CHAPTER II

REVIEW OF LITERATURE
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2.1. Background

The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extends small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries. There is no dearth of literature related to microfinance. In order to find the impact of microfinance programme, impact assessment studies have been carried out by many authors in different countries like Bangladesh, India, Pakistan, Nepal, Thailand, Ghana, Rwanda, Peru and many other countries of South Asia and Africa. The literature on microfinance offers a diversity of findings relating to the type and level of impact of the programme. There are various studies, which confirm that microfinance programme has a significant positive impact in increasing employment and reducing poverty. A number of studies show that the participant households enjoy higher standard of living as compared to the non-participants. The programme reduces consumption as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the programme is helpful in attaining millennium development goals by reducing poverty, hunger, infectious diseases and empowering women. There are a number of studies, which explain that participation in the programme has led to greater levels of women empowerment in terms of increase in knowledge, self-confidence, economic, social and political awareness, mobility, development of organizational skills etc.

However, some of the studies show that the programme is not reaching the bottom rung people and the group loans are utilized for non-income generating activities such as consumption and other needs including emergency needs. The studies also show that the women participants have limited control over the use of
group loans, therefore, the programme results in limited empowerment of women participants. Thus, the literature on microfinance provides mixed results about the impact of microfinance programme on the participants. The review of impact assessment studies provides valuable insights into the benefits and drawbacks associated with microfinance programme. This chapter discusses some important studies, which are relevant to the present study. For convenience, the rest of the chapter is organized into following sections. Section 2.2 presents a review of studies relating to microfinance and its operation. Studies relating to poverty alleviation and employment generation studies are reviewed in Section 2.3. Section 2.4 and 2.5 discusses literature relating to poverty alleviation on rural poor and very poor versus marginally poor targeting respectively. The review of studies of microfinance institution products and services is captured in Section 2.6. In Section 2.7 and 2.8, cost-effectiveness and financial sustainability, and financial development and economic growth surveys are presented respectively. The last section presents important concluding remarks.

2.2 Microfinance and its Operation

Gurumoorthy (2000) considers 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. It was an organized set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for encouraging them to enter into entrepreneurial activities and for making them enterprising women.

Rutherford (2000) and Armendariz and Morduch (2005) explain the difference between microfinance and micro-credit. Micro-credit refers specifically to small loans given to the poor people but microfinance is a broader term. Microfinance is embraced efforts to collect savings from low-income households, provide consumption loans and insurance along with micro-credit. It also helps in distributing and marketing clients’ output. Microfinance embraces 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.

Sheokand (2000) discusses the evolution of Indian banking and its failure to provide credit facilities to poor people. NABARD started Self Help Group - Bank Linkage Programme in 1992, which was considered as a landmark development in banking with the poor. It was observed that Regional Rural Banks’ security oriented individual banking system was replaced by the delivery of credit to focused groups. According to him, government sponsored programmes had occupied much of the economic space but did not achieve the objective of alleviating poverty. Self Help Group- Bank Linkage Programme had been proved very successful for the socio-economic empowerment of hard-core 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.

The major argument against micro-credit is its failure to reach the poorest of the poor. The exclusion of the poorest is well known. Indeed, there is often a presumption that the moderately poor are less likely to default than those who are acutely poor. Some important factors resulting in this exclusion are lack of awareness, social exclusion of the poor and collusions of officials of micro-credit institutions with non-poor households. Too much of financial discipline/stringency, that is, strict repayment requirement and penalties for delays, could deter the poor from joining a micro-credit scheme or could limit their duration of participation in it (Madheshwaran and Dharmadhikary, 2001).

Rangarajan (2001) says that at the global level, the interest in microfinance has burgeoned during the last two decades: multilateral lending agencies, bilateral
donor agencies, developing and developed country Governments, NGOs, and private sector financial institutions, all emphasize and support the development of micro finance. However no systematic and comprehensive data on MFIs is collected and there are no authoritative figures on key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served. The generation of systematic data on the microfinance industry has been complicated by several factors, including the informality and dispersion of MFIs, lack of consensus on the data needed, and lack of universally accepted and clear-cut definitions of the product that qualify as microfinance or the boundaries of the industry. There are, nonetheless, independent data sets of varying quality and coverage that have been collected by different agencies over the years.

According to Sinha et al (2002), there is a vast network of banking and cooperative finance institutions in India and, therefore, formal fiducial services are, in theory, available and accessible to low income families in virtually every part of the country. However, their availability is a mirage. Stung by the deficiencies of the direct credit programmes, particularly in the 1980s, the banking Institutions in India have virtually withdrawn from lending to the poor while the cooperative credit system is bankrupt and defunct in large parts of the country. It is in this situation, the non-government microfinance sector has attempted to provide an alternative to the often high-cost informal financial service providers on whom, most low-income clients must rely. Despite the supporting efforts of apex funding organizations such as NABARD and SIDBI, however, the outreach of the microfinance sector remains minuscule in relation to the need.

Fisher and Sriram (2002) argue that 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. In addition, a dominant perspective was developed that the finance for rural poor people was a social obligation and not a potential business opportunity.

Harper (2002) studies 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 organization, received loans from the bank in the name of group 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 organized 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 is found that both systems were best suited to their prevailing environments. SHGs bank linkage system was more flexible, independence-creating and imparted freedom of saving and borrowing according to the members’ requirements, so suitable in the Indian context. Nevertheless, 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.

However, the experience of group lending shows that the basic principles of prudent, banking have to be adhered to at all times. Delivering finance to the poor should not mean that loan evaluation and rationing are assigned a secondary place. On the contrary, loan size has to take into consideration the limit of investment capacities and risk-bearing abilities of the rural poor. In a nutshell, micro-credit can play an effective role in achieving the long cherished objectives of poverty alleviation and rural development by credit deepening in rural India. The success stories of Bangladesh and Malawi, if repeated in Indian villages, may ensure multiple benefits for the rural economy. However, we should move forward with caution, making sure that the bad features of the formal credit delivery system do not creep into micro-credit (Vatta, 2003).

Singh (2003) reveals 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, leakages, misappropriation and heavy administrative expenses. More than 250 million people in India remained poor, even after 50 years of independence. Failure 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 Organization (RDO) in Manipur, People’s Right and Environment Movement (PREM) in Orissa and Andhra Pradesh, Youth Charitable Organization (YCO) in Andhra Pradesh, Acil Navsarjan Rural
Development Foundation (ANRDF) 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. However, in its infant stage, microfinance sector had a diversified growth and multiplicity of impacts like impact on income, employment, health, education, housing, 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.

According to Brown (2005), in the past five years, a number of private mainstream commercial banks, finance companies and insurance firms have entered the microfinance sector as retailers or wholesalers. Banks have provided refinance faculties to NGOs, linking them to financial markets, and have launched retail microfinance operations. As a result, they have moved microfinance to the mainstream, using better technology and more sophisticated risk management and information systems. Many of these institutions see the large potential market for microfinance, and most of them employ senior staffs that are motivated by community concerns as well as profits. These traditional financial institutions have learned from MFIIs and pioneer banks about how to reduce the high transaction costs of micro lending.

Basu and Srivastava (2005) in their Rural Finance Access Survey-2003 conducted jointly by World Bank and National Council of Applied Economic Research, India, highlight 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.

Globally, over a billion poor people are still without access to formal financial services and some 200 million of them live in India, Microfinance, the provision of a wide range of financial services to the poor on a sustainable basis, has proved to be immensely valuable. Access to financial services has allowed many families throughout the developing world to make significant progress in their own efforts by expanding their small enterprise to escape poverty (Thorat and Graham, 2005).

