CHAPTER II

REVIEW OF LITERATURE

The literature on Self Help Group and micro finance is relatively one of the youngest. Its origin may be traced back to approximately thirty years but the literature available is very large. This chapter reviews the various empirical studies available on Self Help Groups and micro finance and its impact on the lives of rural people. Though the literature available is fairly large, the review is limited to the core issues to identify the major trends.

This chapter consists of two major sections. Section I outlines concepts and terms, section II outlines review of literature covering Self Help Groups, their merits and demerits, positive and negative impacts of micro finance, constraints / problems faced by their clients, the role of Non-Governmental Organisations and finally rural development.

2.1 Concepts and terms

2.1.1 Self Help Groups

Self Help Groups are voluntarily formed informal groups. An SHG consists of 10-20 members. The members are encouraged to save on regular basis. They use the pooled resources to meet the credit needs of the group members. The groups are democratic in nature and collectively make decisions. Since the members are neighbours and have common interest, the group is a homogenous one and cohesiveness is one of the characteristic features of the group. Regular savings, periodic meetings, compulsory attendance, proper repayment and systematic training are the salient features of the SHG. Self Help Group is a path toward empowerment.
of rural people and the ultimate goal is the improvement of social and economic status of rural women. Self Help Group is a participatory endeavour of people trying to secure three types of power- social, political and psychological- that would empower them and improve their lives.¹

Evidences from various developing countries throughout the world have shown that the poor can be helped by organizing themselves into Self Help Groups. Financial service is only a small part of the success story and the more fundamental have been voice, identity and empowerment. Self Help Groups form the basic constituent unit of micro finance movement in India.²

The characteristic features of Self Help Groups are:

1. Small in size (10 to 20 members in a group).
2. Identical background, common interest and affinity of members.
3. Close and intimate knowledge of member’s needs and problems.
4. Democratic functioning.
5. Simple documentation.
6. Collective decision making and peer pressure in repayment.
7. Regular meetings and savings.
8. Group access to external funds.
9. Focus on poor people especially women below poverty line.

Self Help Groups have the following advantages:

1. They help the poor to gain economic and social empowerment.
2. They reduce the transaction cost of lenders and borrowers.
3. They encourage the poor to save. The poor become creditworthy and bankable customers and are not seen as beneficiaries.

4. Women are trained in new skills and technologies and the wage earning workers become micro entrepreneurs.

5. Increased asset creation and savings, higher employment and improved social lives of members are the benefits to the members.

2.1.2 Micro-finance

Even though the terms micro credit and micro finance are interchangeably used, the term micro finance connotes broader activity. Now, there is a shift from micro credit (small loans) to micro finance, in which in addition to credit, mobilization of savings, insurance, training and support services like assistance in marketing of client’s products are provided which are otherwise known as ‘credit plus’.

Micro finance programme has been introduced in many countries since it has been considered as an important tool to combat poverty. Grameen Bank in Bangladesh, Banco Sol in Bolivia and Bank Rayakat in Indonesia are some of the examples and Grameen model has been replicated in many developing countries.

Micro finance is considered as a development tool to alleviate poverty in Asian, African and South American countries. Micro finance gives quick and tangible results to the poor people especially women. Micro finance is required by the poor people to invest in income generating activities which will break their vicious cycle of poverty.

A comprehensive definition given by Robinson is applicable to micro finance in all countries in the world. “Micro finance refers to small scale financial services for both credit and deposits – that are provided to people who farm or fish or
herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services, work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.”

NABARD has defined micro finance as follows: “Micro finance is all about provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their standard of living”.

Sharma (2007) explains the principles of micro finance based on the experiences gained during last three decades all over the world.

1. Small savings or thrift by poor is possible.

2. Poor people need small collateral free loans with regular frequency instead of large loans at a time.

3. Repayment matches with the family cash flow instead of individual cash flow.

4. Rate of interest is not crucial.

5. Timely, adequate and continued credit facility.

6. Relatively small repayment periods e.g. weekly, monthly, instead of yearly instalments and half yearly instalments.

7. Credit plus is preferred to credit alone.

8. Women are better customers than men.

9. Group method of lending is more successful than individual lending.
UN declared the year 2005 as year of micro credit since the policy makers of UN supported the view that micro finance is an instrument to fight against poverty. According to Nobel Committee, micro finance can help the people to break poverty, which in turn is seen as an important prerequisite to establish long last peace.\(^6\)

It has been accepted that micro finance plays a vital role in reducing poverty since it paves way for employment and empowerment which leads to economic development. Poverty can be eradicated only by employment opportunities and the employment seeker and worker should become a job provider. This is possible through micro finance coupled with micro enterprises. But still micro finance plays a modest role in India. At all India level, less than five per cent of rural poor households have access to micro finance as compared to 65 per cent in Bangladesh. But significant variation exists across Indian states and 75 per cent of micro finance flows to the four southern states.\(^7\)

Empowerment of women through Micro Finance benefits individual women, their families and the community as a whole through collective action for development. Pollution of water, deforestation, inadequate public health and sanitation, ground water scarcity, falling ground water table, overexploitation of water resources are some of the problems related to environment which may be addressed through sustainable rural development which in turn is possible through SHG and micro finance.

Group formation, provision of collateral free credit, participatory efforts for income generating self employment, knowledge and awareness and skill development have improved the socio economic conditions of rural poor. Self Help Groups and micro finance are found to be successful in promoting empowerment of women leading to development.
2.1.3 **Sustainable Rural development**

In India, Community Development Programme (CDP) was launched in 1952 with the objective of bringing all round development of the rural areas. This was followed by Natural Extension Service (NES) in 1953. These programmes were followed by Intensive Agricultural District Programme (IADP) in 1960, Intensive Agricultural Area Programme (IAAP) in 1964 and High Yielding Variety Programme (HYVP) which brought Green Revolution in the country that resulted in record agricultural productions and productivity.

