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Access to Microfinance: A Review of the Existing Literature

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ABSTRACT

Finance is an extraordinarily effective tool in spreading economic opportunity and fighting poverty. Microfinance has become very important in global poverty reduction debate. The popular assumption is that enabling poor household access to credit helps them begin micro entrepreneurship which would enable them improve their income and eventually escape poverty. The purpose of this article is to introduce the finance academic community to the discipline of access to microfinance by rural poor. We provide a comprehensive review of over 150 articles and address the issues of sustainability, products and services offered by formal institutions, MFIs & practices, evaluation of effectiveness of measures on improvement of financial access including microfinance policy measures and regulation and impact assessment.

INTRODUCTION

Microfinance refers to an array of financial services, including loans, savings, insurance, money transfers & other banking services to people consisting farmers, poor entrepreneurs , small business owners including carpentry, fishing and transportation etc, low-income households that lack access to traditional financial services usually because of poverty. Microfinance, deals with small chunks of money. Small amounts of money are lent out at a rate of interest which is lower than that are being charged by private money lenders.

Micro finance has been recognized as a biggest intervention in the financial world to overcome the problem of poverty. It is providing a hope to the poor who have the ability to manage their financial resource but in the lack of finance they fail to improve their livelihoods. In the recent years, apart from the unorganized financial sector, the organized financial sector has been emerging in a big way to participate in the micro finance movement, specifically in the rural areas. However, a lot of efforts are still required to pave the way for this movement among the formal financial sector.

Over the past few decades, poor households need access to the full range of financial services to generate income, build assets, smooth consumption, and manage risks. Microfinance generally refers to a broad set of financial services tailored to fit the needs of poor individuals. The microcredit demonstrated that poor families in the informal economy are valuable customers and that it is possible to serve them in large numbers in a sustainable way. Micro finance also recognizes the importance of financial literacy, building consumer financial capabilities and for consumer

Volume 2 Issue 10 October 2017
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Page : 918-953

protection policies that take the conditions and constraints of poor families in the informal economy into account.
Microfinance has existed, before the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., (1995)). Scholarly interest in microfinance has lagged behind over the years, but it too is now growing rapidly. Before 1997, academic journals published only an occasional article on microfinance, but since that time, academic journals have published hundreds of peer-reviewed articles on the topic. Most of the articles concentrate on impact assessment. Nonetheless, microfinance has yet to break into finance journals.

The rationale being to provide an opportunity for the low income earning people to meet their ends and thereby helping them to become financially stable. Microcredit is undoubtedly the most visible innovation in anti-poverty policy in the last half century. A sizable population of the world particularly poor, low income and vulnerable group remain excluded from most basic financial services provided by financial sector. Developing financial sector and improve access to financial services accelerate economic growth and helps to achieve inclusive growth has gained increasing prominence in the past few years as a policy objective for national level policy makers, multilateral institutions, and others in the developmental field. Today sustainable development is one of the biggest challenges.Microfinance services poor access to financial services thereby provides initiative for sustainable development. It is relevant for organizations (both regional and international), financial institutions, Commercial banks to provide micro finance on sustainable basis.

The purpose of this paper, therefore, is to introduce microfinance access to rural poor in comprehensive way covering various dimensions and to provide an outline for future research. Towards these goals, we provide a literature review of over 150 articles that address the issues of sustainability, products and services offered by formal institutions, MFIs & practices, evaluation of effectiveness of measures on improvement of financial access including microfinance policy measures and regulation and impact assessment.

- **In order to present a review of the broad microfinance literature, we categorize our review into eightareas of microfinance and views on the above by different authors,** in our judgment, currently define the field. Within each area, we identify key topics, focusing on issues important to the subject and we discuss the relevant literature in each section.

Accordingly, the organization of the article is as follows.

In Section I, we address Assessment of access of micro finance. Section II discusses Products and services offered by formal institutions**,** MFIs and practices and Section III addresses Institutional sustainability. Section IV deals with evaluation of effectiveness of measures on improvement of financial access**.** Section V narrates microfinance policy and regulation**,** Section VI discusses issues related to assessing the impact of microfinance .
In section VII we have tried to identify the research gaps in the literature and we have concluded the discussion in Section VIII.

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
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Section I

Assessment of access of micro finance.

Financial access has emerged as a concept of active investigations among academics and practioners. Authors have articulated on the aspect of its importance, definition, concept, relevance & history, dimensions, estimation of access of micro finance, efficiency &outreach,its linkage with economic growth & poverty reduction, various model perception, micro finance &NGO,SHG, role of MFI & formal institution contributing towards access, constraints& opportunities, challenges, woman empowerment etc. in regard to access to micro finance by poor & its assessment. Few other shaving the same idea and articulating almost the same.

1.1 Importance

The poor are dependent on various financial instruments, both formal and informal, to manage what little money they have on a day to day basis. Granting the poor access to financial services can make a difference in their lives in various ways. The poor, no doubt, have limited financial resources but they have been found to be the active managers of their resources. The positive effect is found on between credit expansion & poverty alleviate financial constraints, and therefore, can enable individuals to alter their production and employment choices. The role of credit for small business success observed a significant increase in the output and employment generation of such small entrepreneurs following their access to credit. Micro credit has enabled its clients to develop their business and diversifying the business activities. Access to microfinance increases in income and assets, and decreases in vulnerability of microfinance clients". From reference to various projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, A report on a SHARE project in India showed that three-quarters of clients saw "significant improvements in their economic well-being and that half of the clients graduated out of poverty. It is claimed that this new paradigm of unsecured small scale financial service provision helps poor people take advantages of economic opportunities, expand their income, smoothen their consumption requirement, reduce vulnerability and also empower them. ("microfinance fits squarely into the bank overall strategy, as you know , the bank's mission is to reduce poverty and improve living standards by promoting sustainable growth and investment in people through loans, technical assistance, and policy guidance is reflected in microfinance being a key feature in poverty reduction strategy papers (PRSPs).

1.2 Definition

Microfinance, according to Otero (1999, p.8) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledger wood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. CBN, 2005 in its report states that micro finance can be defined as a development tool used to create access for the economically active poor to financial services at a sustainably affordable price .Sebstad and Cohen, 2001 in their article on micro finance for Protecting the Vulnerable in Rural Uzbekistan states that Micro finance has garnered wide appeal as a development success. Eluhaiwe (2005) in his article on micro finance opined that micro finance is the provision of thrift,

credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Micro finance has also been defined as the provision of very small loans that are repaid within short period of time and is essentially used by low income individuals and households who have few assets that can be used as collateral. (Idolor, 2007) states that Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. Access to finance can be defined as "availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and nonpecuniary costs" (Claessens 2006). It can also be defined as the "absence of price and non-price barriers".

1.3 Concept

The concept of micro finance has for long been misconstrued as micro-credit (small value loans to poor entrepreneurs). This poor understanding has led to a restrictive focus by some micro finance institutions which have not allowed them to have a wider array of products and services (Okenyebuno, 2007). Morduch (1998), Woller, Dunnford and Woodworth (1999), Kalpana (2004) and Osthoft (2005) agree that micro-credit or small loans though used interchangeably with micro finance, is simply one of the many components that constitute the larger array of micro finance services. Broadly speaking, micro finance products and services consist of small loans, savings, insurance, business education and money transfers. It also involves the provision of working capital, informal/formal appraisal of borrowers and investments, collateral substitutes such as group guarantee or compulsory savings; access to repeated and large loans, streamlined loan disbursement, advice and monitoring procedures (Ledgerword, 1999; Igbinedion and Igbatayo, 2004; Okenyebuno, 2007).

1.4 Relevance & History

(Seibal 2005) in his empirical study observed that Money lending ever since became an organized and subsequently regulated profession in India around 1700-2200 years ago, money lending institutions still continues in the country, in spite of many efforts of the Government to curtail it, and serves an important purpose of smoothening the consumption for the poor. Merchant banking as financial intermediation were also in practice in India since first century B.C. the issue of interest rate was settled by charging 15 percent p.a on secured loans and higher rates on unsecured loans ranged from 2 percent p.m. to 5 percent p.m. (Schrader 1997).Moreover, there was also a provision of social banking through interest- free loans to the deserving and poor. (Sisodiya et al.2005) Rotating savings &credit association or the chit funds, cooperative thrift and credit movement related to micro finance is since medieval and colonial period. Over a period of time, however self help and self-reliance were undermined by well-meaning state intervention. Since 1950, most of the developing countries including India pursued the rural finance policy, which was based on providing subsidized credit through state controlled or directed institutions and banks to rural populations and small rural micro entrepreneurs. Expansion of credit coverage through state interventions was based on various theoretical assumptions. Siebel & Parhusip(1990) mention this as an approach which was based up on the premise that rural micro-entrepreneurs are unable to organize themselves; they need subsidized credit for increasing their income and are too poor to save. Yaron, Benjamin & Piprek(1997) have traced this traditional approach in rural finance leaning heavily towards direct interventions to Keynesian influence. under this approach, in addition to the assumptions listed

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

above, the key problem areas visualized in rural financial markets included a lack of credit in rural areas, absence of modern technology in agriculture, low savings capacity in rural areas and prevalence of usurious money lenders. The history of Micro credit moment dated back to 1976 when Mohammed Yunus set up the Grameen Bank experiment at the outskirt of Chittagong University, Bangladesh (Mahajan 2005). During the early 1980s, a novel approach of linking formal and informal financial institutions emerged where self help groups were to act as intermediaries between micro entrepreneurs and the banks.

1.5 Dimensions

Different dimensions of access to finance could be easy physical access, flexibility, and reliability (Beck, Demirgüç-Kunt and Honohan 2009; Fernando 2007; Sophastienphong and Kulathunga 2008)Physical access, that is, presence of bank branches is often considered the most important source of access to finance in developing countries. Despite the notion of branchless banking and availability of ATM machines, yet easy access to a normal bank branch staffed with people is still very important in the less developed areas. Also easy access to bank branches, as Porter (1966) pointed out, develops the habit of banking which leads to increased savings and investment, improve the efficiency of allocation of capital, and increase the ability of monetary authorities to stabilize the economy. Lewis (1955). In the developing country like India, where majority population resides in rural areas, rural development becomes imperative for the economic development of that nation and rural development, poverty reduction needs to be the focus of all development programs. Micro finance is one such intervention that aims a poverty reduction by providing basic financial services to the underserved section of the society at affordable way.

