CHAPTER 2
REVIEW OF LITERATURE

Microfinance and self help group programme in India have been promoted for their positive economic impact and the belief that they empower its members, particularly women. This programme, integrating formal and informal sectors, has become a movement throughout the country; inculcating saving and banking habits among the poor, thereby securing them with financial, technical and moral strengths. It has enabled them to avail loans for a variety of purposes and to repay the same in time, to gain economic prosperity from collective wisdom in financial matters. Various studies have been conducted in India and other parts of the world relating to the nature, structure, functioning, performance and impact of microfinance/SHGs. The present chapter presents a synoptic view of available literature on different aspects of microfinance in India and abroad.

In an empirical study like the present one, it is neither feasible to include all available studies nor desirable to present a comprehensive review of literature on various facets of microfinance/SHG programme. Thus, keeping in view the objectives of the present study, only those studies have been included which were confined to nature, coverage, structure, functioning, performance and impact of microfinance/SHG programme. For this purpose, the review of literature has been broadly classified into three groups. The first group includes studies related to nature, coverage and structure of MFIs/SHGs. The second includes studies focused on functioning and performance of MFIs/SHGs and the third consists of studies related to impact of the programme.

1. Studies related to nature, coverage and structure of MFIs/SHGs

Berglind and Karimi (2007) studied the research literature available on microfinance and SHGs to carry out an analytical evaluation of the main theoretical models of microfinance like the Grameen Bank model, Village Banks, Credit Unions and SHGs etc. They investigated into some of the mechanisms with which the
repayment rates within micro-finance could be improved. According to the authors, the foremost mechanism was group lending which ensured re-payment due to joint liability and social sanctions. Dynamic incentives (i.e. the benefits accruing from timely repayment), regular repayment schedules and collateral substitutes also helped to improve repayment. Social programs and training focusing on women could further help to improve repayment. However, high repayment rate does not necessarily refer to the successful working of MFIs as it could even be achieved by cutting down on outreach i.e. by focusing on better-off people and by giving loans for safe projects. In this case micro-finance does not reach the poorest of the poor. The authors suggested the need for more empirical research in the area to find out the ways through which the poor may be genuinely benefited.

Chavan and Ramakumar (2002) in their study reviewed the empirical evidence by comparing the micro-credit programmes and institutions promoted by NGOs in various developing countries with the various poverty alleviation schemes like IRDP, RRBs initiated by government of India. The authors compared the performance of these micro-credit programmes and institutions on the basis of four indicators: (i) the extent to which these institutions had been successful in targeting the poor; (ii) the extent to which they increased the earnings and asset holdings of the poor; (iii) the extent to which these programmes and institutions had been successful in generating employment and improving skills; and (iv) the financial viability of these institutions. They concluded that while in state-led poverty alleviation programmes, the very poor sections of people were excluded, however with the adoption of NGO-led micro-credit programmes, there had been a marginal improvement in beneficiaries’ income. Moreover, default rates in case of state-led poverty alleviation programmes had been very high - ranging from 58.7 percent to 69.1 percent in case of IRDP to 47.5 percent in case of RRB’s. For Grameen Bank, it was just 3.3 percent in 1990’s. It was deduced that as loan amount increased, default rate began to increased in case of Grameen Bank as well. Resultantly, to make loan repayment, people borrowed from money-lenders. This led to creation of debt-cycles. Although rate of repayment of loans had been high in micro-credit programmes leading to increased profits, yet considerable amounts were needed to be spent on administering these loans by both micro-credit programmes and state led poverty alleviation programmes. Taking all
these aspects, it was concluded that due to the small scale of their operation, NGO led micro-credit programmes were performing better than state-led poverty alleviation programmes. It was pointed out that with an increase in the scale of operation of NGOs, they may also experience the same constraints as faced by IRDP and RRB programmes. It was suggested that along with provision of credit to the poor to improve their living conditions, agrarian reforms, democratic de-centralization, public action towards better educational and health facilities, maintenance of public distribution network for the poor was also required.

Dooner and Srinivasan (2008) explored the use of technology and microfinance to address the needs of indebted farmers in rural regions of India. They attempted to provide an opportunity to reduce poverty and improve the standard of living of people in rural regions by putting forth a model of lending to the poor. The components of Grameen Bank model, which used social pressure and collective responsibility, could help while lending to the farmers. They recommended that MFIs should buy produce from farmers at Minimum Support Price (MSP), which should then be sold in the open market for profits, thereby benefiting MFIs. Farmers would also be benefited as they would be waived off the principal borrowed and would only be charged a monthly interest which would be lower than the existing rate. MFIs should tie up with organizations that could build rural technology. Rural information kiosks, for providing timely online advice on external factors to farmers should be setup. Appropriate advice on crop growing techniques should be provided to farmers to keep production cost below MSP in order to enable the farmers to be in an economically viable position. The authors suggested that if this model is followed, it could help farmers at macro and micro levels. At macro level, they could get knowledge on rainfall patterns, pest management, pesticides and could have access to genuine good quality seeds. At micro level, farmers’ poverty could be removed as they could have access to credit under cordial lending climate. It was highlighted by the authors that for the success of this model, MFIs should strike a partnership with farmers and firms to buy the produce at MSP. Finally, to ensure that loans are spent judiciously by the farmers, MFIs need to spend the loan amount directly on inputs required by the farmers rather than advancing the money to the group.
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Fernandez (2007) traced the genesis of Sanghamithra on the initiative by MYRADA. The author highlighted that these institutions were the examples of how a MFI and an NGO could work together to achieve the common objectives of poverty eradication and provision of a loan portfolio which included activities that increase income through genuine business initiatives. The author concluded that unlike the typical MFIs that focus on financial sustainability and rigid methods of recovery of loans, Sanghamithra worked in collaboration with various SHGs, NGOs, watershed management and other agencies to further social and economic justice and a spirit of self reliance among the poor.

Fouillet and Augsburg (2007) analyzed the spatial distribution involved in the process of microfinanciarization. The authors found that upto 2005-06, the SHG-Bank Linkage Programme had been predominant in Southern regions of Andhra Pradesh, Tamil Nadu, Kerala and Karnataka as 5.7 percent of the SHGs credit linked belonged to these states. Subsequently, many states in the eastern regions of India, especially the Bay of Bengal coast were among the leading provinces with high ratios of microfinanciarization. However, states in the north except Himachal Pradesh showed weak microfinance sector.

George (2008) in his study highlighted the need for scaling up microfinance. Such scaling up was essential as the banking sector had failed to meet the entire financial needs of the poor. The author concluded that as moneylenders were still dominant in the rural credit sector, the need was for the institutionalization of the same with adequate safeguards to prevent exploitation of the poor.

Kumaran (2002) in his study revealed that due to lack of knowledge and illiteracy, people remained unaware of self help groups and their formation in the initial stages. There was resistance from members and their spouses in joining the groups. Lack of leadership qualities was another key problem faced in initial stages of forming of groups. This was due to inadequate education and low socio-economic background of the members.

Lapenu and Zeller (2001) provided a broad overview of MFIs in Asia, Africa and Latin America by collecting information by reviewing publications and technical manuals from 42 international NGOs (of which 28 responded), 24 networks (of which
The information collected from international NGOs and networks consisted of the area of operation of MFI, type of MFI (e.g. solidarity groups, village banks, cooperatives etc.), area targeted (urban, rural, mixed), number of staff, number of clients (member, borrowers, savers), volume of savings and outstanding loans, average size of loans, repayment rate, donors and complementary services provided.

