A Comprehensive Literature on Impacts of Microfinance

[a]Bindu Arora, [b]Aanchal Singhal
[a]Associate Professor, DMS, Kanya Gurukul Mahavidyalaya, II Campus-Gurukul Kangri University, DehraDun. (U.K.), India
[b]Assistant Professor, DMS, JSS Academy of Technical Education, Mahamaya Technical University, Noida. (U.P.), India

Abstract

Micro Finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro-enterprises. In the development paradigm, Micro-finance has evolved as a need-based policy and program to cater to the neglected groups of society especially women, poor, rural, deprived, etc. The basic idea of micro-finance is that; if poor people are provided access to financial assistance, including credit, they may be able to start or expand a micro-enterprise that will allow them to break out of poverty. Micro-finance has become one of the most effective interventions for economic empowerment of the poor.

The purpose of this article is to introduce the finance academic community to the discipline of microfinance and microfinance institutions (MFIs). We acknowledge that many studies in the field of microfinance are commissioned, conducted, and published by government agencies and non-government organizations (NGOs). These studies are often valuable, and we have read many of them, they have contributed to our institutional knowledge, and we are obliged to the authors of such studies.
KEYWORDS: Microfinance, Impact, Socio-Economic, Empowerment, Rural

Introduction:
Micro finance covers a wide range of financial services that include savings, credit, insurance and remittance. Micro finance target those people who are denied credit from formal financial and banking institutions because of lack of awareness as well as formal rules which they have to follow to get a credit from these institutions. Micro finance can be considered as a tool for empowerment as well as for social protection (saving, Insurance and remittances). Microfinance can also be used to develop new generation entrepreneurs among the rural poor by providing other necessary skills required.

Microfinance products include micro savings, micro credit, micro insurance, remittance and other products like pension, provident fund etc., Microfinance refers to providing a gamut of high quality financial products and service to the poor section of the society.

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 Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) 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.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. The term 'micro-credit' was first coined in the 1970s to indicate the provision of loans to the poor to establish income-generating projects, while the term 'microfinance' has come to be used since the late 1990s to indicate the so-called second revolution in credit theory and policy that are customer-centred rather than product-centred (Elahi and Rahman 2006:477). But the terms 'micro-credit' and 'microfinance' tend to be used interchangeably to indicate the range of financial services offered specifically to poor, low-income households and micro-enterprises (CGAP website 2010; Brau and Woller 2004:3). Microfinance principally encompasses micro-credit, micro-savings, micro-insurance and money transfers for the poor. Microcredit, which is part of microfinance, is the practice of delivering small, collateral-free loans to usually unsalaried borrowers or members of cooperatives who otherwise cannot get access to credit (CGAP website 2010; Hossain 2002:79). And while non-financial services such as education, vocational training and technical assistance might be crucial to improve the impact of microfinance services, they are not the focus of this review. Like anyone else, poor people need an array of financial services to help them deal with a range of short- to long term consumption needs and the ups and downs of income and expenses, to make use of opportunities, and to cope with vulnerabilities and emergencies. The needs of the poor for financial services have been categorised into three groups, namely life-cycle needs that can be anticipated (like marriage, burial and education), unanticipated emergencies (like sickness, loss of employment, death of a breadwinner, floods), and opportunities (like investing in a new business or buying land) (Matin et al. 1999:7–8).

SHG's are playing a vital role in extending macro-finance to the rural poor. The functioning of SHG's has been based on participatory mechanism and therefore the impacts of SHG's on its members in terms of empowerment, accessibility to credit, women empowerment etc. has been found positive. Though there are a number of studies which are related to functioning of micro-finance but only a few studies have been taken so far to assess the impact microfinance on socio-economic conditions of the rural poor. In spite of the impressive figures, the supply side of microfinance in India is still presently grossly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector and the economy as a whole. It has also been seen that there are gaps related to the microfinance services available for the rural poor at various levels. Many NGOs/MFIs have come up with innovative schemes which are to be documented and replicated. Hence it is pertinent to study the microfinance aspects related to rural poor in context of promoting socio-economic conditions of the poor.