1.6 Estimation of access of micro finance

About 1.8 million people in the world live in extreme poverty. There is a vast investment gap in the provision of financial services to the poor all over the world. Therefore, the majority of these people depend on the informal sources of finance for meeting their livelihood and consumption needs. Mr. Joanna Ledgerwood (year 2000) in his book sustainable Banking with poor has mentioned that there are more than 500 million economically active poor people in the world operating micro enterprise & small business. Most of them do not have access to adequate financial sources. But as the field of Micro Finance has evolved research has increasingly found that in many situations, poor people want secure savings facilities & consumption loans just as much as production credit & in some cases instead of production credit. He also mentioned that provision of Micro Finance is truly a demand driven rather than simply a means to satisfy donor agenda and that is why perhaps most of the MFI have failed in providing financial access to rural poor. Researcher increasingly shows that the financial sector is complex and that there are substantial flows between subsectors. That is perhaps financial sector could not provide adequate credit to rural poor even though they have developed savings access to them. This is also applicable in India also.(Kabeer and Noponen 2004), in their country wide survey revealed that at the all India level, less than 5 percent of poor rural households have access to microfinance(as compared to 65 percent in Bangladesh). Institutional microfinance presently covers only a small percentage of its potential clients in India and there is considerable scope for developing the scope. Menon (2005) India's demand for micro-credit is Rs.500 billion and only Rs.18 billion of this amount has been generated so far. If we take financial access of the rural population, more than 50% of the population are still remain unbanked. Bhat (2006) mentions that there is an annual credit

need of Rs.6000/- per house hold for 80 million families in India while micro finance has been able to reach roughly 10 percent of those who need it. Asher and sankar(2007) estimate that there are around 800 MFIs in India which cover 7.3 million households(about 30 million persons) of which half may be classified as poor. Direct and Indirect linkages between SHGs and banks cover around 22 million households or over 100 million persons. They further estimate that combined disbursement of MFIs and SHG-bank linkage was around Rs.200 billion(equivalent to only 0.6 percent of GDP) as on March 2006. (Hiickson 2001) The MFIs(and the SHG-bank linkage mechanism) virtually never work with poorest and very poor households are either excluded from entering microfinance program, or drop out of these program at an early stage.(Raccanello,anand&Bielma Dolores, 2008) in their report on ROSCAs and high health expenditure suggests that the lack of access to public health services(because of working in the informal economy) and the lack of funding for a health expenditures (due to low income) force people to resort to alternate financing. Often, sources can be obtained in the financial informal market: relatives and friends, money lenders and pawn shops. They have not spelt but it indirectly affects the financial access. According to Daniel Lazer&P.Palanichamy, despite the vast expansion of the formal credit system in the country, very poor progress was achieved in financial access to rural poor in India because of structural righties and high cost of making small loans and for saving services of formal financial institutions, low level of recovery and loan waiver programme, widespread poverty. There is little evidence that anti-poverty programs have improved the living standards of the poor commensurate with the significant resources that the country has allocated to such programs. At the same time, many of the poorer people have not used these programs while many of the non-poor people benefit from them. Most of the literature on banking sector outreach focus on its effect through cross-country evidence (Pechey/Roe 2006, Beck et al. 2006, Claessens 2006, Anderloni et al. 2007). Some of the studies which are important in this respect are Beck, Demirguc-Kunt, and Levine (2007), Honohan (2004), Galor and Zeira (1993), Klapper, Laeven, and Rajan (2006) and Rajan and Zingales (2003). World Bank has also done a study on this subject for rural India and found that about 40 per cent of households have deposit accounts, 20 per cent have outstanding loans and only 15 per cent have any insurance (Basu, 2006).

1.7 Efficiency & Outreach

(Gedenne, Vasudeven 2007) on broad based study, found out that in spite of the wide outreach of the post office branches in rural areas, less than ¼ of the clients were having post office deposit. However, people value the functioning of micro financing through Self Help groups but still they prefer informal ways of savings that reveals that inefficiency of SHGs role in inducing members to spend their loans on productive activities Thus, in spite of the development of formal financial sector, people still prefer informal sources of finance, which is easily available. The factors that are creating hindrances in the use of formal finance like high cost, Collaterals requirements etcneed to be looked into. Arun, Hulme (2008) examined the geographical spread of microfinance, commercialization of microfinance process and the challenges in the growth of microfinance across the world. The study revealed the status of micro finance in the developing countries. Basu and Srivastva (2005) reviewed the current level and pattern of access to finance for India's rural poor. The study revealed that Indian poor have little access to formal channel of finance. Though, microfinance approaches have tried to fill the gap, there is a great scope for diverse microfinance approaches to coexist. Along with private sector microfinance government can

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

also provide for flexible architecture for micro innovations. Growing linkages between MFIs, banking sector and NGOs can make an effective contribution to the development of microfinance supported by regulatory efforts (Basu et al., 2004). Vanroose (2008) studied the relationship between macro environment and the unequal outreach of micro financing in developing countries. The study, based on the cross country analysis of the data covering 115 countries, found the following factors responsible for the uneven growth of MFIs:- 1. The MFIs approached the richer countries among the developing ones, which imply that certain level of development is required for the growth of MFIs in a country. 2. The amount of International aids received. Higher the international aid a country is receiving; greater will be the outreach of MFIs. 3. Density of population. Higher density of population attracts more MFIs as it lowers the operational cost. 4. The commercial investors are always interested in venturing into profitable areas. Research on outreach & impact on poor people has also not contributed significantly to better product development(Rutherford).Microfinance Cooperative:.The CDF model i.e savings, credit & co-operatives :Local Area Banks: Basix, SEWA Bank, FWWB, Sanghamitra, RGVN, SHARE, PRADHAN, DHAN foundation like 49 banks in 15 states in India-They are engaged in group formation process, may evolve from a traditional rotation savings & credit groups, other locally initiated grouping, process into gramin a groups of five members each, which in turn organized into centers of around of five to seven groups with regular & compulsory savings. Non of the models & banks appeared to have any significant outreach & impact on poor people K.GK armakar & Priyabasu in their article on microfinance in India have suggested that the strategies that were designed to increase access to finance for the poor have not delinked their intended outcome. It is not just policies, but institutions & markets that need to be transferred so as to improve the efficiency of the formal rural finance sector. In a study conducted by Chua, llan to (1996) the efficiency and outreach of micro financing schemes was examined while Am. J. Soc. Mgmt. Sci., 2010, 1(1): 44 54 47 comparing operations of a lending investor, a pawnshop, a credit co-operation and two NGOs in Philippines along with professional moneylenders in urban informal sector. The study revealed that the cooperatives and NGOs were providing more relaxing micro financing schemes in terms of low interest rate, collateral free loans, longer maturity and repayment schedule, easy collection mode and a wide range of financial services instead of micro lending only. However, most of the NGOs and co-operatives are weak in credit and financial management and did not have a good handling on designing and managing a good credit program. Most other micro financing institutions have an advantage over the NGOs & cooperative that their clients can use the loans for any purpose other than for what it was availed. This lowers their operational cost incurred in supervision of the loan usage and helps them to maintain the sustainability of micro financing programs. Savings constitute vital part of financial access. Few are able to increase the outreach to a significant number of clients unless they increase their funding services to include voluntary deposits. Subsidized credit funds also contribute to the limited mobilization of savings deposits. Access donor funds is less costly than mobilizing deposits. Compulsory savings by MFI in certain case limits the outreach. Savings mobilization at Bank Rokayat Indonesia has proved that the spectacular change occurred primarily because after 1983 the bank had an incentive to mobilize savings & began to learn about its local markets. Deposit instruments were then designed specifically to meet different types of local demand. House hold & enterprises also benefited from the expected volume of institutional credit financed by the savings program me.

Administrative costs for Baneo Caja Social Columbia(Citz-1997) – demonstrates that while the administrative of very small savings is costly, financial institutions can minimize those costs by offering a good mix of savings products & implementing cost-reducing procedures. Often it is confronted with security of data & even of consensus on what ought to be measured. Country level data on financial access is taken for base study which suffer from various deficiency. The study further reveals that many banks are in deep financial distress owing to inefficiency arising for weak governance, poor management, weak regulatory standards & lack of super vision thus making not much progress in financial access to rural population in India. Procedure for opening an account or seeking a loan are cumbersome & costly with high rejection ratio. Collateral issue (demand collateral)-(poorhouse holdsdonot have clear titles to their land) worsen the situation.