Yunus (2006) in a study explains the differences between Grameen Bank and conventional banks. He explains that the Grameen Bank methodology was almost the reverse of the conventional banking methodology. Conventional banking was based on the principle that the more you have, the more you get. As a result, more than half of the population of the world was deprived of financial services of the conventional banks as conventional banking was based on collateral, focused on men, located in urban centres and owned by rich with the objective of profit maximization. On the contrary, the Grameen Bank started with the belief that credit should be accepted as a human right, where one who did not possess anything gets 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 describes 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.

Sangwan (2008) empirically ascertained the determinants of financial inclusion and studied the relevance of Self Help Groups (SHGs) in achieving financial inclusion. 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 found 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 (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.

Sarkar (2008) in his paper discusses 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 organization 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.

At the global level, the interest in microfinance has burgeoned during the best two decades: multilateral funding agencies, developing and developed country governments, NGOs, and private sector financial institutions. All these emphasize and support the development of microfinance.

2.3 Poverty Alleviation and Employment Generation

Hossain (1988) conducts a study regarding impact assessment of Grameen Bank’s microfinance programme in Bangladesh. The study takes a comparison between the Grameen Bank members and eligible non-participants in Grameen
Bank situated villages. It was found that participation in Grameen Bank’s microfinance programme had a positive impact on various economic activities of members and helped in alleviating poverty. The average household income of Grameen Bank members was 43 per cent higher than that of target non-participants, and 28 per cent higher than eligible non-participants. Grameen Bank members spent 8 per cent more per capita on food and 13 per cent more on clothing than target non-participants and 35 per cent more on food and 32 per cent on clothing than target households in comparison villages.

Pitt and Khandker (1998) study the impact of microfinance on poverty in Bangladesh. Data was collected through a survey in 1991-92 containing 1798 households (1538 participants and 260 non-participants) in three Bangladeshi programmes, i.e. microfinance programmes of the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and of Bangladesh Rural Development Board (BRDB). For finding the impact, borrowers were compared to the people in non-programme villages. Results showed that for every Taka (currency of Bangladesh) lent to a female member, the consumption increased by 18 Taka and for men this figure was 11 Taka. Further, the study showed that the poverty rate of BRAC members fell by around 15 per cent for moderate poor and 25 per cent for ultra-poor. Similar results were found for the other two programmes. This rate of poverty reduction appeared to decline with the duration of membership and with cumulative loan size. Thus, the reduction of level of poverty was variable and declined with the passage of time.

Morduch (1999) in his study investigated a cross-section data of nearly 1800 households in Bangladesh served by microfinance programmes of the Grameen Bank, BRAC and BRDB in 1991-92. The sample also included a control group of households in areas not served by any microfinance programme. There was strong evidence available that micro-credit contributed to reducing household vulnerability. Participant households had substantially and significantly lower
variation in consumption and labour supply across seasons relative to the control groups. The study showed that consumption variability was 47 per cent lower for eligible Grameen households, 54 per cent lower for eligible BRAC households and 51 per cent lower for eligible BRDB households as compared to a control group.

Khandker et al (1998) report substitutions from wage employment to self-employment in the survey of 29 districts (Thanas) in Bangladesh undertaken for the World Bank and the Bangladesh Institute of Development Studies (BIDS). They conclude that microfinance as delivered by Grameen Bank, BRAC and Rural Development-12 (RD-12) accelerated the shift from wage employment in the informal rural sector to self-employment among the poor participants. But, they added that absence of technological development had slowed down the overall increase in production and employment.

International Labour Organisation (ILO) (1998) in its different projects concluded that microfinance had successfully increased micro-enterprises and self-employment of the clients. An ILO survey of 46 Microfinance Institutions (MFIs) in 24 different countries showed that 74 per cent of MFIs had “the self-employed” as clients, leaving it open whether these had some wage labourers or not, 17 per cent had primarily self-employed in their clientele and just 4 (9 per cent) had only a minority of self-employed amongst their clients.

Coleman (1999) studied the impact of microfinance lending of village banking programme in Thailand. He looked at two microfinance institutions, the Rural Friends Association and the Foundation for Integrated Agricultural Management. A sample survey of 455 households, participants and non-participants, show no evidence that programme had an impact on any asset or income variable. There was no evidence of increase in the productive activity as the access to bank loans increase. The author cautioned against extrapolating these results to other countries since Thailand was rather a developing country. One of the reasons of weak poverty impact was that there was a tendency for wealthier
households to self-select into village banks and then relative small size of loans might be used, for consumption purpose.

World Bank (1999) survey conducted for the mid-term review of the poverty alleviation and microfinance project among 675 micro-credit borrowers in Bangladesh shows 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 have 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.

Puhazhendhi and Satyasai (2000) in their study commissioned by NABARD covered 560 sample households from 223 SHGs spread over 11 states across India. For assessing the impact of the programme, a comparison of pre- and post-SHG situation was made. With a view to quantify the empowerment of SHG members, economic and social empowerment index was computed for each household by using the scoring technique. The findings of this study showed 33 per cent rise in average annual income from pre- to post-SHG situation. Forty per cent of this incremental income was generated by non-farm sector activities. The estimated employment days per household worked out to 375 person days during post-SHG situation that had registered an increase of 17 per cent from pre-SHG situation. Sample households took up 200 additional economic activities by utilising 85 per cent of the borrowed funds for productive purposes. The share of families living below the poverty line was reduced by 20 per cent in post-SHG situation. The social empowerment of sample SHG members in terms of self-confidence, involvement in decision-making, better communication, etc. improved in a significant way.
Manimekalai and Rajeswari (2001) study the socio-economic background of self-help group women in rural micro-enterprises in Tamil Nadu and examined the factors which had motivated the women to become SHG members and eventually as entrepreneurs. The researchers analyse the nature of economic activities and the performance in terms of growth indicators such as investment turnover, employment, and sources of finance, product marketing and other related aspects and identified the problems faced by SHG women in running the enterprises. 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. These groups were formed and promoted by an NGO. 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 primary data pertained to the year 1999-2000. The SHG women were employed both in agricultural and non-agricultural activities. The study finds that women SHGs earned the highest profit from agriculture, followed by trade related activities and catering services. A majority of sample units did not market their products outside the districts but sold these directly to the customers. The income of the SHG women almost doubled after taking up micro-enterprises. Majority of the respondents faced serious problems like non-availability of raw materials, lack of infrastructure facilities including marketing, lack of support from family members in running the enterprises etc. The provision of microfinance by the NGO to the women SHGs had helped the groups to achieve a measure of economic and social empowerment. It had developed a sense of leadership, organisational skill, management of various activities of a business, identifying raw materials, market and suitable diversification and modernisation.

Dunn and Arbuckle (2001) study 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 demonstrates 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 nine 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 did.

Todd (2001) studies the impact of SHARE Microfinance Ltd. on its clients in Andhra Pradesh, India. The study compares 125 SHARE clients to 104 new clients who had yet to receive any exposure to the programme. All the SHARE clients had participated in the programme for at least three years. Todd created a poverty index composed of four elements: sources of income, productive assets, housing quality, and household dependency burden (the number of household members divided by the number of income earners). This index score helped Todd to document the extent to which clients had moved out of poverty. The results of the study show that 76.8 per cent of the total clients had experienced a reduction in poverty including 38.4 per cent that shifted from very poor to moderate poor category and 17.6 per cent that had left poverty entirely. As compared to the incoming clients, mature clients were more likely to send their children to school and spend money for health purposes.

