CHAPTER 3

REVIEW OF THE RELEVANT LITERATURE

3.1 WOMEN’S EMPOWERMENT

3.2 POVERTY ALLEVIATION
3. REVIEW OF THE RELEVANT LITERATURE

Microcredit as a tool of poverty alleviation and empowerment, particularly for women has gained much credence in development dialogue the world over. Assessing the impact of microcredit programmes has featured prominently in recent research studies and has become an increasingly important aspect of development activity, as agencies and particularly aid donors have sought to ensure that funds are well spent. There are two broad areas of programme effects – women’s empowerment effect and poverty reducing effect - that attract researchers (mentioned earlier, p.2).

3.1 Women’s Empowerment

The theme of Microcredit Summit, 1997, can be divided in two goals: of reaching women and empowering them. The first goal of reaching women is not as difficult to achieve as it is to reach the poorest households. Most of the self-help groups (SHGs) that are formed under current microcredit initiatives are those of women. There is no doubt about the fact that, given the current systems of microcredit, women have access to credit. However, empowerment is not dependent on mere access but on control of both the credit and the use to which that credit is put. Access does not automatically include control (Burra et.al. 2005:44). As to women’s empowerment – defined, measured and observed in a multitude of ways (Kabeer, 1999) - generally the effects of the programme are largely positive (Rahman, 1986; Pitt and Khandker, 1995; Schuler and Hashemi, 1996; Mahmud, 1994; Amin and Pebly, 1994; Huda and Mahmud, 1998; Steele et.al., 1998).
Empowerment of women is a critical factor in the eradication of poverty as the women are the key contributors to the economy in combating poverty through remunerative and non-remunerative work at home, in the community, and at the workplace (United Nations, 1996, cited in Boraian, 2003:529).

While evaluating the effect of microfinance programme on women empowerment, several studies yield mixed results. Some are in favour of the argument of the ability of microfinance to induce a process of economic, political and social empowerment whereas others, being more sceptical, point to a deterioration of women's overall well-being. Holvoet (2005), using household survey in South India, explores that direct bank – borrower credit mechanism does not challenge the existing decision making patterns, irrespective of whether men or women receive credit. But substantial shift in decision making pattern emerge if credit is combined with financial and social group intermediation. Women's group membership shifts decision-making pattern from norm-guided and male decision-making to more bargaining and sole female decision-making.

Mahmud, (2003), in his study, observes that microfinance programme has a limited direct effect in increasing women's access to choice – enhancing resources, but stronger effect in increasing ability to exercise agency in intrahousehold processes. According to him, microfinance has resulted in the increase in welfare as well as reduction in male-bias in welfare outcomes.

Based on the findings from an ethnographic study and quantitative survey of Grameen Bank and Bangladesh Rural Advancement Committee (BRAC), Hashemi, Schuler and Riley (1996) argue that involvement in 'minimalist credit programme' does empower women by strengthening their economic roles, increasing their ability to
contribute to their families’ support. Minimalist credit programmes enable women to negotiate gender barriers, increase their control over their own lives and improve their relative positions in the household. They also analyze that participation in Grameen Bank and BRAC and duration of membership have significant positive effects on women’s mobility, their ability to make purchases and major household decisions, their ownership of productive assets and also their legal and political awareness and participation in public campaigns and protests.

According to Mayoux (1998a), the evidence of seven micro-finance programmes in Cameroon indicates that microfinance programmes which build social capital, significantly contribute to women’s empowerment. Group-based microfinance targeting women lead to women’s economic, social and political empowerment through a series of interlinked and mutually reinforcing ‘virtuous spirals’, in addition to the contribution of rural finance to sustainable livelihood. Firstly, it is assumed that saving and credit provision to women contribute to a process of individual economic empowerment as women would be able to invest in their economic activity. Secondly, women’s economic empowerment is assumed to increase well-being for themselves and their families. Finally, the economic empowerment of women leads them to renegotiate changes in gender relations that enhance social and political empowerment. At all these levels, group-based programmes are assumed to build ‘social capital’ through developing and strengthening women’s economic and social networks. Thus building of social capital is assumed to further increase the contribution of saving and credit provision to women’s empowerment through enhancing their ability to increase incomes, negotiate change in
the household and engage in collective, social and political activity (Sebsted et al., 1995 cited in Mayoux, 2001:439).

