UNIT 14 DRI LOANS FOR ENTERPRISE DEVELOPMENT

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14.1 INTRODUCTION

Availability of finance and opportunities for economic activities play a crucial role to do enterprising activities. Liberalization of Indian economy opened up many opportunities for economic activities. During that period, reforms in financial sector and availability of loan and for small enterprising activities encouraged many to do different economic activities. One such loan is DRI loans. This Unit discusses elaborately on DRI loans with a two banks examples. There are two successful case studies to explain the process.

14.2 OBJECTIVES

After studying this Unit, you would be able to

- Discuss the role of finance and economic development in enterprise promotion;
- Define and discuss DRI loans;
- Explain the DRI loans provided by different public sector banks; and
- Examine the case studies successful entrepreneur after getting DRI loans.

14.3 ECONOMIC DEVELOPMENT AND ENTERPRISE PROMOTION

The progress of India's economic development since 1947 provides evidence that individuals do respond to incentives in their pursuit of self-survival and accumulation of wealth. Further, the nature of this response depends on the economic climate, particularly the role of the government. India's economy struggled as long as it was based in a system of government regulation with little interaction with economic forces outside the country. The economic reforms of the early 1990s set the stage for substantial improvements in the Indian economy.

The Indian economy provides a revealing contrast between how individuals react under a government-controlled environment and how they respond to a market-based environment. Evidence suggests that recent market reforms that encouraged individual enterprise have led to higher economic growth in that country.

India can generate additional economic growth by fostering entrepreneurial activity within its borders. To pursue further the entrepreneurial approach to economic growth, India must now provide opportunities for

(1) Education directed specifically at entrepreneurial skills,

(2) Financing of entrepreneurial efforts, and

(3) Networking among potential entrepreneurs and their experienced counterparts.

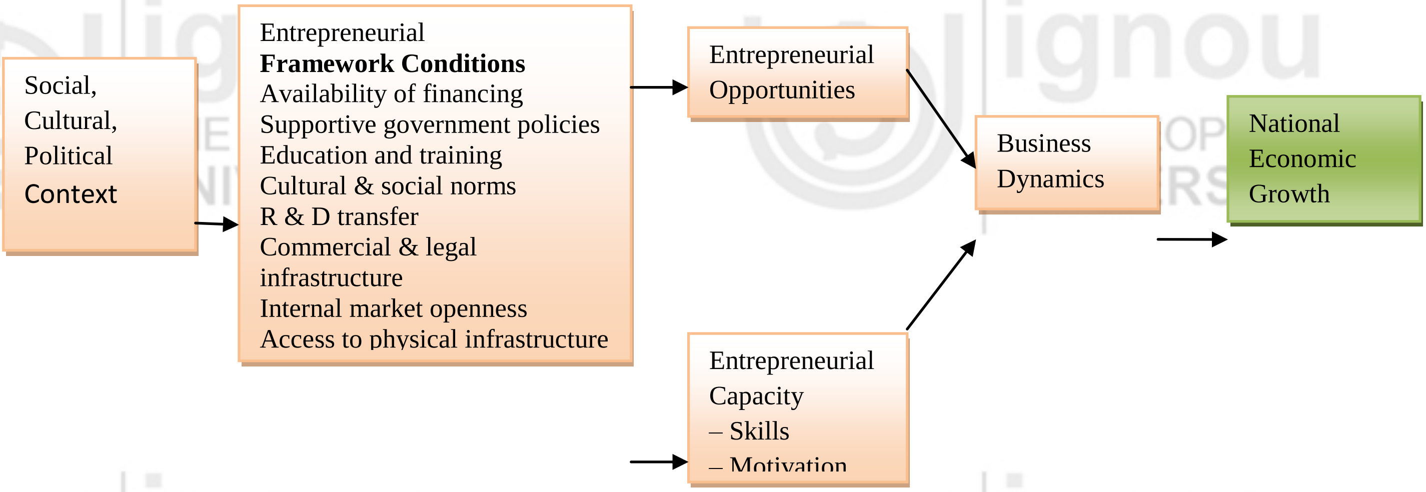
Further, although the Indian government should establish policies supportive of entrepreneurial efforts, its role overall should be minimized so that the influence of the free market and individual self-interest can be fully realized.

14.4 THE GEM CONCEPTUAL MODEL FOR ECONOMIC GROWTH

India can do more, however, to further advance its economic development. Indeed, one of the more recent microeconomic approaches to economic growth is the promotion of entrepreneurial activities. Entrepreneurial efforts have been found to generate a wide range of economic benefits, including new businesses, new jobs, innovative products and services, and increased wealth for future community investment (Kayne, 1999).

