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Village Level Analysis of Credit and Livelihood Enhancement of Microfinance in Andhra Pradesh

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"Money makes money. If you have little it is often very easy to earn more. The great difficulty is to get that little"-Adam smith

Introduction

Can that "little" be provided in the *form of credit* to poor people to help them earn more? India is essentially an agrarian economy with 69 percent of population still living in rural areas with most of them depending on Agriculture[3].Villages are the backbone of the Indian economy. Rural India basically consists of the cultivator, the village handicrafts man and agricultural laborers and landlords. The rural sector has a great potential for economic development. However, the problem of rural credit continues to be the single most important factor that comes in the way of realizing this potential. It is well known that a strong and organized rural credit market is needed to initiate the process of economic development. As finance is the life blood of every economy providing that "little" in the form credit is believed to help kick-start the process. This is what the advocates of micro-finance in India believe. Credit is very necessary in a rural economy because many economic activities are spread out over time and adoption of new technology or a new crop requires investment today with the payoffs coming in later. Even ongoing productive activities require inputs in advance, with revenues realized at a later point in time. Also, in case of casual labor or the self-employed in rural areas, income streams may fluctuate and such fluctuations will be transmitted to consumption unless they are smoothened through some form of credit. The basic aim of the financial sector reforms in India is to improve the soundness, efficiency and productivity of all credit institutions including rural credit institutions whose financial health is far from satisfactory. The government policy towards rural credit is to ensure provision of **sufficient** and **timely** credit at **reasonable rates of interest** to **as large a segment of the rural population as possible**. Reaching credit at concessional rates was one of the important elements of the strategy for the development of rural credit. Eliminating money lenders from the rural scene and to make available credit to all sections of people in rural areas is one of the prime

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[3] Govt. of India (2011) Registrar General Census Department, Ministry of Home Affairs.

concerns of rural credit market reform in India. However despite the efforts at creating public institutions to drive out the traditional money lenders, the persistence of such informal credit institutions suggest that the policies were based on inadequate understandings of the workings of the rural credit markets[4].

Over the last one and half decade, efforts have been made by government, financial institutions and NGOs to enhance credit to poor and many innovative institutional mechanisms have been developed across the world to supply credit even in the absence of financial mortgage. Micro financing is one of those innovative approaches developed to provide credit to the poor without any collateral. These micro finances institutions are supposed to be designed in a manner that combines the safety and viability of formal finance with the convenience and flexibility of informal finance. Micro finances' main motive is to help people to help themselves and is viewed as "the silver bullet that could pull the poor households out of poverty"[5]. It is recognized as a key strategy for addressing the issues of poverty alleviation and women empowerment. In a way, micro finance has become the mantra of the day and micro financing programs in developing economies have taken the center stage of the development effort. It is believed to perform the role of both protector and promoter.

Micro-finance institutions have been seen as an alternative model of organizing credit that is supposed to circumvent the problems that exist in existing institutions of rural credit – both formal as well as informal.

I. Research Problem And Objectives

In the light of the above discussion the *intended* welfare effects of micro-finance can be listed as follows:

1. At a theoretical level, the institution of Micro-Finance is designed to solve the problems of adverse selection and Moral Hazard associated with rural credit markets.
2. To Focus Micro-Finance as an Organisation to supplement the credit needs of the rural people.
3. Micro-Finance reduces the dependency on money lenders who charge high interest rates.
4. Micro-Finance results in the reduction of poverty in rural areas.
5. Micro-Finance leads to an empowerment of Women in the village.
6. Micro-finance helps the poorest to embark upon a path of economic development.

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[4] See Karla Hoff and Joseph Stiglitz, "Imperfect Information and Rural credit markets: Puzzles and Policy perspectives" in Economic development of Rural Organizations,
[5] EPW article reference

The first objective of this study is to review the problems of rural credit at a theoretical level and analyse if the institutional makeup of Micro-finance does indeed solve some of the more pressing problems of rural credit.

The second objective of this study to empirically verify, by collecting primary data from a sample survey of villages in Andhra Pradesh, some of the claims made by the advocates of micro-finance. This is especially important in the light of some reports published in the media of a darker side to Micro-finance.

This study is an attempt, to study the functioning of Micro-finance as an institution and assess its success in the light of the above claims.

II. Nature And Problems Of Rural Credit

There are three aspects of analyzing the nature and problems of rural credit markets:

a) It is important to highlight the features of *existing* credit markets and their function in order to bring out the inadequacies in terms of performance.

b) Secondly, it is crucial to identify the *type of credit* that is typically asked for by the rural population in order to understand whether the existing credit markets cover the needs and, more importantly, whether the new institutions of micro-finance help in bridging the gaps, if they exist, in catering to the diverse needs of the rural poor.

c) There are severe problems of adverse selection (on part of Lenders) and Moral hazard (on part of borrowers) in rural credit markets that pose problems to formal institutions in lending money to rural areas.

III. The Characteristics Of Existing Credit Markets

Rural credit markets can be analyzed with respect to the following factors:

a) Nature of competition
b) Informational asymmetry.
c) Market segmentation.
d) Dependency on informal institutions.
e) The problems of Adverse selection and Moral hazard
f) These features of rural credit markets combine to determine,
g) The efficiency of the functioning of these markets,
h) The quantum of Credit disbursed.
i) The accessibility of the poorer sections to credit facilities.

