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MICRO-FINANCE SECTOR IN INDIA – HOW HAS BEEN ITS OUTREACH SO FAR?

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Abstract: In recent years, micro-finance institutions have emerged as an important conduit of channelling credit to rural households of the country due to their widespread reach in these areas as well as the ability to offer customised financial products suited to the needs of average rural customers. The outreach of SHGs/MFIs has deepened over time as reflected through increasing number of clients/borrowers and also average per client loan outstanding under both SHGs and MFIs in the recent period. The coverage of rural households by micro-finance sector so far in the country, however, remains inadequate/less satisfactory, keeping in view the rural household demographic profile. Regional outreach though remains skewed and uneven, but rebalancing in the regional pattern is seen gradually taking place. In terms of micro-finance penetration index (MPI) and micro-finance poverty penetration index (MPPI), the analysis shows that the majority of States are still having these indices below 1, indicating less satisfactory regional outreach performance of the sector. On cross-country comparison, among the top 10 countries in terms of MFIs, India has been placed at 8th position in 2010 with Peru ranked with the highest score followed by Philippines and Bolivia. It is, therefore, desirable to further strengthen the sector to reap its benefit fully and be able to link considerable chunk of rural households to such programme in near future, necessary for improving their economic conditions and also enhancing human capital thereby in the long-run.

JEL Classification: G2, G21, G28

Keywords: Micro-finance Institutions (MFIs), Self-help Groups (SHGs), Outreach, Micro-finance Penetration Index (MPI), Micro-finance Poverty Penetration Index (MPPI), SHG - Bank Linkage Programme (SBLP)

I. INTRODUCTION

Micro-finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognised that micro-finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made micro-finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively. In the case of India, the banking sector witnessed

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large scale branch expansion after the nationalisation of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. It was, however, realised that, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs. The beginning of the micro-finance movement in India could be traced to the self-help group (SHG) - bank linkage programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). This programme not only proved to be very successful, but has also emerged as the most popular model of micro-finance in India. Other approaches like micro-finance institutions (MFIs) also emerged subsequently in the country. Recognising the potential of micro-finance to positively influence the development of the poor, the Reserve Bank, NABARD and Small Industries Development Bank of India (SIDBI) have taken several initiatives over the years to give a further fillip to the micro-finance movement in India. NABARD assumes a key role in the development and promotion of SHGs and other micro-finance institutions, and provides refinance at special rates. Accordingly, refinance (incremental basis) availed by banks against micro-finance loans consistently increased from Rs. 1,068 crore in 2005-06 to Rs. 2,620 crore in 2008-09 and further to Rs.3,073 crore in 2011-12 (Status of Micro-finance in India, Various Issues, NABARD).

On the issue of impact of micro-finance sector on the economic conditions of the rural household clients/members, there are some studies which have indicated to have made a positive impact on their income and employment situation in the Indian context as well. Puhazhendi and Satyasai (2000) observed a shift towards higher income slabs between pre and post-SHG situation. About 74 per cent of the sample households were below an annual income level of Rs.22,500 during pre-SHG situation. The proportion declined to 57 per cent in the post-SHG situation indicating increased income levels. Further, involvement in the group significantly contributed to improving the self-confidence of the members. The communication with other group members also improved after association with the SHGs. The members were relatively more assertive in confronting with social evils and problematic situations. In another assessment, Puhazhendi and Badatya (2002) found that availing loans from moneylenders and other informal sources with higher interest rates was significantly reduced due to SHG intervention. It was also observed that consumption oriented loans were replaced by production oriented loans during post-SHG situation. Some studies have also indicated that the size of the loans is small and is often not sufficient to take up income generating activities. As a result, the loans are utilised for consumption purposes or for taking up subsistence-income generating activities.

It may be recalled that the State of Andhra Pradesh had issued an Ordinance in October 2010, which was later enacted into a law, making registration of MFIs functioning in the State compulsory with a view to regulate their functioning. The Reserve Bank had then set up a Sub-Committee of its Central Board of Directors (Chairman: Shri Y. H. Malegam) to study the issues and concerns, *inter-alia*, with regard to interest rates, lending and recovery practices in the micro-finance sector. Based on the recommendations of the Malegam Committee, a separate category of NBFC-MFIs has been created. On the pricing of interest for MFIs, the Committee has recommended for a cap of 24 per cent on individual loans and margin caps of 10 per cent for large MFIs (outstanding loan portfolio of Rs. 100 crore) and 12 per cent for small MFIs (outstanding loan portfolio not exceeding Rs. 100 crore). The proposed regulatory framework [*i.e.*, the Micro-finance Institutions (Development and Regulation) Bill, 2012, introduced in the Lok Sabha on May 22, 2012] puts in place restrictions and safeguards with regard to minimum standards of governance, management and customer protection as well as the financial health of MFIs. A fair and adequate regulation of NBFCs will encourage the growth of this sector, while adequately protecting the interests of borrowers. In the long-run, MFIs would benefit from such a regulatory framework as it would enable orderly growth.

Against the above backdrop, an attempt has been made in the paper to know the extent of outreach and penetration of micro-finance sector in rural households of the country, which in turn would give us some feel about the extent of their economic upliftment under the basic premise that larger is the outreach/penetration in rural areas, higher is the possibility of their economic upliftment (setting aside the debate on the issue as available in the economic literature). Accordingly, the paper has been broadly divided into six sub-sections (including introduction). Section II deals with survey of literature on the subject to see diverse results of various studies in respect of impact of MFIs on upliftment of poor people and also on issues related to its outreach versus sustainability. Section III evaluates the progress and accomplishments of SHGs/MFIs in the Indian context in term of various indicators such as outreach, regional spread, rural coverage percentage, financial depth, asset quality of banks' loans given to SHGs/MFIs, micro-finance penetration index (MPI) and micro-finance poverty penetration index (MPPI). Section IV briefly provides cross-country comparison on the subject to apprehend India's position in the global perspective. Section V highlights some of the emerging issues on the subject as the way forward. Section VI presents conclusion of the paper.

II. SURVEY OF LITERATURE

Impact of Micro-finance

The advocates of micro-finance argue that access to finance can help to substantially reduce poverty (Dunford, 2006; Littlefield, Morduch, & Hashemi, 2003). Access to finance may contribute to a long-lasting increase in income by means of a rise in investments in income generating activities and to a possible diversification of sources of income; it may contribute to an accumulation of assets; it may smooth consumption; it may reduce the vulnerability due to illness, drought and crop failures, and it may contribute to better education, health and housing of the borrower. In addition, access to finance may contribute to an improvement of the social and economic situation of women.

However, micro-finance has received criticism. In particular, the critics of micro-finance doubt whether access to finance may contribute to a substantial reduction in poverty. They claim that micro-finance does not reach the poorest of the poor (Scully, 2004), or that the poorest are deliberately excluded from micro-finance programs (Simanowitz, 2002). First, the extreme poor often decide not to participate in micro-finance programs since they lack confidence or they value loans to be too risky (Ciravegna, 2005). The poorest of the poor, the so-called core poor, are generally too risk averse to borrow for investment in the future. They will, therefore, benefit only to a very limited extent from micro-finance schemes. Second, the core poor are often not accepted in group lending programs by other group members because they are believed to make default in loan repayment (Hulme & Mosley, 1996; Marr, 2004). Third, staff members of micro-finance institutions may prefer excluding the core poor since lending to them is seen as extremely risky (Hulme & Mosley, 1996). Fourth, the way micro-finance programs are organised may lead to the exclusion of the core poor. Examples for this exclusion are the requirement to save before a loan can be granted, the minimum amount of the loan that needs to be accepted and the requirement that a firm is registered before the loan can be granted (Kirkpatrick & Maimbo, 2002; Mosley, 2001). Finally, critics of micro-finance doubt whether it has a positive impact on women. Research shows that women are more reliable and have higher pay-back ratios. Moreover, women use a more substantial part of their income for health and education of their children (Pitt & Khandker, 1998). Thus, women play a very important role in reducing poverty within households. However, the critics argue that often women are forced to hand over the loan to men, who subsequently use the loan for their own purposes. This may lead to an additional burden for women if they are held responsible for the repayment (Goetz & Gupta, 1996).

Micro-finance: Sustainability versus Outreach?

Providing micro-finance is a costly business due to high transaction and information costs. At present, a large number of micro-finance programs are still depending on donor subsidies to meet the high costs, which means they are not financially sustainable. In the 1990s, the issue of financial sustainability of micro-finance institutions gave rise to an important debate between the financial systems approach and the poverty lending approach (Robinson, 2001). The increased focus on financial sustainability and efficiency is due to a number of developments the micro-finance business has been recently confronted with, such as the increasing competition among MFIs, the commercialisation of micro-finance (*i.e.,* the interest of commercial banks and investors to finance MFIs), technological change that also has become available for, and implemented in micro-finance, and financial liberalisation and regulation policies of the government (Rhyne & Otero, 2006).

At the same time, however, there remains a huge variety in MFIs in terms of their financial sustainability (Deutsche Bank, 2007). According to rough estimations, only 1-2 per cent of all MFIs in the world (*i.e.,* some 150 organisations) are financially sustainable. In most cases, these are larger, mature, regulated, and relatively well-known MFIs. Some 8 per cent of all MFIs are close to being profitable. Both these groups of MFIs are considered to be commercial organisations, focusing on profitability and/or sustainability. A third group of organisations (20 per cent of all MFIs) consist of mostly NGOs, which are not yet financially sustainable, but may become sustainable in the near future. The remaining group of MFIs (70 per cent of all organisations) consist of smaller, start-up organisations, which are still far from being financially sustainable and are, therefore, (heavily) dependent on subsidies. Shifting the emphasis toward financial sustainability has raised concerns with respect to the consequences of this shift for the outreach of micro-finance, that is, the number (breadth) and socio-economic level (depth) of the clients that are served by MFIs. The proponents of the poverty lending approach claim focusing on financial sustainability goes at the cost of lending to the poor. Lending to poor borrowers can be costly, which means that outreach and sustainability goals are conflicting.

