CHAPTER 3:

RIVIEW OF THE LITERATURE

The fundamental idea of microfinance is to offer credit to the deprived people who otherwise would not have way in to credit services. Micro-credit or microfinance programmes broaden small loans to very poor people for self-employment projects that produce income and permit them to take care for themselves and their families. This programme was functioning in many developing countries. There is no deficiency of literature associated with microfinance. In order to come across the impact of microfinance programme, impact measurement studies have been finished by many workers in many countries like India Pakistan, Nepal, Bangladesh, Ghana, Thailand, Rwanda, and many parts of South Africa and Asia. The study on microfinance offers a variety of conclusions relating to the category and stage of effect of the programme. There are a variety of work, confirming that microfinance has a momentous optimistic brunt in escalating employment and tumbling the poverty. Many workers showed that the partaker households enjoy higher standard of living in comparison to the non-partaker. The programme decreases utilization as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the programme is supportive in attaining millennium progressive targets by decreasing poverty, hunger, communicable diseases and through women empowerment. There were number of works explaining that the contribution in the programme has led to greater levels of support in terms of increase in information, financial, mobility, self confidence, development of organizational skills, communal and political consciousness etc. However, some of the studies showed that the programme is not attainment
the base poor people and the group loans were used for non-income generating behavior such as spending and other urgent situations. The studies also showed that the women beneficiaries have limited control over the use of group loans, that’s why the programme results in partial empowerment of women beneficiaries. Therefore the text on microfinance gives varied outcome about the impact of microfinance programme on the programme beneficiaries. The review of studies provides valuable some insights into the benefits and drawbacks associated with microfinance. The studies relevant to the present study have been discussed.

3.1 History of Microfinance:
Over the past centuries, there were numerous credit groups that were operating globally but practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century such as Friedrich Wilhelm Raiffeisen while the the modern use of the expression "microfinancing" has roots in the 1970s when organizations, such as SEWA bank (established in the year 1973) named as Mahila SEWA cooperative bank with the aim of accessing financial services easily. The meaning of SEWA is, ‘The Self Employed Women’s Association’. As for the updates on this bank, it is stated that the bank accommodates over 30,000 clients. The history of micro financing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. Another bank in the year 1983 is Grameen Bank of Bangladesh with the
microfinance pioneer Muhammad Yunus (professor of economics at Chittagong University in the 1970s), were starting and shaping the modern industry of micro financing (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people the Grameen Bank began experimenting in lending financial services to the poor women population in the village of Jobra, Bangladesh. This bank is unlike the lending cooperatives and the Credit Unions that have been around for years. Since the time the Grameen Bank was established, innovation in microfinance continued and financial services to the poor never stopped. It is stated by the World Bank that estimated number of 160 million people in developing countries are services by microfinance. This bank is stated to serve approximately more than 400,000 underprivileged populations in Bangladesh. In addition to the stated, this bank has received Nobel Prize in the year 2006 and it has also stimulated the formation of other microfinance institutions like PROSHIKA, BRAC and ASA (Helms, 2006). After that, there were many credit and formal savings institutions that have long been working throughout the world. In the 1990s it is stated that the poor from the rural and urban Europe formed credit institutions. These institutions were recognized as Credit Unions or People’s Bank etc. The goal of these institutions was to provide smooth or easy access to finance to the poor people overlooked by the huge financial institutions and banks. ACCION International is the institution established by a law student from Latin America. The purpose of this institution was to help the poor people residing in the urban and rural communities of the Latin America. In the year 2008, it is marked as one of
the most influential and efficient microfinance institutions of the world. Its networking partners consist of the United States of America and Africa. But the success of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world, it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Hans Dieter Seibel, board member of the European Microfinance Platform, is in favour of the group model. This particular model (used by many Microfinance institutions) makes financial sense, he says, because it reduces transaction costs. Microfinance programmes also need to be based on local funds (www.inwent.org).