Pitt and Khandker (1998) evaluates the effect of borrowing of three group-based credit programmes (Grammen Bank, BRAC, Bangladesh Rural Development Board) on women's and men's labour supply, boy's and girl's schooling, household expenditure and non-land assets held by women and finds that credit in these programmes, as measured by quantity of cumulative borrowing, is a significant determinant of many of these outcomes. The study also suggests that 'credit provided to women is more likely to influence these behaviours than credit provided to men'.

The impact of Grameen bank on women’s relative well-being has also been assessed by Khan Osmani (1998), who compares the situation of women participated in the activities financed by the Grameen Bank with that of non-participants. It is argued that credit from the Grameen Bank improves women’s well-being by strengthening their bargaining power. The results obtained through direct and indirect assessment in this study suggest that the impact of Grameen Bank on the relative well-being is positive in some dimensions of well-being but not in others. Direct tests on the three components of relative well-being - women’s autonomy, control over intrahousehold decision making and relative access to household resources - indicate partial improvement, with positive impact on women’s autonomy, and relative access to household resources, but not on women’s overall control over decision making. Indirect test projects that access to credit has improved women’s bargaining power through a positive effect on their ‘breakdown position’, without any significant improvement in ‘perceived contribution’ and ‘perceived self-interest’.
Kabeer (2001), in her study on Bangladesh finds that women coming from the households having better-off situation in terms of wealth, exercise greater decision making role in loan-supported activities than poorer women. She also points out that male loan holders have had a great deal of say and sole decision making power regarding use of loan, management of loan-funded enterprise and disposal of income from these enterprises, reflecting that wives of male borrowers have no voice in these regards.

The study of Murthy et al. (2005) suggests that the South Asia Poverty Alleviation Project (SAPAP) in Andhra Pradesh has immensely strengthened the process of women’s empowerment. It indicates that gender-specific dimensions and causes of poverty cannot be addressed without empowering women. Women’s empowerment is reflected in the changed perceptions of others about women’s confidence, assertiveness and independence. As far as the ability of women to exercise control over their lives is concerned, the degree of power exercised by members is significantly higher than that of non-members. Member women, compared to the non-member women, are found to have greater control over their savings and jewellery, greater mobility, more friendships, higher ability to invite and visit their parents when they want and finally, more ability to decide whom they want to vote for. A majority of women is found to report that they have not faced violence at the workplace but faced violence at home. They have also entered the domain of leadership in local self-governance institutions. But women are found to have lesser control over their reproductive work, social relations of productive work they perform, immovable property of the household and reproductive rights.

A case study of the experience of SHARE Microfinance Limited (SML) in Andhra Pradesh, India by Rajivan (2005), demonstrates a significant improvement of
women members in terms of increase in income and assets over their pre-membership situation. Women are found to have a greater control over their resources - assets, earnings and savings - and also have a greater say in household expenditure. The major change observed is an enormous increase in self-confidence and self-worth among the participating women compared to non-members or newly joined members.

Critics of minimalist credit argue that women’s access to credit reinforces patriarchal norms of women’s subordination, resulting to worsening of gender relationship and disempowerment (Goetz and Sen Gupta, 1996; Montgomery et.al., 1996; Rahman, 1999). Goetz and SenGupta (1996) find that a significant proportion of women’s loans are directly invested by their male relatives, though women borrowers bear the liability for repayment. The phenomenon of loss of control of loan by women borrower and the intense pressure of timely repayment of loan increase tension and frustration within the family which produces new form of dominance over women by the members of family as well as microfinance institutions and that increases violence in the society (Rahman, 1999: 67).

Mayoux (1997*) argues that the impact of microfinance programmes on women is not always positive. The study suggests that the microfinance has benefited women in terms of small increase in income but at the cost of heavier workloads and repayment pressure. Sometimes the credit received by women is used by male members in the family (Mayoux, 1997; Rahman, 1999) or sometimes women end up being employed as unpaid family workers with little benefit. She also stresses that the impact within a programme also varies from woman to woman. Sometimes, the women, who are already
better off, are benefited whereas the poor women are either neglected or are least able to benefit due to lack of adequate resource, lack of skill or low market contact.