Objective:

The objective of this paper is to introduce the microfinance and MFIs and their impacts on poor, to the finance academic community and to provide an outline for future financial research. To meet the objective of introducing microfinance to the finance academic community, we provide a review of articles that address at least one component of microfinance.

Research Methodology:
The paper writing began with a literature review and the analysis of secondary data available. Some background information is also given to support the literature.

Discussion:
Key challenges for microfinance today that are affecting their impact on poverty alleviation are seen to be an over-emphasis on financial sustainability over social objectives, and a failure of many MFIs to work with the poorest in society. Therefore, there is a greater need for MFIs to carefully design services that meet the needs of the poor and this can only be done when MFIs understand their needs and the context within which the poor are working. (Morduch, 2004).

If MFIs are to meet their overall development objectives then they need to ensure financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services. The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation (Hulme and Mosley, 1996). However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood.

Internationally, knowledge about the impacts of microfinance is only partial, and remains contested (Hulme, 2000). While many studies argue that microfinance can be used as an effective tool to fight poverty (e.g. Hulme & Mosley, 1996, Latifee, 1997), some are less optimistic about the potential of microfinance and point to the negative impacts that microfinance sometimes has (Rogaly, 1996).

Muhammud Yunus, founder of the Grameen Bank has been quoted as saying that microfinance leads to poverty reduction through a virtuous circle comprising: 'low income, credit, investment, more income, more credit, more investment, more income' (Hulme & Mosley, 1996). Indeed, many studies have found that well-designed lending programs can improve the incomes of poor people and for a proportion of cases can move the incomes of the poor above official poverty lines in large numbers (Hulme & Mosley, 1996, Mosley, 2001). Further, several studies have found evidence that the impact of a loan on a borrower's income is directly related to the level of income, with the 'middle' and 'upper' poor more likely to benefit than the 'core' poor. The justification given is that those with higher incomes have a greater range of investment opportunities, more information about market conditions, and can afford to take on more risk than poorer households.

While some studies have found evidence of diversification of income sources among poor clients (Mosley, 1996), others have found that clients tend to specialise in more productive activities (Montgomery et al., 1996). One theory posits that poorer clients seek to diversify in order to protect their income while clients who are better off are better able to assume the risks associated with specialisation (Sebstad & Chen, 1996). While there appears to be general consensus on the ability of microfinance to raise incomes in at least some cases, it is uncertain whether such improvements can be sustained over time. In one study it was found that incomes tend to plateau after an

initial increase and that few long-term borrowers are able to continuously achieve income growth (Hulme & Mosley, 1996).

Many studies have found evidence of increased incomes leading to asset accumulation among program participants (Sestet & Chen, 1996). In a study conducted in Bangladesh it was found that successive loans led to a build-up of assets over time, and that the structure of assets tends to favour productive assets, suggesting an emphasis among borrowers on securing income (Montgomery etal., 1996).

A study of six microfinance programs in Africa found substantial qualitative evidence that targeting microcredit to the poor and to poor women in particular, enhances human capital through increased expenditure on consumption and education and related improvements in health. In all the cases studied microcredit was found to have had a positive impact on measures of welfare, with women beneficiaries tending to attach a higher value to the concept of well-being (Mosley, 2002).

While several studies indicate positive impacts of microfinance upon school enrolment levels, school attendance or educational attainment (Sebstad & Chen, 1996), a large cross-regional study found no evidence of any impacts upon children's education (Peace & Hulme, 1994), indicating that impacts on education have been mixed.

A study of the health impacts of microfinance found that microfinance participation led to increases in women's own demand for formal healthcare (Nanda, 1999), and a study of the BRAC program in Bangladesh found better child survival and nutritional status in households served by the program (Chowdhury & Bhuiya, 2002). These findings are moderated by those of a separate review of three studies that looked at impacts of microfinance upon health and nutrition levels and found some evidence of improvements in these areas but concluded that these linkages were not strong or direct (Sebstad & Chen, 1996).