The authors highlighted that all the MFIs founded from 1996 to December 1998 have been integrated. All these MFIs received some form of international support, either through funding, technical assistance or information dissemination. The study revealed that by continent, Asia accounted for largest volume of microfinance activities and employed the largest number of staff due to low productivity of the staff (due to poverty and widespread illiteracy). In rural Africa, outreach of microfinance programme was still lower due to poor quality of rural and agricultural finance. Although Latin America was extensively covered by MFIs, these institutions worked mainly in urban areas, ignoring rural areas. In all the three continents taken together, MFIs reached 54 million members, who had received $18 billion in loans and had accumulated $13 billion in savings. Of the different types of MFIs promoted, cooperatives accounted for the largest proportion of borrowers, credit volume and savings. In terms of number of borrowers, solidarity groups played an active role.

Village banks and linkage models achieved better depth of outreach than other MFIs. In terms of area targeted, MFIs had been more active in urban areas that reach rural areas as well.

Mahajan (2005) examined the difference between micro credit and livelihood finance by taking the case of village Rozkund in Bijadandi block of Mandla district of Madhya Pradesh in 1997. He brought forth the limitations attached to the micro credit system and the edge that livelihood finance had over it. The micro credit system focused on micro credit alone. Apart from credit, the poor required various financial services (like savings, credit, insurance, infrastructure finance, investment in human development); agricultural and institutional development services etc. which were covered by the approach of livelihood finance. Micro-credit offered short duration loans for individual purposes only. Livelihood finance went step ahead and offered loans for collective purposes as well. Apart from these limitations, the concept of micro-credit was based on the unrealistic assumption that those above poverty line do...
not require micro-credit. On the contrary, if these people were given credit they could help generate wage employment opportunities for the poor. Therefore, to achieve economic growth and to ensure greater resource allocation both from public resources and capital market, the author recommended the promotion of the concept of livelihood finance.

Reddy (2008) in his study examined the importance and limitations of SHG federations. He highlighted that the uniqueness of SHG federations lay in the fact that these were owned, managed and used by women members. Women were able to fulfill their aspirations through the institutional base provided to them by SHG federations. These federations helped in creating political and social space that women required. Further, these provided various value-added services, promoted new SHGs, helped in strengthening the capacity of SHG members in book keeping, accounting, marketing, financial management, bank linkage, accessing government schemes etc. They also helped to resolve any conflict that might arise within members and SHGs. The various limitations attached to SHG federations included their non requirement to perform the role of financial intermediaries as SHGs were directly linked by banks; easy accessibility of bank branches which reduced the need for federations to make deposits or take loans. Rather than regulating and supervising the already existing groups as is done by other financial institutions like commercial banks, regional rural banks, primary agricultural credit societies (PACS) and district central cooperative bank branches, federations were more interested in creating new ones.

Sarkar (2008) discussed the range of attractive savings and loan products introduced by Grameen-II. Under this system, flexibility had been given to the borrower in as far as the payment of loan installments was concerned. They could pay less in lean season and more during busy season. In accordance to their individual needs, loans of varying time periods were disbursed to them. Along with the basic loan, they were granted housing loan and higher education loan simultaneously. Their inability to repay the loan did not debar them from receiving loans and allowed them to remain within the folds of the organisation. In addition to these benefits, a pension fund was also introduced for the borrowers with a minimum contribution for each borrower towards a pension deposit scheme. Further, in case of death of any member,
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to pay off his/her debt, a loan insurance scheme was also introduced.

Sheokand (2000) examined the growth of Indian banking sector and its failure to provide credit facilities to the poor. The Government sponsored policies and programmes failed to alleviate poverty. In such a scenario, NABARD initiated SHG Bank linkage programme of 1992 proved to be very successful for socio-economic empowerment of the poor, providing them with financial services and preparing them to take up economic activities for poverty alleviation. The author concluded that with full participation from formal banking system, this programme had the potential of becoming a permanent system of rural lending in the country.

Sinha (2006) studied the lights and shades of formation of 214 SHGs in 108 villages of 9 districts of the states of Andhra Pradesh (60 SHGs), Karnataka (51 SHGs), Orissa (50 SHGs) and Rajasthan (53 SHGs) from October 2004 to May 2005. The purpose of the study was to address the areas related to social role of SHGs, their outreach and sustainability. It attempted to study how members were related to one another and how the groups interacted with their communities. It examined the effect of group formation on the social, political and economic environment. The study revealed that SHGs helped in promoting social harmony. With the initiative and persistence by self help promoting agencies, mixed caste groups were coming up. SHGs promoted social justice among members. Women were being empowered for considering, addressing and participating in issues that affected them. Guidance and support from Self Help Promoting Agencies (SHPA) and mutual support from SHG members helped in protecting Women against conservative male dominating social structures. Women were mobilized to act forcefully to do community action like closing of liquor shops. This instilled a feeling of boldness and confidence among women. Author highlighted the need for improving transparency and record keeping, realizing the social potential of SHGs. Contrary to these positive effects, there were various negative effects of the formation of SHGs like limited women membership, poor attendance at official meetings due to occupational constraints, ignorance about vital issues regulating the functioning of the groups which were area of concern.

Swaminthan (2007) in his study examined the various ways of providing micro credit in India i.e. through rural banks and NGOs on the basis of transaction
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costs, repayments and overdue. He highlighted that in case of NGOs, repayment rate relied on transaction costs. More the expenditure incurred on supervision, monitoring and enforcement of loan repayments, higher was the repayment rate. However, as the size and frequency of loans increased, repayment slackened. The administrative costs (component of transaction costs) of NGOs were relatively higher than those of banks and increased as the activities were scaled up. Banks enjoyed various economies of scale which were not enjoyed by NGOs. Problem of over dues, though more rampant in case of banks, was also found in NGOs. In this background, the study proposed that the purpose of NGOs in giving credit should just be to fill the gaps in the formal credit system. The purpose of providing such credit should be to overcome the weaknesses in the banking system. However, the overall credit policy must be built on the strengths of banking system at its centre as the banking system had more outreach, could cross-subsidize loans and was better placed to provide training to its employees to offer a wide range of financial services to borrowers than NGOs.

Weiss, Montgomery, Kurmanalieva (2003) in their study examined the recent scientific studies on the impact of MFIs based on various survey data. Their study revealed that in spite of their skewed growth, Asia accounted for majority of micro finance institutions. It retained the highest volume of savings and credit. Making use of Micro banking Bulletin to study the impact on poverty alleviation by the taking parameters like health, income etc., the authors concluded that the outreach of MFI’s was improving through group lending, regular saving schemes and establishment of close links between poor clients and staff of the institution concerned.

Yunus (2004) traced the evolution of micro-credit with the genesis of Grameen Bank in Bangladesh in 1976 and studied the issues of financial self reliance and institutional stability of micro-credit programme at length. He highlighted the distinguishing features of micro credit programme in Bangladesh. Through his study of Grameen Bank, which had been financing 90 percent of the outstanding loans from its own funds and deposits of its clients since 1998, he concluded that micro-credit programmes had been successful in providing services to poor people by helping them in using their efforts and creativity.

Yunus (2005) examined the beggar targeted microfinance programme of
Bangladesh. Beggars programme, initiated in late 2003, aimed at providing a helping hand to those in the lowest rung of poverty. This was supported by the Grameen Bank’s campaign that credit should be accepted as a human right. The programme aimed at strengthening the morale and respectability of beggars. Access to credit became easy as they were not even required to form any group or attend any meeting. The author highlighted that through this programme, upto July 2005 interest free collateral free loan worth 31.11 million Taka was provided to 47,454 struggling members, of which 15.40 million Taka had been repaid and 786 members had already quit begging.

Yunus (2006) explained the differences between conventional banks and Grameen Bank. According to him, conventional banking was based on collateral which the poor failed to provide and the focus of these banks had been on men, located in urban centres and was owned by rich with the objective of profit maximisation. On the contrary, Grameen Bank provided collateral free loans particularly to those who did not possess anything. This bank aimed at bringing financial services to the very poor, particularly women, to help them fight poverty and thereby become financially sound. The author felt that the poor were poor because they were denied a real social and economic base required to grow in the society.

