International Journal of Humanities and Social Science Invention
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org Volume 2 Issue 3 ǁ March. 2013ǁ PP.28-39

Microfinance and Rural Credit: Is it an Alternative Source of Rural Credit

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ABSTRACT: *Formal financial institutions failed to reach the poorer sections of the rural society due to informational asymmetry, moral hazard and enforcement problems. The necessity of having alternative rural credit systems which will solve the problems of rural credit institutions is clearly warranted. Micro finance institutions are seen to have characteristics that help solve the problems moral hazard and adverse selection, which other institutions failed to do. Group lending, peer monitoring and joint liability systems solve the adverse selection and moral hazard issues associated with rural credit markets. The objective of the study is to examine the success of the micro finance as an institution that solves the problems of moral hazard and adverse selection, which are the existing problems of rural credit institutions. This study focused in finding out the impact of micro finance programme on poverty, money lenders, women empowerment and living standards of the rural poor.*

Keywords: *Rural Credit, Poverty, Micro finance, SHG-Bank linkage Programme*

I. INTRODUCTION

Micro finance is emerged as a powerful instrument for providing basic financial facilities to the rural poor, women, (in rural, semi-urban areas) small and marginal farmers, rural artisans and economically weaker sections. Micro-finance is defined 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 so as to enable them to raise their income levels and improve their living standard. In underdeveloped regions fighting with higher presser of population severe poverty and socioeconomic disparities, rural economy plays crucial role for providing livelihood facilities. Generally these economies are constrained wit low basic socioeconomic infrastructure facilities like Transport, telecommunications, energy and water health, educational facilities as well as former financial facilities like commercial banks, co-operative banks RRBs . It is a fact that there is a need to have adequate road, rail, digital connectivity and adequate power and infrastructure facilities which are pre-requisites for operation of banking services. The biggest challenge of before the RBI for achieving financial inclusion is how to provide banking services in the hinterland like these areas and how to minimize high operational costs associated with the low value large volume transactions. According to recent survey **(Parida and Bandhu: 2012)** *More than One billion poor people have no access to basic financial facilities,* which are essential for them to manage their precarious lives. In this situation microfinance emerged as an alternative source for rural credit.

Microfinance used as anti-poverty tool by policy makers for eradicating poverty, socioeconomic exclusion in the society. In recent public debates Microfinance has been mentioned as an important instrument to combat poverty. According to **Kofi Annan (**former Secretary General of the UNO) states that ***"Microcredit is a critical anti-poverty tool a wise investment in human capital. When the poorest, especially women, receive credit, they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations."*** The world bank in its latest poverty estimates based on purchasing power parity (PPP) at $ 1.25 a day (in 2005 price which released in August 2008,) shows that globally there were 1.4 billion people living in extreme poverty in 2005, three quarters of the world's more than one billion extremely poor people in rural areas of developing countries **(Kurukshetra: 2009).** while access to financial services can and does make vital contributions to the economic productivity and social well-being of poor women and their households, it does not "automatically" empower women, just as with other interventions, such as education, political quotas, etc, Therefore Micro finance works as a magic bullet to alleviate poverty and to promote women empowerment and to reduce the role of money lenders in rural credit system (**Kabeer: 2005**).

The introduction of microfinance programmes increased the borrowing options for the rural poor and it is supposed to work as a weapon to alleviate poverty and to save the rural poor from the clutches of moneylenders. The concentration of this programme is mainly on the women borrowers and this will brought out the result in the improvement of their position in families and societies because of the economic independence gained by them participating in these institutions. Many studies empirically proved microfinance as an effective intervention towards poverty and reducing the role of money lenders by empowering women borrowers:

II. OBJECTIVES OF THE STUDY

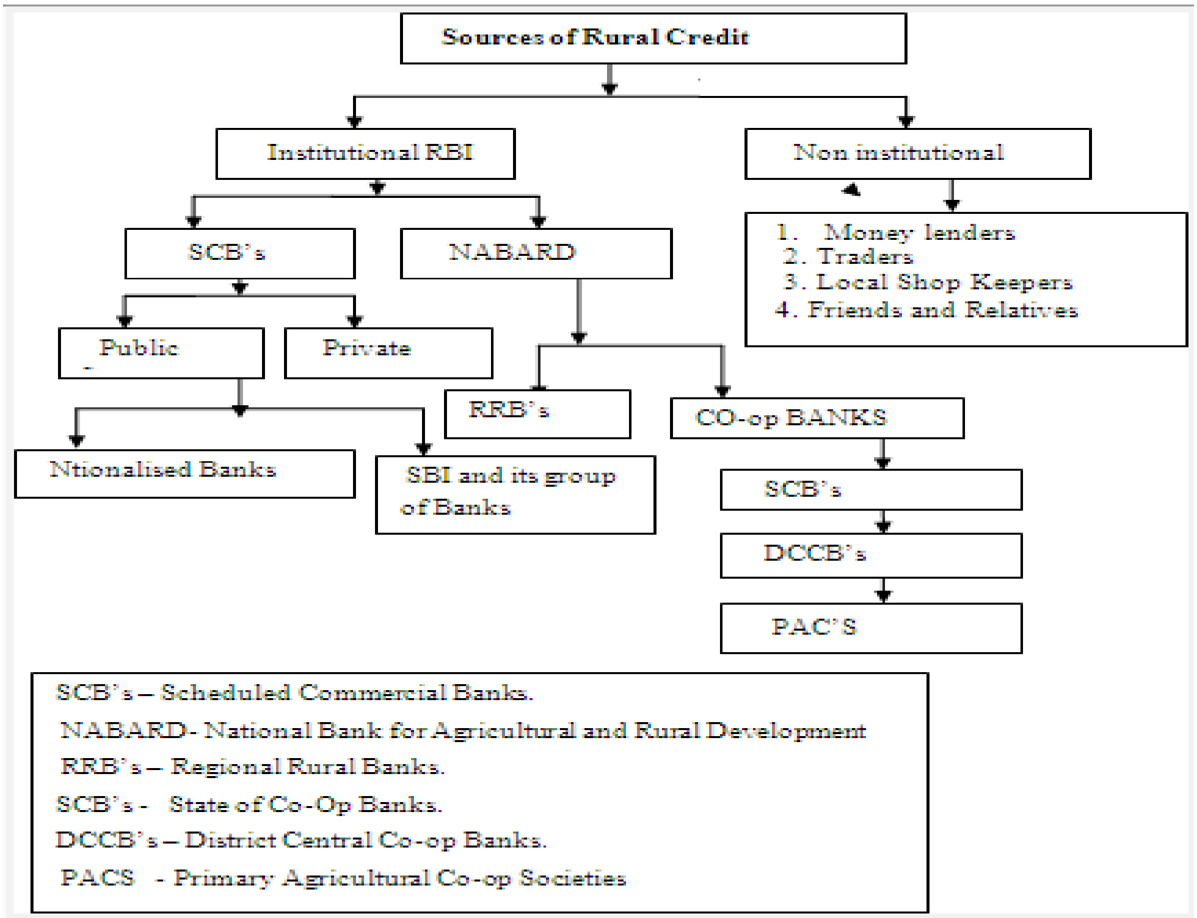
- To examine the alternative Sources of Rural credit
- To study the Growth Scenario of rural Credit in India
- To focus microfinance models and institutions in India

III. METHODOLOGY

The present study provides an evidence of emergence of micro finance as alternative sources of rural credit over a period of time because it is a blend of formal and informal credit. This study based on the secondary provided by the different sources like Mix Market, NABARD, RBI SIDBI.

IV. SOURCES OF RURAL CREDIT

The availability of credit and generation of savings have been recognised as essential element in the rural development strategy. Credit plays a crucial role in the modernizations of agriculture but its role of fight against rural poverty has seldom been recognised. Financial institutions in developing countries, whether public and private have shunned rural credit for various reasons such as opportunity costs and low financial creditability. Further rural financial services have mostly been controlled by rich farmers, who are able to use their large endowment base and influence within the local power structure to secure loans at high advantaged, terms. Credit policies are also generally concentrated on land based agricultural production programmes, neglecting off-far in activities in which the poor are mainly engaged. The rural poor men and women, landless people artisans agricultural labourers, and small fishermen have mostly been excluded from the financial services either because they were not available (collateral and procedural requirements rendered them inaccessible) or simply because they were not conceded creditworthy. The erroneous view is that the poor do not have any resources, do not save, and that they cannot invest in view of immediate consumption needs, and that they are ignorant of the basic principles of sound money management



IV (1).CHARACTERSTICS OF RURAL CREDIT

- Not income but could lead to income if properly utilized
- Tangible and it is difficult to evaluate the impact of credit programmes.
- Tends to flow to barrowers – preference activity
- Absence of mutual confidence between barrowers and lenders leads to funds increase the demand for credit. credit – related rural development strategies have shifted focus the rural disadvantaged due to the following factors
- Failure of past growth – oriented strategies (trickle –down effect) leading to increase in poverty and income inequalities.
- Need for productive employment for rural labour, especially in off- farm and non- farm activities.
- Availability of appropriate technology leading to higher yields per hectare.
- Higher produce activates of small farmers per hectares vis- a- vis large farmers, thus enhancing rural purchasing power so that .increased agricultural profit can be used to buy goods and services, provide more jobs etc.
- The safest path to rural economic prosperity is through the continues improvement of agricultural productivity without harming the environment.

IV (2).GROWTH SCENARIO OF RURAL CREDIT

Access to financial services, particularly credit, has been a priority agenda for the Government since the early days of Independence for all-round development of the economy. One of the important steps in this measure was the revival of the cooperative credit structure in the mid-1950s and the decades of the 1960s also continued to focus on institutional credit flows and cooperatives. Following the nationalisation of banks in 1969, the decade of the 1970s was marked by introduction of lead bank scheme and directed lending. In the decade of 1990s, there have been many significant State initiatives in the institutional and policy spheres to facilitate access to financial services by poor, downtrodden, dalits and tribals. The evolution of the Indian Banking sector in India and its role towards the growth and development of the country has been distinct and definitive (Ahuja: 2010).

