

CHAPTER – 3

LITERATURE REVIEW

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CHAPTER – 3: LITERATURE REVIEW

The literature review of this study is divided into five major sections. This bifurcation is done based on the research questions of the study. Firstly, the financial needs of the rural poor are identified and assessed and also seen how these needs are currently being addressed and to what extent. The literature review of the Microfinance Distribution Mechanisms is then studied followed by Innovations in Microfinance. Lastly, impact of Microfinance Services on Poverty is reviewed.

1	Identify the Financial Needs of the Rural Poor
2	Study how these needs are currently met with and to what extent
3	Microfinance Distribution Mechanisms
4	Innovations in Microfinance
5	Impact of Microfinance Services on Poverty

3.1 Identifying and assessing the financial needs in rural areas

International Perspective

Mas (2015) in his paper, explores the financial needs of the poor and how they fulfil their needs. This paper brings out how poor manage their needs by having more than one source of income. Their source of income is dependent on the time period of the income. They need flow of income all through year to match up with their daily requirements. These families also maintain good relations with those who are able to help them during their need.

As per the Global Findex study conducted by Gallup, the major need for borrowing for the rural households is to meet the medical costs, followed by children's education and construction or renovation of houses. According to this survey, 16% of the households in low income countries and 15% of households in lower middle income countries borrow to meet their medical expenses. Global Findex Database (2014) brings out that in

the developing countries, 17% of those who are willing to save, save using the informal sources. Their savings are mainly for protecting themselves in old age, or for education of their children.

According to Faz and Breloff (2012), expenses for medical needs and education of their children were the major financial needs of the poor in rural Mexico. Their other major requirement was for improving their houses and investing in their businesses. The poorest households also needed finance to meet their basic needs of food, clothing and shelter.

As reported by Murdoch (2012), in a survey conducted of customers of Mongolia's XacBank, more than half of microfinance provided for business loans was used for meeting the household needs, and they also used the business loans to pay out other loans and to smooth their consumption pattern. This strengthens the point that rural poor households need microfinance for consumption purposes.

Rural households also need to save. As per the World Bank Report (2004), rural households are in need of mechanism to help them secure their savings. On their own, they are saving in some form or the other.

Pearce, Onumoh and Butterworth, (2004) state that the financial needs of the rural population is mainly for agriculture as agribusiness plays an important role in the rural economy. Poor farmers need credit to buy agriculture inputs.

Orozco (2003) and Sanders (2003) talk about the remittance needs of the rural poor. Rural poor migrate to other places for work and they need to send money back home. They also need remittance services to safely have their money reach their families.

Gonzalez-Veg (2003), in his study in Bolivia, opines that rural households need credit for consumption purposes and for investing in agriculture.

Skees (2003) and Pischke (2003) argue that poor households also need insurance cover. As mentioned earlier, rural economy is agriculture

based and agriculture is highly dependent on the climate. Hence, rural households need insurance cover to protect them from weather risks leading to uncertainty.

As per Coulter and Onumah (2002), rural microentrepreneurs need finance for purchasing raw material for their micro enterprises and for selling their products in the market.

Rutherford (1999) in his experience of studying the poor households in India and Bangladesh, brings out the various microfinance needs of the rural poor, being savings, insurance, investment, housing, education, health and consumption needs. They manage their needs through informal sources of Rotating Credit and Savings Associations (ROSCAs).

Indian Perspective

In Rural India, too, the major microfinance needs are to meet the consumption needs and to make investment in farms.

Gupta (2014), in her study of North Eastern Villages of Uttar Pradesh in India, concludes that the rural poor need microfinance services to get easy credit facilities, for savings, for micro insurance and also to strengthen their microenterprises. This study also brings out how microfinance is able to develop new opportunities for employment of the rural poor, either through micro enterprise or through any other self employment opportunity.