3.2 Microfinance in India-the Roller Coaster:

Asia has been leading the global exposure to microfinance: it is estimated that in 2010, 75% of the world’s microfinance borrowers (around 74 million borrowers) were based in Asia (Microfinance Information Exchange, 2012). Seven out of every 10 of such borrowers live in India (32 million) or Bangladesh (22 million). Furthermore, over the past decade India has become the most dynamic country for microfinance. While the number of borrowers in Bangladesh remained broadly stable in the 2000s, after an earlier period of growth in the 1990s, in India the number of borrowers increased 5-fold in just six years until 2010. In 2011, there was an estimated $4.3 billion given out as loans to around 26.4 million borrowers in India, most of whom (nearly 90%) were concentrated in just two states: Andhra Pradesh and Tamil Nadu. Microfinance in India, as elsewhere, originally began as part of a developmental and poverty-reduction project, led by NGOs who thought this would be an effective way of allowing the poor to
lift themselves out of poverty by their own efforts. Many NGOs began the process of group lending based on self-help groups (SHGs) and the linkage with commercial banks (whereby banks were allowed to lend to groups with a proven track record of repayment) further enlarged its scope. SHGs and their federations became the intermediaries between individual clients (who were mostly women) and the commercial banking system through the SHG–Bank Linkage Programme (SBLP). The basic methodology being used in commercial microfinance in India was broadly along the lines innovated by Grameen Bank and later adapted by several players. This involved three steps: (i) identifying potential customers, typically on the basis of some measure of poverty, which also ensured significant homogeneity among customers; (ii) organising them into groups (SHGs) that effectively dealt with the problems of information asymmetry described earlier; and (iii) offering standardized products based on standardized operating systems, with strict enforcement of discipline that ensured that the exceptions were dealt with severely. There were some differences from the Grameen model, particularly in the role of the SHGs. An SHG has 10–20 members and each member saves a certain amount every month; the SHG lends the collective savings on a monthly basis to its members sequentially on terms decided by the group. Further: In addition to group-generated funds, the group may also borrow from outside, either from the commercial bank with which it maintains a group account or from the NGO sponsoring it, in order to supplement the group’s loanable funds. As SHG members maintain their individual accounts with the SHG (and not with the sponsoring NGO), the SHG is the retailer in the Indian case and performs most of the transaction functions, unlike in Bangladesh, where the microfinance institution is the
retailer. (Kalpana, 2005). The SBLP began in 1992 and has grown exponentially thereafter. National Bank for Agriculture and Rural Development (NABARD 2011) estimates that currently around 97 million households have access to regular savings through 7.46 million SHGs linked to different banks. About 4.78 million SHGs also have access to direct credit facilities from banks; around 82% of these are women-only SHGs. The focus on women borrowers has been a major feature of microcredit provision in India as in Bangladesh and is frequently cited as one of the ongoing public strategies for women’s economic empowerment. However, as pointed out by Kalpana (2008) even this linkage has often reflected and accentuated traditional patterns of gender discrimination: ‘When they seek access to bank credit, women’s groups are in a dependent relationship, and are subject to, and tarnished by, the institutional imperatives, systemic corruption and political compulsions that shape the behaviour of rural development bureaucracies and banks.’ Indeed, loan recovery pressures from banks have added to the push factors (such as household livelihood stress, medical costs, migration, etc.) that drive poor women out of microcredit programmes. Bank pressure also creates tensions within SHGs that undermine solidarity and social cohesion among women. It is common to deny SHG membership to women who have experienced or are likely to experience financial stress, which obviously particularly impacts upon women from more deprived and marginalised groups. It is often found that women from Scheduled Tribe or Scheduled Castes communities or other deprived groups are disproportionately excluded from SHG groups or forced to form SHGs of their own, which are viewed as inherently weaker. The very existence of MFIs has therefore sometimes been seen as another vehicle
for reinforcing the multiple deprivations of vulnerable women (Nirantar, 2007). Unlike Grameen Bank and similar institutions around the world that are funded primarily by deposits raised from their own borrowers and non-members, Indian MFIs are prohibited by law from collecting deposits. So Indian MFIs did not have a legal framework that would allow them to ‘involve the community in the ownership structure of an MFI’ (Sriram, 2010). When ‘developmental’ or donor funds were not forthcoming, they could not access private investors because they could not distribute the profits made, which made it harder for them to access adequate capital for expansion. This led to the drive for ‘transformation’ of the industry: the move from a not-for-profit to a for-profit format. While the MFIs of the 1990s were all started with the explicit intention of broader public purpose, and therefore spearheaded by NGOs, in the 2000s several of them transformed into for-profit entities and new ones emerged that originated with a for-profit intention. By 2009, the 233 MFIs that reported to the umbrella organisation Sa-Dhan apparently served 22.6 million clients independently of SBLP, with nearly two-thirds of this outreach being accounted for by for-profit MFIs (Sa-Dhan, 2009, quoted in Copestake, 2010). This process was actively assisted by the public sector bank SIDBI (Small Industries Development Bank of India). In addition, the former development bank ICICI Bank, which had itself transformed into a commercial bank that aggressively sought new profit-making opportunities, launched a securitisation product in 2003, wherein it would buy out the portfolio of the MFIs in return for an agreement for collection of the loans. Every time a portfolio was bought out, the MFI would get the ability to lend and borrow more and therefore expand. At the time, this process was widely
celebrated as a ‘win–win situation’, as private profit could be associated with financial inclusion, extending formal financial institutions to the poor who were otherwise excluded. However, the problems with this for-profit model speedily emerged, as the excessively high interest rates and often unpleasant and undesirably coercive methods that were used to ensure repayment showed that these new ‘modern’ institutions were no different from the rapacious traditional moneylenders that were supposed to be displaced by the more supposedly acceptable norms of institutional finance. As it happens, most MFIs charge interest rates of anywhere between 30% and 60% per year, with added charges and commissions and penalties for delayed payment. The rates are therefore not dissimilar to the rates charged by traditional moneylenders and other informal lenders in rural India. Sriram (2010) has also pointed to another aspect of this transformation that has more in common with the various other methods of the ‘get rich quick’ capitalism of the past decade in India. In a study that examines in detail the ‘transformation’ of four prominent MFIs in India (SKS Microfinance Ltd, Share Microfin Ltd, Asmitha and Spandana), he noted that in some cases this was also associated with the private enrichment of the promoters through various means. These included inflated salaries and stock options provided to the top management, who were usually the promoters. A more interesting legal innovation was the use of mutual benefit trusts (MBTs) that aggregated the member-borrowers of SHGs as members. The grant money received for the purposes of ‘developmental’ microcredit could then be placed in the MBT, which would in turn contribute to the newly created for-profit MFI. In the case of two of these companies (Share Microfin and Asmitha) the matter was compounded by cross-holding, since the promoters of the two
