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From Traditional Financing to Micro Financing: Theory, Experience and Practice with Special Reference to India

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Abstract

Micro financing as a powerful emerging tool of poverty alleviation and rural development has become a buzzword throughout the globe. Learning from the international experiences in the field of micro financing, India has also been moving from traditional conservative approaches of financing to more liberal and sustainable approach of financing to the poor i.e. micro financing. The present paper highlights the concept and worldwide experiences of microfinance. The paper, in particular, brings about understanding of micro finance practices being followed in India. To achieve the purpose, the review of relevant literature and some sources of secondary information have been used.

Keywords: Traditional financing; Micro financing; SHGs; Micro credit; MFIs.

Introduction

Micro financing as a powerful emerging tool of poverty alleviation and rural development has become a buzzword throughout the globe. Right since independence, various policies and programs have been initiated by the Government of India to include the financially excluded masses such as the marginal farmers, landless laborers, self-employed and unorganized sector enterprises, slum dwellers, migrants, socially excluded groups and women etc. into the organized financial system. Priority sector lending is one such effort initiated by the Government of India through the machinery of RBI in 1971. Under priority sector lending, it is mandatory for the Indian banks to lend 40% of the net bank credit into priority areas. Broadly, the priority sector includes the following categories (Srivastava and Nigam, 2009):

- **i) Agriculture (Direct and Indirect finance**
- **ii) Small Enterprises (Direct and Indirect Finance**
- **iii) Other Small Business / Service Enterprises**
- **iv) Micro Credit.**
- **v) Education loans**
- **vi) Housing loans**

However, due to the vast investment gap existing in the provision of financial services to the poor, the majority of poor, therefore, depend for their credit needs on the informal sources of financing for meeting their livelihood and consumption needs (Singh, 2004). Consequently, the exploitation of rural masses in the credit market has become one of the most pervasive and persistent feature of rural life in India (Swami Nathan, 2007). The task of financial inclusion seems indomitable in a developing country like India which is a home to one third of the world's poor people. According to the revised official poverty line, in India, 37.2% of the population (about 410 million people) remains poor which constitutes 28% of the rural population and 26% of the Urban (World bank, 2008). Poverty, being a complex multidimensional problem, can be reduced by providing financial services to the poor enabling them to leverage their initiatives to improve their level of income and ensure economic security (Rajkumar and Chennakrishnan, 2009).

The Task force on Supportive Policy and Regulatory Framework for Micro finance (1998) has defined Micro finance as the "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards." (**Reserve Bank of India, 2005)**

Earlier banks were not ready to provide finance to the poor and low income group people as they were considered to be non-bankable. Banks treated microfinance as a social obligation which seemed less profitable. But gradually with experience the banking sector has realized the importance of serving the 'Bottom of the pyramid'. Today, microfinance is no longer the domain of development institutions. Many leading public sector and private sector banks have started taking interest in micro financing as a profitable commercial activity for two reasons. Firstly, it is mandatory for the Indian banks to lend a certain percentage (currently 40%) into priority areas including micro credit. The return from micro lending is much better (10-14%) as compared to returns on government bonds of (6-7%). Secondly, the experience has shown that microfinance is not a very risky venture as the concept of micro financing is based on certain proven facts that are not always recognized. That is the poor are bankable, they do not need charity neither they want subsidized credit. Their only need is to have timely access to provision of adequate funds. The studies (Bedoya, 2006; Gupta, 2008; Oke et al, 2010; NABARD, 2009-10) have shown that the repayment rate among micro finance borrowers has been above 80%-90% which is enough to break down the age-old convention that the poor are non-bankable. Thus, by providing micro loans through groups and referral with such a good repayment rate, banks get the best of both worlds – higher rates of return with very low risk (Chanana, 2007).

Micro Financing versus Traditional Financing:

Micro finance banking differ from traditional finance banking in various respects as follows-

Orientation: Traditional banking works with profit oriented principles while microfinancing is based upon social principles of serving the underprivileged and discriminated section of the society. The concept of Micro credit is based on certain set of principles which differentiate it from general financing or credit as it is a tool of socio economic development of the marginal borrowers. It does not end only with providing credit to the poor rather it also provides for building capacity of a micro entrepreneur and generates employment.