Chen and Donald (2001) in their study compare the impact on the clients who borrowed for self-employment and the clients who only saved with Self-Employed Women Association (SEWA) Bank without borrowing to the non-clients of Ahmadabad and Gujarat states of India where SEWA was based. The study was conducted in two rounds, i.e. in the years 1997 and 1999. It was observed that repeated borrowing was especially important, compared to one time borrowing. Repeated borrowers had greater income spent on food, household improvements and consumer durables and more likely to had girls enrolled in primary schools.
Income of participants was over 25 per cent greater than that of savers and 56 per cent higher than the non-participant income. Savers too enjoyed household income of 24 per cent, greater than that of non-participants. These findings indicate that microfinance was quite effective.

Singh (2001) conducts a study on the socio-economic impact of microfinance programme in Uttar Pradesh. In order to study the impact, rural areas of Kanpur district were selected on account of highest number of credit linked SHGs as compared to other districts in the state. For the purpose of the study, out of 11 SHGs linked with RRB, one group in Beridayria village was selected. It was found that in pre-SHG situation most of the members were dependent on income from labour but in the post-SHG situation and diary was their main source of income. The survey showed that simple and quick credit delivery with lower interest rates in SHGs replaced the moneylenders. During pre-SHG, some of the loans were taken for consumption purpose, but in the post-SHG situation, the loans were mainly taken for income generating purposes. The study showed that the average value of assets increased by 46 per cent and the annual income per household increased by 28 per cent in post-SHG periods. The most interesting feature of SHGs was compulsory savings even by cutting the necessary expenditures. Recovery rate was quite high which ranged from 95 to 100 per cent. The study also revealed that the commercial banks were not prompt in linking SHGs for loans.

Mishra et al (2001) study the impact of rural SHGs on generation of income, employment among the beneficiaries identified the major constraints, and problems faced by the groups, and suggested measures for overcoming these problems in Faizabad district of eastern Uttar Pradesh. For the purpose of the study, five SHGs in Amaniganj block of the district were selected randomly. It was observed that SHG members were mainly from OBC community whose main occupations were agriculture, small businesses, labour etc. Ninety-three per cent of the SHG members
were male and only 7 per cent were female. Majority of the members lived below the poverty line. The average monthly savings ranged from ₹ 15 to ₹ 50. The repayment performance was good. The results of the survey showed that SHGs have helped to increase the income of the participants by 10 to 15 per cent. The major problems that the members faced were lack of training, credit and marketing facilities, entrepreneurship and high interest rate. It was suggested to involve Commercial Banks, RRBs and Primary agricultural co-operative societies to provide liberal credit at cheaper interest rate to the poor through SHGs.

Dahiya *et al* (2001) in their research paper made a socio-economic analysis of the working of SHGs in Solan district of Himachal Pradesh. The data was collected from 54 SHG participants drawn from six SHGs from two development blocks of the district. The study revealed that members were mainly involved in small business and service profession like bangle selling, tailoring, marginal farming etc. The interest rate charged on internal lending ranged from 24 to 60 per cent and the bank interest rate was 12.5 per cent. The recovery performance both for internal and bank loans was 100 per cent. The study found that there was a considerable increase in annual income in post-SHG period. This increase was very high for the newly formed groups as compared to the older groups. The overall increase in annual income was 94.3 per cent in post-linkage period. The social impact was deep in empowering women folk, educational development of children and emancipation from social evils like drunkenness by male household members.

Gaonkar (2001) study the impact of SHGs on women in Goa. For this purpose, the data was collected from 5 women SHGs situated in Bardez and Bicholim talukas in Goa. The study reveals that SHGs made a lasting impact on the lives of the poor and their quality of life was improved in terms of increase in income, savings, and consumption expenditure, and self-confidence, productive use of free time, getting opportunity to improve hidden talents and getting more importance in the family. It was found that individual loans were mostly utilised for
productive purposes and the repayment of these loans was 100 per cent. The study concluded that the SHG movement could significantly contribute towards the reduction of poverty and unemployment in the rural sector of the economy.

Mishra and Hossain (2001) in their study assessed the impact on Mahila-mandal (a rural SHG in Orissa) in terms of empowerment of rural women and employment generation through programme participation. The group was working under the development agency for the poor and tribal awakening, a leading NGO of Kalahandi district. The impact was assessed, comparing the pre-1996 and post-SHG situation (2001) of the programme participants. The study found that till the year 2001, 26.67 per cent of the families started non-farm activities, 40 per cent adopted small family norms, 45 per cent consumed food with vegetables, 58 per cent had food security to manage the lean season and all the member families have become literate. The study reveals that the average net income per member per year increased from ₹ 6465 to ₹ 15325 through scientific cotton cultivation, livestock maintenance and small business like retail shop, dry fish trading etc. The group was maintaining successfully the fair price shop fulfilling the requirements of five nearby villages. Additional employment generated worked out to be 185 person days per member. In this way, the success of these Mahila-mandals suggested that these could become a role model for other SHGs.

Nedumaran et al (2001) conduct an empirical study on the impacts of SHGs in Tamil Nadu. Two districts of Tamil Nadu, namely, Erode and Tiruchirapalli were selected. One hundred and fifty members from 30 SHGs promoted by two NGOs - MYRADA and LEAD were surveyed. Primary data was collected through personal interview method during March-April 2001. The study showed that the average amount of group loans availed was positively associated with the group age. The annual net family income of the members in post-SHG situation, increased by 23 per cent compared to the pre-SHG situation. The study also indicates a considerable improvement in the social conditions of SHG participants after joining the group.
activities. The researchers also recommend the promotion of SHGs in rural areas, training to members and involvement of local NGOs in building SHGs for the overall improvement of the households.

Raghavendra (2001) evaluates the contribution made by microfinance programme initiated by Sahyadri Grameen Bank in Thyagarthi village in Shimoga district of Karnataka. The income generating economic activities and women’s empowerment in rural areas was studied. For the purpose of study, three SHGs were personally interviewed and data was collected for the years 1994-1995 to 1999-2000. Out of these three SHGs, first group was run by a forward community, second was run by SC/ST and the third was run by a backward community. The analyses revealed a significant change among the group members in diversifying income generating economic activities. The researcher found that the microfinance programme was financially sustainable. The members reported that they did not borrow from moneylenders anymore. It was found that the members of SHGs formed by forward community had created their own capital base. They were involved in diversifying farm-based activities into market-based activities. For the other two groups, resource constraint was found to be a detrimental factor to expand economic activities. The case study concluded that there was a great potential for implementing various programmes for the rural poor through SHGs.

Puhazhendhi and Badatya (2002) in a study commissioned by NABARD surveyed 115 SHG members from 60 SHGs in eastern India. They conclude that institutional credit had deepened and widened among the rural poor, while there had been substantial reduction of loans from moneylenders and other informal sources. The findings of this study show that 52 per cent of sample households registered 23 per cent rise in annual income and 30 per cent increase in asset ownership in post-SHG situation. About 72 per cent of the bank loan was used for income generating purpose and the remaining 28 per cent was for consumption and other social functions and contingency purposes. The estimated employment days per
household worked out to 405 person days during post-SHG situation that had registered an increase of 34 per cent between pre- and post-SHG situations. Activity-wise, per cent increase was higher for non-farm activities (121 per cent) followed by off-farm activities (21 per cent) and farm activities (19 per cent). The social empowerment of sample SHG members in terms of self-confidence, involvement in decision-making, better communication, etc. improved in a significant way. It was also found that members in the older groups of five years and above were more socio-economically benefited as compared to the members in newly formed groups.