Several studies have found evidence of participation in microfinance programs as leading to increases in household consumption, and some have found that increases in non-food consumption have outpaced increases in food consumption, reflecting a shift in concern beyond immediate survival (Sebstad & Chen, 1996).

It is commonly argued that by targeting women microfinance can improve both the economic standing of women within the household and their social standing in the wider community. A study from Bangladesh found improvements in women's physical mobility, economic security, ability to make own purchases, freedom from family domination and violence, political and legal awareness, and public participation (Schuler & Hashemi, 1994). However, Hulme & Mosley (1996) argue that while these impacts may be quite pronounced in Bangladesh, where the social position of women is particularly low, these impacts are minimal in environments where the social gap between men and women is less extreme. They found that credit programs can reduce the relative isolation of women, but urge caution in assuming that loans made to women improve their economic or social position.

While some studies have found evidence of empowerment of women, it has also been found that a significant number of loans given to women are actually controlled by their husbands or other male family members (Hulme & Mosley, 1996). It is argues that this can have negative implications for women since they carry responsibility for

repayment of loans that are not under their control (Goetz & Gupta, 1996). It has also been found that even those loans that are controlled by women tend to be used on traditional 'women's activities', serving to reinforce existing conceptions of the economic role of women (Hulme & Mosley, 1996).

Aside from empowerment objectives, many commentators support a focus on the targeting of women due to the common finding that income under the control of women is more likely to be spent on family welfare than that under the control of men (Holcombe, 1997; Sebstad & Chen, 1996).

Hulme & Mosley (1996) argue that the Grameen model, upon which the majority of microfinance programs are based, is not effective in working with the core poor, and advocate the development of a range of microfinance models suited to local conditions.

Highlighting the differing experiences of impacts upon extreme or 'hard core' poverty is a review of 32 studies which found that while in some cases the well-off appeared to have experienced greater proportional impact from participation in microfinance programs, there were also cases where there was no clear difference between wealth groups, and at least one case where there was found to be a greater proportional impact upon the poorer borrowers (Sebstad & Chen, 1996).

Closely related to the issue of the impacts of microfinance on the poorest is the issue of access by the poorest to microfinance services. Hulme & Mosley (1996) found that the poorest of the poor are often excluded from credit programs in one or more of three ways: Self-exclusion, in which the poorest perceive the risks associated with taking a loan as being unreasonably high; social exclusion, in which program participants are not willing to form groups with those they see as being potential defaulters; and Exclusion by program staff, who prefer to deal with less risky clients in order to meet performance targets.

A report to an Imp-Act working group advocated a need to consider different country contexts when talking about the effectiveness of microfinance when dealing with the poorest, emphasising that the defining characteristics and lived realities of the poorest varies significantly across countries (Roper, 2002). A useful definition states that the core poor are those who have not crossed a 'minimum economic threshold' that is defined by characteristics such as the existence of a reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent contingencies and sufficient resources to cope with problems when they arise (Hulme & Mosley, 1996). This definition of core poverty draws heavily upon the concept of vulnerability.

According to a study by Coleman (2004), approachable and rich people have greater access to micro finance as compared to poor. Access to Micro finance and age had a negative but significant relationship (Khalid, 2003). Morduch, (1998); Mosley, (1998) Qualified and highly educated people could easily understand the procedure for obtaining the micro finance. Information relating to borrowing of micro finance had significant relationship between literacy status and micro credit determination. Demographic factors had significant impact on micro credit constrained conditions.

Weiss, Montgomery and Kurmanalieva (2003) reviewed the evidence of the microfinance impact on poverty in Asia and subsequently Weiss and Montgomery

(2005) provided an update including studies using Latin American data. They reviewed only more "rigorous studies" and did not cover studies using qualitative or participatory approaches. Weiss and Montgomery (2005) summarized their review by saying that the conclusion from the early literature, that whilst microfinance clearly may have had positive impacts on poverty it is unlikely to be a simple panacea for reaching the core poor, remains broadly valid. Reaching the core poor is difficult and some of the reasons that made them difficult to reach with conventional financial instruments mean that they may also be high risk and therefore unattractive microfinance clients.