Target market: Microfinance aims at targeting the particular segment of the customers and providing its services to that most vulnerable part of the society. It also includes micro, small and medium enterprises. On the other hand traditional banking targets a bigger market covering all the clusters of the society. The Indian population is divided into four categories on the basis of the level of household income as shown in figure 1.

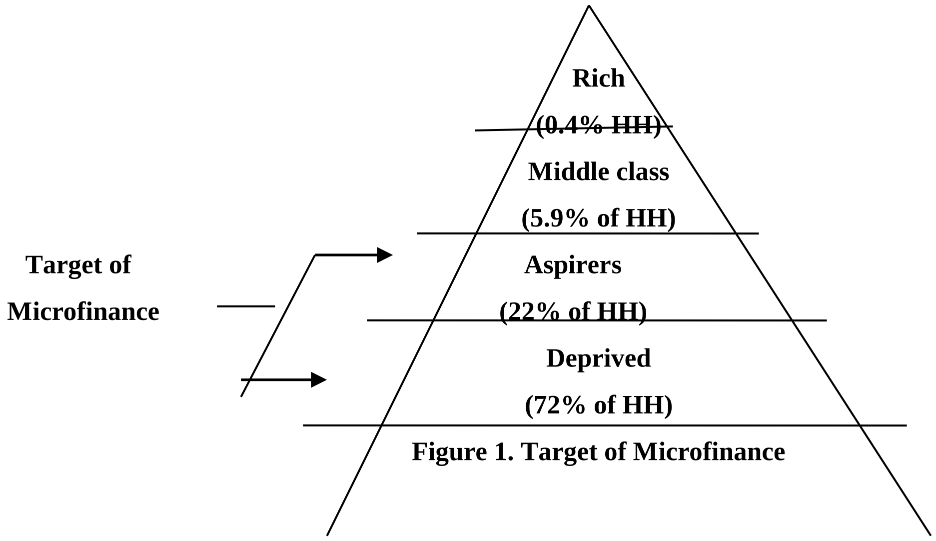

Figure 1. Target of Microfinance

Source: Lok capital (2010) Microfinance Industry in India.

Rich comprises of 0.4% of total households having annual income greater than $ 20,000; Middle class constitute 5.9% of the total households earning between $ 4,000- $ 20,000 per annum; Aspirers are the 22% of the total households having income in the range of $ 1800- $4,000 annually and at the bottom of the pyramid are the 72% of the total households living on an annual income of less than $ 1800. The microfinance sector targets the last two segments of the whole economy i.e. aspirers and the deprived.

Size of loan: Microfinance uses loans of small denominations. As per the simple definition of microfinance, it is providing credit, thrift and finance related services and products of very small amount so as to improve the living standards of poor and the downtrodden. As per the revised priority sector lending norms provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower constitutes micro credit.

Duration of loan: Traditional banking includes both long term as well as short term loans while micro financing generally, involves short term loans typically one year (Yadav et al, 2011). .

Collateral free lending: Another difference between the commercial and microfinance banking is of group lending mechanism with only social collateral whereas commercial banks demand physical collateral even for the products designed for the poor and underprivileged section of the society.

Risk perception: Micro financing is generally considered to be riskier venture as compared to general financing due to many reasons like it is not backed by physical collaterals, poor have low level of income and saving so the repayment capacity of the poor becomes doubtful. However the experience shows that it is a misperception that financing to poor is risky because repayment rate (more than 90%) among the marginal borrowers has found to be very good.

Procedural simplification: As microfinance targets the poor who lack education and knowledge of the banking formalities, the procedure for availing microfinance is generally kept at ease.

Role of intermediaries: Generally, micro financing involves some intermediary institutions like NGOs and MFIs who perform the role of connecting the marginalized strata of society with the mainstream banking network.

Direct involvement in rural transformation: Microfinance facilitates and promotes banking habits between low-income individuals and groups. It also helps in forming linkages with development banks, specialized lending institutions and other micro finance banks and thus, contributing to the up liftment of the rural economy (Gilani, 2010).