Later, Government introduced many development programmes like Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Agency (MFAL) for the development of weaker sections. Subsequently, area development programmes like Drought Prone Area Programme (DPAP) were introduced to develop the severely drought affecting districts. Hill Area Development Programme (HADP) was introduced to develop hill areas. The objectives formulated during 1979, for Rural Development are given below.\(^8\)

1. Maximising production in agriculture and allied activities in the rural areas including development of rural industries with emphasis on village and cottage industries.

2. Generating maximum possible employment opportunities in rural areas especially for the weaker sections of the community so as to enable them to improve their standard of living.

3. Providing certain basic amenities like drinking water, electricity, especially for productive purpose, link roads connecting villages to market centres and facilities for health care and education.
With these objectives, Integrated Rural Development Programme (IRDP) was started to benefit the rural people below poverty line and it was one of the largest rural development programmes in the world. It was felt that time had come to involve the community for the benefit of whom projects are initiated or implemented. They should participate in planning and execution so that projects initiated are self sustaining. The community participation in development is essential as any development project is not a one time activity. The sustainability of the project requires that the project should involve people right from the beginning and participation in all stages starting from planning to implementation and monitoring as well as evaluation.

Sustainable Rural Development is the all round trajectory of development of rural areas and development of weaker section of the people through productive employment opportunities with diversified activities. These opportunities help people to acquire skills so that they gain confidence and capacity to deal with problems and make efforts to eliminate their poverty with awareness on health and environment with a consideration of future generation. Sustainable Rural Development is not merely construction of roads, installation of pumps and subsidies. It involves:

1. *Livelihood and income generation*

- Land based: Agriculture, horticulture, wasteland and watershed development, forestry.
- Micro enterprises: IGA, trades by women, rural artisans.

These three are interrelated and interwoven for the sustainable rural development.
2. *Physical and infrastructure development* relates to drinking water, roads, transport and other facilities concerned with rural socio-economic life, area development, creation of infrastructure, job opportunities, betterment of facilities, sustainability of resources, environmental protection, sustainable utilization of resources, alternate energy such as wind, solar power, bio gas, organic agriculture.

3. *Human and Social Development* relates to education, skill training, social welfare, social security, health, nutrition, inter and intra group development and harmony, strengthening local democratic institutions through the participation of women, landless and socially disadvantaged groups.

4. *Empowerment of participants* rural development remains incomplete without empowerment of its participants which includes skill and knowledge development, entrepreneurial development, attitude and behavioural changes, self employment and asset building, capacity building, gender equality and empowerment in all aspects-social, economical and political.

In short, sustainable rural development is the process of empowering people that ultimately leads to holistic development which is sustainable in nature in terms of its longevity and continuity of livelihood practices of people. It results in a wider distribution of benefits and participation of weaker section of the rural population in the process of development.

2.1.4 **Voluntary Organisations**

Traditionally Non Governmental Organisations (NGOs) are known as Voluntary Organizations (VOs) and Voluntary Agencies (VAs) and recently as
Voluntary Development Organizations (VDOs). Voluntary organizations work at the grassroots levels. Even in areas not reached by others, their reach is wider. They are closer to ground realities and they focus on the development of rural poor. They work for the welfare of the disabled, development of women and children, prevention of human rights violation, protection of environment, rehabilitation of people displaced by major irrigation projects, enforce the right of access to information etc., and above all they reform and develop the society. Prahalad (2008) says that the NGOs are very close to the communities they serve; therefore, they understand their needs and opportunities and they are able to provide solutions. Right from the beginning of SHG movement in India, NGOs are playing facilitating and nurturing role for SHGs in providing training, capacity building, skill development and marketing SHG products. NGOs in our country are serving as catalysts to transform rural women into micro entrepreneurs at the grass root level.

Damodar and Laxmi(2006) identified the role of Non Governmental Organisations in rural development in the following lines

1. Staff of Non Governmental Organisations has good rapport with rural people. They have knowledge of local resources. They are aware of their needs and they ensure participation of the poor in projects.

2. They operate with greater flexibility and readjust their activities quickly since they learn from their success and failure quickly.

3. They are committed and devoted to reduce the sufferings of poor.

4. They are being viewed as more efficient and cost effective than Government in reaching the poor.

5. Participatory methods of rural development are well known to Non Governmental Organisations compared to Governmental Organisations.
2.2 Review of Literature

2.2.1 Self Help Groups

2.2.1.1 Positive impacts of SHG

Puhazhendi and Satyasai (2000) studied socio-economic impact of Self Help Groups and found that the overall impact of Self Help Group was significant both on social and economic spheres of the household. Their research reveals the following:

- Economically weaker section accounted for 84 per cent of the membership (small farmers 29 per cent, marginal farmers 23 per cent and agricultural labourers 32 per cent)

- Average value of assets per household of INR 6843 during pre Self Help Group period increased to INR 11793 during post Self Help Group situation. About 58.6 per cent of the sample household registered an increase in assets from pre to post Self Help Group situation.

- Only 23 per cent household were saving before forming Self Help Groups and 100 per cent of household were able to save after joining Self Help Groups.

- The average net income of INR 20177 per year from the income generating activities before Self Help Group has increased to INR 26889 after group formation, recording 33 per cent increase.

- Members were relatively more assertive on confronting with social evils and problem situations and the groups significantly contributed to improve self-confidence and the feeling of self-worth of the members. Their study concluded that the impact of micro finance was relatively more pronounced on social aspects than economic aspects.
Nedumaran et al. (2001) studied the performance and the socio economic impact of SHGs in Tamil Nadu and found that there was an increase of 23 per cent in the net income in the post SHG situation, compared to the pre-SHG situation. Social conditions of the members also considerably improved after joining the Self Help Group.\textsuperscript{11}

Puhazhendi and Badyata (2002) studied the impact of Self Help Groups in Orissa, Chattisgarh and Jarkhand. Their findings are as follows.

1) The Self Help Group – Bank linkage programme with better access to credit brought increased income to the Self Help Group members and the incremental net income was the result of loans for productive purposes in farm, off-farm and non-farm activities.

