CHAPTER 2
REVIEW OF LITERATURE

2.1 Introduction

The review of literature is the core part of the thesis. It provides the reader’s insight about the theories involved in his work. Not only that it also helps a researcher to get familiarized with selected research problem and also may provide some guidelines in selecting a proper research methodology. It is also helpful in finding out the research gaps in the existing literature. It helps the researcher to bring a consistency between research problem and methodology. Thus, it is very important to investigate the review of literature. A large number of studies have been conducted so far by the researchers on different issues of microfinance highlighting their working, impact on livelihood and poverty, empowering the rural poor women and strength, weakness and challenges etc. In this chapter, review of such earlier works has been presented. The reviews have been placed under three heads, viz., studies related to microfinance and livelihood, studies related to microfinance and poverty and studies related to microfinance and women empowerment. They are reviewed below one by one.

2.2 Studies Related to Microfinance and Livelihood

Daniels (1999) in his study on five Sub-Saharan African countries estimated that while the micro and small enterprises sector offers employment on average to 22 percent of the workforce, the formal sector provides employment to only 15 percent of the adult working age.

In a study conducted in Kenya in 1994, Daniels (1999) found that micro and small enterprises significantly contribute to job creation and national income in Kenya.

Manimekalai and Rajeswari (2001) in their study analyzed the nature of economic activities. For the purpose of the study a sample of 150 SHG members was selected who were studied according to the nature of their activities from 5 blocks of Tiruchirapalli district of Tamil Nadu. The nature of micro-enterprises run by the groups included trade, agriculture, animal husbandry, processing of food, tailoring, gem cutting, catering, petty shop, bamboo based units
and agro-based units etc. The SHG women were employed both in agricultural and non-agricultural activities. The study found that women SHGs earned the highest profit from agriculture, followed by trade related activities and catering services. The income of the SHG women almost doubled after taking up micro-enterprises.

Dunn and Arbuckle (2001) studied the impact of micro-credit on the Mibanco clients in Peru. The impact was measured using cross-sectional data collected in two parts, once in 1997 and again in 1999. The study demonstrated a very significant positive impact on its clients in terms of income and employment generation. It was found that the participation in the programme led to 9 additional days of employment per month. The authors calculated that based on 40,000 Mibanco members at the end of 1999, 17414 full time jobs were created. It was also found that Mibanco clients earned $266 more per household member per year than the non-participants.

Mishra and Hossain (2001) in their study assessed the impact on mahila-mandal (a rural SHG in Orissa) in terms of employment generation through programme participation of rural women. The impact was assessed, comparing the pre-1996 and post-SHG situation (2001) of the programme participants. The study revealed that the average net income per member per year increased from Rs. 6465 to Rs. 15325 through scientific cotton cultivation, livestock maintenance and small business like retail shop, dry fish trading etc. Additional employment generated worked out to be 185 person days per member.

Robinson (2001) made a study of 16 different MFIs from all over the world and pointed out that having access to MF services have led to an enhancement in the quality of life of clients, had increased their self confidence, and had helped them diversify their livelihood security strategies and thereby increase their income.

Singh (2001) conducted a study in Uttar Pradesh comparing the pre and post SHG situations of women SHGs. He found that the average value of assets increased by 46% and the annual income per household by 28% between pre and post SHG periods. The borrowing for consumption purpose was also done during pre SHG but it was completely absent in the post SHG situation. Credit delivery was easier through SHGs compared to formal and informal institutions. SHGs replaced the moneylenders; credit delivery was made simple and quick with
lower interest. It was suggested to improve the awareness and educate the members to keep records proper to grow in future.

Fisher and Sriram (2002) have shown in their studies that micro-credit is necessary but not a sufficient condition for micro-enterprise promotion. They believe that identification of livelihood opportunities, establishing market linkages for inputs and outputs, adapting technologies, organizing producers, sub-sector analysis and policy reform would be required to upscale the micro enterprises and create a strong impact in the rural areas.

Bhat and Bhuvaneswari (2004) examined on the determinants of earnings of rural women under SHG’s schemes in Puduchery. The findings show that the majority of the respondents are engaged in non-farm activities which are mostly remunerative in nature. All have been done through the financial assistance and institutional support like training, marketing and information on latest technology.