Kumar and Mukhopdhyaya (2013) in their study focused on Tamil Nadu rural areas show that the poor people in the rural areas need finance to meet social and medical expenses. Poor need for consumption and emergencies which may be medical or social emergency.

Kumar and Chaudhry (2009), found that the financial needs of rural poor are for meeting the expenses incurred during the social occasions like marriages, death ceremony, celebration of festivals; meeting emergency situations like sudden illness in the family, death of the chief earning

member of the family, natural disasters; savings for old age, and for expansion of their asset base, be it for household purposes or for occupation. They further state that the poor families use cash from their savings or by selling of jewellery or cattle, and borrowing from traditional money lenders or relatives to meet their financial needs. They conclude “For any household real financial security is dependent on the cushion they have built which can help not only smooth consumption but also deal with emergencies. Even if the assets have negative returns, rural households may choose it as a hedge against the risks.”

Rao (2007) states that apart from the financial needs for consumption purposes, rural families also need microfinance to meet the working capital requirements of their enterprises that they are already into and for investing in additional income generating activity.

Basu (2006) states that rural households are agriculture dependent and their main sources of income are through sale of agriculture products and/or through labour work. Their expenditures are small and irregularly incurred throughout the year.

To summarise, the microfinance needs of the rural households are for savings, education, meeting emergencies, for construction or renovation of their houses, for irrigation purposes, for purchase of seeds and fertilizers and for purchase of other productive assets.

3.2 The extent of fulfilment of such needs by microfinance

International Perspective

Gash and Gray (2015) study the various strategies that the poor use to withstand the shocks in their lives and how microfinance helps them in the same. They conclude that the rural poor do not have adequate financial resources and hence suggest that microfinance products should be such designed as to provide them with consumption support. Such product development should also be backed with technical trainings.

Ali, Abu-Hadi, and Sheikh (2013) in their study on 100 small businesses investigated accessibility of microfinance in Mogadishu, Somalia and reported that small entrepreneurs were not able to meet the requirements of the MFIs and thereby were not able to get credit from them.

Christen and Anderson (2013) observe that the rural economy mainly runs on agriculture. Agriculture is uncertain and risky and hence microfinance services are usually not provided for the same. A technical paper by Food and Agriculture Organisation (FAO), states that the rural financial needs are majorly for agriculture and for housing.

Global Findex Database (Brennan, 2012) shows that in low income countries, households first prefer to borrow from friends or family members. Their second choice would be to ask for loans from those for whom they are working or ask for goods on credit from the local stores.

Pearce, Onumoh and Butterworth, (2004) state that the agriculture needs of the rural farmers are not met.

Littlefield, Murdoch and Hashemi (2003) bring out that microfinance has helped poor people in increasing their sources of income, which has helped them come out of poverty. Microfinance has also provided the poor households finance to purchase assets, take care of their health and children's education and also improve their houses, thereby helping them become less vulnerable.

Sananikone (2002), synthesizes the studies on impact of microfinance on poverty eradication and talks about how different studies have shown that microfinance institutions' clients have come out of poverty, shown improvement in health and education of children and empowered women.

As per Zeller and Sharma (1998) and Buchenau (2003), the agro financial needs of the rural members are still not being met by formal microfinance institutions and they have to heavily depend on the informal sources.

Indian Perspective

Das (2015) in his study in North East India reveals that out of 186 households surveyed, only 7 households were able to get microfinance services using the formal sources. Rest of the households, still had to approach their friends and relatives to meet their microfinance needs of educating their children and maintaining health of the family members. Those who borrowed from the formal sources were those who lived around the areas where there were job opportunities and also available market place.

L. Vachya (2015) in her study on six villages from Telangana in India find an improvement in the living conditions of the SHG members leading to empowerment of women too. Singh and Singh (2015), in their study of SHG women from Varanasi District of Uttar Pradesh, also confirm that there is good impact on women when they become part of SHGs. His study shows that the savings of the women increases considerably, but as has been mentioned in other studies, the loans given to them for business purposes are used for other purposes. One of the important reasons for this could be that the loan they receive is small in size and is not sufficient to invest the same in business. He suggests that the loan size should be bigger but at the same time he cautions to check the borrowing capability of the borrower else they might get further indebted.