Following an extensive study of entrepreneurship in 21 countries, Reynolds, Hay, Bygrave, Camp and Autio (2000) concluded that successful entrepreneurial activity is strongly associated with economic growth. Their research was subsumed under the "Global Entrepreneurship Monitor" (GEM), a joint research initiative conducted by Babson College and London Business School and supported by the Kauffman Center for Entrepreneurial Leadership. Their findings, based on surveys of the adult population of each country, in-depth interviews of experts on entrepreneurship in each country, and the use of standardized national data, supported their conceptual model depicting the role of the entrepreneurial process in a country's economic development.

The GEM conceptual model- Figure 1



Source: Reynolds, Paul D., Michael Hay, William D. Bygrave, S. Michael Camp, and Erkko Autio, 2000. Global Entrepreneurship Monitor: 2000 Executive Report (Kansas City, Kauffman Center for Entrepreneurial Leadership), p. 6.

The GEM Conceptual Model suggests that the social-cultural-political context within a country must foster certain "General National Framework Conditions," which can generate not only the opportunities for entrepreneurship but also the capacity for entrepreneurship – in particular, the skills and motivation necessary to succeed. Together, the entrepreneurship opportunities, on the one hand, and the skills and motivation, on the other, lead to business

dynamics that yield creative destruction, a process in which new firms are created and older, less efficient firms are destroyed. The overall result for a country is economic growth.
Of the eight "General National Framework Conditions" listed in above figure, the three that Reynolds, et al. (2000) highlighted as especially important are the availability of financing for new entrepreneurs, the need for government policies which are supportive of entrepreneurial efforts, and the opportunities for education and training in entrepreneurship.

Given India's economic progress in recent years, the country may now be ready for the implementation of microeconomic policies that will foster entrepreneurial activities. Fortunately, in addition to the macroeconomic reforms mentioned earlier, India has taken other steps to lay the foundation for the type of economic growth that can be fostered only by entrepreneurial activities and appropriate economic policies that reflect individual rights and responsibilities.

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Explain the GEM model for economic growth

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2. Discuss the importance of enterprise promotion for economic development

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14.5 ROLE OF FINANCE IN PROMOTING ENTREPRENEURSHIP

About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the "Vicious Cycle of Poverty". If the people of Developing Countries have a limited capacity to invest in capital and the productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs in developing countries to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are either financially or environmentally sustainable. Financial assistance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of financial assistance, entrepreneurship and sustainability in reducing poverty in developing countries around the world.

Economic development can be defined as “the process of improving the quality of all human lives”, (Todaro, 1994), which incorporates three equally important aspects: raising incomes and consumption; fostering self-esteem through institutions that promote human dignity and respect; and increasing people’s freedoms. This criterion has a distinct application to this particular development process. Robinson (2002: pp. 39-41), contends that “the first thing that many poor families do when their incomes rise is improve their nutrition, and send their children to school.” This is fundamental to economic development, but also, “Because financial services help the poor expand their economic activities and increase their incomes and assets, their self-confidence grows simultaneously.” And finally, “Large-scale sustainable financial assistance helps create an enabling environment for the growth of political participation and democracy.” Thus, the economics of microenterprise make it a compelling anti-poverty strategy (Rubinstein, 1993). With a loan of Rs 15000- Rs20,000, in a poor country one can start a small business; repay the loan in a year, while still owning the productive assets. Over time, a poor person can earn enough to escape poverty.

The concept of “Sustainable Micro Entrepreneurship” is neither formal, nor derived, but rather a development process combining the three aspects of financial assistance, entrepreneurship and sustainability. It refers to the specific practice of “social-conscious-driven entrepreneurship”, perpetuated by a sustainable access to credit, and without bearing undesirable externalities on people or environment. Sustainable Micro Entrepreneurship is a small-scale, self-sustaining active development process initiated by the poor to help themselves break free from their poverty.

The extent to which financial assistance, entrepreneurship and sustainability are interrelated is dependent on the extent to which it addresses the economic development process. Yunus (1994), claims, “If we are looking for one single action which will enable the poor to overcome their poverty, I would go for credit. Money is power.” Credit invested in an income-generating enterprise as working capital or for productive assets leads to establishment of a new enterprise or growth of an existing one. Profit from the enterprise provides income, and a general strengthening of income sources. A variety of financial institutions, worldwide, have found ways to make lending to the poor sustainable and to build on the fact that even the poor self-employed repay their loans and seek savings opportunities. The challenge is to build capacity in the financial sector drawing on lessons from international best practices in micro, small enterprises and rural finance. However, ensuring environmental sustainability is equally important as sustaining microenterprises financially. The Sustainable Financial Markets Facility (SFMF, 2004) recognises the importance of promoting "environmentally and socially responsible lending and investment in emerging markets, thus stimulating sustainable markets/sustainable private sector activity and enhancing other sustainable initiatives in the developing world. Thus, the interrelated nature of finance, entrepreneurship and sustainable development is evident.

