Cells and to implement poverty alleviation programmes with community participation as done in Alapuzha and Malappuram.

[2] Transaction costs refer to the costs involved in bringing about the transaction. In the credit market, transaction costs relate to the costs of selecting creditworthy borrowers, monitoring the activities for which loans are borrowed and ensuring their repayment.

[3] Dual membership or multiple memberships arises as some groups maintained membership in more than one organization at a time

[4] The main objective of developing a composite monitoring mechanism index is to bring in under a single variable, the effectiveness of monitoring practised by each group. The score varies from 0 to 2 where 2 indicates better monitoring whereas 0 indicating ineffective or no monitoring. Monitoring index consists of two indicators such as internal monitoring index, and external monitoring index. Each of these two indicators along ith the variables used for their construction is discussed below.

Internal Monitoring Index

Group discussion represents the monitoring by group members within the group. It consists of 4 variables such as monitoring the purpose of utilization of the loan, monitoring the skills for undertaking the economic activity, monitoring the availability of raw materials and monitoring the availability of marketing facilities. The scores of each of these variables are given below.

1) Monitoring the purpose of utilization of the loan

a) to a large extent –2
b) partially 11-1
c) not at all 11-0

2) Monitoring the skills for undertaking the activity

a) to a large extent –2
b) partially 11-1
c) not at all 11-0

3) Monitoring the availability of raw materials

a) to a large extent –2
b) partially 11-1
c) not at all 11-0

4) Monitoring the availability of marketing facilities

a) to a large extent –2
b) partially 11-1
c) not at all 11-0

Once the scores are assigned to each of these four variables, weights are assigned to get the group discussion index. Weights of 0.40, 0.20, 0.20 and 0.20 are assigned to each of these variables.

External Monitoring Index

There are two main variables in this; promoting agencies' visit to the group in the last year and regular submission of monthly report to the promoting agencies by a group.

1) Promoting agencies' visit to the group

a) Two visits from NGO and two from GO in the case of dual membership group-2

b) Two visits from the GO in the case of single membership group-2

c) Two visits from NGO and one from GO in the case of dual membership group-1.50

d) One visit from NGO and two from GO in the case of dual membership group-1.50

e) One from NGO and one from GO in the case of dual membership group-1.00

f) One from GO in the case of single membership group-1.00

g) Two from either GO or NGO in the case of dual membership group-0.75

h) One from either GO or NGO in the case of dual membership group-0.50

i) No visits at all for single membership group-0

j) No visits at all in the case of dual membership group-0

2) Regular submission of monthly report to the promoting agency

a) Regular submission of monthly reports to the NGO and GO in the case of dual membership group-2

b) Regular monthly submission of reports to the GO by the single membership group-2

c) Regular submission of reports to either NGO or GO by the dual membership group-1

d) No regular submission of reports either to the GO or NGO by the dual membership group- 0

e) No regular submission of reports to the GO by the single membership group-0

A combined promoting agencies' monitoring index is developed by giving weights of 0.70 and 0.30 respectively to each of these variables, such as promoting agencies' visit to the group and regular submission of reports to the promoting agencies.

Composite Monitoring Mechanism Index

Composite monitoring index is the weighted average of two indices such as internal monitoring index and external monitoring index. Weights of 0.60 and 0.40 are assigned to each of these variables. Higher weight is given to the monitoring mechanism at the group level, as monitoring within the group is considered more important. Since the micro-finance groups work on the basis of the joint liability principle, members are supposed to exert a higher monitoring compared to the other two mechanisms. Lower weight is given to promoting agencies monitoring or external monitoring. Promoting agencies' monitoring is less important compared to that at the internal level.

Here, the composite monitoring mechanism index ranges from 0 to 2 where 2 indicates that the monitoring mechanisms are effective in a group, whereas 0 indicates its ineffectiveness or no monitoring.

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