III. MICRO-FINANCE IN INDIA - GROWTH AND ACCOMPLISHMENT

Outreach

The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks as also the bank loans disbursed by SHGs. The number of SHGs credit linked with banks increased by more than two-folds from 28.94 lakh in 2006-07 to 48.51 lakh in 2009-10 before declining to 43.54 lakh in 2011-12. During the same period, the number of MFIs increased by more than three-folds from 550 to 1,659 and further to 1,960 (Chart 1). However, the growth (year-on-year) in number of SHGs has been, by and large, decelerating for the period under review while the growth in number of MFIs has been widely fluctuating during the same period (Chart 2).

The client outreach under SBLP consistently increased from 38.0 million in 2006-07 to 62.5 million in 2010-11 while it increased from 10.0 million to 31.4 million for MFIs during the same period (Chart 3). However, the growth pattern in client outreach for both SHGs and MFIs is the same as alluded to earlier in case of growth in their numbers (Chart 4).

Chart 1: SHGs and MFIs – Total Number

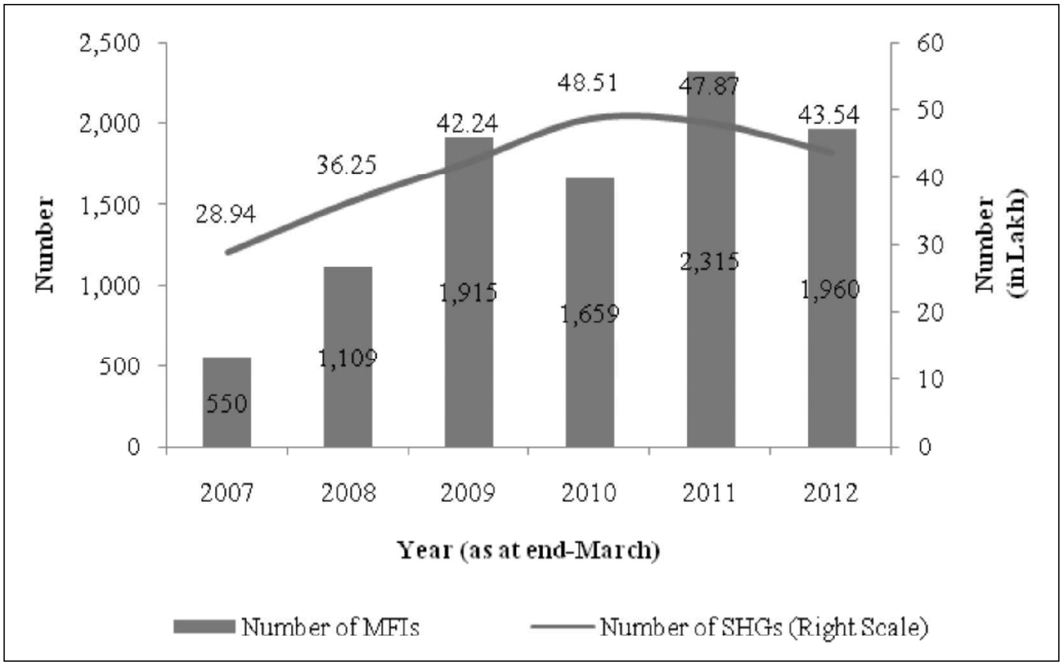
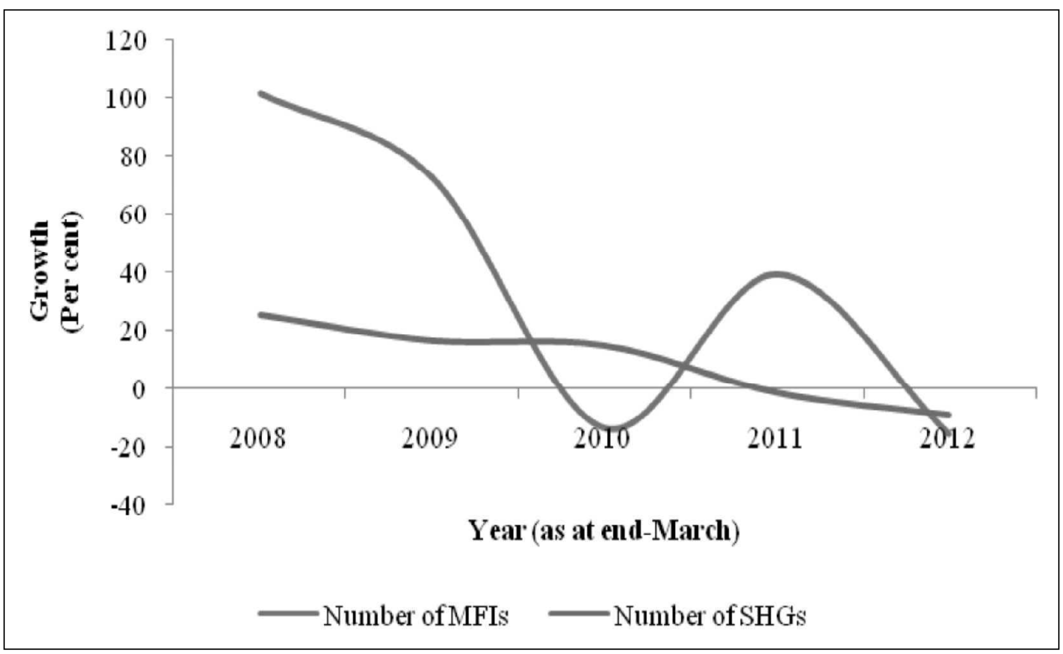


Chart 2: SHGs and MFIs – Growth Pattern



Source: Status of Micro-finance in India, Various Issues, NABARD

Chart 3: SHGs and MFIs – Client Outreach

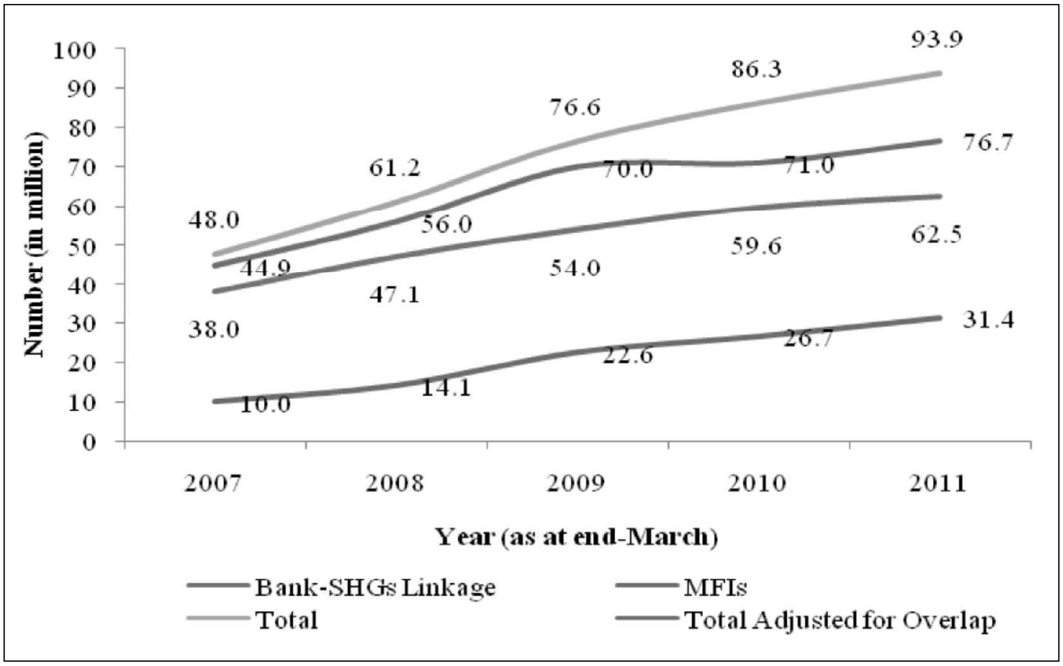
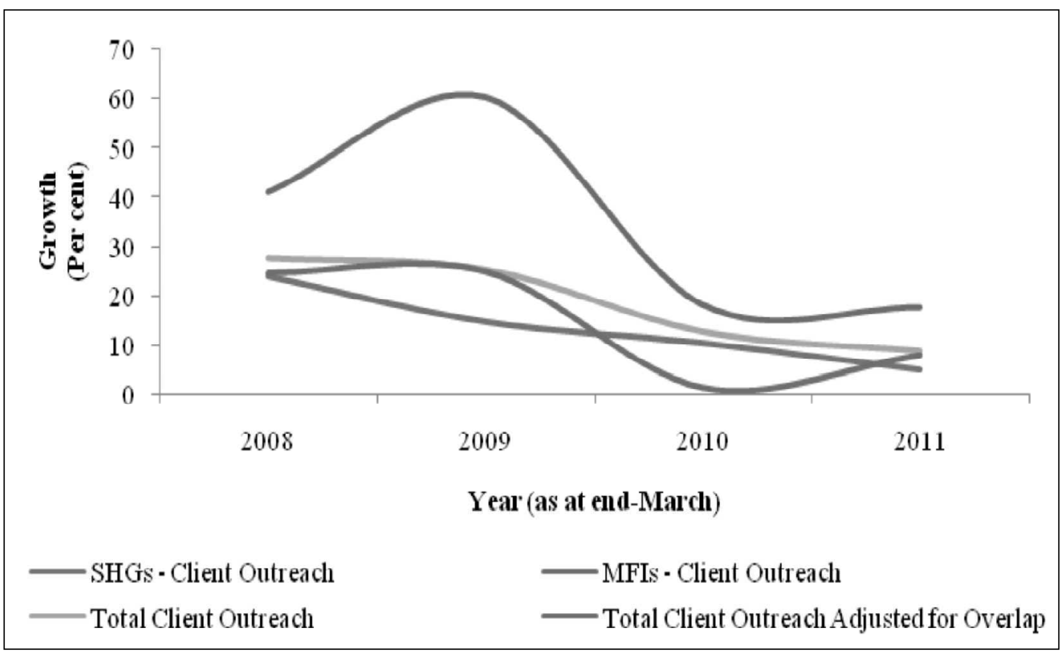