If one looks chronologically at the events which have had a far – reaching impact on the Indian rural credit system, the events prior to 1947 have been few. The few changes then were introduced as a result of a deliberate policy by the authorities and not because of any ground –level requirements as such. Prior to 1947, the changes introduced were;

- 1793 – Introduction of taccavi loans as a measure of administrative relief after recurring famines.
- 1904 – Introduction of a cooperative credit system based on the Raifessian model for providing cheaper credit alternatives.
- 1928 – Introduction of land mortgage banks in the cooperative system to provide for long – term loans for redemption of debts to moneylenders.
- 1935 – Creation of the Agricultural Credit Department in the Reserve Bank of India, a revolutionary step undertaken for supervising agricultural credit operation.

After Independence, the benign and paternalistic attitude towards changes in Agricultural credit policies continued but with more significant ideological inputs, which in retrospect did more harm to the rural credit delivery system. The latter, through inadequate, was shaping up well without any significant stress. But changes introduce after 1947 have been responsible for the sad state of the rural credit delivery system, introducing in it a state of 'forced growth' leading to quick changes and policy 'turnarounds' These changes were due to the report of the; 1949 - Rural Bankers Enquiry Committee

- 1954 – All India Rural Credit Survey
- 1955 – Formation of State Bank of India
- 1963 – Agriculture Refinance Corporation set up – changed to ARDC
- (1975) and then to NABARD (1982)
- 1968 – National Credit Council Study Group on Organizational Framework for Social Objectives
- 1969 – Rural Credit Review Committee, Nationalization of 14 largest banks
- 1971 - Setting up of credit guarantee co – operation.
- 1972 – Banking Commission
- 1972- 1975 – Setting up of REC, SFDA
- 1975 - Working Group on Rural Banks (RRBs)
- 1980 - Second time nationalization of 6 banks
- 1989-Agricultural Credit Review Committee
- 1992– Report on the Financial System
- 1992 - SHG – Bank linkage programme by NABARD
- 1996- 97 Concept of local area bank was introduced

- 1998 – R.V. Gupta Committee on Rural Credit
- 1998 – Launcing of KCC (Kisan credit card) by NABARD
- 2005 Establishment of Rural Infrastructure Development Fund (RIDF) to assist State
- Governments/State owned corporations.
- 2006 Establishment of Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan.
- 2008 Waiving of farm loans amounting to 65,000 crore.
- 2010 Successful listing of SKS Micro-finance in stock exchange.

IV (3).Institutional Or the Formal Sector Institutions

Traditionally, the Formal Sector Banking Institutions in India have been serving only the needs of the Commercial Sector and providing loans for middle and upper Income Groups.

As far as the formal financial institutions are concerned, there are Commercial Banks, Housing Finance Institutions (HFIs), NABARD, Rural Development Banks (RDBs), Land Development Banks, Co-operative Banks (CBs). The Government has taken several initiatives to strengthen the institutional rural credit system. The rural branch net work of commercial banks have been expanded and certain policy prescriptions imposed in order to ensure greater flow of credit to Agriculture and other preferred sectors. The Commercial banks are required to ensure that 40% of total credit is provided to the priority sectors out of which 18% in the form of direct finance to Agriculture and 25% to priority sector in favor of Weaker Section besides maintaining a credit deposit ratio of 60% in rural and semi-urban branches. Further the IRDP introduced in 1979 ensures apply of credit subsidies to Weaker Section beneficiaries. Although these measure have helped in widening the access of rural households to institutional credit vast majority of the rural poor have still not been covered. Also lending done under the poverty alleviation schemes suffered high repayment defaults and left little sustainable impact on the economic condition of the beneficiaries (***Piyush Tiwari and S.M. Fahed (2005).***Non-Institutional Sources like Money lenders, landlord, traders etc accounted for 93 percent of the total credit requirements in 1951-52 and institutions sources including the Government accounted for only 7 percent of the total credit needs in that year.

IV (4).H.T. IIEF STUDY ON RURAL CREDIT (2004)

The Hindustan Times (HT) and invest India Economic Times (IIEF) using IRES data (2004) has brought out sterling facts about corners, who use money lenders as the source of credit. The study has revealed the following facts.

Table: 1 – Share of different agencies in Rural Credit (2004)

S.No.	Agency	Share in total credit (%)
1	Money Lenders	70%
2	Public Sector Banks	10%
3	Co-operative Banks and Societies	9%
4	Govt. loans	1%
5	Self Help Groups (SHGs)	1%
6	Others	9%
	Total	100%

Source: Ruddardatt and K.P.M. Sundharam (2007)

The share of various sources in rural credit by earners reveals that the share of money lenders in total credit is 70%. In absolute terms, it is in the order of Rs.67, 000 crores. The share of public sector banks is 10 percent followed by Co-operative Societies at 9 percent. The share of Self Help Groups (SHGs) is 1 percent. Government loans also account for barely 1 percent and other sources account for 9 percent.