International Experiences in Microfinance

Grameen Bank of Bangladesh: The origin of Micro credit movement can be traced back to the 1976 when Mohammed Yunus set up the Grameen Bank experiment at the outskirt of Chittagong University, Bangladesh (**Mahajan, 2005**). Grameen Bank operated on the principles of mutual trust, supervision, accountability and member participation. The idea of Grameen credit was based upon the premises that poor do possess skills and talent but it goes unutilized or underutilized. It is not the poor but the institutions and policies around which create poverty (**Kumar et.al, 2009).** Grameen bank implies an institutional arrangement for providing finance to the group members without demanding for collaterals and at an interest rate which is usually higher than the interest rate charged by commercial banks but lower than that is charged by moneylenders (**Icfai Center for Management Research, 2005**). Gradually, the Grameen idea spread all over the world. Today it has 2565 branches and it works in almost 81376 villages across Bangladesh. It gives loan to 8.34 million borrowers, 97% of whom are women[1]. Grameen Bank has shown a significant impact on the lives of its members across wide range of economic and social indicators (**Yunus, 2004**).

Bank Rakyat Indonesia (BRI): BRI is a state-owned commercial bank in Indonesia. In the beginning of the 1970s, 3,600 BRI Unit Desas (village banks) were created as agents of the government initiated subsidized credit programs. Initially these units could not function properly hence restructured in 1984. Each village bank adopted a commercial approach to microfinance which was profit oriented and functioned without subsidies but with efficient management. The new approach set an upward trend for BRI which today hold an international recognition for microfinance[2]. Today the BRI has a wide network of 4,000 village banks branches to serve the needs of micro and small rural customers by providing them various financial and non financial services[3].

BRAC in Bangladesh: BRAC stands for Bangladesh Rural Advancement Committee. It is one of the maiden attempts of microfinance programs in Bangladesh started in 1974. It provides financial services to those who are unable to be the beneficiaries of the traditional commercial banking network, especially the women, to improve their socio-economic status by initiating small income generating activities with the help of finance provided. BRAC follows the approach of providing collateral free lending and saving products that are customized according to the different needs of the beneficiaries at their doorsteps. Besides savings and credit services the BRAC also assists its customers in getting right input for their small businesses as well as facilitating the marketing process of their end products[4].

The Microfinance Council of the Philippines Inc. (MCPI): The Microfinance Council of the Philippines, Inc. (MCPI) is a national network of 45 institutions comprising of 36 practitioners and 9 service providers dominated by NGOs. The council aims at reducing poverty in Philippines with rapid development of the microfinance

[1] http://www.grameen-info.org/index.php?option=com_content&task=view&id=26&Itemid=0, 2010
[2] http://www.bwtp.org/arcm/indonesia/II_Organisations/MF_Providers/BRI.htm.
[3] http://www.microfinancegateway.org/p/site/m/template.rc/1.11.47004/.
[4] http://www.brac.net/content/microfinance

industry, thereby, providing equitable access to financial and non-financial services to the poor community. It has the following objectives[5]-

i) **To help members serve significant numbers of poor households with financial and non-financial services.**

ii) **To promote the adoption of poverty assessment tools and social performance monitoring systems.**

iii) **To promote the adoption of and adherence to international performance standards.**

iv) **To advocate for a policy environment that is conducive to the growth and development of a market-oriented microfinance sector.**

v) **To help build members' capacity for innovation that enhances the development of a market oriented microfinance sector.**

vi) **To promote market-oriented microfinance products and services.**

vii) **To initiate the conduct of international and national forums for best practice microfinance.**

viii) **To mobilize resources and to network with government, donors, funding agencies, investors, and financial markets in order to enhance the development of the microfinance sector.**

Brazilian Experience

Microfinance in Brazil has developed in three stages. At first stage (from 1972 to 1988) an NGO project named The Northeastern Union of Assistance to Small Enterprises specialized in providing finance to the low income group people was launched. The funds to this project were mostly contributed by some international donor agencies. Second stage (from 1989 to 1997) starts with the intervention of the state and local govt. bodies in creating some programs to finance micro entrepreneurs and establishing credit cooperatives in rural and urban areas. The third stage (from 1998 to 2002) marked some significant changes to the microfinance movement in Brazil like the implementation of Public Interest Civil Societies (OSCIPs) and Microfinance Credit Societies (SCMs) etc. The SCMs, microfinance institutions were established as the profit organizations and work more similar to the formal financial institution accept collecting public deposits. (Serpa, 2008)