Kabeer (2005) argues that there are no magic bullets, no panacea, no blue prints and no ready made formulas that bring about radical structural transformation of the poor women. Though access to financial service to poor women contributes to economic productivity and their social well-being, it does not ‘automatically’ empower women.

### 3.2 Poverty Alleviation

With regard to poverty alleviation the evidence at the aggregate level is not very conclusive. At one end of the spectrum are studies arguing that microfinance has very beneficial economic and social impacts (Hossain, 1988; Remenyi, 1991; Otero and Rhyne, 1994; Holcombe, 1995; Schuler et.al., 1997; Khandker, 1998; BIDS, 1990). At the other are writers who caution against such optimism and point to the negative impacts that microfinance can have (Adams and Von Pischke, 1992; Montgomery, 1996; Rogaly, 1996; Wood and Sharrif, 1997). In the middle, it is argued that microfinance does not assist the poorest (Hulme and Mosley, 1996; Mosley and Hulme, 1998; Hulme, 2000; Navajas et.al., 2000; Fujita, 2000; Meyer et.al., 2000). Navajas et.al. (2000), in their studies on five microfinance organizations, observes that most of the poor households reached by the microfinance organizations were near the poverty line - they were the richest of the poor. Group leaders had more depth of outreach than the individual leaders. The urban poorest is more likely to be the borrowers, but rural borrowers are more likely to be among the poorest. The study of Paul Moscely (2001) reveals that the Bolivian achievement in microfinance has been impressive and Bangladesh and Indonesia are the only other countries in the world which can reasonably claim to have reached a similar
level of creativity, but not always vulnerability and not extreme poverty. The result of the performance of new microfinance programmes of the world are reasonably supportive as an efficient means of reducing poverty, but not of extreme poverty (Hulme and Mosley, 1996; Mosley and Hulme, 1998; Hulme, 2000; Navajas, et al., 2000; Meyer, et al., 2000).

Since the debt-absorption capacity of the ‘very poor’ is low, it has been argued that most of them are unable to borrow sufficient amount to raise them above the established poverty line (Copestake, 1995). But much of the enthusiasm rests on an enticing “win – win” proposition: micro finance institutions that follow the principle of good banking will also be those that alleviate the most poverty (Kaladhar, 1997). However, there is evidence of positive programme participation effect on household income, consumption and asset formation as well as positive programme placement effect on self-employment, labour productivity and nutrition of children (Hossain, 1988; BIDS, 1990; Mustafa, et al., 1995; Choudhury and Khandker, 1995; Mahmud, 2000). Microfinance programmes have demonstrated that even poor households can save in substantial quantities. Success stories are being written around the world from Jakarta to Dacca to Nairobi to Lapaz. Advocates have broadcast these successes widely and donors have been quick to pledge billions of dollars to support the expansion of programmes in the next decade (Morduch, 2001).

One can clearly see at least two distinct strands of thoughts in the literature on the impact of microcredit on the poor producers. One assumes almost a linear relationship between credit and economic welfare (credit → productive investment → self employment opportunities → reduced poverty) and other emphasizes the economic and quality of life dimensions that are affected by a wide range of factors of which finance is only one; as compared to many other poverty reduction strategies, credit could be the
prime weapons against rural and urban poverty (Hulme and Mosley, 1996; Mosley and Hulme, 1998; Hulme, 2000; Mosley, 2001). According to the proponents of later strand, specific transactions only have a limited role in impacting the economic and social status of the clientele and a host of factors other than credit like market, competition, physical health and natural conditions would directly affect the borrower’s economic well-being (Rhyme, 1994).

Bera (2008) observes that microfinance cannot be expected to work everywhere and for everyone. Extending microfinance services in Sub-Saharan Africa, ravaged by AIDS, malaria and malnutrition, without complementary investments in human and physical capital is unlikely to reverse the conditions of acute poverty and deprivation. The study of Sarker (2008) suggests that if the credit-linked SHGs wither within a short period of their formation, the microcredit programmes would, no doubt, be futile.