Indira and Rao (2005) studied SHGs in Andhra Pradesh and found sizable increase in number of days of employment. They concluded that substantial economic empowerment has taken place.

Borbora and Mahanta (2008) in their case study in Assam examined the role of credit in generation of employment opportunities for the poor. It was found that the programme had succeeded in generating employment among the members. 43 per cent of the sample beneficiaries expanded their income generating activities. The SHGs had helped to set up a number of micro-enterprises for income generation.

Bansal and Bansal (2012) concluded that poor households use microfinance to move from everyday survival to planning for the future. They invest in better nutrition, housing, health, and education.

Bhuiyan et al. (2012) revealed in the study of Malaysia, that there is much contribution of microcredit towards the sustainable livelihood of the poor borrowers. The study also concluded that microfinance is providing the poor the accessibility for the credit to increase their total family through different livelihood strategies of Income Generating Activities (IGAs) and thus, sufficient income provides a hope to the poor to ensure achievement of sustainable livelihood by
improving good health, access of children's education, achieving skill, acquiring assets, taking part in social activities

2.3 Studies Related to Microfinance and Poverty

Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They also point out that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves.

Using the data from 87 villages in Bangladesh in 1991-92, Pitt and Khandker (1996, 1998) estimated the margin of credit on a number of welfare indicators. Their study showed that household income increases by 18 taka for every 100 taka lent to woman. They also found net positive impacts of credit programs on both human and their physical assets. They have found mixed results when measuring the impact of credit programs on education. The education of boys increased irrespective of whether the borrower was male or female; but the education of girls have increased only when women borrow from the Grameen Bank.

Yunus (1997) opined that for making a poverty free economy, micro credit is not enough. The poor people should be linked to markets, financial institutions and even multinationals. Moreover, he also added that the social investment is able to convert the disadvantaged sections of the society into entrepreneurs.

Otero (1999) points out that microfinance creates access to productive capital for the poor, together with human capital, addressed through education and training and social capital achieved through local organization building enable people to move out of poverty.

Dunn (1999) in a case study of microfinance clients in Lima, Peru, reports only 28 percent of clients live below the poverty line compared to 41 percent of non-clients. She also found that the average income of households participating in microfinance is 50 percent higher than the income of nonparticipating households.
World Bank (1999) survey conducted for the mid-term review of the poverty alleviation and microfinance project among 675 micro-credit borrowers in Bangladesh showed that there had been positive change in the economic and social status of the surveyed borrowers. The survey showed that income had increased for 98 per cent of borrowers; 89 per cent of the borrowers accumulated new assets; and 29 per cent had purchased new land, either for homestead or for agriculture. Food intake, clothing and housing had improved for 89, 88 and 75 per cent of the borrowers. Sanitation conditions improved for 69 per cent and child education for 75 per cent of the borrowers. The improvements had mainly achieved due to the increased level of self-employment of women participants.

Khandker (1999) pointed out very clearly by relating micro finance with school education that 1 percent increase in loans to women increases the probability of school enrolment by 1.97 percent for girls and 2.4 percent for boys. He further shows that 1 percent increase in loan to men increases only the boy’s enrolment by 3.1 percent and no increase in girl enrolment.

Puhazhendhi, (2000) has studied on topic “Micro finance Operations, Performance and some Issues” in Tamilnadu. It was found that 80 percent of the total SHGs was linked to only 8 banks. Some groups were organized by different financial institutions and some of by NGOs. The study found that the average annual net family income of the member of SHGs became double due to bank linkage. However, no information was provided about the growth measurement and the growth of income reported from any comparative control group and therefore the change of income caused by SHGs with bank linkage.

Mayoux (2000) points out that the impact of microfinance on women varies from woman to woman. These differences arise due to the difference in productive activities or different background. Sometimes, microfinance mainly benefit the women who are already better off, whereas the poor women are either neglected by the microfinance programmes or are least able to benefit because of their low resource base, lack of skills and market contacts. However, poorer women can also be more free and motivated to use credit for production.

