Chapter-2
REVIEW OF LITERATURE

In the following text, an attempt has been made to review the available literature on various issues studied by previous researchers during the period 1990-2011 that are related to the concept. This review will be helpful in identifying the research gap, underlying the need of present study and specifying its objectives.

The major issues reviewed under this study are-
- Formal v/s Informal sources of finance
- Financial awareness and customers’ perception
- Impact assessment of the microfinance intervention
- Effect of gender in microfinance programs

2.1 Review of literature on formal v/s informal sources of finance

Though microfinance is not a new concept, still it has not been able to achieve the desired level in terms of its widespread outreach and performance. There is a vast investment gap in the provision of financial services to the poor all over the world. Therefore, the majority of these people depend on the informal sources of finance for meeting their livelihood and consumption needs (Singh, 2004). Following are a few of the studies highlighting the use of formal and informal source of finance over a period of time-

Rajasekhar, D. and Vyasulu. (1990) examined the rural credit delivery system in Pali district of Rajasthan to identify the factors responsible for the growing over-dues and chances of default in lending practices. The factors identified were as follows:
- Inadequate field staff and transport for visiting to the borrowers for the timely recovery of loans.
- Inadequate and untimely loans that forces people to resort to informal sources of finance though costly enough.
- Low interest rate on credit forces banks to offer low interest rate on deposits too. Consequently, deposit mobilization becomes difficult.
- Political interference results into indiscriminate and unplanned lending to the priority sector, which results into poor recovery of loans.
- Governments’ schemes like Debt waiver scheme promotes unwillingness among borrowers to repay the loans taken.

Chua, Ilanto (1996) analyzed the efficiency and outreach of microfinancing schemes by examining and comparing operations of a lending investor, a pawnshop, a credit co-operation and two NGOs in three cities of Philippines along with professional moneylenders in urban informal sector. The study found that the co-operatives and NGOs were providing more relaxing micro financing schemes in terms of low interest rate, collateral free loans, longer maturity and repayment schedule, easy collection mode and a wide range of financial services instead of micro lending only. However, most of the NGOs and co-operatives are weak in credit and financial management and did not have a good handling on designing and managing a good credit program. Most other micro financing institutions have an advantage over the NGOs & co-operative that their clients can use the loans for any purpose other than for what it was availed. This lowers their operational cost incurred in supervision of the loan usage. It was suggested for the NGOs to find the right combination of factors catering to the credit and saving needs. NGOs must look at their overheads and try to keep it at the lowest to maintain the sustainability of micro financing programs.

Painter, MkNelly (1999) examined whether there is growth or stagnation in clients’ loan size under seven village banking programs running in 26 villages comprising of 700 members. The technique used was hatch model and cumulative average. It was found that the loan size was increasing by 280% over three years of loan cycle though the increase was much less than the projected one. Leaving of old members and joining of new members may have dampened the growth of loan cycle. Moreover, the loan size increase was variable in pattern, which may be due to many reasons like different loan policies, village bank location, saving and internal account policies and membership dynamics. Commercial development in the program area may have been a factor affecting the borrower’s ability to utilize the credit. The study suggested the development of new innovative village banking programs to achieve the financial and institutional sustainability.
Simanowitz (2000) conducted a client exit survey to explore the reasons as to why they dropped out of the micro financing program. The survey was conducted by interviewing some past and present clients, field workers. Questionnaires were also designed to find impact of MFI program on the client’s livelihood. The author presented some idea from the experience of Small Enterprise Foundation in south Africa which is an NGO struggling for some time to deal with the problem of clients exit because of lack of understanding of why clients were doing so. It conducted a drop-out research to help the branch manager to look into the matter and help preventing clients exit by using the information drawn out of it. The drop-out research revealed four categories of reasons that are- personal reason like death and illness in the family, business reasons, problems in the group and problems with SEF procedure with regard to frequency of repayment, loan duration and like. In a poverty-oriented program of SEF, drop-out understanding enabled certain positive actions in several areas thereby reducing the drop-out rate from 35% to 14% in just one year. Such drop-outs surveys can be a great source of knowledge regarding strengths and weaknesses of MFIs programs, which can further help in improving their performance and reducing the drop-out rate.

McCarty (2001) surveyed microfinance schemes and the issues involved by collecting data about 84 schemes operating throughout Vietnam. The study enlightened the role of Government in the development of effective rural banking structure in terms of significant funding. The study also highlighted some problems concerning microfinance in Vietnam. The most important constraint found to be was the lack of legal and regulatory framework to encourage the non govt. sector to participate in the microfinance movement. Even if some NGOs are working for microfinance, they do not get institutional support. Most NGOs are confined to maximizing their impact within a limited geographical area. They should rather work for the overall development of the microfinance to contribute towards the poverty alleviation goal.

Chavan, Ramakumar (2002) conducted a comparison of NGO led micro credit programs with that of state led programs. A set of four indicators: - targeting the poor, increase in income and assets holding of the poor, employment generation and still improvement and financial viability were used. It was found that the NGO led micro credit programs have been more successful in
targeting & generating profits than the state led micro credit programs given their small scale operations. However, increase in the scale of operation may create problem to them in terms of increase in cost.

**Rutherford (2003)** studied the money management behavior of 42 poor household in Bangladesh half of which were in rural areas and half in urban areas. The study found that the respondents were the active managers of their financial resources. Forty-two Household were engaged in 33 types of financial instruments covering all the three financial resources *i.e.* formal, semi formal and informal. The most dominantly used resource was informal covering 19 instruments in all. The most frequently used resource was the interest free loan under this category availed by 41 households out of 42. People were using MF services but the share of MFIs in total money management transactions was less them 15%, which indicates the lacking of MFIs in certain areas. It was suggested that MFIs should get a better understating of the financial activities and demands of the poor households and then redesign their products accordingly. This would benefit both the MFIs and the poor households as well.