companies were the same family. The initial public offering of SKS Microfinance in 2010 was attended by a media blitz in which the Who’s Who of the international private philanthropic community joined hands with other more explicitly profit-minded investors in singing the praises of this new model that supposedly combined private incentives with public purpose. Ironically, this was also the most apt representation of hubris before the collapse, as the for-profit microfinance model then suffered severe blows to both its prestige and its viability, from which it has yet to recover. Figures 1, 2 and 3 are based on data provided by the Microfinance Information Exchange (www.themix.org) on MFIs in India. A sample of 26 reasonably large MFIs for which data are available from 2005 to 2011 have been taken. These include some of the more prominent NGO providers (such as Self Employed Women’s Association SEWA Bank and Shri Kshetra Dharmasthala Rural development Project SKDRDP) as well as some not-for-profit companies, some of which ‘transformed’ into for-profit companies (such as Share Microfin Ltd, Spandana, BASIX and SKS Microfinance Ltd). The figures show clearly how the main indicators of MFI performance peaked in 2010 and thereafter have been declining. The gross loan per active borrower is the only indicator that shows some increase—but this is probably illusory, since many loans that should be written off because of low possibility of being repaid are still being kept on the books. How did this decline occur? The answer must be sought in the recent pattern of growth of microfinance in India. The explosion of MFIs, particularly those that are profit driven, in India has been heavily concentrated in two states (Andhra Pradesh and Tamil Nadu), which by 2010 accounted for nearly 90% of all borrowers and value of loans of MFIs. In both of these states, private profit-
making MFIs arrived precisely because they could leverage the existing SHG networks, which were largely built by NGOs in the first instance. The problems with the model, particularly the profit-driven version, were becoming sharply evident by the middle of the year 2010. By then, media reports were talking of more than 200 suicides related to the pressure of repayment of MFI loans. One news report (Kinetz, 2010) suggested that an internal study commissioned by SKS Microfinance Ltd (which was not subsequently made public) had found evidence of several suicides linked with loans made by the MFI. The microfinance crisis in Andhra Pradesh provides almost a textbook example of what can go wrong in allowing the proliferation of relatively less-regulated MFIs in a boom that occurs under the benign gaze of the government. Arunachalam (2011) has pointed to a number of causes for this crisis, which are closely related to the very functioning of the sector in both for-profit and not-for-profit variants. In particular, the explosion of multiple lending and borrowing was a prime cause, and this was positively encouraged by MFI lenders. Poor households took on multiple loans from different sources, often only for the purpose of repaying one of the lenders, and this was fed by the combination of aggressive expansion in the number of clients and strict enforcement of payments. Further, despite the claims about personal involvement and group solidarity being the basis of the lending process, Arunachalam notes the widespread use of agents. There are two main types of microfinance agents: local grassroots politicians, who use the loans to add to their political clout; and the heads of federations of borrower groups (or SHGs), who make an additional profit by controlling or appropriating the flow of loans. Such agents also exercise tremendous power vis-à-vis not just the borrowers but
also the MFIs themselves, as they ensure clients for the MFIs or cause them to lose clients and have their own means of (usually extra economic) coercion to ensure payments. These agents have become essential to the functioning of the system, as MFIs benefit from them and yet can claim that they are at arm’s-length from any malpractices involved in loan recovery. Priyadarshee and Ghalib (2011) describe a process whereby the MFIs not only offered multiple loans to the same borrower household without following due diligence, but also collaborated with consumer goods companies to supply consumer goods such as televisions as part of their credit programmes. These purely consumption loans exacerbated the already worsening indebtedness of poor households and some of them started defaulting in repayment. Several MFIs then resorted to openly coercive methods for loan recovery. Extreme repayment pressure forced borrowers to approach moneylenders to borrow at exorbitant rates of interest simply to repay the MFIs. When the situation became impossible, and no fresh loans were accessible, some of these borrowers committed suicide and the issue attracted widespread media coverage. The Andhra Pradesh state government blamed the MFIs for fuelling a frenzy of over indebtedness and then pressuring borrowers so relentlessly that some took their own lives. It immediately brought in regulations to control their activities, particularly measures to prevent the forcible recovery of loans from poor borrowers. The Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance, 2010 was implemented with effect from 15 October 2010. The ordinance mandated all MFIs to register themselves with the government authority while specifying the area of their operations, the rate of interest and their system of operation and recovery. The ordinance also specified
stiff penalties for ‘coercive action’ by MFIs while recovering their loans. In addition, it prohibited them from extending multiple loans to the same borrower and limited the total interest charged to the extent of the principal amount. This generated an acute crisis in the MFIs, which was then aggravated by a wave of defaults across the state; this has since made most of their functions financially unviable. The lack of confidence among borrowers that many MFIs will continue to exist has further reduced the incentive to repay, thus leading to a stalemate. A report in 2011 (Economic Times, 2011) quoted the high-flying Chairman of SKS Microfinance Ltd, Vikram Akula, as saying that the loan recovery rate in Andhra Pradesh had dropped to 10%; he resigned from that post shortly afterwards. In addition, this is perceived to have altered the behaviour of MFIs in other states, making them even less willing to lend to poor borrowers because of the higher transactions costs and risks involved. In other words, the perceived advantages of microfinance in terms of providing viable financial services to poor clients appear to disappear once they are regulated to prevent irresponsible lending and the coercive extortion of repayments! Obviously, this particular financial crisis cannot be separated from the wider social and economic circumstances within which it played out. So it must be seen in the context of the severe impact on the agrarian economy resulting from the combination of trade liberalisation, cycles of repeated drought, increasing rural differentiation and ‘a generalized crisis of social reproduction among land-poor farmers and landless labourers’ (Taylor, 2011). This context of economic uncertainty and growing distress created a ready clientele for the influx of microfinance, as households sought to maintain consumption and somehow deal with previously accumulated debt for productive or other
purposes. But the very vulnerability that drove the expansion of microfinance in this area has been further accentuated by the crisis and the current uncertainty of the sector in this region. A (presently) draft legislation has been placed in the Indian Parliament on the regulations of MFIs: the Microfinance Institutions (Development and Regulation) Bill, 2012. The legislation is supposed to deal with the regulatory issues and make it possible for MFIs of both non-profit and for-profit varieties to function again. The main concern, however, is that the regulation as it is currently drafted puts more emphasis on the ‘promotion of the microfinance sector’ than it does on the necessary regulation and the need for developing mechanisms to ensure strict compliance with the regulations, which will limit phenomena such as over lending, multiple borrowing and coercive means of gaining repayment, especially through agents. More worryingly, the draft legislation implicitly seems to be driven by the belief that microfinance is an effective way to reduce poverty, a claim that is less and less valid on the basis of international and national experience.
Fig. 3.1 Gross loans of 26 large MFIs in India ($ million).