- 46 million earners use money lenders and nearly half of them reside in some of the richest states including Andhra Pradesh, Karnataka, Tamilnadu, Maharashtra and Gujarat.
- Majority of the borrowers are farmers (32%) or agricultural or wage labourers (39%). Nearly 3.9 million customers of money lenders are regular salaried employees. Another 7.36 million earn over 60,000, while 3.6 million of them are tax payers.
- Increasingly, 'nearly 88 percent of all money lenders' customers can access a government credit programs within one kilometer from their places while 30 percent have access to SHGs. However, 29 million earners prefer to use money lenders for their credit needs.
- Money lenders charge an average interest of 24 % per annum compared to 12 % by nationalized PSU banks and Co-operative banks. Even then 70 percent of customers avail of the credit of money lenders.
- Average outstanding credit from all sources is Rs.22,910 and of this the money lenders hold an average credit of Rs.14,610 i.e. nearly 64 percent.

Obviously, the hold of money lenders in total rural credit has bounced back to 70% and PSU banks and co-operative banks have trailed behind at merely 19 percent. This shows the failure of the institutional credit to meet the need of farmers, landless labourers and wage earners in rural India.

TableNo.2: Farmers Borrowings from Non-Institutional Sources (Moneylenders 'Hegemony)

Farmers	Landholding Size	Percentage
Near landless	Less than 0.01ha	77
Sub marginal	0.01-0.4 ha	57
Upper Marginal	0.4-1.0 ha	47
Small	1-2 ha	42
large	10 ha and above	32
Farmers holding	2-10 ha not stated	

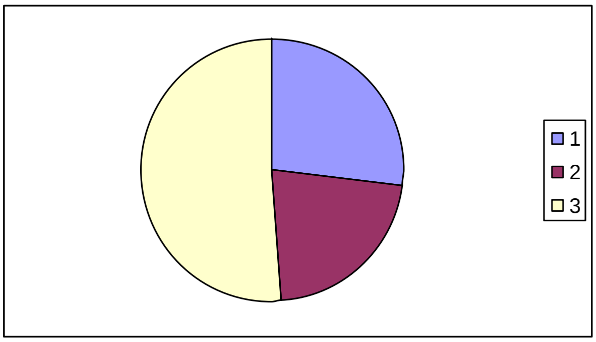
Source: The Economic Times, 11sept.2010

The number of farmer borrowings from non-institutional sources has risen to levels not seen since Independence, despite doubling of farm credit in recent years and several efforts from the stakeholders towards financial inclusion. Just one in every seven marginal farmers has access to institutional credit, says a study on agricultural indebtedness, which results in impoverishment, distress migration and, sometimes, suicide. Government waived farm loans of ` 65,000 crore in 2008 under Agricultural Debt Waiver and Debt Relief Scheme but only a small portion of farm householders borrow from formal sources, and all others were subsequently excluded from the scheme's purview.

IV (4).COVERAGE OF RURAL CREDIT MARKET

A recent NSSO (2007) study shows that only 27% of rural people have access to institutional credit and 22% are borrowing from money lenders and a more surprising fact is that 51% of rural poor have ***no access to credit at all***. The coverage of rural credit market can be shown in Fig.1

FIG.1



1. formal institutions share in total rural credit
2. money lenders share in total rural credit
3. No access to credit at all.

The above diagram shows that even today a large section of rural population have no access to credit at all. This resulted in the growth of so many alternative rural credit institutions to supplement the credit needs of the rural poor. They are as follows

V. ALTERNATIVE RURAL CREDIT SOURCES

There has been a growing realization that the needs of rural credit cannot be adequately served with the use of large financial institutions such as commercial banks. The micro information that is required for these operations precludes efficient market coverage on part of these large organizations. Two kinds of policies can arise in response to this observation. One is to recognize explicitly that informal lenders are much better placed to grant and recover loans from small borrowers than formal institutions. The idea then is not to try to replace this form of lending but to encourage it by expanding formal credit to economic agents who are likely to use these funds in informal markets. The second approach is to actually design credit organizations at the micro level that will take advantage of local information in innovative ways. The following are the important alternative rural credit institutions.

V (1).SELF HELP GROUPS

Despite vast expansion of the formal sector credit system encompassing spheres of social and mass banking, the dependence of the rural poor on money lenders still continues in many areas especially in meeting their emergency needs. Under these circumstances, a non formal agency for credit supply to the poor, in the form of SHG emerged as a promising partner to the formal credit system. These SHG inculcate saving and banking habits among the poor; secure them with financial, technical and moral strengths. This also enables availing of loan for productive purposes and repaying the same over a period of time. It also helps them to gain collective wisdom in financial matters in organizing and managing their own finance. The SHG consists of the members who are poor, having low saving capacity and who depend on money lenders or private sources for meeting their consumption needs and other obligations. In other words a typical SHG would comprise likeminded individuals who regularly save small amounts of money.

V (2).MICRO FINANCE

Another alternative rural credit policy is micro finance system. Micro finance can be defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban areas for enabling them to raise their income level and improve living standards. These days' micro financing programmes in emerging economies have taken centre stage of development effort. This Programme is targeting the poorest of the poor.

V (2.1).Micro Finance: Definition

There is no statutory definition of micro finance. The taskforce on supportitative policy and Regulatory Framework for Microfinance has defined microfinance as "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards". The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank Of India , the borrowed amounts up to the limit of Rs.25000/- could be considered as micro credit products and this amount could be gradually increased up to Rs.40000/- over a period of time which roughly equals to $500 – a standard for South Asia as per international perceptions.