2) Easy and timely availability of credit enhanced different economic activities which increased employment in non-farm and off-farm employment.

3) Self Help Group linkage programme impacted social empowerment i.e. self worth, treatment by neighbours, quality of treatment by members of family, involvement in group activity, confidence in managing financial crisis of the family, decision making capacity in household matters and assertiveness in protesting against social evils like drinking, gambling and wife beating.\textsuperscript{12}

Krishnaiah (2003) studied Self Help Groups in Andhra Pradesh and observed that as a result of group formation, women were able to diversify their activities by undertaking non-farm and animal husbandry related activities. He concluded that repayment of loans by the groups is very high because of peer pressure, members are known to each other and they are aware of the credit
worthiness of members and the good performance of repayment from members to
groups and groups to banks helped to get higher loans subsequently.\textsuperscript{13}

Silvia (2004) studied Self Help Groups in Tumkur district (Karnataka)
covering 245 respondents. She reported that 19 per cent women said that increase in
income is about 25 per cent, 35 per cent women said increase in income is about 50
per cent and 4 per cent women said there was no change in income. She observed
that women have clear idea about loan priority and they are aware of their own skills
and abilities and women are active in community activities.\textsuperscript{14}

Rao (2004) reviewed the genesis and development of Self Help Groups in
India and revealed that existing formal financial institutions failed to provide finance
to landless, marginalized and disadvantaged groups and experiences available in our
country and elsewhere suggested that Self Help Groups are sustainable, have
replicability, stimulate savings and help borrowers to come out of poverty. Number of
studies revealed that Self Help Groups helped in improving the socio-economic
conditions of members.\textsuperscript{15}

Purushotham (2004) studied Self Help Group members in Pamidi
(Antantapur district) in A.P. and concluded that 90 per cent of the micro credit
borrowers utilized micro credit to graduate from wage work into self employment
and concluded that micro credit intervention has benefited the group members in the
acquisition of productive assets, repayment of old debts, increase of income and
savings, construction of toilets, sending girl children to schools, purchase of jewels
and enhancement of employment ratio.\textsuperscript{16}

Usha et al.(2004) studied SHGs in Chittoor district (AP) and observed that
micro credit increased their access to financial resources both inside and outside the
house hold and it made poor women financially self reliant. They reported that 79 per
cent respondents informed that micro credit increased their income and savings, 64
per cent respondents expressed better awareness on health, 72 per cent respondents were aware of developmental programmes and 70 per cent respondents were aware of financial schemes as a result of discussion during weekly meetings.  

Lalitha and Nagarajan (2004) studied Self Help Groups in Dindigul, Madurai and Theni Districts in Tamil Nadu and concluded that organization of women in the form of Self Help Groups has laid the seeds for economic and social empowerment of women. Participation in group activities leads to changed self image and organizational and collective action, enhances access to information and skills, broadens their knowledge about resource availability and develops leadership qualities. The culture of active participation in group leads to improvement in political acumen which would in turn strengthen and sustain the overall process of empowerment.

Indira and Rao (2005) studied SHGs in Andhra Pradesh and found sizable increase in number of days of employment. They concluded that substantial economic empowerment has taken place. Regarding social empowerment they found that Self Help Groups bring out leadership quality in rural women who are mostly introvert and remained within four walls of the house and there is definite betterment in their quality of life. The respondents were actively involved in anti liquor campaign and fought against atrocities on women and the women recognized their role in alleviating poverty.

Lakshmamma (2005) studied DWCRA groups in Prakasam District of AP and found 95 per cent of respondents out of 435 respondents informed that there is an improved economic position after joining the group and only 12 beneficiaries out of 435 felt that there is no improvement in their economic condition. She found a substantial change in the consumption pattern of the sample beneficiaries and 304 respondents accepted increased expenditure on food, 20 per cent of respondents
incurred more expenditure on children’s education than in the past and 12 per cent of respondents spent more on entertainment and she concluded that participation in groups has improved the economic position of the beneficiaries and their family members.  

Parameswaran (2005) studied 347 SHGs formed in Panchayat Level Development Planning (PLDP) in Kerala and observed that keeping money in bank accounts in the own name of women and enjoying freedom of spending that money as they wished were in fact new experience for many of them. When women gained control over their earnings, they got more freedom in domestic decision making, gained confidence, cut down wasteful expense and enjoyed better status in family and in social circles. Women associated with SHGs became self reliant in the management of their activities especially in decision making, bookkeeping, conflict resolution and to a certain extent in the management of micro enterprises.

Dogra (2005) studied Self Help Groups in Saharanpur district of Uttar Pradesh and found Self Help Groups are successful in breaking the stronghold of money lenders; and families do not go to money lenders as forced labour and need not mortgage land or valuables as a result of SHG.

Rao (2005) narrates the benefits and gains of Self Help Groups after his study of SHGs in Midnapore district of West Bengal:

1. Increase in self confidence and social status.
2. Improvements in leadership qualities and managerial skills and they become part of decision making process in family and community.
4. Income of members increased and assets created because of economic activities leading to significant improvement in the standards of living of the members and their families.  

Meenakshi (2006) studied Self Help Groups in Uttranchal and reported greater awareness regarding their roles, responsibilities and rights due to their participation in group meetings, training programmes and exposure visits which have led to confidence building and social self esteem among women. She observed that their election as Panchayat sarpanch is also reflective of the participation of women in decision making involving issues related to Natural Resource Management.  

Leelavathy and Aradhana (2006) studied Self Help Groups in Nalbari district of Assam and reported that 69 per cent of the respondents had a high degree of participation in decision making and most of the members of the group expressed that they were economically empowered after joining Self Help Groups. They concluded that Self Help Groups brought about a sea change in personality, equipped with problem solving ability and enhanced self confidence.  