Develtere and Huybrechts (2002) in their paper focus on the economic and social impact of the activities of microfinance institutions on the clients of Grameen Bank and BRAC in Bangladesh. The author overviewed different studies conducted in Bangladesh by different researchers. The study revealed that Grameen Bank and BRAC had succeeded in reducing their members’ vulnerability by controlling consumption and income variability and had prevented them from falling further into poverty. However, there was no consensus on whether the two institutions reduced poverty as per se. Most of the poorest (bottom poor) people in Bangladesh had not been able to take part in a micro-credit programme due to various client related and programme related barriers. While assessing the social impact of the programme it was found that the programme had a positive effect on women participants with regard to women’s status, their involvement in family decisions, expanding knowledge and awareness, and the improved situation for their children. It was also found that the microfinance programme not only affected its members but also the non- members in programme villages and surrounding villages through a positive spill over in different spheres of social and economic life in the form of increased awareness, better practices of health, sanitation, family planning, reduced rate of interest and increased wages.
Khandker (2003) measures the impact of microfinance institutions on the poor people using the panel data of two time periods of 1991-92 and 1998-99 in Bangladesh. He finds diminishing return over time to the borrowings. A typical borrower would experience the greatest impact from earlier loans and the relative improvements would level off over time. For every 100 Taka lent, consumption increased by 20.5 Taka, out of which 4.2 Taka were from current borrowings (1998-99) and 16.3 Taka were from past borrowings (1991-92). He had also proved that microfinance reduced poverty among non-participants as well through spill over effects in which non-participants benefit from increase in the level of economic activity.

Littlefield et al (2003) opine that microfinance programme was very helpful in attaining the millennium development goals through mobilising various resources to reduce poverty and hunger, eliminate HIV/AIDS and infectious diseases, empower women, educate all children, and lower child mortality. This paper presented the findings of various microfinance studies and had proved that availability of financial services for poor households had a strong impact on the achievement of the millennium development goals. The poor used financial services not only for business investment in their micro-enterprises but also to invest in health and education to manage household emergencies and to meet other wide variety of cash needs that they encountered. A large number of microfinance institutions had proved that they were profitably reaching the bottom poor people by applying various innovative products and methodologies. The availability of financial services had proven to be a critical factor in reducing poverty and its effects, resulting in positive impacts on nutrition, education, health, gender equity and the environment.

Chowdhury et al (2005) examine empirically the impact of micro-credit on poverty in Bangladesh. The focus was on both objective and subjective poverty and particular attention was paid to the length of time, the programme participants had
access to micro-credit. Objective poverty is based on the costs associated with obtaining a minimum daily adult requirement of 2,112 calories. Subjective poverty is calculated based on the personal views of the household head regarding the poverty level of his family by asking whether they consider their family poor based on their yearly income. A household-level survey was carried on 954 micro-credit recipients from Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC) and the Association of Social Advancement. The main finding of the study was that micro-credit was associated with both lowering objective and subjective poverty. It was found that for the entire sample, objective and subjective poverty rates were 54.6 and 60.2 per cent respectively. There was also a clear poverty differential between ‘new’ and ‘old’ group members. The objective poverty rate for new members was 65.3 per cent compared with 50.2 per cent for old members. Likewise, the subjective poverty rate for new members was 90.2 per cent compared with 47.9 per cent for old members. The predicted objective and subjective poverty rate of the participants at the time of joining the programme was around 65 per cent and 85 per cent respectively and after eight years of exposure to micro-credit, both these rates declined to about 45 per cent. The researcher fitted a linear trend line in the poverty reduction impact of programme and suggested that objective poverty fell by about 2.5 per cent per programme year. Likewise, subjective poverty fell by about 6.5 per cent per programme year. The analysis carried out in the research paper shows that even after eight years of programme experience, the estimated objective and subjective poverty rates were still high, i.e., about 45 per cent and suggested that microcredit organisations should reconsider and adapt their micro-credit technologies to improve the long-run poverty reduction capacity of micro-credit programme.

Kabeer and Noponen (2005) in their paper set out the findings of a socio-economic impact study of PRADAN’s microfinance programme carried out in Jharkhand, one of the poorest states in India. The study was carried out in Godda,
Dumka and Banka districts of Jharkhand. In order to study the impact of microfinance programme, 400 SHG members were compared with 104 non-members in these three districts. The major objective of the study was to find out the impact of microfinance on the capacity of the participants to meet basic needs, livelihood base, asset position, saving and debt position and women’s choice and agency. The findings of the study show that as far as basic needs were concerned, the members had reported a more favourable overall food situation in terms of adequacy and diversity of diet as compared to non-members. They had better access to clean drinking water, improved housing with more rooms and doors. Members were sending greater number of children to school along with greater gender equity. Members were engaged in own cultivation and livestock rearing and less dependent on unskilled wage labour activities. Members had higher levels of savings and lower incidence of indebtedness to high interest of moneylenders as compared to non-members. Regarding women’s skills, knowledge and agency, members had acquired skills that are more practical and demonstrated greater awareness of government programme for the welfare of poor. However, there was less difference regarding participation in household decision-making. In both the groups, women made sole decisions in one-fifth of the households and a joint decision was made in about half of the households. Overall, the study showed that members were in a better position than non-members were and the process of women empowerment had been initiated through the microfinance programme.

Montgomery (2005) empirically examines the impact of Khushhali Bank’s microfinance lending programme on the welfare of poor households in Pakistan. The programme was assessed using the technique of prospective clients (who had not yet accessed loans) as the comparison group. The primary data was collected from 2881 rural and urban households in Pakistan. The empirical results show that the participation in Khushhali Bank’s microfinance programme had positive impact on both economic and social indicators of welfare as well as income generating
activities, especially for the poorest participants in the programme. The programme enabled poorest of its borrowers to increase expenditure on their children’s education and health.

Yunus (2005) in his study explain Grameen Bank’s new microfinance programme, exclusively targeted for beggars in Bangladesh. The ‘struggling members (beggars) programme’ was a new initiative taken by Grameen Bank in late 2003 to help the people in the lowest rung of poverty which was also reinforcing the bank’s campaign that credit should be accepted as a human right. The goal of the programme was not only to economically empower but also to boost the morale and dignity of the beggars. The struggling members were not required to form any group or attend weekly meetings. In this programme, 31.11 million Taka loans were provided to 47,454 struggling members without charging any interest, up to July 2005. Out of this collateral free loan, 15.40 million Taka had been repaid and 786 members had already quit begging.

Hietalahti and Linden (2006) study the socio-economic impact of micro-credit on women’s welfare in Northeastern South Africa using a qualitative semi-structured interviewing method. The study focuses particularly on the benefits, disadvantages and challenges obtained from the Small Enterprise Foundation’s (SEF) Micro Credit Programme (MCP) and the Tshomisano Credit Programme (TCP). The research involved semi-structured interviews with 21 entrepreneurs from participants in SEF micro-enterprise programmes, consisting of 10 clients in the MCP and 11 clients in the TCP. Impact of micro-credits and a comparison of two programmes were analysed on a household level. The results revealed that a number of poor women had been released from deepest poverty through the opportunities provided by SEF. The MCP clients, who tend to have a better starting point, seemed to be more educated, able to diversify and improve their businesses as well as being more capable of protecting themselves against vulnerability than the poorer TCP clients. Many repayment problems were caused by group
heterogeneity. Particularly in the MCP, the incentive to free ride seemed to be a problem phenomenon. These drawbacks demonstrated that there were still some unresolved disadvantages in the programmes.