**Sinha (2005)** analyzed the performance of 20 MFIs of India to explore the access, use of microfinance by the clients and contribution of MFIs to the financial requirements of the clients. To satisfy the objective a sample of 4,235 clients in the 3,908 household was selected. It was found that 77% of loan amount accounted for investment purpose. However, this percentage was much less as reported by MFIs. The gap between the MFIs reporting and clients’ reporting indicated that MFIs had less control over client usage of borrowed amount. Clients seemed to have their own discretion to use the loan amount. Poorer people borrowed fewer amounts than better off ones. 11 MFIs out of 20 offer insurance products covering 48% of the clients. 6 MFIs are providing enterprise related support and 5 MFIs are participating in health and education development program. Though, 97% of clients were having savings with MFIs, 36% clients reported borrowing from moneylenders, 1/3 clients reported borrowing from friends/relatives. This percentage is lower than that of non-clients that reflects the impact of MFIs on reducing dependence on moneylenders but still informal source of credit are found to have greater flexibility in their terms and conditions, which MFIs are not ready to offer.
**Basu and Srivastava (2005)** analyzed the outreach and performance of SHG-Bank linkage model operating in the states of Andhra Pradesh and Uttar Pradesh and came out with certain suggestions to scale up the access to microfinance services to the rural poor in India like: Government should ensure that the regulatory framework for the functioning of SHG-Bank linkage model be maintained; interest rate on the rural finance should be more deregulated; attention should be paid to improve the quality and sustainability of the groups; focus should be on reaching the most deserved target clients and private sector banks should be encouraged to step into rural finance market.

In a sample study of 10 rural bank branch managers within three district of Madhya Pradesh (Jones et al., 2004), it was found that the managers were having the negative attitude towards their role as financial service providers. By applying the technique of Pearson’s co relational analysis, the authors associated the negative attitude with dissatisfaction at work situations in terms of continuous posting in a particular rural area, lack of assurance for future career prospects. More than half of them regarded lending to the poor more risky and preferred to give loans to those who could ensure repayment. The mangers found individual lending better than the group lending being less time consuming and safe, too. The managers negatively viewed the Government sponsored concessional loans to the target group of borrowers. They wanted Government to initiate infrastructure development in banking sector of rural areas first. The authors were of the view that changes in the post recruitment orientation and in service training schedules are needed to bring positive changes in the attitude of rural branch managers.

**Megicks et al (2005)** provided a detailed understanding of the factors influencing market orientation in the regional rural banks (RRBs) and assessed their impact on the microfinance outreach. A model was developed to understand the relationship between the factors affecting outreach performance in RRBs. The authors pointed out that the attitude and behavior of the bank managers towards the customers, risk and innovations, market led strategies influence the market orientation, customers’ satisfaction, service innovations and outreach performance of the RRBs.
Thompson (2006) measured the effectiveness of village banking system of providing micro financing in Haiti, one of the most disadvantaged countries of the world. To satisfy the objective, the author took the sample size of 325 female clients of village banking Haiti. The study found that there is a positive impact on the social capital of the clients as it increases their safety net by improving mutual trust among them to ensure that they will support each other in the hour of need. Village banking has also improved human capital as more & more clients are making short terms investments for financing their children’s education. However, the system did not affect the economic level of the clients much. The study recommended that the MFIs should launch house improvement loans and money transfer services in the spree of MF services to make it more worthwhile.

Sriram, Parhi (2006) aimed to understand the financial flows of rural poor so that the microfinance products can be designed in a better way. The information was captured from 34 out of 36 BPL families in Udaipur district through questionnaires. The study observed that income, savings and assets profile of people showed a comfortable position but the illiquid nature of their assets forced them to assess costly finance. The major source of finance was found to be the moneylenders (80% of the total amount borrowed). A significant portion of finance was from friend/relatives, which is indicative of an attempt to smoothen the interest cost by resorting to informal, zero cost financing events like wedding and for health related expenses. The study marked on the failure of formal sector to penetrate the loan and saving market.

Ageba, Amha (2006) studied the state of micro & small enterprises finance in Ethiopia. The authors conducted a survey covering 1,000 MSEs in six major towns in Ethiopia. It was found that the most of the MSEs were using friends and relatives as the major source of finance rather than going to bank for a loan. The reason behind this is the perceived high cost of transaction, collateral requirement, cumbersome and lengthy procedure etc. They do not even go for micro financing because of lack of awareness, non-existence of MFI in nearby area because most of the MFIs have focused in rural areas. Ninety two percent of the clients using MF reported inadequacy of the loan size when the major purpose is to buy any equipment and machinery. About 80% MSEs are using trade credit as a substitute to bank loan. There is a greater need for MFIs to improve their products and processes suiting to the clients’ requirements. MFIs should
refine their existing schemes with regard to loan size, repayment period and disbursement procedure. Govt. should develop a regulatory framework enabling MFIs to cater to the needs of MSEs clients.

**Alcala, Koshy (2007)** studied the various formal and informal saving products used by the people in the state of Tamilnadu and the type of products they require. At first stage, enquiry was made with the post office personnel, shopkeepers and insurance service provider in Chennai to figure out the products offered to the public for saving their hard-earned money. The second stage was carried out in Madurai by interviewing 30 woman clients of an MFI. The most common informal saving products found were gold, loose cash at home in hidden form, unregulated chit funds, saving with money lenders, jewelers shops, small saving schemes in schools and lending others to save. It was found that the use of formal saving products was very uncommon, less than half of the clients were having almost inactive bank accounts. The reasons disclosed were the distant location of the banks and excessive minimum balance to be maintained. In spite of the wide outreach of the post office branches in rural areas, less than ¼ of the clients were having post office deposit. Some of the clients were using insurance scheme for arranging funds at some special events like daughter’s marriage.

People were of the view that some short term investment schemes should be introduced so that they can withdraw money given the seasonal nature of their income cycle. They recommended that the bank should offer short term and long term investment schemes for specific events like wedding. People also desired for the agent system of collection along with the assurance of making funds available in the time of emergencies.