Meyer (2002) reached a similar conclusion. Surveying available evidence for Asian countries, he concluded that while access to microcredit seems to have an overall positive effect on income and education, results differ substantially across countries and programs both in magnitude and statistical significance and robustness. Because income and expenditure are the basic measures of household welfare, rigorous microfinance impact evaluations almost always cover changes in these variables. While some studies show positive impacts, other studies could not establish significant impacts. Hulme and Mosley (1996), for instance, concluded that growth in incomes of borrowers always exceeds that of the control group. They also found that the positive impacts on income are larger for better-off borrowers.

Among the most cited results on the impact of microfinance on income are those reported in Khandker (1998) and Khandker (2003). Using data from a 1991/1992 survey covering Grameen Bank and Bangladesh Rural Advancement Committee microfinance programs, with appropriate controls for sample selection and non random program placement; it was found that a Tk100 loan to a female borrower would result in a net consumption increase of Tk18 compared with Tk11 for male borrowers. In subsequent estimates, using panel data that included a re-survey of previous respondents in 1998/1999, there was a slightly lower impact (a Tk10.5 increase in consumption). In the earlier survey, 5% of the participants were able to escape poverty annually. In the second survey, the corresponding impact was an 8.5% reduction in moderate poverty and an 18% reduction in extreme poverty. Evidence was also found of positive spillovers on nonprogram participants in the villages.

Using data from Bangladesh, Zeller et al. (2001) estimated the impact of microfinance on household income microfinance by comparing eligible households in the Association for Social Advancement and Bangladesh Rural Advancement Committee villages with eligible households in the Rangpur Dinajpur Rural Service village. They found different impact estimates depending on the season. They noted the substantial difference between their estimate and that of Pitt and Khandker (1998) and explained that their "measures were not only the effect of actual borrowing, but also the effect of access to credit, that is, the ability to borrow sometime in the future even if the household in the current period chooses not to borrow." These indirect benefits would include "reduced cost of consumption smoothing, such as decrease in distress sale and an increase risk-bearing capacity favouring more profitable production and investment portfolios."

In contrast to these earlier mentioned studies, Coleman (1999) found no significant impact of access to microcredit on improving household wealth using a sample of households from north eastern Thailand. However, when the sample was broken

down into general beneficiaries and committee members, Coleman (2006) found that the insignificance was limited to general beneficiaries and that a positive impact was found among committee members who received access to financing. Estimates in Montgomery (2005) using data from Pakistan found a mild significant impact on per capita food expenditure in the months after the beneficiary first borrowed.[18] However, access to microcredit did not have a significant impact on non food expenditure.

R. Bebczuk and F. Haimovich (2007) used household survey data on poor households from a number of Latin American countries to undertake their analysis. They found that credit increased labour income in a statistically and economically significant manner. Access to credit increased the hourly labour income of poor individuals compared with a similar population without access to credit by 4.8 times (Bolivia at 10% level of significance), 12.5 times (Guatemala at 1% level of significance), and 4.5 times (Haiti at 5% level of significance). The impact was sensitive to the size of the loan. They found that, in Guatemala, a 10% increase over the average amount of credit translates into an increase in hourly labour income of 4.7 times to the average income of credit borrowers and 6.2 times for those without access to credit.

Otero, illustrates the various ways in which “microfinance, at its core combats poverty. She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organisation building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999). The aim of microfinance according to him 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. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) 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.

In India, a variety of micro-finance schemes and various approaches have been practiced by both Governmental and Non-Governmental organisations. There are examples of spectacular success and there are also examples of not-so-successful programs which experienced high default rates and are unable to provide financial assistance in the long run. Ultimately the aim is to empower the poor and encourage them into development.