A. Nature Of Competition

As Debraj Ray observes had the rural credit market been a competitive one the intersection of the corresponding supply and demand curves would have determined the equilibrium rate of interest that would have been uniformly charged by every supplier of credit which reflects the consumers' willingness to pay[6]. This equilibrium

[6]Ray, Debraj (2000), Development Economics, Oxford University Press, Chapter 14.

would determine the optimal volume of credit disbursed. However the preconditions for a competitive market namely, the requirements that there be a large number of suppliers and the demand be so large in relation to any single supplier that his contribution to or withdrawal from the total quantum of credit does not change the equilibrium rate of interest in any significant way, and secondly, the information flows between buyers ought to be nearly perfect, are not met due to several factors.

a. Credit essentially serves many different purposes and therefore is by nature a differentiated entity. Therefore any particular supplier of credit may not be in a position to cater to these different needs of population.

b. Rural credit market is far from perfectly competitive because the features like large number of sellers is not met and this makes rural lenders to charge discriminatory interest rates.

c. Unlike in perfect competition, every buyer is not free to enter the market since in the rural credit market because the lender prefers fixed clientele which makes it difficult for a borrower to enter the market of a money lender in say a different village. This feature of rural credit market is linked with other features like informational constraints, market segmentation etc.

B. Informational Asymmetry

One of the main problems of rural credit from the point of view of a lender is that there is a lack of information regarding *the use to which a loan will be put.* Secondly there is lack of information regarding the repayment capacity. This feature has implications on the risks of lending money which in turn has an effect on the interest rate charged.

The lack of information to which a particular loan is to be put can be overcome if there exists a mechanism to monitor the loan. However in rural areas formal institutions such as banks find it costly to obtain such information. In other words the transaction costs are high. This has, in combination with the government policy of not charging high rates of interest, the effect of limiting the quantum of loan that is given. Usually this is not in keeping with the *requirements* of the borrower. However, for private money lenders, who face the same problems, but do not have any ceiling on the interest that they can charge, the Lenders Hypothesis shows that the rate of interest charged depends upon the probability of default:

Let:

i = Lenders rate of interest,

P = Probability of repayment of loan, and

r = market rate of interest.

Then, $P(1+i)L$ will be the expected return to the lender at the end of the loan period.

Had the lender put the money in the bank as an alternative he would have earned (1+ r) L on this amount. Lending is profitable if

$P (1+ i) L - (1+ r) L > 0.$

Under perfectly competitive conditions,

$P (1+ i) L - (1+ r) L = 0$

Then, $i = 1+r/ P$

Thus the larger is P (which means that the rate of *default* is small) *the lower* would be the rate of interest charged.

In sum therefore, it can be said that the formal institutions that lend to the rural sections are limited in the *quantum* of credit that they disburse, whereas the informal institution such as the money lender charges *high rate of interest* on whatever amount that he lends out. From both sides the borrower is affected adversely.

C. **Market Segmentation**

Theoretically, if there is scope for consumers to be segregated, then a monopoly seller would be able to price discriminate and increase his profits relative to a situation wherein he charges a uniform price. Market segmentation in our context would refer to the inability of consumers who are charged a high price in one market to move to the market where the same good or service is being sold at a lower price. Although in the rural credit market there is an absence of a single monopoly element in money lending, money lenders *prefer to lend to persons on a repeated basis and are reluctant to lend to members outside this group.* The result is that variations in the rates of interest across money lenders would manifest themselves[7]. The overall welfare effects are difficult to calculate but the lack of arbitrage possibilities does certainly allow scope for a transfer of surplus from the borrower to the money lender. In other words the borrowers are affected.

D. Dependency on Informal Institutions

According to the All India Rural Credit Survey Report professional money lenders and individuals provide 70 percent of rural credit while commercial banks account for only one percent and cooperatives account for 3 per cent and RRBs account for 26 per cent of the total lending. People in rural areas depend more on money lenders because firstly, there exists a credit gap i.e. difference between demand for credit and supply of credit by the formal financial institutions. Secondly, with regard to formal credit, institutions demand assets as collateral. Rural poor do not possess any assets as a result it is very difficult to get credit from formal credit institutions.

The money lenders have dominated the rural money market because of their informal procedure of lending and their willingness to lend on personal security and

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[7] Aleem(1993), Floro and Ray(1997)

for unproductive purposes (consumption credit) and on account of their intimate knowledge of and relations with debtors extending over generations and easy accessibility.

In the light of the above arguments, three features of rural credit markets stand out:

a) The features of the rural credit markets impede the efficient functioning of the markets.
b) Inadequacy of credit and constraints on timely availability of credit,
c) High interest rates, neglect of small and marginal farmers and poor people and continued presence of informal markets. Accessibility of credit to the poorer sections is denied.

E. Adverse Selection and Moral Hazard

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 will be reluctant to provide loans to the poorer sections of the society.