2. Studies relating to functioning and performance of MFIs/SHGs

Anand (2002) examined the performance of selected SHGs and NHGs of Malapurram District of Kerala and assessed their impact on women empowerment. Statistical tools like percentage, averages, coefficient of variation and coefficient of correlation was used to analyse data. Five SHGs promoted by each of the three voluntary agencies namely Shreyas (non-government agency), BVM (non-government agency) and the CDS (government agency) were selected. To find the impact on women, 10 percent members were selected randomly from sample groups were over dependent on leaders, Bu non availability of incentives to group leaders made them disinterested in carrying out group proceedings. CDS had however, introduced performance based incentive in this regard. The study further revealed that in case of SHGs promoted by BVM, more than half of the members had initiated
some economic activity by availing loans and in case of SHGs promoted by the other two agencies (Shreya and CDS), nearly one third of the members were engaged in some economic activity. The contribution of the programme to total family income was one-third in case of BVM, one-fourth in case of CDS and about 27 percent in case of Shreyas. It was further highlighted that there was timely repayment of loans availed (72 percent cases) by the members of these SHGs. Women had become more empowered as they had started asking questions like whether they would get credit for starting some new unit. They had realised that subsidies would not be able to bring permanent change in their life style. They had started participating in social actions like raising voice against dowry system, alcoholism, illiteracy and divorce. Political empowerment of women had yet to take place. An important drawback of the programme was that the training and awareness courses conducted for community organizers and leaders were not passed on to the members. Information regarding government scheme and programme also did not get disseminated at the grassroots level. The author suggested the networking between groups and NGOs that they could function smoothly in cooperation with one another. Coordinated efforts of all voluntary agencies would give way for finding solution to problems of infrastructure development and marketing and thereby putting an end to social evils of child marriage and dowry.

Anand (2004) examined the functioning of 10 percent members of randomly selected SHGs in Malappuram- the most backward district in Kerala with lowest per capita income and highest population, with women outnumbering men. SHG intervention led to empowerment of 52 percent of the members by improving their living standards, inculcating saving and loan repayment habits in them, and by bringing a positive change in their attitudes, social skills etc. However, this promotion of SHGs by Government and voluntary agencies led to unhealthy competition among the members and promoting agencies. The non-sustainability of income generating activities led to an increase in default rate and increased the dependence on promoting agencies. Even in successful groups, members were found to be over dependent on leaders for each and every decision. The author concluded that the need of the hour was to set up micro enterprises to provide wage employment to the most vulnerable sections of society by creating rural infrastructure targeting basic services and
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providing direct social security measures for these vulnerable groups. Further, the formation and growth of new SHGs should be restricted to avoid competitions. Government should make efforts to tap the export market for ethnic and rural products manufactured by SHGs, sales of which could help SHGs earn a livelihood. Insurance scheme for these products should be introduced. Training and awareness programmes need to be organized and it should be ensured that the same get successfully passed on the members.

Assefa, Herms and Meesters (2010) examined the functioning of 362 Microfinance Institutions (MFIs) in 73 countries for the period 1995-2009. By using Lerner’s Index (measure of market power) they showed that there was intense competition in the microfinance market which negatively affected the performance of MFIs. The authors suggested that such negative competitive effects needed to be minimised. For this, the need was to ensure that MFIs did not compromise by lowering lending standards for increased market share. MFIs needed to share information amongst them in order to reduce default rate. In order to limit multiple loans taking by the borrowers, financial literacy was needed to be promoted among borrowers. Innovative ways among MFIs that could enhance efficient service provision could help in ensuring benefits from growth in the microfinance market.

Banerjee (2002) in his study on self help groups revealed that after joining SHGs, women actively participated in the financial decision making of their families. Majority of the women started sending their children to school. They were found successful in checking the liquor addiction of their husbands. Also, the expression power of women increased significantly as they discussed their common problems more openly.

Chavan and Ramakumar (2005) reviewed the evidence on the levels of rate of interest on loans provided under micro-credit programmes in India. The author put forth the fact that contrary to the general perception, micro credit institutions charged much higher rate of interest for the loans disbursed by them than the rates charged under the various schemes undertaken for the upliftment of the poor like Integrated Rural Development Programme and the rates charged by the formal sector. The main reason for this was the practice of charging margins by various participating links in
the micro-credit chain. Margins were charged for covering transaction cost i.e. cost of information, negotiation, monitoring and enforcement of credit i.e. the cost incurred in the delivery of credit. As such, the goal of micro-credit institutions to reach out to the poorest of the poor would never be accomplished unless they lower the rate of interest on the loans advanced by reducing their margins.

Dasgupta (2005) in his analytical study highlighted the cause of poor performance of public and private sector banks in extending credit to weaker sections from 1970-2002. After carrying out a critical survey of Swaranajayanti Gram Swarozgar Yojana, he opined that the high level of non-performing assets was responsible for poor performance of public sector banks. He also examined the uneven growth of SHG credit. Data and surveys revealed that most of the credit went to Southern States ignoring other states like Bihar and Madhya Pradesh. To escape from this problem further, different models (Banks form and extend credit to SHGs, SHGs are formed by NGOs but credit is extended by Banks, NGOs form and lend to SHGs by availing loans from Banks) for extending microcredit to the poor and weaker sections could play an important role.

Dave (2008) in his study applauded the efforts of NABARD in making the SHG–Bank linkage programmes a true microfinance movement in the countryside. He brought forth the fact that mobilisation of savings was a unique feature of the programme. He also dealt with some key issues pertaining to savings, payment of interest, other savings products for SHGs members.

Gaonkar (2001) examined the working and impact of SHGs on women in Goa. Data collected from five women SHGs situated in Bardez and Bicholim talukas in Goa revealed that on acquiring membership of SHGs, members’ quality of life improved considerably in terms of increase in the levels of income, savings, consumption expenditure, self confidence, productivity. Members utilized loans availed for productive purposes and repaid in full (100 percent). This led to reduction in poverty and unemployment in the rural sector.

Hulme and Arun (2011) tried to highlight the wrong and right with microfinance. According to the authors the outreach of MFIs was poor. Only the poor and non-poor people fell in its ambit. MFIs did not reach the poorest. In a bid to
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achieve financial targets, the MFI field staff ignored their social performance in the ways in which they related to clients. They treated the clients badly. Most MFIs were concentrated in same towns and areas and served the same sets of households encouraging multiple loans. One more problem attached to the working of MFIs was that as the volume of microfinance lending expanded rapidly, there was over supply of credit. This encouraged the clients to exceed the debt burden they could manage. Further, the policy of RBIs of not allowing MFIs to hold savings of clients raised the risk of client default and MFI collapse. (In the presence of such savings, in case a client faced some repayment problem, these savings provided a buffer to manage their potential defaults). Lastly, the high rates of interest on loans burdened the poor people. Compared to the subsidised rates of government rural credit programmes, the rates of interest charged by these MFIs were high. In spite of these wrongs in microfinance, certain rights also existed. MFIs increased the scope of opportunities available to the poor people related to availability of financial services. Also, there were social benefits of some MFIs’ activities. They focused on female clients; thereby enabling the lady of the house to get empowered. Her mobility increased. Further, fair cost microfinance services could be provided to people who had limited financial access. The author suggested that some changes were needed to be made by agencies that regulate MFIs. First was to put a cap on the interest rates being charged on microloans. Amendments were needed in banking regulations to enable MFIs to offer savings services to their clients. Further, the MFIs needed to change the ways in which they assessed field staff performance. This was necessary in order to make the field staff understand that the quality of relationship with clients was also as important as achieving financial targets. Lastly, efforts were required to be made to reduce the likelihood of a credit bubble. This could be done by reducing loan port folio. Branches should be merged to reduce average client debt load.