Farrington and Priya (2006) reported that a survey of 400 SHGs in Andhra Pradesh has shown that 61 per cent of groups revealed decrease in indebtedness and 30 per cent of groups felt that they have been socially empowered. They concluded that SHGs are being viewed as a route for implementing social protection schemes.  

Panda (2006) studied 80 tribal Self Help Groups in Kandhamal district and reported that the highest number of Self Help Groups (numbering 30 and constituting 37.5 per cent) were formed with a view to receive economic benefits followed by 20 Self Help Groups (25 per cent) for upgrading traditional occupation and relieving debt burden.
Karmakar (2008) reported that studies conducted by various experts have shown that the Self Help Groups have indeed helped in the social and economic empowerment of rural women at the same time delivering crucial financial services. SHG has expanded as the largest micro finance programme in the world in terms of its outreach and has extended banking service to people hitherto not served by the banking systems. 28

2. 2.1.2 The other side of SHGs

Some studies have shown the negative impact of SHGs. A sketch of such studies that criticize the functioning of SHGs is presented in the following paragraphs.

Datar and Prakash (2004) found throughout the country SHGs are successful in covering non-bankable credit needs but not so in income generating activities. A majority of the women do not have the cultural moorings to become entrepreneurs; they lack requisite skills, infrastructural facilities and finance. Trainings are inadequate and there is no linkage between training and credit or credit and marketing. There is no integration with local economy as there is little demand for such products. 29

Selvarajan and Elango (2004) observed that some groups charge 24 per cent interest to the members and it is obvious that the high rate of interest is very much oppressive causing hardships to the poverty stricken groups. 30

Dhara and Nitra (2005) studied Self Help Groups in Hoogly district of West Bengal and found the members cannot be said to be hard decision makers and the empowerment is only at elementary level since they are not confident to carry out activities on their own. Members are not aware of the banking procedure and leaders are finding it difficult to maintain account books. 31
Sinha (2006) studied 214 SHGs in Andhra Pradesh, Karnataka, Orissa and Rajasthan and concluded that

- SHG members contribute to women’s election in Panchayat Raj but do not appear to inform what they can achieve if elected.
- 26 SHGs have taken up issues on social justice (i.e. 12 per cent of 214 SHGs) such as drunken husband, violence, dealing with dowry, prevention of child marriage, bigamy.
- Leaders obtained more loans to the tune of 25 to 30 per cent – both in terms of frequency and amount borrowed.
- Default rate was 28 per cent (high in A.P.); 38 per cent of very poor members have more overdue, in Andhra Pradesh defunct groups emerging as an indicator of loan default.  

Swain and Wallentin (2007) studied Self Help Groups in 5 states (Orissa, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Maharashtra) and concluded that there is significant increase in the level of women empowerment over a period of time (2000-2003). However, it does not mean that every woman has been empowered to the same degree, but on the average, the Self Help Group members were empowered over this period.  

Tripathy and Jain (2008) studied Self Help Groups in Haryana and Orissa and concluded that micro finance has a negligible income impact on asset less rural poor, the deprived and disadvantaged.  

2.2.2 Micro-finance

2.2.2.1 Advantages of micro finance

Goetz (2001) stated that credit brought into house by women, whether they manage or not, results in greater benefits to themselves, their children and husbands,
than does credit in men’s name. It also increased women’s self esteem and contributed to the formation of social and business networks outside the household.  

Morduch and Haley (2002) informed that there is ample evidence to support the positive impact of micro finance on poverty reduction as it relates to millennium development goals. Micro finance is an instrument that under right conditions, fits the needs of a broad range of the population – including the poorest – those in the bottom half of people living below poverty line. 

Satyasai (2003) studied the impact of micro finance on the living standards of the clients (both economic and social aspects) and concluded that micro finance had positive impact in respect of self confidence, economic and social development and skill formation in Andhra Pradesh and social empowerment of the members in Tamil Nadu. 

Tamizoli and MSSRF team (2004) analysed the livelihood of irula, a tribal community in Pichavaram mangrove in Tamil Nadu and concluded that formation of Self Help Groups, micro finance and micro enterprises has helped them to overcome indebtedness and these three have widened the women’s livelihood options. In micro enterprises, women see the possibility of employment near their homes and the concept of sisterhood is powerful and has changed them to a settled life from nomadic life. 

Zubair (2004) traced the impact of micro credit on poverty and vulnerability in Matlab division of Bangladesh and concluded that micro credit interventions played an important role in reducing vulnerability through smooth consumption, building assets, providing emergency assistance and contributing to women empowerment. Participation in the Grameen Bank and Bangladesh Rural Advancement Committee Credit programmes showed statistically significant impact
on women’s mobility and they were able to make purchases and able to participate in major decisions.  

Panda (2005) observed that the concept of microfinance was introduced for overcoming the existing constraints such as cumbersome procedure, insistence on collateral guarantee, mobilization of promoters’ contributions in providing adequate credit to the rural poor. He found that 94 per cent of borrowers are women, retention of assets has also been significantly higher, as evident from the fact that number of cattle owned by microfinance group members increased by 26 per cent annually compared to 50 per cent of the beneficiaries of IRDP who are not keeping assets for more than 2 years.  

Kumar (2005) studied the economic and non-economic impact of microfinance in Haryana. His study revealed that there is enhancement of knowledge and skills of women. They fight against social evils like dowry, female infanticide and alcoholism and they cooperated with NGOs in the field of protection of environment and human rights and male chauvinism. He concluded that feudal mindset and shirk culture are working as stumbling blocks to the success of microfinance in the state of Haryana.  