The extent to which financial assistance, entrepreneurship and sustainability are interdependent is becoming increasingly recognised by experts in their respective fields of work, associated with economic development. Over 500 million poor people around the world run profitable microenterprises and often cite credit as the primary constraint to business growth (IFC, 2002) thus, credit is essential for poor entrepreneurs in Developing countries. Additionally, firms supplying the finance to these entrepreneurs are equally dependent on them for business, and to expand their services to more villages or urban areas. However, this dependency belies the assumption that financial assistance can be profitable in developing countries. Robinson (2002), a prominent expert in the field of financial assistance, notes that "The formal sector has begun to realise that financing the poor can be both economically and socially profitable."

The interrelationships and interdependency of financial assistance, entrepreneurship and sustainability in developing countries further exemplify the informal practice of "sustainable micro entrepreneurship" among the world's poor. But although interrelated and interdependent, each of the aspects must be further explored individually to gain a greater understanding of the complexities of the connection between them. This will also aid in evaluating the case of sustainable micro entrepreneurship in reducing poverty in developing countries.

Loans in Developing Countries are made for a variety of purposes. Loans are made for housing and for "start up" loans so farmers can buy inputs to agricultural production: rice seeds, fertilizers and agricultural tools. But loans might also be used for a variety of non-crop activities such as: dairy, cow raising, cattle fattening, poultry farming, weaving, basket making, leasing farm and other capital machinery and woodworking. Of course, funds may be used for a number of other activities, such as crop and animal trading, cloth trading and pottery manufacture. Credit is also issued to groups consisting of a number of borrowers for collective enterprises, such as: irrigation pumps, building sanitary latrines, power looms, leasing markets or leasing land for cooperative farming. The potential for loan uses are virtually endless, and differ between villages and countries. And due to the fact that there is no such thing as a 'typical' developing country, loans provide a source of income for diverse activities chosen specifically by the borrower, to create their own life.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. How will you define vicious circle of poverty in developing countries?

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14.6 THE ROLE OF ENTREPRENEURSHIP IN REDUCING POVERTY IN DEVELOPING COUNTRIES

Entrepreneurship is the active process of recognising an economic demand in an economy, and supplying the factors of production (land, labour and capital) to satisfy that demand, usually to generate a profit. High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing world's population into self-employment and informal activities. But this is not necessarily negative; 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- to medium-enterprise (SME). They include 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 developing countries is promising.

It has already been identified that entrepreneurship is a major contributing factor to economic growth, however, entrepreneurial ability and leadership tend to be relatively lacking in developing countries. Collier and Batty have identified five primary reasons for the shortage of entrepreneurs in developing countries. Firstly, this includes the limited profit opportunities which exist in developing countries as a result of lower per capita incomes and limited markets. Secondly, poorly developed capital markets make it difficult for potential entrepreneurs to borrow the funds needed to establish new businesses and take advantage of new investment opportunities. This ties in closely with the role of financial assistance in empowering entrepreneurship. Thirdly, poorly developed infrastructures hinder the development of new commodity and resource markets as well as inhibiting the efficient operation of existing ones. Fourthly, sometimes social, cultural and religious beliefs and attitudes attach little importance to monetary gain, restrict economic and social mobility, or assign very low status to entrepreneurs. And fifthly, an unfavourable economic and political climate might discourage the development of entrepreneurial talent and initiative. It is often argued that in light of these barriers, governments hold the key in opening doors to aspiring entrepreneurs in developing countries.

The governments of developing countries can play an important role in improving the quantity and quality of entrepreneurs in a number of ways. Collier and Batty suggest a number of policies to reduce the shortage of entrepreneurs in developing countries, such as the establishment of specialist educational institutions offering courses in business management and administration, and the establishment of specialist government agencies and departments to provide advice and assistance to local entrepreneurs about to take up a business venture are likely to aid the process. Additionally, tax relief, subsidies, investment allowances and other incentives may encourage entrepreneurial activities, similarly, the provision of credit facilities to finance appropriate new business ventures might help. And finally, the attempted maintenance of an economic, social and political climate, which is favourable to entrepreneurs, is essential. It has also been suggested that official policies often make business difficult for micro entrepreneurs. Improved business regulations, tax regimes, licensing requirements, financial sector reform and bank supervision will promote better conditions for microenterprise development. A final optimistic suggestion, according to economic theory, implies that the income expenditure multiplier effect may also help to create chain reactions through developing economies, thus helping to break the cycle of poverty.