The term micro finance is sometimes used interchangeably with the term micro credit. However while micro credit refers to purveyance of loans in small quantities, the term microfinance has a broader meaning covering in its ambit other financial services like saving, insurance etc. as well.

"Microfinance" is banking through groups. The essential features of this approach are to provide financial services through the groups of individuals, formed either in joint liability or co-obligation mode. The other characteristics of the microfinance approach are:

1. Savings must be more than the total credit that they seek.
2. The interest rate varies according to their credit history. The more prompt one is in repaying the loan the lower would be the rate of interest.
3. Group plays an important role in credit appraisal, monitoring and recovery.

V (2.2).The Stated Objectives of Micro-Finance

The important objective of micro finance programmes in India is to provide credit to the poorest of the poor by providing loans without insistence on collateral. The second motive of micro-finance is to inculcate the habit of thrift among the poor and in order to improve their living standards. Micro finance can has been viewed as a potential way towards the empowerment of women also.

Many of the studies on micro-finance have taken the institutional structure of Micro-Finance (MF) *as a given* and proceed to evaluate its impact from different dimensions. Micro-Finance has been seen to emerge due to the failure of formal and informal rural credit institutions. Very little by the way of theoretical analysis is available on the fundamental change that MF *as an institution* solves the problems of rural credit

VI. STUDIES ON MICRO FINANCE AS AN ALTERNATIVE SOURCE OF RURAL CREDIT

MF in India has built upon the existing banking infrastructure. In the process, it has "obviated the need for the creation of a new institutional set up or introduction of a separate legal and regulatory frame work". Existing rural credit markets are unable to provide or supplement financial needs of rural people. So, there was an urgent need for financial innovation in the rural credit markets in India. "The main objective of micro finance system in India is to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility and sensitivity and responsiveness of the informal credit system with the strength of the technical and administrative capabilities and financial resources of the formal financial institutions**. (Satish: 2005).**Indeed Micro-Finance has to be seen as an *alternative* institution, one that does not evolve from existing banking practices and structures and hence there is every need to have a new institutional set up and more importantly regulatory laws. Banking laws relate to individual burrowers whereas Micro-Finance is concerned with group lending. The presence of micro finance has increased the borrowings options for the poorer clients.**(Frances Sinha: 2005).**The SHGs-Bank linkage programme has significantly improved the rural poor's access to formal financial services and has had a positive impact on the socio-economic conditions of SHG households (**Ghosh M 2012)., (Parida and Sinha: 2010)** It is been reported that the self-help group (SHG) programmes is an effective tool which has been used in various countries in order to address a range of socio-economic issues. The performance and sustainability of self-help groups vary based on income generating activities, gender composition of members in the group. **R.Srinivasan and M.S.Sriram(2006)** shows the various views of people from various microfinance institutions. Microfinance has been viewed as an effective tool in bringing about financial inclusion and as a measure to alleviate poverty. This discussion also is a study on the various models of microfinance prevailing in India and aims to discuss if these models contribute to the growth and sustainability. It also aims to discuss about the various government policies and regulatory framework prevailing in microfinance sector. ***Hema Bensal (2005)*** focuses on micro finance as a vital institution which can meet the *heterogeneous needs* of the poor. However, the Microfinance outreach has been skewed. It is predominant in Andhra Pradesh, Tamil Nadu, Karnataka, and Uttar Pradesh states of India. Among these four states 40% linkages are concentrated in Andhra Pradesh only. This could be because of launching of savings and credit movements, concentrated efforts of bankers, absence of larger size NGO s operating as MFIs as some of the factors responsible for the low concentration of this program in North India. From her study she also found that out of the major lending rural financial institutions involved in retailing, commercial banks and RRB s were more forthcoming in lending to SHGs. ***K. Kaladhar (2005***) in his article says that there is a paradigm shift in the quality of microfinance delivery. The old paradigm of micro finance envisaged providing credit to poor people basically residing in rural and semi- urban areas at subsidized interest rates. The micro finance institutional continues to target the rural and urban poor households, but with emphasis on *women borrowers*, provision of finance for creation of assets and their maintenance.

There are many studies that toe the line of showing that Microfinance is justified because the existing rural credit institutions have failed to deliver the required needs of the rural poor (***Priya Basu and Pradeep Srivastava (2005) Tara S. Nair (2005)***, ***Rajas Ram Dasgupta (2005), Piyush Tiwari and S.M. Fahed (2005))*** According to them over the past decade new micro finance approaches designed to deliver finance to the poor have emerged and some have shown promise. The logical foundation of promoting MF mainly in the non-financial sector in India rests on the apparent failure of state owned credit institutions**.** More importantly, most of the formal financial institutions fall short of the mandatory requirement. One of the reasons identified is higher proportion of NPA because of information gap and inadequate monitoring. In this reform process, micro finance has been given an important role as opposed to the reform of the formal institutional structures. These papers support micro finance as an alternative credit institution to formal credit institutions.