Bharti (2015) describes SHG model as one of the most successful models for providing microfinance services to the poor and her study too proves that the loan size given to the SHG members is not sufficient to meet their microfinance needs, which restricts them to start a micro enterprise. However, their other needs are met with.

Sarma (2015) through her study in Wayanad district of Kerala concludes that the financial development plans should be prepared partnering with the poor. She suggests that there is need to understand the needs of the poor, to raise the needed awareness and help them come out of poverty.

APMAS (2014) carried out a study covering 288 SHGs from Bihar and Orissa and found that Bihar SHGs that were newly formed had good group dynamics and were quickly becoming part of the SHG Federation System. They had good support from the State Government under the Bihar Rural Livelihood Promotion Society (BRLPS)/NRLM. On the other hand, the SHG movement in Orissa had reached a scale under the Mission Shakti of Government of Orissa. Bihar SHGs had good resources and monetary support, while Orissa SHGs did not have. Hence the Non Performing Assets (NPA) of Orissa was high with 18%, while that of Bihar was only 6%. The quality of SHGs in Bihar was better than those of Orissa. Study showed that as SHGs grew older, its quality started deteriorating. However, the impact of SHGs in Orissa was better than that in Bihar. Their dependency on money lenders had reduced.

Ghosh (2012) also project the success of SHG Bank Linkage Programme and through his study conclude that the programme has reduced the dependence on money lenders and has brought women out of poverty.

Aggarwal, Khapper and Singer (2012) find that microfinance helps in wealth creation and is proving to be very helpful in helping the poor households in smoothening their consumption patterns and managing their risks.

E. M. Reji (2011) in her study reveals how SHG women gain through getting credit as well as get empowered to become more confident, participate in community activities, take more part in household decision making.

Shylendra, Guha and Veerashekhharappam (2010), in their study on SHG women from Sabarkantha district of Gujarat conclude that SHGs do help

the poor families in obtaining credit and the SHG Bank Linkage Programme has made a good impact on poor households. However, they also suggest that the strategies to implement the SHG Bank Linkage programme could be further strengthened.

Rao (2007) in his study finds out that the rural households meet their entrepreneurial needs through friends and relatives or by approaching the traditional money lenders. The Microfinance Institutions also meet their needs. Farmers need finance for purchase of seeds, fertilizers, pesticides and payment of labour. Their needs are met through borrowings or by selling any asset owned by them. Poor families also sell their own labour (by working in others' farms or houses) in times of need and make it as a new source of income.

Sinha (2005) on one hand agrees that microfinance is positively impacting the poor through providing them with needed microcredit, however it has still not been able to reduce the borrowings that the poor households still take from the informal service providers, like money lenders.

3.3 Microfinance Distribution Mechanisms

International Perspective

The case studies published by CGAP in 2015 show that though there is poverty and also strong need for microfinance in the rural areas, MFIs usually are not able to reach them due to poor infrastructure, distances and small finance needs, which add up to the delivery costs. The case studies from Kyrgyzstan, Bolivia, Peru, Mozambique and Kenya show that high operational costs hinder the MFIs from expanding their outreach in the rural areas. This challenge can be overcome with the use of technology and designing of flexible products. The case studies also suggest that group lending work better than individual lending.

CGAP in its Donor Brief (2013) suggests that donors need to support in developing the rural infrastructure, which would help in increasing the outreach of microfinance services in the rural areas. The study also suggests that technological innovations and product innovations need to be taken up to spread and deepen the microfinance services in the rural areas.

Swain (2011) observes that SHGs that are formed and financed by banks are found to be more effective in reducing vulnerability of women. His study suggests that by developing the rural infrastructure, this positive impact could be further strengthened.