Indian Experience

Historically, the credit to the poor was considered to be the domain of the government programs only that required a large amount of subsidized credit. But with the passage of the trend has been moving towards more commercial financing which is the result of long evaluation of the financial sector (**Bhatt and Kira, 2009**) which is characterized by a long list of milestones achieved in the journey of providing financial access to the poor (listed in figure 2). The beginning of the microfinance in India can be traced back to 1974 with the establishment of SEWA (Self Employed Women's Association) in Gujarat to provide banking services to the poor women working in the unorganized sector in Ahmadabad. After that some other organizations were set up on the co-operative principles like WWF (Working Women's Forum) in 1980 in Tamil Nadu and Shreyas in Kerala in 1988. But the formal beginning of microfinance in India was marked in the year 1992 when NABARD launched the pilot project of Self Help Group-Bank linkage. However, initially its growth was erratic and cautious (**P. Manoharan and R. Nirmala Devi, 2009**). The performance of banks in linking Self Help Groups (SHGs) to the banking system under the micro credit programs grew only from April 1,1999 onwards when the formation of SHGs became the principle mode of poverty alleviation through self help and development of micro finance (**Sarkar, 2008**). It is only savings and credit aspect of micro finance that has been addressed so far in India (**Dasgupta, 2005**). Micro insurance is a relatively new financial service and its outreach is rather limited and unevenly distributed across states however, with expansion of distribution infrastructure it has shown upward trend but it is still much smaller than the desired level **(Sahu, 2010).** The following are the major milestones achieved by the formal financial sector in India in providing access to finance:

[5] http://www.microfinancecouncil.org/

Figure 2.Access to Finance: Major Milestones

1969	Nationalization of Banks
1971	Establishment of Priority Sector lending norms
1975	Establishment of Regional Rural Banks
1982	Establishment of NABARD
1992	Launching of the SHG -Bank Linkage programme
1993	Establishment of Rashtriya Mahila Kosh
1998	NABARD sets a goal for linking one million SHGs by 2008
2000	Establishment of SIDBI Foundation for Microcredit
2004	launching of a pilot project on Joint Liability Programme
2005	Establishment of Centre For Microfinance Research in Lucknow
2005	MFDEF doubled toRs200crores
2005	One million SHG linkage target achieved 3 years ahead of date
2006	Committee on Financial Inclusion
2006	Micro Enterprise Development Programme for skill development
2007	Proposed bill on microfinance regulation introduced in parliament
2007	Scheme called Capital/Equity Support to MFIs introduced by NABARD
2007	Launching of a pilot project of SHG- Post Office linkage
2008	Setting of Financial Inclusion Fund and Financial Inclusion Technology Fund
2010	MFDEF increased to Rs. 400 crore

Source: Sriram (2007); NABARD (2008-09 & 2009-10)

The above-mentioned milestones indicate a journey so far traveled by the formal financial sector in India since independence. Of these, the major achievement in the context of micro finance intervention is the introduction of microfinance bill. The Union Finance Minister in Lok Sabha has introduced Micro Financial Sector (Development and Regulation) Bill 2007, Bill No 41 of 2007 on 20th March 2007). The proposed Microfinance Services Regulation Bill defines microfinance services as "providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

- **i) an amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or**
- **ii) an amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes, or**
- **iii) such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed."[6]**

The Bill is a regulatory effort of the Indian Government to promote and develop the Micro Financing services for providing financial access to the disadvantaged section of the society by developing a Micro Finance Development council and regulating all the micro finance providers. The draft document of the bill has been circulated in the year 2010 among micro finance practitioners and select micro finance institutions to collect the comments/suggestions of stakeholders on regulation and development of the micro finance sector[7]. The bill is likely to be reintroduced in the upcoming budget session in the parliament. Following are the type of micro credit providers and legal framework governing them:

[6] http://www.nabard.org/pdf/report_financial/chap_viii.pdf
[7] http://indiamicrofinance.com/india-microfinance-regulation-bill-2010-draft document.html