Thorat (2005) observed the following are the main impact of SHG and microfinance:

1. Microfinance has reduced poverty through increase in income and enabled poor to build assets.
2. It has enabled households to spend more on education.
3. It has contributed to a reduced dependency on rural money lenders. It is banking for the poor and not poor banking.
Anuradha (2005) studied micro credit and women’s empowerment with reference to the clients of SHARE micro finance. She observed enormous increase in self confidence among the women. They travelled much more freely in connection with their business both within and outside the villages. She observed significant reduction in dependence on money lenders and freedom from money lenders gave them self respect. Apart from traditional activities like rearing of goat and buffalo, new activities such as petty shops, stone polishing, readymade clothes, cut piece shops, fruit, vegetable, flower vending, tea shops and so on were undertaken by women. Even traditional activities were being given a modern twist such as tailoring with embroidery, weaving saris combining with dupattas. She concluded that women have greater control over assets, earnings and savings and increased income resulted in self confidence and helped them to realize their self worth which transformed women from low wage workers to owner managers.43

Simanowitz and Walter (2005) studied the micro finance clients of SHARE and reported that majority of (59 per cent) the matured clients were non-poor because they have productive assets worth over Rs.10000 (US$200) bigger houses made up of permanent materials and improved access to quality clinic as a result of increased savings and therefore ready to pay for unexpected needs. SHARE clients experienced increased feelings of confidence and self esteem. Diversified sources of income, an increase in the number of earners, expenditure smoothening and accumulation of savings are the favourite aspect of 67 per cent of clients of micro finance programme.44

Veena (2005) reported that the proponents of micro finance consider economic empowerment as an entry point and a road map towards overall empowerment. She found that women were able to access bank credit, displayed good repayment records and moved from wage work to self employment. They were able to
retain their control over their earnings. Women empowerment at individual and collective level is more visible in semi urban areas than rural areas.  


1. Micro finance helps very poor households for meeting basic needs and protecting them from risks.

2. It contributes to the improvement in household economic welfare and enterprise stability or growth.

3. Micro finance is empowering women, bringing gender equality.

Sashi Rajagopalan (2005) studied micro credit programme of Lokadrusti, an organization based in Naupada district of Orissa and concluded that women gained very significantly in terms of mobility, self confidence, access to financial services, building of own savings, competence in public affairs and improved status at home and in the community.

Kalpana (2005) reported all micro finance loans created assets and 61 per cent of women have complete control over household expenditure and 18 per cent of members and their husbands, who were labourers, have moved from worker to self employed status through micro finance loans. 31 per cent of members indicated that consumption of food has increased; 92 per cent member house holds accessed 3 meals a day, in contrast to 60 per cent before the commencement of micro finance.
Kabeer and Noponen (2005) have studied the impact of micro finance among PRADAN members and found that they had more nutritious food, and enjoyed a favourable food situation. They had more of livestock, diversified cropping, high value crops, higher savings and reduced indebtedness.  

Sinha (2005) made following observations regarding outreach of microfinance.

1. Poor clients use a higher proportion of micro finance for household needs (37 per cent) and 63 per cent clients invested in micro enterprises (Non farm enterprises 36 per cent, animals 14 per cent, agriculture 13 per cent)

2. Micro credit has enabled client households to invest in productive assets and to diversify their livelihoods (73 per cent of the clients have multiple sources of income). Sixty per cent of households that acquired a productive asset have reported an increase in their income.

3. More than 60 per cent women who had access to micro finance had little or no schooling but drew moral support from their peers and developed a sense of confidence from group meetings.

Impact Assessment Study conducted by EDA (2005) has revealed that investment of micro finance loan had resulted in increase of income. The investment from micro finance has provided around 24 per cent of the new employment due to newly started enterprises. In terms of livelihood security, client households have a slightly higher number of income sources in comparison with non-client households and a lower dependency burden. It is a clear example of positive shifts that have occurred in livelihood due to successful enterprise supported by micro finance.
Devi (2006) studied the impact of micro credit on women empowerment in Kerala and reported that there was increase in monthly income in 87 per cent of households and there was no change in income in 13 per cent of households. Majority of the women (67 per cent) reported that they had complete control over the income earned by them, 20 per cent reported that they had only partial control over their income and 13 per cent women reported that they had absolutely no control over their earnings; but in all these cases responsibility of repayment fell only on women. She also found that overall economic conditions of households have definitely improved. Sixty per cent of beneficiaries reported improvement in the quality of food consumption (like fish, meat) 48 per cent beneficiaries reported that they bought consumer durables through hire purchase and 39 per cent reported about better educational facilities for children. Majority of the women beneficiaries (42 per cent) reported that there is high degree of empowerment, 31 per cent reported medium empowerment and 27 per cent said that the micro credit did not give in any significant improvement. She concluded that the micro credit helped in poverty alleviation and empowerment of rural women and the income generating activities made a difference in the lives of poor women by providing economic independence, self confidence and autonomy.  

Sharma (2007) concluded that micro finance through Self Help Groups is contributing to poverty reduction in a sustainable manner and significant changes have taken place in the standards of living of rural women in terms of increase in income level, assets, savings, borrowing capacity and income generating activities.  

Gaiha and Nandhi (2007) studied the impact of micro finance in Pune district and observed that 98.6 per cent respondents informed that their self confidence improved and 72.6 per cent respondents informed that they actively participated in village Panchayat.
Magner (2007) concluded that micro finance is an important catalyst for poverty alleviation to 57 per cent participants of BRAC and 76 per cent participants of Grameen bank. Magner quotes Khandker who had estimated that more than half the level of poverty reduction is directly attributed to micro finance and he comments that micro finance accounted for 40 per cent of the reduction of poverty in rural Bangladesh. Magner concluded that numerous studies have indicated that micro finance can improve overall income, increase in decision making power and provide general self empowerment.


Malapur (2008) reported that in many countries micro credit programme, as an effective instrument, facilitated the people to overcome their difficulties and at the same time helped them to come out of the clutches of poverty and enabled them to increase their participation in the economic and political process of the society. The economic activities have had a positive impact and the benefits are not merely economic, but also helped the women to gain qualities of leadership and attain self confidence and self respect.