Kumaran (1997) in his study on SHG’s in Andhra Pradesh revealed that SHGs promoted savings among the poor and provided small and short-term loans to its members at lower interest rate than moneylenders. This enabled them to meet their consumption and small business needs. Women members got benefited out of the programme as majority of them started their own milk business. This increased their income and they stopped approached moneylenders for loans.
Nair (2011) highlighted the rural distress in Andhra Pradesh as was evident from the incidents of farmers’ suicides and hunger deaths. In addition to this, the growing phenomenon of indebtedness, particularly among small and marginal farmers in the state, brought into focus the inherent flaws in microfinance sector— the barbaric debt recovery methods. Consequently, the state government passed the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance, in 2010 that restricted the freedom of operation of MFIs in the state. MFIs were faced with sharp declines in repayments - reportedly 15 percent to 20 percent. Further, this sector was afflicted with multiplicity of problems like overdependence of SHGs on banks. MFIs failed to appeal as a cheaper pro-poor option in the wake of high operation costs and interest rates; increasing incidence of multiple lending and over lending owing to competition among MFIs. Scholars have time and again expressed fear that the poor might revert back to failed public sector or take refuge in money lenders in the wake of failure of microfinance. Initially, microfinance institutions, which were primarily local in their character, were driven by ideals of poverty alleviation and social capital formation wherein group solidarity and trust played an important role. But with proliferation of MFIs, the focus has shifted to monitoring mechanism instead of mutual trust. A group solidarity based saving model is, therefore, advocated as a pro-poor institutional arrangement as it rests on mutual trust as a social collateral. It was suggested that a viable policy of moderation, sound consultation and rationalization hopping on pros and cons of MFIs should be adopted. The need of the hour is to rethink as to how to help the poor build and strengthen their resource base and design a macro policy for financial inclusion by calibrating the relevant policies of commercial banking, cooperative credit and microfinance.

Nathan (2005) through his empirical study on MFIs in Bangladesh, India, Laos (in Asia), Kenya and Uganda (in Africa) highlighted that the successful functioning of micro finance institutions led to promotion of economic ethic. Micro finance institutions (MFIs) had been able to instill saving habits among its members. Resultantly, savings as a proportion of GNP had improved. The ethic of savings promoted capital accumulation with the members and with the NGOs. MFIs had been successful in instilling a discipline of loan repayment (through strict insistence on repayment and institutionalization of peer group pressures for repayment).
mechanism of loans and their repayment helped in widening the sphere of commercial production. MFIs had ensured a new ethic based on separation of public from private spheres. This ethic prevents usurping of state revenues by state officials.

Rao (2005) examined the positive features and limitations of SHG programme through her empirical study of village Nayanunipalle and Khanapur in district Mahbubnagar of Andhra Pradesh (the state with maximum number of groups and maximum access of groups to bank funding) from July 2001 to March 2002. The study constituted 97 surveys from Nayanunipalle (35 percent of village households of a total of 278 households) and 104 from Khanapur (40 percent of village households of a total of 262 households). The author found that even in the absence of collateral and inability to meet the various administrative requirements for bank loan eligibility, women of the lowest caste and class showed their reluctance to join these groups as bank loans were advanced for extremely short periods of three to four months with the pre-condition to return both principle and interest within the specified period. As a result, most of the loan requirements were to be met from the group savings itself. Banks formed only 0.6 percent of the total bank credit disbursed in 2002. Individual group members received small loans below Rs 5000 at high rate of 2.5-3 percent per month. The author suggested that the need was for the state to intervene to reduce the cost of production borne by the poor and to ensure easy availability of cheaper and massive loans to the poor women. This would require more and better trained staff and a financial commitment for the administration of the programme over a long term.

Reddy and Reddy (2012), in a national study covering 8 states of Rajasthan, Assam, Bihar, West Bengal, Gujarat, Maharashtra, Andhra Pradesh and Karnataka (being promoted by various Self Help Promoting Institutions like government, NGOs, banks, self/ community), examined the factors that influenced quality and sustainability of SHG movement in the country. An attempt was made to know the quality of SHGs promoted by various SHPIs, their access to credit under the programme, repayment rate and default management, issues or challenges that strengthened SHG movement, impact of SHGs at village/ community level, SHG and individual levels and strategies for improvement in quality of SHGs and their institutions. The study highlighted wide inter-state disparities in the growth of SHG movement. 5 out of 8 sample states namely Maharashtra, Gujarat, Bihar, Karnataka
and Assam had low percentage of SHGs having active loans with banks when compared to national average. Further, socially and economically active women seemed to have taken advantage of the SHGs. Poorest of the poor seemed to have been left out as they require special social mobilization efforts. As far as dropout rate among members was concerned, it was more in SHGs promoted by government and in older SHGs. NGO promoted groups were more stable. Qualitatively ranked, 42 percent groups were in A grade; followed by 36 percent in B grade and 22 percent in C grade. Percentage of A grade SHGs was high in groups promoted by community (51 percent); compared to government (38 percent); NGOs (42 percent) and banks (41 percent). Highest percentage of A grade SHGs was in Assam (54 percent) and lowest in Rajasthan (34 percent). Highest percentage of B grade SHGs was in Karnataka (50 percent); and lowest in Maharashtra (23 percent). Highest percentage of C grade SHGs was in Rajasthan (32 percent) and lowest in Karnataka (11 percent). The SHGs promoted limited saving products like compulsory saving rather than voluntary savings for various purposes such as health, education, insurance, etc. Nearly one-fourth of the SHGs distributed the accumulated savings among its members on account of the difficulties faced in managing large amount of group funds and availability of loans at low rate of interest from external sources and to avoid default and/or misuse of funds etc. Regularity was witnessed in conduct of monthly meetings were common (67 percent). 73 percent of the members attended meetings which were basically held to address the financial issues and social livelihood aspects. Quality of book keeping was poor in terms of updation, completeness of information and over writing because of illiteracy or poor literacy levels of the members (73 percent), having untrained members as book writers, lack of training on book keeping (79 percent). In 78 percent cases, SHG leaders were entrusted the responsibility of maintenance of books. Poor remuneration was paid to Book writer. Only 21 percent of SHGs paid a meager amount as honorarium to their book writers. In sample states, only 50 percent of SHGs were credit linked. There was no leadership rotation in 59 percent of the SHGs. Leadership rotation was high in NGO promoted and older SHGs. Repayment rate from SHGs to banks which was 72 percent was low as compared to other external agencies like federations (88 percent) and MFIs (81 percent). 59 percent of the SHGs witnessed significant impact on women
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empowerment with reference to their learning to sign (88 percent), to speak to visitors
(94 percent) and to attend meetings (87 percent), when compared to the period before
joining groups. Their role in taking household decision on purchase/sale of assets,
family savings, children’s education/ marriage, casting own vote had increased in the
post-SHG period. Although SHGs’ female members expressed their increase in work
burden in post-SHG period (50 percent), others viewed that in the post SHG period
sharing of household work by males had increased (68 percent). On the whole,
significant improvement was witnessed in women’s social status after joining groups.
Further, it was suggested that to improve quality of SHGs, there was a need to focus
on continuous training and capacity building of SHG members, need was to have a
democratic system of annual elections, to have continuous training on accounting and
book keeping to SHG members. There was also a need for internal auditing of SHG
records atleast once in a year and provision of training to bank staff to actively
support the SHG Bank linkage. There was a need for some policy that could ensure
eligibility of SHGs for grants under government schemes based on their performance
and not on the base of promotional agency. Further, need based products were
required to be designed by banks for SHGs. Lastly, there was a need for a national
database on SHGs should be established to ensure effective monitoring and support
for the SHG movement in the country.

