Chapter 1: Introduction
Chapter -1: Introduction

Evolution of credit system: from Credit to Micro-Credit

"If we can come up with a system which allows everybody access to credit while ensuring excellent repayment-I can give you a guarantee that poverty will not last long,"

(Prof. Muhammad Yunus)

Finance is one of the most crucial inputs for economic activity, growth, and development. It can facilitate economic growth by easing liquidity constraints in production, by providing capital to start new production or adapt new technology and help producers assume production risk. In recent years, finance has also been used as an anti-poverty tool. It helps the unemployed become employed, thereby increasing income and consumption and reducing poverty. If finance through own accumulated resources or equity is neither available nor sufficient, credit assumes a major significance. In economic literature credit has been assigned a docile, a passive role of being the lubricant or facilitator of trade, commerce and industry but credit in reality plays a more powerful social and political role than it is admitted. It is a powerful weapon. With appropriate credit institutions and credit policies it is possible to lead a society towards a desired shape. The more credit one can receive, the more resources one can receive, the more resources he can command, the more powerful he is. Credit creates entitlement to resources, asserts Mohd Yunus, the founder of Grameen Bank (Yunus, 1993).

The word Credit is derived from the Latin word ‘CREDERE’ means to believe or trust. A Credit transaction of credit exchange is usually defined as an exchange of goods or of command over goods, in the present, for payment at some future time. Every credit exchange gives rise to a debt or obligation by the recipient of credit (the debtor) to the giver of credit (the creditor); and to a claim of the creditor against the debitor. Debt and Claim are the twin aspects of one and the same thing and necessarily always equal. As debts increase within a society, the society is not therefore worse off, since the amount of claims owned by people must have increased equally. Cooper and Lijri referred credit to “the ability to buy or borrow in consideration of a promise to pay within a period”
Singh defined credit as the transfer of purchasing power from one party to another over an interval of time. The transfer was made through a transaction in which present purchasing power was made available by the creditor to the borrower in exchange for an instrument of debt which would become an obligation of the debtor. The purchasing power made available to the debtor for the time being would enable him to acquire goods or services formerly beyond his reach. Credit is a crucial input in the process of development. It is important in the lives of the poor in a developing economy. It is the life blood of modern economic system without which no system can survive. Access to credit is one of the most useful financial tools available to the poor (Hollis, 2001). Credit helps poor people to increase their income. It accelerates the wheel of economic development.

Had there been no credit, production would have taken place at the low level almost comfortably to the output in the primitive periods. Credit has made production possible and those who do not possess their own funds to make production possible participate in the production function with the help of loans. On the most fundamental level credit matters. It matters in all societies that have a need for new business formation that is not solely dependent on affluent and well connected entrepreneurs who do not need loans (Houghton, 2001). Credit was indispensable to labouring men and women in pre-industrial and early industrial societies. The pressures of fluctuating employment and irregular pay meant that credit of various sorts was a necessity. Aside from shop credit, ordinary folk turned most commonly to formal and informal pawn brokers and moneylenders to meet their credit needs. Among the labouring and lower middle ranks, the housewife’s general responsibilities included the management of their household credit (Lemire, 1998).

The significance of credit is highly discussed subject. It would not be hyperbolic if an economist says that it is the backbone of the rural sector of a developing economy. It is credit that strengthens a person’s position to convert his latent skill in the endless stream of generating more income. Thus it can reverse the age old vicious circle of low income, low savings, low investment into an expanding system of “low income, credit, investment--more income, savings more investment and so on”. Therefore the mass rural poor should be allowed the access to the institutional credit at the existing market rates under appropriately designed financial intermediaries in order, to create opportunities for
self-employment, investment and income, thereby adding momentum to the development efforts of the governments. It is why Professor Muhammad Yunus pronounced “credit” as a fundamental human right (Yunus, 1994).

Poor need access to credit more than subsidies. Access to institutional credit for the poor is a very important precondition to any poverty alleviation strategy. By providing poor people with credit for micro enterprise it can help them their own way out of poverty. But absence of formal employment makes them non bankable. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. However, conventional financial institutions seldom lend down – market to serve the needs of low income families and women headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself (Hwan, 1995).

In fact, the refusal of credit affects not only the poorest segments of the population, but also most of the informal sector entrepreneurs, who are categorized as potentially high risk clients. The bank’s lack of confidence in most citizens is reflected in weighty collateral and personal contribution requirements, as well as exorbitant interest rates of 15-20 percent. Women are particularly hard hit. Economic dependence on man means that women do not possess the property essential for loan collateral. Moreover women’s higher illiteracy rate hampers their understanding of banking procedures (Kane, 2001). The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financial needs of low income households. For example, commercial lending institutions require that borrowers have a stable source of income. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administrative costs. They also look for collateral with a clear title—which many low income households do not have.

Since poor people lack infrastructure, entrepreneurship, opportunities and people are victims of exploitation and ignorance, the transaction cost of investment by the financial
institutions and credit risk are high, and return on capital by borrowing investors is not attractive. That is the reason most of the institutions do not show much enthusiasm to put their resources in rural and backward areas for the benefit of poorer people as these are commercial organisations and are basically interested in profitability and sustainability (Dasgupta, 2001).

India is a developing country so the access of the poor to credit is important not only for poverty alleviation but for their contribution to the growth of national economy. Easy access of poor to credit is the biggest need of the hour rather than cheaper rate of interest. The basic problem with poor is not the higher rate of interest, but the difficulty to get adequate amount of credit on time. Poor people are at a disadvantage because the banks and insurance companies and other financial institutions serve the better-off, rarely cater to the poor. Among the poor, women are hardly provided credit. In this backdrop of poor women unable to obtain credit from the major financial institutions, it is interesting to study institutions from which poor women were able to obtain credit. Women tend to be ‘invisible’ in many societies. In India women’s participation and relative control over the means of production is often underestimated, leading to inadequate incorporation of women into macroeconomic planning. According to Mayoux, credit provision of various forms has become a major feature in women’s programme and is of interest to many development agencies. The reason for this is that credit is considered a cost effective means by which development programmes can respond to women’s demand. It is also a means of increasing women’s income because it creates opportunities for women to begin new market investment, keeping afloat their enterprises, reducing their dependency on exploitative money lending sources.

Notwithstanding these advantages and benefits, evidence in the literature today shows that credit is still a “missing ingredient” in many programmes and projects for poor women in Third World countries. Many women specific projects aimed at developing women’s human resources and capabilities are either ineffective or have failed because they lack access to sources of credit as well as adequate amounts of credit (Joyce, 2001). This creates a disappointment among women, and they loose faith in those projects targeting women as beneficiaries. Evidence points to the fact that these types of projects, rather than those centred on income generation and enterprise development, tends to omit credit as a component. There are many other reasons why credit remains a missing
‘ingredient’ in women specific projects although it should have been a magic ingredient.

On a general note, whether applying to formal or informal credit institutions, the process of gaining access to credit is not gender neutral, men have better access to credit institutions than women because they have a higher level of education and a better understanding of the lending process; do not require permission from their spouses, as women do, to gain access to credit; and have the necessary collateral for borrowing money from credit sources and users of credit institutions. Mayoux argues women should be provided with a range of possible credit options so that they can themselves, discuss and work out what they want; credit support to women should be context specific and dependent on the needs and priorities of the concerned women (Mayoux, 1995). It was further argued that programmes should take into account the delicate balance between building on women’s own knowledge and experience and introducing (rather than imposing) new ideas. Credit schemes for rural women were almost negligible before 1990’s. The concept of women’s credit was born on the insistence by women oriented studies that highlight the discrimination and struggle of women in having access to credit. However, there is a perceptible gap in financing genuine credit or needs of the poor especially women. Inspite of women’s active roles as entrepreneurs at different times of the UK’s history, there is significant research indicating that women in the UK are less likely to be able to access credit and other resources to support new or existing small business (Westall, 2000). This clearly indicates that women face these problems throughout the globe. India is not the exception. Women are always treated as second grade citizens. While all women face a gendered market place, those with connections and access to business circles and finance will require different kinds of support from those on low income on the margins of the low paid labour market who juggle family and income generating opportunities with minimum support and resources. It is essential, therefore, that programmes for the latter group are developed with women’s organisations and others who have a real understanding of the gendered realities of low income women’s survival strategies (Pearson, 2001). Therefore it is important to stress that credit programmes for low income women should be delivered by communities integrated at the local level, but with an appreciation of national and international policy initiatives. However many problems are known to plague women’s projects. Among the main problems are meagre capital, inadequate financial credit and staff support, lack of women’s participation in the project circle and the lack of strong policy commitments.
The result is that women’s projects are likely to be short lived and non sustainable (Rogers, 1980). Moreover there are certain misconceptions about the poor women that they need loans at subsidised rates of interest on soft terms, they lack education, skills, and capacity to save, credit worthiness and therefore are not bankable. All this makes her more marginalized because her capacity to work, borrow money and utilise it properly is questioned.

Nevertheless the experience of several SHGs (Self Help Groups) reveals that women are actually efficient managers of credit and finance. Availability of timely and adequate credit is essential for them to undertake an economic activity rather than credit subsidy. Discovering the history of women’s economic endeavours is not without challenges. Gender inequities ensured that main elements of women’s work went unrecorded. In theoretical discourses and in practical policies, ubiquitous female endeavours fell more into the shadows (Lemire, 2001). Ultimately most things defined as economic were gendered male (Pujol, 1992). It was assumed that the world of credit, investment and business was a male one. The historical literature on business or on women has had little to say about women as either providers or users of credit. The ‘separate spheres’ paradigm which informed most of the work on nineteenth century women, seemed to preclude women’s active involvement in financial activities (Hall, 1987). Yet recent studies of women of the lower classes suggest that lending and borrowing were part of the economy of expediency that allowed them to survive. To give poor women visibility and to enable society to come in contact with poor women they must be organised into groups. Group approach is a viable set up to disburse credit to poor women. Thus the arrangement for credit supply to the poor through SHGs is fast emerging as a promising tool for promoting income generation and economic empowerment for poor women. Keeping in consideration all these factors associated with credit, its importance and it being a missing ingredient in women projects, various developing countries make credit an integral part of their poverty alleviation programmes. The conception and implementation of such programmes were often based on the broad principles of social banking in several developing countries including India. Social banking can be described as “the elevation of the entitlements of previously disadvantaged groups to formal credit even if this may entail a weakening of the conventional banking practices”. For a country like India where 36% of the population is poor, access of the poor to banking services is important not only for poverty alleviation but also for optimising their contribution to the
growth of the national economy. This realization has led to certain important banking related policy initiatives in the last three decades. There were nationalization of major commercial banks; setting up of RRBs; launching of large credit supported programmes aimed at creating self employment opportunities for the poor and persuading banks to participate in such projects. Although these initiatives greatly increased the outreach of banks among the poorer sections of the society, it was increasingly felt, even these initiatives perhaps succeeded in reaching only the upper crust of the poor and bypassed the lower rungs of the society. There are a number of factors which prevent poor households from securing adequate credit agencies such as lack of awareness among beneficiaries in respect of development through credit and thereby making proper use of credit; lack of effective coordination among officials concerned for proper planning, implementing, monitoring, revising and evaluating the programmes: collateral requirement, transaction costs and delay in sanction etc.

Over the last 40 years policy makers identified a host of problems in rural financial markets. There was an attempt to resolve these problems through targeting, providing subsidies, and applying governmental controls. It was hoped that these measures would stimulate growth and reduce rural poverty (Yaron, 1997). Government involvement in the management and implementation of financial system has proven expensive and inefficient. Often, state controlled rural financial institutions are viewed as tools for distributing political benefits to constituents. In fact, the banking system has become a tool in the hands of the ruling party to canvass for votes (Rajeshkar, 1990). Governments have in the past used and continue to use these institutions to target specific rural groups for income transfer. Subsidised credit programmes which are part of state intervention in rural financial markets undermine the institutional sustainability of financial institutions, distort rural finance markets and discourage savings mobilisation and fail to develop market driven sources of funding. Such credit programmes that do not include repayment capacity as part of loan analysis impoverish their borrowers and destroy the lending operations of the institutions. Credit system has been experienced with huge over dues due to repayment problem; chronic overdues and poor recovery only hamper the development banking. According to a 1995 World Bank estimate in most developing countries the formal financial system reaches only the top 25% of the economically active population – the bottom 75% have no access to financial services apart from moneylenders. Money lenders dominate the credit markets in developing countries and
interest rates are usurious ranging from 2 percent per month to even 30 percent per month depending on the period of loan. Various efforts have been made over the past 40 years (from 1951) to free the poor households from the clutches of moneylenders.

Right from independence and in fact even in the pre-independence era, poverty alleviation of poor households and particularly women had been considered as a major challenge to our country. It was assumed that various poverty alleviation programmes such as IRDP, TRYSEM, DWCRA, ICDP, SITRA, MWS etc could be able to enhance income level of poor households through trickle down effect. But these programmes failed to achieve the target because ‘trickle down’ effect of economic growth cannot be achieved if the growth is not accompanied with infrastructure development; which is essential for speedy percolation of the benefit of such programmes. These programmes fractured the Indian society making them dependent on the subsidy and concession culture which has meant considerable ill for the Indian banking system. It has led to a decline in portfolio quality and neglect of monetary savings facilities in the rural sector (ACRC, 1993: Shylendra, 1994 a and 1994 b; Yaron et al, 1997). It was argued that such interventions have not only allowed leakage of benefits to undeserving households but also underestimated the ability of the poor to save or pay market rate of interest. Moreover subsidised credit was often diverted to politically favoured non poor households. The most undesirable aspect of this experience has been that the formal banking system has developed an ‘aversion’ to the risk of lending to the so called priority sectors and an unhealthy appetite for safer investments like government securities (Majumdar, 1998; Nair, 2000; Shylendra 1994a).

Though the efforts were aimed at improving the distribution of formal credit among the landless and near landless rural population through schemes such as IRDP, bank credit largely remained concentrated in the hands of the landed population. The performance of IRDP in targeting has been found to be strikingly poor (Guhan, 1986). IRDP could not make up to the expectations of the poor households. An expert committee of the Reserve Bank of India (RBI) on IRDP found that, in many states, even the necessary preliminary surveys of the families below the poverty line had not been conducted (RBI, 1990). It was also found that the attendance at village assemblies, where the beneficiaries were selected was extremely poor. Independent evaluations by NABARD and the Planning Commission estimated that on an average, the percentage of ineligible beneficiaries in
IRDP were about 15-26 percent; in some places it was even estimated to be between 40 percent and 50 percent (GOI, 1985). It was argued that only one among the eight households in the poorest decile (the 'unambiguously poor' population) received any benefit from IRDP (Dreaze, 1990). Similarly other poverty alleviation programmes could not make a deep impact in the lives of the poor. There were many weaknesses which prevented these programmes to reach the real target groups. The banking system could not fully adapt to the task of poverty alleviation on account of the lack of provision of consumption credit and the system of directed lending was criticised as it resulted in the creation of non-profit making assets on account of poor repayment of loans (RBI, 1991). Many borrowers at the time of survey no longer had the asset acquired through the loan. Maximum portion of credit was used for the consumption purpose. Bankers also see IRDP loans as a compulsion at best and a gross waste at worst. It is doubtful whether alleviation of poverty and creating a strong rural market were the major motives behind it. So corruption and leakage became central point. The IRDP borrowers were considered as “passengers” in the banking bandwagon and less than 10 percent of them have been found to be still associated with the banks after their loan repayment was over (Pulley, 1989). Women in the unorganised sectors were the real sufferers. Formal financial institutions left them. They were treated as credit unworthy. Further in the absence of decentralised planning and administration of poverty alleviation programmes through institutions such as the panchayats, there were problems in targeting the poor beneficiaries. These programmes suffer from a lack of conceptual clarity and an inadequate understanding of the complex nature of the environment in which they have to be implemented. It is thus the programme design which needs to be reviewed. A number of studies have confirmed the failure of the fragmented ‘targeted’ credit programmes for poor men and women such as the conventional government or credit institutions and ‘delivery’ of inputs approach-to achieve the desired results in development (Griffin, 1988; Chambers, 1985). Even in their own terms, the record of these ‘targeted’ and ‘delivered’ credit programmes in reaching poor people is disappointing. Repayment rates for this kind of ‘delivered’ credit are, in any case low.

With increasing criticism of the state-led formal credit system and its utilisation for poverty alleviation in recent years, countries have moved towards new mechanisms of lending such as micro credit. Microcredit has been claimed to be a solution to most of the problems that originated out of the state’s efforts to alleviate poverty using the
instrument of credit (Yunus, 1999). In many countries in the world micro-credit programmes have succeeded in generating self-employment by providing access to small capital to people living in poverty. The focus is on getting the poor to mobilize their own funds, building their capacities and empowering them to leverage external credit. Micro credit has been defined by the 1997 Microcredit Summit as “programmes that provide credit for self employment and other financial and business services (including savings and technical assistance) to very poor persons” (Micro credit summit, 1997). Micro-Credit as defined by Grameen Bank, symbolises small loans extended to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families. The defining criteria used are thus the size of loans (RBI, 1999) and the targeted population comprising micro-entrepreneurs, particularly women micro-entrepreneurs, from low income households. These loans are generally provided without any collateral. Micro Credit is a novel approach of banking with poor with the distinct advantages of high repayments of loans and low transaction cost. In Micro Credit NABARD’s role has been twofold, viz., promotional and financial. Promotional efforts assume the form of the SHG-Bank Linkage Programme and facilitating training. Financial involvement is in terms of providing refinance, revolving fund assistance and grants. By delivering financial services at a scale and by mechanisms appropriate to them; micro credit can reach poor people. By providing poor people with credit for micro-enterprise it can help them work their own way out of poverty. And by providing loans rather than grants the micro credit provider can become sustainable by recycling resources again and over again. Since its inception, the concept of micro credit has changed the lives of thousands of people. Access to capital on a scale appropriate to the needs of the poor has simply been revolutionary. Around the World, micro credit has challenged many long-held misconceptions such as the financial irresponsibility of the poor, especially women. Loans to the poor (considered too risky an investment earlier), in amounts that enabled them to start modest businesses or improve their lives in other ways, have been a widely recognized success. It has unlocked entrepreneurial potential and liberated many from the recurring costs of poverty, such as debt, wells that go dry or houses that fall because they cannot stand up to the elements.