Chart 4: SHGs and MFIs – Growth Pattern of Client Outreach



Source: Micro-finance India, State of the Sector Report, 2011

Banks' loan outstanding to SHGs witnessed a sharp increase from Rs.12,366 crore in 2006-07 to Rs.28,038 crore in 2009-10 and further to Rs.36,340 crore in 2011-12 (Chart 5A). The loan portfolio for MFIs also increased considerably from Rs.1,584 crore in 2006-07 to Rs.13,956 crore in 2009-10 before declining to Rs.11,450 crore in 2011-12. The average loan outstanding per client under both SHGs and MFIs witnessed reasonable increase during the period under review. The average loan outstanding per client was higher for MFIs than SHGs in the recent period (Chart 5B). The growth pattern in banks' loan outstanding for both SHGs and MFIs is in sync with growth in their numbers and client outreach (Chart 6).

Chart 5A: SHGs and MFIs – Loan Portfolio

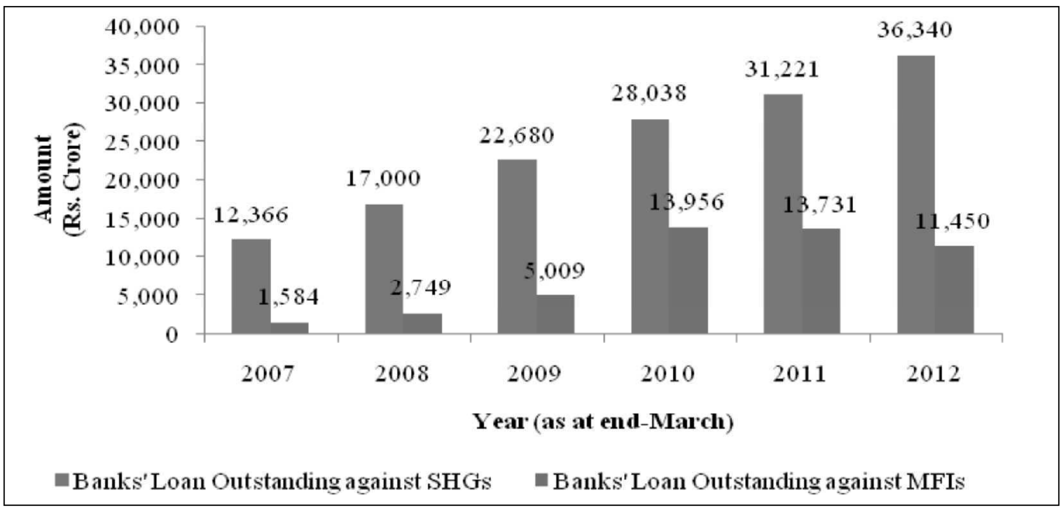


Chart 5B: Average Loan Outstanding per SHG Member and MFI Borrower

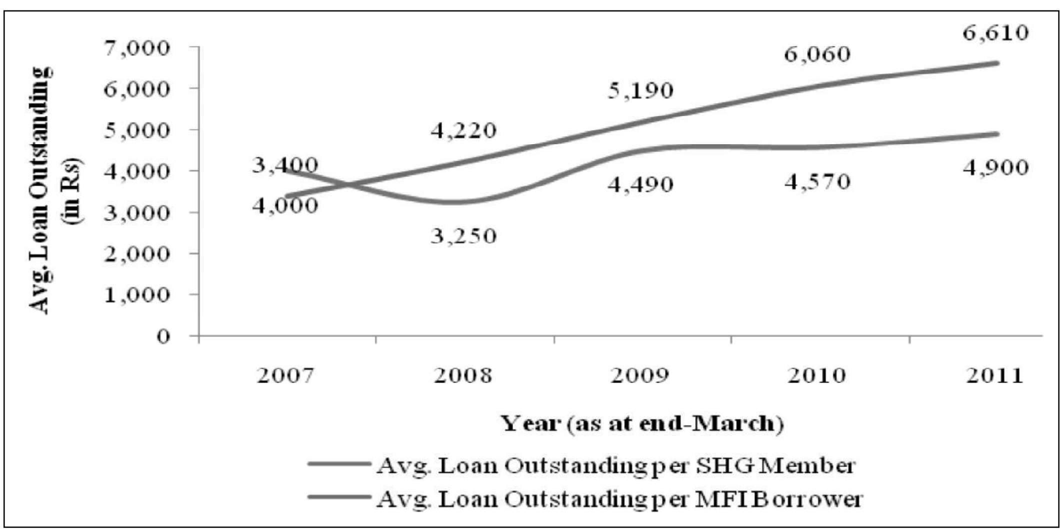
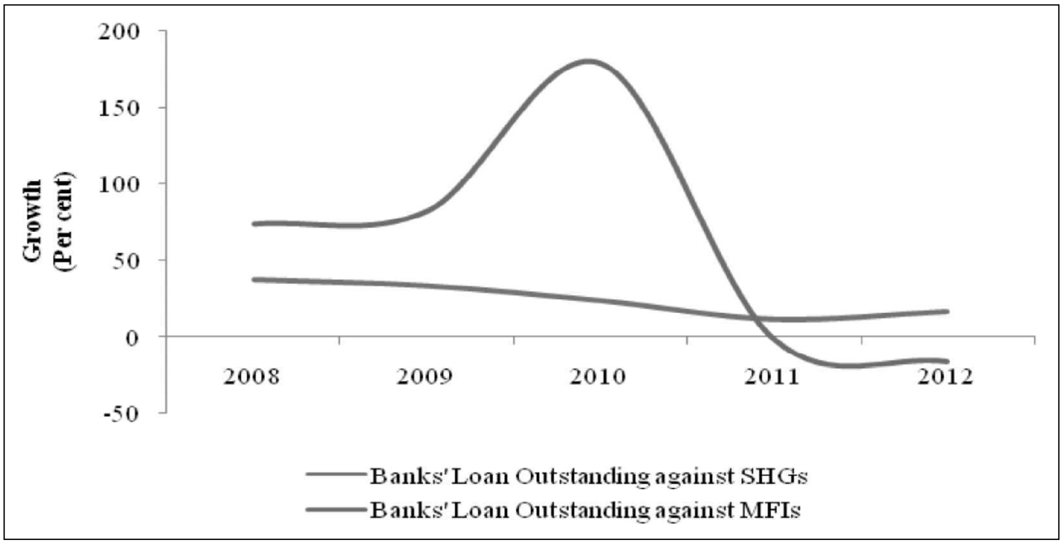


Chart 6: SHGs and MFIs – Growth Pattern of Loan Portfolio



Sources: Status of Micro-finance in India, Various Issues, NABARD and Micro-finance India, State of the Sector Report, Various Issues

Financial Depth

The financial depth has been measured in terms of banks' aggregate credit and GDP at current market prices. Accordingly, banks' loan outstanding against SHGs as ratio to banks' aggregate credit increased consistently from 0.64 per cent in 2006-07 to 0.86 per cent in 2009-10 before declining to 0.79 per cent in 2011-12. Similarly, the ratio of bank's loan outstanding against SHGs to GDP increased consistently from 0.29 per cent to 0.43 per cent before declining to 0.41 per cent during the same period. The ratio of banks' loan to savings of SHGs increased from 3.52 per cent in 2006-07 to 4.52 per cent in 2009-10 and further to 5.55 per cent in 2011-12. During the same period, savings balance outstanding of SHGs with banks as ratio to GDP increased from 0.08 per cent to 0.10 per cent before declining to 0.07 per cent during the same period (Chart 7). In case of MFIs, the ratio of banks' loan outstanding to banks' aggregate credit increased from 0.08 per cent in 2006-07 to 0.43 per cent in 2009-10 before falling to 0.25 per cent in 2011-12. The ratio of banks' loan outstanding to GDP for MFIs increased from 0.04 per cent to 0.22 per cent before falling to 0.13 per cent during the same period (Chart 8).

Agency-wise Outreach

In terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by RRBs and co-operative banks (Table 1 and Chart 9).