14.7 DIFFERENTIAL RATE OF INTEREST SCHEME – AN RBI INITIATIVE

Based on all the facts explained above on the importance of enterprise promotion for economic growth Government of India had formulated in March, 1972 a scheme for extending financial assistance at concessional rate of interest @ 4% to selected low income groups for productive endeavours initially by public sector banks and then by private sector banks. .

The scheme known as Differential Rate of Interest Scheme (DRI) is now being implemented by all Scheduled Commercial Banks. Reserve Bank of India on 10th April 2008 has notified that borrowers with annual family income of Rs.18000 in rural areas and Rs.24000 in urban areas will now be eligible to avail of the facility as against the earlier annual income criteria of Rs.6400 in rural areas and Rs.7200 in urban areas, fixed by the Government of India in 1986.

1. Eligibility Criteria

i) Family income of the borrower from all sources does not exceed Rs.18000/- in Rural area and Rs. 24000/- in Urban and Semi urban area per annum;

ii) Land holding not to exceed 1 acre of irrigated land or 2.5 acres of non-irrigated land;

iii) SC/ST borrowers are eligible for finance irrespective of their land holdings;

iv) The applicant should not be assisted under any of the subsidy linked schemes of central/State Government and State owned corporation;

v) Physically handicapped persons pursuing a gainful occupation; and

vi) Indigent students of merit going in for higher education who do not get scholarships/maintenance grants from Governmental or educational authority.

2. Institutions

Following institutions are eligible for credit under the Scheme:

i) Orphanages and women's homes where saleable goods are made and for which no adequate and dependable source of finance e.g., endowments or regular charities exist.

ii) Institutions of physically handicapped persons pursuing a gainful occupation where some durable equipment and/or continuous supply of raw material is useful.

3. State Corporations for Scheduled Castes and Scheduled Tribes

Banks may route credit under the scheme through State Corporations for the welfare of Scheduled Caste and Scheduled Tribes subject to the beneficiaries of the corporation meeting the eligibility criteria indicated in para 1 and other terms and conditions indicated in the scheme.

4. Quantum of Loan

i) For House Loan Purpose: Rs 20000.00

ii) For Others Purpose: Rs 15000.00

5. Target

• Minimum of 40% of DIR advances to SC/ST beneficiaries. 2/3rd of the advances should be routed through Rural/Semi urban branch.

• Overall target for the Bank: 1% of the total advances of the bank as on previous year.

6. Lending to Artisans under DRI

i) Rural Branches: 10 loans per quarter per branch

ii) Semi-Urban/Urban Branches: 5 loans per quarter per branch

7. Subsidy: NIL

8. Margin: NIL

9. Rate of Interest: 4% p.a. at Simple rate

10. Security: Hypothecation of assets created by bank loan. No collateral security is required

11. Repayment: 5 years including moratorium period

12. Moratorium period: Suitable moratorium period may be considered.

13 Selection of beneficiary: By Field Staff

14. Insurance: No insurance except for live stock. If considered necessary, the premium amount should be borne by the Bank.

15. Extend lending under DRI scheme to non-SGSY SHGs provided all the members of SHG meets individually the eligibility and other criteria under DRI lendings. The lending to SHGs will be at 4% p.a.

In this regard, the following aspects may please be noted that

i) The scheme is extended to new non-SGSY SHGs financed (subject to satisfaction of criteria laid down as above).

ii) To begin with, such SGSY lending at 4% is available till the Bank achieves 1% benchmark. Thereafter, the scheme will be reviewed. (Corporate Centre will revert in the matter)

iii) Preference is given to SHGs where members are from SC/ST/Minority community, women SHGs and SHGs in districts identified by the Bank for 100% financial inclusion.

iv) Other extant guidelines of the Bank for lending to the SHGs are satisfied.

14.8 BANKS ON DRI LOANS

Based on the guidelines proposed by RBI, banks have taken efforts to formulise certain policies in order to implement DRI scheme, let us view some of the criteria from some of the banks

14.8.1 INDIAN BANK:

Purpose / Objective

To lend at a concessional rate of interest, i.e. @ 4% p.a. for productive / self employment ventures.

Target Group

Scheduled Castes/Scheduled Tribes and others engaged on a very modest scale in Agriculture and / or allied agricultural activities.

* People who themselves collect or do elementary processing of forest products and people who themselves collect fodder in difficult areas and sell them to farmers and traders.