Remenyi and Quinones (2000) conducting a case study in Asia and Pacific concluded that household income of families with access to credit is significantly higher than for comparable
households without access to credit. In Indonesia, a 12.9 percent annual average rise in income from borrowers was observed while only 3 percent rise was reported from non-borrowers. In Bangladesh, a 29.3 percent annual average rise in income was recorded and 22 percent annual average rise in income from non-borrowers. Sri-Lanka indicated a 15.6 percent rise in income from borrowers and 9 percent rise from non-borrowers. In case of India, 46 percent rise in income was reported among borrowers with 24 percent increase reported from non-borrowers.

The study by Mosley (2001) reveals that the achievement of microfinance in reducing the poverty in Bolivia, Bangladesh and Indonesia is quite impressive and reached reasonably large number of poor but not the vulnerable poor or extreme poverty.

Dasgupta (2001) through his paper pointed out that the informal credit in the form of group approach created a number of benefits like savings mobilized by the poor, access to the required amount of credit by the poor, matching the demand and supply of credit, reduction in transaction cost for both the lenders and borrowers, tremendous improvement recovery, introducing a subsidy-less and a corruption less credit and remarkable empowerment of the women.

Rao’s (2002) study is very much interesting. It reveals that the existing formal financial institutions have failed to provide finances to the under privilege sections in the rural society. On the other hand, he has established that the working of the SHGs help the poorest of the poor to encourage savings and to promote income generating activities with the help of a tiny amount of loan. This kind of credit sustainable working helps borrowers to save themselves from the vicious circle of poverty.

Murdoch and Haley (2002) in their study show that microfinance can significantly increase the income of poor households, which translates into better nutrition and health for impoverished families. The nutritional benefits are particularly felt by children. The remunerations from increase in household income and better nutrition spill over into many other areas in which the poor are in need of help. The holistic impact of microfinance can create a deep and lasting impact on poverty alleviation.

Harper (2003) in his study revealed that saving mobilization is an important issue among the poor for various reasons. Mobilizing savings lift up important considerations for development
programs that are working to boost productive income and employment among low income groups.

Khandker (2005) conducted a study in Bangladesh and found that women’s credit has a significant and positive impact on poverty reduction, education, especially in boys, food expenditure, children’s health, especially girls and adult status.

Shetty’s (2006) through his article “Micro Finance: An Integrated Approach for Micro enterprise Development in India” based on the sample of selected SHG units in Belthangady Taluk of Dakshina Kannada district in Karnataka has established that through the SHG activities incomes of the SHG members increased in a reasonable manner and they had spend more on food articles, on children’s education, on health facility, on new house construction or repair of old houses, on clothes etc than before.

Vinayagamoorthy (2007) made an attempt in his study in North Tamil Nadu, to know the impact of SHGs on the income, expenditure and savings of the members and role of the SHGs in providing rural credit, with the help of primary data. The Study revealed that the income of the members as well as the expenditure has increased considerably. However, the rate of growth of savings is slower because of the incremental expenditure. On the other side, the repayment of loan is prompt among the members of SHG’s.

Osmani (2007) analyzed the impact of credit on the well being of Grameen Bank women clients. The project was found to have increased their autonomy in that they were able to spend family income more freely than non-clients. They had greater control over family planning, but the project was not shown to have had an impact on clients’ control over other decision-making but they were found to have greater access to household resources than non-clients did.

Bebczuk and Haimovich (2007) used household survey data on poor households from a number of Latin American countries to undertake their analysis. They found that credit increased labor income in a statistically and economically significant manner. Access to credit increased the hourly labor income of poor individuals compared with a similar population without access.
to credit by 4.8 times (Bolivia at 10 percent level of significance), 12.5 times (Guatemala at 1 percent level of significance), and 4.5 times (Haiti at 5 percent level of significance).

Kour (2008), in a case study in Jammu District in Jammu & Kashmir examined the impact of SHG’s on rural development by comparing villages with and without SHGs. It is observed that there is no remarkable difference in development between the two groups of villages and suggested that the state agencies should formulate SHG’s and finance them on strict criteria of income generation and poverty alleviation and overall rural development.