Fig. 3.2 Active borrowers of 26 large MFIs in India (million).
Fig. 3.2 Gross loan per active borrower of 26 large MFIs in India ($).
3.3 Operation of Microfinance:

In 1992 Bank Linkage Programme, considered as a landmark development in banking with the poor started by Self Help Group of NABARD was also a breakthrough in the microfinance programme. After that as a observation Regional Rural Banks’ security-oriented individual banking system was replaced by the delivery of credit to focused groups. And it was found that government sponsored programmes had occupied much of the economic space but did not achieve the objective of palliating poverty (Sheokand 2000). Gurumoorthy (2000) explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. This programme had been proved very successful for the socioeconomic empowerment of very poor, providing financial services to them and preparing them to take up economic activities for poverty alleviation. Although this programme was not a panacea for the problems of rural poverty, yet it had the potential for becoming a permanent system of rural lending in the country with full participation from the formal banking system and without any interference from the government. It was an organised set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for the purpose of encouraging them to enter into entrepreneurial activities and for making them enterprising women. Rutherford (2000) and Armendáriz & coworkers (2005) explained the difference between microfinance and micro-credit. Micro-credit referred specifically to small loans given to the poor people but microfinance was a broader term embraced efforts to collect savings from low-income households, provide consumption loans and insurance along
with micro-credit. It also helped in distributing and marketing clients’ output. Microfinance embraced a range of financial services that seek to meet the needs of poor people, both protecting them from fluctuating incomes and other shocks and helping to promote their incomes and livelihood. The financial sector developed in India by the end of 1980s was largely supply and target driven. The government sponsored poverty alleviation schemes experienced poor recovery rates with misutilisation of subsidy and lack of observation of repayment ethics. The repayment rate under the Integrated Rural Development Programme (IRDP) remained less than one-third and the programme created about 40 million bank defaulters. In 1989, with the first official loan waiver, credit discipline was thrown to the wind. This created cynicism amongst bankers about the credit worthiness of poor people. Also, a dominant perspective was developed that the finance for rural poor people was a social obligation and not a potential business opportunity (Fisher and Sriram 2002). Gaiha et al. (2001) in his study concluded that larger sections among the poor were not covered in the two major anti-poverty programmes (Rural Public Works and IRDP) in India and the impact of these programmes was limited due to their gross mistargeting and selection of non-poor as participants While Harper (2002) studied the differences, outreach and sustainability of the SHG banking system and Grameen banking system of providing microfinance. SHG bank linkage and Grameen banking systems dominated the microfinance markets in India and Bangladesh respectively. In SHG bank linkage system 10 to 20 members formed a group and this group became an autonomous financial organisation, received loans from the bank in group name and the group members carried all saving and lending transactions on their own behalf.
Thus, SHG was effectively a micro bank. But in Grameen banking system microfinance participants organised themselves into groups of five members and each member maintained her individual saving and loan account with microfinance organization and the main function of the group was to facilitate the financial intermediation process. It was also found that both systems were best suited to their prevailing environments. SHG bank linkage system was more flexible, independence-creating and imparted freedom of saving and borrowing according to the member’s requirements, so was suitable in the Indian context. But Grameen banking system was more rigid, autonomous, over disciplined and dependence creating system which was suitable in Bangladesh where people were relatively more homogeneous, very poor and had less experience of democracy. It was also found that SHGs were probably less likely to include poor people than Grameen Bank groups but neither system reached the poorest. It was also found that SHG members were free to manage the group financial affairs so they were more empowered but at the same time more vulnerable. Grameen groups were much better protected against internal and external threats. Their members were less vulnerable but also less empowered. Singh (2003) had explained the failure of government initiated anti-poverty programmes and the success of microfinance programme as an effective poverty alleviation strategy in India. According to him the government-implemented rural development programmes failed because these were centrally invented (lacking participation of local level institutions), politically motivated, had leakages, misappropriation and heavy administrative expenses. More than 250 million people in India remained poor, even after 50 years of independence. Failures of these institutional initiatives and learning from the success of the
Grameen Bank in Bangladesh had given way to the development of microfinance programme in India in 1992. Many NGOs who were following SHG promotion approach such as Mysore Resettlement and Development Authority (MYRADA) in Karnataka, Society for Helping and Awakening Rural Poor through Education (SHARE) in Andhra Pradesh, Rural Development Organisation (RDO) in Manipur, People’s Right and Environment Movement (PREM) in Orissa and Andhra Pradesh, Youth Charitable Organisation (YCO) in Andhra Pradesh, Acil Navsarjan Rural Development Foundation (ANaRDe) in Gujarat, ADITHI in Bihar Professional Assistance for Development Action (PRADAN) and Rural Development Society for Vocational Training (RUDSOVAT) in Rajasthan came forward in this sector. These NGOs were proving very successful in reducing poverty level of its clients and generating additional employment opportunities. Though in its young age microfinance sector had a diversified growth and multiplicity of impacts, as impact on income, employment, health, education, housing and sanitation etc. The programme was playing an important role in the process of development particularly when subsidy and grant based schemes were losing their importance. Basu and Srivastava (2005) in their Rural Finance Access Survey-2003 conducted jointly by World Bank and National Council of Applied Economic Research, India, highlighted the inadequacies in rural access to formal finance and the exploitative terms of informal finance, which provided a strong need for innovative microfinance approaches. The survey took a sample of 6000 rural households from two Indian states-Andhra Pradesh and Uttar Pradesh. The study indicated that rural banks serve primarily the needs of the richer rural borrowers and the rural poor faced severe difficulties in accessing savings