**Gedenne, Vasudevan (2007)** conducted a survey in 69 SHGs of Karnataka and Tamilnadu to find out the usage of loans and changes in loans usage over a period. The sample size of the study was 207 members of the 69 SHGs. The study found that almost 60 % and above loan amount went towards business or agriculture purpose. After this, the major purpose of loan usage was found to be the consumption (16% of loan amount). Though gradually the loan amount has been shifting from consumption to productive activities, it was insignificant in the light of the fact that the starting level of loan usage for consumption purpose was very high. Members, no
doubt, value the saving function of SHGs but still they are using informal ways of savings like Gold (60 % of women clients), Chit funds (13 % of clients), bank or postal savings (32 % of clients). The findings revealed that inefficiency of SHGs role in inducing members to spend their loans on productive activities.

Hartungi (2007) analyzed the various success factors contributing to the success of an MFI named Bank Rakyat Indonesia. The study was conducted at the branches of BRI together with its village units. The study came out with a number of such factors like collateral selection criteria of the bank, well trained and dedicated employees, lucrative incentives to both, the employees and the customers, transparency in operations, strict internal control system, good auditing practices, and sound financial risk management system. All these factors together explained the successful journey of the MFI that set an example for others to follow, too.

Dhindsa and Bhatia (2008) examined the growth and development of SHGs in all the 16 blocks of Amritsar district in Punjab. The study was based on the data collected from the district agricultural office, Amritsar for the year 2001-2007. The study observed a decline in the percentage SHGs formed, subsidy extended and credit disbursed over the period of time whereas the number of members assisted for taking up small economic activities and number of SHGs engaged in economic activities (dairy farming, bee keeping, vermiculture, detergent making, fabric painting etc.) showed an increase from 2002-07. The authors highlighted certain problems in the growth of microfinance services through SHGs such as illiteracy creating hurdles in understanding the concept of SHGs, political interference in selection of beneficiaries, lack of follow up actions and motivation of the bank staff. The study concluded with a few suggestions that the benefits of microfinance schemes should be clearly transmitted to the potential beneficiaries and besides motivating banks, NGOs should also be promoted in right direction.

Goyal (2008) attempted to look into the progress of financial inclusion drive in recent times and also made a comparison of the same in Assam, Northeastern Region (NER) and India as a whole, on the basis of a few indicators such as area per branch office, ratio of bank account per 100 adult population, credit to farmers etc. It was found that the level of financial inclusion was very low in NER and in Assam, in particular as compared to the whole country. Major reasons for this
slow progress of financial inclusion drive stated were inadequate distribution of bank branches, flexibility, unsuitable products and low level of commercialization and low level of income and assets with the poor. The author recommended the use of IT facilities such as ATM, e-banking to reach the unreached along with boarding and brochure can also be of great help to tackle the problem of lack of awareness among the excluded ones regarding the benefits of finance inclusion program.

Pati (2008) examined the financial sustainability of the SHGs and the impact of subsidy on it. A sample of 200 SHGs was selected in the state of Meghalaya. It was observed that most of the SHGs have been constituted to take the benefits of the Government sponsored financial scheme namely SGSY. The author disfavored such subsidized financial schemes as this kind of help often brings inefficiencies in the group and make them completely dependent upon it without making efforts to initiate self income generating habits among group members. The study revealed that these groups were suffering from poor performance in terms of low level of savings, low credit utilization and low recovery rate. All this would endanger the financial sustainability of the groups in the long run.

Albino, Subramanian (2008) pointed out the achievements and obstacles in the growth of financial inclusion in the state of Jharkhand. The author provided an in depth study of various initiatives taken by RBI, Government of India and other banking and non-banking institution to increase the financial access in Jharkhand. It was found that there has been a significant progress in terms of more no. of no frill accounts, more bank branches, post office and NGOs’ branches, but this progress is subject to certain hindrances like banks have focused only on opening more & more account without paying attention towards the awareness among the account holder regarding use of such accounts. Private sector banks hesitate to expand their services to rural area as it seem to be less profitable to them however HDFC bank and ICICI bank have come forward to expand to rural areas. Most of the NGOs in the state have limited geographical area. They lack funds and co-operation with other NGOs. Beside these, lack of infrastructure, language barriers, political instability in Jharkhand are a few other factors restricting the financial inclusion. The need of the hour is to ensure coordination and collaboration in banking and non-banking institution to improve financial participation in Jharkhand.
Arun, Hulme (2008) examined the geographical spread of microfinance, commercialization of microfinance process and the challenges in the growth of microfinance across the world. The study revolved around the status of micro finance in the developing countries. It was observed that micro finance markets are well established in the limited geographical areas of Bangladesh, Uganda, Indonesia and Bolivia where the low-income group people have access to the wide range of financial services while in South Asia, South East Asia, Latin America and Europe, micro financing is growing gradually. In China, there is a great scope for micro financing. India is experiencing an uneven growth of micro financing as the most MFIs are established in the South region of the country and it is almost non-existent in the North and North East region. Gradually, the focus of MFIs is shifting from poverty lending to financial service provisions. Many commercial banks, public as well as private, have started investing in micro financing programs as a commercial activity, which is profitable. ICICI bank has increased its micro finance portfolio from 10,000 clients in 2001 to 1.5 bn clients in 2005. The introduction of IT technology has enabled the micro finance providers to provide their services in the remote areas. Micro financing institutions are being regulated in parallel with the other formal financial sector that is discouraging their growth. It is a challenge for the regulators to supervise MFIs in a way to enable them to develop new innovative products and services suiting to the requirements of the low-income groups.