With increasing criticism of state-led formal credit system and its utilization of poverty alleviation in recent years, developing countries, in particular, have moved towards new mechanism of lending, such as microcredit. Microcredit has been claimed to be a solution of most of the problems that originated out of states effort to alleviate poverty using the instrument of credit (Yunus, 1999). Instead of supply-side approach, which tries to inject subsidized credit from the outside in order to get rid of informal lenders, the economic liberalization policy in the developing countries emphasizes the institutional reforms by introducing the demand-side approach which advocates the principle of ‘Ohio schools of thought’- saving mobilization and the viability of rural credit market. The new paradigm of microfinance emphasizes on two main criteria - the depth of outreach of microfinance programmes and self-sustainability of microfinance
institutions executing this programme - used to assess the performance of microfinance organizations (MFOs). The new microfinance operates on the principle – ‘Borrower knows best’. The higher cost-ineffectiveness of state-led microfinance programmes is, mainly, among others, due to their granting credit more than their accumulated savings and poor recovery performance compared with NGO-led programmes. It is important to mention that although the results of performance of different MFIs of the world are reasonably supportive of microfinance as an efficient means of reducing poverty, but not of extreme poverty (Mosley, 2001; Navajas, et al., 2000; Mosley and Hulme, 1998; Nair, 1998).

Available studies in the area of microcredit have revealed that microcredit programmes have positive impact on household savings (Hossain, 1988; Proshika, 1995; Chowdhury and Khandker, 1995; Rahman, 1996; Hashemi and Riley, 1997; Khandker, 2000; Fujita, 2000; Yunus, 2000; Latif, 2001). It has been suggested by their findings that increased availability of credit would enable the rural households undertake larger productive activities, which would increase their income and savings. In addition, an easy access to credit will provide incentives to the household production unit to increase their efforts at generating savings on their own account for further investment. Latif (2001) observes that microcredit increases savings in three ways. First there are compulsory saving schemes associated with microcredit programmes. Second, the utilization of microcredit in productive activities increases employment and income (BIDS, 1990; Hossain, 1984; Rahman, 1996) which has positive income effect on savings and third, there is an indirect effect as well: as the income rises resulting from investment of loans in productive activities, the borrowers get incentives for voluntary savings out of their
current income in order to make reinvestment of such savings in further productive investment [increased availability of microcredit → larger productive activities → increase in income and savings (both positive direct and indirect effects of saving along with compulsory saving) → further productive investment]. Economic literature also suggests that rural credit and rural financial institutions affect rural savings in several ways and credit-saving relationship is a very close one. The saving impact of micro-borrowing is more pronounced for women than for men (Khandker, 2000:49). As regards microcredit financial institutions (MFIs) and Self-Help Groups (SHGs) linkage programme, it is said that while the SHGs increases, the more and more SHG members are able to utilize larger loans for productive activities; the demand of credit will increase substantially and accordingly new microfinance operations must increase to sustain.

The available empirical evidence throughout the world suggests that NGO-led microcredit institutions such as Grameen Bank (GB) of Bangladesh, Bangladesh Rural Advancement Committee (BRAC) have been successful in reaching their target group more effectively with low default rates than the State-led programmes and institutions such as IRDP and RRBs of India (Chavan and Ramkumar, 2002; Yunus, 1997; Hulme and Mosley, 1996; Rahman, 1999). Hence the question of financial self-sustainability of MFIs makes a doubt, particularly, for the State-led programmes of microcredit. More importantly, the old paradigm of microcredit programme envisaged providing credit to poor people at subsidized rate of interest but terminated with high default rates. In the case of IRDP, the default rate on advances granted by public sector banks as a percentage of demand increased from 58.7 per cent as in 1991 to 69.1 per cent in 1993 (RBI, 1993). In her study in West Bengal in 1988-89, Swaminathan (1990) found that the local bank
respondent borrowers of Grameen Bank of Bangladesh was only 3.3 per cent in 1985 (Hossain, 1988). This trend was maintained during the nineties (Yunus, 1999). Mosley (1996a) analyzed default rates of RRB loans and found that during 1983-91, the average default rate was 47.5 per cent. The six-month arrears rate of RRBs in 1992 was the highest among the 13 institutions that Mosley and Hulme (1998) examined across different countries (Chavan and Ramkumar, 2002:960).