Sources of Credit

The main sources of credit may be classified as the institutional and non institutional
sources. The credit [loan] advanced by a Government, semi government, or non government financial institutions under certain terms and conditions is called institutional credit. Various Banks, Government departments, cooperative societies etc are examples of institutional credit giving agencies in India. Non- institutional credit denotes the credit advanced by a person to another person to be repaid under certain terms and conditions on specified or un-specified period of time. Institutional credit plays an important role in the lives of marginalized groups by channellising funds from surplus sector [savers] to deficit sectors [investors]. However these institutions do not show so much enthusiasm to put their resources in rural and backward areas for the benefit of poorer people as these are commercial organisations and are basically interested in profitability and sustainability for two reasons: (i) incentive for functioning, and (ii) for safeguarding the interest of stakeholders. Besides the transaction in credit market is different from the transaction in goods market (Llanto, 1990). Unlike in the latter where transaction ends with the sale of goods and receipt of payment, which are more or less instantaneous, in the former what is important is the future endowment of the borrower which depends upon the purpose of the loan, viability of the project and creditworthiness and the strategic skill of the borrower. As these rural backward areas lack infrastructure, entrepreneurship, opportunities, and people are victims of exploitation and ignorance, the transaction cost of investment by the financial institutions and credit risk are high, and return on capital by the borrowing investors is not attractive. That is why the marginalized groups of the society could not access financial services from the formal financial system and they had to depend on the informal system for meeting their credit need. Historically also, the non institutional credit have always been important part of the financial system in India.

Non-Institutional Sources of Credit

Following are the sources of non-institutionalised credit:

1. Relatives and Friends:

Perhaps the most common form of informal finance both in terms of number and value of transaction is loans from friends and relatives. In some countries these credits make up half or more of all non-institutional credits. Many of the loans involve no interest or collateral. But even if one has wealthy relatives, they do not automatically become an
important source of credit. In general people do not like to lend money to their relatives, because it is highly uncertain that you will ever get your money back. However, it is difficult to deny close relatives a favour. Repayment is, then, usually requested only when the lender is in need of money.

2. Neighbours:

It is again difficult to deny a personal favour, but here, too, the risk is high that the money will not be repaid. When you want your money back, you have to remind them in advance. It gives the borrower some time to arrange money for repayment. In some cases people ask for interest on loans to their neighbours. It is most often women who arrange these loans.

3. Local Prosperous People:

The rich people sometimes lend money as a part of their network of social obligations. In some cases it helps them to build up their business on their political support.

4. Money Lenders:

Moneylenders who provide loans from their own resources as their only financial service are the oldest of these professions, dating back to prehistoric times. There was probably a long period of transition from gift-exchange, reciprocal lending and trading-cum-lending to specialized lending, and from lending-in-kind to lending-in-money before the first millennium B.C. Money lending became an organized and subsequently regulated profession in India around 1700-2200 years ago. They are significant sources of loan in Asia. These money lenders may allow a borrower to suspend repayment for some time, but when they get impatient they may take any other item whose cost approximates to the value of the debt. Both women and men borrow from these money lenders, although they mainly cater to women only. Money lending is still widespread today, and remnants of its historical informal precedents are still in existence, re-emerging time and again according to demand. The main advantage moneylenders have over formal lenders is the comprehensive information they accumulate about their clients through day to day contacts which limits the number of clients they can assemble. Timberg and Aiyar found an extreme example of this when he asked an Indian moneylender how he decided to take on additional clients; he responded that he had
never had a new client (Timberg, Thomas, & Aiyar, 1984). The last two All-India Debt and Investment Surveys (AIDIS) show that the proportion of non-institutional debt in rural areas has gone up from 9.8 per cent in 1991 to 15.5 per cent in 2001, large proportion of which has been borrowing from the village moneylenders.

5. **Shopkeepers/Merchants:**

Credit is also obtained from the small food stores. In this case it is possible to buy your food on credit when you run short of cash. Immediate repayment is essential. Otherwise next time they will shut the doors for you. A more closely related and much more common form of informal credit is provided by individuals who are primarily merchants but who also extend loans linked to the sale or purchase of commodities.

6. **Employer:**

It is one of the most important source of credit. It is open to every type of employee in organised and unorganised sectors. Loans taken can be repaid through deductions on the future wage, minimising the risk of default. In this case no interest is charged.

7. **Landlords:**

This refers to the owners of land who give credit to their tenants cultivating it by share cropping or leasing.

8. **Pawnshop:**

One of the oldest forms of lending. In several countries, Indonesia and Srilanka, for example pawnshops are affiliated with some banks. The Indonesia government runs a network of pawnshops all over the country, where valuable goods can be pawned.

9. **Loan Brokers:**

Another type of informal finance is carried out by loan brokers who facilitate contacts among people with money to lend and borrowers by trading on inside information about potential clients. Typically, loans handled by brokers are relatively large and for a longer term than are most informal loans. The broker is naturally awarded through a share of the bribe as the share of the loan and acts as a legal buffer between the payer and receiver of
the bribe (Maloney & Ahmed, 1988).

10. Chit funds or ROSCAs (Rotating Savings and Credit Associations):

These are widespread institutions of ancient origin in India. ROSCAs have been defined by Ardener as ‘an association formed upon a core of participants who make regular contributions to a fund which is given in whole or in part to each contributor in turn’. A cycle ends when each participant had his turn. It appears that historically they were relatively small and unregulated. There are two types: the conventional type, found all over the world, in which the full amount contributed (apart from minor deductions) is allocated to one member at a time, either by lot, demonstrated need or in an agreed-upon sequence; and an advanced type found in a number of Asian countries including China, Vietnam and Nepal where the amount collected is allocated by auction to the lowest bidder and the balance returned to the members, or by tender.

Institutional Sources of Credit

The Indian credit system has undergone radical changes in respect of focus, structure and approach over time. The institutionalisation of credit started with the establishment of co-operatives following the enactment of co-operative societies Act, 1904. A number of credit cooperatives were started under this Act which provided institutional support to farmers for short, medium and long term purposes. Subsequently tiers at state and district levels were too conceived to strengthen these credit cooperatives. The efforts to develop cooperatives were intensified following the recommendations of the Rural Credit Survey Committee (RBI, 1954). Till 1960s, pursuing developmental objectives through the financial sector focussed primarily on delivering agricultural credit through cooperatives. Meanwhile, the review undertaken by the All India Rural Credit Review Committee (RBI, 1969) found that cooperatives had not measured up to that expectations in mobilising deposits and disbursing credit at the retail level. The review committee therefore felt that the efforts of the cooperative had to be supplemented and recommended adoption of multiagency approach to provide credit to rural areas within much larger role of commercial banks. So the attention shifted to the commercial banks, 14 of which were nationalised in 1969. Thus with the nationalisation of banks, a special responsibility of stepping up their advances for agriculture and allied activities was given to them. The flow of credit has increased to a significant level but the benefits of such
increased credit flow by-passed the relatively lower rungs of society. Then were added the Regional Rural Banks (RRBs) as the third constituent of the rural credit system in 1975 to cater especially to left over sections (Agarwal, Puhazhendhi, & Satyasi, 1997). During this period these institutional financing failed, to a large extent, to meet the requirements of the farmers. Various groups and committees have been constituted from time to time to review and improve the functioning of the institutional financing agencies. Some of the factors responsible for the failure of these financial institutions which had been reported by these groups and committees include inadequate supply of credit, poor recovery, demand-supply gaps, interference by politicians, lack of monitoring, misutilization of credit, problems in identification of target groups, high transaction costs, lags in time, natural calamities and above all lack of professionalism along with low skilled staff. But at the same time this fact can’t be denied that India still has one of the largest banking networks in the world: there is bank branch for every 15,000 rural households and a cooperative in almost every village. In the meantime the government also established an ambitious credit scheme "Integrated Rural Development Programme "(IRDP) in 1980-81 with a considerable element of subsidy to alleviate poverty. Apart from corruption, the programme was ill-conceived to boot. It was a supply led not demand led credit programme so that the clients did not have choice over purpose and amount; entrepreneurial skill was assumed which was not there; backward and forward linkages were never of any concern during implementation. Credit target was the main concern and bureaucratic machinery was in charge of ensuring the credit achievements for which they did not have any professional respect. The formal financial institutions were not allowed to apply the principle of three Cs:(i) Character, meaning how a person has handled past debt obligations, (ii) Capacity, meaning how much debt a borrower can comfortably handle, and (iii) Capital, meaning current available assets of the borrower, such as real estate, savings or investment that could be used to repay debt if instalment/income would be unavailable. It is not that the public sector financial institutions were unhappy about the situation as they didn’t disburse these loans with a sense of commercial viability but dispensed it with disdain and a ‘social obligation, and to attract government’s favour elsewhere (Dasgupta, 2001). Agriculture and Rural Debt relief (ARDR) scheme further hardened the attitude of the bankers towards rural credit, and the rural borrowers towards repayment. As one story goes, on one occasion a woman borrower to a minister protested that she had not taken a sala (loan in Kannada, an Indian
language) from a bank but agreed that she had taken a bank loan. Whereas a sala is a loan bound by traditional sanctions and norms and is always returned, the bank loan is a ‘gift’ from the government (Fernandez, 1998). Distribution of cheap and easy loans without and respect for repayment seemed more important (Bouman, 1989). All these only weakened the strength of the financial institutions to serve the poor and the rural areas, and further reduce their interest to transact such business. Although money lenders became less important after independence due to government interventions, they have started reassuming an important role in recent years largely due to the poor quality of institutionalised credit (Kanthimathinathan, 2004; Rajasekhar & Vyasulu, 1990). In India the proportion of rural credit owned to money lenders was 80 percent of all rural debt in 1951. This has been reduced to 24 percent in 1981. During the same period the institutional debts rose from 7 percent to 61 percent. In spite of the rapid growth of credit from institutional sources over the past 20 years, the percentage share of money lenders and other informal sources of credit has not appreciably reduced. From 1952-1982, the proportion of informal credit has come down from 86 percent to 38 percent but the money lender is yet to disappear (Kanthimathinathan, 2004). The table given below shows the relative share of borrowing of cultivator households from different sources.

### Table-1.1: Relative Share of Borrowing of Cultivator Households from Different Sources

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<td>Non-Institutional</td>
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<td>Money lenders</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>30.6</td>
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<td>Traders</td>
<td>69.7</td>
<td>49.2</td>
<td>36.1</td>
<td>16.1</td>
<td>17.5</td>
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<td>Relatives/Friends</td>
<td>5.5</td>
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<td>Landlords and others</td>
<td>14.2</td>
<td>8.8</td>
<td>13.1</td>
<td>8.7</td>
<td>4.6</td>
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<tr>
<td></td>
<td>3.3</td>
<td>14.5</td>
<td>10.7</td>
<td>8.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Institutional</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Government, etc</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
<td>66.3</td>
</tr>
<tr>
<td>Cooperative Societies/Banks</td>
<td>3.1</td>
<td>15.5</td>
<td>7.1</td>
<td>3.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Commercial Banks, etc</td>
<td>3.3</td>
<td>2.6</td>
<td>22.0</td>
<td>29.8</td>
<td>23.6</td>
</tr>
<tr>
<td>Others</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>35.2</td>
</tr>
<tr>
<td></td>
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<td>--</td>
<td>0.2</td>
<td>0.7</td>
<td>1.8</td>
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<tr>
<td>C-Unspecified</td>
<td>--</td>
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<td>--</td>
<td>--</td>
<td>3.1</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</table>

Source: All India Debt and Investment Survey, 1991-2, Salient Features, RBI Bulletin May 99

The supply of credit to rural areas through institutional sources has increased substantially since 1971. The All India Debt and Investment Survey (AIDIS), 1991 shows that out of the total credit supplied to the rural households nearly 64% were met by institutional sources as against approximately 30% in 1971. Despite the fact that over
the years there has been an increase in overall outreach and absolute disbursement of credit from institutional sources, from 1990 there has been deceleration in the growth of bank credit in rural areas. Steps are required to ensure that there is a wider coverage by the institutional sources of the small and marginal farmers and weaker sections of society.

This financial crisis of early 1990s led to the significant liberalisation measures including reforms in the financial sector. These included the slow restructuring of the commercial and regional rural banks, the freeing of some interest rates, the consolidation of the government's self employment schemes into Swarnajayanti Gram Swarozgar Yojna (SGSY), the introduction of Local Area Banks, the introduction of mutually aided cooperative societies (MACS) autonomous of government control, and other such measures. As the 1990s progressed, a fast growing number of savings and credit groups known in India as a self help groups or SHGs predominantly with women members, also emerged, as well as a range of specialised micro finance organisations. By the end of the century significant support structures for SHGs and MFOs had been put in place, including active promotion by the public National Bank for Agriculture and Rural development (NABARD) of bank lending to SHGs and a Foundation for micro credit set up by the Small Industries Development Bank of India (SIDBI). In 2000, specialist MFOs in India had over a half a million clients. The MFO SHARE in the state of Andhra Pradesh, projects that it alone will be reaching over 1.7 million women by early 2006. There is also a Government initiated NGO – the Rashtriya Mahila Kosh (RMK) under the Department of Women and Child Development – that extends credit support to NGOs and Women Economic Development Corporations (Nair, 2001). The entry of a new set of players in the financial system has definitely eased a lot of delivery obstacles, by externalising a part of bank's responsibilities in the spheres of identification of clients, assessment of their risk profile, loan monitoring and recovery which, in turn, may result in a reduction in transaction cost. According to a study conducted by NABARD, there has been a 40 percent reduction in transaction cost due to SHG intermediation and the consequent reduction in time spent by the bank staff. Similarly, the borrowers transaction cost has been found to have declined by 85 percent with the elimination of complex documentation and procedures, and reduction in time and cost incurred in repeated visits to banks. The fall in the availability of credit from the formal financial system, resulted in the growth of informal sources as well as SHGs and micro finance
organisations to fill the gaps. A few NGOs and Voluntary agencies attempted to organise the poor into informal groups and finance them. For example, SEWA, an NGO in Ahmedabad has promoted a bank exclusively for women and is engaged in financing income generating activities of women. Friends of WWB (FWWB), Ahmedabad, an affiliate of Women’s World Banking, New York, is networking with NGOs giving financial assistance to women groups. The Working Women’s Forum Chennai, has organised Women Cooperative Societies for pursuing income generating activities and facilitated their empowerment. Shreyas in Kerala actively got involved in microfinance operations since 1988 with the objective of promoting people’s co-operatives, habits of thrift and self managing people’s bank. During this period the Association of Sarva Seva Farms (ASSEFA), Madras, People’s Rural Education Movement (PREM), Professional Assistance for Development Action (PRADAN) and Community Development Society (CDS) have done excellent work in promotion of SHGs in mobilisation of thrift and disbursal of credit. Attempts were also made to replicate Bangladesh Grameen Bank Model by various organisations working in India. The MFOs has to face huge challenges and opportunities in the Indian market. But it would be foolish to believe that they could address all the demand. This could only be done if the mainstream financial sector also reaches out to millions of poor households to provide them with micro financial services, both directly and through intermediaries. The practical solution lies in working together for the common cause to fight poverty.

The overall financial system of India can be summarized in table 1.2
### Table 1.2: Present Rural Financial System in India

<table>
<thead>
<tr>
<th>Traditional financial institutions</th>
<th>New financial institutions</th>
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<tbody>
<tr>
<td></td>
<td>Formal sector</td>
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<td></td>
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<tr>
<td><strong>Formal sector</strong></td>
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<tr>
<td>1. Government departments and</td>
<td></td>
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<tr>
<td>institutions [Basic orientation:</td>
<td></td>
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<tr>
<td>beneficiary identification and</td>
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<tr>
<td>targeting of loans; Drawbacks:</td>
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<tr>
<td>inappropriate choice of</td>
<td></td>
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<tr>
<td>beneficiaries]</td>
<td></td>
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<tr>
<td>2. Commercial banks and RRBs</td>
<td></td>
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<tr>
<td>[Basic orientation: obligation</td>
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<tr>
<td>under priority -sector lending to</td>
<td></td>
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<tr>
<td>achieve targeted numbers;</td>
<td></td>
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<tr>
<td>Drawbacks: loans often doled out</td>
<td></td>
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<tr>
<td>without proper appraisal]</td>
<td></td>
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<tr>
<td>3. Cooperative banks [Basic</td>
<td></td>
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<tr>
<td>orientation: channels of government 'dole': neither internal financial nor internal governance strength; Drawbacks: can fold or stall once government funding stops].</td>
<td></td>
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<tr>
<td>4. Registered non-banking finance</td>
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<tr>
<td>companies that give loans but</td>
<td></td>
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<tr>
<td>rarely deposits, except for</td>
<td></td>
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<tr>
<td>residuary non-banking finance</td>
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<tr>
<td>companies like Peerless,</td>
<td></td>
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<tr>
<td>Sanchayani and Sahara [Basic</td>
<td></td>
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<tr>
<td>orientation: mobilisation of small</td>
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<tr>
<td>savings, providing only a part of</td>
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<tr>
<td>financial services needed;</td>
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<tr>
<td>Drawbacks: unstable, might just</td>
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<tr>
<td>disappear]</td>
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</tr>
<tr>
<td>1. Rural money lenders,</td>
<td></td>
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<tr>
<td>commission agents, traders [Basic</td>
<td></td>
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<tr>
<td>orientation: very short-term</td>
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<tr>
<td>profit-maximising outlook;</td>
<td></td>
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<tr>
<td>Drawbacks: may rip off poor</td>
<td></td>
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<tr>
<td>borrowers]</td>
<td></td>
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<tr>
<td>2. Unregistered local finance</td>
<td></td>
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<tr>
<td>companies, if any [Basic</td>
<td></td>
</tr>
<tr>
<td>orientation: mobilisation of small</td>
<td></td>
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<tr>
<td>savings, providing only a part of</td>
<td></td>
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<tr>
<td>financial services needed;</td>
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<tr>
<td>Drawbacks: unstable, might just</td>
<td></td>
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<tr>
<td>disappear]</td>
<td></td>
</tr>
<tr>
<td>1. SHGs promoted by NABARD,</td>
<td></td>
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<tr>
<td>RMK and NGOs.</td>
<td></td>
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<tr>
<td>2. Government sponsored SHGs under</td>
<td></td>
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<tr>
<td>DWCRA schemes.</td>
<td></td>
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<tr>
<td>3. MFOs like Sanghamitra</td>
<td></td>
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<tr>
<td>registered as a non-profit</td>
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<tr>
<td>company under section 25 of the</td>
<td></td>
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<tr>
<td>Companies Act.</td>
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</tbody>
</table>

Source: Datta & M.S. Sriram, 2000

The following table (1.3) reflects the chronological order of financial initiatives undertaken by the Government of India from time to time.
Table-1.3: Summary of development initiatives in Indian financial system

- 1891-The earliest cooperative societies established.
- 1904-The first cooperative societies act passed by the state.
- 1915-Maclagan committee advocates one village one cooperative concept.
- 1928-Royal Commission on Agriculture advocates expansion of rural credit with state patronage.
- 1931-Central Banking Enquiry Committee suggests linking agricultural finance with central banking functions.
- 1935-Agricultural Credit Department established in the Reserve Bank of India (RBI) to promote cooperative credit.
- 1945-The agricultural finance sub-committee submits its report, recommending liquidation of non-performing assets of members by adjusting the claims of the cooperative to the capacity of members to repay. This marks the first blow to credit discipline.
- 1945-The Cooperative Planning Committee advocates that the cooperative sector receive state protection from private competition.
- 1949-The Rural Banking Enquiry Committee finds that cooperative infrastructure is satisfactory but commercial banks have not shown any significant interest in agricultural and rural credit.
- 1954-All India Rural Credit Survey submits report. Advocates majority participation by the state (51 percent share capital) in cooperatives at all levels; recommends a common cadre for employees of cooperatives an suggests a three tier cooperative structure. Share of informal sources in total rural credit usage is 70 percent, compared to cooperatives (6.4 percent) and Commercial banks (0.9 percent).
- 1960-The Committee on Cooperative Credit proposes a strong and stable institutional framework for cooperatives.
- 1969-Nariman Committee introduces ‘Lead Bank Scheme’ thereby starting a process of district credit plans and coordination among various formal financial intermediaries.
1969-Nationalisation of 14 commercial banks.