Chart 7: Financial Depth – SHGs Segment

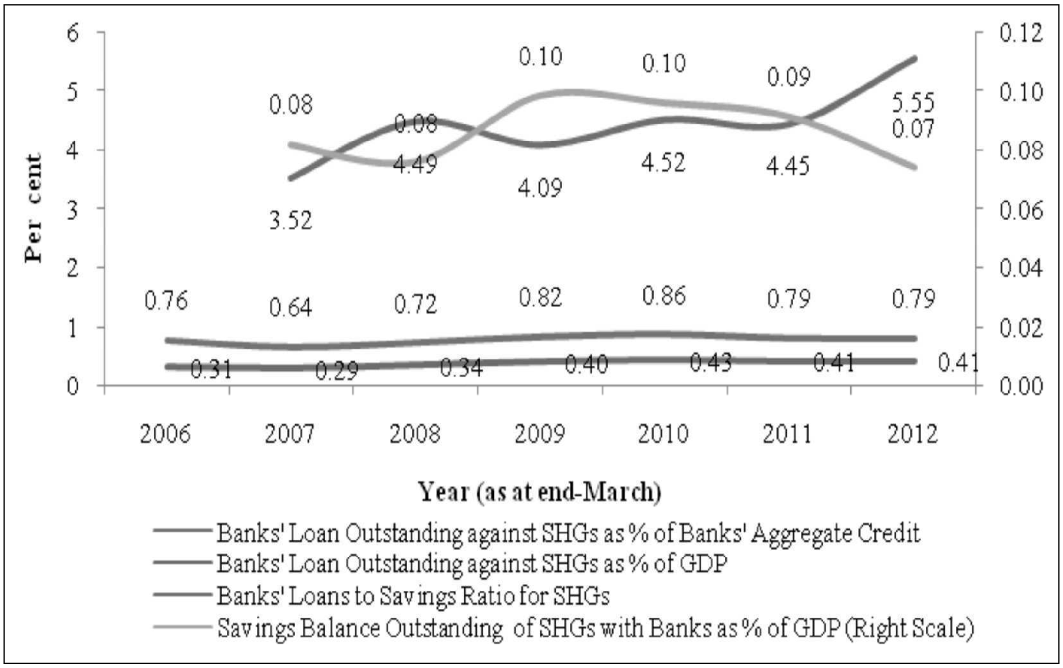


Chart 8: Financial Depth – MFIs Segment

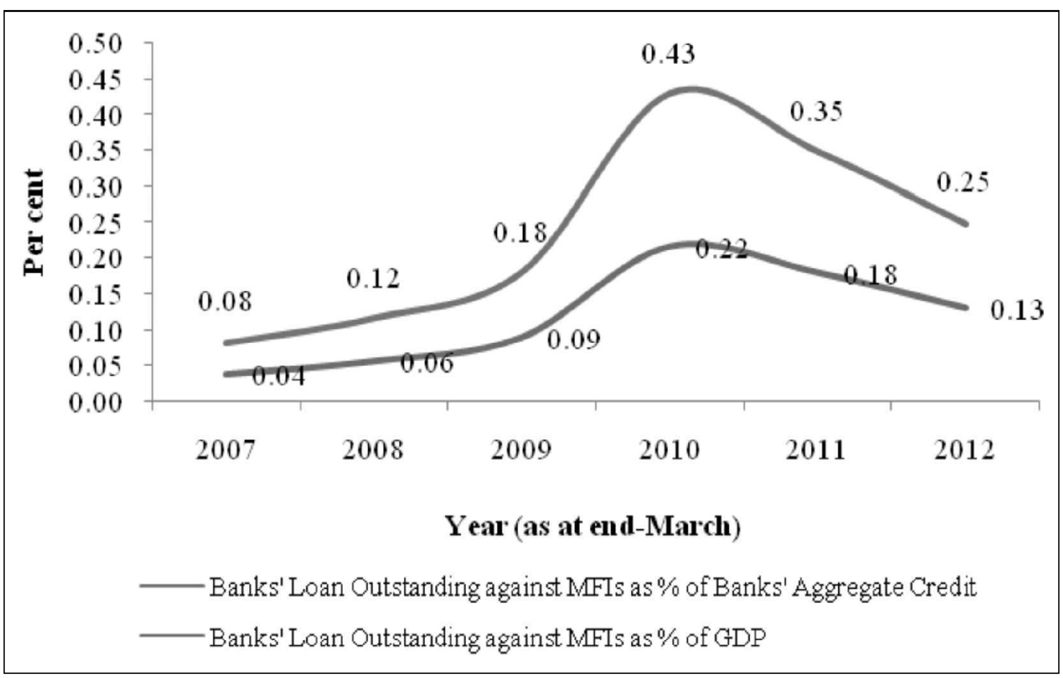
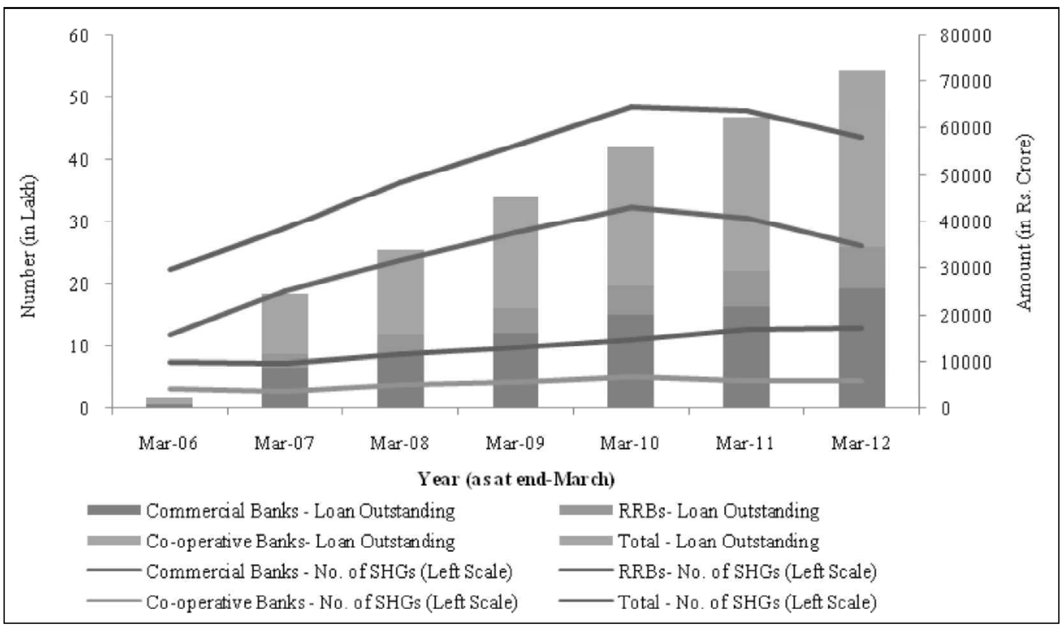


Table 1
Agency-wise Banks' Loan Outstanding under SBLP
(as at end-March)

Items	*Mar-06*	*Mar-07*	*Mar-08*	*Mar-09*	*Mar-10*	*Mar-11*	*Mar-12*
I. Commercial Bank							
No. of SHGs (Lakh)	11.88	18.93	23.79	28.31	32.37	30.54	26.17
	(53.1)	*(65.4)*	*(65.6)*	*(67.0)*	*(66.7)*	*(63.8)*	*(60.1)*
Loan Outstanding (Rs. Crore)	699	8,760	11,475	16,149	20,165	21,883	25,810
	(61.3)	*(70.8)*	*(67.5)*	*(71.2)*	*(71.9)*	*(70.1)*	*(71.0)*
II. RRBs							
No. of SHGs (Lakh)	7.40	7.29	8.75	9.78	11.04	12.82	12.94
	(33.1)	*(25.2)*	*(24.1)*	*(23.2)*	*(22.8)*	*(26.8)*	*(29.7)*
Loan Outstanding (Rs. Crore)	332	2,802	4,421	5,224	6,145	7,430	8,614
	(29.1)	*(22.7)*	*(26.0)*	*(23.0)*	*(21.9)*	*(23.8)*	*(23.7)*
III. Co-operative Banks							
No. of SHGs (Lakh)	3.10	2.72	3.71	4.15	5.10	4.51	4.43
	(13.9)	*(9.4)*	*(10.2)*	*(9.8)*	*(10.5)*	*(9.4)*	*(10.2)*
Loan Outstanding (Rs. Crore)	109	804	1,103	1,306	1,729	1,908	1,916
	(9.6)	*(6.5)*	*(6.5)*	*(5.8)*	*(6.2)*	*(6.1)*	*(5.3)*
Total (I + II + III)							
No. of SHGs (Lakh)	22.38	28.94	36.25	42.24	48.51	47.87	43.54
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*
Loan Outstanding (Rs. Crore)	1,140	12,366	17,000	22,680	28,038	31,221	36,340
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*

Note: Figures in parentheses are percentage to the respective totals.
Source: Status of Micro-finance in India, Various Issues, NABARD.

Chart 9: Agency-wise Banks' Loan Outstanding under SBLP



In terms of savings balance outstanding of SHGs with different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs and savings balance outstanding amount, followed by RRBs and co-operative banks (Table 2). It is noteworthy that around 78 per cent of the savings were by exclusive women SHGs.