Variety of micro-finance organizations in government as well as in non government sectors exists in India. Leading national financial institutions like, the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development bank of India(SIDBI) and the Rashtriya Mahila Kosh (RMK) have played a significant role in making micro credit a real movement in India. The size and types of implementing organizations range from very small to moderately big involved in financing and savings activities for individuals and groups. These groups also adopt a variety of approaches Micro-finance interventions can be identified based

on their span of activity, source of funds, route through which it reaches the poor or the coverage. However, it seems that one of the most common practices and approaches is providing credit through Self-Help Groups. The approach is to make SHGs the main focal point to channelize all credit to members. Almost, all national funding organisations (NABARD, RMK) as well as other Government organisations advocate forming of Self Help Groups and providing or linking with credit. However, many organisations provide individual finance directly also exist.

PRADAN was established in 1983. Presently PRADAN projects are in Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and West Bengal. PRADAN works with socio-economically disadvantaged communities, such as *adivasi*s, women, scheduled castes, the landless and marginal and small cultivators.

The inspiration to set up PRADAN was the view that capable and caring people rather than material resources are most critical for social development. PRADAN believes that well educated and socially concerned people must work with village communities in the spirit of fraternity to hasten social development. Enhancing people's capability to take care of their development and to lead a life of dignity is basic to PRADAN's approach. This has remained PRADAN's guiding philosophy through the past decade. PRADAN projects presently benefit some 110,000 families. Every year now projects expand coverage to 15,000 to 20,000 new families. The focus of PRADAN's activities is "*impacting livelihoods to enable rural communities*". In PRADAN's view livelihoods is not just the matter of increasing family incomes but is a matter of building capabilities of the poor people in accessing and creatively using livelihood resources and entitlements, and ultimately to lead a life of dignity as free citizens. PRADAN works in the role of an enabler and facilitator and not as a service provider. Organisations of poor people are created and helped to establish sustainable linkages with external resource institutions such as banks and government departments. This is done in a manner which helps people gain experience and confidence to sustain such linkages even without PRADAN. It is also a core belief in PRADAN that highly educated and sensitive individuals have to work directly at grass roots to enable the poor and bring about this kind of wide ranging social and economic impact. Presently PRADAN works with approximately 300 professional executives who are engaged in a wide variety of livelihood projects with the poor families, the women from which are organised into about 6500 Self Help Groups involved in microfinance through small savings and credit.

Based on the observations of the failure of development policy and administration, with a weak role played by the state in supporting the institutions of development, Shah (1996) emphasized the importance of developing NGOs as change agents. Government of India also realized its failure in properly implementing development projects and decided to involve NGOs during the Seventh Five-Year Plan, in executing development projects. The NGO's strength lies in target group approach, flexibility, experimentation, innovation, grassroots presence and motivation.

By learning from the example of Grameen Bank, Bangladesh, many NGOs in India, came forward to provide financial services to the rural poor and RNFS enterprises. For NGOs, it is also a shift in approach from development to empowerment wherein they can plan their withdrawal strategy from service delivery projects and think of their own sustainability by providing financial services. At present there are many

NGOs involved in micro-finance delivery systems in India. These NGOs have adopted different strategies of promoting people's livelihood through micro-finance. These strategies are based on their clientele, approach, focus area, interest rate, savings linkages, collateral, coverage and organisational/ legal structure. These strategies can be classified into four broad categories, namely, SHG promotion, MFI, micro-enterprise development and social development.

The SHG promotion approach is based on the premise that the NGO promotes SHGs and provides them services as financial advisor. This ultimately leads to build the capacity of SHGs in terms of savings mobilisation, linking them with banks and providing technical support in starting viable micro enterprises by the members of SHGs members. In this approach NGO basically is a mediating contact between SHGs and banks. NGO also examines creditworthiness of the SHGs so that bank can lend money to the SHGs. In all this NGO gets some financial support in terms of grant from Apex Financial Institutions (AFIs) like NABARD and RMK (Rashtriya Mahila Kosh).