and credit from the formal sector. The survey showed that 66 per cent of the large farmers had a deposit account and 44 per cent had access to credit. While only 30 per cent of the marginal/landless farmers had a bank account and 87 per cent had no access to credit from a formal source. So, they had to depend on informal sources of finance. Around 44 per cent of the households surveyed, borrowed informally at least once in preceding 12 months and the interest charged on informal loans averaged 48 per cent per annum. It was also found that the largest uses of informal loans were for meeting family emergencies (29 per cent) and social expenditures (19 per cent) arising from events such as births, marriages and deaths. Some 13 per cent of borrowers reported using informal loans for investment related purposes. The differences between Grameen Bank and conventional banks were explained by Yunus (2006). He explained that the Grameen Bank methodology was almost the reverse of the conventional banking methodology. Conventional banking was based on the belief that the more you have, the more you get. As a result, more than half of the population of the world was destitute of financial services of the conventional banks as conventional banking was based on collateral, focused on men, located in urban centers and owned by rich with the objective of profit maximization. On the other hand, the Grameen Bank started with the belief that credit should be accepted as a human right, where one who did not possess anything get the highest priority in getting a loan. Grameen Bank methodology was not based on the material possession but on the potential of a person. Grameen Bank, which was owned by women, had the objective of bringing financial services to the very poor, particularly women to help them fight poverty, stay profitable and financially sound. Yunus described
poor people as a ‘human bonsai’. They were poor because society had
denied them the real social and economic base to grow on. Grameen Bank’s
effort was to move them from the flowerpot to the real soil of the society.
Sarkar (2008) in his research discussed the new model of microfinance in
Bangladesh and expressed the need of some institutional reforms in the
microfinance development strategy of India. The Grameen Bank had
introduced a more flexible credit system named as Grameen-II. Under this
new system, loans of different duration suited to individual needs were
provided. Besides the duration of the loan, the size of weekly instalments
could be varied and the borrower could pay less during the lean season and
more during the busy season. All borrowers started with a basic loan. In
addition to the basic loan, the same borrowers were also granted a housing
loan and a higher education loan simultaneously. The most important feature
of the flexible loan was that, if borrowers were unable to repay their loans,
they were no longer seen as defaulters, rather they had a legitimate way to
remain within the folds of the organisation so that they may continue to
receive loans. The Grameen Bank had also introduced a pension fund for its
borrowers with a minimum contribution for each borrower towards a
pension deposit scheme. Further, the Grameen Bank had introduced loan
insurance for its borrowers to pay off a member’s debt in the event of her/his
death. In this way, Grameen-II introduced a range of attractive new savings
and loan products for its borrowers, which the SHG-bank linkage model of
India was lacking. The determinants of financial inclusion and studied the
relevance of Self Help Groups (SHGs) in achieving financial inclusion
empirically ascertained by Sangwan (2008). For the purpose of the study, the
cross-section data of 42 Regions from different states and UTs of India was
used. The coverage under financial inclusion was assessed in terms of percentage of adults having credit and saving bank accounts. In order to find out the determinants of financial inclusion a multiple regression technique was applied. The empirical evidence of impact of bank branch density, level of income, literacy and SHG membership on financial inclusion was estimated with this technique. It was stated that as on March 2006, the financial inclusion of adults above 19 years of age was 63 per cent in terms of saving accounts and 16 per cent in terms of credit accounts and about 37 per cent adults in India did not use financial services. The regression equations estimated with cross section data of States revealed that the branch density had positive and significant coefficient with the percentage of adults having saving as well as credit accounts. The coefficient of per capita income was also positive and significant. Literacy percentage had surprisingly negative relationship with both percentage of saving as well as credit accounts of adults. It may be partly because of lack of financial education among the educated ones. The results substantiated that the persons having low income and less geographical access to bank for e.g., agricultural labourers, marginal and small farmers, migrant labourers, tribal and women) were excluded from the financial inclusion. The regression equations were also estimated by including percentage of adult covered in SHGs, the variable had positive association with the level of financial inclusion especially in credit accounts. It suggested that SHGs could play significant role in achieving the financial inclusion especially for women and low-income families.
3.4 Role of Microfinance in Economic and Social Development:

_Barr (2005)_ evaluated the relationship between the microfinance and financial development. He argued that millennium developmental goals would only be achieved if the new financial reforms will focus more on microfinance to curb the poverty and thus achieving financial development. He emphasized on making the microfinance an integral part of the overall financial development strategy of any developing economy.

_Khandker (2005)_ in his article scrutinized the effects of microfinance on poverty reduction at both the participant and the aggregate levels using panel data from Bangladesh. The results suggested that the access to microfinance contributes to poverty reduction, especially for female participants, and to overall poverty reduction at the village level microfinance thus helps not only poor participants but also the local economy.

_Tulchin (2006)_ in his policy working paper examined microfinance as a sustainable tool for urban poverty alleviation in Latin America and the impact that government actors have on the sector. The paper begins by defining the value of microfinance and its role in development within the urban Latin American context. As per the author, Government actors in developing nations impact the sector through economic policy, financial institution regulation, and supervision. Governments and their implementing agencies shape the overall environment in which microfinance institutions operate. They can also be influential in linking microfinance to other productive financial flows, particularly remittances. ‘Sustainable microfinance’ was also defined and then considered in light of two goals: on a micro level, financially self-sufficient institutions able to provide services
without external funding; and on a macro level, industry ‘massification’ to rapidly extend outreach to reach more people and make microfinance a meaningful vehicle for poverty alleviation. Test factors of sustainability included: 1) market-driven cost of services to clients; 2) institutional financial soundness; 3) repeat clients; and 4) an ongoing industry. Actor behavior was evaluated based on the success of these indicators. Lastly, the paper provided a research agenda to develop deeper support for policy recommendations.

*Sengupta and aubuchon (2008)* have focused on achievement made by Prof. Muhammad Yunus and the Grameen Bank for their efforts to create economic and social development from below. Their article was intended as a non-technical overview on the growth and development of microcredit and microfinance. The grameen bank and its achievement were reviewed. They emphasized on the group lending mode of granting microfinance and how it is beneficial. The paper also reviewed the microfinance in different economics and its future.

*Vanroose & D’Espallier (2009)* in their paper analyzed the relationship between performance of microfinance institutions (MFIs) and the development of the formal financial sector of the country in which the MFI is active. They found indications of interdependencies between MFI-performance and formal financial sector development and also found that the MFIs reach more clients and are more profitable where access to the formal financial system is low.

*Kumar, Bohra and Johari (2010)* in their descriptive paper analyzed the present microfinance sector of India focusing on economic problems like population, under employment, low rate of education, low per capita income
etc. that has actually resulted in poverty. Another major factor, as per the authors, resulting in poverty is the low asset base. The paper also centers its attention on microfinance in rural sector of our economy and how marketing of microfinance takes place in such areas. The paper concluded that the rural people have very low access to institutionalized credit especially from commercial banks which needs to be improved.

Pillai and Nadarajan (2010) in their paper provided evidences about Microfinance being a powerful tool to alleviate poverty and empowering rural women and also in bringing social and economic changes in the rural India. Microfinance and self help groups were found to be successful in promoting empowerment of SHG leaders in psychological, economic, social aspects, managerial skills and their attitudes in Kanyakumari District.

Imai et al. (2010) examine whether household access to microfinance reduces poverty, using a multidimensional welfare indicator using national household data from India, the treatment effects model is employed to estimate the poverty-reducing effects of microcredit for productive purposes, such as investment in agriculture or non-farm businesses. This models take into account the endogenous binary treatment effects and sample selection partiality associated with access to MFIs. Despite some limitations, such as those arising from potential unobservable important determinants of access to MFIs, significant positive effect of MFI productive loans on the multidimensional welfare indicator is confirmed. The significance of treatment "effects" coefficients is verified by both Tobit and Propensity Score Matching models. In addition, it is found that loans for productive purposes were more important for poverty reduction in rural than in urban areas. However in urban areas, simple access to MFIs has larger average
poverty-reducing effects than access to loans from MFIs for productive purposes.