Table 2
Savings Balance Outstanding of SHGs with Banks

Items (as at end-March)	*Mar-07*	*Mar-08*	*Mar-09*	*Mar-10*	*Mar-11*	*Mar-12*
I. Commercial Banks						
No. of SHGs (Lakh)	22.94	28.11	35.5	40.53	43.23	46.18
	(55.1)	*(56.1)*	*(58.0)*	*(58.3)*	*(57.9)*	*(58.0)*
Amt. of Savings Outstanding (Rs. Crore)	1,892	2,078	2,773	3,674	4,230	4,153
	(53.9)	*(54.9)*	*(50.0)*	*(59.3)*	*(60.3)*	*(63.4)*
of which: Exclusive Women SHGs						
No. of SHGs (Lakh)	17.95	22.38	28.44	33.5	36.55	37.53
	(54.9)	*(56.1)*	*(58.5)*	*(63.1)*	*(59.9)*	*(59.6)*
Amt. of Savings Outstanding (Rs. Crore)	1,651	1,712	2,160	2,901	3,326	3,400
	(54.6)	*(55.1)*	*(48.7)*	*(64.5)*	*(62.8)*	*(66.6)*
II. RRBs						
No. of SHGs (Lakh)	11.83	13.87	16.28	18.21	19.83	21.27
	(28.4)	*(27.7)*	*(26.6)*	*(26.2)*	*(26.6)*	*(26.7)*
Amt. of Savings Outstanding (Rs. Crore)	1,158	1,166	1,990	1,299	1,435	1,300
	(33.0)	*(30.8)*	*(35.9)*	*(21.0)*	*(20.5)*	*(19.8)*
of which: Exclusive Women SHGs						
No. of SHGs (Lakh)	9.75	11.79	13.36	12.4	16.5	16.99
	(29.8)	*(29.6)*	*(27.5)*	*(23.4)*	*(27.1)*	*(27.0)*
Amt. of Savings Outstanding (Rs. Crore)	1,043	1,029	1,771	997	1,192	1,032
	(34.5)	*(33.1)*	*(39.9)*	*(22.2)*	*(22.5)*	*(20.2)*
III. Co-operative Banks						
No. of SHGs (Lakh)	6.84	8.12	9.43	10.79	11.55	12.15
	(16.4)	*(16.2)*	*(15.4)*	*(15.5)*	*(15.5)*	*(15.3)*
Amt. of Savings Outstanding (Rs. Crore)	462	541	783	1,225	1,351	1,098
	(13.2)	*(14.3)*	*(14.1)*	*(19.8)*	*(19.3)*	*(16.8)*
of which: Exclusive Women SHGs						
No. of SHGs (Lakh)	5.01	5.69	6.84	7.2	7.93	8.47
	(15.3)	*(14.3)*	*(14.1)*	*(13.6)*	*(13.0)*	*(13.4)*
Amt. of Savings Outstanding (Rs. Crore)	331	367	503	601	781	672
	(10.9)	*(11.8)*	*(11.3)*	*(13.4)*	*(14.7)*	*(13.2)*
Total (I + II + III)						
No. of SHGs (Lakh)	41.61	50.10	61.21	69.53	74.61	79.60
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*
Amt. of Savings Outstanding (Rs. Crore)	3,513	3,785	5,546	6,199	7,016	6,551
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*
of which: Exclusive Women SHGs						
No. of SHGs (Lakh)	32.71	39.86	48.64	53.1	60.98	62.99
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*
Amt. of Savings Outstanding (Rs. Crore)	3,025	3,109	4,434	4,499	5,299	5,104
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*

Note: Figures in parentheses are percentage to the respective totals.
Source: Status of Micro-finance in India, Various Issues, NABARD.

The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognised and the banking sector has been extending loans to MFIs for on-lending to their clients/borrowers/SHGs. Commercial banks remained the most important source of funds for almost all the MFIs (Table 3). Even though some complaints regarding high interest rates and forcible loan recovery were registered in some parts of the country, most of the borrowers feel that it was easy or very easy to get a loan from MFIs (Micro-finance India, State of the Sector Report, 2011).

Table 3
Agency-wise Banks' Loan Outstanding against MFIs
(as at end- March)

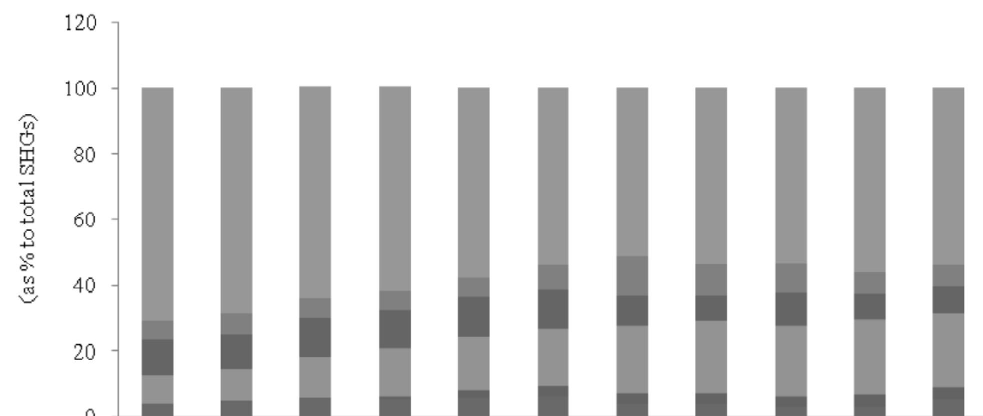
Items	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
I. Commercial Banks						
No. of MFIs (Number)	541	1,072	1,762	1,407	2,153	1,684
	(98.4)	*(96.7)*	*(92.0)*	*(84.8)*	*(93.0)*	*(85.9)*
Loan Outstanding (Rs. Crore)	1,584	2,745	4,978	10,095	10,647	9,811
	(100.0)	*(99.9)*	*(99.4)*	*(72.3)*	*(77.5)*	*(85.7)*
II. RRBs						
No. of MFIs (Number)	8	24	153	103	23	128
	(1.5)	*(2.2)*	*(8.0)*	*(6.2)*	*(1.0)*	*(6.5)*
Loan Outstanding (Rs. Crore)	-	4	31	52	42	38
	-	*(0.1)*	*(0.6)*	*(0.4)*	*(0.3)*	*(0.3)*
III. Co-operative Banks						
No. of MFIs (Number)	1	13	-	3	-	19
	(0.2)	*(1.2)*	-	*(0.2)*	-	*(1.0)*
Loan Outstanding (Rs. Crore)	-	-	-	-	-	5
	-	-	-	-	-	*(0.04)*
IV. SIDBI						
No. of MFIs (Number)	-	-	-	146	139	129
	-	-	-	*(8.8)*	*(6.0)*	*(6.6)*
Loan Outstanding (Rs. Crore)	-	-	-	3,808	3,042	1,597
	-	-	-	*(27.3)*	*(22.2)*	*(13.9)*
Total (I + II + III + IV)						
No. of MFIs (Number)	550	1,109	1,915	1,659	2,315	1,960
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*
Loan Outstanding (Rs. Crore)	1,584	2,749	5,009	13,956	13,731	11,450
	(100.0)	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*	*(100.0)*

-: Nil/Negligible.
Note: Figures in parentheses are percentage to the respective totals.
Source: Status of Micro-finance in India, Various Issues, NABARD.

Regional Pattern of Outreach

The region-wise pattern of SHGs linked to banks showed greater concentration in the southern region, although the spatial disparity has declined in the last few years with some increase in the share of other regions, particularly the eastern and northern regions (Chart 10). The growth in number of SHGs has decelerated in recent years, particularly in the southern region, where rapid progress was made earlier. The MFIs have also expanded their operations, which might have impacted the growth of the SBLP to some extent. In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (*viz.*, Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chhattisgarh, Odisha, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal) with high incidence of rural poverty and where the micro-finance movement had not taken roots were identified by NABARD. Special efforts by NABARD resulted in a sharp increase in the number of SHGs credit linked to banks in these States. Thus, the spread of the programme in the above 13 States led to a significant decline in the share of the southern States in SHGs linked to banks.

Chart 10: Regional Pattern of Credit-Linked SHGs



	2001	2002	2003	2004	2005	2006	2008	2009	2010	2011	2012
Southern	71.1	68.8	64.6	62.5	58.0	54.3	51.3	54.0	53.2	56.5	54.1
Western	5.9	6.4	5.9	5.1	5.9	7.4	12.3	9.3	9.4	6.6	6.6
Central	10.9	10.4	11.4	11.8	12.2	12.0	9.0	7.9	10.3	7.5	8.1
Eastern	8.4	9.9	12.7	14.7	16.4	17.6	20.8	22.1	21.2	23.1	22.6
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8	2.9	2.8	2.8	3.1	3.7
Northern	3.4	4.2	4.9	4.9	5.3	5.9	3.7	3.9	3.1	3.1	4.9

Source: Status of Micro-finance in India, Various Issues, NABARD.

The regional shares in client outreach for MFIs reveal that south is much ahead of other regions. With higher average loans per capita, the southern region has a more than-proportionate share of loan portfolio when compared with the client shares. Similarly, north-eastern and eastern regions also have a higher proportion of loans compared to their share of clients (Charts 11A and 11B).

Chart 11A: Regional Pattern of Market Share of MFIs – Share in Total Clients Outreach (as at end-March 2011)

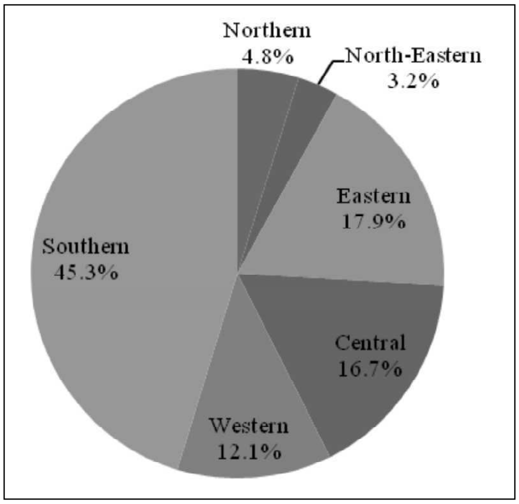
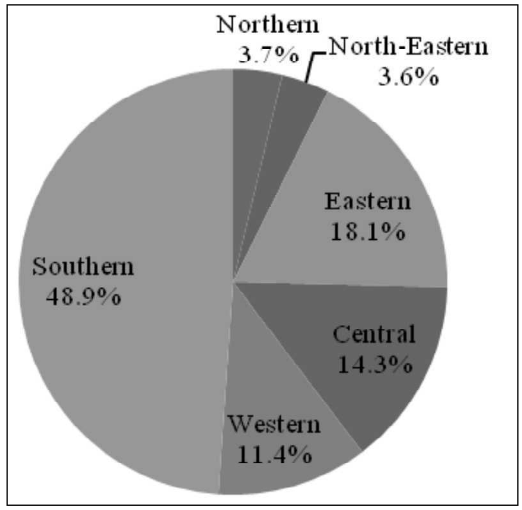


Chart 11B: Regional Pattern of Market Share of MFIs – Share in Total Loan Outstanding (as at end-March 2011)

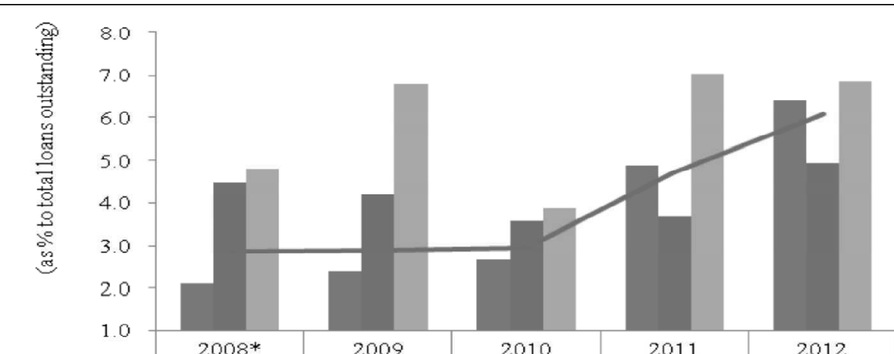


Source: Micro-finance India, State of the Sector Report, 2011.