* People physically engaged on a modest scale in the fields of cottage and rural industries and vocations - e.g.: cutting cloth and sewing garments, making reasonably cheap eatables, home delivery service of articles and commodities of daily use, running wayside tea stalls, plying of manual rickshaws and cycle rickshaws, repairing of shoes sandals mainly by hand, basket making by hand etc.

* Physically handicapped persons pursuing gainful occupation.

Eligibility

Family income not exceeding Rs.18, 000/- p.a. in rural areas and Rs.24, 000/- p.a. urban / semi urban areas.

* Land holding does not exceed 1 acre irrigated or 2.5 acres in case of un-irrigated land.

* SCs/STs are eligible for loan irrespective of their land holding, provided they satisfy other eligibility criteria.

* The beneficiary largely works on his own and with such help as other members of his family.

* The beneficiary should not have another source of finance while DRI loan exists.

Quantum of Loan

* Maximum of Rs.15,000/- by way of terms loan and / or working capital.

* The maximum limit for housing loans under the scheme is Rs.20,000/-

* In the case of physically handicapped persons, a sum of Rs.5,000/- for purchase of aids, appliances and equipments may be granted, apart from the loan amount of Rs.15,000/-.

DRI through institutions

1. Orphanages and Women's homes.
2. Institutions for physically handicapped.
3. State Corporations for SC / ST.
4. State Minority Finance / Development Corporation.

Target

1% of the total advances as at the end of the previous year. 40% of the bank credit under the scheme should flow to the eligible borrowers belonging to Scheduled Castes and Scheduled Tribes. Not less than 2/3rd of the advances under the scheme are to be routed through Rural and Semi urban branches.

Repayment Period:

Maximum of 5 years. In case of housing loans, the repayment period is extendable to 7 years in hardship cases. Instalments to be fixed monthly basis or otherwise depending on income generation.

Security

Hypothecation of assets purchased out of loan.

14.8.2 VIJAYA BANK

Purpose

This scheme offers need based financial assistance to those who intend taking up any productive activity and has been tailored for persons whose income is very low. This scheme is meant for:

a. Persons belonging to SC/STs, Adivasis engaged in agricultural operations and/ or allied activities
b. Persons engaged in collection of forest products, fodder and selling these in markets.
c. Persons engaged in Village and Cottage Industries on a very small scale.
d. Indigent students aspiring to pursue higher studies.
e. Physically handicapped persons.
f. Institution of physically handicapped for their productive activities.
g. Orphanages, Women's Homes where saleable goods are made.

h. State Level Corporations working for welfare of SC/ST.

i. Co-operative Societies, large sized multi-purpose societies organised specially for the benefit of tribal population in areas identified by Government of India.

Eligibility

Loans are granted to any person whose:

a. Family income from all sources is not more than Rs.7,200/- p.a. in metropolitan/ urban/ semi-urban areas or Rs.6,400/- p.a. in rural areas.

b. Land holding does not exceed 1.25 acres of irrigated land or 2.5 acres of dry land. Land holding criteria does not apply to SC/ST borrowers.

Security

Hypothecation of assets created out of the loan only. Collateral security or third party guarantee should not be taken.

Amount of Loan

Composite loan upto Rs. 15,000/- & housing loan upto Rs.20,000/- .

Rate of Interest

4.00% p.a

Margin

No margin money is required to be provided by the borrower

Repayment

Repayment period for term loan is up to 5 years

Target under the Scheme

1% of the previous years advances should be granted under the scheme.

Out of total DRI advance 40% should be granted to SC/ST beneficiaries and not less than 66.66% Of the DRI advances should be routed through Rural and Semi-urban branches.

DRI Beneficiaries and DRI Advances

DRI beneficiaries are those who are given loans and advances @ 4% p.a. for individuals engaged in cottage and rural industries viz. Basket makers, blacksmiths, broom makers, carpenters, cobblers, cycle repairers, fire wood sellers, fish vendors, glass bangle sellers, handicrafts, hawkers, leather farmers, mat makers, pan shops and tobacco merchants, papad makers, potters, roadside tea stall cum eating houses, rope makers, sellers of eatable's, tailors, teri-makers, vegetable vendors, home delivery service or article and commodities of daily use, driving one's own manual rickshaw or cycle rickshaw etc. and persons belonging to SC/ST engaged on a very modest scale in agriculture and/or allied agricultural activities like dairy, poultry, goat rearing, bee keeping etc. Further, persons physically engaged in the field of cottage and rural industries and vocation such as spraying of pesticides and poor and needy students of merit going for higher education who do not get scholarships/maintenance grants from Government or educational authorities, physically handicapped persons pursuing gainful employment could also be financed under the scheme.

In addition to the individual beneficiaries mentioned above, the following institutional beneficiaries are also covered under DRI scheme.