The examples of such NGOs who are following SHG promotion approach are: MYRADA in Karnataka, SHARE in Andhra Pradesh, RDO (Rural Development Organisation) in Manipur, PREM (People's Right and Environment Movement) in Orissa & Andhra Pradesh, YCO (Youth Charitable Organisation) in Andhra Pradesh, Anarde (Acil Navsarjan Rural Development Foundation) in Gujarat, PRADAN (Professional Assistance for Development Action) & RUDSOVAT (Rural Development Society for Vocational Training) in Rajasthan and ADITHI in Bihar.

The approach of promoting MFIs is based on the premise that AFIs like SIDBI (Small Industries Development Bank of India), RMK and other donor agencies provide bulk lending, soft loan and some grant to such NGOs which can act as MFIs by on-lending the money to the poor people/ SHGs/ Federations/ smaller NGOs. These MFIs stimulate the credit demand of the poor people. They also provide technical support for the beneficiaries to ensure proper utilisation of loans and repayment. At the same time they meet their cost of funds, cost of credit management and cost of default through the spread of interest and generate surplus for the viable operation of micro-finance.

The examples of such MFIs are Sewa Bank & FWWB (Friends of Women World Banking) in Gujarat, BASIX (Livelihood Promotion Institution) in Andhra Pradesh and RGVN (Rashtriya Grameen Vikas Nidhi) in north-eastern states, Orissa and Bihar.

NGOs are playing important role as catalyst in helping the rural unemployed persons to acquire training through MEDPs (Micro-Enterprise Development Programmes) so that they can become self-employed by starting their enterprises in RNFS. Moreover, they can also become job providers instead of job seekers. Thus, institutionalisation of MEDPs through NGOs can be an alternative approach of rural development in India. The success of any MEDP in terms of starting the enterprises by the trainees trained under it depends mainly upon the availability of loan. Micro-finance sector can provide help to solve this problem. Micro-finance for micro-enterprise development is a proper approach in India.

Some of the NGOs in India have adopted the approach of micro-enterprise development through micro-finance. The examples are CDF (Co-operative Development Foundation) in Andhra Pradesh, LHWRF (Lupin Human Welfare Research Foundation) in Rajasthan, UPLDC (Uttar Pradesh Land Development Corporation) in Uttar Pradesh and Group Enterprise Development Project of EDI (Entrepreneurship Development Institute of India) in Nagaland.

The social development approach of micro-finance is based on the premise that people should earn money by investing in viable micro-enterprises. They should earn profit from their enterprises. Major share of the profit should be reinvested in enterprises for their growth. The other share of the profit should be spent on social development that is, health, education, housing, sanitation etc. By earning profit from the viable micro-enterprises, people will increase their paying ability for services delivered to them under different social development projects run by NGO and States/ Central Government. For the NGOs and Government it can be a process of gradual withdrawal and for people, decrease dependency on the NGOs and Government. Such projects have micro-finance as a major component coupled with social service delivery.

These projects have demonstrably positive effects. The examples of such projects are Indo- Canada Agriculture Extension Project in Uttar Pradesh, IFFDC (Indian Farm & Forestry Development Corporation) project of farm and forestry development in Uttar Pradesh and Rajasthan, ICDS (Integrated Child Development Services) project of RASS (Rayalseema Sewa Samiti) in Andhra Pradesh and Conversion of ICDS project into Indira Mahila Yojana.

Since the emergence of micro-finance sector in India, role of AFIs has become significant. NABARD initiated the process of micro-finance in India through linkage programme of SHGs under Automatic Refinance Scheme. SIDBI is second important player in microfinance, providing bulk lending to MFIs. RMK is the third player providing loans to NGOs for on lending to the women SHGs. These are the three major AFIs in India. Each has a different approach in micro-finance sector. While NABARD's emphasis is entirely on SHGs linkage programme by mobilising their own savings also, SIDBI is focusing on building and creating larger MFIs and RMK is lending money to smaller NGOs as well.