Sangwan (2008) used cross section data of 42 regions from different states and
UTs of India for the year 2006 to ascertain the determinants of financial inclusion and
to examine the suitability of Self Help Groups in achieving financial inclusion.
Financial inclusion was examined using percentage of adults having savings and
credit accounts. A multiple regression analysis was used to find out the determinants
of financial inclusion. As on March 2006, financial inclusion of adults above 19 years
of age was 63 percent in terms of savings accounts and 16 percent in terms of credit
accounts. The regression equations estimated with cross section data of states revealed
that the branch density varied positively and had significant coefficient with the
percentage of adults having saving and credit accounts. Coefficient of per capita
income was also found to be positive and significant. Either due to the presence of
high rate of literacy among the percentage of people below 18 years or due to lack of
financial education among the educated, literacy percentage varied negatively with
percentage of saving and credit accounts of adults. The results verified that low income people and those having less geographical access to banks (eg. agricultural labourers, marginal and small farmers, migrant labourers, tribals and women) were generally excluded from financial inclusion. The multiple regression equations were estimated by including the percentage of adults covered in SHGs. The variable had positive association with the level of financial inclusion especially in credit accounts. Thus, the study suggested that in order to avoid the problem of financial exclusion, SHGs could play a pivotal role for women and low income families.

Wilson (2010) explained that the poor who were already poor owing to their circumstances were made poorer by the high rates of interest charged on loans advanced to them. At a time when its micro credit programmes were quite profitable, Catholic Relief Services (CRS) decided to only support MFIs in finding lenders and forfeited its role as an investor or lender but it decided to focus on the ignored rural areas where savings was a priority and on legal protection and remedy, where it had the capacity to bring change. It decided to link clients to banks, post offices, MFIs and thereby building right relations. It also planned to shift private funds away from microcredit towards school programmes for girls, maternal health and emergency relief, thereby finally giving up its role as money lender.

3. Studies related to impact of microfinance/ SHGs

Arora (2011) carried out an empirical study in district Jalandhar of Punjab to analyze the role of microfinance in bringing about socio-economic empowerment of women. The author highlighted that microfinance had led to empowerment of women by enabling them to contribute positively to their familial development in terms of getting credit for repair of house, education and marriage of children and also for consumption purposes. The ladies exhibited good saving habits as 46.9 percent of them had saving bank accounts and 18.4 percent had post office savings. However, due to lack of awareness regarding microfinance services being provided by banks, there were obstacles in the path of financial inclusion of women. About 8.1 percent members did not know that some banks were offering zero balance saving accounts. Members found it easy to avail finance from their relatives. Thus, the author
emphasized the need to introduce strategies for spreading awareness of microfinance services available with the banks thereby encouraging the use of such service.

Hermes and Lensink (2007) critically evaluated the available empirical impact studies on microfinance to study its role as an instrument to combat poverty. Advocates of micro-credit argued that it helped to reduce poverty. With credit, people could increase their investment levels which could lead to diversification of their sources of income. However, studies by critics negated this on the ground that microfinance did not reach the poorest of the poor owing to high transaction costs and overdependence on donor subsidies to meet these high costs. Also, poor people preferred not to avail loans as they lacked the confidence and considered it risky to have loans. Very often, staff members of MFIs intentionally excluded lending to core poor as they considered it was risky to lend to them. Not only this, even the other group members didn’t include these poor in the groups as they were considered bad credit risk. Generally, lending to women was considered safe. However, some studies even showed that women were forced to hand over loans to their husbands; so even they couldn’t be relied upon for timely repayment. These empirical studies on microfinance dwelled on the limitation of MFIs but most of these studies were anecdotal or case study driven with considerable doubts over the authenticity of their findings. Thus the authors emphasized the need for strong empirical research to find out whether microfinance contributes to a reduction of world poverty without additional emphasis on education, health and infrastructure. Also, there was a need of research to be carried out to ascertain the impact of the entry of commercial banks into microfinance on traditional MFI’s.

Hermes, Lensink and Meesters (2011) in their empirical study on more than 1300 observations and 435 MFIs examined whether there was tradeoff between outreach to the poor and efficiency of MFIs. Use of stochastic frontier analysis revealed that outreach was negatively related to efficiency of MFIs. Data revealed that those MFIs which had low average loan balance (measure of depth of outreach) and more women borrowers (measure of depth of outreach) were less efficient. Further, in a move to commercialization, if MFIs had to improve efficiency, they would focus less on poor. But this was also not bad as due to spillover effects, those MFIs which focused more on efficiency than outreach could cause a higher poverty reduction at
the macro level than those MFIs which focus more on outreach indicators. But for that, as no study has been carried out so far, the need was for having empirical investigation regarding the effects of increased efficiency of MFIs at regional or macro (country) level in order to examine the contributions made by these MFIs at local, regional and country levels.

Hulme (2007) highlighted the manner in which microfinance had helped people to improve their lives. He brought forth the need to monitor the positive and negative effects of microfinance in order to understand the financial service needs of the poor. Poor borrowers faced difficulties in repaying loans as they could not control certain circumstances like sickness, flood etc. Inability to repay the debts results in members’ being threatened by other group members and MFI staff, seizure of their possessions; arrest by police, female suicides etc. To overcome this, the author suggested the need for a “Social Support” system. Emphasis of MFIs had been more on expanding loan portfolio and those clients who wished to make savings had been balanced out. This had led to poor match between services provided and clients’ needs. Effective MFIs which claimed to provide services for poor did not assist the ‘poorest’ at national levels in reality. In this case, the need was for microfinance to drop its common assumption about working with poor or to explain what in actuality it was doing for the poor. To do the real job, it was important to develop the institutions that created and provided a broad range of micro financial services that supported poor and improved their conditions. It was imperative not to rely on existing myths. Need was to apply our understanding of micro credit to provide required services to the poor.

Kaushik and Singh (2010) carried the survey of 120 SHGs in Chittorgarh and Jhalawar districts of Rajasthan in June, July and August of the year 2007 to search motivators motivating women to join SHGs. The use of mean weight scores revealed that ladies were not motivated to take SHG membership by any motivator. Not much difference had been observed in the motives and their intensity among ladies. Even easy access to credit did not motivate them. This could be due to lack of awareness or education, poor health, lack of legal infrastructural and financial support etc. If the country had to promote livelihood, Government organizations and NGOs should make such future plans as may motivate women in large numbers to join SHGs.
Kelkar, Nathan and Jahan (2004) carried out their study on 20 saving and credit groups (SCGs) formed under Agricultural Development and Intensification Project (ADIP) in the districts of Bangladesh namely Gazipur, Tangail, Narsinghdi and Kishoreganj from March 17-31, 2003. They examined the impact of microcredit on various activities of women. These activities included the role of women in household decision making, interaction with officials, mobility, dignity and self esteem. Analysis of the role of women in promoting solidarity in supporting changes in the behaviour of men was also carried out. The study revealed that with microcredit some changes had started taking place in gender relations. There had been an increase in women’s dignity. Their say in household decision making had started to increase. Women had started becoming asset owners and more mobile. They had started dealing with outsiders and had even taken to trade. The social production structure where men alone were the breadwinners had thereby, undergone a change with women becoming income earners.

Krishnamurthy and Ratnaparkhi (2002) highlighted that out of 73454 members of 4921 SHGs surveyed, nearly 95 percent were women dominated. Women participation in seeking loans was much more than men and that these loans enabled these women of rural areas to save small amounts regularly. These pooled savings were initially used for internal lending and later on to establish credit linkage with banks. Majority of the people took loans to meet agricultural expenses (57.41%), consumption needs (28%), and financing off-farm enterprises (10.95%) and education (2.65%). Banks also became more confident by extending credit to rural poor through groups and to individual clients. With quality clients and goodwill, SHG’s turned out to be a channel for social mobilisation and women empowerment. Externalization of operating costs in deposit mobilization, credit management and recovery through village development councils had a positive effect on the working results of the branches.