1. Orphanges and Women's homes
2. Institutions for physically handicapped/mentally retarded
3. Co-operative Societies where the amount is lent on the same terms and conditions as are applicable to

   State owned Corporations for the Welfare of SC/ST.
4. State Corporations for SCs/STs.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Explain the components of DRI loans?

14.9 DRI SCHEME FOR ENTERPRISE DEVELOPMENT –IMPACT STORIES

14.9.1 Improving Standard of life through DRI in Gumla – a Case Study

On discussion with the lead bank of the district regarding the schemes that can promote livelihood opportunities for the urban poor, they came to know about the DRI scheme (Differential rate of interest). This is a scheme available at all the nationalized banks which commits the banks to provide 1% of their outstanding advance amount of previous year to the poorest of the poor people of the community (often not known to most of the people). The scheme allows a maximum of Rs.20000/- loan to individuals below poverty line @ 4% differential rate of interest, i.e. Rs 4/- per Rs. 100/- in a year, and the interest is charged on the remaining principle amount to be returned. The time allowed to repay the loan is for five years.

They started this scheme in the urban and semi urban areas of Gumla. They are advantaged by the presence of humanitarian organizations like Missionaries of Charity and SITARA in the district that were approached to provide their support in this initiative. The organizations helped in identifying the needy beneficiaries in the urban/semi urban areas and organizing them in form of a committee to guide them in taking livelihood options. With their positive support and the support from the Bank of India they could start the DRI scheme with 19 beneficiaries. The initial 19 beneficiaries comprised of the families who were either occupied in rag picking, wage works in stone crushers, vegetable selling, fish selling at local markets, rickshaw pulling on rental basis, maid servants at the nearby houses etc. Most of them had the dream to expand their business and move towards a better standard of living but were not able due to primarily lack of adequate capital amounts.

With the coordinated efforts of the District Planning Office, Banks and local institutions these families were linked to the scheme with provision of loan amounts ranging from 2000/- to 7000/- as per the specific needs for their respective business. Today 3 of them are pulling their own rickshaws, 3 have improved their fish selling business and others have started similar small business like selling of confectioneries, bangles, and fast food/tea stalls. In the second phase another 23 beneficiaries were identified and linked to the Bank and the total loan disbursed among them amounted to Rs4.5lakhs approximately. The best part of the process is that the beneficiaries have started returning the loan instalments to the bank regularly. The beneficiary committee now sits every month for a day of two to review the status of their income and returns at the Missionaries of Charity premises. They have started depositing their partial savings in a corpus fund of the committee and it has grown to Rs.2200/- over such a small period.

The replication of the scheme has started on its own having demands from all the urban areas of the district. Meanwhile other banks namely Punjab National Bank also has come forward to implement the scheme with the district administration in a big way. Another missionary organization of the district called SITARA has joined us and is working hard in identification and guiding the interested beneficiaries to link them with the scheme. The newly elected urban ward representatives are showing keen interest to come forward and support the poorest of the poor families of their areas with the scheme. Already they have organized meetings in quite a few of the wards with the elected urban representatives, beneficiaries, NGO and the bankers following which a mega loan camp of DRI was organized in the district where 200 beneficiaries were provided loans under DRI, through Punjab National Bank. 40 rickshaw pullers who were earlier pulling rickshaws on rent and were getting exploited are now having their own rickshaws. Similarly this scheme has brought smiles on many such faces who are striving for a better standard of life but needed this small support from the society.

They found that the convergence of Planning office, banks, urban representatives and credible local institutions/ organizations can take this type of schemes to a long way benefiting the poorest of the poor through providing meaningful livelihood for a better standard of life.

(Ref. Subir Kumar Das, District Facilitator, Gumla, GOI-UN Joint Programme on Convergence, Jharkhand, INDIA)

14.9.2 Story of Meena

Ms. Meena Ravi, 38 - years old woman, has education upto 8th std. A resident in a hutment at Dr. Santhosh Nagar, Egmore with her family. Her husband Mr. Ravi aged 40 is an auto

driver plying hired auto. They have three children. Eldest son is studying 9th std the second daughter is in 7th std and the third son is in 6th std in a Matriculation School. Ms. R. Meena meets all their family expenditures from the income which comes from her husband's auto driving. The DPG (an NGO) staff met Meena several times and motivated her to join group. After seeing the activities of SHGs, she herself came forward to become a SHG member. She is the first person to start an SHG with 20 members in her location (area of huts) on 13th January 2006 and she was elected as treasurer in the group. She runs her group very successfully from the beginning. Her group received best SHG award of Rs.6000/- from Sornammal Education Trust (NGO) in their Zone and got Rs.10000/- from Rs.20000/- as revolving fund from State Government. She also received best member award from DPG. Every year her group receives at least one award. Her group received Rs.300000/- from bank as 4th loan. With the amount (award money) of Rs.10000/- the group dealing in rice and are successful in running it. She also received loan of Rs.10000/- at Differential Rate of Interest (DRI) scheme from the Indian Overseas Bank and sells household items. She earns additional income for her family. Again she took a loan of Rs. 1,35,000/- from DPG & bought an auto. Her husband now runs their own auto. Her interest brought improvement in the economic status of her own & her group members. Now she has no arrears on her loan. Other groups also started performing well after looking at their success.
(Ref.Author)