1.8 Linkage with economic growth & poverty reduction

Financial Access in South Asia –Rashmi Umesh Arora1 Department of Accounting, Finance and Economics Griffith Business School, Griffith University Abstract, Financial access is gradually being recognized as an important input to economic development. This study using World Bank (2007) and CGAP (2009) database examines the extent of financial access in the South Asian countries. It further develops economic development index which also includes financial access in South Asia. It then compares economic development of the countries in the region as shown by HDI alone, and the other index which incorporates financial access. The results of the study show that Sri Lanka ranks highest among all the South Asian countries. Also the ranking of countries as given in HDI changes if financial access is taken into account. Demirguc-Kunt et al. (2009) in their study observed that, "without inclusive financial systems, poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities". Fernando (2007) noting lack of access to finance and huge demand for finance in South Asia, emphasized that: closing the huge gap between the demand for financial services from low-income households and its supply from the formal and semiformal sources in both quantitative and qualitative terms may be considered one of the biggest development challenges facing most developing countries in Asia and other regions.(RBI 2008) report states that In India the "broad approach to financial inclusion aims at 'connecting people' with the banking system and not just credit dispensation; giving people access to payments system and portray financial inclusion as a viable business model and opportunity". Access could include access to various financial products and services, bank accounts, bank credit, savings products, remittances and payment services, insurance services, home mortgage and financial advisory services. Access as possible, builds financial access index for the South Asian countries. It further uses financial access as an indicator of economic development and develops economic development index including financial access for the countries in the region. Although a huge body of literature exists on finance-growth relationship, not many empirical studies exist in the area of financial access, perhaps due to lack of data on many access variables at the country level. This study by using recent available World Bank (2007) and also CGAP (2009) databases attempts to build financial access index for South Asian countries. Secondly, the study in a novel approach suggests that besides other indicators of economic development, finance also should be considered as one of the indicators of development. Devarajan and Nabi 2006; Collins 2007 state that the growth picked up from 2003 onwards mainly due to high

growth rates of India, Sri Lanka, and Pakistan. Although the countries have achieved high economic growth rates in the recent years, yet it still remains far below than that achieved by the countries in the East Asia region. The major challenges which constrain growth are presence of high income inequality; persistence of conflict, corruption and high fiscal deficit. Also South Asia lags behind East Asia not only in terms of export orientation; inflow of foreign direct investment; skill levels; infrastructure and ease of doing business but also in respect of savings, investment and productivity). Although, the region more known for its high poverty rates erstwhile, is now known for its high growth rates as shown earlier, with a focus on inclusiveness (Ghani and Ahmed 2009), yet poverty still continues to be high in the region.Thomas Fisher, M.S Sriram& others in their studied on beyond Micro Credit has concluded that Search is on for practical, workable solutions to the deep seated challenges of poverty. Micro credit seems to provide just such a solution. Micro credit can become sustainable by recycling resources over & over again. Pointed out the institutional debate demonstrated by schools of two thoughts i.e. financial school, poverty school- issue of conflict with each other. Micro credit Industry has sought to resolve the tension between two thoughts with focus on poverty & commitment to sustainability by integrating them within a matrix defined by outreach(access) & financial sustainability. Financial inclusion is a sine-qua-non for development especially in the context of a developing region like India. P Mahendra Varman and Samyukta Ramgopal has highlighted that in developing countries like India, globalization effect is contributing to a growing disparity between the rich and the poor. In India, the structure of the economy is dualistic. This worsens the access of the poor to the economic opportunities through which they could build up their assets and enhance income in order to come out of poverty cycle. The potentials to avail such economic opportunities mainly depends on the degree of access to financial services. The commercial bank does not consider the poor bankable owing to various reasons. Thus the poor in most countries have had no access to financial services. (Fouillet, 2005) in his longitudinal study, found that Indian microfinance has strongly developed during the last decade, to a great extent under the impulse of governmental program with two main objective (1) to allow these populations to develop income-generating activities and therefore to reduce the poverty.(2) to remove the populations from the clutches of the money lenders by giving them access to less costly loans and by the leverage effect, to the banking system.There are many non-financial developments that together help to cause financial development to occur: i.e. that invert the cause-effect relationship. These include: technological improvements such as automatic teller machines and electronic banking that lower the costs of various financial transactions (Merton [1992] and Claessens [2003]); monetary and fiscal policies that affect the degree of implicit and explicit taxation of finance (McKinnon [1973], Roubini and Sala-i-Martin [1995]; legal changes that impact the attractiveness of certain financial instruments (Laporta et al. [1996]); and above all economic growth and rising living standards that alter the ability and willingness of people to participate in the financial system (Greenwood and Jovanovic [1990]). But these propositions notwithstanding, there is increasing evidence that an efficient, broad-based financial system provides a powerful impetus for economic growth and poverty reduction. Though, the government of India has been imitating varies poverty alleviation programs since independence but not much progress has been marked. The root cause of the problem of poverty has been the fund to be economic dependence and lack of access to the credit. Poor have been considered to be non bank

able services in the lack of saving and collaterals to be offered to the finance poverty, specifically the banking sector. Consequently, the poor have to be depend upon the informal channels of finance like private moneylenders who generally, exploit them in the name of financial help and often, lead to life time indebtedness among the borrowers.

1.9 Various model perception

Rotating Savings and Credit Associations are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Garmin Bank, 2000a). According to Harper (2002), on critical analysis found that this model is a very common form of savings and credit. He states that the members of the group are usually neighbors and friends, and the group provides an opportunity for social interaction and are very popular with women. They are also called merry gorounds or Self-Help Groups (Fisher and Sriram, 2002).

The Garmin Solidarity Group model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Guzman, 1994). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Garmin Bank, who use this type of microfinance model.

Village Banking Model have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005). The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities.Many village banks target women predominantly, as according to Holt (1994, p.158) "the model anticipates that female participation in village banks will enhance social status and intrahousehold bargaining power".

Garmin Bank Model: The Garmin Bank Model started as an action research project in 1976, when a Chittagong University team led by an economics Professor Muhammad Yunus began to lend small amounts of money to poor households in a few nearby villages.

Cluster/Federation Bank Model: In this model, the banks have linkages with the Federation or Cluster of SHGs and can help reduce the transaction cost substantially. Since they deal with a number of SHGs through Federation/Cluster, the size of loan will be much higher which will reduce the transaction cost. However, this model is yet to get popularized and all the ones present or currently in existence is at evolving stage only.

(Swamy, 2009) in his article on study of Govt.programme in India states that some other models mainly sponsored by governments like

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

Everant

DWACRA (Development of Women and Children in Rural Areas) and SGSY (Swaranajayanthi Gram SwarojigariYojana) are groups mainly animated by government agencies. Under these models the amount in form of loan or grant will be given to members of that group and in turn they distribute the amount amongst themselves.Most of the micro finance is covered in India under **SHG bank linkage model** and has been accepted by Govt. of India and policy makers as accepted it as a tool for poverty reduction amongst other measures. Xonchois of lower Assam in the way of delivery of traditional mechanism of financial services has evolved

Accumulated savings & credit Associations (ASCAs) - Stuart Ruther ford (1999). The voluntary participation of people on building a common fund with monthly equal contribution by each member for fixed term. This is used to provide credit funds to its members. Where the term expires, the fund is distributed amongst members and it chooses to be started all over again. Stieglitz and Weiss 1981 build a robust model of credit rationing disequilibrium under asymmetric-information. They show that by increasing the price of capital (the interest rate) one cannot increase the supply of capital to meet the demand for it. But there is no direct implication of that model for micro-finance in developing nations, the poor are often denied access to capital. These individuals cannot borrow(except for subsidized loans) even if they have projects that enable them to pay a higher rate of return than the market interest rate, or even if they are able or willing to put up a higher percentage of collateral than is demanded of the others.

2.0 Micro finance & NGO,SHG

Livelihood security therefore, like poverty, is not just about income, but includes tangible and intangible assets, and social well being. Johnson and Rogaly (1997) in sample study state that "NGOs aiming for poverty reduction need to assess the impact of their services on user's livelihoods." They argue (1997) that in addressing the question of the impact of microfinance, NGOs must go beyond analyzing quantitative data detailing the numbers of users, and volumes and size of loans disbursed, to understanding how their projects are impacting on clients' livelihoods. They state (1997) that the provision of microfinance can give poor people "the means to protect their livelihoods against shocks as well as to build up and diversify their livelihood activities". Therefore when analyzing the impact of microfinance the overall impact of the microfinance services on the livelihoods of the poor needs to be taken into consideration. In the views of Kalpana (2004) in her article on micro finance and SHG groups that, micro finance services also encompass both financial and social intermediation including group formation, and training in financial literacy and management practices**.** In an another study conducted by Chavan, Ramakumar (2002), a comparison of NGO led micro credit programs with that of state led programs was made on the basis of a set of four indicators: - targeting the poor, increase in income and assets holding of the poor, employment generation and still improvement and financial viability. The study revealed that the NGO led micro credit programs have been more successful in targeting & generating profits than the state led micro credit programs given their small scale operations. However, increase in the scale of operation may create problem to them in terms of increase in transaction cost. The major reasons for the higher transaction cost of the NGOs were found to be the compensations given to the field workers, no of group members handled by each field workers, group formation time and the collection time. The transaction costs can be reduced by taking certain measures like:1.Linking the employees' incentives to profit;2.Increasing

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

the no of groups per sq. km; 3.Increasing awareness about the concept of MF in remote areas to lower the group formation time; Keeping there payment frequency lower provided the repayment rate remains the same. M. Hilaria Soundari in his study on Future Directions of Micro finance has highlighted the constraining elements: There are high competitions among the NGOs in covering more number of hamlets. False promises and instant loans with high interest are given lavishly to attract the people. Consequently, the civic consciousness and sense of social responsibility among the mushrooming groups are demoralized. Amitkundu in his paper, narrates public-private partnership Govt. subsidized micro Credit program under SGSY in terms of financial access to rural poor, re-establishes the fact that even in the presence of Govt. subsidy in micro-credit program under joint liability through financing Self Help Group, social sanction as well as individual sanction still plays an important role of security at the time of loan repayment. The paper also describes that assertive matching is essential at the time of group formation and that should be maintained in both the periods for proper functioning of the Govt. sponsored micro-credit program me from which all the group members can take the benefit..APRACA (Asian and Pacific Regional Agricultural Credit Association) established in Indonesia in 1977 was the first one to implement rural finance project. Three different approaches were the major focus of APRACA discussions on rural finance as follows:- • Upgrading financial self-help groups of micro entrepreneurs• Linking existing self-help-groups and banks • The adaption of banks to their environment. Seibel and Parhusip, 1990 has concluded that the APRACA efforts led to baseline research and policy discussions at national as well as international levels. Indonesia, Nepal, Philippines and Thailand were the first countries to develop such pilot project (Subsequently, a number of countries launched the SHG-Bank linkage program of which India is the one. Wenner (1995) in his article, A means to Improve Information transfer And Loan Repayment Performance. *Frank Cass London, 34* (1995) states that Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution. Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member's interest to ensure that the other members pay. SHG has played a vital role in bringing micro finance a success in Indian context. Hence it could be said that the microfinance is neither the hype nor the hope in Indian context, but it is the reality that Microfinance is a tool for alleviating in India. In SHG bank linkage programme, key challenges are inadequate attention to group quality could jeopardize longer term credibility &sustainability. Capacity constraints & cost of group formation. Unless banks charge interest rates that enables them to recover costs, the model's financial viability & longer term sustainability may be jeopardized.MFI outreach is modest in comparison to SHG Bank Linkage-reason absence of an enabling policy alongside a legal & regulatory frame work, weak RRBs & Cooperatives, absence of good quality NGOs, very less public investment .