Mahajan (2010) analyzed the various defects of microcredit. He argued that microcredit gave loans to poor to start some activity of their own, but all poor people did not wish to be self employed. They did not require money but services. Also, microcredit was barely adequate even as an instrument for poverty alleviation, keep aside economic growth. For economic growth, it was not credit that was required but
the proponents of microcredit and SHG-Bank linkage programme should move to a more holistic concept of livelihood finance which included the whole range of financial services like savings, short term and long term credit, long term insurance, infrastructural finance, human capital development, agriculture and business development services and institutional development.

Mann, Randhawa and Kaur (2011) studied the advantages and problems faced by SHG members and problems faced by SHG members and made an attempts to measure their perception about factors contributing to their group success. Information was collected from 74 randomly selected blocks (50 percent of the blocks) of Punjab three credit linked SHGs were selected from each of these blocks. Thus, of these 222 SHGs, seven were NGO promoted, thirty six were bank promoted and one hundred seventy nine were government promoted. Four members were randomly selected from each group. Thus, the study consisted of 222 SHGs and 888 SHG members. Checklist and rating scales were used to study the advantages of SHGs and the problems faced by SHG members regarding group functioning. Frequencies, percentages and Z tests were used to analyse data. Majority of members revealed that SHGs had helped them in improving their economic status. Their saving habits had also improved. 80 percent members considered group savings to be quite useful during their emergency. Nearly 18 percent reported that due to collective group power and action, women had been successful in protesting against few cases of gambling and drinking in the village. The problems faced by SHG members include; about 80 percent considered lack of incentive in regular repayment, lack of confidence in elected leaders, lack of guidance and supports from promotional agency, lack of support from family members to join SHGs activity. The intensity of these problems was the most in government promoted groups, followed by bank promoted groups and finally NGO promoted groups. Further, for the success of the SHG programme, the author emphasised the role of promotional agencies to inculcate a spirit of self help and an understanding of the mission and goals of SHGs. Need for effective leadership and more number of trainings were a pre requisite for the successful operation of groups. Further, cooperation among group members and transparency in transaction were also essential for smooth functioning of SHGs.
Mann, Randhawa and Kaur (2011) examined the role performance and associated problems of SHGs leaders in 74 randomly selected blocks of Punjab. Three credit linked SHGs from each block i.e. 222 SHGs and one leader of each SHGs was selected as sample. Data was analysed using frequencies, percentage, mean scores and T Tests. The authors found that the majority of leader belongs to general cast who had studied upto matriculation level. The task of holding regular meeting was performed by NGO promoted groups. Government promoted groups performed best in ensuring regularity in collecting contribution towards group savings, helping members to resolve group problems and in informing people about various programmes and welfare scheme of the government. Problems faced by SHG leaders include their lack of incentive in carrying out additional work. NGO promoted and government promoted groups even complained of harassment in opening bank account. Thus, to promote work efficiency of group leaders, the authors highlighted the need to attach some monetary benefit to the post of leaders.

MYRADA (2002) studied the impact of SHGs on the social empowerment of women members in four states of Southern India namely Kerala, Tamil Nadu, Karnataka and Andhra Pradesh) with the help of professionally managed NGOs namely CHASS, DHAN, MYRADA and RASS. Each NGO interacted with two groups that were three years old and one group that was less than one year old i.e. 12 SHGs were surveyed in all. 190 SHG members were interviewed with a structured questionnaire. The results revealed that the empowerment had started in old groups as compared to the new ones. In the new groups, 47 percent members were earning and in old groups, 66 percent members were earning. Average share of earnings of SHG members in their family income was higher in old groups i.e. 40 percent as compared to 26 percent in young SHGs. Members of old groups were more confident in dealing with people and institutions, they had more health and hygiene awareness, were more technically skilled, were more financially secure and had more control over their lives as compared to members of young groups.

NABARD (2008) conducted the study on 20 SHGs with 239 members in Panchmahal and Dahod districts of Gujarat for 2004-05. The study aimed at ascertaining the enterprise pattern of the SHG members and to assessing the impact of micro enterprises on income and employment levels and socio-economic conditions.
of SHG members. The study revealed that by taking loans, members had taken up variety of activities including diversification into nonfarm and off farm activities. Dairy units, flour mills, bricks kiln, STD booth, mandap decoration, cycle store and newspaper agency etc. were some of the activities started with loans received. Repayment performance of the sample SHGs was 90 percent on average. Repayment trend among the members to their respective groups also showed a similar trend (overall 92.54%).

Nair (2012) examined the changes in the patterns of funding financial services by SHGs and MFIs during 2006-10. In the overall scheme of banking in India, microcredit advances formed a small share. Between 2008 and 2010, MFIs and SHGs grew by 24 percent and priority sector advances by 37 percent. From 2006-07 to 2009-10, there had been substantial rise in both annual disbursements of bank credit and amount outstanding against MFIs. This had been much more than the growth rates in case of SHGs. The most important reason for the development of microfinance market in India had been due to special efforts made by the Department for International Development (DFID), supported by Credit and Savings for Household Enterprises (CASHE) project of CARE India (1992-2005) and the partnership model innovated by ICICI bank. Their efforts were supplemented by private donor agencies and investment funds.

NCAER (2008) assessed the impact and sustainability of SHG- Bank linkage programme on the socio-economic conditions of 4791 households of 961 bank linked SHGs in the Indian states of Andhra Pradesh, Karnataka, Maharashtra, Orissa, Uttar Pradesh and Assam, from five different regions namely the South, West, East, Central and North- East from January-December 2006. Using before after approach, the study suggested that on account of membership of SHGs, the net household income between pre and post SHG registered 6.1 percent growth; maximum growth of 11.2 percent was witnessed in livestock. The annual per household growth rate of consumption expenditure on food and non-food items was 5.1 and 5.4 percent respectively. Per household growth in education was 5.6 percent and 5.5 percent on health. The average level of savings per household witnessed a 14.2 percent annual growth in the two time periods. The share of savings of SHG households in banks was 28.5 percent; followed by 17.6 percent savings in LIC and 8.6 percent in post offices.
93 percent households availed loans in post-SHG period as compared to 46.5 percent during pre-SHG period. Average loan amount per household grew at 20.5 percent in the two time periods. 96.4 percent households made regularity in repayments. The share of households living below poverty line reduced to 33 percent (from 58.3 percent in pre-SHG period). Significant improvements were witnessed in the area of social empowerment of women. More than 70 percent women members reported improvements or significant improvements in their abilities to face health related problems and financial crises. Family disputes reduced significantly in 63 percent cases. Members’ control over money increased in 21.3 percent households. 27 percent witnessed an increase in their role in decision making and control over expenditure on children’s education. Participation in public sphere showed that 49.4 percent members had approached government officials to get some problem solved (as compared to 13.5 percent in pre-SHG period). The study also examined the quality of groups promoted by different self help promoting institutions, and behavior and the quantity and quality of financial services and their sustainability. Further, the study even examined the main problems like illiteracy and ignorance of people (48 percent), shortage of field staff (28 percent) etc being faced in promoting new SHGs.

Puhazhendi and Badatya (2002) assessed the socio-economic impact of Self help group bank linkage programme on 115 members of 60 SHGs in three eastern states of India- Orissa, Jharkhand and Chhattisgarh. Using before-after approach, the results revealed that the programme had made significant contributions to social and economic improvement of SHG members. 45 percent members reported an increase in assets in the post-SHG period. About 23 percent SHGs reported an increase in savings over the period of time. Average loan per member increased significantly (by 123 percent) in the post-SHG period. Of the loans availed, 72 percent were used for income generating purposes; 28 percent for consumption. Loans were well distributed as 78 percent members received loans. On the loan repayment front, 83.3 percent groups repaid promptly, only 16.7 percent repaid late. Net incomes of SHG member households increased by 23 percent. Members of 80 percent groups received some form of training. Employment increased by 34 percent between pre and post-SHG period. Share of below poverty line households reduced to 75 percent (from 88 percent in pre-SHG period). This led to nearly 15 percent of the sample SHG member
households crossing poverty line. Significant improvements were witnessed in social empowerment of women in terms of their self confidence as reflected in their decision making abilities and communication skills.