2.4 Studies Related to Microfinance and Women Empowerment

Hashemi et al (1996) examined whether women’s access to credit has any impact on their lives, irrespective of who had the managerial control. Their results suggest that women’s access to credit contributes to the livelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness as well as in composite empowerment index. They also found that access to credit was also associated with higher levels of mobility, political participation and involvement in major decision-making for particular credit organizations.

Schuler et al (1996) in their study suggest that group-based credit programs can reduce men’s violence against women by making women’s lives more public. The problem of men’s violence against women is deeply rooted. However, the authors argue that much more extensive interventions will be needed to significantly undermine it.

Gopalan (1997) in her article “Empowerment of women, a case of Andhra Pradesh” identifies the factors responsible for women empowerment, argues that over and above the literacy level, knowledge and awareness put great pressure on empowerment. According to her, group formation is vital for collective strength and access to information.

Gupta (1998) in his paper “Empowerment : A Socio-psychological approach to Self Help Groups Formation” claims that empowerment of the deprived begins with their ability to voice their opinion through the process of consensuses politics and dialogue backed up by access to education, information, organization, employment and credit.
Joshi (1999) opined that, in the absence of any appropriate measure of empowerment, commonly found measures like education, health and employment are used as the surrogates. While these proxy measures are important and are ideally associated with empowerment, they may not capture all aspects of the multidimensional concept of empowerment.

Barna and Borkakoty (2000) in a study conducted among the women entrepreneurs in Assam to find out the impact of EDP strongly argue that women can be the vital agents of change. Trained women can able to manage and reap the benefits of different schemes.

Ashe and Parrott (2001) in their study on the impact of microfinance and women empowerment in Nepal exhibit that 68 percent women experienced an increase in their decision making role in relation to family planning, children marriage, selling property and sending their daughters to school.

Reddy (2002) in his paper “Empowering women through self-help groups and Micro-credit shows that SHGs have positive impact on the status of women in their households and communities. However, in the context of bridging gaps in gender inequality, increasing attention is being paid to enable women to become active partners in decision making, implementation and evaluation of all interventions.

Krishna (2003) examines the role of SHGs in empowering rural poor in Paravda village of Visakhapatnam. The study reveals that SHG concept was successful to some extent in achieving social empowerment and economic progress through improving access to institutional credit. The study further reveals that SHGs have a positive impacts on beneficiaries especially women in respect of social and economic empowerment such as improvement in participation in the development programmes, ability to meet government officials, awareness of property rights, improving decision making improving marketing, communication skills, building self-confidence and the living standards of beneficiaries.

Sinha (2004) in her study ‘Microfinance for women’s empowerment’ finds micro-finance as an effective instrument for women empowerment. It can contribute to solve the problem of
inadequate housing and urban services. She suggests a system of ‘multipurpose composite credit’ for making the SHG concept more effective.

Kabeer (2005) is very much keen to the women empowerment. She examines the impact of microfinance on women empowerment and then on poverty alleviation. Through her writing she try to establish that micro finance is working as an important and effective means to achieving changes on economic, social and political fronts. She, further, opined that the success of microfinance organizations in building up the organizational capacity of poor women provides the basis for their social mobilization that many other development interventions have not been able to achieve.

2.5 Research Gap

Thus, we see that there are so many literatures in this field and so many studies that had been made across the world on the activities of microfinance and the SHGs. But the fact is that almost all the researchers made their research mainly on the financial performance of the self-help groups and confined themselves in the self-help group activities only. But in our study we not only confined ourselves in the financial and group activities of the self-help groups. We take special care about the socio-economic conditions of the member households of the self-help groups along with the other poor households of the lower income strata who are not yet come in the preview of the microfinance network in details. Not only that, we also search in details along with the search of livelihood about the benefits accrued by the member households to be a member of the self-help groups in comparison with the households who are not to be a member of any group. This type of study, as we think, will help us to find out the expectations that generally expected by all from the officials to beneficiaries at the eve of the formation of the self-help groups particularly among the poor people of the rural area. The present work is an attempt in that direction.