Asset Quality of Loans against SHGs

The ratio of NPAs to total loan outstanding against SHGs among different agencies, by and large, indicates a rising trend since 2009-10. This is a matter of concern for the sector as it manifests declining performance of recovery (Chart 12).

Chart 12: Agency-wise NPAs of Banks against Loans to SHGs

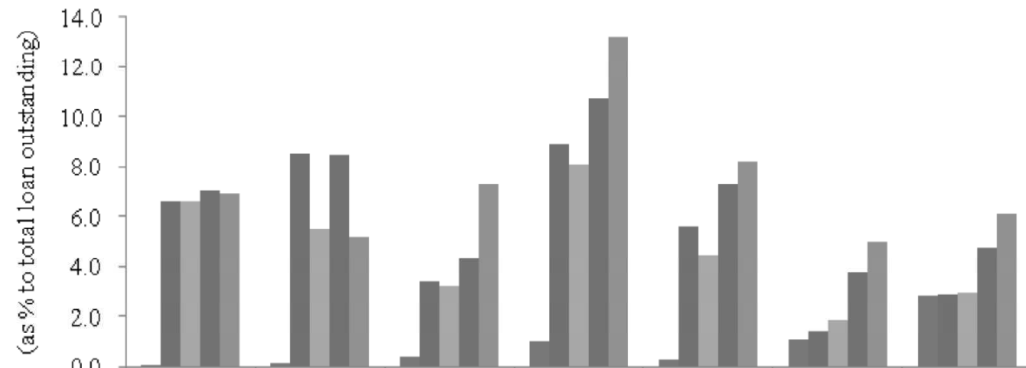


	2008*	2009	2010	2011	2012
Commercial Banks	2.10	2.40	2.67	4.88	6.41
RRBs	4.48	4.20	3.56	3.67	4.95
Co-operative Banks	4.81	6.80	3.88	7.04	6.84
Total	2.86	2.90	2.94	4.72	6.09

*: Loan outstanding amount includes only for those banks, which reported their NPAs.
Source: Status of Micro-finance in India, Various Issues, NABARD.

Region-wise NPAs pattern indicates southern region has the lowest percentage of NPAs, while the central region has the highest percentage of NPAs (Chart 13).

Chart 13: Region-wise NPAs of Banks against Loans to SHGs



	Northern	North-Eastern	Eastern	Central	Western	Southern	All-India
2008*	0.09	0.12	0.35	0.99	0.25	1.05	2.86
2009	6.60	8.50	3.40	8.90	5.60	1.40	2.90
2010	6.61	5.51	3.21	8.07	4.46	1.87	2.94
2011	7.05	8.42	4.31	10.74	7.26	3.79	4.72
2012	6.92	5.17	7.28	13.20	8.22	4.98	6.09

*: Loan outstanding amount includes only for those banks, which reported their NPAs.
Source: Status of Micro-finance in India, Various Issues, NABARD.

State-wise Outreach

Regional distribution of SHGs indicates that top ten States (highlighted in bold in Table 4) have their share of around 90 per cent in both total number of SHGs and loan outstanding as at end-March 2011, reflecting very skewed and uneven spread of SHGs in the country.

In term of rural households coverage under SBLP, there are 19 States with less than 50 per cent coverage, while the coverage is more than the number of rural households in 7 States, largely on account of multiple memberships (Table 5). At national level, the rural households coverage is only at 53.4 per cent with Delhi as median State at 40.7 per cent rural coverage. There are many States which are having their rural households coverage less than the median State (Chart 14).

Table 4
State-wise Number of SHGs and their Loan Portfolios
(as at end-March 2011)

Name of States	*Number of SHGs*	*Share in Total SHGs (%)*	*Loan Outstanding Amount (Rs. Million)*	*Share in Total Loan Portfolio (%)*
Andhra Pradesh	1,683,993	35.00	128,694	42.03
West Bengal	574,036	11.93	16,255	5.31
Tamil Nadu	535,384	11.13	43,173	14.10
Odisha	335,041	6.96	15,779	5.15
Karnataka	252,129	5.24	22,748	7.43
Maharashtra	230,772	4.80	9,659	3.15
Uttar Pradesh	216,879	4.51	16,999	5.55
Bihar	190,341	3.96	7,784	2.54
Kerala	182,114	3.79	15,904	5.19
Assam	111,589	2.32	5,146	1.68
Rajasthan	93,068	1.93	4,491	1.47
Gujarat	73,695	1.53	1,554	0.51
Jharkhand	72,422	1.51	3,220	1.05
Madhya Pradesh	64,350	1.34	3,924	1.28
Chhattisgarh	62,740	1.30	1,930	0.63
Himachal Pradesh	25,116	0.52	1,599	0.52
Haryana	18,704	0.39	1,909	0.62
Tripura	18,101	0.38	785	0.26
Uttarakhand	17,853	0.37	1,469	0.48
Punjab	11,343	0.24	960	0.31
Goa	9,446	0.20	360	0.12
Puducherry	7,393	0.15	943	0.31
Sikkim	5,466	0.11	70	0.02
Manipur	4,561	0.09	201	0.07
Nagaland	3,930	0.08	163	0.05
Arunachal Pradesh	3,910	0.08	83	0.03
Meghalaya	3,412	0.07	148	0.05
Jammu & Kashmir	2,163	0.04	116	0.04
Delhi	657	0.01	62	0.02
Mizoram	311	0.01	62	0.02
Total	4,810,919	100.00	306,190	100.00
Median	43,928	0.91	1,754	0.57

Note: (i) Data in this table may differ from those reported in other Tables due to difference in sources of data.
(ii) States highlighted in bold have their share of around 90 per cent in the respective total.

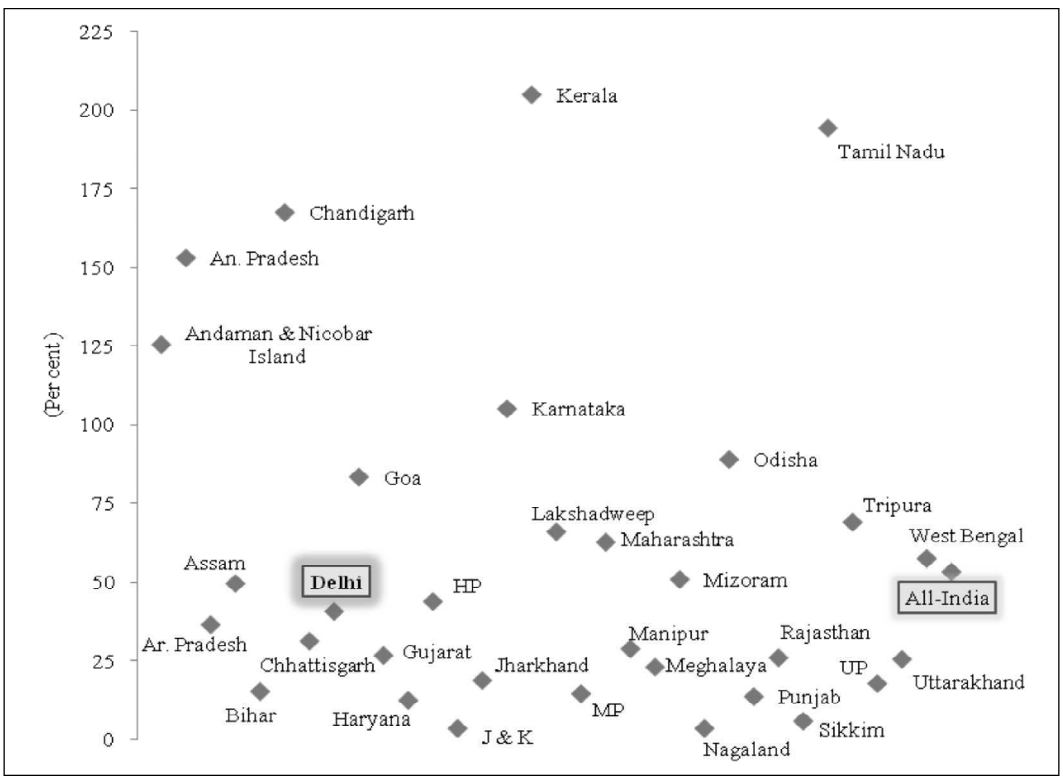
Source: Micro-finance India, State of the Sector Report, 2011.

Table 5
Rural Households Coverage under SHG-Bank Linkage Programme
(as at end-March 2011)

Range (Per cent)	*Number of States/UTs*	*States/UTs*
0-20	9	Bihar, Haryana, J & K, Jharkhand, MP, Nagaland, Punjab, Sikkim and UP.
21-50	10	Arunachal Pradesh, Assam, Chhattisgarh, Delhi, Gujarat, HP, Manipur, Meghalaya, Rajasthan and Uttarakhand.
51-75	5	Lakshadweep, Maharashtra, Mizoram, Tripura and West Bengal.
76-100	2	Goa and Odisha.
Above 100	7	Andaman & Nicobar Island, AP, Chandigarh, Karnataka, Kerala, Puducherry and Tamil Nadu.