VII. WAYS OF DELIVERING MICRO FINANCE IN INDIA

Micro finance is a financial service which includes savings, credit, and insurance, leasing etc. that is, any type of financial service provided to customers to meet their normal financial needs. Micro finance institutions around the world follow a variety of different methodologies for the provision of financial services to low income families. The focus of such services is on women, based on the observation that in financial matters, they are more responsible than men particularly since their mobility is restricted by family responsibilities[1]. The following is the typology of major methodologies employed by the micro finance institutions for the delivery of financial services to low income clients.

(1). Self help groups and SHG –Bank linkage Programme

The SHG is the dominant form of micro finance in India. A self help group consists of 15-20 members who are poor, having low savings capacity and who depend on money lenders or private sources for meeting their consumption needs and other pressing obligations. In other words a typical self help group would comprise of likeminded individuals who regularly save small amounts of money. To facilitate group processes and ensure transparency of operations, group meetings are regularly convened at a predetermined place, date and time. The group members take collective decision on all matters keeping in view the welfare and prosperity of the members. More often lending decisions like purpose, size, interest rate and repayment period for loans are decided case by case, paramount consideration being given to needs and aspirations of individual borrowing members. Similarly, peer or moral pressure is exerted on members to continue savings to provide every member an opportunity to avail loans. Thus SHG formation necessitates an all encompassing environment for conscious leadership development, decentralized decision making, transparency in transactions, peer pressure for sustainable group action and enterprise development among rural poor. In 1992 NABARD introduced a pilot project for linking SHGs with banks to encourage saving and thrift habit among the poor and supplement to meet their credit needs through banking system. NABARD has facilitated and extensively supported a

[1] This has been the observation in the report by the "Velugu"……

programme which entails commercial banks lending directly to SHGs rather than via bulk loans to MFIs. NABARD refinance the loans of commercial banks given to SHGs.

The Self- Help Group (SHG) bank linkage programme continued to be the main micro finance model by which the formal banking system reaches the micro entrepreneurs, small and marginal farmers, landless labourers, artisans and craftsman and others engaged in small business like hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep "saving and credit" facilities for poor and exploitation of the untapped business potential of the rural areas. under the Self- Help Group (SHG) bank linkage Programme as on MARCH 31, 2011 74.62lakh SHGs savings bank account with the total savings of 7016 crore as against 69.53 SHGs with the savings of 6199 crores as on march 31st 2010 does more than 8.06 crore poor households for associated with bank agencies under the Self- Help Group (SHG) bank linkage programme.

Table NO.3: SHG-BANK LINKAGE PROGRAMME

Progress in SHG-Bank Linkage Programme (All India)						
Year (End March)	**Number of SHGs financed by Banks**		**Bank loan (Rupees crore)**		**Refinance assistance (Rupees Crore)**	
	During the Year	**cumulative**	**During the Year**	**cumulative**	**During the Year**	**cumulative**
1992-93	**255**	**255**	**0.29**	**0.29**	**0.27**	**0.27**
1993-94	**365**	**620**	**0.36**	**0.65**	**0.19**	**0.46**
1994-95	**1502**	**2122**	**1.79**	**2.44**	**1.67**	**2.13**
1995-96	**2635**	**4757**	**3.62**	**6.06**	**3.53**	**5.66**
1996-97	**3841**	**8598**	**5.78**	**11.84**	**4.99**	**10.65**
1997-98	**5719**	**14317**	**11.92**	**23.76**	**10.74**	**21.39**
1998-99	**18678**	**32995**	**33.31**	**57.07**	**30.73**	**52.09**
1999-00	**81780**	**114775**	**135.91**	**192.98**	**98.04**	**150.13**
2000-01	**149050**	**263825**	**287.89**	**480.87**	**250.61**	**400.74**
2001-02	**197653**	**461478**	**545.47**	**1026.34**	**395.76**	**796.50**
2002-03	**255882**	**717360**	**1022.33**	**2048.67**	**622.30**	**1418.80**
2003-04	**361731**	**1079091**	**1855.53**	**3904.20**	**705.40**	**2124.20**
2004-05	**539365**	**1618456**	**2994.26**	**6898.46**	**967.80**	**3092.00**
2005-06	**620109**	**2238565**	**4499.00**	**13397.46**	**1067.70**	**4159.70**
2006-07	**1105749**	**3344314**	**6570.00**	**19967.50**	**1292.86**	**5452.56**
2007-08	**1227770**	**4572084**	**8849.26**	**28816.70**	**1615.50**	**7068.06**
2008-09	**1609586**	**6181670**	**12253.51**	**41070.20**	**2620.03**	**9688.09**
2009-10	**1586822**	**7768492**	**14453.30**	**55523.50**	**3173.56**	**12861.65**

Notes: *Data for 2009-10 are provisional. Data relate to Commercial Banks, RRBs and Cooperative Banks. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of Swarnajayanti Gram Swarozgar Yojana (SGSY),* Sources: NABARD (2010); Reserve BANK of India (2010, 2011)