IV. The Demand for Rural Credit

Rural households need credit for a variety of reasons. They need it to meet short term requirements for working capital and long term investment in agriculture and other income bearing activities. Agriculture and non-agricultural activities in rural areas are typically seasonal and households need credit to smooth out seasonal fluctuations in earning and expenditure. This variety of needs shows that without credit it is very difficult to carry on activities in rural areas. In other words rural households need credit as an insurance against risk.

Types of Credit:

We can divide demand for credit into three parts;

They are 1. Fixed capital credit

2. Working capital credit

3. Consumption capital credit

1. Fixed capital credit:

This is also called long term credit. The period of this type of loans extend beyond five years.

The farmers in rural areas require this type of credit for effecting permanent improvements on land, digging tube wells, purchase of larger agricultural implements and machinery like tractors, harvesters etc. and repayment of old debts. The rural person who wants to start new enterprises also demands this type of credit. This type of credit is normally obtained from primary cooperative agricultural and rural development banks.

2. **Working capital credit:**

This type of credit is also called medium term credit. This type of credit is demanded due to the long gap between input and output. The period of such loans extends from 15 months to 5 years. This type of credit is generally obtained by rural farmers for the purchase of cattle, small agricultural implements, repair of well and other people demand for expanding their business activities. This type of credit is generally provided by money lenders, relatives of farmers, cooperative societies and commercial banks.

3. **Consumption credit**

This type of credit is also called short term credit. This type of credit is typically demanded by poor households. The period of such type of credit is less than 15 months. The farmers require this type of credit for the purchase of seeds, fertilizers, pesticides, payment of wages for hired labor and for the purchase of fodder of livestock and for a variety of consumption and unproductive purposes. The main agent for granting of short term credit is the money lenders.

V).Micro Finance as an Organisation to Provide Credit to the Rural Poor

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.

A. 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.

B. 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 center stage of development effort. This Programme is targeting the poorest of the poor.

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.

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.

According to the Microcredit Summit Campaign, micro finance institutions had 154,825,825 clients, more than 100 million of them women, as of December 2007. In 2006, Mohammad Yunus and the Grameen Bank were awarded the Nobel Prize for Peace, for their contribution to the reduction in World Poverty. At the end of 2009, there currently are more than 3,100 microfinance institutions (MFIs) were providing microcredit over 128 million people in the world. Over 100 million loans to poor families and their businesses, many of which explicitly aim to increase economic development and lift their clients out of poverty (**Banerjee and Duflo: 2010. Microcredit Summit: 2009)**. Microfinance outreach and impact in the Indian context during the years 2006-2011 shows in the Table No.9 both the 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. 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. 1: Client Outreach-borrowers with Outstanding Accounts [a] (Millions)

Segment						**Growth Percentage**
	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 introducing of microfinance programme 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. Participation in SHGs (Self-Help Groups) has improved the access of women to credit. The access to credit has helped women to meet their consumption as well as production needs. Supporters of microcredit believe that, among other effects, it alleviates poverty, creates self-employment, promotes gender equality, empowers women (usually microcredit targets women as clients), and helps achieving universal primary education. The recent study concludes that the context of the availability and accessibility of the basic financial services is low, they states that *More than One billion poor people have no access to basic financial facilities*, which are essential for them to manage their precarious lives**(Parida and Bandhu: 2012)**. In the case of rural India money lenders and other non-institutional financial sources still dominated. A study conducted by the **(World Bank-NCAER Survey:2003)** on 'Rural Access to Finance' indicate that 70 percent of the rural poor do not have a bank account and 87 percent have no access to credit from a formal source. This study found in the case of Andhra Pradesh and Uttar Pradesh in terms of informal sector landings 21% rural household have access to formal sector credit, although as much as 41% had a deposit account in a formal institutions. Informal sector lenders remain a strong presence in rural India. Delivering other financial services such as savings accounts, life health and crop insurance also remains limited for the rural poor. In this situation microfinance as emerged to expanding financial services to the large population that remains largely excluded from the conventional financial system. **(Basu and Srivastava: 2005).** SHG-Bank linkage programme was conceived to fill the gap existing in the formal financial network and extending the outreach of banking to the poor. When SHG spread is analysed with reference to poverty the glaring differences between regions highlights the need for taking the SHG movement to the lagging regions. SBLP was conceived to fill the existing gap in the formal financial network and extending the outreach of banking to the poor. SHGs need to be formed around activities of rural infrastructure such as construction and renovation of minor irrigation tanks, feeder channels, rural roads, *etc.* This will generate significant external economies for agricultural yields and overall rural development. Enhanced efforts should be made towards embedding livelihood activities, micro-insurance and grain banks in the SHG model. **Pankaj Kumar and Ramesh Golait (2009).** The present distribution of the SBLP is skewed against the poorer regions of the country. While less than one-fifth of total loans to SHGs went into the Eastern and Central Regions taken together, they accounted for more than three-fifth of the total poor in India. Banks need to be encouraged as facilitators in extending the SHG movement in the poorer regions, perhaps by introducing a scheme of performance-linked incentive. Specific funds may be created to address the regional imbalances in the SBLP. The progresses of SHG-Bank linkage programme at the national and regional levels, and examine its impact on the socio-economic conditions of SHG member households. The programme has grown at a tremendous pace during last two decades and emerged as the most prominent means of delivering micro-finance services in India. The average annual net income, assets and savings of SHG member households increased significantly in the post-SHG situation. The average amount of loans and the regularity in repayment of loans increased, and the dependence on moneylenders decreased remarkably. The percentage of loans used for productive purposes and employment per household increased, the incidence of poverty among SHG members declined, and the social empowerment of women improved significantly**(Madhusudan Ghosh: 2012). Prasenjit Bujar Baruah (2012)** An empirical study conducted in Nalbari district, Assam about the impact of micro-finance on poverty. It examines the nature of loans provided by the SHGs to its members, and finds that the amount of loans provided under the programme to its members is too small to help them cross the poverty line. The above discussion reveals that as saving and credit groups, some of the self-help groups are working properly, and some others stopped all their activities. As an alternative source of credit, although SHGs were able to fulfil the credit needs of the members to some extent; it was unable to fully satisfy their credit needs. The amount of loans provided by SHGs to their members is so small that it can't help the members to fight against poverty.