1971-All India Debt and Investment Survey shows that share of the formal financial sector in total rural credit usage is 29.2 percent compared to 70.8 percent from informal sources.

1975-The concept of Regional Rural Banks (RRBs) advocated to overcome the failure of cooperatives, Agricultural Refinance and Development Corporation set up.

1980-81-The government sets up the Integrated Rural Development Programme (IRDP) to direct subsidised loans to poor self-employed people through the banking sector.

1981-All India Debt and Investment Survey shows that share of the formal financial sector in total rural credit usage is now 61.2 percent, while informal sources have fallen to 38.8 percent.

1982-The National Bank for Agriculture and Rural Development (NABARD) is set up.

1982-The government establishes Development of Women and Children in Rural Areas (DWCRA) as a sub-scheme of the IRDP to enable poor women to take up income-generating activities by giving groups of 15 to 20 women a revolving fund.

Mid-1980s-Savings and Credit groups (self help groups or SHGs) begin emerging all over the country, most catalysed by non-governmental organisations (NGOs) without the involvement of the state.

1989-The first formal loan waiver announced, seriously impacting credit discipline.

1989-Khusroo Committee recommends a more market-oriented approach for cooperatives.

1991-Economic liberalisation takes off.

1991-All India Debt and Investment Survey shows that share of the formal financial sector in total rural credit usage is 56.6 percent, compared to informal finance(39.6 percent) and unspecified (3.8 percent).
• 1992-NABARD starts its ‘linkage’ programme of refinancing and encouraging bank lending to SHGs.
• 1993-Rashtriya Mahila Kosh (RMK or the National Credit Fund for Women) established to accelerate the flow of credit through NGOs to self-employed women in the unorganised sector.
• 1998-SaDhan (‘The Association of Community Development Finance Institutions’) set up by microfinance organisations (MFOs) in India.
• 1998-The Small Industries Development Bank of India (SIDBI) sets up a Foundation for Micro credit with initial capital of Rs 100 crore.
• 1999-SGSY came into existence after merging IRDP, TRYSEM, DWCRA, MWS, GKY and IAY.
• 1999-Taskforce on Supportive Policy and Regulatory Framework for Microfinance submits report, signifying a major step towards mainstreaming microfinance.
• 2000-RBI declares bank lending to MFOs as part of the priority sector.
• 2001-By April 2001, 285,000 SHGs have taken loans from 41 commercial banks, 166 RRBs and 111 cooperative banks (average loan per group about Rs 18,000). During the year 2000-2001, 171,000 SHGs take loans, of which 149,000 are first time borrowers.
• 2001-A Working Group to review the legislation and regulatory framework for RRBs is established.
• 2002-07-Tenth Five –Year Plan document has stated that a crucial area of priority sector lending entails credit to the social sectors and activities which might not be bankable in the usual sense of the term, but which might have high social returns.
• 2008-The mission of NABARD is to link one million SHGs with the overall banking system by 2008, facilitating access of 100 million rural poor to formal credit system.

Micro-Finance: Origin, Structure and Function

"To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings."

(Muhammad Yunus)

Microfinance can be described by the title of F.A.J. Bouman's book, "Small, Short and Unsecured" (1989). The concept is understood as providing poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services, credit, savings, insurance etc. A success indicator in microfinance lies in a 'credit-plus' approach, where the focus has not only been on providing credit, but to integrate it with other developmental activities. Today microfinance is very much in the agenda of public policy, and it has been increasingly used as a vehicle for reaching the otherwise unreachable poor in the country.

There are a number of factors responsible for poverty and the most obvious reason is the lack of household income. In order to solve the problem of poverty around the globe, particularly in 'third world' countries, there are many organisations which are working to improve their standards of living by providing them incentives. According to the Asian Development Bank, alone in the Asian and Pacific region, over 900 million people in about 180 million households live in poverty (i.e. those who earn less than $1.00 a day). More than 670 million of these poor live in the rural areas, most of them rely on secondary occupations, as agriculture alone is not enough to provide for their growing needs (Sharma, 2001). This employment includes a whole range of paid employment, from micro enterprises over services such as carpenters and weavers to self-employed businesses such as food stalls, tailoring and shoe repair. Again the operators of many of these micro-enterprises are women, who suffer disproportionately from poverty (ibid).

The problems of the poor go well beyond the form of small credits and loans to start their own small businesses—many of them with poor results. They suffer a broader syndrome of disadvantage. This disadvantage reflects in the way that they are excluded from the formal banking system for lack of collateral. But the microfinance movement replaces the collateral security by self help and mutual trust. The concept of microfinance
institutions established for the poor sections of the society is not a very old one. As neither commercial nor development banks nor state dominated but unsupervised cooperatives delivered to the rural and urban masses, credit NGOs during the 1970’s ushered in what came to be known as target group orientation; where institutions started diverse projects meant to make credit available to the poor (Schmidt and zeitinger 1997). The Bangladesh Rural Advancement Committee (BRAC) a non governmental development organisation was the first to adopt this target group approach. However not all development finance visionaries back this approach and some criticize it quite strongly. Some argue that financing schemes become a burden for donors as well as for borrowers due to high transaction costs. Furthermore, these foreign injections of funds did not lead to the creation of institutions which would have been able to play a lasting role in the lives of their beneficiaries (ibid). Littlefield, Morduch & Hashemi (CGAP, 2003) have argued that microfinance, and the impact it has, go beyond business loans. The poor people need money more than they have in hand. They borrow not just for productive purposes like business and agriculture but also to fulfil a no of consumption life cycle needs related to birth, wedding, funeral, death and Crisis situation. While small loans and savings provide timely relief to them and help them to cope with sudden income shocks or emergencies, larger loans and investments can be used to diversify income sources and invest in existing business. Also microfinance programme have targeted women who is the poorest of poor as client, they have not only helped empower women who appear more responsible and show a better repayment performance but also shown that women are more likely to invest increased income in the household and family well being (Littlefield,Morduch & Hashemi 2003). Microfinance therefore has economic, social and psychological impacts. It appears to offer a win-win solution where both financial institutions and poor clients profit (Morduch, 1999). There are many reasons why microfinance has an edge to the other credit systems. The most important reasons are (Dunford, 1998):

- First microfinance provides credit for investment in small scale self employment activities chosen by the poor themselves.

- Second these loans seem to increase income and savings for the poor but also the taking, investing and repaying of loans seems to empower the poor through a personal transformation from a feeling of “I Cannot” to one of “I Can”. I can do
something about my poverty.

- Third if you’re a good program manager, you could make microfinance pay for itself with the interest earned from your loans to the poor.

Microfinance is a much debatable concept. It has been accepted almost unquestionably in the policy circles in developing countries as the most efficacious intervention to alleviate poverty. There is however, no statutory definition for microfinance. There is a difference of opinion when it comes to microfinance, its structure and its client. As Sriram and Upadhala put it, “It appears that what microfinance means is well understood, but not clearly articulated” (Sriram & Upadhala, 2002). The Taskforce on Supportive Policy and Regulatory Framework for Microfinance has defined microfinance as ‘provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards (NABARD, 2000). Such a definition encompasses a large variety of initiatives ranging from individual agents in the informal sector (like moneylenders, traders, commission agents, jobbers etc) to informal groups (chit funds, rotating savings and credit associations) and formal sector institutions. However, there has been an increasing tendency to use the term microfinance only to refer to ‘formalised, institutions (Nair, 2001). Thus the World Development Report (2000/2001) describes microfinance as a market-based formal mechanism to mitigate the risks faced by poor people as against the informal group based mechanisms, like savings and credit association for eg, ROSCAs. It has also been defined as small scale financial services provided to people who work in agriculture, fishing and herding; who operate small or micro enterprises; who provide services; who work for wages or commission; and other individuals and groups at the local levels of developing countries both rural and urban areas (Robinson, 1996). These services can protect poor people from the impact of unforeseen crisis and emergencies in their households or micro-businesses, from falling yet further into debt, and enable poor households to plan and manage their limited resources more effectively to meet their basic needs (World Bank 2000/2001). Once poor households enjoy greater security they may be able to access promotional microfinance products that help them develop their livelihoods. The need for microfinance comes from the marginalized sections of the society which have been bypassed by formal banking and other financial institutions for lack of collateral. The clientele of the microfinance
institutes are normally employed in the informal sector with closely interlinked household business activities and earning low income. They lack secure, convenient and reliable savings services and therefore depend on informal systems as a hedge against emergencies or large lifecycle expenditure.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. “Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services. In a much narrower sense though, microfinance is often referred to as microcredit for tiny informal businesses of microentrepreneurs the services being mainly delivered by socially oriented non-governmental organisation. As a whole the range of institutions go beyond the NGOs and include commercial banks, state owned development banks, financial cooperatives and a variety of other licensed and unlicensed non bank institutions.

**Objectives**

Before going into the other dimensions of microfinancing it would be better here to discuss its main objectives of poverty alleviation and women empowerment:

There are about one billion people globally who live in households with per capita income of under one dollar per day. The policymakers and practitioners who have been trying to improve the lives of that billion face an uphill task (Murdoch, 1999). The poor people especially in rural areas face tremendous problems, illiteracy, limited income, health and nutritional problems. They find themselves at the margin of every sector. This limits their ability to acquire assets, start businesses, finance emergency needs and insure themselves against illnesses and disasters (Littlefield, Morduch, Hashmi 2003). The informal sources of credit such as relatives, friends, moneylenders are limited by amount and are available at exorbitant interest rates. MFIs are then supposed to address this very problem directly. In other words, microfinance appears to deliver the, holy trinity of
outreach, impact and sustainability.

**Microfinance and Poverty Alleviation**

Microfinance as a tool of poverty alleviation has gained credence in development dialogue the world over. It is being promoted as a key poverty alleviation strategy to enable poor women and men to cope with the adverse economic and social impacts of structural policies and globalisation (Mayoux, 2001a). It is generally believed that microfinance programmes will raise incomes and broaden financial markets by principally providing credit, among other services, to small scale entrepreneurs (Aghion & Morduch, 2000). There is an acute need among the poor for credit, both for consumption and production, which often forms the deciding line between survival and succumbing to poverty. In other words, credit is sought for basic requirements such as food, as well as income generating activities (Zeller, 2000). The rationale of micro-credit is based on the hypothesis that the poor can be relied upon to return on time the money that they borrow. It has been proved that the poor are capable of thrift and savings (Rutherford, 2000a). Although the income of poor people is tiny or irregular, but there are times when poor people need sums of money that are bigger than what they have in hand. The need for these ‘usefully large lump sums’ arises from life cycle events such as birth, education, marriage and death, from emergency situations or from the discovery of opportunities to make investments in assets or businesses. The only reliable and sustainable way that they can obtain these sums is to build them, somehow or other, from their savings. So the biggest financial need for poor is to assemble ‘lump Sums’ of money to cope with opportunities and demands. These lump Sums can be acquired either through credit or savings. There are basically many reasons where the need for lump sums may create hurdles or obstacles for a normal living.

In short, poor people want what many of the less poor already enjoy: reliable, convenient and flexible ways to store and retrieve cash and to turn their capacity to save into spending power, in the short, medium and long term. And they want it on a continuing, not a one-off basis (Morduch & Rutherford, 2003). The microfinance movement is thus striving to match the convenience and flexibility of the informal sector, while adding reliability and the promise of continuity. It is more than simply an income generation tool. By directly empowering poor people, particularly women, it has become one of the key driving mechanisms towards meeting the millennium development goals, specially...
the overreaching target of halving extreme poverty. There has been a surge of interest in microfinance in the recent past, particularly in the context of reaching the world’s poorest families in a more effective way. Its importance increased after the Copenhagen Social Development Summit in 1995, the United Nations declaration of the year 1996 as the international year for Eradication of Poverty, and the World Microcredit Summit in 1997. The Millennium Development Goal of halving poverty by 2015 and the Eleventh Five Year Plan’s strategy of financial inclusive growth and faster reduction of poverty add further salience to it (GOI, 2007). The microcredit summit held in February 1997 in Washington DC was considered the first step of a decade long campaign that seeks to ensure delivery of credit for self employment by 2005 to 100 million of the world’s poorest families especially the women of those families (Kaladhar, 1997). Hillary Clinton in her greeting to the November 1995 Micro Credit Summit preparatory meeting wrote:

“Micro enterprise is the heart of development because micro-enterprise programmes work—they lift women and families out of poverty. It is called ‘micro’ but its impact on people is ‘macro’; we have seen that it takes just a few dollars, often as little as $10, to help a woman gain self employment, to lift her and her family out of poverty. It is not a handout; it is a helping hand”. As Sida’s Guidelines on Microfinance emphasize, access to financial services (microfinance), such as savings, credit, money transfers and insurance, contributes to expanding poor people’s choices improves their ability to respond to. It helps reduce vulnerability by providing a steady income thereby smoothing household’s consumption and then to overcome crises (Sida, 2004).

That is why microfinance has been acknowledged globally. It is considered a key tool to fight against poverty. No doubt microfinance is of recent origin, but it has now come of age and is at a take-off stage. Increasingly microcredit institutions are being considered as an alternative to government intervention in rural credit. While access to financial services is essential for the poor, these financial services enable the poor to maximise the returns on their surplus, smoothen their consumption and reduce their vulnerability to the risks that they face on a day to day basis. While small loans and savings provide timely relief to them and help them to cope with sudden income shocks or emergencies, larger loans and investments can be used to diversify income sources and invest in existing revenue and the scale of operations. While not denying the need of these pro-poor
interventions, it is also necessary to strike a note of caution, Microfinance alone cannot overcome poverty. Microfinance is not a panacea for poverty but is a significant tool for helping the poor to harness economic opportunities. Fundamentally it is a broad based economic growth that reduces poverty. Policy interventions need to be correctly targeted if benefits are to reach the poor. Sustained poverty reduction requires actions and policies that helps improve both, the capital of production and human capital. In the ultimate analysis, markets and policies have to be integrated into a plan that incorporates social priorities. The banking system requires to be geared to meet the emerging challenges (Joshi, 2006).

Microfinance should be viewed as one other approach to supplement not supplant the existing credit delivery system. Providing effective microfinance services to poor people is part of a poverty reduction strategy, but only a part (Hulme, 2007). A lot of care needs to be taken to ensure that loans are not extended to groups to repay part of the earlier loan but the loans should help the poor overcome poverty and not be a source of trapping them in a cycle of debt. The lending rate should be concessional. Intermediation for removal of poverty needs to be holistic not minimalistic i.e. credit alone cannot help the poor overcome poverty. An integrated financial services approach is required and this requires continuous monitoring. There is growing evidence that microfinance programmes have the potential of assuring equitable and sustainable development. Over the past few years India has focussed on efforts at scaling up and mainstreaming microfinance by harnessing the resources of the formal financial sector to expand poor people’s access to savings and credit. The Supply led model of development and credit delivery are now giving way to models of participatory development focussing on demand led growth.

Microfinance is one way of reaching the hardcore and assetless poor which has demonstrated its effectiveness. An important concern of microfinance has been to increase penetrative outreach. So that credit can be institutionalised and a large number of people can benefit through improved access to credit. These microfinance programmes are unique in that they foster the participation of the poor in the processes of economic growth by creating employment opportunities, increasing the access of poor to income generating assets and by raising the productivity of these assets both physical and human, enabling the poor to manage risk better. In more simpler terms microfinance has
a direct and significant impact on income and poverty. When credit is invested in an income generating activity, it leads to the establishment of a new enterprise or the growth of an existing one. Profit from the enterprise provides increased income and a general strengthening of income sources. Increasing income plays an important role in reducing vulnerability, fostering social and economic empowerment and thus releasing people’s potential to achieve their goals. According to Muhammad Yunus of Grameen Bank a successful circle can be set up: "low income, credit, investment, more income, more credit, more investment, more income". (IDSS 1994 cited in Hulme & Mosely 1997). It is believed that one, two or three doses of credit infusion could break the cycle. Hence credit is a major policy thrust for poverty alleviation. This new paradigm of unsecured small scale financial service provision helps poor people take advantage of economic opportunities, expand their income, smoothen their consumption requirement, reduce vulnerability and also empowers them. The common underlying assumption behind reliance on such parameters is belief in the linear cycle of credit, starting from credit take off followed by economic activities, rise in income/assets and repayment out of additional income. The figure below illustrates this:

Fig-1.1: Cycle of Credit

![Cycle of Credit Diagram]
The World Bank's Empowerment and Poverty Reduction: A Sourcebook defines empowerment in its broadest sense as the "expansion of freedom of choice and action" (Narayan, 2002). United Nations (2001) defines empowerment as the processes by which women take control and ownership of their lives through expansion of their choices. Krishna (2003) defines empowerment as "the process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes. Central to this process are actions that both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets."