Table No.4: Region-Wise Progress of SHG-Bank Linkage Programme

Region	Bank Loans Disbursed to SHGs During 2009-2010			Banks Loan Outstanding against SHGs as on 31 March 2010			Poverty Ratio (%) 2004-05	Proportion of Total Poor 2004-05
	No. of SHGS	Loans Disbursed(Rs.Lakh)	Loans Disbursed Per SHG(Rs)	No. of SHGS	Loans Disbursed (Rs.Lakh)	Loans Disbursed Per SHG(Rs)		
Northern	37375 (2.36)	30633.33 (2.12)	81962	152491 (3.41)	81513.33 (2.91)	53455	15.7	7.4
North Eastern	49307 (3.11)	28716.99 (1.99)	58241	133785 (2.76)	67347.79 (2.40)	50340	19.2	2.6
Eastern	277446 (17.48)	154018.65 (10.66)	55513	1027570 (21.18)	369490.88 (13.18)	35958	36.2	29.0
Central	77846 (4.91)	63209.88 (4.37)	81199	497922 (10.26)	246239.60 (8.78)	49453	35.0	32.1
Western	149130 (9.40)	64697.54 (4.48)	43383	457476 (9.43)	136948.48 (4.88)	29936	25.8	13.6
Southern	995718 (62.75)	1104053.97(76.39)	110880	2582112 (53.22)	1902287.99(67.85)	73672	19.8	15.3
All India (Total)	1586822 (100.00)	144533.36 (100.0)	91083	4851356 (100.0)	2803828.07(100.0)	57795	27.6	100.0

Note: Figures in Parentheses are Percentages to total. Source: Ghosh (2012)

The above table depicts that there SHGs are concentrated mainly in Southern region (62.75%) and Eastern region (17.48%) when compared to the other regions of India. the total outreach of SHG – Bank linkage is around 80.33% in both Southern and Eastern regions. Northern, North Eastern region outreach is only around 5.47% percentage. this table clearly shows that there is a need to develop required institutional set of in north, north eastern and central regions of the India to improve and spread of the outreach of micro finance through SHGs –Bank linkage Programme, MFIs (Microfinance Institutions) in these regions, which may result in reduction of dependence of poor on informal institutions of credit (money lenders).

(2). Individual Banking Program (IBP)

IBPs entail the provision by micro-finance institutions of financial services to individual clients though they may sometimes be organized into joint liability groups, credit and savings cooperatives or even SHG s. The model is particularly popular for micro finance through cooperatives.

In case of cooperatives, all borrowers are members of the organization directly or indirectly by being members of primary cooperatives or associations which are members of the apex society. Credit worthiness and loan security are a function of cooperative membership within which member savings and peer pressure are assumed to be a key factor. Through the magnitude and timing of savings and loans are largely unrelated, a special effort is made to mobilize savings from members. There is now a large number of new generation cooperative credit societies in India devoted specifically to providing financial services to the poor. Most of these are in Andhra Pradesh which was the first to enact a law permitting mutually aided as opposed to traditional government assisted cooperative societies.

(3).The Grameen Model

This model was initially promoted by the well known Grameen Bank of Bangladesh. These undertake individual lending but all borrowers are members of 5 member joint liability group. Such groups from the same village form a centre. Within each group and the centre peer pressure is the key factor in ensuring repayment. Each borrower's credit worthiness is determined by the overall credit worthiness of the group. Savings are compulsory component of the loan repayment schedule but do not determine the magnitude or timing of the loan. There are some two dozen MFI s in India that follows this model. SHARE, BASIX, SKS and SPAN DANA, ASMITHA, SMITHA, etc. are the some of the important examples of this model.

(4). Mixed Models

Some MFI s started with the Grameen model but converted to the SHG model at a later stage. However, they did not completely do away with Grameen type; they are an equal mix of SHG and Grameen model. Others have chosen to adopt either the Grameen or the SHG model to their markets, while some organizations like BASIX use a number of delivery channels and methodologies. Such MFI s are still relatively few but with increasing innovation becoming the norm in Indian micro finance , their numbers are growing.

VIII. OUTREACH OF INDIAN MICRO FINANCE INSTITUTIONS

Micro finance still plays a modest role in India. At the all India level, less than 5 percent of poor rural households have access to micro finance [as compared to65% in Bangladesh] but significant variations exist across states. The southern states account for almost 75% of funds flowing under micro finance programme. By far the most successful model in India, in terms of scale and outreach, is the SHG bank linkage model. In March 2003, the Indian MFI s sector as a whole had a total outreach of less than one million borrowers. The outreach of various models of MFI s can be shown in the following table.

Table No.5: Outreach of Indian Micro Finance Institutions.

Indicators	SHGs	IBP	Grameen Model	Mixed Model	All MFI s
Sample size	43	10	7	9	69
Total membership	1,032	112	174	105	1,423
Average membership	24.0	14.0	24.8	11.7	20.6
Active borrowers of MFI s	4.6	5.5	21.9	5.0	6.5
Loans outstanding	54.6	35.6	45.6	28.0	163.8
Average portfolio	1.3	3.6	6.5	3.1	2.4
Average loan outstanding	2,800	6,500	3,000	6,200	3,600
Savings in crores	45.1	28.5	12.4	6.2	92.2
Savings per member	440	2,550	710	590	650
Productivity loan clients per staff members	118	205	131	119	126
Portfolio per staff members	2.8	16.6	3.6	5.0	4.0