Puhazhendi and Satyasai (2000), in the NABARD commissioned impact study covering 223 SHGs (which had completed a minimum of one year of bank linkage as on March 31, 1999) and 560 sample households (based on multistage stratified random sampling) spread over 11 states in five different regions of India assessed the impact of the programme on socio-economic conditions of members, comparing the pre and post-SHG situations. Using scoring technique, social and economic empowerment index was calculated for each household to quantify empowerment of SHG members. The pre to post-SHG period witnessed an average increase of 72.3 percent in assets held by members. The borrowing pattern also changed in the post-SHG period. An increase of 95 percent was witnessed in borrowing by member households, majority being for consumption and cultivation (77 percent). In the post-SHG period, a rise of 33 percent was observed in average annual income with 43 percent of this incremental income being generated in the non-farm sector activities followed by farm (28 percent) and off farm (21 percent) activities. The estimated employment days per household worked out to 375 person days during post-SHG situation (registering an increase of 17 percent from pre-SHG situation of 320 person days per household). Share of families living below poverty line declined by 20 percent in post-SHG situation (from 42 percent to 22 percent). Repayment percentage also improved in sample households. Repayment percentage registered 9.7 percent increase in post SHG situation; it was 83.9 percent in pre-SHG situation and 93.6 percent in post SHG situation. Consumption expenditure also showed a 24 percent rise in post-SHG situation. The model with NGOs as intermediaries witnessed highest increase in average asset holding (92.4 percent), in average borrowing by member household (95.4 percent) and in proportion of poor crossing poverty line (53.6 percent). However, in repayment of loans, the model with direct linkage to banks showed the best repayment status (14.3 percent). The average increase in consumption expenditure among all the models was around 24 percent. The social empowerment of sample SHG members in terms of self confidence, behavioural changes improved in a significant manner. Improvement was witnessed in terms of
increase in members’ communication skills, interaction with officials etc. The behavior changes that took place among members included their desire to protest against social evils like husband beating wife, gambling, drinking etc., reduction in their submissions to adverse situations of life like verbal abuse, negligence, psychological and emotional abuse. An increase was witnessed in the percentage of members accessing basic amenities like medical facilities, sanitation, water supply, school for children, market facilities.

Rahman (2002) in his study in Malaysia found that repayment rate among MFIs was 99 percent. Most of the members managed to improve their income and contributed significantly to the household income. It was noted that the active participation in economic activities by the poor communities increased by 70 percent. The beneficiaries purchased or built productive assets, movable and immovable household assets after joining the scheme. Moreover, through micro finance, the living standards of poor households also improved.

Rahman, Rafiq and Momen (2009) collected primary data from the districts of Gazipur, Dinajpur and Chokoria of Bangladesh by interviewing 387 borrowers from these districts and examined the impact of Grameen Bank and the BRAC on borrowers with different income levels. The authors highlighted the fact that the micro-credit programmes were more effective in increasing the income and asset levels of the higher income group borrowers compared to medium and low income groups. Educated males and females tended to have higher income. Also, as the number of earners increased in the house hold, the amount of borrowings also increased. Author suggested carrying out adjustment in the existing programmes to serve the lower income society rather than rich people.

Sharma (2007) examined the impact of participation in microfinance programmes by those participants who had adopted Grameen model for the last four years, in Hill and Terai areas of Nepal during the period 2004-2006. Using before-after approach, the study found that participation in the programme led to greater participation of women in household decision-making, greater access to economic resources, wider social networks and freedom of mobility. Owing to female credit, family planning and parenting concerns began to be shared between spouses.
However, that the outreach of microfinance institutions was less and the need was for the government to build conducive environment to develop microfinance services and thereby have multiplicity in services.

Sharma (2011) examined the various reasons for low overall share of organised sector in credit flow to the rural poor. These included non-availability of credit for consumption needs, high transaction costs, rigidity in the terms of loans, delay in sanctioning of loans and high rates of default under government sponsored programmes. More than the micro loans, the poor needed investments in health, education and developmental inputs in farm and non-farm activities. Women had different experiences with small enterprises as they faced significant barriers to achieve sustained incomes and needed support in other areas. Furthermore, informal sector trade increased their dependence on male family members due to restricted mobility. Compulsory savings was not possible in irregular incomes and thus they could not save regularly. Resultantly, many women dropped out of SHGs. Default rates also went up. The logic of use of SHGs as a means of engagements, negotiation and struggle, went beyond just credit and addressed a wide range of development issues including the role of social mobilization in women’s empowerment. Group pressure and group liability was common mechanism for making groups responsible for loan repayment. Group liability also created tensions within the group from the defaulters and dropouts.

Singh (2001) carried out an empirical study in the rural areas of the district Kanpur of Uttar Pradesh, the district with highest number of credit linked SHGs. 11 SHGs linked with Regional Rural Banks (RRBs) and one group in Beridayria village was selected to study the socio-economic impact of microfinance programme. Results of the study indicated that contrary to the pre-SHG situation when most of the members were dependent on labour for their income, in the post-SHG period dairy was their main source of income. Low interest rates and quick delivery system replaced money lenders. Also, loans were taken for income generating activities in post-SHG periods. This led to an increase in average value of assets by 46 percent and increase in annual income per household by 28 percent in post-SHG period. Also, members were even forced to cut their necessary expenditures for compulsory savings. Recovery rate was quite high. It ranged from 95 to 100 percent.
Singh (2008) examined the progress and future prospects of micro finance. Based on various empirical studies, the study suggested that through increase in income and by building assets, micro-finance had helped in reducing the incidence of poverty. Members had started sending their children to school. The drop-out rate from schools had also declined. Members have started residing in pucca houses. They were more assertive in confronting social evils. As a result there had been a fall in the incidence of family violence.

Singh, Sharma and Henry (2009) examined the impact of self help groups in changing the socio-economic status of 300 randomly selected women (150 beneficiaries and 150 non-beneficiaries), from 30 SHGs in Bikaner district of Rajasthan. Results of the Z test revealed that the programme had positive impact in raising socio-economic status of rural women. On account of enterprises taken up in SHGs, monthly income of beneficiaries had also increased which made them move to upper income groups.

Sinha (2010) carried out the study on 200 SHGs in two Southern and two Northern states of India found that SHGs enabled poor women to grow their savings and have access to bank credit. SHGs acted as community platforms enabling women to become active in village affairs like standing for local elections or taking action against prevalent atrocities against women or other social and community issues like alcoholism, water supply, schools etc. The author highlighted that although SHGs were growing at a fast rate in terms of numbers but they were not contributing to long lasting social and economic empowerment of its members. On the financial side, account keeping was weak. The need was of effective mentoring and strategic guidance in order to bring positive changes in established traditions and to establish gender equality.

Srivastava (2005) through his study on Lakhipur village in Khaga tehsil of Fatehpur district in Uttar Pradesh, pondered on the crucial issue of whether or not MFIs would succeed in accomplishing their objective of reaching out to the poor in the long run or they would meet the same fate as various other unsuccessful worthless credit institutions. Serious concern was expressed over the spatial outreach, irregularities and inadequacies of SHG-Bank linkage programme. Sustainable
development of these institutions was considered as an area of deep concern. The author asserted that the success of these MFIs depended on their quality implementation which could be possible only in the absence of structural constraints and in the presence of strong legal and regulatory framework.