2.1 Role of MFI & Formal institution contributing towards access

The majority of the resources used by poor are informal in nature like interest free loans taken from friends/relatives though people were using MF services, too, but the share of MFIs in total money management transactions was less than 15

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

per cent.(Sriram, Parhi 2006) in their review of micro finance in India concluded that the major source of finance was found to be the moneylenders i.e. approximately 80 per cent of the total amount borrowed. Ageba, Amha (2006), in their study, found that the most of the medium and small enterprises were also using friends and relatives as the major source of finance rather than going to bank for a loan. The reasons disclosed for this attitude were: The perceived high cost of transaction, Demand for collaterals and cumbersome procedural formalities. Littlefield and Rosenberg (2004) in their study on microfinance in Africa and latin America state that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach. Wright (1999) ,Littlefield, Murduch and Hashemi, (2003) in cross country analysis highlights that" such as good client retention and repayment rates, significant difference between increasing income and reducing poverty (1999). He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends what the poor do with this money, oftentimes it is gambled away or spent on alcohol (1999), so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to "sustain a specified level of well-being" by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentators' skepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations.While much debate remains about the impact of microfinance projects on poverty, we have seen that when MFIs understand the needs of the poor and try to meet these needs, projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society. Zohir and Matin (2004) in their conclusive study state that many MFI loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural inputs and increased output of agricultural production. This leads to enhanced employment opportunities in these sectors for the wider community and a reduction in the prices of such produce due to increased supply. They also state that trading activities financed by MFIs can help to establish new marketing links and increase the income of traders, and this can lead to reduced migration due to increased employment opportunities and increased income. They state that the interaction within MFI groups can create co-operation and trust that not only facilitates the microfinance activities, but also contributes benefits beyond the service provided, such as a greater sense of community, trust and reliance on the group in times of crisis. These networks can lay the foundations for other social capital developments in the community. MFIs do not have the depth of outreach that is needed to meet the demands of the rural poor. Serving the rural poor in the developing world involves a major financial commitment, as it is expensive to run rural microfinance projects. Claessens (2005) in his sample study states that high transaction costs, small volumes and the high costs of expanding outreach, make it unprofitable to serve the rural poor. It is for this reason that commercial banks are positioned in areas of high population density. In relation to reaching those living in extreme poverty, Littlefield, Murduch and Hashemi (2003) refer to a study of 62 MFIs that have reached full financial self-sufficiency with 18 MFIs that targeted what they defined as "the poorest clients"

averaging better profitability than the others. This shows that when properly managed, program that target the very poor can become financially sustainable. In a study conducted by Ageba, Amha (2006) it was found that the most of the medium and small enterprises were also using friends and relatives as the major source of finance rather than going to bank for a loan. The reasons disclosed for this attitude were: a. The perceived high cost of transaction, b. Demand for collaterals and cumbersome procedural formalities. Lack of awareness regarding formal financial sources and non-existence of MFI in nearby areas. Moreover, they found the amount of loans insufficient to meet the purpose of getting it. Therefore, they had to go for informal finance. It has been studied that many MFIs experienced clients' exit that questioned the very performance of such MFIs. Simanowitz (2000) conducted a client exit survey to explore the reasons as to why they dropped out of the micro financing program. The author presented some idea from the experience of (SEF) Small Enterprise Foundation in south Africa which is an NGO struggling for some time to deal with the problem of clients exit because of lack of understanding of why clients were doing so. Women World Banking (2003) conducted a research between 1999 to 2001 with four MFIs located in four different countries in order to measure the customer satisfaction level with regards to micro financing services. About 78 per cent customers from UGANDA and Bangladesh reported being satisfied with the turn-around time for the first loan whereas 97 per cent respondents in Uganda were satisfied with the services received from the credit staff. The biggest reason for the dissatisfaction among micro finance clients was found to be the insufficient loan size. People preferred individual loans instead of group mechanism. Moreover, they wanted a broad range of services to be included in the spree of micro financing services ranging from consumption to business loans. Thus, the studies showed that the financial awareness among the microfinance clients is very low that hinders the idea of financial inclusion. Though the satisfaction level is good enough, emphasis should be laid on spreading financial awareness among people. Sewa(Self employed women's Association) in Gujurat, provides a good example of an MFI that is meeting the insurance service needs of its clients. But not much has been achieved by SEWA in access to finance to rural population in Gujurat. Credit cards, smart cards are operative in other countries including India. It allows borrower to access a line of credit if and when they need it and considerable advantage to both clients and MFI including banks & other financial institutions. Though it was able to achieve to some extent the financial access. But the terms and conditions including payment terms inhibits the growth of this mechanism. Margaret S Robinson in her descriptive study views the main reason for vast unmet demand for institutional micro finance is the paucity of reliable information that reaches the formal financial sector. Micro finance revolution has been greatly accelerated by the information revolution that developed concurrently. As in BRI & Bansol, broad outreach to economically active poor clients can be activated without ongoing subsidies. Large scale sustainable MFIs create an enabling environment for the growth of political participation and of democracy in reaching the poor. (190). According to reserve bank of India findings, informal credit accounted in 1951 for 90%and in 1971 for 70% of rural indebtedness; (Sebstad and Cohen, 2001) in their approach suggested that in designing and implementing micro finance services, there is the need to note that credit has different implications for different segments of the poor and as such could create additional risk for the very poor. It is therefore expedient for micro finance institutions to diversify their hitherto relatively homogeneous products and services in line with environmental peculiarities.Brau and Woller (2004), Dunn

(2002) Cohen (2002) and Woller (2002) in their article on role of microfinance institution on microfinance advocate client-focused services for micro finance institution as a vital ingredient for effective service delivery and impact on the lives, assets and households of the economically active poor. Manishkumarjha, Mitalisen and J.K. Pattanayak makes an attempt to integrate MFIs and Banks with Community Polytechnic to suggest a conceptual framework of delivery system of microfinance for community and rural development through community polytechnic channel for greater financial access among rural population. Hulme and Mosley (1996) have suggested that micro finance institutions should take cognizance of the varying needs of various sections of the poor in their design of financial services. Wendy Olsen in his study on aspiration paradox in micro finance, suggested that very desirability of loans, in subjective terms, is a problem for micro-finance in the south Indian context. SHG also can not solve the household crisis that might occur by obtaining the loan for socially desirable assets without looking closely at either the common land problems or at the medium term crisis.. He stressed on debates held in households, supportive nature of group interactions and democratic, ongoing, wise discussions of both economic and social aspects forming a useful back drop to the MFI finance which MFI can usefully address all these problems.

2.2 Constraints & opportunities, challenges

Arun, Hulme (2008) on cross country analysis, broadly examined the geographical spread of microfinance, commercialization of microfinance process and the challenges in the growth of microfinance across the world. The study revealed the status of micro finance in the developing countries:- Microfinance outreach worldwide: It is observed that micro finance markets are well established in the limited geographical areas of Bangladesh, Uganda, Indonesia and Bolivia where the low-income group people have access to the wide range of financial services while in South Asia, South East Asia, Latin America and Europe, micro financing is growing gradually. In China, there is a great scope for micro financing. Microfinance growth in India: As far as India is concerned, it is experiencing an uneven growth of micro financing as the most MFIs are established in the South region of the country and it is almost non-existent in the North and North East region. However, many commercial banks, public as well as private, have started investing in micro financing programs as a profitable commercial activity.The study also supported the fact that only the access to Credit is not a barometer of success because there are several other factors that may lead to success or may create hindrances like infrastructural problems, competition in the market and so on Simanowitz with Walter, 2002). Many poor people do not see microfinance projects as being relevant or beneficial to them. In group-based lending in particular there can often be an incentive for stronger people in the community to exclude the very poor, especially when group guarantee systems are in place. The design of services may exclude the poorest e.g. having entry fees and inappropriate loan terms. Income Generation for Vulnerable Group Development Challenging the Frontiers of Poverty. Painter, MkNelly (1999) in their sample study examined whether there is growth or stagnation in clients' loan size under seven village banking programs running in 26 villages comprising of 700 members. Though the loan size was increasing significantly, it was much less than the projected one. Reason for this might be the leaving of old members and joining of new members that dampened the growth of loan cycle. Moreover, the loan size increase was variable in pattern, which may be due to many reasons like different loan policies, village bank location,