Source: Status of Micro-finance in India, 2010-11, NABARD.

Chart 14: Per cent of Total Rural Households Covered under SBLP (March 2011)



An. Pradesh: Andhra Pradesh. J & K: Jammu & Kashmir. HP: Himachal Pradesh.
MP: Madhya Pradesh. UP: Uttar Pradesh. Ar. Pradesh: Arunachal Pradesh.

Note: (i) Delhi is the median State (40.7 per cent) and All-India average is 53.4 per cent at end-March 2011.
(ii) Puducherry has very high coverage ratio at 473.8 per cent.

Source: Status of Micro-finance in India, 2010-11, NABARD.

Regional distribution of MFIs indicates that top 9 States (highlighted in bold in Table 6) have their share of around 90 per cent in both total number of clients and loan outstanding as at end-March 2010, reflecting very skewed and uneven spread of MFIs in the country.

Table 6
State-wise Client Outreach and Loan Portfolio of MFIs
(as at end-March 2010)

States/UTs	*Total Client Outreach (in Million)*	*Share in Total Clients (%)*	*Loan Outstanding Amount (in Rs. Crore)*	*Share in Total Loan Outstanding Amount (%)*
Andhra Pradesh	6.24	21.45	5,211	29.53
Tamil Nadu	4.57	15.71	2,387	13.53
Maharashtra	3.87	13.28	967	5.48
Karnataka	3.74	12.86	1,898	10.76
West Bengal	3.51	12.07	2,106	11.94
Odisha	1.60	5.49	1,200	6.80
Uttar Pradesh	1.21	4.14	890	5.05
Madhya Pradesh	1.01	3.46	594	3.37
Bihar	0.75	2.57	494	2.80
Chhattisgarh	0.46	1.59	212	1.20
Rajasthan	0.43	1.48	347	1.96
Assam	0.37	1.27	218	1.24
Jharkhand	0.35	1.19	175	0.99
Kerala	0.28	0.96	160	0.91
Gujarat	0.25	0.85	216	1.23
Tripura	0.13	0.44	75	0.42
New Delhi	0.11	0.39	346	1.96
Uttarakhand	0.08	0.29	48	0.27
Haryana	0.07	0.22	49	0.28
Manipur	0.02	0.08	8	0.04
Puducherry	0.02	0.08	16	0.09
Meghalaya	0.02	0.06	9	0.05
Himachal Pradesh	0.01	0.03	6	0.03
Punjab	0.01	0.03	6	0.03
Goa	0.01	0.02	8	0.04
Total	29.11	100.00	17,644	100.00
Median	0.35	1.19	216	1.23

Note: (i) Data in this table may differ from those reported in other Tables due to difference in sources of data.
(ii) States highlighted in red colour have their share of around 90 per cent in the respective total.

Source: Micro-finance India, State of the Sector Report, 2010.

Micro-finance Penetration Index and Micro-finance Poverty Penetration Index

The penetration of micro-finance in different States has been computed by way of developing micro-finance penetration index (MPI) and micro-finance poverty penetration index (MPPI). In order to develop such index, the number of credit clients of MFIs and members of SHGs with outstanding loans to banks were computed and each State's share to the country's total micro-finance clients was worked out. The intensity of MPI was computed by dividing the share of the State in micro-finance clients with share of population. Intensity of MPPI was derived by dividing the share of the State in micro-finance clients by share of the State in population of poor. Since the micro-finance clients are in the numerator, a value of more than 1 indicates that clients acquired were more than proportional to the population. Higher the score is above 1, better the performance. Lower the score from 1 which is the par value, poorer is the performance in the State (Micro-finance India, State of the Sector Report, 2011). In terms of MPI and MPPI, the analysis shows that the among top four common States, Manipur is at the top position with a score of 4.23 in MPI and 7.26 in MPPI followed by Andhra Pradesh, Puducherry and Tamil Nadu (highlighted in bold in Charts 15 and 16). Sikkim has entered in the list of top five States under MPPI. The low MPPI ratio in States like Bihar and Uttar Pradesh with a large proportion of households under poverty line indicates that considerable work has to be done in these States both by SBLP and MFIs.

Chart 15: State-wise Micro-finance Penetration Index (MPI) (2011)

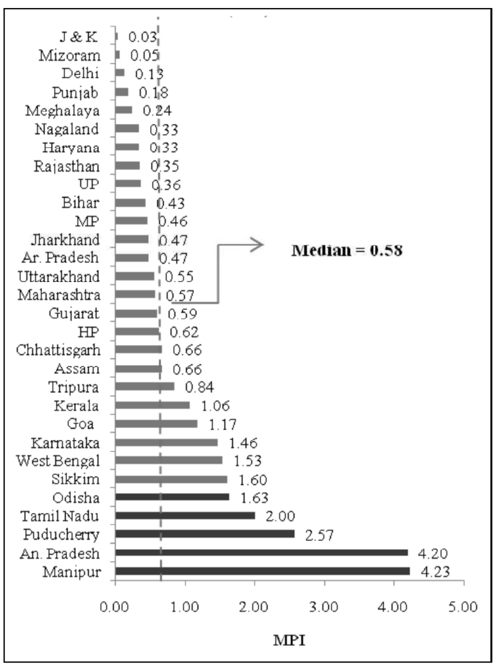
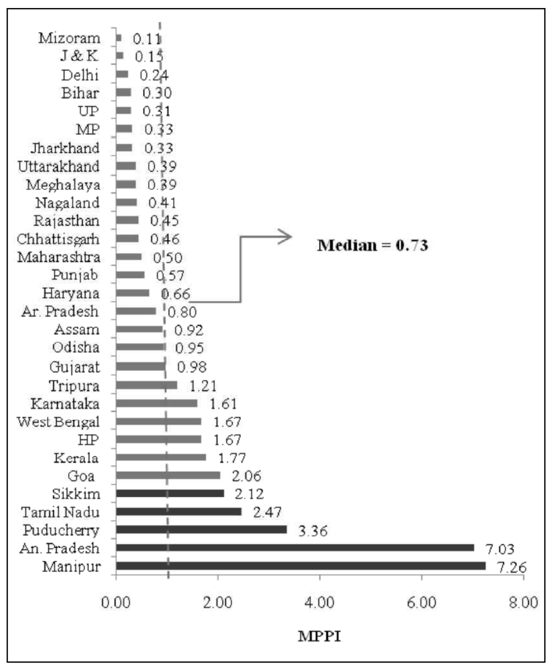


Chart 16: State-wise Micro-finance Poverty Penetration Index (MPPI) (2011)



An. Pradesh: Andhra Pradesh. J & K: Jammu & Kashmir. HP: Himachal Pradesh. MP: Madhya Pradesh. UP: Uttar Pradesh. Ar. Pradesh: Arunachal Pradesh.

Note: Higher the score is above 1, better the performance and *vice- versa*. Top five States have been highlighted in bold.

Source: Micro-finance India, State of the Sector Report, 2011.

IV. CROSS-COUNTRY COMPARISON

Cross-country comparison among the select countries for the sector shows that India, despite having highest MFI client outreach, has been placed at 4th position in terms of their loan outstanding in 2011, reflecting very low per client loan portfolio (Charts 17, 18 and 18A). However, it may be interesting to note that despite having the national rural household coverage of only 53.4 per cent under SBLP in 2011 (Chart 14 above), the client outreach score is still highest for MFIs in the Indian context *vis-a-vis* these select countries, mainly on account of varying demographic conditions across these countries. Among the top 10 countries in terms of MFIs, India has been placed at 8th position in 2010 with Peru ranked with the highest score followed by Philippines and Bolivia (Chart 19). The countries were ranked on the basis of combined scores computed from three different parameters *viz.*, regulatory framework, investment climate and institutional development (Micro-finance India, State of the Sector Report, 2011).

Chart 17: Cross-country Comparison-Client Outreach of MFIs (2011)

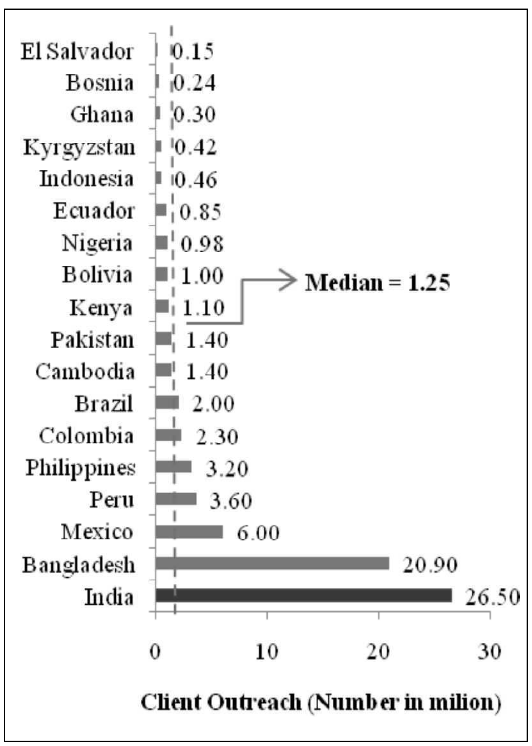
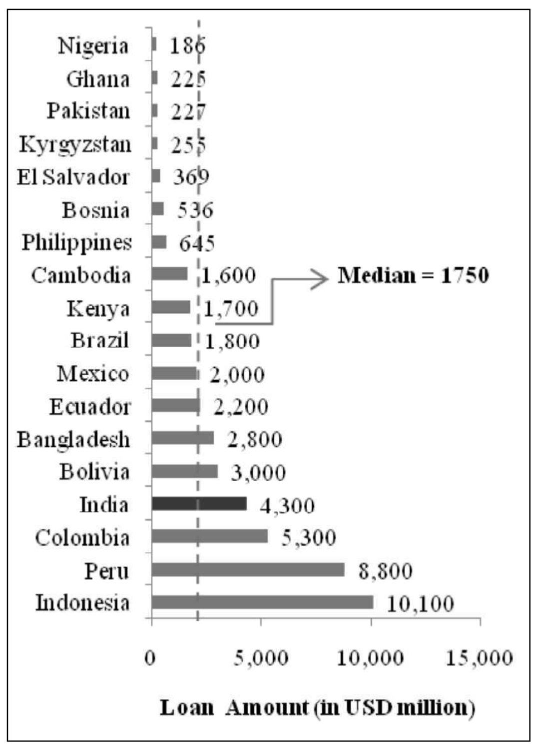