It has been argued that the debt-absorption capacity of the very poor is low; most of them are unable to borrow sufficient amounts to raise them above the established poverty line. But the income of the assisted poor is likely to increase due to rise in profitability, if they are already above the poverty line (Nair, 1998). Moreover, a system based on the quick-repayment of very small loans does not allow for funds to go into income-bearing activities that have a gestation period of any significance. Only projects with very quick rates of return and high rates of return relative to the tiny investment can meet existing repayment schedules and this is not usually possible for the poorest of the poor. Some evidences also suggest that poverty alleviation by microcredit programmes (such as the Grameen Bank) is attained through the generation of self-employment opportunities by the poor, not by the poorest of the poor (Fujita, 2000; Rutherford, 1998; Ito, 1999). The evidence supports that the loans are, for the poor (not the poorest) with regular income, functioning as advances for savings. Moreover, there is the fore evidence that in order to maintain regular repayment schedule, the borrowers of microcredit have to enter a loan recycling process which intensifies their debt liabilities or ‘debt cycles’ with various lenders (Rahman, 1999). Thus a more important aspect of microcredit programme through SHGs is to see how far such programmes have been successful in
building / upgrading the asset base (including technology, skill, information etc. ) of poor micro entrepreneurs not merely as a lending- repayment microfinancing programme. To this end, credit to the very poor categories may be greater than their accumulated savings. But the implementation of this lending programme directed towards the poor is often beset by three important difficulties. The first is the problem of exact targeting which would ensure that there is no type-I or type-II errors\(^2\) (Cornia and Stewart, 1991). Secondly, it faces the problem of distinguishing the good (creditworthy) from bad (not so creditworthy) borrowers, because the poor borrowers do not generally maintain any account of the past business activity or furnish any documented business plan for which they are seeking loan. Thirdly, it faces the problem of monitoring and ensuring productive usage of the loan and enforcing the repayment of loan. The formal lending programme is often surrounded by these difficulties. But NGO-led microcredit programmes with such innovative practices have raised top fame for the performance of credit provision in reaching the targeted population and repayment rates compared with State-led programmes (Chavan and Ramkumar, 2002).

In the context of measuring successful microfinance institutions, the role of N.G.O. is more significant and pronounced in the sphere of microcredit. The rich experience of NGOs in the sphere of credit union and their grassroot level involvement with the poor and their problems is a potential factor that affirms their elevated role in the sphere of microcredit (Mohanan, 2000). Government organizations like Grameen Bank of Bangladesh, Bank Rakyat Indonesia (BRI), Bolivia’s Banco Solidario, Boncosol by World Bank have also made some success in the area of microcredit activities in the world. But to make a success of microfinancing activities financial dualism (Promotion
of link between formal and informal sectors) is necessary to reach out to a wide range of poor microenterprises. An appropriate legal framework is now needed to facilitate Micro Enterprise Financial Institutions (MEFIs) and systems to record and regulate their transactions as a separate financial entity. Attached with this, there should be a review of performance of the formal institutions and greater formal-informal collaborations. Delay in these would help mushrooming of organizations with dubious credentials to indulge in financial service activities, which eventually would undermine the very potential of a powerful alternative movement (Nair, 1988). The success of many ‘Grameen-type’ microcredit institutions have given rise to certain stereo-types in the realm of development finance (poor women are financially more prudent, more honest and trustworthy). Such successes have focused a ‘replication – spree’ among development organizations, which would never stop now to original and innovative thinking.
NOTES OF CHAPTER 3

3.1 The new microfinance operates on the principle ‘Borrower knows best’. The operational strategy under the new microfinance involves several features such as simple producers for reviewing and approving loan applications; delivery of credit and related services at commercial rates of interest in a convenient and user friendly way; quick disbursement of small and short-term loans; clear recovery producers and strategies; maintaining high repayment rates; incentives of access of larger loans immediately following successful repayment of first loan; organisational culture, structure, capacity and opening system that can support and sustain delivery to significant and growing number of poor clients and encouraging and accepting saving in concert with lending programmes (Micro Credit Summit 1997, Draft Declaration).

3.2 This implies that, under no circumstances the poor are excluded from the benefits if the programmes (Type I Error) while the non-poor can become its beneficiaries (Type II Error).

3.3 Lower transaction costs (of both leaders and borrowers) and lower risk premium (implying saving of resources spent on intermediation and greater equity impact), increased competition within informal sector (meaning lesser monopoly profits within the sector) and greater choice for the productive use of savings are the major reasons for promoting formal-informal linkages. See details Ghate et al (1992), Nair (1998).