Table-1 Categories of Microfinance Providers and Their Legal Framework

Categories of Providers	Legal Framework governing their activities
(a) Domestic Commercial Banks: **Public Sector Banks;** **Private Sector Banks &** **Local Area Banks**	(i) RBI Act 1934/ (ii) BR Act 1949 (iii) SBI Act (iv) SBI Subsidiaries Act (v)Acquisition & Transfer of Undertakings Act 1970 & 1980
(b) Regional Rural Banks	i. RRB Act 1976 ii. RBI Act 1934 iii. BR Act 1949
(c) Co-operative Banks	i. Co-operative Societies Act ii. BR Act 1949 (AACS) iii. RBI Act 1934 (for sch. banks)
(d) Co-operative Societies	(i) State legislation like MACS
(e) Registered NBFCs	(i) RBI Act 1934 (ii) Companies Act 1956
(f) Unregistered NBFCs	(i) NBFCs carrying on the business of a FI prior to the coming into force of RBI Amendment Act 1997 whose application for CoR has not yet been rejected by the Bank (ii) Sec. 25 of Companies Act
(g) Other providers like Societies, Trusts, etc.	(i) Societies Registration Act '60 (ii) Indian Trusts Act (iii) Chapter IIIC of RBI Act '34 (iv) State Moneylenders Act

Source: http://www.rbi.org.in/scripts/FAQView.aspx?Id=7

Thus, broadly, the micro finance providers can be classified into three categories as follows

i) **Formal Sector-** It covers the entire banking industry including all public, private, co-operative and regional rural banks; Non Banking Financial Companies.

ii) **Semi-Formal Sector-** It covers Micro financing institutions (MFIs), NGOs and various Self Help Groups (SHG).

iii) **Informal Sector-** It covers family, friends, relatives, moneylenders, pawnbrokers, traders and landlords etc.

The M-CRIL Microfinance Review (2010) provides a comprehensive analysis of the growth and performance of microfinance institutions in India. Over a period of time, the Indian financial system has made remarkable progress in terms of resource mobilization, geographical and functional outreach reach and financial viability. At end-March 2009, there were 80 commercial banks and 82 Regional Rural Banks (RRBs). In 1996, the RBI made it mandatory to establish the Local Area Banks – essentially RRBs under private ownership. Unfortunately, only five local area banks got licensed out of which four are existing today. In March 2009, there were 12,740 Non-Bank Finance Companies in India that included 336 NBFC that were allowed to take public deposits. The network of co-operative banks is also wide enough. It comprised of 31 state cooperative banks, 71 district central cooperative banks and 96,000 primary agricultural cooperatives societies. The cooperative banks aim to provide short term crop and other working capital loans to farmers and rural artisans besides financing the primary agricultural co-operative societies.

Over the past few years the Indian microfinance industry, has shown good progress and is considered to be the world's largest microfinance market with 70 million credit accounts till March 2010 outperforming Bangladesh's total of around 30 million accounts in the year 2006 (M-CRIL, 2010). However, the microfinance industry has been unequally distributed in India. The self reported data of the 264 MFIs across India compiled by the Ghalla Bhansali Stock Brokers Pvt. Ltd. shows that the southern region is richer in terms of number of microfinance borrowers as well as credit portfolios outstanding with the MFIs followed by the eastern region while in the North and north east, it is very less. If a comparison is made across the states of the two parameters, Andhra Pradesh takes the lead with the consumer base of

62,50,000 and loan portfolio amounting to Rs. 5210.80 crore while Punjab is at the lowest (Consumer base: 10,000 and loan portfolio: Rs. 6 crore).

Models of Micro finance

In India, there are a range of methods used for delivering microfinance services. The most dominant one is the SHGs-Bank linkage Model. In addition to this model of SHG-Bank linkage, the use of other models are also experienced like the Grameen Bank model of Bangladesh is being replicated in various parts of India, SIDBI and Rashtriya Mahila Kosh (RMK) are promoting microfinance through NGOs dealing in microfinance.

Figure-3 represents the various models of microfinance being practiced in India and the flow of microfinance services from the various support institutions.