Rajagopalan (2009) studied micro finance in Africa. His study revealed that micro finance in Africa lags behind when compared to other parts of the world, though the sector is growing in Africa. Micro finance in Asia is the largest both in
terms of MFIs and outreach. He concluded that Africa is known for chronic poverty which needs poverty alleviation programme and micro finance is one such programme.58

Ghosal (2009) analysed the global financial crisis and informed that micro finance is not affected by the crisis because they have been able to maintain an enviable repayment record and also generate sustainable business for the poor and neglected section of the society.59

2.2.2.2 Demerits of micro finance

Goetz and Gupta (1996) evaluated micro credit in relation to women’s empowerment and their study showed that 37 per cent (out of 253 respondents) of the women had full or significant control of loan use, 17 per cent had very limited control and 21.7 per cent had no control. They also found that the women’s loans were used by their husbands also and they further found that 28 per cent of the loans were invested in conventionally female productive activities, 56 per cent in male activities and the rest in family activities. Their study also reported that 60 per cent of women, who were widowed, separated and divorced retained full control of loans, as against 10 per cent of married women.60

Pallavi and Kumar (2002) concluded that micro credit brought a marginal improvement in the beneficiary’s income and the beneficiaries have not gained much by technological improvement. They concluded that repayment culture of Grameen bank resulted in the creation of debt cycles.61

Priya and Srivastava (2005) studied the extent of micro finance outreach and reported that at all India level less than 5 per cent of rural households have access to micro finance as compared to 65 per cent in Bangladesh.62
Farida (2006) criticized the micro credit as a capitalist programme since it is based on high interest rate and strict regularity of payment schedule but it is called as a poverty alleviation programme. The poor must pay a high rate of interest for a meagre amount of credit called micro credit. When women are demanding to enter macro economy, the micro credit has brought them to micro level. They carry out micro trade for micro credit with high interest rate which even the biggest industrialist is not paying. It is the joke of the present era of globalization.\textsuperscript{63}

Karani (2007) studied the impact of micro finance and concluded that micro loans are more beneficial to borrowers above the poverty line than to borrowers living below the poverty line because clients with more income are willing to take risks that will most likely increase income flow. He informed that according to Vijay Mahajan micro loans reduce the cash flow to the poorest of the poor and micro credit does more harm than good to the poor, operates at too small scale and makes very meagre earnings and most people do not have the skills, vision, creativity and persistence to be entrepreneurial. The reality of micro credit is less attractive than the promise.\textsuperscript{64}

Dulal, Gingrich and Stough (2008) studied the microfinance programme in rural Nepal and observed that micro finance programmes really helped relatively wealthy people and poor people are less satisfied because of strict rules, procedures, rigid repayment schedules and caste system.\textsuperscript{65}

\textbf{2.2.2.3  Mixed picture of micro finance}

Jaya (2005) studied the impact of micro credit programme on physical assets and amenities in Kerala and found that 28 per cent of the members acquired livestock and 12 per cent respondents renovated or constructed their houses. But there is an improvement in knowledge level and social interaction among members after joining the groups. About 91 per cent of members learned about banking system and were confident in dealing with bankers which they could not have dreamt earlier.
They also found that the returns from micro enterprises are hardly sufficient to meet daily expenses of the unit resulting in poor repayment of loans. 66

Makumbe et al (2005) studied the impact of micro credit in Tanga region of Tanzania covering 268 households. Their study has revealed that a good proportion of women respondents felt that they were more involved in decision making after taking loan than before. Fifty per cent of respondents only acquired more skills and the remaining acquired less skills. Respectability of women increased in the eyes of husbands and community after their participation in credit schemes. The study concluded that success is due to cooperation from husbands, marketing of the products, hard work, efficient management, training and skills and inhibitory factors were inadequacy of funds, lack of skills and high running costs. 67

Ranjani et al. (2005) reported that there is a debate globally on whether micro credit can really address poverty and women’s empowerment; with one group holding that micro credit is the answer to both problems and another group arguing that this is far from truth and in fact women are exploited through participation in such programmes. They indicated that both positions are not really correct and the result is somewhere in between. 68

Malhotra and Schuler (2006) reported conflicting results. Some studies conclude that micro credit participation is empowering women in Bangladesh (Hashemi, Schuler, Riley 1996 Kabeer 1998) while others conclude that it is not (Goetz and Gupta 1996) and the empirical research also indicated contextual differences in the impact of micro credit programmes. Studies in certain settings find a substantial positive impact on outcomes such as household expenditure and contraceptive use (Pitt and Khandker 1998, Schuler and Hashemi, Schuler, Hashemi and Riley 1997). But those on some other settings do not find such effects (Schuler, Hashemi, and Pandit for India, Mayoux for Cameroon, Schuler, Jenkins and Townsend 1995 for Bolivia). 69
Maggiano (2006) surveyed micro finance clients in Kabale, (rural area close to Rwandan and Congolese border) Uganda, to find whether micro finance had measurable impact on clients’ social, spiritual and economic lives. He concluded that micro finance programme had a significant impact on the clients’ social and spiritual development but no impact on economic development.  

Maithreyi (2007) found that there are both positive and not so positive appraisals of how exactly micro finance helps women and to what extent. Despite its outreach, the Self Help Group advances form only 0.15 per cent of priority lending and 0.51 per cent accounts of scheduled commercial banks. She feared that inadvertently micro finance leads to a kind of involuntary diversification where the rural household engages in a multiplicity of low productivity enterprise-a goat here, a cow there and so on. It is not denied that members increased their assets.  

Sinha (2007) found that one in five women client manage the enterprise by themselves for which they availed credit, another 40 per cent manage with husband and son and 40% pass it to others and this is the empowerment. Sinha also found that majority of the enterprises supported by micro finance are usually family micro-enterprises and 8 per cent only have non-family labour. If hired labour is employed in an enterprise, micro finance can be seen to be supporting employment for others who are not direct micro finance clients.  