Vanroose (2008) studied the relationship between macro environment and the unequal outreach of micro financing in developing countries. The study is based on the cross-country analysis of the data covering 115 countries. The technique of analysis used is simple multiple regression (ordinary Least Square). It was found that the MFIs approached the richer countries among the developing ones, which implies that certain level of development is required for the growth of MFIs in a country. Other major factors that are responsible for the higher growth of MFIs in one country than the others are the amount of International aids received and the density of population. Higher the international aid a country is receiving; greater will be the outreach of MFIs. Higher density of population attracts more MFIs as it lowers the operational cost. The commercial investors are always interested in venturing into profitable areas. This factor analysis may help them in identifying the same. The study emphasized on the need of carrying out such analysis so that special attention can be given to the special geographical areas.
Purushotham (2009) in his project sponsored by the Ministry of Rural Development, Government of India, attempted to examine the progress made in building credit channel accessible to the poor for livelihood through the SGSY in the regions of high poverty. The study was carried out in two most poverty stricken districts each from the states of Assam, Bihar, Chhattisgarh, Jharkhand, MP, Orissa, Rajasthan, UP and Tripura and in all 1,116 SHGs were interviewed. The study found no or little diversification (4.8%) of occupation among the beneficiaries of the SGSY. The only change noticed was the expansion of existing economic activities. Majority of the respondents did not get any effective training for taking up the self employment activities under SGSY. Fifty six percent respondents were dissatisfied with the indifferent attitude of the program officials as they could not find them at the time of need. The study recommended to work for capacity building of the SHGs. SHGs should encourage effective internal lending by mobilizing maximum savings from the members. SHGs should also be made familiar to the work culture of the banks. The supply side deficiencies should also be taken care of. The finance providers should be fully equipped with trained and efficient staff ready to help the illiterate customers. There should be a proper check upon the wrong practices followed by the microfinance providers such as under financing, charging higher rate of interest etc.

Sharma (2009) attempted to study the process, formation and functioning of SHGs in Kangra district of Himachal Pradesh. A random sample of 80 groups was drawn. It was found that there were no formal criteria for the formation of SHGs and their functioning was entirely based upon the regular meetings of the members. The study compared the borrowings through internal loaning process with the bank loaning and it found that internal loaning was mainly used for consumption purpose whereas agriculture and taking up small ventures were the major thrust areas for borrowings after the groups got linked to banks.

2.2 Review of literature on financial awareness and customers’ perceptions

One of the major reasons for preferring informal sources of finance instead of the formal ones found to have been the lack of awareness about the micro financing services. The studies below analyzed the perceptions and level of awareness of the customers with regards to microfinance services-
**Women’s World Banking (2003)** conducted a research between 1999 and 2001 with four MFIs located in three countries- Bangladesh, Uganda and Colombia to assess the customer needs and satisfaction level with regard to Micro financing services. The survey was carried out by interviewing more than 300 individual customers including past and present borrowers of MFIs. The study found that customer wanted speedy disbursement of loans and assess to larger amount of loans at lower interest rates. About 78% customers from Bangladesh and Uganda reported being satisfied with the turnaround time for the first loan, which increased, to subsequent loans. More than half of the respondents were dissatisfied with the group lending mechanism of joint liability, which reflected their preference to assume the responsibility for their own loans. Insufficient loan size was reported to be the biggest reason for clients’ drop-out in Colombia (around 40%) and in Bangladesh (33%). Seventy-six percent respondents in Uganda felt dissatisfied with the fees and commission.

However, 97% respondents reported satisfaction regarding the services received from the credit staff in Uganda. Low-income people wanted Micro financing to include broad range of services like business loans, voluntary savings deposits, housing and education loans, health and life insurance and the like. The study concluded to evolve more tailored products to meet the customers’ demand by keeping the cost at the lowest.

The hesitation of the formal financial institutions to provide finance to the poor is largely due to the fear of poor recovery and the higher transaction cost involved in small amounts of loan. However, various studies have shown a good repayment rate of the loan given to the marginal borrowers. They just need timely and adequate financial assistance. The good repayment along with some other effective strategies to reduce the transaction cost would enable the financial institutions to venture into microfinance business as a profitable business as supported by following studies-

**Bedoya (2006)** in his study examined the nature of microfinance users and their repayments tendencies. To conduct his research he selected a sample of 127 women belonging to two micro finance providers of Orissa each. He remarked that micro finance clients must be defined as the whole household rather than as male or female clients because the use of MF services depend upon the income level and the life cycle of all the members in a family and the range of financial
products being offered by the MF providers. The study found the repayment rate to be higher around 96% to 98% in the MFIs. Such higher repayment rate may be because of group influence, value to the doorstep services provided by MFIs, low interest rate increasing their ability to save, easy repayment conditions and sometimes because of feeling moral duty to repay.

Shankar (2006) studied in detail the transaction cost in a group micro credit in three well-established MFIs having more than 10,000 clients under study. It was found that the key drivers of transaction costs are the compensations given to the field workers, no. of group members handled by each field workers, group formation time and the collection time. The study suggested that the transaction costs could be reduced by linking the employees’ incentives to profit, increasing the no of groups per sq. km, increasing awareness about the concept of MF in remote areas to lower the group formation time and keeping the repayment frequency lower provided the repayment rate remains the same. Moreover, MFIs should engage in other income generating activities to lower the indirect transaction cost. Govt. should also take into account the MFIs interest rate. Govt. should also finance the awareness campaign for MFIs in remote areas.

Field, Pande (2007) examined the effect of repayment frequency on loan default and delinquency. The general perception of the MF provider has been to use greater frequency of repayment i.e. through weekly installments to avoid default in repayment by maintaining the users’ habit to save regularly. A field experiment was conducted on 100 groups comprising of 1,026 member of a leading MFI of Kolkata named Village Welfare Society (VWS) to examine the relevance of this perception. It was found that the frequency of repayment rate, be it more or less, doesn’t affect either the default rate or delinquency rate rather it does affect the transaction cost of the MF providers, a large part of which is incurred on collection of repayment installments from their clients. Less frequent repayment schedule say monthly installment can reduce the significant portion of the transaction cost without adding any further risk of defaults.

Pandey (2008) examined the performance of micro financing in rural areas. He analyzed the micro finance as an instrument of economic empowerment and the role of self-help group in micro finance. The author selected a sample size of 250 respondents who were the members of self-help groups belonging to seven districts of Utter Pradesh. He found the awareness level of
micro finance to be around 52% and the satisfaction level was above 60%. The study showed that the performance of SHGs was very good because of repayment of loans and the field level impact. In spite of the fact that finance size is very small for the target users to use it for productive activities, the concept of micro financing through SHGs and the banks is best suited for the eastern UP resident.