14.9.3 Story of Vembarasi

Mrs. Vembarasi, about 39 years old, along with her husband, is engaged in vegetable cultivation in Kameshwaram village, Nagapattinam District. Both are diligent and striving for a good and sustainable income. Mrs. Vembarasi joined the 'Sindhu' SHG in the year of 2006. Since its inception her savings with the SHG is `2700/- and she has taken `6000/- as internal credit from her SHG. The loan has helped her to carry the cultivation smoothly. But still, she needs some concrete investment to upgrade her livelihood and to purchase seeds and engine for pumping water.

When some one arranged for a **DRI** loan through the local Indian Overseas Bank Branch, she heard of the news through the SHG and applied for a loan of `5000/-. She did not have to wait even for a week to obtain the loan. But, when she went to the bank she was told that she would get a loan of `10000/-. In addition, she also took a loan of `5000/- from her SHG. As soon as she received the **loans** she purchased seeds, such as snake guard, brinjal, tomato, ladies finger and green leaves. She also purchased a new engine for pumping out water from a pond. She extended the cultivation to the land which had not been utilized due to money problem. This purchase of the water engine helped her to get enough water for her vegetable cultivation and now she receives more income.

She has three children, of them two are girls and the other a boy. All children are studying. Her husband takes the vegetables to the nearby 'Uzhavar Market' (Farmers market) daily. She is repaying the loan amount from the profit she receives by selling the vegetables. Seeing her prompt repayment and her fruitful cultivation, the bank manager is very impressed and has offered to provide the subsequent loan to her. Mrs. Vembarasi says, "from the income I allocate `50/- per day for loan repayment and `50 for my family expenses and `50 for savings". This discipline makes her to repay the amount promptly and she is always happy. She thanks DPG and IOB who have guided, supported and facilitated her in getting this vital loan for her. And she is prompt in everything, and finds success on her part and also satisfies the bankers. (ref.Author)

14.10 SUMMING UP

In this Unit, we have learnt the importance of economic development for enterprise promotion. There are internationally developed model called The GEM conceptual model for economic growth. The diagram of the model is given in this Unit along with explanation. Not only economic development developing accessible finance facilities also contribute for enterprise development. There are significant evidence of the contribution of entrepreneurship to reduce poverty in developing countries. Finally DRI loans discussed with the Indian Bank and Vijaya Bank examples.

14.11 GLOSSARY

National Cooperative Agriculture & Rural Development Banks' Federation Ltd: It is the apex level organization of Agriculture & Rural Development Banks of the sector. The Federation was set up in 1960 & is administered under the Multi-State Cooperative Societies Act, 2002. The long term cooperative credit structure consists of the State Cooperative Agriculture & Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture & Rural Development Banks (PCARDBs) which are affiliated to the SCARDBs. The total No. of SCARDB's are 19; of which 10 have Federal Structure, 7 have Unitary Structure and 2 have Mixed Structure (i.e. operating through PCARDBs as well as its own branches).

14.12ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1. The GEM Conceptual Model suggests that the social-cultural-political context within a country must foster certain "General National Framework Conditions," which can generate not only the opportunities for entrepreneurship but also the capacity for entrepreneurship – in particular, the skills and motivation necessary to succeed. Together, the entrepreneurship opportunities, on the one hand, and the skills and motivation, on the other, lead to business dynamics that yield creative destruction, a process in which new firms are created and older, less efficient firms are destroyed. The overall result for a country is economic growth.

Given India's economic progress in recent years, the country may now be ready for the implementation of microeconomic policies that will foster entrepreneurial activities. Fortunately, in addition to the macroeconomic reforms mentioned earlier, India has taken other steps to lay the foundation for the type of economic growth that can be fostered only by entrepreneurial activities and appropriate economic policies that reflect individual rights and responsibilities.