Rajagopalan (2007) described that often, exaggerated claims are made about SHGs building housing colonies and bridges, doing a roaring export business etc. Since these SHGs comprise of rural women barely literate, such claims look incredible. Yet, the fact remains that micro credit has liberated lakhs of families in villages from the clutches of predatory money lenders. It is also true that almost in every village some rural entrepreneurs have emerged with guidance from NGOs, DRDA, banks and other financial institutions.
Herms (2007) found that most studies reported that micro credit positively contributes to poverty reduction. Micro credit, therefore, may help to solve poverty problem. After having reviewed the debate on micro finance and poverty, he concluded that it is still unclear whether micro finance substantially contributes to a reduction of poverty nor it is clear whether micro finance is the most efficient method to reduce poverty. Hermes suggested that more solid empirical research is needed.  

2.2.3 Constraints and problems

This section highlights some of the constraints and problems identified by the earlier investigators.

Rahman (2002) studied the problems in micro finance in Malaysia and identified following three constraints.

1. Lack of funds.
2. Delinquency in repayment. Default remains a major constraint in micro finance program.
3. Political intervention in the selection of beneficiaries and identification of activities.  

Vadivoo and Sekar (2004) listed the following constraints of Self Help Groups.

1. Political interference in the selection of the beneficiaries to the schemes
2. Lack of timely and adequate credit
3. Lack of farm women oriented schemes.
Vanitha and Krishnamurthy (2004) studied 120 respondents in 74 Self Help Groups in Bangalore rural district and found the following as the problems faced by members of Self Help Group.  

1. Family restrictions,
2. Non availability of proper place for meetings
3. Lack of clear information and guidance and
4. Low support from the family

Ramanunny (2005) identified following problems when women undertake micro enterprises in Kerala.  

1. Inadequate capital.
2. Delay in sanctioning of loan.
3. Poor or incomplete business plan.
4. Inadequate understanding of market and market conditions.
5. Lack of customer awareness.

Rao (2005) reported the following problems of Self Help Groups with the banks  

1. Lack of orientation and initiative of bank staff to the concept and the needs of Self Help Groups.
2. Banks insistence on collaterals for loans to groups.
3. Discouragement by some banks not to form more groups as it means more work for them.

1. Loans to members not based on purpose of loans.
2. Irregular group meetings, lack of proper bookkeeping.
3. Lack of confidence among the bank branches to extend loans to Self Help Groups in the absence of NGOs.
4. Lack of proper understanding and coordination between and among Self Help Group, NGO, and Government departments.
5. Treatment of entire savings of Self Help Groups by banks as collateral security for the loans.

Bhuvaneswaran (2006) observed that the following are the constraints faced by self Help Groups in India.

1. Lack of understanding of goals.
2. Inability of government to identify the types of non-governmental organizations that might become reliable working partners.
3. Restrictive government procedure.
4. Lack of government policy and guidelines on non-governmental organization.
5. Poor communication among non-governmental organization.
6. Sharp contrast between the top-down working methods of government, and the participatory approaches of non-governmental organization.
7. Lack of existing linkage among institutions.
8. Poor understanding of relative strength and weakness on both sides.
9. Lack of non-governmental organization accountability to their clients, or to the public at large, for the way in which resources are used.\(^81\)

Lalitha (2007) identified following problems as the causes of failure for SHGs.\(^82\)

1. Vested interest of NGO.

2. Lack of training.

3. Accounts and financial transactions are not kept properly.

Ahmad (2006) identified low returns and overemphasis on repayment as the major problems.\(^83\)

Ghate (2007) identified inadequate loans and long waiting period to get loans as major problems in Andhra Pradesh.\(^84\)

Kumari and Malathi (2009) identified lack of cooperation and understanding among members and conflict between leaders and members based on caste and locality as the main problems\(^85\)

Kallur (2009) identified lack of capital and labour as main problems faced by the SHGs.\(^86\)

Swain (2009) studied the capacity building process through training and exposure. His study concluded that 47 per cent groups did not get any training or exposure and only 27 per cent of groups only trained in IGA. Most of the other trainings were related group management, book keeping and leadership development.\(^87\)
2.2.4 Role of NGOs

This section brings out the role played NGOs in delivery of micro finance, empowerment and other activities and programmes for bringing about social revolution through SHG models.

Kumaran (2002) studied the micro enterprises promoted through the micro credit intervention in Pune. He studied 10 SHGs promoted by NGO and 5 groups promoted by DRDA and interviewed 90 respondents. He concluded that due to technical training and escort services provided by the NGOs, the micro enterprises set up by them were more viable and sustainable than those promoted by DRDA where these services were lacking.  

Joel (2003) observed that NGOs organize SHGs with the objectives of inculcating self help attitude among women, developing leadership qualities and enhancing women’s participation in development programmes.

Sarojini (2004) studied the role of NGOs in educating rural women for rural development in Gurgaon district and observed that many programmes launched by the government have not reached the rural people and NGOs play a vital role. She found that 36 per cent respondents (out of 150 women) appreciated the role of NGOs in making them aware of various activities and helping them to participate in those activities but 30 per cent respondents are aware of neither the role of NGOs nor welfare schemes.

Mishra (2005) identified that the failure in governance in third world countries is one of the main reasons which encourages NGOs to fill in the vacuum. In Kenya and Tanzania NGOs occupy the major portion in the health system and in Northern Pakistan the Aga Khan Rural Support Programme is the leading actor in rural development.
Priya and Srivastava (2005) reported that NGOs have inculcated the culture of savings and repayment, strengthened the groups’ capacity to undertake administrative tasks (accounting, maintaining the minutes of meetings, correspondence and negotiations with banks) and commercial skills (business start ups, marketing and reinvestments) ensuring members to remain financially sustainable and have the ability to withstand accidents, sickness and natural disasters etc.\footnote{92}

Shylendra (2007) found that NGOs in India have played a crucial role in the spread of micro finance. Their success in delivering micro finance has made many of them to explore the possibility of scaling up their operations further.\footnote{93}

Rahman (2007) studied the role of NGOs in empowering women in rural Bangladesh and concluded that NGOs have undertaken a wide range of activities in empowering women in Bangladesh and the issues involve economic, political and social as well as environmental concerns of women.\footnote{94}

Mayoux (2007) informs that Micro finance has been strategically used by some NGOs as an entry point to wider social and political mobilization of women around gender issues. Micro finance groups have been used by some programmes as the basis for mobilizing women’s political participation.\footnote{95}

Thirunarayanasamy and Thirumaran (2007) observed that NGOs are promoting groups that can generate a sound base for their members and encourage financial institutions to develop confidence in establishing a lending relationship with the groups.\footnote{96}

Ramachandran (2007) narrated that NGOs are playing a vital role in group formation and monitoring and mobilizing resources and the goal of women
empowerment can be realized through active involvement of NGOs in micro finance\(^97\).