Empowerment is also related to the concepts of social capital and community-driven development, with which it is sometimes confused. As Krishna (2003) points out, empowerment by nature is a process and/or outcome. Social capital, on the other hand, features social organisation such as networks, norms and inter-personal trust, which facilitate coordination and cooperation for mutual benefit. And Community Driven Development (CDD) is a methodology for undertaking development organisations that give control of decisions and resources to community groups. Thus it is an activity by nature. Connecting these three, Grootaert (2003) points out that building social capital facilitates empowerment. Social capital and empowerment are multi-level concepts and facilitate the link to poverty reduction, whereas CDD is a manifestation of social capital and empowerment. According to the feminist paradigm, empowerment goes beyond economic betterment and well-being, to strategic gender interests. As Mayoux (1998) suggests, empowerment is a process of internal change, or power within, augmentation of capabilities, or power to, and collective mobilization of women, and when possible men, or power with, to the purpose of questioning and changing the subordination connected with gender or power over.

Mayoux's (2000) definition of empowerment relates more directly with power, as "a multidimensional and interlinked process of change in power relations". It consists of: (1) 'Power within', enabling women to articulate their own aspirations and strategies for change; (2) 'Power to', enabling women to develop the necessary skills and access the
necessary resources to achieve their aspirations; (3) 'Power with', enabling women to examine and articulate their collective interests, to organize, to achieve them and to link with other women and men’s organizations for change; and (4) ‘Power over’, changing the underlying inequalities in power and resources that constrain women’s aspirations and their ability to achieve them. These power relations operate in different spheres of life (e.g., economic, social, political) and at different levels (e.g., individual, household, community, market, institutional). Empowerment can range from personal empowerment that can exist within the existing social order. Thus this kind of empowerment would correspond to the right to make one’s own choices, to increased autonomy and to control over economic resources. But self confidence and self-esteem also play an essential role in change. The nature of empowerment can be diverse, depending upon the parameters that define the lack of power within the institutional framework in operation. North (1990) points out that institutions are humanly devised constraints that shape human behaviour and they structure incentives in human exchange, whether political, social or economic. It is the social or cultural environment that results in the varying degree of empowerment of different members of the society and which are broadly determined by not only formal constraints, such as rules of law, but also informal constraints, such as the codes of conduct. Malhotra et. al (2002) constructed a list of the most commonly used dimensions of women’s empowerment, drawing from the frameworks developed by various authors in different fields of social sciences. Allowing for overlap, these frameworks suggest that women’s empowerment needs to occur along multiple dimensions including: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. Since these dimensions cover a broad range of factors, women may be empowered within one of these sub-domains. They give the example of “socio-cultural” dimension which covers a range of empowerment sub-domains, from marriage systems to norms regarding women’s physical mobility, to non familial social support systems and networks available to women. The World Bank defines empowerment as “the process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes. Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.” Thus, as the World Bank (2001) report confirms societies that discriminate on the basis of gender pays the cost of greater poverty, slower economic growth, weaker
governance and a lower living standard of their people. The World Bank also identifies four key elements of empowerment to draft institutional reforms: access to information; inclusion and participation; accountability; and local organisational capacity. Kabeer (1999), stresses that women’s empowerment is about the process by which those who have been denied the ability to make strategic life choices acquire such ability. According to her, it is important to understand empowerment as a process and not an instrumentalist form of advocacy, which requires measurement and quantification of empowerment. Kabeer emphasises that the ability to exercise choice incorporates three interrelated dimensions: resources (defined broadly to include not only access, but also future claims, to both material and human and social resources); agency (including processes of decision-making, as well as less measurable manifestations of agency such as negotiation, deception and manipulation) and achievements (well-being outcomes). Malhotra (2002) emphasis that even after identifying empowerment as a primary development goal, neither the World Bank nor any other major development agency has developed a rigorous method for measuring and tracking changes in levels of empowerment. The UNDP’s Human Development Report of 1995 introduced two new complementary indices: the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM). The GDI indicator measures the inequalities between men and women in terms of access to basic needs. GEM evaluates women’s access to political and economic posts. The three indicators retained are the share of seats held by women in the parliamentary assemblies, the share of supervisory posts, high administrative posts and technical posts assumed by women, and the estimated share of income from work of women compared to that of men. Based on Amartaya Sen’s work, the UNDP makes the distinction between the measure of inequality and empowerment. The GDI focuses on the extension of capabilities; the GEM is concerned with the use of those capabilities to take advantage of the opportunities of life. The UNDP found a very strong correlation between its gender empowerment measure and gender-related development indices and its Human Development Index. Beitille (1999), points that these indices have limitations. Firstly, the presence of large proportion of elected women members in the national parliament does not necessarily have significant real power. Secondly, such a measure does not take into account the participation of women in the local political institutions and their visibility in other bodies of civil society.

The Draft Country Paper-India for the Fourth World Conference on Women held at
Beijing in 1995 proposed the following qualitative and quantitative indicators for evaluating women’s empowerment:

**Qualitative Indicators**

- Self-confidence understands what she wants, express it and tries to get it, feels proud of herself has positive self image.
- Articulation.
- Awareness about health, nutrition, legal rights, political activities, government policies and programmes.
- Less burden of work and more leisure time.
- Changing role and responsibilities within the family.
- Decrease in violence within the family.
- Changing attitudes towards tradition and customs like child marriage and dowry.
- Physical mobility—walk freely within the village, go to city or town, to banks, post office, go to shopping, cinema, exhibition and visit relatives.
- Become member of women’s groups or any other people’s organization.
- Self-identity.
- Decision making power regarding number of children, education of children, budgeting of the family.
- Control over individual and family income.
- Access to resources like land, house, jewellery, house site etc.
- Access to information, knowledge and skills.

**Quantitative Indicators**

- Increase in age at marriage.
- Reduction in fertility rate or number of children.
- Becoming beneficiaries of development programmes.
- Visible in physical status/nutritional status.
- Improvement in literacy level; and.
- Becoming member of a political party or local self government.

A majority of microfinance programmes target women with the explicit goal of empowering them. There are varying underlying motivations for pursuing women
empowerment. Some argue that women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority. Prof. Yunus was asked several times to clarify the logic of keeping women in the center of focus. Dr Yunus mentions, “Loans made to women bring more benefits to the household, as women tend to be farsighted and more concerned for the long term security of the household. A woman gives priority to her children; her second priority is the household. A man has different priorities; he does not give the family top position. Why then should we try to help poor households by giving our loans to male? We realized that by addressing the mothers we will be building a better future for the children” (Yunus, 2007). While clarifying the US Congressional Forum Dr Yunus says “Women have plans for themselves, for their children, about their home, the meals. They have a vision. A man wants to enjoy himself” (Cited in Srinivas, 1999).

This can also be explained by the fact that microfinance aims to help the poor and the most of the poor are women. In its 1995 Human Development Report, the UNDP reported that 70% of the 1.3 billion people living on less than 1$ per day are women. According to the World Bank’s gender statistics database, women have a higher unemployment rate than men in virtually every country. In general women also make up the majority of the lower paid, unorganized informal sector of most economies. These statistics are used to justify giving priority to increasing women's access to financial services on the grounds that women are relatively more disadvantaged than men. (UNDP, 1995).

According to the State of the Microcredit Summit Campaign 2001 Report, 14.2 million of the world’s poorest women now have access to financial services through specialized microfinance institutions (MFIs), banks, NGOs, and other non bank financial institutions. These women account for nearly 74 percent of the 19.3 million of the world’s poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent repayment records, in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is a
very good idea to lend to the poor and to women. Gender lobbies in this context have argued for targeting women, because of higher levels of female poverty and because of women's responsibility for household well-being. Poverty alleviation and women's empowerment are seen as two sides of the same coin. The assumption is that increasing women's access to micro-finance (together with other interventions to improve household well-being) will in itself increase household income which will then translate into improved well-being for women and enable women to bring about wider changes in gender inequality. Whereas, other believe that investing in women's capabilities empowers them to make choices which is a valuable goal in itself but it also contributes to greater economic growth and development. It has been well-documented that an increase in women's resources results in the well-being of the family, especially children (Mayoux, 1997; Kabeer, 2001; Hulme and Mosley, 1997). A more feminist point of view stresses that an increased access to financial services represent an opening/opportunity for greater empowerment. Such organizations explicitly perceive microfinance as a tool in the fight for the women's rights and independence. Here the underlying concerns are gender equality and women's human rights. Micro-finance is promoted as an entry point in the context of a wider strategy for women's economic and socio-political empowerment. The focus here is on gender awareness and feminist organization. Some programmes have developed very effective means for integrating gender awareness into programmes and for organizing women and men to challenge and change gender discrimination. Some also have legal rights support for women and engage in gender advocacy. Finally, keeping up with the objective of financial viability, an increasing number of microfinance institutions prefer women members as they believe that they are better and more reliable borrowers. In this paradigm, it is assumed that increasing women's access to micro-finance services will in itself lead to individual economic
empowerment, well-being and social and political empowerment.

**Economic empowerment:** women’s access to savings and credit gives them a greater economic role in decision-making through their decision about savings and credit (Figure 1.2). When women control decisions regarding credit and savings, they will optimize their own and the household’s welfare. The investment in women’s economic activities will improve employment opportunities for women and thus have a ‘trickle down and out’ effect. The financial sustainability and feminist empowerment paradigms emphasize women’s own income-generating activities. In the poverty alleviation paradigm, the emphasis is more on increasing incomes at the household level and the use of loans for consumption. In the feminist empowerment paradigm, individual economic empowerment is seen as dependent on social and political empowerment.

**Increased well-being:** access to savings and credit facilities and women’s decision about what is being done with savings and credit, strengthens women’s say in economic decisions of the household (Figure 1.2). This enables women to increase expenditure on the well-being of themselves and their children. This is the main concern in the poverty alleviation paradigm. Women’s control over decision-making is also seen as benefitting men through preventing leakage of household income to unproductive and harmful areas. Other welfare interventions are advocated in addition to micro-finance, typically nutrition, health and literacy campaigns to further decrease vulnerability and improve women’s skills. In the financial self-sustainability and feminist empowerment paradigms, improved well-being is an assumed outcome from increasing women’s economic activities and incomes.

**Social and political empowerment:** a combination of women’s increased economic activity and control over income resulting from access to micro-finance with improved women’s skills, mobility, access to knowledge and support networks (Figure 1.2). Status within the community is also enhanced. These changes are reinforced by group formation, leading to wider movements for social and political change. The financial self-sustainability paradigm and the poverty alleviation paradigm assume that social and political empowerment will occur without specific interventions to change gender relations at the household, community or macro-levels. By contrast, the feminist empowerment paradigm advocates explicit strategies for supporting women’s ability to
protect their individual and collective gender interests at the household, community and macro-levels.

**Fig-1.2: Virtuous Spirals: Paradigms compared**

Source: Mayoux L (2001)

The available evidence does point to a considerable potential of micro-finance for empowerment, one way or another: women's demand for credit and savings facilities is high; savings propensity as well as the loan repayment rates equal or exceed those of men; many women, particularly in programmes targeting women entrepreneurs, decide on the loan use and invest in income-earning activities; some are able over a cycle of several loans to increase incomes which they themselves control. Overwhelming evidence indicates that women spend much of their income on household well-being,
including daughter’s education and their own health. Even where women do not directly control incomes, perceptions of their contribution to the household have changed. Increased confidence through interaction with program staff and groups has improved their role in decision making within the household. Some programmes with an explicit feminist empowerment focus on gender awareness and organizations have also effectively supported women’s micro-finance groups to challenge unequal property rights, domestic violence, alcoholism and dowry demands. Local authorities have been brought to provide essential services for women. Programmes like SEWA and Working Women’s Forum in India have also been effective in linking members to macro-level gender advocacy. This made informal sector women workers more visible in national and international policy debates.

Some evaluations paint a positive picture of the impact of credit programs on women’s lives (Kabeer 2001). Access to savings and credit can initiate or strengthen a series of interlinked and mutually reinforcing ‘virtuous spirals’ of empowerment. It is believed that women can use savings and credit for economic activity, thus increasing incomes and assets and control these incomes and assets (Mayoux 2000). Rahman (1986) established that “active” women loanees had higher consumption standard and a role in household decision-making, either on their own or jointly with their husbands, than ‘passive’ female loanees. Both in turn had significantly higher consumption standards and were more likely to take part in household decision making than women from male loanee households or from households who had not received credit. A world Bank study found that a 10 percent increase in borrowing had led to an increase in women’s non land assets by 2 percent for loans from the Grameen Bank and 1.2 percent for loans from the Bangladesh Rural Advancement Committee (BRAC) (World bank 1998). In India microcredit studies done on groups dealing with dairy farming have noted positive profit levels and short payback periods for loans. A study by Pitt & Khandker (1995) in exploring the impact of female membership of credit programs found that women’s preference carried greater weight (compared to households where either men received the loans or in households where no loan had been received) in determining decision making outcomes including the value of women’s no land assets, the total hours worked per month for cash income by men and women within the households, fertility level, the education of children as well as total consumption expenditure. Hashemi, Schuler, and Riley (1996) explored the impact of credit on a number of indicators of empowerment:
(i) the reported magnitude of women's economic contribution; (ii) their mobility in the public domain; (iii) their ability to make large and small purchases; (iv) their ownership of productive assets, including house or homestead land and cash savings; (v) involvement in major decision making, such as purchasing land, rickshaw or livestock for income earning purposes; (vi) freedom from family domination, including the ability to make choices concerning how their money was used, the ability to visit their natal home when desired and a say in decisions relating to the sale of their jewellery or land or to taking up outside work; (vii) political awareness such as knowledge of key national and political figures and the law on inheritance and participation in political action of various kinds; and finally, (viii) a composite of all these indicators. They found that women's access to credit was a significant determinant of the magnitude of economic contributions reported by women; an increase in asset holdings in their own names; an increase in their purchasing power; their political and legal awareness and their composite empowerment index. BRAC loanees report significantly higher levels of mobility and political participation. Grameen members reported higher involvement in "major decision-making". The study also found that access to credit was associated with an overall reduction of the incidence of violence against women; women's participation in the expanded set of social relationships as a result of membership of credit organizations rather than increases in their productivity per se were responsible for reductions in domestic violence.

Many questions were raised about the degree to which women keep a control over assets acquired as a result of loans from SHGs. It is in this context one needs to question the assumed interlinkages between access to savings and credit per se and empowerment since in some cases micro-finance programmes may have disempowered women, particularly the disadvantaged (Figure1.3). It especially seems to have occurred in programmes which have not explicitly considered gender issues, or in programmes that rapidly expand their micro-finance portfolios in response to increased funding. For once, it cannot be assumed that women have control, or even an effective say, over loan use, whether they are targeted or not. Women may simply be used as low-cost and reliable
intermediaries between programme staff and male family members. The former find it more convenient to deal with women because they are at home during working hours; the latter have neither the time nor the inclination to attend group meetings. In some reported cases, women do not even know that men have taken a loan in their names. Even where women control decisions over loan use, this may not result in significantly increased incomes. In South Asia particularly, a combination of male pressure and lack of income-earning opportunities frequently leads women to make an 'economically rational' decision to invest credit or savings in men’s activities. Even where, as is predominantly the case in Africa, women use the loan for their own business, they continue to be overwhelmingly involved in a narrow range of traditionally female activities, i.e. low investment and low return. Micro-finance programmes may accelerate market saturation by increasing the numbers of women competing in the same activities. Very poor women working within the same range of activities may be further disadvantaged, because they do not have the resources or contacts to get access to credit. Even where there is an increase in income from women’s or household economic activities, there may be no effective control by women over income going into the household and no material benefits for women. Men may control the income even from women’s economic activities and/or may expect women to use all their income for pre-determined household expenditure. This allows men to use their own previous contributions to the household for their own personal expenditure and, in some cases, for setting up new households. Men may be very supportive of women’s microfinance and other income generation activities for this very reason.
Women may be forced to cut their own already inadequate expenditure on food and health for savings or to repay loans. Women's expenditure decisions can also be constrained by gender norms of rights within the household. Women may replicate gender inequalities, spending little on themselves and discriminating against girls. Changes in expectations of women's economic contribution to the household may seriously overburden women with adverse implications for their health and their children. The combination of low incomes, lack of control, greater burden of work and repayment pressure may do little to increase women's bargaining power within the household. On the contrary, micro-finance programmes may increase tensions within the household as men withdraw their own incomes and/or women struggle to retain control of their own earnings. In some reported cases, this leads to divorce, abandonment, and
Finally, micro-finance programmes may contribute little to social and political empowerment, for example if group meetings fail to address gender issues or if group repayment pressures increase tensions between women and/or exclude more disadvantaged women from important networks. Time spent in savings and credit meetings automatically decrease women’s time for other social and political activities. Programmes may also increase conflicts between men and women within communities and may not have adequate mechanisms to support women. On the basis of current evidence, it is impossible to say how many women are benefitting and how many are being further disadvantaged.

Research (Goetz and SenGupta 1996; Mayoux 1998) also shows that only a minority of women receiving credit from poverty-oriented microfinance programmes are controlling their loans; many women are merely ‘post-boxes’: passing on the full amount of their loans directly to their husbands, sons or sons-in-law, with little or no access to the income generated and receiving back only enough money to make weekly loan repayments. Rahman (1999) using anthropological approach with in-depth interviews, participant observations, case studies and a household survey in a village, finds that between 40% and 70% of the loans disbursed to the women are used by the spouse and that the tensions within the household increases (domestic violence). Mayoux (1997) further discusses that the impact within a programme also varies from woman to woman. These differences arise due to the difference in productive activities or different backgrounds. Sometimes, programmes mainly benefit the women who are already better off, whereas the poor women are either neglected by the programmes or are least able to benefit because of their low questions the degree to which microfinance benefits women and explains that women in Bangladesh are often unable to use loans by themselves in the structure of patriarchy and the rural market economy. The absence of investment opportunities for rural women and the lack of control by the lending institution as to how loans are used and by whom lead women to pass on their loans to others (generally men) and lose control resource base, lack of skills and market contacts. However, poorer women can also be more free and motivated to use credit for production.