Joseph and Joseph (2011) from their field survey observe that microfinance institutions and banks have very less spread in the rural areas due to lack of infrastructure like electricity and good roads. They suggest that microfinance services could be improved if the infrastructure is improved.

Pearce, Davis, Omuah, and Butterworth (2004) through their study bring out the need for improving the rural financial system. As has been discussed above, the finance needs of the rural households are diverse and to meet these needs, the delivery mechanisms should be strengthened by tying up with banks having rural branches and also through post office, which has a wide spread network in India, including rural India.

Chua, Mosley, Wright and Zaman (2000) highlight the challenges faced by the MFIs in improving their microfinance products, services and delivery mechanisms. They find it difficult to tailor make the products according to the needs of the rural poor. They are also not able to match their repayment system with the earning cycle of the rural poor. There are limitations to the flexibility they can offer and the insurance coverage they can provide to help cover the risks of the rural poor.

Rutherford (1999) brings out the savings needs of the poor and the informal ways in which they saved, by joining the savings clubs or Rotating Credit and Savings Associations (ROSCAs). If the product developed for the poor meets their needs and the delivery mechanism is convenient and simple, they would be able to access the formal microfinance.

Indian Perspective

In India, microfinance is mainly provided through two delivery models- SHG Bank Linkage Programme (SBLP) and through Microfinance Institutions (MFIs).

Gupta, (2015) in his study carried out in Ahmedabad and Gandhinagar districts revealed that the objective of more than half of the MFIs studied was to become sustainable and at the same time also expand their outreach. These MFIs believed that they will have to strengthen their partnership with the commercial banks in order to meet their objectives.

Kantawala (2015) in her research done in Gujarat analyses that MFIs reach the poor and non poor, but are not able to reach the poorest. She also suggests that there is need for proper regulatory mechanism for MFIs in India.

As Gupta and Ansari (2014) state SBLP model has been accepted globally as the world's largest microfinance programme. They further state that microfinance in the 1970s was provided through NGOs like PRADAN and MYRADA using the self help group model and through the Government IRDP programme. The SHG model is helping in developing the savings habit amongst the women.

Sarma and Mehta (2013) provide a comparison of SHG model and the JLG model. He brings out the positives and negatives under each model and states that SHG model is found to be more suitable when the households do not have assets and are willing to start a new micro enterprise, while

the JLG model is more successful when the households or the borrowers already have existing micro enterprise and are looking for additional financial support.

Nasir (2013) notes that MFIs in India face lot of challenges and constraints and hence are not able to reach out to the poor. The delivery mechanism needs to be strengthened and enabling environment created to support them to reach out to more remote areas.

Reddy (2010) discusses how SHG model has proved to be able to reducing poverty, however is currently facing challenges from MFIs. The banks prefer to lend to MFIs as compared to the SHGs. He suggests that MFIs and SHGs should work together and this could be done by SHG federations playing active role as MFIs.

The SHG model of microfinance has fast grown to become the most popular microfinance delivery mechanism in India. Fernandez (2006) state the SHG model is low cost and has ability to reach out to more households. This model keeps the members bonded with each other and develops trust and builds relationships as well.

Basu (2005) based on the study conducted in villages of Andhra Pradesh showed that those villages which were remote and not having good approach roads had less number of SHGs. The study also brings out that microfinance products are popular with the rural households as the loans offered are without collateral, the loans are sanctioned quickly and very less procedures need to be followed, but in the absence of favourable legal and regulatory framework, qualified staff in MFIs and flaw in the product design, the outreach is currently limited. MFIs are not able to reach out to more rural areas due to operational costs constraints. Their disbursement and collection mechanism is costly as they provide door step service.