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

saving and internal account policies and membership Am. J. Soc. Mgmt. Sci., 2010, 1(1): 44-54 48 dynamics. Commercial development in the program area may have been a factor affecting the borrower's ability to utilize the credit.Rabinson(1994) in his study on financial access of the poor in developing countries has opined that subsidized interest rates create excess demand that may result in a form of rationing through private transactions between clients & credit officers. Which has inhibited the progress in financial access.Binswanger&Khandker 1995- A recent study of rural finance in India analyses data for 85 rural districts. The study found that the Indian Government had pursued a policy of rapid, forced expansion of commercial banks into rural areas for accelerating the access to finance. But it has not reached the desired goal. Their finding indicate that deepening the system of rural financial intermediation in India had high payoffs in rural growth employment & welfare but that specially forgetting credit to Agriculture was of doubtful benefit.A case study of Rotating Savings& credit Associations(ROSCAS) has introduced financial access to villagers by developing informal groups among them at grass root level. All members agree to contribute & regular fixed amount every week/month. Interest is not directly charged but implicit. Though the order of receiving funds is determined by mutual agreement/need/personal emergency of the group members, those who benefit from the loan early are privileged over those who receive it in late stage. But it was limited due to lack of their flexibility. Yaron, Benjamin & Piprek 1997- has studied on risks associated with using groups such as ;Poor records & lack of contract enforcement. Potential for corruption & control by powerful leader within the group. Covariance risk due to similar production activities. Generalized repayment problem(domino effect)high upfront costs(especially time) in forming viable groups. Potential weakening of groups if group leader departs. Increased transaction costs to borrowing.Limited by participation by women borrowers(in mixed groups)Some cash cheque will be uncollectable due to insufficient funds or fraud.Daniellazer has concluded that despite the vast expansion of the formal credit system in the country, it has not been able to cover the needs of the small loan requirement of rural poor. The branch has not been involved much in lending of this kind. Banks too never really looked on them as a profitable & commercial activity. Abdullah-AI-Mamun and Ridhwan Fontaine -Stable access to financial services can help poor to take control of their lives. Satish(2001) also explain that in most developing countries, the policies concerning microfinance did not adequately serve the rural poor because of some wrong assumptions. This assumption includes commercial banks unwillingness to provide credit to the rural poor.MMahadev in his paper, Financial inclusion in India has not attracted attention of the researchers to the extent it deserves, especially in capturing the cross country experience. He has suggested some alternatives including setting up of financial inclusion fund to bring the people under financial access. CGAP study has identified major challenges like (1) scaling up quality financial services to serve large number of people, (2) reaching poorer & more remote people & (3) lowering costs to both clients & financial service providers (4) cost recovery interest rate & high repayment to achieve long term sustainability & reach large number of clients. Finding appropriate flexibility that does not impede the financial health and good practice of microfinance is a major challenge. Government of India together with Reserve Bank of India and other banking and non banking institutions have been taking various initiatives to achieve the target of 100 per cent financial inclusion. Albino, Subramanian (2008) examined the implementation of such efforts in the state of Jharkhand. It was found that there has been a significant progress in

terms of more number of no frill accounts, more bank branches, post office and NGOs' branches, but this progress is subject to certain hindrances like banks have focused only on opening more & more account without paying attention towards the awareness among the account holder regarding use of such accounts. They are just playing a number game. On the other, private sector banks hesitate to expand their services to rural area as it seem to be less profitable to them. Despite the existence of numerous extensive financial databases, knowledge in most countries of the degree to which effective & low cost financial services reach low & middle income household, small enterprises & other less privileged segments of society is very limited.

2.3 Woman empowerment

(Singh, 2004) in his paper gave thrust on Women Empowerment: In a male dominating society, females have been the most ignorant client in the financial sector. Nobody trusts their business skills and ability to manage the financial resources. Various reasons attributed to this phenomenon like- the need for security in the form of property, which women often lack. Most of the bank staff members are males so females hesitate to deal with them. The high-level bank formalities may have also been the hindrance in the financial access to women, specifically to the illiterate ones. Moreover, the distant location of the bank branches adds woes to the financial problems for women. They do not dare to cross their domestic boundaries. Males are considered the breadwinners, having more traveling experiences and knowledge of the banking formalities and the investment opportunities. Omorodion (2007) carried out a study on some Nigererian Esan women who participated in some poverty alleviation program in order to capture women's stories, perception and the experiences with investing the loans obtained and making repayments. No doubt, the micro finance schemes have been very effective in empowering women economic and social levels, the women reported the problems involved in their financial participation. It creates tension and raises their blood pressure when they find themselves unable to repay the loan amount because their husbands reinvested the money in their own business. Moreover, distant locations of the lender create problems in making the loan available on demand of the lender, as they need to seek permission from their husbands to go out for such a long distance otherwise their family life would suffer.Hulme and Mosley (1996) make this point when they refer to the "naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women". However, with careful planning and design women's position in the household and community can indeed be improved. They state that microfinance projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that wasn't there previously. The study coverage Bolivia, Banco Soletc. Methodology used is Borrowing and control samples, before and after. Littlefield, Murduch and Hashemi (2003) state in their conclusive study on MFIs operation and woman empowerment, concluded that 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, Murduch 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. Johnson (2004) in sample study states that having

women as key participants in microfinance projects does not automatically lead to empowerment; sometimes negative impacts can be witnessed. She refers to increased workloads, increased domestic violence and abuse. She argues that 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.

It was the attempt to improve access to small deposits and small loans for poor households neglected by banks. It must be emphasized too that the animating motivation behind the microfinance movement was poverty alleviation.

There is vivid discussions presented here on findings of the various research studies explores the very existence of micro finance from time immemorial in some form or the other and manifestations of various forms and dimensions and its access assessment. It also reveals that Access is an important issue but it has to be understood differently from the related issue of exclusion, as the solutions are different.

Section II

Products & services offered by formal financial institutions, MFIs & practices.

Ever since formal institutions took interest in micro finance as viable propositions, the micro finance program emerge as centre stage in all the developmental program. World wide, the group based lending approach is being followed catering to the needs of the poor. Alcala, Koshy (2007) on sample studied the various formal and informal saving products used by the people in the state of Tamilnadu. The most common informal saving products found were gold, loose cash at home in hidden form, unregulated chit funds, saving with money lenders, jewelers shops, small saving schemes in schools and lending others to save. The use of formal saving products was very uncommon, less than half of the clients were having almost inactive bank accounts. The reasons disclosed were the distant location of the banks and excessive minimum balance requirement.

Self Group (SHG) - Bank linkage is the largest microfinance program me in India in term of outreach. It is based on linking of informal groups of poor with banks for credit and savings. 2.Seible,H,D&Parhusip,U(1990) financial innovation for microenterprise- linking formal Reduction in Rural India : Indian Streams Research Journal (March ; 2012) Malappa Dandgund and Nayakara Honnurswamy Role of Microfinance on Poverty Vol.2,Issue.II/March; 2012 Role of Microfinance on Poverty Reduction in Rural India Indian Streams Research Journal. Verman (2005) in his findings of the study entitled "Rural Micro financing in Punjab-Banking Sector Interventions and Customers' Perceptions". revealed that a member who has been the leader of an SHG was found to be 23 times more likely to open a bank account. Female members also enjoy more exposure to banking services

Shankar (2006) in his study on working of MFIs in India, has found out that MFIs should engage in other income generating activities to lower the indirect transaction cost and also found another measure to lower the transaction cost has been found to increase the repayment frequency of loans. Field, Pande (2007) examined the effect of repayment frequency on loan default and delinquency. The general perception of the MF provider has been to use greater frequency of repayment i.e. through weekly installments to avoid default in repayment by maintaining the users' habit to save regularly. Sinha (2005) analyzed the performance of 20 MFIs of India to explore the access, use of Microfinance by the clients and contribution of MFIs to the financial

requirements of the clients. To satisfy the objective a sample of 4235 clients in the 3908 household was selected. It was found that 77 per cent of loan amount accounted for investment purpose. However, this percentage was much less as reported by MFIs. The gap between the MFIs reporting and clients' reporting indicated that MFIs had less control over client usage of borrowed amount.

Jones etal (2004), in a sample study of 10 rural bank branch managers within three district of Madhya Pradesh, the managers were found to be having the negative attitude towards their role as financial service providers. The Government of India, Reserve Bank of India and other non-banking institutions have also taken various initiatives to increase the financial access in the country but not much progress is evident because merely increasing the availability of credit is not sufficient if, disbursement does not occur in desired manners. Women World Banking (2003) conducted a research between 1999 to 2001 with four MFIs located in four different countries in order to measure the customer satisfaction level with regards to micro financing services. About 78 per cent customers from UGANDA and Bangladesh reported being satisfied with the turn-around time for the first loan whereas 97 per cent respondents in Uganda were satisfied with the services received from the credit staff. The biggest reason for the dissatisfaction among micro finance clients was found to be the insufficient loan size**.** People preferred individual loans instead of group mechanism. Moreover, they wanted a broad range of services to be included in the spree of micro financing services ranging from consumption to business loans**.** Thus, the studies showed that the financial awareness among the microfinance clients is very low that hinders the idea of financial inclusion. Though the satisfaction level is good enough, emphasis should be laid on spreading financial awareness among people.

Rogaly (1996) in his study on functioning of MFIs in developing countries finds five major faults with MFIs. He argues that: ♦ they encourage a single-sector approach to the allocation of resources to fight poverty, ♦ microcredit is irrelevant to the poorest people, ♦ an over-simplistic notion of poverty is used, ♦ there is an over-emphasis on scale, ♦ there is inadequate learning and change taking place. Wright states that much of the skepticism of MFIs stems from the argument that microfinance projects "fail to reach the poorest, generally have a limited effect on income…drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor". In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from "more pressing or important interventions" such as health and education.

However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118). Mayoux (2001, p.52) states that while microfinance has much potential the main effects on poverty have been: ♦credit making a significant contribution to increasing incomes of the better-off poor, including women, ♦microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies. MFIs have more than just a social mission. Markowski (2002, p.117) states they have a dual mission: a social mission " to provide financial services to large numbers of low-income persons to improve their welfare", and a commercial mission "to provide those financial services in a financially viable manner".

Nourse (2001) reviews the context and rise of microfinance products and argues there is a need

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

for savings and insurance services for the poor and not just credit products. He goes on to argue that MFIs need to provide tailored lending services for the poor instead of rigid loan products. Supporting this latter assertion of Nourse (2001), Eyiah (2001) develops a model of small construction management contractors and MFIs in developing countries that provides a tailored lending structure for microenterprise contractors. Similarly, Woller (2002a), Cohen (2002), and Dunn (2002) argue that MFIs need to be more client-focused,

Field, Pande (2007) examined the effect of repayment frequency on loan default and delinquency. The general perception of the MF provider has been to use greater frequency of repayment i.e. through weekly installments to avoid default in repayment by maintaining the users' habit to save regularly. A field experiment was conducted on 100 groups comprising of 1026 member of a leading MFI of Kolkata to examine the relevance of this perception. It was found that the frequency of repayment rate, be it more or less, doesn't affect either the default rate or delinquency rate rather it does affect the transaction cost of the MF providers, a large part of which is incurred on collection of repayment installments from their clients. Less frequent repayment schedule say monthly installment can reduce the significant portion of the transaction cost without adding any further risk of defaults.