Montgomery and Hulme (1996) found that only 9% of first-time female borrowers were primary managers of loan-funded activities while 87% described their role in terms of
“family partnerships.” By contrast, 33% of first-time male borrowers had sole authority over the loan-assisted activity while 56% described it as a family partnership. They also found that access to loans did little to change the management of cash within the household for either female or male loanees. Interpreting reports of “joint” management as disguised male dominance in decision-making, the authors concluded that access to loans had done little to empower women. Goetz and Sen. Gupta (1996) also report increases in household tensions and domestic violence where women need to ask their husbands for loan instalments. However, Schuler et al, (1996) suggests that group-based credit programs can reduce men’s violence against women by making women's lives more public. The problem of men’s violence against women is deeply rooted, however, and the authors argue that much more extensive interventions will be needed to significantly undermine it. Many researchers have expressed concern about the repayment rate being used as an indicator of empowerment. Hulme and Moseley (1996), suggest that focussing on repayment rates puts further pressures on the groups to exclude those who are most in need of microfinance. Some argue that micro-finance programmes divert the attention of women from other more effective strategies for empowerment (Ebdon, 1995), and the attention and the resources of donors from alternative, and possibly more effective means of alleviating poverty (Rogaly, 1996). Women in dynamic market contexts may increase their incomes without even needing substantial support services. Women in supportive family situations and communities may also be successful both economically and in bringing about change in gender relations. Where active women’s movements have been promoting gender equity, women may use micro-finance to further their own interests in their families and communities. Under the same circumstances, micro-finance has often helped women improve the welfare of their families

MFIs cannot empower women directly but can help them through training and awareness-raising to challenge the existing norms, cultures and values which place them at a disadvantage in relation to men, and to help them have greater control over resources and their lives. Littlefield, Murdoch and Hashemi (2003) state that access to MFIs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. However, they also state that just because women are clients of MFIs does not mean they will automatically become empowered. It implies that having women as key participants in
microfinance projects does not automatically lead to empowerment, sometimes negative impacts can be witnessed e.g. increased workloads, increased domestic violence and abuse. Thus one may conclude that by helping women meet their practical needs and increase their efficacy in their traditional roles, microfinance can help women to gain respect and achieve more in their traditional roles, which in turn can lead to increased esteem and self-confidence. Although increased esteem does not automatically lead to empowerment, it does contribute decisively to women’s ability and willingness to challenge the social injustices and discriminatory systems that they face (Cheston and Kuhn, 2002).

This raises a very crucial question of whether targeting women is just an efficient way of getting credit into the household, since women are more likely than men to be available in the home, attend meetings, be manageable by field staff and take repayment more seriously, even if they do not invest or control the loan themselves? Or on the other hand, if such targeting is fully justified on the grounds of enhancing gender equity. The solution is probably somewhere between the two alternatives. MFIs must analyze both the positive and negative impacts their interventions are having on women, and that MFIs need to work with men to help pave the way for a change in attitudes to women’s enhanced contribution to the household. Therefore, impact of microfinance projects should not just focus on the individual and household levels if the true impact is to be assessed. In order to transform micro-finance into a genuine gender strategy, women’s empowerment needs to be understood as more than a marginal increase in access to income and/or consultation in limited areas of household decision making and/or occasional meetings with a small group of other women. While such advances may be useful first steps in a process, change at both the micro- and macro-levels is required. In order to justify their role as a key element of a poverty alleviation agenda, micro-finance interventions also need to be massified and make a quantum leap beyond the limited outreach of those few women who already enjoy more privileged access to resources and skills. Microfinance can have a far wider impact than the household level, as shown in Figure 1.4, and this must be assessed if a true representation of microfinance projects is sought.
A genuine empowerment strategy must be defined by women themselves, and not imposed by external agencies. Empowerment is a long-term process, not a 'one-off end-product' decided at one focus group meeting or assessed in a one-off impact assessment.

To maximise the contribution of micro-finance to women's empowerment requires equality in access to all micro-finance services but also an adequate and non-discriminatory regulatory framework. A regulatory framework must be an integral part of fulfilling as spelled out by the Micro-Credit Summit Campaign. Gender policy goes much further and integrates productive and reproductive work, welfare concerns and measures to address power inequalities in strategies for both women and men. This approach implies a strategic thinking through ways of mainstreaming empowerment questions. It also involves linking with other organizations challenging gender inequality at different levels and a rethinking of current 'best practice'. There is a need to promote a much more diversified micro-finance sector. Firstly, there is a need to develop services for very disadvantaged groups of women and increase poverty reach. Gender mainstreaming must be reflected in regulatory frameworks, conditions for loan guarantee funds and poverty-targeted savings and credit windows. There is also a need to develop effective structures for participatory management which combine requirements of
efficient service delivery and contribution to empowerment. Finally, the micro-finance programmes targeting women are often promoted as a component of packages to absorb the shock of structural adjustment programmes and globalization, with macro-economic and social policy prescriptions which seriously disadvantage women, decrease public sector availability of complementary services and remove any existing welfare nets for the very poor. The assumptions of automatic beneficial impacts of micro-finance can thus at worst be used as a pretext for withdrawing support for other empowerment and poverty alleviation measures. The development of an innovative and diversified micro-finance sector which makes a real contribution to women’s empowerment will require much more commitment from donors than has been the case to date. It is crucial that donors make their commitment to women’s empowerment explicit through inclusion of questions on gender policy and empowerment as a criteria for funding.

Micro-Finance and Self Help Groups in India

Group Lending Approach and Self Help Groups

The group approach for microfinance services evolved in particular in Bangladesh (Grameen Bank) and in Latin America (solidarity and village banking), as well as in India (Self help groups or SHGs). History reminds us that the non involvement of people in development process has led to an attitude of dependency on the Government for every effort leading to a crippled society. While as the participatory approach in many developing countries showed better impacts and results. Looking at this positive picture, the international agencies like World Bank and International Labour Organization (ILO) started emphasizing the need of people’s participation. It is in this context the concept of Self Help Groups are considered a good strategy to involve people in the development process. The SHGs can be built on social capital of the local community especially women to carry out thrift and credit activities to initiate micro-income generating activities for a sustainable livelihood (Moser, 1989). Due to better performance, the SHGs have acquired a prominent status to maximize social and financial returns (Sudan, 2004). Self Help Groups form the social capital which facilitate financial linkage of poor borrowers with formal financial institutions (FFI's) in India. Group formation is crucial
to the empowerment process as women draw strength from number. The group provides: (1) confidence and mutual support for women striving to social change; (2) a forum in which women can critically analyze their situations and devise collective strategies to overcome their difficulties; (3) a framework for awareness, training, confidence building, dissemination of information and delivery of services and for developing communal self reliance and collective action; and (4) a vehicle for the promotion of economic activities (Mennai, 2003). There are several advantages of the group lending setup. For one, rather than a bank, borrowers themselves undertake the task of credit evaluation; this creates a peer screening effect and reduces the transaction costs as community members have much better information than banks (Andersen and Nina, 1998). Two, there is the peer monitoring effect that induces group members to use their loans in productive ways; Stiglitz (1990), Varain (1990), and Banerjee and Newman (1994) have developed models that illustrate the working of the peer monitoring effect. Three, the desire to preserve valuable social ties induces borrowers to spend extra effort if necessary to secure timely payments. Moreover, a very important feature of group lending is the collateral effect. Bank’s losses incurred due to unsuccessful projects are generally reduced as successful entrepreneurs within each group cover part of their losses. The basic principles of the SHGs are group approach, mutual trust, organisation of small and manageable groups, group cohesiveness, spirit of thrift, demand based lending, collateral free, women friendly loan, peer group pressure in repayment, skill training, capacity building and employment.

There are certain broad principles which govern the functioning of SHGs. These include (Srinivasan 1996):

- The SHG is a network of members who fulfill locational criteria.
- They are resident in the area and are homogeneous.
- They have rules/norms regarding their functioning.
- Savings first, credit thereafter. Personalized services suiting the requirements of the members are ensured.
- SHGs hold regular meetings to ensure participation of members in the activities of the group.
- SHGs maintain accounts.
- Group leaders are elected by members and rotated periodically.
- Transparency in operations of the group and participatory decision making ensure
that the benefits to members are evenly distributed.

- Market rates of interest on savings and credit are charged.
- Group liability and peer pressure act as substitutes for traditional collateral for loans.

The concept of SHG mainly revolves around the reasons that may lead to the genesis of self-help as a way to mitigate the problems faced by a set of people. As per Kingree, the concept of SHGs can be traced to the collection of people to informal groups with an aim to overcome the problems related to a particular negative status. Jacobs and Powell reported that SHGs have proliferated in recent years, serving more people and addressing many types of status-related problems. Social scientists have forwarded various definitions for SHG. Gregory and Marry have defined SHGs as being cost-free, member-governed, peer-led group made up of people, who share the same problems or situations (Gregory and Marry, 1994). Kurtz has defined SHG as a supportive, educational, usually change-oriented mutual aid group that addresses a single life problem or condition shared by all members (Kurtz, 1997). Gupta has described SHGs as the voluntary response in the form of informal groups, of poor, to their marginalization-social, economic and political (Gupta, 1996). Similarly Singh has defined SHGs as voluntary associations of people formed to collectively perform certain activities of their common interest (Singh, 1995). Nanda has defined SHGs as informal groups of people who have a common perception of need and impulse towards collective action (Nanda, 1995). The growing realization among the rural poor to collectively pool their small savings so as to create a corpus of funds to cater to their emerging credit needs underlined the emergence of SHGs and other group-related saving and credit activities in many developing countries such as Bangladesh, Indonesia, Bolivia and India.

As pointed out by Cartwright (1968) four interacting sets of variable determine a member’s attraction to a group:

(i) The need for affiliation, recognition and security;

(ii) Incentives and resources available through the group such as prestige of the members, the group grades, its programme activities, and its style of operation;
(iii) The subjective expectation of members about the beneficial or detrimental consequents of the group; and

(iv) A comparison of the group to other group experience.

Self Help means to make people self reliant. This state of self reliance can be achieved through developing ‘collaborative’ ties between individuals who need each other's cooperation in solving their day-to-day crisis. Self help is a fundamental tenant of recent expounded strategies of basic needs and self reliance. Lawson & Anderson (1996) have defined collaboration "as a process of pooling resources, linking and allying with one another to develop innovative, new responses for tackling social problems including poverty (Lawson and Anderson, 1996). Bailey & Koney (1996), Weil (1996) and Parsloe (1990) have pointed out that collaboration is necessary to address social issues that require multi-agency approach to alleviate them. SHGs are one such medium to achieve social collaboration. Graham & Barter (1999) have described collaboration as a relational system in which two or more stake holders pool together resources in order to meet objectives that neither could meet individually (Graham and Barter, 1999). ‘Collaboration’ differs from ‘co-operation’ in the sense that cooperation facilitates support and assistance for meeting the goals that are specific to an individual stakeholder, where as collaboration insists on goals that are mutually agreed upon based on an established value base to which all stake-holders have a commitment.

A self help group is a socially and economically homogeneous group of not more than 20 poor people who have come voluntarily to achieve common goals based on the principles of self help and collective responsibility. The groups have been recommended to be informal to keep them away from bureaucracy and corruption, unnecessary administrative expenditure and profit constraints. The size of 20 has been made mandatory because any group larger than this would need to be registered under the Indian legal system. It is expected that within the group there should be true democratic culture in which all the members must participate actively in the decision making process which is possible only in small groups. The SHGs foster an entrepreneurial culture where each member realizes that while she needs the support of group to achieve her objective, the group also in turn requires her support in adequate measures. The SHG after being formed, start collecting a fixed amount of thrift from each member regularly (mostly monthly). For about six months it only collects thrift; no loan is given to any member.
They are encouraged to make voluntary thrift. They use this pooled resources to make small interest bearing loans to their members. Firstly the working fund generated out of small thrift is negligible in the initial period; secondly it tests the patience and tries to instill mutual trust among the members. This gradually builds financial discipline in all of them. Regular meetings are conducted in which savings are collected, loans are lent, recoveries affected and group decisions taken. All the transactions are recorded in their account books. During this process the groups are expected to open a saving account with a nearby bank branch to deposit surplus cash if any. The repayment of the loan along with the interest and regular thrift enlarge the working fund and increase the scope of lending. Notwithstanding this, the working fund generated by the group may not be adequate to meet all types of credit needs of all the members. The group then approaches the financial institution where it had opened the saving account. The bank assess the strength of the group in terms of successful rotation of savings of the group as loans, regularity in conducting and attending meetings, savings mobilization, number of loans issued to the groups and repayment of loans, it extends a term loan of smaller amount to the group. The group in turn continues to take decision as in the past, the only difference being it has now a higher amount of resource. In addition, the group is jointly liable to the bank for repayment. The group’s responsibility in monitoring the members therefore increases. This joint liability however provides incentives or compels the group to undertake the burden of selection, monitoring and enforcement that would otherwise fall on the lender (Hoff & stilgth, 1990). This joint liability, decision making process and pressure at the group level are the most important aspects for the banks to do business with the poor, illiterate and informal groups. The members use the credit for a variety of purposes like small businesses, agriculture, health, education of children, festivals and so on (Srinivasan Girja, 2002). With time when the lender (FI) and the borrower (SHG) grow in mutual trust and the borrower honours the previous contracts, the lender expresses its willingness to extend higher amount of credit facility implying more flexibility and lesser burden for the borrower; the SHG in turn increases its capacity to manage higher amounts of finance, develop entrepreneurial and communication skills and logical ability, cooperative sense and finally income and employment generating confidence. A sustainable financial relationship between the people develops for their mutual benefits (Dasgupta, 2001). The journey is not confined to a single group of about 20 people, more groups start forming and functioning. A linkage among the groups also
evolve. Old leaders take the role of facilitators for promoting other groups. “All for All” is the principle behind the concept of Self Help Groups. SHGs have great potential in creating awareness on day-to-day affairs, promoting saving habit, developing self and community assets, increasing the income level, increasing social power etc. The group provides a firm base for dialogues and cooperation in programs with other institutions like Government departments, cooperatives, Panchayati-Raj institutions. It is therefore necessary that SHGs be promoted in a way that facilitates the development of participation and empowering culture. Women SHGs have become a movement in India. It is considered as the most powerful means to strengthen socio-economic development of women through integrated approach (Devasia, 2004). The SHGs enhance the status of women as participants, decision-makers and beneficiaries in democratic, economic, social and cultural spheres of life. They have inculcated a great confidence in the minds of rural women to succeed in their day to day life (Ritu Jain, 2003). Women are capable of starting their own enterprises, given the right opportunities. They have developed abundant self-confidence and self-esteem through SHG movement. Not only economic poverty but social and gender issues can be tackled effectively through this process. According to N. Srinivasan’s State of the Sector Report on Microfinance, published by Sage, over 800 microfinance institutions (MFIs) now operate in India, reaching out to over 140 lakh clients, with an outstanding cumulative loan of Rs.5900 crores in small loans. Over 54 million clients from the Self Help Group (SHG)-Bank linkage programme and MFIs, today access microfinance services. The Indian microfinance sector has seen phenomenal growth in the last few years. In 2007-08 alone, MFIs have had a growth rate of 40 percent.

While the SHG movement in India represents the largest microfinance initiative in the World, the magnitude of the work yet to be done in this nation is staggering. For inclusive growth which has become the mantra these days, India needs not just globalization which ensures that economic growth is more broad-based equitable and sustainable than it has been so far. The relationship between SHG institutions and panchayat bodies needs greater attention. These are the twin pillars on which India’s globalization should rest (Ramesh, 2007).
Formation & Development of SHGs

A systematic and scientific approach in the formation of SHGs is of paramount importance to the long term sustainability of these informal community based organizations. The most famous theories have been proposed by Tuckman (1965) and Tuckman & Jensen (1977). Tuckman studied a number of groups of varying nature and objectives such as therapy, training, and focus groups and identified four distinct development stages, viz. Forming, Storming, Norming and Performing. These distinct stages are characterized by the specific focus attributed by the groups during each stage and the related consequences on the behaviour of the members. Forming Stage is marked with initial attraction towards each other in a group. The stage is characterized by initial euphoria of coming together, chaos and uncertainty. Kruger & King (1998) have indicated that during forming stage each member tries to figure out his/her own role in the group and gets indulged in evaluating his likely individual gains vis-à-vis group objectives. Lingering suspicion and anxiety prevail among the group members during this stage. Storming Stage is earmarked by the expression of varying thoughts by the individual members, which reflects the prevailing conflict and confusion in the group. Kruger & King (1998) have indicated that this stage is completed with the evolution of leadership and decision-making capabilities within the group. Norming Stage is reached when the group under the chosen leader/SHGs starts evolving group norms and the groups solidarity comes into force. The group becomes more cohesive and development oriented as gradually the individualistic tendencies are replaced by the collectivism. Performing Stage is the state of readiness. The readiness to act. Similarly Worchel et al (1992) have also identified six sequential stages of group development, which have been identified on the basis of prevailing 'feelings' in the members. These are discontent stage, participative stage, identifying with the group stage, involvement in the group activities stage, proactive involvement stage and disintegration stage.
Based on Tuckman’s theory, Johnson & Johnson (1997) have identified seven stages in the development of co-operative learning groups. These are (i) defining and structuring procedures and becoming oriented, (ii) conforming to procedures and getting acquainted, (iii) recognizing mutuality and building trust, (iv) rebelling and differentiating, (v) committing to and take ownership of the goals, procedures, and other members, (vi) functioning maturely and productively and (vii) terminating. In contrast to sequential stage theories, the recurring phase theories underline the issues that prop up in a group from time to time and thus affect the group behaviour. In essence, the recurring phase theories place more emphasis on the issues instead of individual feelings as is the case with the sequential stage theories. The other noticeable difference between the sequential stage and recurring phase theory is that the former is of irreversible nature, i.e. the stages are fixed in a chronological order and are never repeated, while, the latter is based on re-occurrence of phases depending on the issues being confronted by the groups. A few of the recurring phase theories, as proposed by various social scientists, are as under; Bales (1965) indicated about a state of equilibrium, within a group, between a task oriented work and emotional expressions (Behaviour) of the members. This state of equilibrium decides a long enduring mutual rewarding relationships among the group members and it keeps recurring from time to time (Bales, 1965). Another theory of Schultz (1958) proposed that group development is reflective of the concern of members towards
affection, inclusion and control and is repetitive in nature (Schultz, 1958). Dion (1961) stated that group development depends on the three basic themes of the dependency on the leader, desire for emotional support among the members and confrontation among the members with threats to abandon the groups. Such tendencies recur during the group development.