Sushanta Kumar and Mehta (2014) provide a comparison between Self Help Group Model and the Joint Liability Group model. They argue that

both models have their own positives and negatives. They conclude that the SHG model works best in those areas where there are many NGOs and financial institutions, while the JLG model works best with enterprising people but have no access to formal financial institutions.

3.4 Microfinance Innovations

International Perspective

As per the Global Financial inclusion (Global Findex 2014) database, 62% of adults in the world have bank account in their names and this number is consistently increasing. Mobile banking has helped considerably in increasing the number of bank accounts.

Muiruri and Ngari (2014) report how banks in Kenya are continuously doing financial innovations and making use of new technology, which has significantly impacted the bank's financial performance and this study recommends other banks to also use such innovative mechanisms. He has studied the effect of credit card, mobile banking, internet banking and agency banking on the financial performance of the banks and has found the impact to be very good.

Khraim, Shoubaki and Khraim (2011) study the Jordanian customers use of mobile banking services and find that the customers are happy using the same as the use of mobile phone for banking is easy, secured and not risky.

Cull, Demirque Kent and Murdoch (2008) in their paper affirm that microfinance will continue to expand. New technologies need to be adopted and will help in expanding the reach. Innovations in technology may help in reducing transaction costs and improving service quality and new product development to help cover risks of poor households.

Pearce, Davis, Onumah and Butterworth (2004) suggest that flexible saving mechanisms and use of technology can help in increasing the outreach of microfinance in the rural areas at lower costs. They also

argue that while several efforts have been made to increase the outreach by looking at the supply side, now efforts should focus on the demand side, i.e. making the borrowers attractive for the microfinance suppliers.

Zeller et al (1997) and Schriener (1996) state that innovations in product development are important to improve the rural microfinance services.

Indian Perspective

McKee, Kaffenberger, Zimmerman (2015) in their consumer research in 16 markets, India being one of the markets, analyse and indicate that customers benefit from DFS-Digital Financial Services. These services include digital transfers, payments, savings, insurance and credit facilities provided through mobile phones and Automated Teller Machines (ATMs). More study needs to be done to use Digital Financial Services (DFS) for poorer households.

Parameswari and Mahalakshmi (2015) report that technology plays an important role in current Indian Banking sector, as customers now demand for more convenient delivery systems and services.

LakshmiKumar, Mukhopadhyay (2013) studied the rural and urban poor in India and they concluded that medical and other emergency costs upset the rural poor, hence there is need for innovation in product design to help poor face such emergency and uncertain costs. This study also brings out the savings needs of the poor and suggests that the Business Correspondent model needs to be spread more in the rural areas. Also, since almost all the households, now have mobile phones, mobile technology can be used to offer savings and remittance services.

Brelloff and Rotman (2011) study the G2P (Government to Person) payment schemes of India and conclude that India has set an example in the world and has established links between G2P and financial service, using Branchless Banking Systems (BCNMS) and Customer Service Points (CSPs) to make final payments to those customers who are outside the

bank branches. There are still many challenges but more experiments in this area could prove to be beneficial.

CGAP (2010) discusses about the various technology enabled services are adopted for microfinance in India. Some of the technologies used are G2P payments, especially for National Rural Employment Guarantee Scheme (NREGS), also some pension payments, insurance etc.; Prepaid Instruments like smart cards, wallets (mobile and internet), ATMs, Money Transfers, Vodafone M-Pesa etc.

3.5 Microfinance and impact on poverty

International perspective

Microfinance has definitely shown its impact on reducing poverty; however, microfinance is not the only step that would help in reducing poverty. Microfinance clubbed with other support will have greater impact. As Lipton and Ravallion (1995) too say that microfinance definitely is able to reduce poverty, but microfinance is not the sole solution to the poverty problem. The impact on poverty also depends on the economic and institutional conditions.