_Awojobi and Bein (2011)_ in their paper have established a causal relationship between the variables selected and evaluated it with the “t-test” statistic. The relevance of the independent variables in explaining the subject has been justified based on the F-statistic test and R2 coefficient of multi-determination. They also used a lin-log regression model, where economic growth has been regressed on poverty level in Nigeria. Results showed that about 93 percent variation in GDP is explained by changes in micro loans and savings. And 79 percent change in poverty was due to growth and unemployment. It was also observed that poverty is multifaceted and it is because of the lack of productive resources in the country. It was revealed that the standard of living of the Nigerian people can be improved by providing them finance (Capital). Because of which there can be extensive participation in economic activities which could improve their lives.

_Devaraja (2011)_ has described the evolution of the Microfinance revolution in India. The study stated that the outreach of such activities has been low along with the question mark on the profitability and sustainability of MFIs. This paper defined the three distinct aspects where government needs to play a significant role. The first was to protect the rights of the micro-borrower. The second was that of prudential oversight or risk taking by firms operating in microfinance. The third was a development role, emphasizing scale-up of the microfinance industry where the key issues are diversification of access to funds, innovations in distribution and product structure, and the use of new technologies such as credit bureaus and the
UID. He also suggested having proper regulation mechanism for the microfinance industry.

_Krishnan (2011)_ emphasized on the well functioning of financial system for the long-run economic growth of a country. The paper looked at how the financial development of an economy can be measured. It then traced the financial development of India through the 1990s to the present, assessing the development of each segment of financial market. In doing so, it highlighted the dualistic development of the financial sector. Finally, the paper made an attempt to offer an explanation of this dualistic development and proposed a road map for future development of financial markets in India.

Raj (2012) in his study examined that The Women’s Self Help Group movement is bringing about a profound transformation in rural areas of India. Microfinance Institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor.

Shankar (2013) in his study examined that MFIs do break down many barriers to financial inclusion MFI penetration in the country is skewed and excludes some areas neglected by the banking sector, suggesting a need for policy incentives to encourage expansion to those areas.

Ghosh (2013) in his study examined that that microfinance cannot be seen as a silver bullet for development and that profit oriented microfinance institutions are problematic. To fulfill even some of its progressive goals, it must be regulated and subsidized, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.
3.5 Role of Microfinance in Women Empowerment:

Kapur (2001) in her study tried to discuss, analyse and answer the challenging questions as to why despite all the efforts and progress made, still there continues to be so much of gender discrimination and what strategies, actions and measures to be undertaken to achieve the expected goal of empowerment. She opined that women’s empowerment is much more likely to be achieved if women have total control over their own organisations, which they can sustain both financially and managerially without direct dependence on others. Pattanaik (2003) in her study reveals that SHGs are continuously striving for a better future for tribal women as participants, decision-makers and beneficiaries in the domestic, economic, social and cultural spheres of life. But due to certain constraints like gender inequality, exploitation, women torture for which various Self Help Groups are not organised properly and effectively. Malhotra (2004) in her book has examined how women entrepreneurs affect the global economy, why women start business, how women’s business associations promote entrepreneurs, and to what extent women contribute to international trade. It explores potential of micro-finance programmes for empowering and employing women and also discusses the opportunities and challenges of using micro-finance to tackle the feminisation of poverty. According to her, the micro-finance programmes are aimed to increase women’s income levels and control over income leading to greater levels of economic independence. They enable women’s access to networks and markets, access to information and possibilities for development of other social and political role. They also enhance perceptions of women’s contribution to household income and family welfare, increasing women’s participation in household decisions
about expenditure and other issues leading to greater expenditure on women’s welfare. Narasaiah (2004) in study mentioned that the change in women’s contribution to society is one of the striking phenomena of the late twentieth century. According to him micro-credit plays an important role in empowering women. Giving women the opportunity to realise their potential in all spheres of society is increasingly important. Cheston & Kuhn (2004) in their study concluded that micro-finance programmes have been very successful in reaching women. This gives micro-finance institutions an extraordinary opportunity to act intentionally to empower poor women and to minimise the potentially negative impacts some women experiences. Manimekalai (2004) in his article commented that to run the income generating activities successfully the SHGs must get the help of NGOs. The bank officials should counsel and guide the women in selecting and implementing profitable income generating activities. He remarked that the formation of SHGs have boosted the self-image and confidence of rural women. Sahu and Tripathy (2005) in their edited book views that 70 per cent of world’s poor are women. Access to poor to banking services is important not only for poverty alleviation but also for optimising their contribution to the growth of regional as well as the national economy. Self Help Groups (SHGs) have emerged as the most vital instrument in the process of participatory development and women empowerment. The rural women are the marginalized groups in the society because of socio-economic constraints. They remain backward and lower position of the social hierarchical ladder. They can lift themselves from the morass of poverty and stagnation through micro finance and formation of Self-Help Groups. Das Gupta (2005) in his article commented that a paradigm shift is required from
“financial sector reform” to “micro-finance reform”. While the priority sector needs to be made lean, mandatory micro credit must be monitored rigorously. Simultaneously space and scope have to be properly designed for providing competitive environment to micro-finance services. Extensive database needs to be created by the RBI for understanding micro-finance. Sinha (2005) in his study has observed that micro-finance is making a significant contribution to both the savings and borrowing of the poor in the country. According to him the main use of micro-credit is for direct investment. There is of course some fungibility, depending on household credit requirements at the time of loan disbursement. In the feminist paradigm, empowerment goes beyond economic betterment and well-being to strategic gender interests (Bali-Swain 2006). Sengupta and Aubuchon (2008) have focused on achievement made by Prof. Muhammad Yunus and the Grameen Bank for their efforts to create economic and social development from below. Their article was intended as a non-technical overview on the growth and development of microcredit and microfinance. The Grameen bank and its achievement were reviewed. Paper also emphasized on the group lending mode of granting microfinance and it’s benefit. Paper also reviewed the microfinance in different economies and its future. D’ Espallier, Guerin and Mersland (2009) postulates that women are better borrowers in comparison to men in terms of utilisation of the loan amount in order to improve the family’s life quality. Pillai and Nadarajan (2010) in their paper provided evidences about Microfinance being a powerful tool to alleviate poverty and empowering rural women and also in bringing social and economic changes in the rural India. Microfinance and self help groups were found to be successful in
promoting empowerment of women leading to development. Their paper analyzed the impact of microfinance on the empowerment of SHG leaders in psychological, economic, social aspects, managerial skills and their attitudes in Kanyakumari District. Vani S.Kulkarni(2011) notes that the empowerment potential of microfinance has been articulated very forcefully in recent years, primarily because the key actors are women. Driven by the motivation to involve women in the development process in order to achieve sustainable growth and development and recognizing that women are the poorest of the world’s poor population and that they spend their earnings more on family welfare has led governments, development practitioners and donor agencies to focus on microfinance as a strategy capable of reaching and empowering women. Mamun and Adaikalam (2011) investigated the effect of Amanah Ikhtiar Malaysia’s (AIM) Urban Microfinance Program on their client’s quality of life in Peninsular Malaysia. This study employed a cross sectional design with stratified random sampling method. A quality of life index using eleven selected indicators was developed. Findings of this study extend the literature by providing empirical evidence that access to microfinance improved quality of life of participating households in urban Peninsular Malaysia. The findings showed that the respondent’s participation status is associated with the size and quality of clients’ houses. It was recommended that AIM should focus on increasing the outreach by targeting ‘low income clients’ in urban Peninsular Malaysia. Moreover it should also review and re-organize their programs in order to present a dynamic and well-diversified microfinance program that fulfills the financial needs of their urban clients. Amin and Patel (2012) stated that in any developing economy contribution
of villages or the ruler segment is essential. As per the author, to improve efficiency at this level in developing economy maximum weight age should be given to financial institution. Now days through Self Help Group such targeted population is provided financial help for economic upliftment and also for betterment of the poor people. To have faster development of any segment contribution of the woman is essential. In India, 48% population is of woman and literacy ratio of woman is 54.16%, but still their contribution in the economy is very negligible. Micro finance institutes play the most significant role to provide woman empowerment in to the Indian economy. Such foundation not only gives them empowerment with finance only but also revolutionizes their social, cultural and behavioral pattern which is helpful for development of the economy. This paper focussed on development of the woman sector with such SHG and other financial institutions.

3.6 Rationale of the Study

India is considered to host around one–third of world’s rural population. The official estimates range between 26-50% percent of the total population. It is stated that around 87% of the rural households do not have access to credit. The demand for micro credit has been estimated around $30 billion, however, the supply is less than $2.2 billion as combined by all involved in the sector. Due to the estimated size of the population living in poverty, India is considered to be strategically significant in the global efforts to “alleviate poverty and to achieve the millennium development goal of minimizing the world’s poverty by half till 2015. Microfinance is classified as much of a better option than the charity. Microfinance provides grants to
families that are destitute or so below the margin line that they are unlikely to generate the cash flow required to repay a loan. While India is one of the largest and has rapid growing economies in the world, it is known that poverty runs deep throughout the country. It is more prominent amount the scheduled castes and tribes. It is also states that poverty is a chronic condition in India and that needs to be alleviated sooner or later. There is no doubt that microfinance in India is poised for continued growth and high valuation but it also faces challenges amidst growing opportunities. On the other hand Uttar Pradesh is the most populous State (16.5%) and 5th Largest State in size (7.3%) of the India. The State is predominately rural and agrarian. About 80 per cent of its population lives in rural areas. On the basis of levels of development based on various socio-economic indicators, the Rohilkhand region as a model region has been identified for the present study. The study also throws light on the association between the levels of development of agricultural and socioeconomic sectors in the region. The study on review of literature showed that few studies were done in Uttar Pradesh in respect of role of microfinance and most of them covering the institutional level micro financing so there is enough scope of research in the selected region of Uttar Pradesh. Keeping this in view the present study has been undertaken to cover the role of micro financing in Rohilkhand region consisting seven districts of Uttar Pradesh viz Bareilly, Moradabad, Bijnore, Rampur, Shajhhanpur, Pilibhit and Badaun. In the present study an attempt has been made to quantify the status of development level in respect of development, infrastructural facilities and overall socio-economic development.