The financial development of a self help group typically passes through several phases, as outlined in Table 1.5. Phase 3, “Bank Linkage” is optional; a group enters this phase only if its credit needs outstrip its available savings.

**Table 1.5: Financial Development of group**

<table>
<thead>
<tr>
<th>Phase 1: Savings</th>
<th>Phase 2: Interlending</th>
<th>Phase 3: Bank Linkage</th>
<th>Phase 4: Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group chooses a common amount to save each month</td>
<td>Savings continue Group lends savings to members (charges interest)</td>
<td>Savings and lending continue within group. Group approaches bank for credit, up to four times the amount saved</td>
<td>Group manages savings, internal lending, bank credit and book keeping without subsidized support</td>
</tr>
<tr>
<td>Group opens a savings account at a nearby bank</td>
<td>Group learns to lend and borrow with small amounts of cash at stake. Dependence on moneylenders reduced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discipline of thrift, creation of assets</td>
<td>Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Group develops relationship with mainstream financial institutions for permanent credit access and savings services Groups can borrow up to four times savings</td>
<td>Group continues indefinitely as long as members enjoy benefits</td>
</tr>
</tbody>
</table>


**SHG Linkage - The Indian Experience**

SHG movement in India is basically aimed at utilizing the SHGs as an intermediatory between the banks and the rural poor to help drastically reduce transaction costs for both the banks and the rural clients (Nanda, 1995). NABARD with its head quarters at Mumbai is an Apex Development Bank in India for promoting agriculture, small scale industries, handicrafts and other rural crafts so as to promote and integrate development. In wake of banking sector reforms invoked in early 1990’s the role of commercial banks in providing credit to rural poor came under intensive debate vis-à-vis the sustainability of entire banking operation for providing banking services—both in terms of savings and credit—to the rural poor. Sheokand (1998) has indicated that as the rural Poor’s share in
availing formal sector credit got further marginalized, NABARD, in 1992 launched the SHG - Bank linkage programme with the policy backup of the Reserve Bank of India (Sheokand, 1998). According to Shanmugam (1998) the SHG-Bank linkage programme initiated by NABARD, in active collaboration with Non-Governmental Organisations (NGOs), aimed at enhancing the coverage of rural poor under institutional credit thereby focusing on poverty alleviation and empowerment (Shanmugam, 1998). As per a NABARD report (1995) the scheme on SHGs was made applicable to RRBs and co-operative banks of the country in 1993 and in April'96, RBI advised the banks that lending to SHGs should be considered as an additional segment under priority sector advances and it be integrated with mainstream normal credit operation. Rao & Dasgupta (1999) have commented that the SHG-bank linkage programme has gained considerable movement in southern region of the country, though the northern states too are also now catching up fast and an overwhelming (78%) of the listed SHGs are Women Self Help Groups (WSHG) that is the SHGs which constitute of only women members (Rao and Dasgupta, 1999). Since the inceptions of NABARD promoted SHG linkage programme there has been an appreciable increase both in formation of SHG and their linkage with the banks. The concept and importance of SHGs has been accepted and promoted as a part of the microfinance interventions adopted by policy makers aimed at helping the poor to obtain easily financial services like savings, credit and insurance. The Self Help Group movement spread within a short span in the rural credit delivery system in many parts of the World. In 1997, World Micro Credit Summit at Washington converged the developed and the developing countries to tackle the serious problems of poverty by using microcredit as a tool to empower the poorest sections. A global movement has been launched to reach 100 million of the world’s poorest families by the year 2005. Self-help groups intermediated by microcredit have been shown to have positive effects on women, with some of these impacts being ripple effects. They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman, 2001).

The Indian Experience of SHG Linkage Programme is unique in some respects. RBI and NABARD have tried to promote 'relationship banking' i.e. improving the existing
relationship between the poor and bankers with the social intermediation by NGOs. The Indian model is predominantly “linkage model”, which draws upon the strengths of various partners-NGOs (who are the best in mobilizing and capacity building of poor) and bankers (whose strength is financing). Thus, as compared to other countries, where “parallel” model of lending to poor (i.e. NGOs acting as financial intermediaries) is predominant, the Indian linkage banking tries to use the existing formal financial network to increase the outreach to the poor while ensuring necessary flexibility of operations for both the bankers and the poor. Thus in nutshell, the SHG Linkage programme offers a win-win situation for the credit delivery system comprising banks of all types. Two major SHG networks have emerged. One is the NABARD sponsored SHG-Bank linkage programme that was mainstreamed into the banking system in 1996 through which eligible SHGs are able to access group loans from banks. The other is the Swarna Jayanti Gram Swarozgar Yojana (SGSY) designed more as a rural self-employment programme in which SHGs receive subsidized credit and are meant to undertake income generating activities. There are three different models of credit linkage

**Model I:** SHGs formed and financed by banks.

**Model II:** SHGs formed by NGOs and formal agencies but directly financed by banks.

**Model III:** SHGs financed by banks using NGOs and other agencies as financial intermediaries.
### Table- 1.6: Model wise advantages and limitations of SHGs

<table>
<thead>
<tr>
<th>Model</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Model I  | - Each partner institution plays a role best suited to it. Banks lend, NGOs organize poor into SHGs and SHGs manage small group finance in their own interest  
           - The whole system is localized  
           - SHGs and local NGOs learn to deal with an accessible bank branch and vice versa | - In spite of wider accountability of the model, majority of field level bankers are yet to be sensitized and do not view it as banking mandate  
           - In many places, it is still difficult to open a savings account  
           - Absence of NGOs in many areas |
| Model II | - It further reduces the transaction cost and risk cost of the bank as the banks lend a larger sum to an NGO which guarantees repayment.  
           - Easier for the poor to deal with an institution which they know and trust  
           - Easy to be adopted by stakeholders | - NGOs are not traditionally equipped to work as financial intermediaries  
           - Calls for substantial investment in capacity building of NGO  
           - Adds one more intermediary structure  
           - Wide Scale adoption not possible |
| Model III| - Exposes bankers to social realities first hand  
           - Possible solution where NGOs are present | Wide Scale application may not be feasible because of other priorities of bankers |

**Source:** Rajigail, T.S (1999)

A typical SHG model is shown in Fig 1.5. Some of the features may vary from one SHG to another promoted by various interventions. The position reflected in Fig 1.5 almost holds true for most of the SHGs.
**Fig. -1.5: A Typical SHG Model**

- **Household Resources**
  - *Physical Capital (Limited)*
  - *Human Capital*

- **Promoters**
  - NGOs, Banks, etc
  - *Access to Credit*
  - *Training to members*
  - *Technical guidance*

- **Self Help Groups**
  - (10-20 Members)

- **Loan to Members**

- **Community Action**

- **Common Investment**

- **Investment**
  - *On-farm*
  - *Off-farm*
  - *Education*

- **Consumption**
  - *Nutrition*
  - *Health*

- **Clearing of Debts**

- **Social Obligations**

- **Increased Employment, Income, Savings, and Empowerment**

*Source: Namboodiri and Shiyani (2001)*
Pioneers in microfinancing

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the “susus” of Ghana, “chit funds” in India, “tandas” in Mexico, “arisan” in Indonesia, “cheetu” in Sri Lanka, "tontines" in West Africa, and “pasanaku” in Bolivia, as well as numerous savings clubs and burial societies found all over the world Tontines or Hui with 10-15 members involved in financial activities in cash or in kind have been in existence in Vietnam for generations (Abiad 1995). Bishi which is short form of ‘Bishimandal’ or ‘Chitfund’ are old institutions in India in which members made periodic contributions that are pooled into a fund from which money is given to members (Bouman 1989). Credit Unions, fishermen groups, village based bank-like institutions, irrigation groups etc, were in existence in Indonesia (Koch and Soetjipto 1993). Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system.

The case of Ireland

The early history of microfinance in Ireland covers the period 1720 to 1950; it is unrelated to recent initiatives to introduced credit unions. It is the story of how self-help led to a financial innovation, legal banking and conducive regulation created a mass microfinance movement, and adverse regulation instigated by commercial banking interests brought it down. The so-called Irish loan funds emerged in the 1720s as charities, initially financed from donated resources and providing interest-free loans, but soon replaced by financial intermediation between savers and borrowers. Loans were short-term and instalments weekly. Peer monitoring was used to enforce repayment.

The case of Germany

The story of microfinance in Germany, covering more than two centuries, is one of self-help, regulation and supervision, which have created, relative to its population, the largest microfinance sector of any country. It comprises two networks: community savings funds, now referred to as savings banks in English and member-owned cooperative associations, now referred to as cooperative banks. The community-owned
financial institutions started during the latter part of the 18th century. Having learned from the early Irish charities (a) that charity is not sustainable and (b) that there is a strong demand among the poorer sections of the population to go for safe deposit facilities, the first thrift society was established in Hamburg in 1778, followed by the first communal savings fund (Sparkasse) in 1801. As the movement spread, the influx of savings forced the savings funds to expand their credit business, including agricultural lending (Strickland, 1934).

The Case of SEWA Bank-Ahmedabad

The SEWA movement began in the city of Ahmedabad. In 1972 the Self Employed Women's Association “strengthening its members, bargaining power to improve income, employment and access to social security.” In 1973, to address their lack of access to financial services, the members of SEWA decided to found “a bank of their own”. Four thousand women contributed share capital of Rs. 10 each to establish the Mahila SEWA Co-operative Bank. In May 1974, the SEWA Bank was registered. Since then, it has been providing banking services to poor, illiterate, self-employed women and has become a viable financial venture. SEWA responds to the needs of members such as banking and social security. SEWA tries to do that proficiently through building organizations of the poor (Bhatt, 2002 ). The Self Employed Women’s Association (SEWA) is widely known as an urban labor movement that has done yeomen service to organize poor, self-employed women and help them achieve self-reliance. Today, SEWA has more than 5,30,000 members in Gujarat alone with initiatives in 5 other states(Nanavathy R 2008). A unique feature of SEWA’s programs is that they are demand driven and need based, so that the women who create, implement and manage them are also those who benefit from them.

In SEWA collateral is replaced by trust and personal contact. A poor person is understood not in economic terms but in totality having social, psychological factors involved. Loans are provided not only for productive purposes but for consumption and emergencies. With all these comfort cushions close supervision and monitoring is ensured. Trainings and technical inputs are imparted to improve the performance of members and Bank.

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The case of Grammen Bank-Bangladesh

Early Seventies were the most dreadful times in the history of Bangladesh, the erstwhile Eastern Pakistan. In 1970 the country was hit by a worst storm killing about half a million people. In 1974 the country was in the grip of a terrible famine. Hunderds of thousands died and millions became destitute. The poor in the far flung areas were feeding their families with wild bulbs and urban poor were salvaging food-stuff from out of the kitchen waste of the privileged. The already low growth rate, GDP and per capita income were recceeding fast. Villagers had to borrow from money lenders. At this stage Muhammad Yunus had just returned to Bangladesh as an economics professor after completing his Ph.D in the United States. The economic desperation of rural poor shocked the Professor. The myth that credit is the privilege of a few fortunate people needs to be exploded, explains Muhammad Yunus, the founder of the Grameen Bank. And so Yunus went on his journey. He wandered the muddy lanes of a village next to his university searching for ways to help. Little did he know that this nervous exploration would plant the seeds of an economic miracle still blooming decades later. He compiled a list of the villages, 42 most impoverished and went about repaying each of their debts for a paltry sum of $27. While banks would never lend money to these often illiterate and undocumented peasants, the professor simply asked that they work hard and repay him 'what they could'. Ten Years later, Yunus had set up the Grameen Bank drawing on lessons from informal financial institutions to lend exclusively to groups of poor households. The Grameen Bank is not a conventional organization like other banks or credit institutions which extend rural credit, though it too is a legal entity under the Banking and Co-operative Acts. The bank is owned by the members and works exclusively for them. People organize themselves in homogeneous groups of five. The loans are made to individuals (with lending first to two, then to the next two, and then to the fifth) but the whole group is held responsible for loan repayment. An average of six such groups join to make up a center of 30 persons. These groups meet together weekly with seven other groups, so that bank staff meet with forty clients at a time. The center becomes the core point of all discussions related to members-loans, repayments, survival. If any one of the members default in a group, subsequent loans to the other group members would be denied. Realizing that women are particularly vulnerable, and at the same time careful investors with high repayment rates, Grameen has moved gradually towards lending mainly to women. With financial transactions being carried
out within the village rather than the branch office, women who hardly leave the village have been the major profiteers (Hashemi & Morshed, 1997). This system of joint liability and collective responsibility seems to be working exceptionally well with recovery rates standing at 99% in the beginning of 2004 (Yunus, 2004). Most loans are for one year with an interest rate of 20% for income generating loans ranging from US$ 75 to US$ 100. The performance of Grameen over the decades has been very impressive with total revenue generated in 2003 estimated as US $ 60.98 million. Income from interest on loans to the borrowers accounted for 77 per cent of the revenue. Total expenditure was US $ 49.91. Profit for the year 2003 was US $ 11.07 million. The bank claims to finance 100 per cent of its outstanding loan from its own fund and its depositors savings. Over 75 percent of the deposits come from bank’s own borrowers (Grameen Bank, 2003). According to Yunus, the founder of Grameen, the bank today needs no funds from the donors and “......the growing amount of deposits will be more than enough to run and expand it’s (Grameen’s) credit programme and repay its existing loans” (Yunus, 2004). This would mean that Grameen is financially sustainable.

Although Grameen Bank states that it is a bank engaged only in economic intervention, there is still a social development programme integrated with the financial activities. A larger social purpose is also carried out as members take a pledge to implement the sixteen decisions that carry social messages. Sixteen Decisions, a social charter which the members themselves developed, reflect the aspirations of the members. They encompass decisions relating to a woman’s economic and social life, which she commits to implement (Todd , 1996). The Sixteen Decisions thus become the platform around which the transformation of women’s lives take place. Today, almost all the children of Grameen Bank are in school. Studies show that Grameen Bank members have a higher adoption of family planning practices and therefore lower birth rate than non-members. Their housing is better and the use of sanitary latrines is higher than non members. Their participation in social and political activities is higher than that of non-members. These changes reflect how seriously the members implement these decisions over years of membership in Grameen Bank (Yunus, 2004).

While achieving the goals, Grameen Bank also faced a lot of challenges. Critics are skeptical about the sustainability of Grameen Bank. Some analysts even reported that Grameen Bank is surviving as an “institution not because it was profitable, but because
its operations were still subsidized by international agencies and other donors” (Mayfield, 1997). Keeping in view these mixed pictures one say that that what Yunus did is revolutionary and no one can deny the vast impact of microcredit programmes of Grameen Bank.

**The Case of BancoSol – Bolivia**

BancoSol was established in 1992 as the first commercial bank in the world dedicated solely to microfinance (ACCION 2003). It is a financial institution, which targets low-income micro-entrepreneurs and provides financial services to them at rates that are commercially viable. Its creation was the result of transforming PRODEM, a non-profit microlending NGO, into a regulated financial entity (BancoSol 2004). PRODEM had grown to outstrip the capacity of the local banking system to supply it with lending capital, thus prompting its stakeholders to redefine its status into a commercial bank for hopes that the profit status would help to attract private investment (Schreiner, 2002). BancoSol has achieved much from the commercialisation of the bank, according to some studies it has captured more than one third of the borrowers in the entire Bolivian banking system.

**The Bank Rakyat of Indonesia (BRI)**

Bank Rakyat is a century old state owned commercial bank set up mainly for the provision of financial services to the non-urban and remote areas along with a special aim to encourage the farmers and support the agricultural sector (Maurer 1999, p. 6). Though the bank serves all market segments in the banking industry, here the concern is only with the unit desa (Desa in local language means village which is a little misleading because the unit desas are located at the sub-district capital towns and not at the villages) system-the microbanking services for low income borrowers (not necessarily the very poor)-of the bank. With the provision of small loans and saving services in both rural and urban areas, the unit desa has more clients than any other bank in Indonesia (Robinson, 2001). However, despite government subsidies and low interest rates the program (called BIMAS) failed and could only be saved with a massive restructuring of the unit desas as an independent profit-centre of the Rakyat Bank in 1984. The Bank Rakyat Indonesia like BancoSol is financially self sufficient. The main thing which differentiates BRI from BancoSol and Grameen is that it does not use a group lending mechanism and borrowers
require collateral for the issuance of loans. In this way the very poorest borrowers are automatically excluded; thus the bank lends to the "better off" poor and the non-poor households.

**The Bank Kredit Desa of Indonesia**

The Bank Kredit Desa system (BKD) is a sister institution of BRI and has existed in its present form since 1952 (although it was first established in 1898) and is less well-known. 4806 active kredit desas were reported in 1996 operating mostly in rural Indonesia with each bank unit owned by the village and operated by three of the members of the village, usually the village heads or chiefs (Ravicz 1998, p. 76; and Morduch 1999, p. 1578). Small capital grants from the provincial governments helped establish the kredit desas. This initial grant, required and voluntary savings and the retained earnings make up the loan capital of the kredit desas (Ravicz, 1998). The Kredit Desas provide loans to the individuals like BRI's Unit desa and its operations are financially viable.

**The Village Banks (FINCA)**

An innovative and promising village banking system was started in mid 1980 in Latin America by John Hatch and his associates at the Foundation for International community Assistance (FINCA) a non profit NGO. FINCA currently co-ordinates a network of programs located in the Americas (Mexico, Honduras, Guatemala, the Dominican Republic, El Salvador, Haiti, Nicaragua, Ecuador, Peru, and the United States), Africa (Uganda, Malawi, Tanzania, South Africa, Zambia, Burkina Faso and Mali), Central Asia and the newly independent states of the former Soviet Union (Kyrgyzstan, Armenia, Azerbaijan, Georgia, Kosovo and Russia) serving over 171,000 borrowers (FINCA 2001). The village banks are community-based credit and savings associations set up by the NGOs together with local groups that typically consist of 25 to 50 low-income women who administer and manage all loan decisions and selection of members independently. That the clients are from amongst the very poor and mainly women makes the village banks similar to Grameen. Village banks grant loans for four-month cycles. Unlike Grameen or BancoSol, loans are made to individual members.

The above MFI's briefly summarizes the different methods used for the common goal of
lending to low-income households. Group lending has helped the economic theorists and policymakers for the establishment of institutes or networks with a system that would utilize the societal assets of the borrowers in the absence of physical assets.