Naeem, Khan, Sheikh and Ali (2015) study whether microfinance services help in forming of micro enterprises in Quetta in Pakistan. They conclude that microfinance services increase the incomes of the borrowers and also a significant increase in their revenues of their micro enterprises. Microfinance helped them to increase the sales revenue and net income. Microfinance also had positive impact on the net working capital, average fixed assets and credit worthiness of the micro enterprises.

Leatherman, Saha, Metcalfe and Mavalankar (2014) in their study report that along with poverty, ill health is also wide spread in India. Poor have to bear the medical costs and also the loss of wages when they fall sick. They suggest that some integrated approach needs to be taken to combine microfinance with health programmes.

Owusu, Akanbasiam and Anyeseperi (2013) in their study in Ghana suggest the need for policy level reforms to improve the microfinance programmes for women. They suggested that since microfinance is not the only solution to help the women come out of poverty, equal emphasis should be given on providing them with the needed infrastructural support and social services. They also need to be educated.

Noorbasha (2013) in her study concludes that there is a significant impact of microfinance in increasing income and employment of the members. The study also attributes the success to awareness generation and providing trainings to the SHG members.

Abraham and Balogun (2012) state that the number of MFIs are increasing in Nigeria, but since most of the MFIs are in urban areas, they are not able to cater to the rural needs. The study also brought out that the MFIs in Nigeria lacked the knowledge on running MFIs and they are very poor in maintaining data.

Wehrmain (2012) in her study in Peru concluded that none of the clients who were getting the benefits of microfinance belonged to the poorest of the poor and the study concludes that MFIs do not reach out to the poorest.

Murdoch (2012), found that more than half of the customers of Mongolia's XacBank used loans given to them for business purposes for household needs, repay other high interest debt and to smooth their consumption pattern.

El-Zoghbi and Martinez (2011) talk about the Randomized Controlled Trials (RCTs) which were used to evaluate the micro credit programmes in India, Philippines and Morocco. RCT technique is widely being used in medical trials and is now becoming popular in academics too.

As Rosenberg (2010) states scientific test of microfinance is difficult. If those with microcredit are performing better, it does not signify that

microcredit is spearheading the development, but other aspects like ambition of the borrower, the inner zeal and drive helps them in developing.

Swain and Floro (2010) claim that microfinance institutions like self help group bank linkages programme reduce the household vulnerability. Their results also show that vulnerability reduction is more if villages have better infrastructure. Those SHGs which are NGO supported and linked with banks are less vulnerable.

Hashemi and Anand (2007) suggest that success and impact of microfinance should not be measured just by the financial performance of the institutions, but also see how the clients are benefitting, how institutions are meeting their social objectives. Their social performance should be measured.

Mayoux (2006) states that Micro-finance programmes gained popularity in 1990 and they started targeting women. More women were covered through microfinance programmes, were empowered and experienced increase in income. There have been cases where women borrow but then they give it to the men in their families to spend their borrowings.

Demirguc-Kent and Levine (2004) carried out a study of 150 countries and concluded that a good financial system is necessary for long term growth. Fry (1995) stated that there is strong correlation between level of financial savings and growth.

Robinson (2001) observes that commercial microfinance is targeted at not so poor households rather than the poorest of the poor households. The poorest of the poor households should still be looked after by the Government schemes.

Rutherford (1999) in his study with borrowers from India and Bangladesh, observed that poor can afford to save a good amount of

savings, provided they see safety of their money and ready availability in times of need.

Eversole (1999) finds that given a choice between financial sustainability and serving poor women, MFIs would choose the former. He observed that even though the Grameen Bank loans were given to women, the loans were used by men.

Mark (1999) noted that most poor people who used microenterprise programmes were not amongst the poorest but were those who had more assets, were more educated and already had one or more source of livelihood.

Navajas et al. (1998) in his study in Bolivia, found that the five Bolivian MFOs studied reached the upper strata of the poverty line but did not reach the poorest of the poor.

Heckman, Layne-Farrar and Todd (1996) argues that rather than focusing on who spent the money, efforts should be on how and where the money has been spent – to ensure that the scarce resources are put to productive use. MFIs definitely bring about empowerment of women.