VI. Empirical Evidence

Theoretical level, how micro finance as an institution can be successful in solving the problems of adverse selection, and moral hazard that is associated with rural credit systems. This present study provides empirically verifies whether micro-finance was successful in some of the claims made by the advocates of micro-finance programme as *alternative source* of rural credit, by collecting primary data and field work from Kamavarapukota mandal in West Godavari district, Andhra Pradesh.

1. Methodology

The data base is primary data collected through a questionnaire and schedule[8] supplemented by secondary data collected from different government offices and from different hand books published by NABARD. The sample size is 210 groups of micro-finance burrowers from 335 self-help groups. This is purposive sampling which includes only those group members who have taken credit from NABARD bank linkage programme and private micro finance institutions and money lenders. A Pre-test[9] is conducted to decide the number of respondents. There are fourteen gram panchayats in this mandal and sample from each Panchayat is taken according to the number of groups in that panchayat.

2. Basic information about Kamavarapukota mandal

Kamavarapukota mandal is one of the rural mandals in Eluru revenue division of West Godavari District. It was formed in 1985 from the erstwhile Chintalapudi Taluka. It consists of 14 gram panchayats. The total geographical area of the mandal is 267 hectares. The mandal is surrounded by the Jangareddigudem and Dwarakatirumala mandal on the East, Lingapalem mandal on the West, T. Narasapuram mandal on the North and Pedawegi mandal on the south. The basic information about the mandal can be shown in the following table.

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[8] The Schedule is filled by the interviewer in a face to face interview. On the other hand questionnaire is filled by the respondent himself.

[9] Pre testing means trial administration of the instrument to a sample of respondents before finalizing the sample size.

Table No.1: Profile of the Kamavarapukota mandal

Total population	53,592
Literacy rate	58%
Female population	26,485 (49.41%)
No. of groups	691**
No. of members	8313
No. of groups with R.F sanction*	335
Total savings of the group	12226500
NABARD linkage (2006-07)	230.37 cr
Sample size	210

Source: Mandal development reports **Average 12 members per group. * R.F. sanction refers to a government subsidy on interest rates given to the burrowers from micro-finance institutions through NABARD. See below table.2

Sample taken from each village of Kamavarapukota mandal can be shown in the following table.

Table No. 2: Sample size

Name of the village	population	No. of groups only	Groups with R.F. sanction*	Sample drawn
Kamavarapukota	16110	185	58	45
Guntapalli	4136	55	39	28
K.S. Ramavaram	2297	32	29	20
Ravikampadu	3740	59	35	18
E. Yadavalli	2497	35	24	10
Ramannapalem	1372	25	15	9
Uppalapadu	1687	22	13	6
Ankalampadu	2634	31	20	9
Tadekalapudi	6996	94	33	22
Sagipadu	3237	46	15	9
Adamilli	3140	32	15	9
Kallacheruvu	2675	38	23	15
Polasigudem	830	10	6	4
veerasettigudem	2241	27	10	6
Total	53,592	691	335	210

* According to the performance of the group, government through NABARD first provides loans to the groups at a very low rate of interest (Pavalavaddi) and with further improvement groups will get revolving fund assistance, in the form of further decline in interest and some amount is given by the government to provide loans to the borrowers of the groups. In the 210 sample all members are from revolving fund

assistance groups. Only after getting revolving fund assistance groups come under the properly established SHGs.

Table No. 3: Profile of the sample Social status

Sample size	O.C	B.C	S.C
210	22	110	78

The table depicts caste profile of the sample. The sample consists of 10% other castes members, 53% backward castes members and 37% members from schedule castes.

Table No. 4: Occupational structure of micro finance borrowers

Sample size	Agriculturists	Daily wage Laborers	Petty shop keepers
210	34	111	65

The above table represents the occupational structure of the sample. The sample comprises 16% of agriculturists, 53% of daily wage labourers and 31% of petty shop keepers.