Owusu- Frimpong (2008) ascertained the customers’ usage and perceptions of the rural community banks in Ghana. The author examined whether there is any significant difference in the level of satisfaction and expectations of the male and female clients. The study collected responses from over 170 respondents and 15 bank branches with the help of the interviews. It was found that there was no significant difference the perceptions of both genders rather both pointed out a few areas that need to be improved such as quality of financial advices, provision of information and service delivery. The study concluded that the rural community banks should adopt some effective strategies aimed at spreading financial education to the rural poor to encourage the greater use of banking culture.

Tiwari, Khandelwal, Ramji (2008) enquired into the financial awareness among the microfinance clients in order to assess their level of understanding with respect to loan contracts. To achieve this objective, a survey was conducted in two phases. In the first phase, 299 rural micro finance clients of the two MFIs in Karnataka and Uttar Pradesh were surveyed, in the second phase, 40 rural respondents in Madhya Pradesh were asked to compare the two loans and pick up the cheapest out of them to know their level of understanding of loan contract. It was found that the majority of respondents were able to state their loan amounts, loan duration and the weekly installment of repayment. They also understood the joint liability of loans and felt obligated to repay on behalf of others who were unable to repay. As far as the rate/amount of interest is concerned, they had a very little knowledge of it. However, they valued MFIs for their cheapest services. It is interesting to note that the respondents were able to select the cheapest loan among the two offered to them.

Sattanathan (2009) carried out a study conducted by State Institute of rural development, Tamilnadu and funded by the National Institute of Rural Development, Hyderabad to analyze the
social mobilization in the context of SGSY in the two districts of Tamilnadu. The study explored the various methods used for the social mobilization for the promotion of SHGs and SGSY and the problems faced in the process of social mobilization. The study revealed that NGOs were employing combination of different methods like under extension method they were using various methods such as short film, street play, social, regular meeting, door to door visits and direct contact etc. Similarly, under the educational methods, they were using methods such as exposure visits, presentation of successful Case Studies, pictorial presentation, live demonstration, charts reflecting social issues, non – formal education, news reading in the groups etc. Other social methods such as participating in social gathering, social sports and games etc. were also in use to mingle with the people. The NGOs were also facing some problems in the social mobilization like religion conflict and communal problems, non co-operative attitude of the traditional leaders, existence of some local dominant groups and political threat, fear of husbands in case of women members were some discouraging factors. But despite of these hurdles NGOs have been successful in bringing social mobilization and their experience can be utilized to strengthen this process further.

Papias, M. And Ganesan (2009) examined the factors responsible for the credit repayment behaviour of the members of the saving and credit cooperative societies in Rwanda. A sample of 135 respondents was taken from the three cooperative societies by applying the technique of convenient random sampling out of which 120 respondents were considered fit for the analysis. Logistic regression analysis was used to draw the inferences. The study found that age, gender, size of the household, purpose of credit, interest rate charged and the number of visits paid by the societies officials at borrowers place were the highly significant factors influencing the repayment behaviour positively whereas size of credit, time taken for processing and disbursing credit, borrowers market place and income transfers from friends and relatives were also more or less significant. The study concluded that the socio economic characteristics of the borrowers must be taken into consideration before disbursing credit in order to prevent the wilful defaulters.

Oke, Adeyemo and Agbonlahor (2010) analyzed empirically the repayment behavior among the micro credit clients of Southwestern Nigeria. For this purpose data was collected from 200 members of micro finance institutions in the study area by applying the technique of Multi-stage
stratified random sampling procedure and on this data Linear multiple regressions was used to find out the variables affecting microcredit repayment. The study found the repayment rate to be 90% and also that increase in income, banking opportunities and adequate business information can improve this rate further. On the other, delay in disbursement of credit can reduce the repayment rate by 0.98%. The study concluded that the microfinance clients are creditworthy fulfilling their repayment obligation well in time.

**Feigenberg et al (2011)** provided some empirical evidences on the economic returns to social interaction and suggested an alternative theory for the success of the group lending model in reducing default risk. The authors concluded that more frequent meetings of the group members increase their social interaction that improves their economic co-operation through risk sharing thereby, reducing chances of default in repayment of the amount borrowed by the members. The evidences suggested that strengthening of the social groups can be very useful in the economic development of the poor communities.

### 2.3 Review of literature on impact assessment of microfinance intervention

As far as impact of micro financing services on its users is concerned, various studies undertaken by the previous researchers indicated the positive impacts of such services. A few of them are as follows-

**Fernando (1997)** examined that NGO programs benefit those women who already have relatively better access to resources due to their good relations with the some powerful members in the society. The poorest of the poor are still excluded by the NGOs as well as by those who directly benefit from the credit programs. The widespread presence of NGOs in the area has not been successful in linking the people with the existing institutions in the area. Even the NGO members continue to rely on informal lending institutions to meet their financial needs, as these institutions appear to be more meaningful and important for women than NGOs. No doubt, micro-enterprises have provided a space for women to gather in groups outside their traditional boundaries, it is some-what illusory to say that the mere visibility of women in micro-credit programs and their participation in decision making and in manipulating institutions is enough to ensure that they are independent. Rather it has been observed that it increases pressure on women to maintain these institutional relations to ensure regular repayment of loans and survival of their
families as well. It has been argued that micro credit benefited the women having marketable skills, the women whose husbands had marketable skills or whose husbands had a regular employment in order to ensure timely repayment. In the majority of the cases, the husbands and male kin of the women were the ultimate users of the loans sanctioned in the names of women. Though NGOs were aware of this fact that men control the use of credit, they remained silent in order to get the funds from the donors provided for financing women only. Moreover, the providers could more easily manipulate women clients than men.

Gomez, Santor (2001) examined the determinants of self-employment success for microcredit borrowers and analyzed the role of neighbourhood in building social capital. The survey was administered to self employed 612 group borrowers and 52 individual borrowers. The study found that social capital is one of the major determinants of the successful self employment besides other factors such as education, age, household characteristics of the micro credit clients. The individuals having no or little financial collaterals to offer to the finance providers may get benefited from their increased level of social capital. It had been empirically evident that the neighborhood characteristics affect individual labor market performance too.