Sinha (2005) analyzed the performance of 20 MFIs of India to explore the access, use of Microfinance by the clients and contribution of MFIs to the financial requirements of the clients. To satisfy the objective a sample of 4235 clients in the 3908 household was selected. It was found that 77 per cent of loan amount accounted for investment purpose. However, this percentage was much less as reported by MFIs. The gap between the MFIs reporting and clients' reporting indicated that MFIs had less control over client usage of borrowed amount. Clients seemed to have their own discretion to use the loan amount. Poorer people borrowed fewer amounts than better off ones. Eleven MFIs out of 20 were offering insurance products covering 48 per cent of the clients. Six MFIs were providing enterprise related support and five MFIs were participating in health and education development program. However, 97 per cent of clients were having savings with MFIs, 36 per cent clients reported borrowing from moneylenders, 1/3 clients reported borrowing from friends/relatives. This percentage is lower than that of non-clients that reflects the impact of MFIs on reducing dependence on moneylenders but still informal source of credit offer greater flexibility in their terms and conditions, which MFIs do not. Moreover, MFIs should engage in other income generating activities to lower the indirect transaction cost Shankar (2006). Another measure to lower the transaction cost has been found to increase there payment frequency of loans.

Village banking model started in 1985, as an experiment in Immunity Development with a program me for Women's Savings & credit in Costa Rica. The village banking model has become an increasing popular model for providing poor women with access to financial services. The model usually establishes aparallel system managed by elected leaders. It provides a joint liability system for its 25 to 50 members & also act as a secure savings facility. Individual members' savings is the own source investment capital. It has savings, credit, non financial services. Enforcement of credit contract is the responsibility of the leader with member support. Otero & Rhyme (1994) observed that Village Banks are community managed credit & Savings associations established to provide access to financial services in rural areas, build a community Self-Help group. The model was developed in mid 1980s by the foundation for

Everant
Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

international community Assistance(FINCA). Membership in village Bank ranges from 30 to 50 people. Most of whom are women. Membership is based onself-selection. The bank is financed by internal mobilization of members' fund as well as loans provided by MFI. Loan is provided in shorter terms. Interest is which are generally much higher.

Self-Reliant Village banks are savings & loan Associations. They cater to the village as a whole. This model was developed by a French NGO in the mid 1980s. Social cohesion is strong. The Association acts as intermediary & negotiates line of credit with local banks. They are basically Agriculture Development Bank. They offer financial products viz.SB, CA,TD, WC/STL. There is no direct link between loan amount & member savings. More remote area, higher the interest rate tends to be, because the opportunity cost of money is high. Loans are paid in one installment. Those models were not practiced in India since NABARD- SHG bank linkage model is practiced in villages in India.

Grameen Solidarity Group Lending- developed by Grameen Bank of Bangladesh to serve rural, landless women willing to finance income generating activities. Peer groups of five unrelated members are self formed & incorporated into village centers up to 8 peer groups. It operates with compulsory weekly savings(savings must for 4 to 8 weeks prior to receiving a loan), mutual guarantee each other's loan & held legally responsible for payment by the members. No further loans are available if members do not repay their loans on time. lending is for short term. The model was very popular in financial access to poor in Bangladesh.. But not much financial access is made because of various short coming in the model .Adeni in Dominican Republic Caja Municipals in Peru. Bank Rakyat Indonesia, Alexendria Bunesh Arrum in Egypt, SEWA in India, Caja Social in Columbia are practicing this model with modest success. In India SHG model consisting 10-20 members is being practiced with moderate success.

Latin American Solidarity Group lending refers to loans to individual members in group of four to seven with cross guarantee of each other's loans to replace traditional collateral. Clients are female market vendors. Loans are of small, short term, working capital in nature. The model was developed by ACCION International in Latin America & been adopted by many MFIs. Payments are made weekly. Loan is disbursed to group leader who immediately distributes to each individual member. Group members normally receive equal amounts. Savings is required but deducted from loan amount at the time of disbursement. Savings serve primarily as a compensatory balance, guarantying a portion of the loan amount. Clients are mostly urban. Other organization i.e Bancosoln in Bolivia, PROSEM in Guatemala. These models are not popularized in India, as in India, SHG model consisting 10-20 memeers is being practiced with moderate success.

Majority of MFIs are created as non governmental organizations. However, as the field of microfinance develops, the focus is changing from the delivery of credit services to process of financial intermediations including the provision of savings & other financial services developed by working poor. Savings services are often not available to MFI clients. However, they are deviating from true process of financial inclusion.Savings services are often not available to MFI clients for two main reasons- (1)Poor cannot &donot save(2) Due to regulator constraint of most MFI, many are not legally allowed to mobilize deposits.

(Palier and Prevot 2006) studied so called internal SHG loans in Tamil Nadu. The so called internal SHG loans are based on collected savings. The amount of available savings remains directly

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

dependent on and on the requests of the other memebers. The amounts are therefore limited: on an average Rs.1,000-Rs.2,000 not exceeding Rs.5000. The average loan amounts are very variable from one group to another according to the amount of savings collected and the policy of the group. Baydas 1997, Guerin and Palier, Fouillet 2005 in their article on, "Commercial Banks in Microfinance: New Actors in the Micro-Finance World," August 1997, Development Alternative, analysed that the banks are much more likely to invest in the domain of microfinance, mostly in partnership with NGOs.

Dhan foundation 2006 in their study on utilization of the loan amount shows that, in spite of instruction of the NGO, urgent expenses and those of a compelling social nature (helth housing ceremonies) remain dominant(45 pre cent of the purposes of loans) and investment expenses do not exceed 20 percent. These data study are very similar to other in-depth studies on loan usage. Gentle and Fournier 1993 shows the most common misappropriation, already widely observed in other contexts of targeted credit, consist of using a productive credit for social purpose. The repayment of debt or the purchase of gold can also be interpreted as forms of misappropriation or adaption to an inappropriate offer in relation to the needs.

Section III

Institutional sustainability

Institutional sustainability in micro finance is key to success in delivering the products and services to poor in the long run to transform their economy.

(Mohajan&Ramelo, 1996) on Institutional sustainability, in his study on continuing outreach & sustainability of micro credit for micro enterprise has framed high sustainability in four zones from low access to high access. Such as, a. Sustainable finance, b. Sustainable finance services reach target clients, c. High subsidized financial services with low access by target clients. d. High subsidized financial services with high access by target clients. As argued by Navajas et al (2000) in his article concepts and Measures of Outreach and Sustainability in Microfinance Institutions, states that there is a danger that microfinance may siphon funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty.

Patten et al. (2001) provide a more recent historical example of the resilience of MFIs and their clientele. They compare the performance of the Indonesian MFI Bank Rakyat Indonesia (BRI) to formal Indonesian banks during the East Asian financial crisis. They find that BRI performed superior to the formal banking sector when comparing both loan repayment rates and savings rates of members. According to Asian Development Bank(2000), most microfinance institutions in Asia do not have adequate capacity to expand the scope and outreach of microfinance services on a sustainable basis to most of the potential clients. The bank further points out that the low level of social development, a distinctive characteristics of the poor in Asia, is major constraint on the expansion of micro finance service on a sustainable basis. The bank believes that private sector MFIs are not likely to invest in social intermediation given the externalities associated with such investments. Hickson(2001) points that while richer households generally have the flexibility to accommodate the rules of rigid micro finance program, the financial vulnerability of extremely poor households prevent this. Very poor and unconfident households may deliberately

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

choose to avoid micro credit program, fearing indebtedness or an inability to meet the requirements of these schemes.

Section IV

Evaluation of effectiveness of measures on improvement of financial access.

Over the years, the effectiveness of measures on improvement of financial access in reviewed and various measures are prescribed to make it more suitable and sustainable for both providers of products and services and beneficiary.

Thompson (2006) measured the effectiveness of village banking system of providing micro financing in Haiti, one of the most disadvantaged countries of the world. To satisfy the objective, the author took the sample size of 325 female clients of FINCA village banking Haiti. The study found the impact of microfinance on two types of capital as follows: Social Capital: There is a positive impact on the social capital of the clients as it increases their safety net by improving mutual trust among them to ensure that they will support each other in the hour of need. Human Capital: Village banking has also improved human capital as more & more clients are making short terms investments for financing their children's education. However, the system did not affect the economic level of the clients much.

(Chowdhury, Mosley and Simanowitz, 2004) in their journal of international development has opined that considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people it benefits. Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programmes on poverty. This is so she argues, because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of 'poverty', how it is measured and who constitute the 'poor' "are fiercely contested issues). (World Bank, 2003) report says that Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. For some, such as World Bank, poverty relates to income, and poverty measures are based on the percentage of people living below a fixed amount of money, such as US$1 dollar a day. Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a HIV/AIDS, malaria and other diseases; (vii) ensure environmental sustainability; and (viii) develop a global partnership for development.

(Kimotha, 2005) in his study on evaluating the performance of the microfinance in Nigeria states thatMicro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or savings collected, the absence of asset-based collateral, and simplicity of operations. Others are its targets as the marginalized group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004).

NABARD's search for alternative models of reaching the rural poor brought the existence of informal groups of poor to the fore, it was realized that the poor tended to come together in a variety of informal ways for pooling their saving and dispensing small and unsecured loans at varying costs to group members on the bases of need. This concept of self-help was discovered by social development NGOs in 1980s. Realizing that the only constricting factor in unleashing the potential of these groups was meagerness of their financial resources, NABARD designed the concept of linking these groups with banks to overcome the financial constraint. The programme has come a long way since 1992 passing through stages of

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

Everant

pilot (1992-1995)mainstreaming (1995-98)and expansion phase (1998onwards)andemerged as the world's biggest microfinance **program in terms of outreach ,** covering 1.6 million**SHG Bank Linkage program me** Records show recovery rate as high as 95% for loans extended by banks to SHGs and a study sponsored by FDC, Australia, it was observed that the reduction in costs for the bankers is around 40% as compared to earlier loans under integrated rural development programme (IRDP). Similar finding in respect of commercial benefit of SHG lending were respected by Siebel &dave(2002).