Table: 5 Average family size varies from 2- 10

Sample size	Up to 2	Up to 4	Up to 6	Up to7-10
210	4	64	122	20

The table depicts average family size of the sample. The sample consists of 2% of families having family size of 2 people, 30% families having family size of 4 people and 58% of families having 6 people and 10% of having family size more than 7 people.

Table No. 6: Average annual income in rupees varies from 2,500- 10,000

Sample size	Up to 3,000	3,100 – 6,500	6,600 – 7,000
210	27 (13%)	172 (82 %)	11(5 %)

The table depicts the average annual income levels of the sample. In the sample 13% of members are below poverty line having the average annual income of three thousand rupees and they can be termed as poorest of the poor. 82% of the members in the sample having average income of 6,500 and these members come under the category of below poverty line population but having higher incomes than the above category. Members having more than seven thousand rupees as their average annual income amount to 5% who are not poor but also get micro finance loans. Thus this sample mainly has households that are below the poverty line and who have access to microfinance. There are a few households in the sample that are above the poverty line (5%).

Table No. 7: Occupational structure and caste profile of the sample

Occupation / Caste	Agriculturists	Daily wage laborers	Petty shop keepers	Total
O.C	12	5	5	22
B.C	17	38	55	110
S.C	5	68	5	78
TOTAL	34	111	65	210

The above table represents the caste and occupational profile of the sample. In the sample 35% of agriculturists are from O.Cs, 50% from B.Cs and 15% from S.Cs. In the case of daily wage labourers 5% are from O.Cs, 34% from B.Cs and in the case of petty shop keepers 7.5% from O.Cs, 85% from B.Cs and 7.5% from S.Cs. With regard to the caste profile O.Cs consists of 55% of agriculturists, 28% of daily wage labourers and 27% of petty shop keepers. B.Cs comprises 15% of agriculturists, 35% of daily wage labourers and 50% of petty shop keepers. In the S.Cs category 6% of the sample consists of agriculturists, 87% are daily wage labourers and 7% are petty shop keepers.

Table No. 8: Occupational structure and income levels

Income Levels / Occupation	Up to 3,000 (Rs)	Up to 6,500 (Rs)	Above 6,500 (Rs)	Total
Agriculturists	4	24	6	34
Daily wage laborers	17	91	3	111
Petty shop keepers	6	57	2	65
Total	27	172	11	210

The table depicts occupational structure and income levels of the members of the sample. In the sample 15% of agriculturists, 63% of daily wage labourers and 4% of petty shop keepers are having average annual income of three thousand rupees. They can be put under the category of poorest of the poor. Under the below poverty line comes 14% of agriculturists, 63% of daily wage labourers and 22% of petty shop keepers. In the sample above poverty line section consists of 55% agriculturists, 27% daily wage labourers and 18% petty shop keepers.

Table No. 9: Income levels in different castes

Income / Caste	Up to 3,000	Up to 6,000	Above 6,000	Total
O.C	3	15	4	22
B.C	16	89	5	110
S.C	8	68	2	78
Total	27	172	11	210

In the above table income levels in different castes are shown. Under poorest of the poor section comes the 11% O.Cs, 59% B.Cs and 30% S.Cs. In the below poverty line category 9% are O.Cs, 51% are B.Cs and 40% are S.Cs. under the "above poverty line" category 36% are O.Cs, 45% are B.Cs and 19% are S.Cs.

3. Forms of micro finance delivery and terms of repayment:

In this mandal two forms of micro financing delivery are there

a) Through SHGs and

b) Through private individual agencies like Asmitha, Spandana etc.

In addition to this there are the traditional money lenders still in operation from who the households from this data set still borrow money.

The government is carrying out SHG bank linkage programme on a large scale, which is one of the important forms of micro finance program. The progress of NABARD linkage program in this mandal can be explained with the help of following table.

Table No. 10: SHGs –Bank linkage Program in Kamavarapukota mandal

Name of the panchayat	No. of groups	No. of women members	Savings	NABARD linkage groups 2004-05	NABARD linkage amount 2004-05	NABARD linkage groups 2005-06	NABARD linkage amount 2005-06
Kamavarapukota	205	2101	3382500	97	3774000	73	4466000
Guntapalli	55	564	907500	36	1259000	10	384000
K.S. Ramavaram	32	328	528000	18	810000	9	700000
Ravikampadu	61	625	1006500	35	1398000	32	1800000
E.Edavalli	40	410	660000	23	869000	9	459000
Ramannapalem	28	287	462000	10	262000	10	970000
Uppalapadu	22	226	363000	9	294500	9	377000
Ankalampadu	31	318	511500	14	624000	14	883000
Adamilli	32	328	528000	13	696000	17	1630000
Tadekalapudi	114	1150	1881000	46	2469000	54	4472000
Sagipadu	46	472	759000	10	569000	21	2248000
Kallacheruvu	38	389	627000	21	551000	19	2250000

							0
Polasigudem	10	103	165000	8	155000	4	425000
Veerisettigude m	27	278	445500	25	290000	19	2570000
Total	**741**	**7579**	**12226500**	**365**	**1420500**	**300**	**2363400 0**

Source: A.P. Government reports on the SHG programme

From the above table it can be concluded that the number of women joining these groups has increased considerably. NABARD assistance to these groups is also increasing every year. In Kamavarapukota mandal there exist private micro finance institutions like Asmitha, Spandana. We can observe a member getting loans from SHG bank linkage programme and Asmitha, Spandana and money lenders and village organizations. From the 210 sample, almost 93% of the sample members obtain loans from all three sources.