Heino, pagan (2001) analyzed the social-economic variables that affect the need for outside financial avenues for startup capital in a micro enterprise. The author took the data from Mexico’s national survey of 12,243 owners of micro enterprises and applied the techniques of probit model, chi-square test, Veall and Zimmer- Nann’s pseudo-$R^2$ to serve the objective. It was found that the need for outside finance is linked with the age and schooling level of the owner experience in business, size and sector of business. Females were found to use outside finance more likely than males to start a business. Less outside finance is required in commerce sector as compared to manufacturing sector. It was noted that macro level policy measures are increasing healthy competition among the informal credit sector, which would be very beneficial to the micro- enterprise owners in terms of attractive financial services.

Leach, Sitaram (2002) provided an account of the impact of an NGO-initiated project for empowering scheduled caste women in India through micro finance on their economic and social status based on four indicators, which were income, access and control of resources, status, and
quality of life. The women's lives prior to the project was very miserable as they were very poor, they had to work for long hours, they were subjected to domestic violence and not involved in any household decision making. Initially, the project brought enthusiasm and optimism among the women to have their own new venture that was silk reeling enterprise. The women observed many positive changes in their lives like increase in their economic and social status, enjoying their own income, working as independent entrepreneurs and were proud to be employers now instead of being employees. They felt that they had more respect in the community and their own self-esteem increased accordingly. Their mobility also increased. They became much more self-confident and could provide for their children independently of their husbands. However, the project could bring about only the social empowerment; women did not experience any economic empowerment because their businesses had failed. The reasons being were their inexperience in marketplace, lack of understanding of financial terms and mismanagement of NGOs.

**Puhazhendhi and Satyasai (2002)** evaluated the benefits of SHGs on the economic and social empowerment of the rural poor women across India. The study was based on the data collected from 560 sample households in 223 SHGs operating in 11 states representing the four regions-Northern, Eastern, Southern and western. It was found that majority of the respondents reported increase in their assets (59%), net income (45%), and reduction in poverty (47.9%). As far as social empowerment is concerned 88% of the respondents reported improvement in their level of confidence, 63% agreed upon enjoying better status in families, improved communication skills (78%) and 95% of the respondents expressed strong protest against husband beating wife. In all, the study found that social impact was more as compared to the economic upliftment.

**Rao (2002)** made an attempt to analyze the status of women SHGs in Andhra Pradesh and Karnataka. A sample of 120 women members was selected from 23 SHGs managed by 48 Women Dairy Cooperative Societies in 6 districts of the two states. It was found that majority of the SHGs were located in the regions where Support to Training and Employment Programme for women (STEP) was effective in Karnataka. Most of the respondents were of scheduled categories with a literacy rate of 45%. Availing credit, meeting unexpected finance demands and
developing regular saving habits were reported as the major factors responsible for joining the groups. The study revealed that the loan is granted at the interest of 22-36% for an average period of 4-12 months and the main idea of such borrowings was found to be consumption in AP and social functions in Karnataka. The groups were also actively engaged in spreading awareness regarding AIDS, nutrition, sanitation, legal education and evils of dowry etc.

**Galab, Rao (2003)** analyzed the functioning of some women self-help groups in the state of Andhra Pradesh and their impact on women empowerment. The study found that the participation in SHGs has improved the access of women to credit. This has helped women in reducing their dependence on moneylenders and meeting their consumption as well as production needs. The women contributed to the occupational diversification at the household level by investing the credit obtained from the SHGs in new economic activities, which are less risky. The study indicated an improvement in the quality of income as well as of employment. Moreover, assets holding of the women, health, nutrition and education status of children has improved. However, there is a wide variation in all the group models of women in terms of achievement of all the aspects of individual dimension of women empowerment. For sustainable women empowerment, the women should participate intensively in this process. The government should also focus on developing rural economy to widen the self-employment opportunities.

**Agha, Balal, Ogojo-okello (2004)** examined the impact of a microfinance program that provided micro loans and training to the private sector midwives in Uganda on the perceived quality of services and clients loyalty. A sample of 22 clients was undertaken out of which 15 received the intervention and seven did not. The effect of intervention was measured at clinic and client levels by applying t-test, analysis of variance and multivariate logistic regression analysis. It was found that the loans provided under micro financing programs had been used for the purchase of drugs, equipment, renovation and expansion of the clinic, which consequently improved the patient’s perception of service quality at the intervention clinics because of availability of more drugs, fair charges cleanliness and privacy. Improvement in client’s perception of quality ultimately would increase clients’ loyalty towards a particular clinic. The study showed that the midwives were eagerly participating in micro financing programs and repeating their loans for the betterment of their clinic. They were also benefited with the training of business skills provided to them under
micro finance programs. It was concluded that micro financing can play an important role in strengthening the service quality of private health care centers.

**Ramesh (2004)** analyzed the impact of micro credit on socio-economic empowerment of women. A sample of 120 women beneficiaries was selected from the Mahaboobnagar district of Andhra Pradesh was chosen along with the secondary data from NABARD’s annual reports. The study found that 66% of the respondents agreed that micro credit enabled them to be financially self-reliant while rest 44% denied this fact. However, all the respondents agreed upon the positive impact of micro credit on their social development. They reported improvement in their awareness with regards to various social issues such as health, education and environment. They also felt vast improvement in their leadership and communication skills.

**Chowdhury et al (2005)** stated that often it is seen that people rise out of poverty when they get credit but as the credit received is spent, they again come back to their prior position. Micro credit is not a short-term phenomenon of poverty reduction. It must lead to sustainable increase in the poor households’ wealth.

In a study conducted by **Kuzilwa (2005)**, the role of credit for small business success observed a significant increase in the output and employment generation of such small entrepreneurs following their access to credit. The study also supported the fact that only the access to Credit is not a barometer of success because there are several other factors that may lead to success or may create hindrances like infrastructural problems, competition in the market and so on.