Swain and Wallentin (2007) studied the impact of SHG membership on women empowerment, using quasi-experimental household sample data for five states namely Orissa, Andhra Pradesh, Tamil Nadu, Uttar Pradesh and Maharashtra, for 2000 and 2003, on 961 households (805 SHGs and 156 of control group), using case-control approach. Although on an average, empowerment of women took place, but some members got more empowered than others. This could be due to difference in household and village characteristics, cultural and religious norms, behavioural difference between members, training and awareness programmes attended by women etc. However, it could not be determined as to which factors influenced women empowerment more. Using case-control approach, the study revealed that the control group did not show any empowerment amongst the women, thereby highlighting the progress made by the programme.

Veenapani (2012) examined the performance of 54 self help groups in Mahabubnagar district in Andhra Pradesh. The performance of the groups was judged on the basis of five parameters namely, group governance, group discipline, financial transaction of the group, repayment pattern and record maintenance. Group governance included member awareness about objectives of SHGs, member awareness about rules and regulations of SHGs, leader responsibility sharing among members of the group, awareness about member wise saving and loan position. Group discipline consisted of members’ attendance in meetings. Financial management in groups included financial transactions in groups. The repayment pattern indicated how promptly groups repaid the amount taken as loan. Record maintenance covered the book keeping and documentation processes. Book keeping implied whether the groups possessed the records namely minute’s book, savings and loan register, weekly register and member’s passbook. On group governance parameter, only five groups had a very good score. More than 90 percent attendance was found in 54 percent of groups. Financial transaction in groups took place according to norms in 63 percent of groups. 37 percent groups made timely repayments of loans; 39 percent groups
maintain proper records. But for the group governance parameter in rest of the parameters including financial transaction, group discipline and record maintenance, all the groups scored well. The author suggested that care should be taken at the time of consolidation of groups so that groups may be made sustainable. Leader rotation should be strictly adhered to, active participation of member in group meeting should be ensured (fines should be strictly imposed). Self help promoting institutions should closely monitor the groups. To ensure group awareness about group performance, capacity building training programmes for younger groups should be introduced. Further, the use of information technology to capture financial transaction during meetings and transfer of important data to banks had also been suggested by the author. This would reduce transaction costs for banks. Finally the need to evolve money transfer and method of faster remittances to ensure timely payments by migrating poor was also recommended.

Vonderlake and Schreiner (2002) in their analytical study explored the ways to improve the well being of the poor women in developing countries. They proposed safe-deposit boxes (which allowed women to maintain independent savings) and matched-savings (which structured savings, promoted peer support and subsidised savings targeted to women specific concerns such as health care or school fees) as the two saving services which could address important gender issues and compliment the efforts aimed at empowering poor women. Through savings women could accumulate assets which could empower them economically.

Conclusions

A review of about 62 studies presented various aspects related to nature, coverage, structure, performance, functioning and impact of the SHGs. The empirical literature consisted of studies carried out in India and at international level as well.

Main conclusions that emerge from Review of Literature are as follows:

1. Homogeneous groups are more successful and sustainable as compared to heterogeneous groups.
2. Some studies suggested that payments in microfinance can be improved through dynamic incentives and regular repayment schedules.

3. Overwhelming number of studies suggested that microfinance proved to be an effective instrument in combating poverty in general and of women in particular. Almost all SHGs are found to be women dominated.

4. A large number of studies harped on inculcation of thrift habits and increase in level of savings among the rural poor and financial inclusion through membership in groups.

5. The evidence rejected the traditional myth that women are poor managers and lending to them is risky. Many researchers found that women were better managers of loans and default rate was low in women dominated SHGs compared to that of male dominated SHGs.

6. SHGs have considerably enhanced the economic status of the poor and have contributed in alleviation of poverty in the rural areas.

7. Poor are borrowing for various types of activities like agricultural investment, consumption smoothing, investment in non-farm enterprises and education of children etc.

8. Majority of studies highlighted that SHGs prove to be an effective channel for social mobilisation of weaker sections particularly women and also lead to women empowerment. Women can freely go for getting medical treatment of self/family, can travel alone to nearest town or district, can address a forum etc. They get empowered for considering, addressing and participating in issues that affect them. Community action is promoted as it is through them that women are mobilised to act forcefully to do community action like closing liquor shops etc. This instills a feeling of boldness and confidence among women.

9. Because of the practice of charging margins by various participating links in the microcredit chain, the individual borrowers end up paying a high rate of interest ranging from 24 to 60 percent per annum. This is much higher than being paid by the cooperative and other formal institutions on small amounts of loans supplied for agricultural and rural development.
10. Due to the high operation costs, high interest rates, multiple lending and over lending (owing to competition among MFIs), MFIs are failing to appeal as a cheaper pro-poor option.

11. Some studies suggested that the poorest of the poor have to contribute to annual payments of the groups. They find it burdensome and are not willing to join the SHG programme.

12. Core poor are excluded from lending as they are considered bad credit risk. In a move to commercialisation, MFIs focused less on poor. However, this also has a positive effect. Due to spillover effects, MFIs which focus more on efficiency than outreach, cause a higher poverty reduction at the macro level than those MFIs which focus more on outreach indicators.

13. Some studies even pointed out that book keeping is a serious weakness in SHGs. SHGs do not pay honorarium to SHG book writers. Also, many book writers have not received training for writing books properly.

14. Some studies suggested that MFIs which have low average loan balance and more women borrowers are less efficient. Women are forced to hand over loans to their husbands who themselves make use of this loan. Thus women cannot be relied for timely repayment of loans.

15. MFI field staff ignores social performance in the ways in which they relate to clients. They treat clients badly.

16. A number of studies suggested that as volume of microfinance lending expands rapidly, there is oversupply of credit. Resultantly clients exceed the debt burden they can manage. Further, policy of the central bank of not allowing MFIs to hold savings of clients raises the risk of client default and MFI collapse.

17. Overwhelming number of studies pointed towards the issuance of multiple loans under microfinance. This arises when MFIs are concentrated in same towns and serve same sets of households.

18. Some studies highlighted the fact that under the programme, members have flexibility in payment of loan installments. They can pay less in lean season and more in busy season.
19. Some studies suggested that Self help group bank linkage programme should be built on the strengths of banking system and NGOs should only be given the task of filling the gap in formal credit system as costs incurred by NGOs in disbursing loans and administrative costs (component of transaction costs) of NGOs are relatively higher than those of banks and increase as the activities are scaled up. Further, banking system has more outreach, can cross-subsidise loans, is better placed to provide training to its employees, is better placed to offer a wide range of financial services to borrowers than NGOs.

20. Participation in socio-economic development programmes like literacy, health, nutrition, housing, primary education, sanitation etc. by matured SHGs have contributed to overall empowerment of rural poor.

21. Some studies suggested that with participation in the programme, income levels may rise. This may take two paths: one is that with income increase, consumption also rises; this may increase the demand for children. This may further enhance children’s education and leisure. Contrarily, with more female employment, fertility rates may drop downwards as having more children becomes costlier. Further as parents work, children may be made to work at home; this may decrease schooling levels.

Gaps in Literature

On the basis of the literature reviewed, following gaps in the existing literature have been found out:-

1. Most of the studies are based on the country as a whole or on few villages or districts particularly in Southern states.

2. While some studies on self help groups are focused only on organizational aspect, others go overboard considering only the impact and performance of SHGs.

3. Though very few research studies are carried on the state of Punjab, no comprehensive study has been done for Fatehgarh Sahib.

4. Information on factors and forces which determine the successful operation of SHGs is missing in Punjab.
5. Comprehensive information on who moved ahead and who lagged behind owing to self help group movement is lacking in rural Punjab.

The present study strives to bridge the existing gaps by focusing on all the aspects like its organisation, management, performance, functioning, impact etc. It dwells on the growth of SHG movement in Punjab as a whole and district Fatehgarh Sahib in particular.
## MATRIX OF REVIEW OF LITERATURE

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