Source: MIX market data

Microfinance programmes have rapidly expanded in recent years. Some examples are:

- Membership of Sa-Dhan (a leading association) has expanded from 43 to 96 Community Development Finance Institutions during 2001-04. During the same period, loans outstanding of these member MFIs have gone up from US$15 million to US$101 million.
- The CARE CASHE Programme took on the challenge of working with small NGO-MFIs and community owned-managed microfinance organizations. Outreach has expanded from 39,000 to around 300,000 women members over 2001-05,

Table No.6 shows that the total outreach during the years 2006-2011, dominated models of SBLP, and MFIs. The number of self-help groups (SHGs) savings linked increased to about 7.5 million with a member base of 98.1 million. The SHG bank linkage programme (SBLP) and the microfinance institutions (MFIs) put together achieved a growth in their customer base by about 10.8 per cent. The combined borrowing customer base increased to 93.9 million from 86.3 million in the previous year.

Table No.6: Client Outreach-borrowers with Outstanding Accounts [a](Millions)

						Growth Percentage
Segment	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2010-2011**
Bank-SHG	38.0	47.1	54.0	59.6	62.5	4.9%
MFIs	10.0	14.1	22.6	26.7	31.4	17.6%
Total	48.0	61.2	76.6	86.3	93.9	8.8%
Adjusted for Overlap	44.9	56.0	70.0	71.0	76.7	8.0%

(a. The number of customers in case of SHGs is worked out as 13 members per SHG. NABARD suggests that this is higher at 14 members per group, but two national level studies a couple of years back found the average membership at around13) **Source: N.Srinivasan(2011)**

The SBLP recorded a growth of 4.9 per cent in the number of members of SHGs that had active borrowings from banks. There was an increase of about 4.7 million customers of MFIs. The growth rate of MFIs in terms of customer outreach was of the order of 17.6 per cent.

Table No.7: The Top 10 MFIs by Outreach-2011 (Rs Billions)

Name of MFIS	Outreach (Millions)	Loans O/S	Own funds	Borrowings
SKS	6.24	41.11	17.18	22.36
SPANDANA	4.18	34.58	NA	11.95
BANDHAN	3.25	25.07	3.77	18.48
SHARE	2.84	20.65	3.01	20.98
BASIX	1.53	12.49	2.10	12.31
SKDRDP	1.38	9.58	0.25	8.71
ASMITA	1.34	13.25	2.15	11.94
EUITAS	1.30	7.94	3.04	5.92
GRAMA VIDIAL	0.93	5.20	0.90	3.47
UJJIVAN	0.84	6.25	1.16	4.72
TOTAL	23.85	176.11	34.19	108.89

Source: N. Srinivasan(2011

Among the MFIs operating in India, the list of top 10 MFIs according to client outreach is provided in Table No.7 clearly shows that the top 10 MFIs outreach and impact in India. While the list contains more or less the same entities that were there in the last year's list, there have been some changes inters among them.

IX. SUMMARY AND CONCLUSION

Credit requirements of the rural poor are diverse and their requirements of credit are unlimited because they need credit different purpose i.e. credit as working capital, fixed capital and consumption credit etc. But the sources available are limited and coverage is scanty. Failure both institutional and non-institutional sources of credit to supplement credit needs of rural poor led to the emergence of different Alternative credit institutions over the recent years. The necessity of having alternative rural credit systems which will solve the problems of rural credit institutions is clearly warranted. This study examined the success of the evolution of micro finance as an alternative credit institution that solves the problems of moral hazard and adverse selection, crucial problems of rural credit institutions. Many studies shown impact of micro finance programme on poverty, money lenders, women empowerment and living standards of the rural poor. Micro finance institutions are found to have characteristics that help to solve the problems of moral hazard and adverse selection, which other institutions failed to do. Group lending, peer monitoring and joint liability systems solve the adverse selection and moral hazard issues associated with rural credit markets. The adverse selection problem in rural credit markets is that the banks do not have *proper information* about the *credit worthiness* of the borrowers and therefore, in order to mitigate the risk of default, they will increase interest rates. This has the effect of excluding credit worthy borrowers from the scene. Another problem that exists in the rural credit market is moral hazard. Banks get wrong information about the liabilities and assets of borrowers and they may not have proper information about the profitability of the projects that borrowers are going to undertake. Because of this moral hazard problem banks are reluctant to provide loans to the poorer sections of the society. Under micro-finance, the burrowers have to form self selected groups and have to save some amount before taking loan from the micro finance institutions. Besides, this they have to sign a joint liability contract which says that borrowers must repay their own loan and are also liable for the default of loan of any member of the group. Thus the group members with their superior local information about the borrowers are in a much better position to drive out risky borrowers from their group as they will try to choose only trust worthy potential borrowers into their group. Thus these groups that are formed are in a better position to repay their loans successfully. Thus lending to such groups which are jointly liable reduces adverse selection problem in the credit market. Similarly it also solves the problem of risky investments since there is peer monitoring. Joint Liability, Group Lending, Group Pressure/peer monitoring made Microfinance as an alternative and superior rural credit institution compared with the rest of rural credit systems/institutions. It has the of advantages of both informal and formal credit institutions.

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