Misra (2006) in his paper discusses the factors and theoretical position associated with evolution of microfinance and then assesses the socio-economic impact of SHG bank linkage programme of microfinance in India. A field research was undertaken by the researcher to study the impact of microfinance programme covering 93 client households from 5 SHGs from 3 different locations of western and central part of India. The group members who were in the programme for at least two years were surveyed. It was found that all the group members were saving regularly at fixed intervals and dependence on moneylenders was eliminated for 2/3 of the clients. The social development index of group members measured on Likert scale show a definite positive trend after joining SHGs. Loan repayment rate was also very high. However, while measuring economic development, it was found that just 6 per cent of the members had taken up any economic activity in post-group formation period. Bank credit and savings were used overwhelming for consumption and other emergency needs. While the programme had a definite impact on building social capital, it had marginal impact on income level. It was found that group members were not willing to borrow to take up economic activity on account of credit risk and absence of skills to undertake some non-farm activities. Lack of technical skills and invasion of rural markets by big consumer goods companies reduced the scope for rural micro-enterprises. In the absence of any significant economic development, it was found that high loan repayment rate was made out of reduced consumption, increased working time as farm labour, borrowing from relatives, other groups in vicinity or in some cases from moneylenders also. Therefore, reliance on high loans volume, outreach and repayment rate as a proxy for positive economic development ignored the issue of impact assessment at client level.
Yamuna (2007) studies the changes in the role and status of SHG participants in Solamadevi village of Coimbatore district. For the purpose of study, primary data was collected from 54 SHG members through an interview schedule. The results of the study show that all the participants who received bank loans under this scheme started their own businesses. There was an increase in the income level, savings, value of assets and household durables after joining the SHGs. It was also found that SHGs had developed women’s relationships with government department and banking institutions. They had been equipped with leadership skills through various human resource-training programmes and interaction with other SHGs. Women had got lot of courage and self-confidence to speak for their rights after becoming SHG members.

Sarangi (2007) evaluates the impact of microfinance programme on rural poor households in some backward regions of Madhya Pradesh in India. For the purpose of study, Betul, a tribal region; and Sehore, a relatively prosperous region; were selected. The researcher examined three most popular group based microfinance programmes, i.e. government supported SGSY programme, NABARD’s SHG bank linkage programme, and World Bank promoted Swashakti programme. One hundred eighty participants from two districts, and three programmes were selected through a multistage random sampling method. Non-participant households were selected with a ratio of 1:2 to participants in each village. In order to make comparisons, t-test, analysis of variance, and regression techniques were used. Impact assessment results showed a significant positive effect of programme participation on increase in the income of the households. It was found that the income of households reporting self-employment in off-farm activities was much higher for the participant households than their counterparts. Intervention of PRADAN in promoting poultry, mushroom cultivation and sericulture among the participant households had helped diversifying their economic portfolio. Indicators of consumption items including clothing and
footwear seemed to obtain high average values for the participant households than non-participants. It was also found that location factors contribute to the creation of opportunities for diversifying the economic portfolio and employment choices. The probit regression was applied to estimate the probability of participation as a function of level of per capita income, off-farm activities, and work participation rate, education of principal earner of the household, adult literacy ratio, productive assets, agricultural land, distance index and years of operation of different microfinance programmes in the villages. The results indicated the exclusion of very poor households from participation in group-based credit programme. The probability of participation was low at the lower end of income distribution and it increased with the increase in per capita income of the household and declined with very high level of per capita income. The results also showed that the increase in share of off-farm earnings increased with increase in landholding. The returns seemed to be much higher for the very big landowners than the small farmers. The findings suggested that on the one hand, many of the very poor households were excluded from the programme, and on the other, the gains from participation of the programme were mostly observed for the better-off section of households, particularly those with high per capita income or the large land holders. He concluded that credit to serve as a sole instrument of poverty alleviation did not seem to be plausible, without other corroborative mechanisms that help in increasing the potential of credit use by the poor or the small farmer.

Hoque (2008) examines the relationship between households’ involvement in BRAC’s micro-credit programmes and the households’ capacity to deal with economic hardships. It was hypothesised that the BRAC’s credit programmes contributed to increase the participating households’ abilities to cope with economic hardships. This hypothesis was tested by comparing 108 BRAC and similar number of non-BRAC households, the latter being defined as those who did not receive loans from BRAC or any other institutional sources. The data set used
in this paper was obtained from the Matlab Health and Socio-economic Survey, which was carried out in Matlab, a region of rural Bangladesh. The survey results showed that 54.6 per cent of the BRAC households and 43.5 per cent among the non-BRAC households faced economic hardships. The major crises that were reported by respondents were sickness of householders, crop loss, damage of houses or businesses, losses due to natural disaster and the death of householder. With regard to the capacity of households to cope with crises, the study found that non-BRAC households had less capacity to cope with crises from their current income and earnings than the BRAC households did. More BRAC than non-BRAC households borrowed money in crisis. Asset selling was another coping strategy but in this survey more non-BRAC than BRAC households resorted to asset selling—a negative coping mechanism. It was found, that 7.1 per cent of the BRAC households used their own savings to cope with crises compared with 4.3 per cent of the non-BRAC households. This could be because the savings of non-BRAC households were also less than those of BRAC households. This meant that lacking savings, non-BRAC households resorted to asset selling. The results of this study showed that BRAC households were more able to obtain loans during times of crisis than non-BRAC households were. Twice as many BRAC households borrowed money during crisis times than non-BRAC households (20 per cent compared to 10.1 per cent respectively).

Borbora and Mahanta (2008) in their case study of Rashtriya Grameen Vikas Nidhi’s (RGVN) credit and saving programme (CSP) in Assam examined the role of credit in generation of employment opportunities for the poor. They also assessed the role of SHGs in promoting the saving habits among the poor and the contribution of the programme in social and economic empowerment of the poor in general and of women in particular. The analysis of survey data revealed that 80 per cent of the members in the selected SHGs were from poor families. The members of the groups were engaged in gainful economic activities. It was found that the
programme had succeeded in inculcating the habit of saving among the members. As many as 57.8 per cent of the members saved ₹ 200 to ₹ 500 and 42.2 per cent saved ₹ 501 to ₹ 1000 each. It also helped them to free themselves from the clutches of non-formal sources of credit. Forty-three 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. The focus of CSP was exclusively on rural poor and it adopted a credit delivery system designed especially for them with the support of specially trained staff and a supportive policy with no political intervention at any stage in the implementation of the programme. So, the CSP in Assam was found to be successful.

2.4. Poverty Alleviation on Rural Poor

Lashley (2004) highlights the main issues that emerged in the Eastern Caribbean. It appears that despite a number of operational issues that need to be addressed, the first step in realizing a successful microfinance sector in the small states of the eastern Caribbean is to first define what is meant by “success”. In other words, donors, providers, and recipients need to be cognizant and explicit in defining the aims and uses of microfinance.

According to Manish et al (2010), India falls under low income class as per the World Bank data. It is second populated country in the world and around 70% of its population lives in rural area and of it, 60% of people depend on agriculture. As a result, there is a chronic underemployment and per capita income is only $3262. This is not enough to provide food to more than one individual. The obvious result is abject poverty, low rate of education, low sex ratio, and exploitation. The major factor account for high incidence of rural poverty is the low asset base. According to Reserve Bank of India (RBI), about 51% of people house possess only 10% of the total asset of India. This has resulted in low production capacity both in agriculture (which contribute around 22-25% of GDP) and Manufacturing
sector. Rural people have very low access to institutionalized credit (from commercial bank).