**Varman (2005)** studied the impact of Self Help Groups on formal banking habits by measuring the relationship between the growth of SHGs and bank deposits accounts by applying the technique of binomial logistic regression analysis (Logit Model). Besides using secondary data published by NABARD, RBI, Census India, 2001, two sample villages were also undertaken having a total population of 217 households. The study revealed that SHGs help formal banks in increasing bank accounts by persuading banking habits among rural poor, specifically, the females whether directly or indirectly. Among all the determinants of individual and households banking habits such as sex, occupation, education, landholding, SHG leadership experience, the
most dominant factor found to be the SHG leadership experience of the client. A member who has been the leader of an SHG was found to be 23 times more likely to open a bank account. SHGs can strike on this phenomenon by rotating the leadership position among members so that every member should take up this position at least once during his membership, which can provide more exposure to formal banking habits.

**Basu (2006)** attempted to study the women empowerment in relation to microfinance in the Hooghly district of West Bengal. The study was based upon the 100 SHGs members in the district. The study found the existence of week form of women empowerment through microfinance as majority of the women reported having no say or partial say in the economic decision making in their households. Only 5% of the women accepted sole controls over the use of loans, 56% respondents were sharing this control with their husbands and 38% women reported the sole control of their husbands over the money. The study also recognized the effective role of commercial banks, regional rural banks in the formation of SHG-bank linkage program in Andhra Pradesh and co-operative banks in West Bengal.

**Kamble, Sonar (2006)** studied the role of self-help groups in the empowerment of their members, specifically, the woman members. To satisfy the objective a sample of 45 members, was selected from four SHGs in the district of Karnataka. The study found that there have been drastic changes in the living standard, earning position, personality, status and occupation of the SHGs members after being the member of SHGs and using micro financing services provided by them. Members particularly, woman members are now enjoying the possession of gold ornaments and other household appliances. They have developed a very good communication skill. Woman member equally participate in the decision-making at their homes. They are well respected both in their families as well as in the society. Member now initiate more diversified income generating activities rather than depending only on agriculture. The study also recommended initiating group income generating activities rather than individual attempts. SHGs should motivate more woman members to come forward & expose themselves to such outdoor business activities. Group meeting can be of great help to encourage them.
**Johal and Mathur (2006)** studied the empowerment of rural poor women and role of SHGs in their empowerment. A field study was conducted in Chandigarh with the help of interviews and discussions with the officials of some Government and Non-government organizations including PNB along with some development workers. Apart from this, the personal observations were also made at two meetings of SHGs. The study found that the SHGs formed by intermediaries remained dependent upon them while these intermediaries did not devote much time to motivate people. There was a lack of SHG-NGO linkages as most of the NGOs preferred to deal in Government sponsored schemes. Moreover, banks were also hesitant to grant micro loans to the illiterate poor, specially the women who found themselves unable to handle the formal financial documents. The authors suggested a participatory approach to be undertaken by the various stakeholders of microfinance such as development workers, intermediaries, NGOs, people’s representatives, research and training institutes.

**Agricultural Finance Corporation Limited (2008)** conducted a study commissioned by SIDBI to assess the impact of Microfinance programs on the livelihood of the clients after being associated with MFIs. The study covered 4,510 households comprising of both clients and non-clients households of 25 MFIs. Micro credit had enabled its clients to develop their business and diversifying the business activities. Many clients reported having multiple sources of incomes. Seventy-five percent of self-employed members reported increase in their income. Seventy-nine percent of clients have acquired assets with micro credit support for using them as collaterals to take loans from formal banking channels. All children (below the age of 14) of 575 clients households are going to school for education. Interestingly, 65% of them are female children and 71% are very poor. The cheap credit provided by MFIs in a simplified way resulted into the reduction of percentage households borrowing from moneylenders (from 7.96% to 5.045) and from friends/relatives (from 5.32% to 2.61 %). The results of the study showed more than half of the very poor clients moved to the category of poor clients. Microfinance also contributed towards women empowerment by providing them risky borrowings and enabling them to contribute towards their family income. The study concluded by suggesting some policy implications for the sustainable growth of MFIs. There should be transparency in the terms and conditions of MFIs services, a national regulatory body should be there to monitor their working. However, greater emphasis should be on self-regulation.
It is also evident that the MFIs approached only the wealthier poor as their clients who were able to make repayments; hence, it could reduce poverty of the poor who had certain level of income. Micro credit is not an effective measure of poverty reduction of the ultra poor who are already indebted (Haque, Yamao 2008).

Lokhande (2008) undertook a study to examine the socio-economic impact of the microfinance on the lives of the beneficiaries and also discussed the major hurdles in the development of SHGs. For this, both primary and secondary data was collected from 242 SHGs from the Marathwada region comprising of 8 districts. The study found good saving habits and effective credit utilization among the group members along with the repayment rate of 89%. All groups were found to be engaged in small income generating activities creating job opportunities for the members. It was also found that the microfinance services were also having social impact on the lives of its users as majority of the respondents reported being more social in terms of more participation in the social activities (68.22%), increase in self-confidence and respect (37.33%). The author pointed out certain problems in the development of SHGs which need to be worked upon such as lack of marketing facilities, lack of entrepreneurial training, indifferent attitude of the bankers, lack of family support in case of female members.

Jerinabi and Kanniammal (2009) analyzed the impact of micro credit on socio-economic empowerment of Muslim women. A sample of 37 SHGs constituted 148 beneficiaries was selected from the area of highly thick Muslim population in Coimbtore district of Tamilnadu. The study found that women had become more aware of their rights as 86% of the respondents approved the issue of job reservation for women. A significant proportion of the respondents reported improvement in their social status and awareness of social issues like family planning, health, nutrition etc. Awareness and utilization of financial services was also found to be good. The authors suggested certain measures to further promote women empowerment such as easy access to finance, new product development as per the requirements of women, entrepreneurship training for women and creation of strong marketing network.
Sahu and Singh (2011) also found that participation in the microfinance programs lead to women’s economic, social, psychological and political empowerment. But it is also found that due to cultural and social barriers women generally, remain dependent on their men as far as utilization of credit is concerned. The authors suggested that financial assistance to women should be backed by some non financial assistance too, like training and guidance for effective use of finance.