4. Frequency of repayment:

Members of private micro finance institutions have to pay weekly interest rates and SHGs has to pay monthly interest rates. Due to this weekly interest loans are used mainly for working capital, which yields returns soon but loan amount is not used on fixed capital credit, which takes time to yield returns. Thus the scope of micro finance is limited in not being able to help in providing funds for Fixed Capital expenditures.

5. Loan Profiles:

For the purposes of this study we categorize loans into two broad kinds: Productive Loans and Unproductive Loans. Loans taken for the purpose of farming, and for the purpose of establishing small enterprises and petty shops which yields some return to them are given the status of productive loans whereas, loans used for repaying loans, health expenditure as well as for consumption purposes which do not directly yield any return are termed as unproductive.

Table No.11: Primary data on the usage of loans

Sample size	Loan used for productive purpose	Loan used for unproductive purpose
210	96 (45.71%)	114 (54.2%)

Primary data shows that the percentage of all loans that are being taken for unproductive purposes is higher than for productive purposes.

5.1. Loan profiles of the poorest of the poor and the impact of Micro-finance:

Poorest of poor section are mainly from the back ward castes and in the sample they comprise 59%. The remaining 30% and 11% are from schedule castes and other castes respectively. (Shown in tables 5.2.8 and 5.2.9) With regard to occupational profile poorest of the poor are mainly from the daily wage laborer's category. These daily wage labourers mainly used their micro finance loans for the unproductive purposes mainly for consumption purpose and for celebrating marriages and for expenditure on health. The daily wages are earned by working in the agricultural lands owned by others. Thus these wages are subject to seasonal fluctuations and do not comprise of a steady income throughout the year. From the sample, 65 members started petty shops using funds from micro finance and are in a position to repay the loans. Mostly daily wage labourers and poorest of poor from other two sections i.e. from agriculturists and petty shop keepers are not in a position to repay loans and even weekly interest rates due to the using of loans for the unproductive purposes. Because of this they are going to local money lenders and neighbors for paying their weekly interest rates. Even though poorest of the poor sections are getting loan assistance from micro finance institutions there is not much improvement in their economic well being and further their debts increased due to the improper and unproductive using of loan amount.

5.2. Loan profile of the below poverty line category and the impact of Micro-finance:

People below poverty line category comprise mainly also from back ward castes. They comprise 51% of sample and other 9% and 40% from O.Cs and S.Cs respectively. People below poverty line are also mainly from daily wage labourers category. From this section 33% of the members started petty shops and they are in position to repay micro finance loans back.

6. Demand for credit in Kamavarapukota Mandal

It would be useful to demarcate this broad finding into loans for working capital credit, fixed capital credit and for consumption credit. The study clearly indicates through the following table that credit from banks is the main source for fixed capital whereas Micro-finance institutions are catering mainly to finance working capital needs. Money lenders continue to dominate the credit requirements for consumption loans.

Prior to the emergence of micro finance institutions rural poor for all working capital credit, fixed capital credit and for consumption credit also they depending on money lenders only. But now for working and fixed capital credits they are depending on micro financing and for consumption credit they are going to money lenders. However one distressing trend seems to be that Money lenders are financing the re-payment of loans to other institutions.

Table No.12: Demand for credit in in Kamavarapukota mandal

Type of capital \ Institution	Sample size	Banks	MFI s	Money lenders
Emergency Consumption	210	0 (0%)	0 (0%)	210 (100%)
Working capital	210	30 (14%)	178 (85%)	2 (1%)
Fixed capital	210	160 (76%)	46 (22%)	4 (2%)
Repayment loan	210	0 (0%)	52 (25%)	158 (75%)

Source: Primary data collected through Schedule

From the above table we can say that more than 85% working capital credit to rural poor is coming through the micro finance institutions only whether it is through SHGs or through private micro finance institutions. 46% of fixed capital credit is also coming from these institutions only. These people reported difficulty of obtaining bank loans because of difficult and rigid procedure to obtain bank loans and they have to go some other faraway place because they do not have banks in their own village. In the mandal there exists one SBI at Tadekalapudi village and one Andhra Bank at Kamavarapukota mandal. People depending on banks for fixed capital credit.