'A' 1996 case study of group lending in Burkina Faso- examined 140 lending groups of sahel Action. The following findings are; a. The variable then had the most destabilizing effect on loan repayment was the domino effect at village level- Joint liability effect at Group/village level. b. Thus an incentive existed for correctly paying groups to default if any default existed in the village. c. Groups tended to default after several loan cycles- fore this phenomenon- terms and conditions of the group loan no longer fulfilled the demand of each group member in consecutive loan cycles, leading one or more members to default.

From the above, it explores that until access can be measured properly the cost-benefit case for banks trying to improve access is hard to make. Nevertheless, many proximity banks have an instinctive sympathy for improving access and are among the most pro-active banks in this area.

Section V

Microfinance policy regulation.

In the past, there was no such separate policy regulations in place since micro credit program was being practiced mainly under donor's program and as social responsibility. Ever since it has taken in centre stage development and it widespread outreach, policy regulation become inevitable to make the microfinance program more effective, focused and sustainable.

(Robinson, 2001) in his empirical study on microfinance in developing countries from 1950s through to the 1970s, states that the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. These often resulted in high loan defaults, high loses and an inability to reach poor rural households. He further states that the 1980s represented a turning point in the history of microfinance in that MFIs such as GarminBank and BRI began to show that they could provide small loans and savings services profitably on a large scale.

(Woolcock (2001) in his article, the Place of Social Capital in Understanding Social and Economic Outcomes &for an overview of the intellectual history of social capital. States that Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community.(Pesaresi and Pilley [2003]. In his article states that equally the policy and institutional recommendations needed to enhance financial access involve relatively broad-based steps to improve the circumstances of the "excluded" in general terms. Increasingly they have begun to include explicit government policies to extend banking services to the previously "unbanked" sections of society.

The concern of governments, national and international development agencies to the economically active poor people paved a way for semi-organized financial system with the buzz word micro finance and self-help groups (SHGs) which have been emergent since the late 1980s-- under this system a group of 10-20 poor people come together to save money and finance their needs themselves. If the SHGs survive for six to 12 months successfully after saving the required

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953
Everant

amount as per the norms, then SHGs can be linked to formal commercial banks to get loans. This is known as linkages between SHGs and the Bank. The model was designed through a pilot project in the year 1990-1991 and proved to be a very successful model (Swamy, 2009).

Reserve Bank of India 2005 constituted the Task force on Supportive Policy and Regulatory Framework for Micro finance. The task force has defined Micro finance as the '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'. Though, in India, micro financing is not a new concept, but it has emerged immensely with the introduction of SHG Bank linkage programme by NABARD in 1992. After that so many commendable efforts have been made by the Government of India to develop microfinance as a principle mode of poverty alleviation such as establishment of Rashtriya Mahila Kosh (1993), SIDBI foundation for micro credit (2000), committee on financial inclusion (2006).

In 2007, a bill on microfinance regulation has been introduced in the parliament which was supposed to get approval in the upcoming parliament session in November, 2009, still pending for approval. The Bill is a regulatory effort of the Indian Government to promote and develop the micro financing services for providing financial access to the disadvantaged section of the society by developing a micro finance development council and regulating all the micro finance providers.

(PriyaBasu 2006) in her explorative study concluded that in India, Policy makers strive to create a more inclusive financial system which is so critical to spreading economic opportunity and financial access among poor and fighting poverty. Govt. still dominates rural finance institutions-directed credit &subsidies(interest subvention) albeit lower than before-continue to distort risk-return signals in rural finance. The study reveals that vast majority of India's rural poor does not have access to formal finance. In spite of vast net work of banks-vast majority of India's rural poor still does not have access to formal finance. Rural banks serve primarily the needs of richer rural borrowers. Rural poor face severe difficulties in accessing savings & credit from the formal system. Some 87% of the poorest marginal farmers do not have access to credit. 71% do not have access to savings from a formal source. Access to other financial services such as insurance also remain limited for rural poor. Over 82% of households had no insurance. Recent years have witnessed the growth of new microfinance approaches designed to serve poor households. These often involve partnership between Govt, NGO & Banks. But these approaches have not yet shown significant results. Informal sector lenders retain strong presence in rural India. No-165. Tsai (2003) in his "Pathways to Crisis: Structural Liability, Global Contingency, and State-Business Relationships in the East Asian Economic Turmoil." *Comparative Sociology* 2:297-320.has revealed that the various poverty alleviation programs organized by the Government particularly, the subsidized ones have been treated as political patronage that defeated the original idea of micro finance programs.

Hulme& Moseley (1996) after independence, rural credit market was distorted with Government interventions in tightened the regulations over cooperative credit societies, nationalized the banks, fixed quotas for priority- sector lending for the banks, subsidized the interest rates for such lending and established regional rural banks for providing financial services in rural areas. A substantial portion of loans was defaulted and the efforts proved to be in fact detrimental for the poor. (Braverman and Guasch 1986) on the studies on the subject reveal that if the interest

rates are not the market rates, the loans result in income transfers to the loan recipients create more allocations of credit to richer sections of the society , in return for political benefits or as compensation for favors, rather than according to need or efficiency. (Armendariz and Morduch 2007) try to explain the relevance of modern form of micro finance(more specifically micro credit) in the context of the theory of diminishing marginal returns to capital, suggested that modern microfinance offers an efficient option to 'break the vicious circle by reducing the transaction costs and overcoming information problem for the banks and FIs to lend more to enterprise with little capital by charging higher interest rates.

It is evident from the above that regulators need to recognize that the administrations they serve may have more at stake in improving access than commercially run banks. Regulation should be fine-tuned accordingly. As always the performance of banking systems cannot be understood in isolation from the system of political economy within which they operate. Governments are likely to do more to improve access by improving the foundations of civil society than by trying to mandate access and interfere with product design.

Section VI

Issue related to assessing the impact of microfinance.

Over the years, several studies have been undertaken by various organizations, government, public bodies, research scholar etc. on micro finance. Most of the research studies concentrate on impact assessment. The basic purpose of the impact assessment was to give restatement on already developed theory, renewed directions on various dimensions of micro finance.

There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simanowitz (2001b). The argument is that if the market can provide adequate proxies for impact, showing that clients are happy to pay for a service, assessments are a waste of resources (ibid.). However, this is too simplistic a rationale as market proxies mask the range of client responses and benefits to the MFI (ibid.) Therefore, impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and their impact of their projects .

Morduch(1998) has carried out a cross- sectional survey in 1991-1992 of 1500 households in Bangladesh to analyses the impact of micro financing services on the ultimate borrowers. He found that there was increase in consumption and education level of the households using micro financing services as compared to the households who were not served by any micro finance program. Though this change was an absolute change not the relative one, still it recognized the positive impact of micro finance intervention.

(Kamble, Sonar 2006). Agha, Balal, Ogojo-okello (2004) examined the impact of a microfinance program that provided micro loans and training to the private sector midwives in Uganda on the perceived quality of services and clients loyalty.The study showed that the midwives were eagerly participating in micro financing programs and repeating their loans for the betterment of their clinic. They were also benefited with the training of business skills provided to them under micro finance programs.

Schechter (2007) studied the profile of some female clients of Mahasemam, an MFI in Tamilnadu to understand the utilization and management of funds, repayment of loan and their experience throughout their membership with a group. The study found that the micro financing loans enables the clients to run a small business and make profits out of it. The profit is used to

repay the loan amount and get another higher loan amount to reinvest in the business. The clients manage to repay the loan amount even by getting loans from moneylender when they lack sufficient funds to repay because they do not want to commit any default in repayment. In some cases females availed loans for the business of their husband or son and remained dependent upon them.

In course of study on gender equality and women's empowerment: a critical analysis of the third Millennium Development Goal- Kabeer(2005) has estimated that the success of Micro Financing Organizations in building up the organizational capacity of the poor women provides the basis for their social mobilization that many other class interventions have not been able to achieve.Various studies have shown that women are the better microfinance clients as compared to men. Pitt, Khandker (1998) estimated the impact of gender participation in the Grameen Bank and two other group based micro credit programs in Bangladesh.

A multipurpose quasi experimental survey was administered in 87 villages in order to measure the impact of such programs on labor supply, schooling of girl child, household assets and expenditure pattern. It was found that both the male and female credit did not affect any increase in labor supply rather it reduced the labor time of the adult male members as they started spending more time on leisure activities. The Grameen Bank credit to female members observed significant increase in girls' schooling. Increase in credit to mother led to increased enrollment of girl child to schools. However, other credit programs experienced the substitution of girls' schooling time with the time at household chores, if the mothers are drawn into self employment activities. The study also observed the effect of program credit on household assets and expenditure on goods is higher for women than for men because men indulged in increased consumption of leisure with borrowings.

Anthony, Horne (2003) concluded that it is the group gender composition, which affects the loan repayment behavior in a micro credit group rather than the individual gender of each member. He carriedout a logistic regression analysis of the data generated through a telephonic survey of 477 former or active members of an NGO in New England. The study found that the chances of default are likely to be less in a group having more females because females are considered more cooperative than males. Karim, (2008)has seen that micro credit benefited the women having marketable skills, the women whose husbands had marketable skills or whose husbands had a regular employment in order to ensure timely repayment. In the majority of the cases, the husbands and male kin of the women were the ultimate users of the loans sanctioned in the names of women. Though NGOs were aware of this fact that men control the use of credit, they remained silent in order to get the funds from the donors provided for financing women only. Moreover, the providers could more easily manipulate women clients than men.

Littlefield, Murduch and Hashemi (2003) state "microfinance is a critical contextual factor with strong impact on the achievements of the MDGs…microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale". Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women. Hulme and Mosley, in their article "Finance against poverty", *Journal of Microfinance*, 1, 109. 1996. State that while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that "most contemporary schemes

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

are less effective than they might be. They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance.