The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social well-being (Roy, 2011). The SHG movement has unfortunately started very late in the North Eastern States. This study initially assesses the progress of microfinance in the NER in terms of savings mobilization, loans disbursed, loans outstanding and non-performing assets (NPAs). Then the next section of the study finds out the performance of public sector banks in providing agricultural credit through microfinance in the North Eastern Region (NER) by calculating a performance ratio. The study also attempts to evaluate the microfinance performance of these public sector banks in terms of SHG bank linkage programme. The study concludes that only in two states viz., Mizoram and Assam, the microfinance performance of the public sector banks is satisfactory among all the states of NER. The TGBs in Tripura, RRBs in Nagaland, Mizoram and Arunachal Pradesh, UBI in Manipur, SBI in Meghalaya, and AGVB in Assam is doing well compared to the other public sector banks in the NER.

In the opinion of Naganagoud (2011), it is widely accepted that the development process in many parts of the world including India had bypassed the women. Empowerment is therefore a multi-dimensional process, which should enable the individuals to realize their full identity and powers in all spheres of life. Among the various measures targeted towards women’s empowerment, the provision of microfinance or small credit assumes crucial importance. This study looks into the self-help group as a “self-governed, peer controlled informal group of people with similar socio-economic background and giving a desire to collectively perform common purpose”. In light of these, Naganagoud (2011) attempts to find out the performance and appraisal of the microfinance through Stree Shakthi programme of Karnataka at the district level. Stree Shakti is women programme of
the Government of Karnataka strictly focused on empowerment of rural women and making them financially, socially and politically capable. This work observes that some sections of the poorest of poor find it difficult to participate in Stree shakti programme. Since only 0.07% of women are participated in the district, care should be taken to make them participate in the programme. Reserve the Stree Shakti programme women at least under the government-sponsored programmes like Anganawadi food supplies etc. Naganagoud (2011) strongly feels the need of inspection at the beneficiaries’ level to understand the ground realities further.

According to Surayya (2011), poverty is a situation where people are mainly deprived of income generating activities and access to formal financial system. Strategies to address poverty primarily include promoting opportunity and participation. Poverty amongst forest dwelling communities in India, presents challenges for administrators. Exploitation and ineffective public service delivery are the major factors affecting poverty alleviation efforts for Forest Dwellers (FDs). FDs rely on forest for survival. Studies indicate that over 80% of FD depends on Non-Timber Forest Products (NTFP) and 28 to 50% of income comes from NTFP trade, representing just 20% of end user price spread as trade is without value addition. Lack of micro financial assistance, ineffective administration, hinders value additions. NTFP trade is seasonal; FDs need to borrow money from moneylenders at high interest rates/ NTFP distress of sale. These and non-regulated NTFP markets are contributing to poverty of this groups. Interventions like SHG movement, based on save and serve themselves creating social collateral and group pressure are features of this approach. The emergence of microfinance is a strategic option to alleviate poverty. FDs now get 38% of their microcredit from SHG. Studies show that adding value by way of making leaf plates can earn 100% average incremental benefit. Poverty alleviation is a multidimensional problem, requires involvement of the Government, NGOs, International Developmental Agencies, people and problem should be addressed multilaterally. There is evidence
that participation of people is a strategy as proved in case of Joint Forest Management (JFM) which addressed the dual issue of protecting forest cover and providing income generating options to FD. Janmaboomi (Motherland) programme of A.P. State Government was also found to be equally successful. On the other hand, programmes like IRDP which was financially supported and unilaterally implemented by Government saw limited results. Intervention of public administration need to be supplemented with cooperation from NGOs, who, facilitates value addition and marketing NTFPs, help in forming SHGs, etc.

Bansal and Bansal (2012) states that microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.” Those who promote microfinance generally believe that such access will help poor people out of poverty. The dynamic growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, Non-Governmental Organizations (NGOs) and the donors who view microfinance as an effective tool for eradicating poverty. The powerful push behind this huge and increasing support for microfinance indicated that national economic and social impacts are significant and it needs to be examined more closely. This paper argues that microfinance can be considered an important element for an effective poverty reduction strategy. It shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, manage their risks better, gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better
technology; thus, microfinance helps to promote economic growth and development.

Dandgund and Honnurswamy (2012) argues that in the developing country like India, where majority population resides in rural areas, rural development becomes imperative for the economic development of that nation and rural development, poverty reduction needs to be the focus of all development programs. Though, Government of India has been imitating varies poverty alleviation programs since independence but not much progress has been marked. The root cause of the problem of poverty has been the fund to be economic dependence and lack of access to the credit. Poor have been considered non-bank able.

Mula et al (2012) states that microfinance in group approach has become one of the key instruments to reduce poverty and empowering rural poor particularly rural women by shifting them from debt-trap of informal credit sources to formal credit system. Of late, after launching, microfinance under SGSY flourished very quickly in all parts of the country. The study attempts to examine the growth and promotion of SHGs and performance of micro financial institution in Cooch Behar district. The study reveals that the district took the 2nd position in credit linkage in spite of being slower physical growth of SHGs (7th position) in the state. The investigation also revealed a skewed growth of SHGs in the different stages of promotion among the different blocks. Although the overall rate of credit linkage was observed more than 80% over 1st graded SHGs, but the rate of linking with project was only 5.46% and promotional rate to 2nd grading over 1st grading was found only 27.58%. Nevertheless, more than 95% of PLGs were women SHGs which indicates empowerment of women was highly valued. As far as banking aspects, only one RRB (UBKGB) and two commercial banks (CBI, SBI) took leading role in growth and promotion of SHGs through Microfinance. Further, although the rate of credit linkage to SHGs in most of the banks was found more than 75% but their performance in promotion of SHGs to entrepreneurship level,
credit disbursement and thereby recovery of credit was too impressive to boost the rural development.

Hasan and Shahzad (2012) argue that women empowerment and poverty alleviation requires unprecedented efforts to serve the underprivileged segment of the society. Several interventions have been made across the world and provision of microfinance facilities is one of those kinds. Globally, microfinance has played a crucial role in cultivating the livelihoods of the underprivileged stratum of society. In Pakistan, the emergence of microfinance could be considered as a positive development towards resolving the issues of women empowerment and poverty alleviation as many players are entering into the market and the outreach of credit has increased manifold. The focus of this study is to lay emphasis on microfinance sector and to examine its challenges in eradicating poverty and empowering women. Though microfinance includes a broad range of services but this paper will specifically discuss the role of microcredit services and its impact.

There has been a phenomenal growth under the microfinance programmes in India. The focus on achievement in terms of number of SHGs, Veenapani (2012) states, being linked to banks and the amount of credit being disbursed to meet the targets has resulted in bringing the quality of SHGs under stress. With the scaling up of microfinance programme, quality of SHGs has become critical, and hence there is a need to assess the performance of SHGs. The study aims to evaluate the performance of SHGs in Mahbubnagar district of Andhra Pradesh, and thereby judge the quality of groups. Five critical parameters namely, Group Governance, Group discipline, financial transaction of the group, repayment pattern and record maintenance were considered for judging the performance of the group. Based on the scores given to each parameter, the groups are categories as good and poor performers. It was found that there was no significant difference in the mean score on group governance parameter across good and poor performers. There was a significant difference in the mean score across the other four parameters for good
and poor group performers. Close monitoring of groups, intense capacity development training programmes coupled with use of Information technology by banks will strengthen these groups and sustain them.