7. Has Microfinance led to the Empowerment of women?

Micro financing programme is viewed as a magic bullet for Women's empowerment. This programme helped poor women to become financially independent persons. The government of Andhra Pradesh has taken up the theme of women's empowerment as one of the strategies to tackle the socio economic poverty. Self-help movement through savings has been taken up a mass movement by women – a path chosen by them to shape their destiny for better. Development Agenda of the state in the last few years placing the people, especially women in the fore front has enabled the formation of a large number of Self Help Groups (SHGs) throughout the state and majority of women are saving one rupee a day. The government is consciously making an effort to assist SHGs by providing Revolving Fund under various programmes. There are about 3.95 lakhs women SHGs in Andhra Pradesh covering nearly 53.59 lakhs poor women. Socio – economic survey of SHGs conducted by DRDA[10] in different districts has indicated that the scheme has helped women earn additional monthly incomes ranging from Rs.1500/- to Rs.1800/- depending on the economic activities taken up. In addition, women have taken up initiatives in improving their socio – economic status by participating in governmental programmes such as family welfare, promoting their nutritional and educational status, awareness on environment, public health through sanitation and clean drinking water. In all 691 Women self-help groups with total membership of 8313 women is in existence in this mandal. Out of these 691 Groups, 335 groups have been sanctioned revolving fund to a tune of Rs.28.85 lakhs. Further 665 groups have been assisted

[10] District Rural Development Agency

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under NABARD linkage to a tune of Rs.376.545 lakhs. Further 25 groups have been sanctioned group loans under SGSY scheme to a tune of Rs. 17.50 lakhs. Under Indira Kranthi Pradham[11] 165 groups have been sanctioned CIF to a tune of Rs.36.679 lakhs. Besides this 153 groups have been given Rice Credit Line (RCL) to a tune of Rs.2.405 lakhs. In addition to the above 544groups have been reimbursed Rs.6.883 lakhs interest paid by the groups under pavala vaddi scheme by the state government. The women in Kamarapukota mandal with micro financing loans doing the businesses like making lace products, food items, pickles, lungies, blankets, carpets, kalakari, soft toys, mats, printed saris, paper sweet, coconut brooms, coconut oil, readymade garments, wirebags and improved their positions in their families through economic independence.

Table No. 13: Primary data on empowerment of women

Aspect	Sample size	Yes	No
After joining in micro finance institutions has your position in family improved?	210	178 (84.7%)	32 (15.23%)

Because of the tremendous increase in NABARD bank linkage to SHGs and increase in individual micro finance institutions women in rural areas getting financial assistance and women who are using this assistance in a proper way are earning more than their husbands. This financial independence resulted in improvement of their status in family and in society. From the table we can say that 85% felt that their position family improved after joining in micro finance institutions

Sample size	No. of women started new enterprises with micro finance loans
210	80 (38%)

8. Has Micro finance resulted in reducing the dependence on money lenders?

Micro finance in India started with the mission of saving rural poor from the clutches of money lenders and it is viewed as an alternative to them. The following empirical results from primary survey indicate that there has been a reduction in the dependence on money lenders, but only in the category of obtaining credit for working capital which is now supplanted by credit from Micro-finance. However poor people are mainly depending on money lenders for consumption credit only. (Shown in table 12)

Table No.14: Primary data on reduction of dependency on money lenders business after the emergence of micro finance institutions in Kamavarapukota mandal

[11] Indira Kranthi Pradham program before 2004 called as Velugu programme.

Aspect	Sample size	Yes	No
Whether stopped going to money lenders after the emergence of micro finance institutions	210	31 (14%)	179 (85%)

Source: From primary data collection through questionnaire

From the above table we can say that there is not a significant reduction in the dependence of money lenders.

9. Is Micro financing an effective intervention towards poverty alleviation?

Provision of financial services to the poor and underprivileged sections of the society has always been in the focus of various programmes initiated by the governments since independence in India. As a part of that focus, several subsidy linked credit programmes were initiated. An ambitious credit scheme the integrated rural development programme with a considerable element of subsidy was launched to alleviate poverty. In spite of so many initiations poverty remained as a big hurdle in the path of development of India. It was in such an environment that micro finance emerged as an innovation the world over. It was evolving into an effective system for provision of financial services to the poor households. So, micro finance is essentially a process to activate and involve civil societies on the theme of self and mutual help with the aim of endowing poor with resources and confidence to enable them manage their lifestyles and livelihoods on sustainable basis. Micro financing is making significant contribution to both the savings and borrowings of the poor in the country. The presence of micro finance has increased the borrowing options for the poorer clients and brought improvement in the livelihoods of the poorer sections of the society. This can be explained with the help of following empirical data.

Table No. 15: Primary data on the improvement of living standards of the members

	Sample size	Yes	No
Income standards improved after joining in micro finance institutions	210	163 (78%)	47 (22%)

This Kamavarapukota mandal is one of the backward mandal in West Godavari district and poverty ratios are very high in this mandal before the emergence of micro finance programmes, After the introducing of this programme, the reduction of poverty levels showed declining tendencies in this mandal. This can be explained with the following table

Table No. 16: DRDA reports on poverty

Year	1992	2003	2006
Poor households	7453(58.2%)	5821(45.4%)	5510(43%)

After introduction of micro financing programme poverty ratios declined in Kamavarapukota Mandal.

10. Is Micro-finance is able to supplement all the credit needs of the Poor?

Outreach of micro finance program in Kamavarapukota mandal is shown in the following table.

Table No. 16: Total outreach

Total population	Poor people	members	coverage
26,485	11020	8313	8313/11020= 75%

The outreach of micro finance programme is significant in this mandal however that Micro-finance is able to supplement all the credit needs of the poor is not borne out by this study. The fact that the frequency of repayment does not enable the poor to access credit for the purposes of fixed capital is a severe limitation of the Micro-finance scheme. At the most the institution is able to bring women into becoming petty traders. This, while helping the immediate problems by bringing in more money into the household, is insufficient to create the "big push" needed to get out of the poverty trap.