Dichter (1999, p.26) states that microfinance is a tool for poverty reduction and while arguing that the record of MFIs in microfinance is "generally well below expectation" he does concede that some positive impacts do take place. From a study of a number of MFIs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the household are the most common impact of MFI programmes (ibid.). Hulme and Mosley (1996, p.109) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that "there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor" (1996, pp109-112).

When analyzing the impact of microfinance, social impact must be assessed. Kabeer (2003) states that wider social impact assessment is important for an organization's internal learning process, as an MFI should be aware of the "full range of changes associated with its efforts and uses these to improve its performance". She considers social impact to relate to human capital such as nutrition, health and education, as well as social networks (2003). Chowdhury, Mosley and Simanowitz (2004) argue that if microfinance is to fulfill its social objectives of bringing financial services to the poor it is important to know the extent to which its wider impacts contribute to poverty reduction. Littlefield, Murduch and Hashemi (2003) also acknowledge the sparse specific evidence of the impact of microfinance on health but where studies have been conducted they conclude, "households of microfinance clients appear to have better nutrition, health practices and health education than comparable non-client households

Microfinance interventions have also been shown to have a positive impact on the education of clients' children. Littlefield, Murduch and Hashemi (2003) state that one of the first things that poor people do with new income from microenterprise activities is to invest in their children's education. Studies show that children of microfinance clients are more likely to go to school and stay longer in school than for children of non-clients. (Marconi and Mosley, 2004). Many of the impacts on income were positive for the less poor and negative for the poorer clients, a trend that we have already seen. Marconi and Mosley (2004) state that this should not be surprising as poorer clients are more risk adverse and less likely to invest in fixed capital and so are more vulnerable to having to sell productive assets in the event of a shock. However, it was found that social networks played an important part in helping clients escape from poverty. Access to social networks provided clients with a defence against having to sell physical and human assets and so protected household assets .

BL Centre for Development, Research and Action (2005) conducted a study to assess the impact of micro finance programs on the empowerment of scheduled caste women. The study found that there had been a tremendous increase in the literacy rate among the SC women over a period. The respondents reported that: -They feel positive change in their mentality, confidence level and decision making power. -They get social awareness regarding health, nutrition, family planning and educational developments. -They are now well respected in the family as well as in the society. -They themselves recognized the sense of selfrespect. (Kamble, Sonar 2006). Agha, Balal,

Volume 2 Issue 10 October 2017
DOI: 10.18535/afmj/v2i10.03
Page : 918-953

Ogojo-okello (2004) examined the impact of a microfinance program that provided micro loans and training to the private sector midwives in Uganda on the perceived quality of services and clients loyalty. The study showed that the midwives were eagerly participating in micro financing programs and repeating their loans for the betterment of their clinic. They were also benefited with the training of business skills provided to them under micro finance programs.

Demirguc-Kunt and Levine 2008 in their article on impact of microfinance found out that access to finance eases the external financing constraint that prevents firms' expansion. Low access also leads to increased income inequalities, poverty, and low growth rates. Thus access to finance and inclusive financial system which includes all groups of people, poor and middle class as well, has been advocated to reduce. This view is in sharp contrast to the stance of earlier studies which stressed that finance is important for economic growth only and achieving efficient resource allocation and profitability are the sole objectives of the financial system as suggested by Caprio and Hanohan 2001.Burnet (1995) In 1995, Calmeadow, a Canadian non profit organization working in the field of micro finance developed an impact study for PRODEM. Among others, the impact study gain enhanced understanding of rural clients markets to access credit needs &market opportunity. In this way, the access has qualitatively increased.Fruman (1997)- studied - The federation Descaisses D' Epargneetde credit Agricole- Mutual (PECECAM), a large network of savings & credit co-operatives with more than 2 lakh clients has demonstrated that village forum group-credit committee has got a positive role in savings and credit access to the villagers by following group gurantee, character and some form of collateral. But they are more men centric(very much geared towards Men) as they have the most assets & hence collateral.

D.C. Pathakand S.K. Pantanalysed the socio-economic impact of micro finance on rural poverty alleviation. They have conducted a case study on socio economic impact of SGSY(swarna Jayanti Grama Swarojgar Yojana) on poverty alleviation in Ramnagar block of Distrcict Jaunpur in Uttar Pradesh. The objective of SGSY(state sponsored poverty alleviation programme) is to bring assisted poor families above poverty line by organizing them into Self-Help Groups(SHGs) through the process of social mobilization, their training and capacity building and provision of income generating activities through a mix of bank credit and government subsidy. Their Findings-The SGSY has not contributed significantly in the change in the level of income of the beneficiaries. The program has no positive impact on financial access to rural population but has shown some improvement at access to safe drinking water, sanitation facility and electricity. Simanowitz (2000) conducted a client exit survey to explore the reasons as to why they dropped out of the micro financing program. The drop- out research revealed four categories of reasons that are- personal reason like death and illness in the family, business reasons, problems in the group and problems with the procedure with regard to frequency of repayment, loan duration and like.

Hulme and Mosley (1996) make this point when they refer to the "naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women". However, with careful planning and design women's position in the household and community can indeed be improved. They state that microfinance projects can reduce the isolation of women as whenthey come togetherin groups they have an opportunity to share information and discuss ideas and develop a bond that wasn't there previously.

It is imperative that the impact issues can be important and relevant in the context of reinstating

the theory, product and services and modifying, developing new theory, practices, products, services in regard to changes that occur in society.

Section VII

Research Gaps.

From the literature review mentioned above, most research studies concentrate on impact assessment. However, there has been relatively less work done in the areas as mentioned below and research gaps are visited on access to microfinance.

Inaccessibility of micro finance by poor in rural areas to mainstream banking institutions while the majority of the poor in the developing world live in rural areas. Access to microfinance & other financial services by the poor in a financially viable and on sustainable basis.Expanding access as it has not shown a scale in impacting poverty as expected. there can be other products such as micro savings, insurance and payment services (e.g. for business transactions or remittances) that may play an equal if not more important role in impacting poverty. The transmission links of microfinance to poverty and economic growth, as it provides the importance of microfinance as an engine of growth, employment creation and poverty reduction.It should take cognizance of the varying needs of various sections of the poor in designing financial services & appropriate products and such products, services are delivered in a cost-effective manner. Integrative approaches--integrating non-financial services (usually education) with financial service--to microfinance. Linkages between banking sector and NGOs which can make an effective contribution to the development of microfinance supported by regulatory efforts. Provision of capital to the poor through micro finance to run the income generating activity & generate adequate income to come out of poverty. But It is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. Both formal institutions and MFI seek to address the gap in the market in a financially sustainable manner. The government has definite role in it. The policies concerning microfinance as it did not adequately serve the rural poor because of some wrong assumptions. It is not just policies, but institutions & markets that need to be transferred so as to improve the efficiency of the formal rural finance sector. Major challenges like (1) scaling up quality financial services to serve large number of people, (2) reaching poorer & more remote people & (3) lowering costs to both clients & financial service providers (4) cost recovery interest rate & high repayment to achieve long term sustainability & reach large number of clients are some of the measures that has bearing on improvement of financial access. Policies on financial inclusion as none of the policies and their survey respondents reported employing to boost financial inclusion show any significant relationship with their measures of loan and deposit penetration especially on microfinance. This result however, does not imply that these policies are ineffective, but rather an indicator of large variations the countries pursuing them.Hither to, there is only piecemeal study on various aspects concerning microfinance access of the poor. There is requirement of comprehensive study on financial access indicators for the rural household.

Section VIII

Conclusion.

The literature study broadly covers the statement of various authors in cross country comparative analysis of poverty, assessment of access of micro finance in world as well as in India and state, various models practiced by MFIs in servicing micro finance across the country and states, Products and services offered by formal institutions, MFIs and practices, Institutional sustainability, cross country evaluation of

effectiveness of measures on improvement of financial access including policy measures, microfinance policy and regulation, Issues related to assessing the impact of microfinance.

It highlights that microfinance has had both the direct and indirect impact on poverty, viability and sustainability for the rural households. At the micro-level, the literature on the impacts of access to credit on household welfare is more mixed. Expanding access has not shown a scale in impacting poverty as expected. The financial institutions inclusive of banks and developmental institutions have got important role in accessing the microfinance & other financial services to large sections of un-served rural populations. The major source of finance for the poor is still found to be money lenders & microfinance is only reaching a small fraction of the estimated demand of the poor for financial services. The various models practiced by Banks/FIs in credit delivery are yet to be effective in providing sustainability in financial access. Rather, MFIs do not have the depth of outreach that is needed to meet the demands of the rural poor.

It is highlighted that It is not just policies, but institutions & markets that need to be transferred so as to improve the efficiency of the formal rural finance sector. It further reveals that many banks are in deep financial distress owing to inefficiency arising for weak governance, poor management, weak regulatory standards & lack of super vision thus making not much progress in financial access to rural population. Govt. has set up NABARD, SIDBI, committee on financial inclusion for expanding the financial access to rural people, But they are yet to reach.

It is also highlighted that the borrower who invest in micro-enterprise and particularly the smallest one can afford to pay the high rates of interest which are being charged. No financial system can survive unless every link in the chain is profitable and the final link(the person whom the whole system intended to assist) can be profitable. It is obviously better for a poor person to pay less for her capital, if it is possible. It is possible to provide financial services to poor people at a price which they can afford and which also covers the costs of the institutions. The MFI with profit & social goals should be sustainable in providing financial service to poor by taking a fair approach towards their fund management. No one type of institution is the right one for scaling-up micro finance. The ideal may be a completely new institution which is formed specifically for the purpose, thus avoids the cultural 'hangovers' that make it so difficult for existing organizations of any kind to move successfully into this new field.

Moreover, Economic theory highlights the importance of capital and trade to growth but also shows that the creation of productive capital is as much about its financing as its existence. There is clear and well established evidence that bigger and deeper banking systems go hand in hand with more advanced economic development and that a vibrant microfinance sector can augment this but not substitute for it. In future, the first step is preserving the needs of the micro-borrower and ensure a sense of financial protection into the system. Secondly, the Institution needs to diversify its services so that the level of risks can be significantly reduced. And finally, the relation between the consumer and producer managed by the regulations.

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