OTHER EXPERIMENTS

BRAC:

The Bangladesh Rural Advancement Committee (BRAC), a non-government development organization, was born in 1972. It is the second largest non-government credit provider in Bangladesh. Unlike the Grameen Bank, it has continued as an NGO. Mr. F. N. Abed, the founder of BRAC, a Bangladeshi executive of a British corporation who gathered around him a small member of equally concerned people who raised money and helped to assemble a small core staff. Right from the inception of BRAC it has been involved in multidimensional rural development programmes. BRAC programmes focused on the poorest segments of the rural community who are suffering from illiteracy, malnutrition, diseases and economic exploitation. Within a brief period of fifteen years, BRAC has gradually but purposefully emerged as a highly flexible organization capable of undertaking innovative approaches for poverty alleviation. BRAC targets those men and women who do not own any productive assets and are forced to survive by selling their labour. The number of female members of BRAC groups is slightly more than the male. The main challenge for BRAC was to expand its activities and to engage the support of government services, since the poor also have a right to these services. BRAC concentrated its attention on developing the social consciousness of women through functional literacy and formation of women’s working groups. Small personal savings were encouraged by these working groups and small income generating activities followed from the creation of these savings funds.

WWF and WWCS:

The Working Women’s Forum was started in Tamil Nadu as an NGO in response to the urban poverty and poor women in particular. These women were caught in a vicious circle of extreme poverty, indebtedness and illiteracy. They are continuously in debt to money lenders and traders who supplied them with raw materials. In addition they suffered a number of social abuses at home including lack of elementary health care,
desertion and wife beating. Furthermore women had to shoulder the responsibilities such as care of children and elderly. Small doses of credit in a conventional approach was not enough to help them break out of this vicious circle. The main aim of Working Women’s Forum was to free these poor women from the clutches of indebtedness and exploitation. Initially, credit was thought to be an instrument for initiating the liberating process, though experience showed that this was too narrow an entry point. At the onset the WWF acted as an intermediary between the nationalized banking system, which provide credit to WWF through its differential rate of interest and the poor women’s groups. The WWF organized women into groups, helped negotiate the loan and ensured repayment to the bank by linking loan repayment to cash sales and marketing arrangements for the activities financed.

SHARE:

Keeping Grameen Banks strategy in mind, Society for Helping Awakening Rural Poor through Education (SHARE), as a registered society, started a small action research project in 1992 with two branches, one each in Kurnool and Guntur. Following the Grameen model, very small affinity groups of five persons were facilitated through a process of social mobilization, with only women as members. Around eight such groups from the same village were encouraged to meet jointly at a common centre on a regular basis. SHARE decided to register a public limited ‘for profit’ company called SML.. This registration took place in April 1999. SML is also registered with the Reserve Bank of India (RBI) as a non-bank finance company (NBFC). The focus of SML is to mobilize resources to provide financial and support services to the poor, particularly women, for viable productive, income generating enterprises, thus enabling them to reduce their poverty. SML believes that access to micro-credit enables households to use their skills in income generating activities, thus countering seasonal and activity based risks.

DHAN:

The DHAN Foundation was started in October 1997, incorporated under the Indian Trust Act (1882) in January 1998. This Foundation functions in 17 districts of Tamil Nadu, Andhra Pradesh, Karnataka and Pondicherry. It was created from the erstwhile NGO PRADAN (Professional Assistance for Development Action). Its Kalanjiam Community Banking Programme promotes SHGs for women, which are organized into cluster
associations and federations. The aim of the DHAN Foundation is to reduce poverty. The DHAN foundation supports the poor to realize their choices. The DHAN Foundation has chosen women because they are poorer, occupy a secondary status, and are seen as better finance managers. The DHAN Foundation facilitates the groups, but over time the cluster heads take over this responsibility. Each group has its own rules on how frequently savings are collected. Loans vary in proportion to savings. The number and amount of loan of each member increases as the group ages.

**PRADAN:**

Professional Assistance for Development Action (PRADAN) is a non-governmental organization working in poor regions of India. PRADAN started working with self help groups (SHG) in Alwar Project in the state of Rajasthan in 1987. What began as a way to revolve funds the project provided to buy cattle fodder eventually evolve into a stable and robust mechanism to provide savings and credit services to the poor, organizing them into strong groups in the process (Narendranath 2001). PRADAN believes that SHGs have a bigger role than financial intermediaries. They are institutions which are based on the concept of peer learning with little external control. A SHG in PRADAN is a group of 10-20 poor rural women formed to provide savings and credit services to its members. This is a democratic institution by the women, of the women and for the women. The women come together to improve their economic, social psychological and cultural well being.

**MYRADA:**

Mysore Resettlement and Development Agency (MYRADA) was established in 1968. From 1978, MYRADA was totally involved with programmes for the poor of rural India. The inability of the credit institutions to deal with the credit requirements of the poor effectively forced MYRADA to start self Help Groups from 1987. The basic features of the SHG concept MYRADA fostered are affinity which binds the members together, voluntarism, which means that SHG sets its own agenda, design its own rules and systems of functioning, homogeneity-only the poor are members Aloysius Fernandez, the Executive Director of MYRADA is quite clear in the title of his book (2001) describing MYRADA’s experience of promoting SHGs: Putting institutions first-even in microfinance. MYRADA’s mission, therefore focuses on building of
people’s institutions rather than on delivery of goods. The building of appropriate
people’s institutions to manage and control resources is an essential component for
sustainability and for the confidence and self-reliance necessary to cope with external
threats (Om Raj 2007) The main features of Self Help Groups in MYRADA are: the
consumption and production credit needs of the poor should be met so as to avoid the
dependence on money lenders, consumption credit needs cannot be ignored, importance of
small homogeneous groups for solving mutual problems, for thrift savings and for more
power.

BASIX:

It was established in 1996 to promote the livelihood of rural poor and women, through
the provision of financial services and technical assistance in an integrated manner. So
the ultimate goal of BASIX is livelihood promotion not credit distribution. Vijay
Mahajan, founder of Basix disagrees with the pure credit approach of Microfinance. He
explains, “Suppose I give a woman a loan to buy a buffalo, she doesn’t have access to
graze land, veterinary services and milk marketing linkages. That loan is burden. They
are not going to overcome poverty with that sort of assistance. But if you help them with
business advice, market linkages and technology and then give them the loan, they can
then overcome poverty”. BASIX has been successful in attracting loans and equity from
a wide range of development and banking sources, both national and international. Within
its first five years of operations, BASIX thus created and mastered a well-oiled financial
machine, and pioneered a number of operational innovations that mark significant
contributions to the field (Ditcher, 2001).

Review of literature

The present study is designed with a view to examine the impact of micro financing on
marginalized groups-women. A comprehensive review of literature is essential for any
good research endeavour as it provides background information to aid researcher in
designing and analyzing research work. A large number of studies have examined the
various dimensions of microfinance programmes, microcredit, self help groups and
women empowerment. An attempt is here made to give a brief account of literature
related to microfinance, micro credit, self help groups and women empowerment.
Yunus (2000) believes that the poverty has not been created by the poor people. It has been created by the institutions we have built and the policies we have pursued. If only we looked at our well established institution with the eyes of the poor and examined our policies from their angle we would have easily detected how they have been creating and sustaining poverty. It is failure of human societies which condemn some people to poverty and make the whole society accept the situation without any qualm. The primary responsibility of every human society is to ensure human dignity to all members of that society. Poverty is the denial of human dignity to a person. It is not consistent with civilized human society. Our region, the south Asia is where most of the world’s poor live. If we can lead the way by creating poverty-free south Asia, the whole world will be free from poverty. Yunus (1999) further says that poor do not need to be given any skills to utilize the loans as they have an inherent skill which Yunus calls “Survival Skill”. It is the presence of this inherent skill that “keeps them alive even when they are poor”. Hence, it is believed that the provision of credit per se would transform the borrowers into able entrepreneurs.

Ahmad (1999) conducted a case study on thrift groups in Assam. He highlighted that women are coming to the administration directly for their just rights and to address their grievances boldly. This proved that self help groups are successful in North East India. Similarly Gurumoorthy (2000) believed that SHG is a viable alternative to achieve the objectives of rural development to get community participation in all rural development. SHG disburses micro credit to the rural women for the purpose of making them entrepreneurs and encouraging them to enter entrepreneurial activities. Credit needs of the rural women can be fulfilled through the SHGs. The women led SHGs have successfully demonstrated how to mobilize and manage thrift, appraise credit needs, maintain linkages with the banks and enforce financial self discipline. SHGs bring equality of status of women as participants, decision makers, and beneficiaries in the democratic, economic and social and cultural spheres of life. They encourage women to take active part in the socio-economic progress of the society.

Bhatia and Bhatia (2000) highlighted through a few case studies that recovery of SHGs is higher than other credit extended to borrowers. Moreover involvement of SHGs have helped the bank branches in recovery of old dues. It was observed that through SHGs there has been improvement in the living standard of the SHGs members in terms of
ownership of assets, increase in savings and borrowing capacity, income generating activities and income levels as well.

Barbara and Mahanta (2001) in their paper discussed that the SHGs have helped to set up a number of micro-enterprises for income generation. Rashtriya Gramin Vikas Nidhi’s credit and saving’s programme in Assam has been found successful as its focus is exclusively on the rural poor. It adopted a credit delivery system designed specially for them with the support of a specially trained staff and a supportive policy intervention at any stage in the implementation of the programmes.

Dasgupta (2000) in his paper informal journey through self help groups observed that micro-financing through informal group approach has effected quite a few benefits viz: (i) Savings mobilized by the poor; (ii) Access to the required amount of appropriate credit by the poor; (iii) Matching the demand and supply of credit structure and opening of new market for FI’s; (iv) Reduction in transaction cost for both lenders and borrowers; (v) Tremendous improvement in recovery; (vi) Heralding a new realization of subsidy-less and corruption-less credit; (vii) Remarkable empowerment of poor women. He focused on SHGs as one of the best means to counter to social and financial citizenship not as an end in itself.

Datta and Raman (2000) highlighted that SHGs are characterized by heterogeneity in terms of social and economic indicators. The success of SHGs in terms of high repayment is mostly related to the exploitation of prevailing social ties and cohesion found among women members. Social cohesiveness among members spring not only from their diverse background of knowledge base, skills occupations and income levels, but also due to the dynamic incentive system of progressive lending to the groups on the successful completion of loan repayment. However SHGs are heavily dependent on external financial agencies for their pending operations.

Nagayya (2000) highlighted that an informal arrangement for credit supply to the poor through SHGs is fast emerging as a promising tool for promoting income-generating enterprises. He has reviewed the initiatives taken at the national level with a view of institutional arrangements to support this programme for alleviation of poverty among the poor, with focus on women. He said NABARD and SIDBI are playing an important role at various stages of implementation of this programme. There are other national
level bodies also supporting NGO’s viz Rashtriya Mahila Kosh (RMK), Rashtriya Gramin Vikas Nidhi (RGVN) etc. He called for an imperative need to enlarge the coverage of SHGs in advance. Portfolio of banks as part of their corporate strategy, to recognize perceived benefits of SHGs financing in terms of reduced default risk on transaction costs.

V M Rao (2001) maintained that a review of the genesis and development of SHGs in India reveal that the existing formal financial institutions have failed to provide finances to landless marginalized and disadvantaged groups. The origin of SHGs could be treated to mutual aid in Indian village community. SHGs encourage savings and promote income generating activities through small loans. The experience available in the country and elsewhere suggests that SHGs are sustainable to have replicability, stimulate savings and in the process help borrower to come out of vicious circle of poverty.

Rakesh Malhotra (2000) in his study of 174 women beneficiaries, in Rai Bareilly of the state of Uttar Pradesh, drawn and covered randomly from four formal agencies of credit i.e. CBs, RRBs, PACs and ARDBs revealed that less than half a percent of female population against 3.5 percent of male population in the study area were clients of the banks. Furthermore, only 7.64 percent of the total number of cases financed and only 6.96 percent of the total quantum of credit extended by RFI’s have gone to women. It was observed that 83 percent of loan cases availed by women; male members were primarily responsible for the end use of credit.

Satish (2001) in his paper raised certain issues related to the functioning of SHGs. Adequate care should be taken to ensure homogeneity of socio economic status of the members, while forming SHGs. The process of SHG formation has to be systematic whether a bank or an NGO forms it. He emphasized that SHGs experiment has to be spread throughout India rather than being concentrated in a few pockets of the country. NGO’s are more suited for forming and nurturing of the SHGs and therefore it is essential to strengthen them and their resources so that they should increasingly undertake this work.

Puhazhendhi & Satyasai (2001) in their paper tried to evaluate the performance of SHGs with special reference to social and economic empowerment. Primary data collected with the help of structured questionnaire from 560 sample households in 223 SHGs
functioning in 11 states representing four different regions across the country formed the basis of the study. The findings of the study revealed that the SHGs as institutional arrangement could positively contribute to the economic and social empowerment of rural poor and the impact on the later was more pronounced than on the former. Though there was no specific pattern in the performance of SHGs among different regions, the southern region could edge out other regions. The SHGs programme has been found more popular in the southern region and its progress in other regions is quite low, thus signify an uneven achievements among the regions. Older groups had relatively more positive features like better performance than younger groups.

Manimekalai & G Rajeshwari (2001) in their paper highlighted that the provision of microfinance by the NGO’s to women SHGs has helped the groups to achieve a measure of economic and social empowerment. It has developed a sense of leadership, organizational skills management of various activities of a business, right from acquiring finance, identifying raw material, market and suitable diversification and modernization.

K.C Sarma (2001) maintained that through SHGs women empowerment is taking place. Their participation in the economic activities and decision making at the household and society level is increasing and making the process of rural development participatory, democratic, sustainable and independent of subsidy. Thus micro financing through SHGs is contributing to the development of rural poor in a meaningful manner.

D.K Singh (2001) in his study in Uttar Pradesh highlighted that the SHGs are now functioning in the place of moneylenders because loan could be taken at any time as and when needed for any purpose. There are no formalities involved and the transaction cost is low. The recovery of advances ranged between 95% to 100%.

Littlefield, Murdoch and Hashemi (2003) opine microfinance and the impact it has, go beyond just business loans. The poor use 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 a wide variety of other cash needs that they might encounter. Furthermore, since many microfinance programmes have targeted women as clients they have not only helped empower women who appear more responsible and show a better repayment performance but also shown that women are more likely to invest increased income in the household and family well being. Therefore microfinance
has both economic as well as social effects.

Aliya Khawari (2004) comments that the microfinance movement has come a long way and on its way has immensely changed the financial landscape around the world. It has inspired new banking concepts that have given hope to the poor households for the betterment of their livelihoods through their own efforts and labour. In the process of the development of the microfinance ideology, the development of the rhetoric of making profits while reducing poverty simultaneously (win win situation), however, has moved much faster than the empirical evidence and the claims have yet to be really substantiated. The most important purpose that the microfinance idea has served is the acknowledgement of the shortcomings of the existing mechanisms of banking and added to the perception of rethinking the poverty paradigm. This in turn has brought about the need for institutional innovation. In particular, the MFIs have proved that despite the absence of collateral and high transaction costs, lending to low income households can be profitable.

Linda Mayoux (1999b) says groups would be used as an entry point for wider empowerment interventions. There is an important role for groups as a forum for information exchange and mutual learning between women. Underlying is a change of emphasis from viewing groups, simply as a repayment mechanism to looking at ways of ‘building on social capital’

Bali Swain (2007) has collected the data from two representative districts each for five different states. The sample data consists of 961 households. The sample includes a group of SHGs members that have participated in the program (805) and a control group (156) non SHG members. The groups are also similar in terms of percentage of earners, literacy level and proportion of respondents engaged in farm activity. Both the SHG and the control group also show similar characteristics in terms of the average age of the respondent. Interestingly, about 64 percent of the SHG members reported an increase their own income over the survey period as compared to 39 percent of the control group respondents. From the results it was clear that there is a general increase in women empowerment for SHG members. However, a similar empowerment process cannot be observed for the control group. But each and every women who joined the SHG program was not empowered equally The differences in pace of empowerment might be a result of various factors like household and village characteristics, cultural and religious norms
within the society, behavioral differences between the respondents and their family members, the kind of training and awareness programs that the women have been exposed to. The results, which are robust, strongly indicate that SHG members are empowered by participating in this microfinance program in the sense that they have a greater propensity to resist existing gender norms and culture that restricts their ability to develop and make choices.

Holvoet (2005) in her study of women in rural Kenya finds that in direct bank-borrower minimal credit, women do not gain much in terms of decision-making power within the household. However, when loans are channeled through women’s groups and are combined with more investment in social intermediation, substantial shifts in decision-making patterns are observed. This involves a remarkable shift in norm-following and male decision-making towards more bargaining and sole female decision-making within the household. She finds that the effects are even more striking when women have been members of a group for a longer period and especially when greater emphasis has been laid on genuine social intermediation. Social group intermediation had further gradually transformed groups into actors of local institutional change.

Pitt et al (2006) In a comprehensive study used Item Response Theory (IRT), where the element of analysis is the whole pattern of a set of binary indicators that proxy for woman’s autonomy, decision-making power, and participation in household and societal decision making. They find that credit programs lead to women taking a greater role in household decision making, having greater access to financial and economic resources, having greater social networks, more bargaining power vis-à-vis their husbands and having greater freedom of mobility. Additional services like training, awareness raising workshops and other activities over and above the minimalist (financial services only) microfinance approach are also an important determinant of the degree of its impact on the empowerment process of women.

Deshpanda, Rani (2001) concludes from a study that women’s success benefits more than one person. Several institutions confirmed the well documented fact that women are more likely then men to spend their profits on household and family needs. Assisting women therefore generates a multiplier effect that enlarges the impact of the institutions activities. Women’s Entrepreneurship Development Trust Fund (WEDTF) (2001) in Zanzibar, Tanzania also reports that women’s increased income benefits their children,
particularly in education, diet, health care and clothing. According to a VEDTF report, 55% of women's increased income is used to purchase household items, 10% for school and 15% is spent on clothing. The same results are reported by Sylvia Chant (1997). She maintains that women spend a greater percent of their income on their households than do men. She writes men only contribute approximately 50% of their salaries to the collective household fund while as women on the other hand tend to keep nothing back for themselves, with the result that more money is usually available in women headed households for collective household expenditure.