According to Vichore and Deshpande (2012) the extraordinary growth recorded by microfinance in India in recent years 62% per annum in terms of numbers of unique clients and 88% per annum in terms of portfolio over the past few years and around 27 million borrower accounts, India with the largest microfinance industry in the world is suddenly taken the world by surprise with the crises looming large on the very existence of this sector. An industry that grew at 90% on an annual basis from 2002-03 to 2009-10 was reduced to just 7% growth in 2010-11 with its portfolio over the period October 2010 (when the crisis started) to the end of the year 2011 estimated by M-CRIL to fall by around 33%. The objective of the research is twofold first; to analyse the financial performance of independent microfinance institutions (MFIs). in terms of cost efficiency, cash constraints and net portfolio in India providing microfinance services to low income clients secondly, this research helps to understand the role of microfinance in the Indian economy and to focus on the current performance of the sector in relation to financial services in general. The paper concludes that primarily, the regulations improvisation which is caught in the headlights of draconian regulation is uncertain which way to go. This is a dangerous situation that the sector has to deal with and come out successfully. Secondly, the crisis not only had the effect of bringing microfinance in Andhra Pradesh to a halt, it also caused a sudden rash of prudence in commercial bank lending to MFIs resulting in an increase in lending rates.

Manju and Shanmugam (2013) analyze the economic empowerment of women through Micro Finance and evaluate the performance of micro finance in India. This study purely based on secondary date and this paper has used simple mathematical and econometrics models. The period of the study is from 2000-2001 to 2010-2011. NABARD has been providing loan facilities to SHGs through SHG-
Bank Linkage programs with the help of RBI through three banks like, Commercial Banks, Regional Rural Banks and Cooperative Banks. The study concludes that, Commercial Banks have dominant role in providing loan facility to SHGs as well as Region wise through SHG-Bank Linkage Programs in India. Nevertheless, majority of SHGs members are using loans to unproductive purpose this leads to indebtedness. So, the members should use loans to productive purpose, in order to empower the economic condition.

**2.5 Very-Poor versus Marginally-Poor Targeting**

The last three articles in this section address who participates, and who does not participate, in microfinance programs and whether micro entrepreneurs are subject to credit rationing. Evans (1999) conducts an empirical examination of microfinance clients in Bangladesh. He reports that only 25% of eligible households participate and that rates of participation are higher among the poorer. Multivariate analysis indicates that lack of female education, small household size, and landlessness are risk factors for nonparticipation. Baydas et al (1994a, 1994b) analyze credit rationing in Ecuador by MFIs. In one study (1994a), they construct and estimate a supply and demand model to analyze factors MFIs use to ration credit and find that micro entrepreneurs with less profitable enterprises and less education have smaller demand for microcredit. In another study (1994b), they test for evidence of discrimination against women micro entrepreneurs by formal sector lenders in Ecuador. They find that men and women have equally small probabilities of being quantity rationed for loans and conclude that gender discrimination is not widely practiced in Ecuador.

As mentioned earlier, one of the most significant and controversial debates in microfinance is whether and to what extent there exists a trade-off between financial self-sufficiency and depth of outreach. Integral to this debate is whether to achieve self-sufficiency. MFIs must target marginally poor or non-poor clientele to capture economies of scale and cover costs. Addressing this issue, Navajas et al
(2000) analyze the outreach of five Bolivian MFIs. The authors find that most clients were near the poverty line (i.e., the marginally poor). They also find that group lenders had more depth of outreach than individual lenders, urban poorest were more likely borrowers, but that rural borrowers were among the poorest of all borrowers. Similarly, Servon (1997) studies three MFIs in the US and finds that they served those at the margin of the mainstream economy, not the very poor.

2.6. Microfinance Institution Products and Services

Although micro insurance is in the early stages of development, efforts are being made to formalize and design the process. There are some success stories (e.g., FINCA Uganda offers its clients health and other types of insurance through an AIG subsidiary based in South Africa), but overall progress is modest so far owing in part to the very different nature of insurance compared to savings or loans and to the fact that few MFIs possess specialized knowledge of how to set up or run insurance programs. In another example of micro insurance research, Mishra (1994) analyzes crop insurance in Gujarat and finds that the availability of crop insurance resulted in increased loan repayments in absolute terms, although it is not clear if the propensity to repay improved. Additionally, Mishra documents a significant increase in the flow of credit to insured farmers after the introduction of the insurance program.

Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner, 1995). Under joint liability, each group member is made responsible for the loans of other group members. If one-member defaults, the other group members are required to cover
the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member’s interest to ensure that the other members pay.

An important source of consumption/emergency loans in developing countries are pawnshops. Ismail and Ahmad (1997), for example, discuss the role of pawnshop lending in Malaysia. They report that Malaysian pawnshops have increased in importance as lending institutions and are projected to continue to do so due to more affordable transportation, interest rate regulations, and financial liberation, among other factors.

Along with the lending function, a market for savings exists in poor areas around the world. Savings services offered by MFIs can be divided into forced and voluntary savings, with forced savings far exceeding voluntary savings. In a forced savings program, microfinance participants are required to save a minimum amount each week (or other set period). Forced savings ostensibly teaches financial discipline and provides the MFI with additional information about clients. In practice, forced savings serve primarily as a form of cash collateral. Rules regulating when and how clients may withdraw forced savings are typically highly restrictive.

A reasonable estimate of the market for savings among the poor indicates that savings demand substantially exceeds the demand for enterprise loans. Christen (2001), for example, reports that over a space of two to three years, retail banks in Latin America opened millions of small deposit accounts in countries in which MFIs added fewer than 200,000 loan customers over the same period. At MFIs that offer both enterprise loans and voluntary savings, moreover, savers typically exceed borrowers by large multiples.

MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on
enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse, 2001 and Woller, 2002a). This, however, has slowly begun to change. Increasingly today, MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education. Nourse (2001) reviews the context and rise of microfinance products and argues there is a need for savings and insurance services for the poor and not just credit products. He goes on to argue that MFIs need to provide tailored lending services for the poor instead of rigid loan products. Supporting this latter assertion of Nourse (2001), Eyiah (2001) develops a model of small construction management contractors and MFIs in developing countries that provides a tailored lending structure for microenterprise contractors. Similarly, Woller (2002a), Cohen (2000) and Dunn (2002) argue that MFIs need to be more client-focused, including offering a mix of financial products tailored to the varied needs and wants of poor consumers.

Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock, 2001). Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure. Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and that agents’ types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group. Similar to Ghatak (1999) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate,
the expected rate of repayment is higher with lower risk when using peer monitoring.

The second form of savings is voluntary, flexible savings (Nourse, 2001 and Montgomery, 1996). Millions from all strata of poor do not operate enterprises, but they do save, albeit often in very small amounts and at inconsistent intervals (Beverly and Sherraden, 1999). Savings are integral to poor household’s risk management strategies; they constitute the first line of defence to help poor households cope with the external shocks, emergencies, and life-cycle events to which they are so vulnerable; and they play a crucial role in allowing the poor to take advantage of productive investment opportunities (Grosh and Somolekae, 1996).

A final issue meriting mention is provision of equity in lieu of credit for enterprise formation and start-up capital. Pretes (2002) discuss several cases of this practice in East Africa. They refer to this service as providing enterprise equity; however, in finance vernacular, this service would most likely be considered a grant. They argue that those who invest (donate) the equity in such cases receive their returns intrinsically, as they do not receive a financial ownership position in the start-up firm (microenterprise).