Taking into consideration the growth and potential of micro-finance sector in India, other organisations and international agencies have also made their entry in the micro-finance sector by providing loans and grants to NGOs for different income generating projects as well as for incorporating micro-finance component in the service delivery projects of social development. The important names among them are HUDCO, NBCFDC (National Backward Classes Finance Development Corporation), NMFDC (National Minorities Finance Development Corporation), National Handicrafts Development Corporation (NHDC), OXFAM (Oxford Committee for Famine & Relief), NOVIP (Dutch International Development Agency), GTZ (Gesellschaft fur Tecnische Zusammenarbeit), CIDA (Canadian International Development Agency), Action Aid, CARE India, International Fund for Agriculture Development (IFAD), UNDP, UNIFEM (United Nations Development Fund for Women), British Department of Foreign and International Development (DFID) and Consultative Group to Assist the Poorest (CGAP).

Though in its young age, micro-finance sector has a diversified growth and multiplicity of impact. It is seen as an important phenomenon in the process of development, especially in context of globalisation and liberalisation wherein subsidy and grant based programmes / schemes are losing their importance. Micro-finance sector is seen as the best option based on saving mobilisation of the poor people and credit linkages. In India, many AFIs have come forward to lend money to the MFIs. MFIs of different nature have also come up with different strategies of promoting people's livelihood. The poor people, on whose shoulders the success of sector is depending, are also participating in the growth of this sector. Government is also interested and is closely monitoring the sector from the policy and regulatory point of view. The sector has also opened scope for research, training and consultancy.

In a holistic perspective micro-finance is a process of social intermediation and building social capital. Process of Social intermediation is an investment that is made for development of both human resources and institutional capital to make marginalized groups self-reliant in preparing them to engage in formal financial intermediation. According to Elaine & Barton (1998), social intermediation is a financial intermediation with a capacity building component, aimed at those sectors of society that lack access to credit and savings facilities. It can be understood by transformation of beneficiaries into clients or customers and creation of local institutions that bridge the gap between the formal financial institutions and marginalized groups. The concept of social capital is the key theoretical element in social intermediation, derived from the anthropological and sociological literature. According to Pischke (1991) micro-finance is primarily social as the Latin root of credit (credere) is to believe or entrust.

Key challenges for microfinance today that are affecting their impact on poverty alleviation are seen to be an over-emphasis on financial sustainability over social objectives, and a failure of many MFIs to work with the poorest in society. Therefore, there is a greater need for MFIs to carefully design services that meet the needs of the poor and this can only be done when MFIs understand their needs and the context within which the poor are working. (Morduch, 2004).

If MFIs are to meet their overall development objectives then they need to ensure financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services. The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation (Hulme and Mosley, 1996). However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood (Zohir and Matin, 2004). One such tool for measuring wider impact is a livelihood security analysis based on a livelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.

Conclusion:

The above studies simply demonstrate that SHG's are playing a vital role in extending micro-finance to the rural poor. The functioning of SHG's has been based on participatory mechanism and therefore the impacts of SHG's on its members in terms

of empowerment, accessibility to credit, women empowerment etc. has been found positive. Though there are a number of studies which are related to functioning of micro-finance but only a few studies have been taken so far to assess the impact of microfinance on socio-economic conditions of the rural poor. In spite of the impressive figures, the supply side of microfinance in India is still presently grossly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector and the economy as a whole.

Acknowledgements:
We humbly thank Dr. Anand and Mr. Ratan for his support and encouragement in taking up this paper.

REFERENCES

Papers:

Bebczuk, R. and F. Haimovich. 2007. MDGs and Microcredit: An Empirical Evaluation for Latin American Countries. Working Paper No. 48. Argentina: Universidad Nacional de la Plata.

Coleman, B. 1999. The Impact of Group Lending in Northeast Thailand. *Journal of Development Economics* 60: 105–141.