Ashe Jeffrey (2002) conducted a study on women empowerment in Nepal that showed an average of 89000 out of 130000 or 68% of women in its programme experienced an increase in their decision making roles in the areas of family planning, children’s marriage, buying and selling property and sending their daughters to schools—all areas of decision making traditionally dominated by men.

Centre for Self Help Development (2001) CSD also reported that women were able to make small purchases of necessary items like groceries independently. But larger purchases and personal purchases like jewellery always required the consent of the husband, representing incomplete progress towards empowerment in this area (Milan 1998). World Education, which provides literacy and other education to existing savings and credit groups found that the combination of education and credit put women in a stronger position to ensure more equal access for female children to food, schooling and medical care (Helen Shepar 2001).

TSPI (1998) an opportunity partner in the Philippines found that the percentage of women who reported being the primary household fund manager increased dramatically from 33% to 51% after participation in the program. In the comparison group only 31% of women were the primary managers of household funds. Similarly the percentage of women managing their enterprise funds nearly doubled from 44 to 87%.

Hashemi et al (1996) investigate the change in women empowerment with the help of an ethnographic study and quantitative survey. The analysis studies 1,300 women to measure the effects of Grameen Bank and Bangladesh Rural Advancement Committee. They found that women who were members of credit organizations experienced less incidences of violence as compared to those women who were not part of any credit...
organization. Fear of public exposure clearly played a role in the reduction of abuse directly to their access to credit and their economic contribution to the household.

Barbara and Mona (2001) in a study done by Freedom from Hunger on its program in Ghana noted that significantly more participants than non-participants were giving advice in their communities—particularly on topics they had studied in their credit groups. 87% of credit with education clients had given business advice in the last 6 months at the time of the study, compared with 35% of non-participants and 50% of members of control communities. This study also shows that substantially fewer (44%) of these women had given business advice in the six months before joining the program three years earlier. Many other findings from Credit with Education programs demonstrate positive changes in clients' health knowledge, self-reported practice and some health outcomes.

Working Women's Forum (2000) reveals that over 89% of its members had taken up civic action for pressing problems in their neighborhoods, showing that microfinance and political empowerment can be complementary processes.

NABARD (2002) conducted a study on four southern Indian states Kerala, Tamilnadu, Karnataka, and Andhra Pradesh. Thirteen groups were interviewed. Some of the important findings are: More Old Group members were aware of another SHG working in their own village or elsewhere; In Old Group, 89% interviewees agreed that their financial position had changed for the better; Over 95% Old Group members say that they themselves operate their accounts frequently. More Old Group members said that their control over own lives had improved. Also, more Old Group members said that they themselves decided on the matters pertaining to general welfare of the family. More Old Group members said that their advice and views are respected more now than before. More Old Group members have had an important role in popularizing the self-help group among the other women. Moreover, in the Old Group, fewer members have to seek permission from their elders or husbands before going out. Old Group members were affirmative more often on the question of feeling confident about traveling alone. A very high percentage of key family members are willing to support the involvement of the SHG member as well as any other women in the family who may like to get involved with a group. Particularly, the husbands has shown a generally positive attitude towards their wives. A reason for this could be that in the New Groups, 53% of the respondents have not yet turned earning members of their families, that is, their relationship with the
SHG has not yet “matured”. Besides, not many members expect the SHG movement to create a source of regular income for them. They merely look at it as a means of mobilizing savings and loans.

Pitt and Khandker (1998) in a study estimate that household consumption increases by 18 taka for every 100 taka lent to a woman. The increase is just 11 taka for every 100 taka lent to a man. Conversely non land assets increase substantially when borrowing is by women, but not by men. Results on schooling are mixed. Schooling of boys is increased whether men or women borrow. When women borrow from Grameen, schooling of girls also increases, but it does not do so when women borrow from the other programmes. This implies that loans to women have higher marginal impacts than loans to men as an indication of a lack of fungibility of capital and income within the household.

Pitt et al (1999) find that Grameen participation by women had no effect on contraceptive use and a slight positive effect on fertility. Participation by men, however reduced fertility and modernity increased contraceptive use. This implies that decision regarding family planning are taken by men. Bangladesh underwent a broad fertility decline in the 1970s and 1980s. So control villages were also in the process of reducing family size (Monica Das Gupta & D Narayana 1996). Hashemi, Schuler, and Riley (1997) find positive effects of program participation on contraceptive use in a sample of 1300 women.

Punithavathy (2002) conducted a study to find out the impact of micro credit on Sedapatti block at Madurai District, Tamil Nadu where 191 self help groups are functioning. Hundred women respondents who have availed micro credit were chosen using non-random sampling method from various villages of sedapatti block. The study revealed that most of the respondents are of the view that micro-credit has resulted in significant increase in the women’s own income. Because of the meager investment some of them are not able to improve their income substantially. Out of 100 respondents 68(68%) have positive outlook towards the financial self reliance. Others felt that still they were not able to become self-reliant. All the respondents felt that their leadership skills have improved after obtaining the micro-credit. The intensity value is 191. Along with leadership skills, they have better awareness in health education and environment. This is mainly due to the self help group. All the respondents have obtained micro-credit
through SHG meetings regularly. Literacy has improved, regarding the communication
skills majority of the respondents are of the view that the micro-credit has resulted in
better communication skills. In the case of financial literacy & numeracy one seventh of
the respondents felt no improvement. This may be due to their basic illiteracy. But
majorly of them have the opinion that their financial literacy has improved. This signifies
that though the credit provided is micro in nature it has produced macro changes in the
lives of the women who received it.

Yaqub (1998) comments that microfinance paradigm filled well with the adage of
“growth with Equity” which is integral to the neo-liberal agenda of reforming the
developing economies by gearing and orienting them towards the magic of the market.
Within this larger agenda, credit market is an important input market, which needs to be
purged of its distortions so that the financial markets in the developing regions can be
effectively aligned to the global capital markets. The expectation is that financial
services thus liberalized “would supply services to all types of people including the
poor”.

Zeller et al (1997) report that group lending is said to serve two main purposes:
avoidance of high cost intermediation between bankers and clients by credit brokers and
reduction in individual borrowing transaction cost. Groups could also positively impact
qualitative dimension of poverty and contribute to their empowerment (Montgomery
1996). Group lending through SHGs could reduce the lending & supervision costs of
public banks (puhazhendi 1995) and raise repayment rates (Karmarakan
1999;Puhazhendi & Satyasi 2000). But everybody is not convinced about the need to
mediate the financial market for the poor through groups. Mosely (2000) points out that
worldwide there is no correlation between groups lending and success of programs in
terms of both financial performance and poverty impact.

Tara Nair (2001) Microfinance appears more like a tool kit- a set of instruments that
can be carried around by anybody who has the professional expertise to handle them and
used mechanically. Whenever one encounters an aberration called poverty, microfinance
is the single most anti-poverty approach that could avoid the problem of wrong targeting
and the same time, stand the test of market. Microfinance has provided many with the
long awaited opportunity to prove that market takes better care than the State even of
poverty reduction.

Pallavi Chavan, R Ramakumar (2002) In their paper reviewed the available empirical evidence on NGO-led micro-credit programmes and institutions implemented across various developing countries. The review indicated that NGO-led micro-credit programmes and institutions, such as Grameen Bank, have been successful in reaching their target groups of poor more effectively than the State led programmes and institutions. Micro credit programmes and institutions have generated a positive impact on the number of days of family employment. However, their performance in the generation of wage employment has been poor. Repayment rates were high. NGO-led micro credit programmes and institutions given their small scale of operation have been successful in targeting and generating profits.

Majumdar (1997) comments that linking self help groups and voluntary organizations (VOs) is one such innovative modality, which seems to merit serious considerations. Such linkages have helped reduce transaction costs and also ensured decidedly better repayment performance. NABARD’s linkage programme of SHGs with banks have proved to be a successful model, though on a modest scale. Investigations have shown that the intermediation of VOs and SHGs helped banks to reduce the transaction cost by some 20-40% as compared to direct lending. Similarly, such intermediation is also proved useful in improving recovery rates. The intermediation also reduced the transaction costs of borrowers by 85%. Though the experiment was on a modest scale, it is certainly replicable.

Veerashkeharappa (1996) in his study tried to examine the impact of political power on the expansion and delivery of institutional credit. This study has been carried out in 2 district of UP viz Raebareli & Sultanpur. The analysis supports the hypothesis that the politically represented district will have better service compared to other. And further it corroborates the argument once the political power reduced the development of the activities also slows down. Inspite of the problems at credit agency level, Sultanpur district seems to have better credit delivery system. Recovery of loans has been good, inspite of the adverse political environment. Raebareli also enjoyed all the benefits.

Qazi (1990) reported that there is need for strengthening coordination between banks and other Government agencies like District rural development agencies (DRDA) and district
industries centers (DIC). DRDA feel that their duty is over when once they dispose of the subsidy. In the absence of infrastructural support and forward and backward linkages, the end use of bank funds is likely to be threatened. Badruzzama Siddiqui (2002) also endorses that the task is not over by merely providing finance. In fact the supervision and follow-up of credit is the most crucial task of the banks. The banks have to ensure end use of credit and also evaluate the performance of the borrowers lending requires careful monitoring.

C L Dadhich (2001) in a case study relating to Dehradun district argued that a large number of women have taken up subsidiary occupations like manufacturing of pickles, grocery shops and diversification of agricultural activities. Consequently, farm incomes had substantially increased. There are also tremendous social changes, women now command more respect, get due affection and rightful place in the family. There is firm empowerment of women. Their involvement in family decisions has substantially enhanced. In many villages, they have forced the liquor shops to close.

Satya Sundaram (2007) concludes that providing credit for self employment ventures and income generation activities may not be sustainable unless productivity and income levels are significantly high. The stress should be on improved production technology. This includes better breeds of poultry and live stock, artificial insemination, establishment of hatcheries, feed mills, introduction of HYV seeds, tissue culture milk processing unit and so on. Credit is a crucial input contributing to the economic viability of the programmes. Hence for the success of any anti poverty programmes, access to institutional credit for the poor is very important. Adequate and timely credit for the poor, along with other supporting services, can easily lift them to above the poverty line. The microfinance has kindled the spirit of entrepreneurship among the poor, especially women.

Shanker Chatterjee (2002) in a study of SGSY carried out in Jaunpur district in U.P revealed that due to banking rules & regulations poor persons are suffering. Therefore there should be flexibility of banking rules so that poor people are benefited. The banks should be strengthened with adequate manpower also. It is also suggesting that for alleviation of poverty, steps should be taken on a war footing in the District. Allround efforts may be made to alleviate poverty as 1.50 lakh families are still below the poverty
line in the district.

Gupta and Namita (2006) report that SHGs are considered as one of the most significant tools to adopt participatory approach for the economic empowerment of women. It is an important Institution for improving the life of women on various social components. Successful working of these SHGs has given enormous benefits. It has increased the income of the families involved. Most of the members are now able to repay their old debts and started asset building. It not only improved the economic status of the women concerned but there is also a drastic change in their social status.

Leelamma (2004) in a study carried out in Alivora slums of Vishakapatnam reveals that Nearly one third of the respondent were in better position to understand SHGs purpose on gender terms like welfare of women and personal development. Those may be the women who have redefined their understanding over the years of being in the SHGs. More then 50% of the women were having social issues in their mind when they went to attend the SHG meetings. One third of the number of women go to the SHG to gain support or share their anguish about domestic violence The main expectation for the beginners was economic betterment but as they remained for a long time in the SHG they aspired for status empowerment and capacity building in the form of skill development on training.

Mathew (2008) reports that the banks have to come out of their traditional shells and address issues of local economic development. Banks need to change their old thinking practices and be ready to invest on innovation. At least the new generation banks have set the ball rolling and that give some hope Public sector banks would rather think of the potential inherent in the “bottom of the Pyramid”.

N.D. George (2008) in his study reports that there is a need for substantial scaling up of microfinance which include credit, savings and insurance. As the banking sector is not able to meet the entire credit needs of the poor, it is the necessary to encourage the growth of MFIs, subject to appropriate regulation. As the money lenders are skill dominant in the rural credit sector, it is pragmatic to institutionalize them with adequate safe guards to prevent exploitation of the poor. There is also a need to shift the focus from the quantity of credit to the quality of credit. In order to achieve this, emphasis should be given to creation of adequate infrastructure, efficient extension service,
processing and marketing. Sandeep (2008) further adds that the access to financial service alone is not enough for poor people to transform their economic activities. Access to market, proper information and technical and vocational training are as important as money for the sustainable growth of this poorest section of the society.

Neera Burra (2007) highlights that in India ensuring women’s access to credit through micro credit scheme is a major component of strategies for both poverty alleviation and women empowerment. Thousands of women’s self-help groups have been setup across the country. Micro credit through women’s SHGs is also a central element of development vision outlined in the 10th five year plan. Micro credit contributed positively to women’s empowerment and helped extremely poor women survive economic crisis in the short term. It has also assisted women to increase control over their incomes & resources, helping women to define their own priorities and ensuring their participation in decision making at various levels household, community, region and state.

Ranjani K. Murthy (2007) in a study conducted by South Asia Poverty Alleviation Programme (SAPAP) with support from the United Nations Development Programme (UNDP) suggests that the SAPAP pilot projects in AP has immensely strengthened the struggles of poor women members. Members of SHGs have better access than non members with respect to almost every basic need: food, nutrition, water, fuel, electricity, housing, education and health. Consequently infant deaths, premature child deaths & premature adult deaths are lower among members household when compared to non member household. Household food security has improved since group formation. Gender disparities among member household with respect to mortality & access to food are lower compared to non member. Greater proportion of members than non members reported visiting new places in the last five years. Another indicator of women’s mobility is their ability and freedom to travel without male escorts. It was found that women members had a greater say to make reproductive choices with respect to the number of children, spacing between children, usage and nature of contraceptives, decision to abort and space of delivery than non members Several SHGs reported plying an active part in addressing issues, domestic violence, child marriage, untouchability, dowry etc.

Anuradha Rajivan (2007) through a case study of the experience of SHARE Micro
finance limited (SML) in Andhra Pradesh suggests that women with a relatively longer term membership (2 yrs or more) are free to buy personal things. Women have a say on utilization of income contributed by them. However on major capital items members universally said that they would consult their husbands and take a joint decision. Women have started enjoying leisure activities-listening to music, watching T.V. There is change in attitude towards girl’s education. Women now have control over their own bodies. There is low domestic violence among them. Women also started participating as candidates especially in the local body elections.

Veena Padia (2007) through her study tried to identify qualitative changes taking place among the women self help groups of DHAN foundation. The study suggests that the economic impact is felt in sharp decline of moneylenders. There is evidence that building financial assets like saving up and productive assets in the women’s name has enabled the women to have large control on their own lives. Improvement in income has led to show the decline in domestic violence. Women now plan to contest panchayat elections.

Morduch & Hally (2002) prepared a review in 2001 for the Canadian development agency CIDA, and the most recent review was published by Goldberg in 2005 for the Grameen foundation. Goldberg concluded that microfinance can increase incomes and left families out of poverty and it can contribute to other positive social outcomes such as improve children’s nutrition and school enrollment.

Bina Agrawal (1994) in her book, A field of one’s own acts cites many of the gains achieved. When a woman has her land and house registered in her own name. It closes the gender gap, influences the allocation of household resources, such as food, medicine, and education. By the registration of the house in the women’s name, her influence on household finance is further strengthened. It reflects a new social reality. Again registration of the house in the women’s name protects them and their children from such source of destitution.

Micro banking bulletin (1999) reported that today, fifty high performing institutions, which report on their performance annually to a Peer Review Process, report that, on average 65 percent of their clients are women.

Jha (2002) reported that microfinance despite a few weaknesses demonstrated a number
of strong positive attributes in terms of operational simplicities, better accessibilities, wider outreaches, emphasis on women empowerment and availability of a wide range of credit and non credit services with restricted outreach of the formal credit Agencies in India, Microfinance offers new lessons to tackle the twin problems of mass poverty and unemployment

Rao (2002) for his study collected data from 48 women dairy cooperative societies (WDCS) spread over 6 districts of Andhra Pradesh and Karnataka. The study reveals 1). Credit is a crucial input in the process of development 2). Microfinance inculcates the spirit of self effort and self reliance among women enabling a forum for women to exchange Ideas and experiences, Provides opportunities to women in productive work, fostering spirit of cooperation among women, promotes awareness, provide opportunities to acquire skills and confidence.

Present study in the context of the review of literature

The most of the findings of the present study correspond with the results appearing in the review of literature on the subject of microfinancing and marginalized groups. The studies carried out by various authorities/ scholars also establish that women are the most marginalized groups amongst the poor population of our country. The researcher has at various levels empirically opined that the marginalized women are the right targets in the process of microfinancing. Providing credit to the women changes the life style of their families. The women happen to be capable financial managers and prudent investors. Well being of the children is their most important priority. The impact of microfinancing on the SHGs has been exhaustively studied in an independent chapter of the present study. The results based both upon quantitative and qualitative data reveal that microfinancing has helped the marginalized women in initiating small income generating activities. As a result of this opportunity the women slowly tend to be getting empowered in and around their households. There is perceptable impact seen on the women’s self growth and development, on their position in family system and on their interaction pattern in the community. However some deficiencies have also been noticed which are markedly pronounced in some of the unsuccessful case histories incorporated in the present study. Credit alone is not sufficient it is to be supplemented with auxiliary and ancillary services. Poor women are to be provided a political space. Bankers may have to change their attitude.
The present study is different as it studies microfinancing in a comparative context and the impact of microfinancing on the marginalized women has specifically been studied in the light of women's self-growth and development, her position in family system and her interaction pattern in the community. The urban marginalized women are worst sufferers. Even planners and policy makers fail to recognize her abject poverty. In the study it has been observed that the benefits of microfinancing do not appear to be reaching to this segment of women. The urban women are being given little doses of credit without any outward financial linkage. The process of microfinancing has not been found to be gaining a momentum in the urban scene. Microfinancing through Swarnjayanti Gram Swarojgar Yojana (SGSY) has been noticed to be delivering benefits to the poor women in a sustainable manner. The scheme is holistic and is covering almost all the aspects for extending the benefits of microfinancing to the marginalised women. The functioning in the rural area has been showing improvements. On the other hand the position is discouraging in the urban seen. This limitation has been in detailed studied in the present work. The work has been carried out in a comparative view and the results have been arrived by employing different tools and strategies. It is because of this approach that the present study is different from the other studies.
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