2.4 Review of literature on effect of gender in microfinance programs

Gender issue has always been very critical in Indian society whether it is in context of any social issues or economic issues. Still, women the world over suffer from various types of inequities and discriminatory practices, though they are considered to be better in thrift and credit utilization (NABARD, 1992). In a male dominating society like India, females have been the most ignorant client in the financial sector. Nobody trusts their business skills and ability to manage the financial resources. Various reasons attributed to this phenomenon like- the need for security in the form of property, which women often lack. Most of the bank staff members are males so females hesitate to deal with them. The high-level bank formalities may have also been the hindrance in the financial access to women, specifically to the illiterate ones. Moreover, the distant location of the bank branches adds woes to the financial problems for women. They do not dare to cross their domestic boundaries. Males are considered the breadwinners, having more traveling experiences and knowledge of the banking formalities and the investment opportunities (Singh, 2004). But various studies have shown that women are the better microfinance clients as compared to men as mentioned below-

Pitt, Khandker (1998) estimated the impact of gender participation in the Grameen Bank and two other groups based micro credit programs in Bangladesh. A multipurpose quasi-experimental survey was administered in 87 villages in order to measure the impact of such programs on labor supply, schooling of girl child, household assets and expenditure pattern. It was found that both the male and female credit did not affect any increase in labor supply rather it reduced the labor time of the adult male members as they started spending more time on leisure activities. The Grameen Bank credit to female members observed significant increase in girls’ schooling. Increase in credit to mother led to increased enrollment of girl child to schools.
However, other credit programs experienced the substitution of girls’ schooling time with the time at household chores, if the mothers are drawn into self-employment activities. The study also observed the effect of program credit on household assets and expenditure on goods is higher for women than for men because men indulged in increased consumption of leisure with borrowings.

**Khan (1999)** undertook a study in Jamalpur district of Bangladesh to examine the loan-use pattern of women involved in wage employment and explored the effects of wage employment on gender relations. Women value wage employment over credit because of stability in income. They have a greater degree of control over the money earned from wage employment. Fifty percent of the women reported that others use their loans. However, they gain some benefits through an informal contract over the income generated (when used by a third person) as well as they can avoid potential conflict with their husbands and other male family members. Most of the women say that men used to beat their wives because they did not have enough money to run the family. Moreover, there are some problems in working conditions which women workers have to face like poor lighting, no maternity leave that affect their health. However, the changes in gender roles and relations are not easy to achieve women are becoming independent slowly. In some countries, women have been found to be more 'progressive' than men are in their attitudes to gender roles and the gender division of labor. Women appear to carry out the majority of domestic work like household repairs.

**Staveren (2001)** focused on gender based inequalities and inefficiencies in financial markets. Commercial banks and other credit institutions tend to lend more to men than to women because of two reasons-

- The perceived costs of lending to women are higher because women ask for smaller and more regular loans.
- Women are less profitable than lending to men.

As a result, many women find it difficult to gain access to credit. However, this situation will change as soon as lending to women appears to be more profitable as studies have shown that women borrowers were more efficient than men, with higher repayment rates. Exclusion of women from the credit markets will restrict the agenda of poverty alleviation because loans to
women appear to result in a higher amount of money being spent on the household than is the case with loans to men. Men are much involved in personal expenditure rather than in household consumption in favor of all members of the household, whereas women are more concerned with household consumption. Gender biases in financial systems may result into declining GDP and increasing poverty, particularly among female population.

Anthony, Horne (2003) concluded that it is the group gender composition, which affects the loan repayment behavior in a micro credit group rather than the individual gender of each member. The anther carried out a logistic regression analysis of the data generated through a telephonic survey of 477 former or active members of an NGO in New England. The study found that the chances of default are likely to be less in a group having more females because females are considered more cooperative than males.

Omorodion (2007) carried out a study on some Nigerian Esan women who participated in some poverty alleviation program in order to capture women’s stories, perception and the experiences with investing the loans obtained and making repayments. No doubt, the micro finance schemes have been very effective in empowering women economic and social levels, the women reported the problems involved in their financial participation. It creates tension and raises their blood pressure when they find themselves unable to repay the loan amount because their husbands reinvested the money in their own business. Moreover, distant locations of the lender create problems in making the loan available on demand of the lender, as they need to seek permission from their husbands to go out for such a long distance otherwise their family life would suffer. However, this problem can be sorted out by establishing some repayment outlets near to the work areas of the borrowers.

Schechter (2007) studied the profile of some female clients of Mahasemam, an MFI in Tamilnadu to understand the utilization and management of funds, repayment of loan and their experience throughout their membership with a group. The study found that the micro financing loans enabled the clients to run a small business and make profits out of it. The profit was used to repay the loan amount and get another higher loan amount to reinvest in the business. The clients managed to repay the loan amount even by getting loans from moneylender when they did not
have sufficient funds to repay because they did not want to commit any default in repayment. In some cases, however, the clients were dropped out of the group because of their misbehavior in repayment and non-attendance in group meeting as discipline is considered to be the most important determinant of groups’ success. In some cases females availed loans for the business of their husband or son and remained dependent upon them. Sometimes the irresponsible behavior of the husband and son caused dropping of female out of the group. It was suggested that micro financing services should be flexible in terms of repayment. Though in some cases, NGOs were aware of this fact that men control the use of credit, they remained silent in order to get the funds from the donors provided for financing women only. Moreover, the providers could more easily manipulate women clients than men (Karim, 2008).

Conclusion

To summarize, this chapter present an overview of the studies that have concentrated on formal and informal sources of finance, level of awareness and customers’ perceptions and impact of microfinance services on the beneficiaries. It aims to contribute towards understanding the subject matter and yield very interesting insights regards microfinance intervention in financial sector.