There are some strong criticisms about the role of NGOs, which are given below.

Laxmi and Archana (2005) found that NGOs’ role in reaching the poorest in the country is limited only since their service delivery is taking place in the already better-off region while the poorest states are left out and most of the income generating activities facilitated and promoted by the NGOs generate income which forms only a small proportion to the total income of the family members.\(^98\)

Ghosh (2005) while reviewing the role of NGOs in poverty alleviation observed that it is a fact that NGOs are no panacea for all the ills impairing the development process.\(^99\)

Ahmad (2006) observed that the rapid growth of NGOs both in terms of resources and influence are not accompanied by their effectiveness in dealing with poverty and illiteracy and empowering the poor and NGOs are not alternative to the state; they can complement the activities of the state\(^100\)

2.2.5 **Sustainable Rural development**

This section explores the need for Sustainable Rural development

Sharma (2006) observed that the prime goal of Rural Development is to improve the quality of life of the rural people by alleviating poverty through the instrument of self employment and wage employment programmes by providing community infrastructure facilities such as drinking water, electricity, road connection, health facilities, rural housing and education.\(^101\)
Muktasam and Chamala (2000) reported that Chambers, Harrison and Hammer after studying the working of rural development programmes in Asian countries Pakistan, Sri Lanka, Bangladesh, Thailand and India as well as in African countries Uganda, Mali and Ethiopia, identified following reasons as major causes of failure:

1. Targeting and top down approaches.
2. Neglect of local values.
3. Lack of people participation.
4. Partial and disintegrative approach.
5. Investment illusion.\textsuperscript{102}

Bhowmick (1994) evaluated rural development schemes in West Bengal and found the implementation of schemes which were not relevant to the area, the inexperience of the implementing agencies and lack of coordination and cooperation among them as the major problems associated with rural development programmes. Most of the schemes failed and others yielded very little desired results; rich and wealthy sections of population benefited; uneducated rural poor remained as poor as before.\textsuperscript{103}

Setty (2002) concluded that political will, clear cut policies, realistic objectives, a blending of planning from below and above, enlightened involvement of client system, training of people’s leaders and building up and strengthening of local institutions will facilitate meaningful and sustainable rural development.\textsuperscript{104}

Paul and Paul (2003) opined that holistic approach towards rural development has to be taken into account which includes augmentation of quality of life of rural masses and it should be community-driven, community-led and community-owned.\textsuperscript{105}
Hegde (2006) identified following critical factors which will empower the poor and play a critical role in the sustainable rural development in our country

1. Motivation and training of the weaker sections of the society.
2. Introduction of multi disciplinary programmes.
3. Introduction of appropriate technologies.
4. Establishment of people organizations to sustain development.  

Kaul (2004) observed the following thrust areas which are important and meaningful to the sustainable rural development.

1. Wasteland development.
2. Need based tiny technologies.
4. Low cost housing, sanitation and roads.

Maithai (2006) informed all round development of rural areas and development of the weaker sections of the population as the objectives of successful rural development programme and the main focus is eradication of poverty in rural areas.

Singh (2006) indicated that definition given by World Bank is applicable to all developing countries. “Rural development is a strategy designed to improve the economic and social life of a group of people—the rural poor. It involves extending the benefit of development to the poorest among those who seek a livelihood in the rural areas. The group includes small farmers, tenants and landless.” Robert Chanks suggested a modification in this definition to include rural women and children who may not seek a livelihood in the rural areas but would also seek to demand and control more benefits of development.
Gandhiji wanted people to live in harmony with nature and advised people to preserve land and forests. He emphasized eco friendly small industrial units and cattle based economy in terms of dairying, bio fertilizers etc. Gandhiji desired that each village should evolve as a self sufficient unit and through self help the villagers should collectively strive for all round development. In keeping with Gandhian ideology, focusing on villages as the point of development, addressing simultaneous growth of agriculture and micro enterprises and community based programmes is the right approach for sustainable rural development.\textsuperscript{110}

**Conclusion**

The micro finance revolution, a recent product of development, ensures the availability of institutional credit and financial inclusion to the poor, who were so far excluded from the institutional credit system. The literature review has shown the impact of micro finance and self Help Groups as a mixed picture, but it is an effective instrument and tool to pull the poor households from poverty in developing countries where it becomes a philosophy and practice of poverty eradication, empowerment and inclusive growth, especially in Asia, Africa and Latin American countries. Studies carried out in India, as evident from the above literature review, indicated that micro finance and Self Help groups, by and large contributed to the development of core poor in terms of economic well being, alleviating poverty and empowerment leading to over all development of rural poor.

In India, most of the literature on micro finance revolves around four southern states where Governments and Non Governmental Organisations are taking lead in the spread of micro finance. The real impact of micro finance should result in the creation of employment opportunities and micro enterprises. As suggested by Prahalad (2008) when the bottom of the pyramid i.e. four billion people are converted into micro producers, opportunity for global growth becomes obvious.\textsuperscript{111} The real
effectiveness and success depends on alleviating poverty by converting the poor into producers which will increase the income of the rural families. In the light of the background and observations on various issues connected with SHG, micro finance, role of NGOs and the sustainable rural development, the present study attempts to analyse the effectiveness of microfinance in sustainable rural development.
References


5. Ibid.