James C. Brau & Gary M.Woller (2006*) Microfinance: A Comprehensivereview of the Existing Literature.Journal of Entrepreneurial Finance and Business Ventures, Vol.9, Issue 1, 2004. Pp 1-26*

Khandker, S. 2003. *Micro-Finance and Poverty: Evidence Using Panel Data from Bangladesh* World Bank Policy Research Working Paper 2945.

Meyer, R. 2002. Track Record of Financial Institutions Assisting the Poor in Asia. ADB Institute Research Paper No. 49. Manila.

Mosley, Paul, (1996). 'India: Regional Rural Banks." In: Finance Against Poverty, Volume II: Country Case Studies, edited by David Hulme and Paul Mosley, pp. 316-348. London: Routledge

Mosley, Paul, (2001). 'Microfinance and Poverty in Bolivia', Journal of Development Studies, Vol. 37, No. 4, pp. 101-132.

Otero, M. (1999) *Bringing Development Back into Microfinance*. Journal of Microfinance, Vol. 1, No. 1, 8-19.18

Puhazhendhi, V. and Satyasai, K.J.S., 2001, Economic and social empowerment of rural poor through self help groups, *Indian Journal Of Agricultural Economics*,**56**(3):450-451

Rogaly, B. (1996) *Micro-finance evangelism, 'destitute women', and the hard selling of a new anti-poverty formula*. Development in Practice, Vol.6, No. 2, 100-112.

Schreiner, M. and Colombet, H.H. (2001) *From Urban to Rural: Lessons for Microfinance from Argentina*. Development Policy Review, Vol. 19, No.3, 339-354.

Simanowitz, A. (2001) *From event to process: current trends in microfinance impact assessment*. Small Enterprise Development, Vol.12, No.4, 11-21.

Vinayagamoorthy,A. and Pithadia. (2003). *Women empowerment through SHG: A case study in the Tamil Nadu*. Indian Journal of Marketing. Vol: XXXVII No11.

Weiss, J., H. Montgomery and E. Kurmanalieva. 2003. Micro Finance and Poverty Reduction in Asia: What is the Evidence? ADB Institute Research Paper

Series No. 53. Manila.

Zohir, S. and Matin, I. (2004) *Wider Impacts of MFIs: Issues and Concepts*. Journal of International Development, Vol. 16, No.3, 301-330.19

Studies:

Chowdhury, A. & Abbas Bhuiya, (2002). 'The Wider Impacts of BRAC Poverty Alleviation Programme,' Imp-Act Programme Document No. 15, pp. 13-14. (www.imp-act.org)

Hulme, David & Paul Mosley, (1996). Ch. 5 & Analysis and Recommendations, In: Finance Against Poverty, Volume I, London: Routledge IFAD, (2002). 'IFAD China – Evaluation profile No. 3', Rome: United Nations International Fund for Agricultural Development (IFAD).

Montgomery, Richard, Debapriya Bhattacharya, & David Hulme, (1996). 'Credit for the Poor in Bangladesh - the BRAC Rural Development Program and the Government Thana Resource Development and Employment Program.' In: Finance Against Poverty, Volume II: Country Case Studies, edited by David Hulme and Paul Mosley, pp. 123-227. London: Routledge

Sebstad, Jennifer & Gregory Chen, (1996). 'Overview of Studies on the Impact of Microenterprise Credit', AIMS Project, USAID, Washington DC.

Zeller, M., M. Sharma, A. Ahmed, and S. Rashid. 2001. *Group-Based Financial Institutions for the Rural Poor in Bangladesh: An Institutional- and Household-Level Analysis*. Washington DC: International Food Policy Research Institute IFPRI.

Books:

Ledgerwood, J. (1999) Microfinance Handbook. Sustainable Banking with the Poor. An Institutional and Financial Perspective, The World Bank, Washington D.C.

Daniel Lazar, P. Palanichamy (2008). *Micro Finance and Poverty Eradication*.New Delhi: New Century Publications.

Hulme, D. and Mosley, P. (1996) Finance against Poverty. Volume 1, Routledge, London.