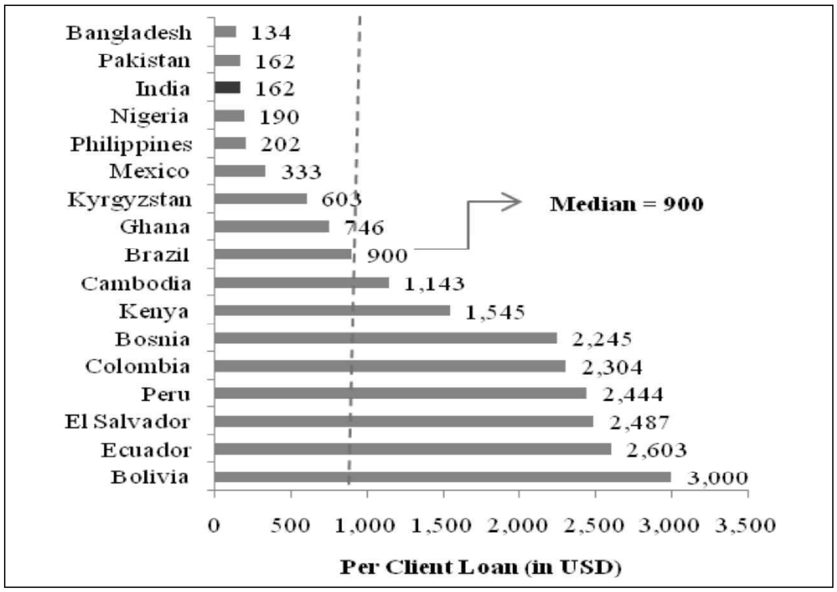
Chart 18: Cross-country Comparison - Loan Portfolio of MFIs (2011)



Note: Data for India in this table may differ from those reported in other Tables due to difference in sources of data.

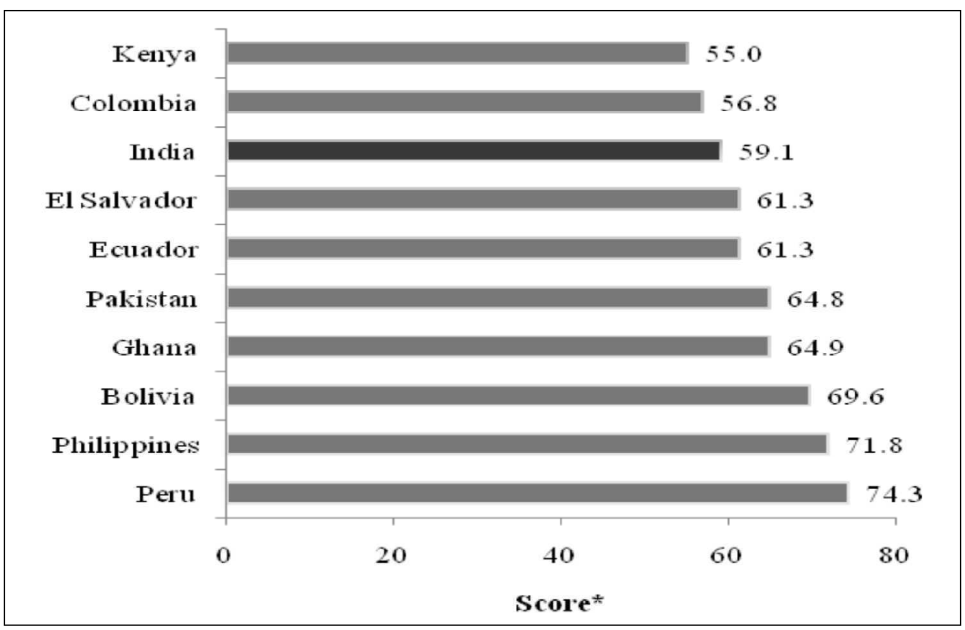
Source: The Micro-finance Information Exchange (*www.themix.org*)

Chart 18A : Cross-Country Comparison Per Client Loan under MFI Segment (2011)



Note: Indonesia has very high per client loan at USD 21,920
Source: The Micro-finance Information Exchange (*www.themix.org*)

Chart 19: Top Ten Countries in Micro-finance (Score* in 2010)



*: Ranked on the basis of different parameters such as regulatory framework, investment climate and institutional development.
Source: Micro-finance India, State of the Sector Report, 2011

V. THE WAY FORWARD – SOME EMERGING ISSUES

SHGs have made rapid strides in India particularly in terms of number of SHGs. However, some issues and concerns have also surfaced in the evolution of micro-finance, which are as follows:

First, the extant coverage of poor so far under the micro-finance programme cannot be said to be adequate/satisfactory though the number of clients/members under the aegis of SHGs/MFIs is seen gradually increasing in the recent period.

Second, the small average amount of loan per poor family is not sufficient to help the poor to cross the poverty line. The average per client loan outstanding under both SHGs and MFIs is, however, seen to be increasing in the recent period.

Third, MFIs are currently mainly credit providers and they focus less on providing other related services such as savings, insurance, *etc.*, which are critical in reducing vulnerabilities of the poor.

Fourth, the spread of micro-finance has been skewed and uneven across the States - six States (*viz.*, Andhra Pradesh, West Bengal, Tamil Nadu, Odisha, Karnataka and Maharashtra) accounting for three fourths of SHGs as at end-March 2011.

Fifth, cross-country experiences are replete with well documented success stories from countries like Bangladesh, Sri Lanka and Zambia involving NGOs in the mission of helping the poor by organising and promoting self-employment projects like fisheries, garment industry, restaurants, rural bakeries, *etc.* In order to achieve this, it is often argued that there is need for higher and diversified financial assistance under micro-finance, besides scaling up the same evenly across the States especially in underdeveloped areas.

Sixth, in order to reduce the transaction costs and to improve the operational efficiency to have a reasonable interest rates for the poor (which is currently very high), more innovative technologies could be adopted.

Seventh, for enhancing the credibility of micro-finance, the issues such as disclosure guidelines, financial prudence parameters, uniform performance standards and reporting systems, defining codes of conduct and better and meaningful co-ordination among all stakeholders may be revisited, going forward.

Eighth, the SHGs have to eventually graduate into viable enterprises to help members to cross the threshold of poverty and also to emerge as a meaningful conduit for helping poor or underprivileged by making them available an easy and at doorstep financial support, in which the formal banking channel could not succeed fully so far due to various reasons, including large size of the economy coupled with demographic factor.

Finally, in the long-run, the proposed regulatory framework [*i.e.*, the Micro-finance Institutions (Development and Regulation) Bill, 2012, introduced in the

Lok Sabha on May 22, 2012] would benefit micro-finance sector as it would enable orderly growth in the country.

VI. CONCLUSION

In the recent period, micro-finance has emerged as an important semi-formal mode of credit delivery to the people, particularly to those who are excluded from the formal financial system. There are two broad models of micro-finance in India, *viz.*, SHG-bank linkage model and MFI model. Of these two models, the SHG-bank linkage has made rapid strides since its inception in the early 1990s. The outreach of SHGs/MFIs has deepened over time as reflected through increasing number of clients/borrowers and also average per client loan outstanding under both SHGs and MFIs in the recent period, but still remains inadequate/less satisfactory, keeping in view the rural household demographic profile in the country. Regional outreach though remains skewed and uneven, but rebalancing in the regional pattern is seen gradually taking place. The recovery rate for banks' loans against SHGs and MFIs is currently satisfactory, implying that repayment from the sector is not a major concern, as of now. Commercial banks, RRBs and co-operative banks are actively engaged in the programme. The financial depth for SHGs/MFIs (measured in terms of their loan outstanding as ratio to banks' aggregate credit/GDP at current market prices) witnessed some improvement over time, manifesting deepening of their root as a conduit for helping poor or underprivileged by making them available an easy and at doorstep financial support. In terms of MPI and MPPI, the analysis shows that the majority of States are still having these indices below 1, indicating less satisfactory regional outreach performance of the sector. On cross-country comparison, among the top 10 countries in terms of MFIs, India has been placed at 8th position in 2010 with Peru ranked with the highest score followed by Philippines and Bolivia. In view of the above, further strengthening of the sector is, therefore, desirable to reap its benefit fully and be able to link considerable chunk of rural households to such programme, necessary for improving their economic conditions and also enhancing human capital thereby in the long-run.

On the issue of sustainability of the sector, it may be indicated that refinance facility at special rate available to banks from NABARD against their loans extended to SHGs and MFIs for onward micro-credit to their clients may not be a sustainable solution in the long-term to provide a fillip to the sector through such mechanism in place. It may, therefore, be important to note that the sector has to eventually graduate into viable enterprises to help members to cross the threshold of poverty, for which, they have to reduce their transaction costs and also improve the operational efficiency through adopting more innovative technologies so as to have a reasonable interest rates for the poor (which is currently very high). Further, there is a need for strengthening and enhancing the credibility of micro-finance in the country, for which, the issues such as disclosure guidelines, financial prudence parameters, uniform performance standards and reporting systems, defining codes of conduct and better and meaningful co-ordination among all stakeholders may be revisited, going forward.

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