Indian Perspective

Rajdev (2015), in his study in Gujarat on the impact of microfinance in Gujarat, showed that more than 50% women benefitted in terms of increase in income and these women sent their children to school. The mobility of women increased after getting the microfinance services as they started travelling alone to the cities and now also get involved in the decision making process in their families.

Chawla (2013) in her secondary data analysis to study the impact of micro finance on poverty reduction finds that microfinance services help in improving the self esteem of the poor women, empower them and also help in poverty reduction.

Chacharkar (2012) study how women in Amravati district of Maharashtra state in India are empowered through SHGs and find a very positive impact. Study reveals that SHGs can be strengthened by raising the awareness levels and trainings.

Mahanta, Panda and Sreekumar, (2012), state that in India, microfinance mainly operates through SHGs, NGOs, and credit agencies. Poor people are empowered to grow and they are no more dependent on government subsidies.

Kamath, Rajalaxmi and R. Srinivasan (2009) in their study observe that the Grameen model is highly replicated in India. They provide smaller loans and it is seen that many borrowers borrow from more than one source. They have come up with a model that explains how multiple borrowings in the form of small loans can be effective.

Voluntary operation in Community Planning Commission and Environment (VOICE) (2008) report submitted to the Planning Commission of India brought out that those SHGs who have been nurtured well perform well. Their study shows how SHGs of Andhra Pradesh and Gujarat performed better than those in Bihar and Uttar Pradesh, who were not provided with enough nurturing.

Khandkar (2003) in study carried out on Sudra women in Karnataka state of Southern India, were provided with loans for working capital and investment in silk reeling enterprise with an objective of developing the entrepreneurial and managerial skills and thereby increase their confidence level. However, the study revealed that after three years of the project support, women reverted to their old ways of living. The study could not find any positive impact on the lives of women, on the contrary some of them became worse off as were indebted.

Microfinance has proved to be a good tool for meeting the requirements of the rural poor. Sinha and Patole (2002) observe that inspite of having a large network of banks and cooperatives in India, there was a big gap in

being able to meet the needs of the rural and especially, the poor. Microfinance has reduced this gap.

Remenyi, J (2000) brings out that MFIs may not become sustainable if they try to reach out to the poorest of the poor. The poorest of the poor indirectly benefits through the trickle down effect of microfinance. However, more research on finding out this effect needs to be carried out.

3.6 Research Gaps

The Literature review clearly brings out that microfinance has played an important role in reducing poverty and also brings out that microfinance alone cannot bring reduction in poverty. Microfinance services supported by proper infrastructure and enabling environment prove to be a major step in reducing poverty. From the literature review, the financial needs of the rural poor can be summarized to be primarily for consumption, education and medical purposes and secondary need for agriculture. Over the years, Microfinance Institutions have played an important role in meeting the finance needs of the rural poor. However, it is still found that the rural poor continue to be highly dependent on informal sources like borrowing from friends and family, local money lenders and other such informal service providers. Studies also bring out the various constraints faced by the MFIs in increasing their outreach.

The microfinance needs for different segments of the society is different and the ways these needs could be met are also different. There are very few researches done on the microfinance needs of the different strata of the rural households, very poor, poor and not so poor. There is need to develop microfinance products for different strata based on the demands of the rural households.

There are studies that show that SHGs of Gujarat are performing well and they are having positive impact on the rural households. However, there are few studies on outreach of MFIs in India and Gujarat. The outreach of MFIs in Gujarat is not adequate and several households still depend on

the informal sources to meet their finance needs. There are very few studies on outreach of MFIs, Banks and SHGs in rural Gujarat. This study attempts to find out the different needs of the different economical strata of the rural households, identify the microfinance service needs of these strata and also look at the constraints that MFIs face in reaching out to all income level households in rural Gujarat.

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