2. The importance of Enterprises to longer-term economic stability derives from their size and structure which, under adequate conditions i.e. well developed factors market, allow them the flexibility and ability to weather adverse economic conditions. Enterprises are more labor-intensive than larger firms and, therefore, have lower capital costs associated with the creation of jobs. Consequently, Enterprises play an important role in fostering income stability, growth, and employment. Modern economies operate as complex networks of firms in which a firm's competitive position depends, in part, on the efficiency of its suppliers. Therefore business concern's competitiveness affects the competitive position of the economy as a whole. In addition, Enterprises improve the efficiency of domestic markets and make productive use of scarce resources, such as capital, facilitating long-term economic growth.

Check Your Progress Exercise 2

1.About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the "Vicious Cycle of Poverty". If the people of Developing Countries have a limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs in Developing Countries to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable. Financial assistance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of financial assistance, entrepreneurship and sustainability in reducing poverty in Developing Countries around the world.

Check Your Progress Exercise 3

1. Based on all the facts explained above on the importance of enterprise promotion for economic growth Government of India had formulated in March, 1972 a scheme for extending financial assistance at concessional rate of interest @ 4% to selected low income groups for productive endeavours initially by public sector banks and then by private sector banks. The scheme known as Differential Rate of Interest Scheme (DRI) is now being implemented by all Scheduled Commercial Banks. Reserve Bank of India on 10th April 2008 has notified that borrowers with annual family income of Rs.18000 in rural areas and Rs.24000 in urban areas will now be eligible to avail of the facility as against the earlier annual income criteria of Rs.6400 in rural areas and Rs.7200 in urban areas, fixed by the Government of India in 1986.

1. Eligibility Criteria

i) Family income of the borrower from all sources does not exceed Rs.18000/- in Rural area and Rs. 24000/- in Urban and Semi urban area per annum;

ii) Land holding not to exceed 1 acre of irrigated land or 2.5 acres of non-irrigated land;

iii) SC/ST borrowers are eligible for finance irrespective of their land holdings;

iv) The applicant should not be assisted under any of the subsidy linked schemes of central/State Government and State owned corporation;

v) Physically handicapped persons pursuing a gainful occupation; and

vi) Indigent students of merit going in for higher education who do not get scholarships/maintenance grants from Governmental or educational authority.

2. Institutions

Following institutions are eligible for credit under the Scheme:

i) Orphanages and women's homes where saleable goods are made and for which no adequate and dependable source of finance e.g., endowments or regular charities exist.
ii) Institutions of physically handicapped persons pursuing a gainful occupation where some durable equipment and/or continuous supply of raw material is useful.

3. State Corporations for Scheduled Castes and Scheduled Tribes

Banks may route credit under the scheme through State Corporations for the welfare of Scheduled Caste and Scheduled Tribes subject to the beneficiaries of the corporation meeting the eligibility criteria indicated in para 1 and other terms and conditions indicated in the scheme.

4. Quantum of Loan

i) For House Loan Purpose: Rs 20000.00

ii) For Others Purpose: Rs 15000.00

5. Target

• Minimum of 40% of DIR advances to SC/ST beneficiaries. 2/3rd of the advances should be routed through Rural/Semi urban branch.

• Overall target for the Bank: 1% of the total advances of the bank as on previous year.

6. Lending to Artisans under DRI

i) Rural Branches: 10 loans per quarter per branch

ii) Semi-Urban/Urban Branches: 5 loans per quarter per branch

7. Subsidy: NIL

8. Margin: NIL

9. Rate of Interest: 4% p.a. at Simple rate

10. Security: Hypothecation of assets created by bank loan. No collateral security is required

11. Repayment: 5 years including moratorium period

12. Moratorium period: Suitable moratorium period may be considered.

13 Selection of beneficiary: By Field Staff

14. Insurance: No insurance except for live stock. If considered necessary, the premium amount should be borne by the Bank.

15. Extend lending under DRI scheme to non-SGSY SHGs provided all the members of SHG meets individually the eligibility and other criteria under DRI lendings. The lending to SHGs will be at 4% p.a.

In this regard, the following aspects may please be noted that

i) The scheme is extended to new non-SGSY SHGs financed (subject to satisfaction of criteria laid down as above).

ii) To begin with, such SGSY lending at 4% is available till the Bank achieves 1% benchmark. Thereafter, the scheme will be reviewed. (Corporate Centre will revert in the matter)

iii) Preference is given to SHGs where members are from SC/ST/Minority community, women SHGs and SHGs in districts identified by the Bank for 100% financial inclusion.

iv) Other extant guidelines of the Bank for lending to the SHGs are satisfied.

14.13 REFERENCES

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14.14 QUESTIONS FOR REFLECTION AND PRACTICE

1. Discuss the DRI loans and its impact on entrepreneurial activities with help of suitable examples.