The discussion in this section has demonstrated that at the core, the issues challenging microfinance institutions and formal sector institutions are very similar. The commonalities between both sectors encourages us that mainstream finance tools can be applied to microfinance. At the same time, the unique characteristics of microfinance provide an interesting laboratory to test existing financial theory and to create new theory. Having addressed microfinance products and services, we now turn our attention to the management of microfinance institutions.

Characteristic of poor households is extreme vulnerability to risk and external shocks. Traditionally, poor households have managed risk and coped with external shocks through a combination of informal social support networks,
savings, and borrowing from informal moneylenders. Participation in microfinance programs offers another set of risk management and coping options for poor households. Participation in formal micro insurance schemes offers yet another option. Just as a large demand for formal savings and loans exist among the poor, it is also believed to exist a large demand for formal insurance (Churchill, 2002).

Our overview of issues related to microfinance products and services would not be complete without brief discussion of integrative approaches integrating non-financial services (usually education) with financial services to microfinance. A handful of articles have examined integration of microfinance with other development services. Smith (2002) compares minimalist MFI services in Ecuador and Honduras to those offering financial services integrated with health education. Using surveys of 963 Ecuadorian clients and 981 Honduran clients, he finds that clients in integrated programs experienced improved family health, while those in minimalist programs did not. Using 20 minimalist MFIs and 84 banks that offered health education, Smith (2002) finds no significant difference in the performance of the MFIs. Also in support of an integrative approach, Edgcomb (2002), Cook et al (2001), and Dumas (2001) each use case methodology to analyze MFIs offering integrated business development training. They conclude that business development training significantly improves microenterprise performance and micro entrepreneur empowerment.

Those in the microfinance industry who assumed that formal MFIs would drive the traditional moneylenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs. A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local MFI to finance their own money lending businesses. It turns out that just as the terms of the loans offered by moneylenders (rapid loan approval, flexible terms, repayment periods measured in days or weeks, and lump-sum payments at exorbitant interest rates)
makes them generally ill-suited as a source of enterprise financing, the terms of enterprise loans offered by MFIs (slow turnaround, inflexible terms, repayment periods measured in months or a year, and regular small payments at relatively low interest rates) are generally ill-suited for emergency consumption purposes.

Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Woller, 2002). The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders. Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavoury collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies. Like savings, consumption emergency loans form an integral component of poor households’ risk management and coping strategies.

2.7. Cost-effectiveness and financial sustainability

Microfinance compares favourably to other interventions particularly with regard to cost effectiveness and prospects for sustainability. An advantage of microfinance is that donor investment is recycled and reused (Wright, 2000). Direct comparisons done by Khandker (1998) shows that microfinance can be a more cost-effective developmental tool than alternatives such as formal rural financial intermediation, targeted food interventions, and rural infrastructure development projects. Moreover, unlike many other interventions, costs for microfinance tend to diminish with the scale of outreach (Christen et al 1995). Regarding the issue of sustainability, it can be said that few, if any, other development tools have the potential to become sustainable as such in the cases of microfinance, where after
initial start-up grants, new inputs are not required for every future client. There need not be a trade-off between reaching the poorest and attaining financial sustainability however. Although there are no rigorous econometric models to substantiate it, there is ample evidence that MFIs targeting the poorest can fare as well financially as those that do not (Gibbons and Meehan 2000; Churchill, 2000). There is also ample anecdotal evidence that MFIs that target poorer clients can achieve substantially higher repayment rates than those that target richer clients (Grameen/BRAC vs. traditional banking system in Bangladesh). It should be noted that emphasizing financial sustainability above all else could have the practical effect of excluding the poorest because of the widespread misperception that the poorest are a greater credit risk and the reality that the unit costs of small loans tend to exceed the unit costs of larger loans (as Calmeadow asserts).

2.8. Financial development and economic growth

There has been a longstanding interest among development economists and practitioners in the contribution that finance makes to development. The issue of causality between financial development and economic growth has been at the centre of this debate.

These arguments in support of a causal link between finance and economic growth have provided the justification for policy initiatives aimed at strengthening the contribution of financial development to economic development particularly in lower income counties. However, there is unanimity over the direct and positive relationship between finance and economic development; there is divergence of opinion on the provisioning of finance in the less developed countries. While some emphasize on the role of state, the others emphasize on the market.

Those who emphasize on the role of market in enhancing the causal link between development and finance in less developed or developing countries draw their inspiration from the trickle-down theory. The trickle down hypothesis in the simplest form states that rapid growth of per capita income will be associated with a
reduction in poverty. In fact, the main thrust of liberalization in developing economies in general and India in particular, has been because of the reliance on trickledown theory. Over the last decade and a half, the economies in the world over including Indian economy have experienced a substantial degree of liberalization. Moreover, among the sectors, the financial sector has experienced a major dose of liberalization.

The work of McKinnon (1973) and Shaw (1973) give the theoretical foundation for the widespread adoption of financial liberalization and reform measures in developing countries in the 1980s. The deregulation of interest rates was intended to mobilize an increased volume of financial savings and allocate capital to more productive uses, both of which would enhance the volume and productivity of physical capital and thereby contribute to economic growth. More recently, broader, sector wide programs of financial market deregulation formed an important part of the structural adjustment programmes of the Bretton Wood institutions, which were intended to put developing countries onto a more stable and higher, long term growth path (World Bank, 1989).

According to (as quoted in Kirkpatrick and Maimbo 2002) market failure is a fundamental cause of poverty. Particularly asymmetric information and high, fixed costs of small scale lending limit the access of the poor to formal finance. Expanding the supply of financial services that can be accessed by the poor can contribute directly to poverty reduction and hence economic growth. Hence, it may be said that in recent years, the debate on the role of state vs. market in enhancing the casual nexus between finance and growth in developing countries is tilted in favour of the later. However, in whichever direction, the debate may tilt the irony is that in Indian context poor in terms of access to finance have neither benefited from the state nor from the market. In addressing the concerns off the poor, though market failure in India is of a recent origin the state failure has a history.
The refocusing of the goals of development strategy from an exclusive concern with economic growth to growth with poverty reduction has increased interest in the contribution that financial development can make to poverty reduction in developing countries. It is widely recognized that improving the access of the poor to financial services, particularly to credit and insurance against risk services, strengthen the productive assets of the poor and thereby enhances their productivity and potential for sustainable livelihoods (World Bank, 2001). In a nutshell it may be said that the failure of both the state and market in addressing the concern of the poor had led the search for a suitable institution in the arena of finance.

2.9. Concluding Remarks

There is ample evidence to support the positive impact of microfinance on poverty alleviation as it relates to fully six out of seven of the Millennium Development Goals. In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income. Microfinance is an instrument that, under the right conditions, fits the needs of a broad range of the population, including the poorest, those in the ‘bottom half’ of people living below the poverty line. While there will be people in this group who will not be suited for microfinance because of physical or mental illness, etc., the exclusion of this small percentage of the population will likely not be a limiting operational issue for MFIs.

Empirical indications are that the poorest can benefit from microfinance from both a material and social well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the MFI. While there are many biases presented in the literature against extending microfinance to the poorest, there is little empirical evidence to support this position. However, if microfinance is to be used, specific targeting of the poorest will be necessary. Without this, MFIs are unlikely to create programs suitable for and focused on that group.
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