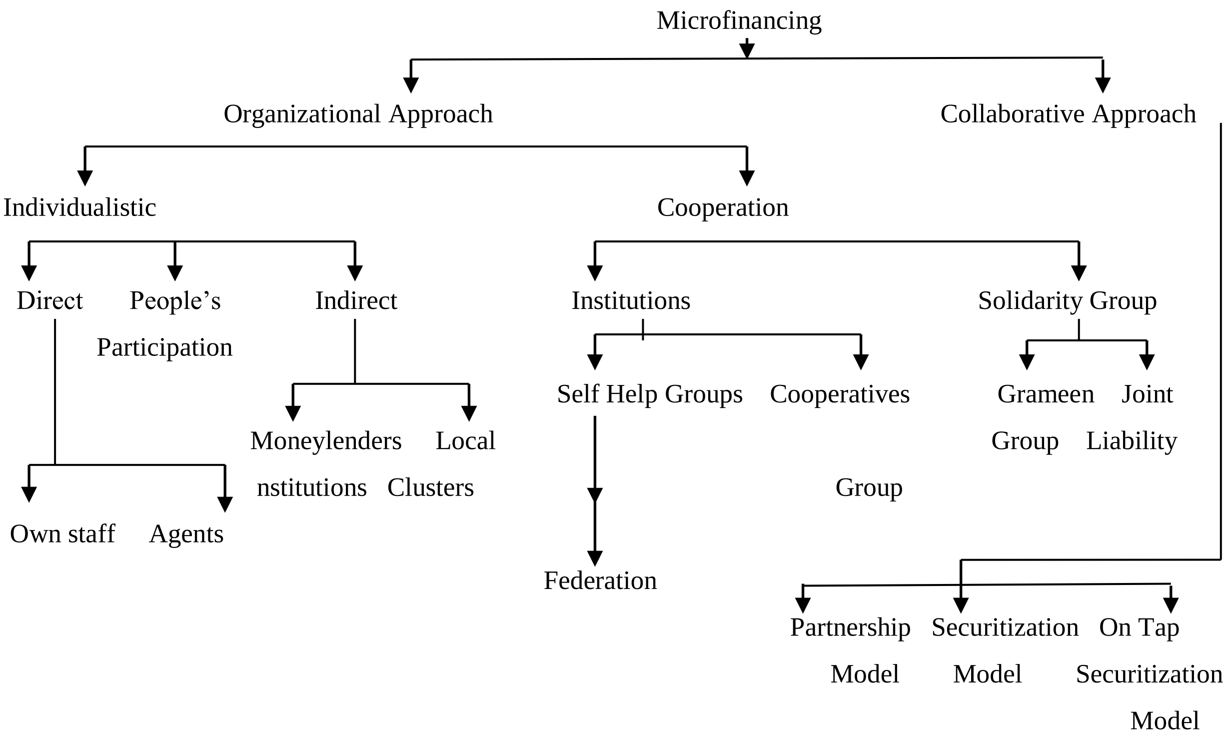

Figure 3: Models of Microfinance

Source: Dasgupta (2005), 'Microfinance in India', Economic and Political Weekly, pp. 1235

Under cooperative approach the FFIs provide microfinance in cooperation with the cooperatives, Joint Liability Groups, Self Help Groups or SHG Federation (**D. Nagayya and D. Koteswara Rao (2009).**

Under organizational approach the Formal Financial Institutions (FFIs) lend to the ultimate borrowers directly on their own or through some agents or indirectly through informal system.

The partnership Model under the collaborative approach, pioneered by ICICI bank is similar to the concept of SHG-Bank linkage model. Under this model the MFIs continue to service the microfinance portfolios till maturity but the contract of loan remains between the banks and the ultimate borrowers (**Ananth, 2005**). The securitization model involves the pooling of similar type of micro-loans, repackaging them into marketable debt securities and then selling them off to the FFIs (**Menon, 2010**) while sharing the risk and serving the portfolios. Whereas in on tap securitization the bank provides the MFI advance funding with which the MFI can build assets and once created, assets are assigned to the bank. The MFI can continue to build assets and assign them to the bank on an ongoing basis (**Kamath, 2008**)

NABARD has also been promoting banking sector's involvement in the field of micro financing. One such step was taken by NABARD in 1992 by introducing a SHG-Bank Linkage programme where SHGs are linked to banks directly or indirectly through some NGOs and provided financial services. Mainly there are three different models of SHG- bank linkage. Under first model, banks themselves take up the job of forming and nurturing the groups, opening their savings accounts and providing them bank loans. In the second model SHGs are formed by formal agencies and NGOs but directly financed by banks. Here, NGOs and formal agencies in the field of microfinance act only as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs whereas under third model NGOs take on the additional role of financial intermediation. In the areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance **(NABARD, 2005-06).**

Microfinance Products

Poor people are often the big spenders when they need to spend greater than that they are having in their hands for several occasions like to meet basic lifecycle needs, to meet the emergencies, and to exploit the viable business opportunities. Generally, the micro finance products based on these financial needs of the poor are classified into three categories, which are:

- **Micro Credit**: The term micro credit is often used in place of micro finance itself. But micro credit is just one aspect of micro financing concept which means to provide micro loans to the low income group people. It covers a wide variety of loans for consumption as well as production such as housing loans, education loans, agricultural loans, loans for petty businesses. Some banks are providing micro credit schemes for women only.
- **Micro Savings**: The SHGs maintain their saving accounts with banks. Various banks provide some schemes for opening the saving accounts without minimum balance requirements such as 'No Frill' account and 'Zero minimum balance' saving bank account.
- **Micro Insurance**: Micro insurance products include life and health insurance, crop insurance and assets insurance. This product is just developing in the micro finance industry in India.
- **Money transfer facilities**: It includes service for transferring money to family or friends, living far away. A number of commercial banks are offering such facility through international money transfer systems such as Western Union and Money Gram without any current account.

The programme of SHG-bank linkage has so far been successful in India. The following table shows the progress of SHG-Bank Linkage programme:-

Table- 2 No. of SHGs linked to Banks in India (1992 to 2012)

Year (Up to March end)	SHGs Financed (in Lakh)	Bank loan (Rs. Crore)
1992-99	0.32	57.1
1999-2000	1.14	193.0
2000-01	2.63	480.90
2001-02	4.61	1026.30
2002-03	7.17	2048.70
2003-04	10.79	3904.20
2004-05	16.28	6898.46
2005-06	22.38	11397.5
2006-07	28.94	12367.5
2007-08	36.25	16999.9
2008-09	42.24	22679.8
2009-10	48.51	28038.2
2010-11	47.87	31221.17
2011-12	43.54	36,340

Source: NABARD, Status of Microfinance in India, 2005-06; 2006-07; 2007-08; 2008-09; 2009-10; 2010-11 and 2011-12

There has been rapid increase in the number of SHGs linked with banks i.e. Commercial banks, Regional Rural Banks and Cooperative banks for meeting credit and other financial needs of SHGs' members in recent years. As shown in the above table no. 3 the number of SHGs linked with the banks have grown from 0.32 lakh during the year 1992-99 to 43.54 lakh up to March 2012. Similarly the bank loan outstanding against SHGs increased from 57.1 crore (year 1992-99) to

Rs. 36,340 crore (year ending March, 2012). The major share of SHGs credit lies with the commercial banks (66.7%) followed by RRBs (22.8%) and the Cooperative banks (10.5%).

Statistics reveal that as on 31st March 2012 there were 79.60 lakh SHGs with saving accounts amounted to Rs 6551.48 crore in the banks under SHG-Bank Linkage Program. The commercial banks have shown significant improvement in their participation in the microfinance movement in India. They are much delved into SHG banking in the recent years as their share in the total number of saving linked SHGs have been growing continuously. The major share of SHGs savings (over 58%) too lies with the commercial banks followed by RRBs (27%) and the Cooperative banks (15%) and The trend is showing that the commercial banks are grabbing more and more share of the total SHGs financing than the RRBs and Co-operative banks. (Source: NABARD, 2011-12)

Concluding Remarks

Thus, a lot of efforts are being made to link the underserved and underprivileged strata of the society with the mainstream traditional financial network though the aid of micro finance. A wide variety of microfinance products are available with a number of participants under different regulatory framework. SHG-Bank linkage model is proving its worth. Still there is a long way to go as even today, there are many villages where there is not a single bank branch available. However, with the introduction of information technology, bankers can easily mark their presence in the unbanked areas. Mobile banking and Business Correspondents and Business Facilitators models are few of the IT enabled mechanisms to reach the unreached that have already been successfully implemented in some banks on pilot basis. Government of India is also providing many facilities to encourage the bankers to promote financing among rural poor in the form of Debt waver schemes, Financial Inclusion Fund (FIF), financial inclusion Technology Fund (FITF) etc. The banks are also participating actively in the micro finance movement by developing more and more schemes under the micro finance net as per the needs of the rural poor. However, for micro finance to be a real poverty alleviation tool, it should have a long run impact on its client. Often seen that people rise out of poverty when they get credit but as the credit received is spent, they again come back to their prior position. Micro credit is not a short-term phenomenon of poverty reduction. It must lead to sustainable increase in the poor households' wealth (Chowdhury et al, 2005).

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