11. Working of an individual micro finance institution in Kamavarapukota mandal (Asmitha)

This micro finance institution in the mandal has branches in every village. This institution headquarters is in Hyderabad. The micro finance institutions working in this area are Spandana and Asmitha. These people will get finance from ICICI bank and ICICI bank will get refinance from NABARD. This institution will appoint different loan monitoring personnel they will go to SHG group leaders and they will provide loans to them. Because of peer monitoring good repayment cases are there. But they are charging high interest rates and lot of burden is there on the members due to the weekly interest rates.

Table No. 17: Micro finance in Kamavarapukota mandal

Aspect	Sample size	SHG bank linkage	Individual micro finance institution (Asmitha)	Money lenders
Repayment ratio of loan	210	104 (49%)	198 (94%)	191(90%)

Because of this pressure members are going for local money lenders to repay the interest rate of micro finance institution. This resulted in some crisis and one lady from reddy colony died in her attempt to escape the person who came for collection of interest rates. This shows us the need for regulating micro finance institutions.

Vii. Summary and Conclusions

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 also focused in finding out the impact of micro finance programme on poverty, money lenders, women empowerment and living standards of the rural poor based on the primary and secondary data collected from Kamavarapukota mandal.

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 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 will be 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.

On the empirical side the study seeks to verify the claims that:

1. The Micro-Finance credit market is in a position to supplement the all the credit needs of the rural people.
2. Micro-Finance reduces the dependency on money lenders who charge high interest rates.
3. Micro-Finance results in the reduction of poverty in rural areas.
4. Micro-finance leads to empowerment of Women.

Towards this purpose, the study depended on the primary data collected through schedules and questionnaire. The study selected Kamavarapukota mandal in West Godavari district for primary study. The sample size is 210 and it used purposive sampling method. The primary data is also supplemented by secondary data collected from various government offices especially DRDA and mandal office of Kamavarapukota mandal. The primary results shown that this programme, while improving living conditions of the poorest of the poor sections, is still far from providing all the credit requirements that are needed to help these members break poverty trap. The main reason being the frequency of repayment being very high, the loans cannot be used for the requirements of any economic activity that would yields in the future. Thus the requirements of funds for fixed capital have to be obtained from other sources. This is a severe limitation of the Micro-finance scheme.

Although the dependency on money lenders for loans on working capital has reduced, the money lender has in no way been supplanted by Microfinance schemes. Evidence from the primary data shows that money lenders continue to be the major source of credit for consumption loans and, in many cases, as providers of loans to repay microfinance loans. This is a negative trend that was not an anticipated outcome. This leads to a debt trap which can create severe problems for the members concerned.

Microfinance has had the effect of reducing the burden of poverty. However to claim that Microfinance would be a sufficiently strong instrument to bring the poor above the poverty line and thus eradicate poverty seems to be too ambitious. This can be verified over time and the snap shot picture that the primary data shows cannot be used to assess this aspect.

This study showed that micro finance programme worked well towards women's empowerment and it improved, marginally, the living standards of the rural poor. It is of interest to note that all the members of the microfinance users in this primary survey were women.

The results show that introduction of micro finance programme increased the borrowing options for rural poor. Increased options did not always result in a substitution of one alternative for the other; rather it resulted in burrowers using all the available options for different loan purposes. This resulted in over burrowing by the borrowers, which led to a higher debt burden.

This study showed that the outreach of micro finance programme in that mandal is good.

However, the non-existence of any laws and codes of conduct in the area of default has resulted in some microfinance organisations using unethical methods to recover loans. This problem needs to be urgently addressed by the government and a code of conduct must be implemented to protect the rural burrowers from such practices. Even though Sadhan issued a voluntary mutual code of conduct on 20 March, 2006, it is not that much effective. So, government must issue some binding code of conduct to micro finance institutions.

Discussions for better Rural Credit Delivery System

In light of the above discussions several pertinent points can be made to improve the policy on rural credit:

(i) Different institutions supplying rural credit seem to be catering to different requirements of credit. In this sense they cannot act as imperfect substitutes of each other. To a small extent Microfinance has supplanted the dependency on money lenders for working capital credit requirements but it is unable to supplement the requirements of credit for fixed capital. Thus a major bottleneck of the rural credit system remains. Unless a method is devised to help the rural poor obtain loans for fixed capital in an easy and efficient manner, with suitable terms of repayment, it would be difficult to foresee a significant break from the past. One important step in this direction would be to offer some sort of insurance cover on such loans.

(ii) Loans for health expenditure and consumption purposes are still mainly obtained from money lenders in this study. The overall provision of health facilities and insurance against natural risks can to a large extent mitigate this problem. This again points to an overall strategy of the government and has little to do with Microfinance provisions per se.

(iii) Rural poor for fixed capital credit depending on banks, which is not adequate. So, micro finance institutions by reducing the frequency of repayment and also by increasing loan amount can supplement banks in providing fixed capital credit to borrowers.

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