equity capital so as to adequately capitalise them, SIDBI set up a fund of Rs. 50 crore which was christened as SIDBI Growth Fund for MFIs. The fund takes care of equity investment in large corporate MFIs, as also equity capital in start-up/smaller institutions, along with quasi-equity support for MFIs on the verge of transformation.

5.48 SIDBI also supports incubation of potential local community based organisations through two-tier/umbrella NGOs/MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelise finance to smaller NGOs that otherwise may not meet the criteria for availing direct assistance from SIDBI. SIDBI has also been able to nurture and develop a few new intermediaries set up by experienced professionals. Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development/micro finance professionals. The incubation support is either given through well-reputed management institutes or through institutions specialising in capacity building and technical support services.

5.49 As at March 31, 2008, the SIDBI had 58 partners in the underserved States, out of its total partner base of 104. The increased thrust on development of underserved States has also resulted in the share of these States going up from 19 per cent (Rs.38 crore) in the total outstanding micro finance portfolio of SIDBI in the financial year 2005 to over 31 per cent (Rs.299 crore) in the financial year 2007-08.

5.50 Substantial growth of the micro finance sector would be possible only if the capacities of all stakeholders are built up adequately. SIDBI has taken some initiatives in this direction. One such initiative has been in the area of human resources where SIDBI has tried to address the issue both from the demand and supply side factors. On the demand side, MFIs are encouraged to hire young management/accounting graduates from reputed institutes through campus placement and SIDBI provides partial salary support for these young professionals (YPs) for a period of two years. Additionally, MFIs are also provided grant funds for hiring trained and experienced professionals as second line managers. This helps in bringing and retaining the talent in the micro finance sector. On the supply side, some of the management training institutes have been provided support in the form of training and exposure visit of their faculty members to reputed national and international training programmes and other MFIs across the world. Besides, SIDBI was instrumental in bringing international experts to lend support to these institutes for developing a course on micro finance that has been incorporated as an elective in their rural management courses.

5.51 Other major initiatives towards capacity building of the sector comprised developing the capacities of consultants and technical service providers (TSPs), developing a common chart of accounts for the sector, creating gender and environment awareness, promoting innovations and action research on emerging concepts.

Regulation of Micro Finance Institutions

5.52 The rapid growth of the micro finance sector and varied number of micro finance providers influencing the lives of millions of clients have necessitated the need for regulating the sector. In India, micro finance is provided by a variety of entities. These include banks (including commercial banks RRBs and co-operative banks), primary agricultural credit societies, SHGs linked to banks and MFIs that include NBFCs, Section 25 companies, trusts and societies as also co-operatives (under MACS). Currently, banks and NBFCs fall under the regulatory purview of the Reserve Bank. Other entities are covered in varying degrees of regulation under the respective State legislations. There is no single regulator for this sector. In this context, for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro Financial Sector (Development and Regulation Bill), 2007 which is under consideration of the Parliament. The Bill envisages NABARD to be the regulator and provides that all micro finance organisations desirous of offering thrift services may get registered with NABARD.The legislation, however, is yet to be enacted (Refer Chapter II, para 2.219).

5.53 In the meantime, formulation of a code of ethics has been formulated by Sa-Dhan in 2007, to be followed by their member institutions (Box V.4).

Micro Insurance

5.54 Social security in the form of micro insurance can be a boon for the poor, when the income raising ability of the bread winner is impaired. In India, the micro insurance schemes are mostly implemented by the MFIs as a compulsory element along with the micro credit provided. Micro insurance schemes can be considered as a stepping stone to social protection. One of the best examples of micro insurance scheme is the one which is linked to the *Grameen* Bank scheme in Bangladesh. *Grameen* established a separate organisation called *Grameen Kalyan* (village welfare) which uses the women groups for the collection of annual premiums for micro insurance.

5.55 With the recent arrival of a number of private insurance companies in India, there has been significant innovation in new product development, as well as delivery in the insurance sector. Several MFIs are entering the domain of micro insurance. However, the sector is still in its early days and evolving rapidly. More than half of the 83 MFIs that responded to a Sa-Dhan study in 2005 were offering insurance, with life insurance being more widespread than non-life insurance. Insurance Regulatory Development Agency (IRDA)'s micro insurance regulations of November 2005 formally recognised NGOs, SHGs and MFIs as "micro insurance agents" for acting as intermediaries between insurance companies and beneficiaries. The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), which submitted its report in January 2008, highlighted the importance of micro insurance and made wide ranging recommendations in this regard (Box V.5).

5.56 Generally, micro insurance schemes cover health care, life, accident expenses, maternity protection and disability. Both the public sector and private sector insurance companies have tied up with various MFIs in the country to offer micro insurance schemes. One of the difficulties in the implemention of micro insurance scheme is that poor have a lesser understanding of risk pooling and are often reluctant to join schemes where payments have to be made with no immediate returns.

4. Progress of Micro Finance in India

5.57 The micro finance movement has come a long way since its inception in the early 1990s and has assumed enormous significance in the delivery of credit to the hitherto excluded sections of the population. While the SBLP has emerged as the most dominant model, the MFI model has also been gaining importance.

Box V.4: Sa-Dhan's Voluntary Mutual Code of Conduct for its Member Institutions

In January 2007, Sa-Dhan issued a voluntary mutual code of conduct applicable to all the categories of member micro finance institutions.

Objectives

The member institutions agree to promote and strengthen the micro finance movement in the country by bringing the low income clients to the mainstream financial sector. They also agree to build progressive, sustainable and client-centric micro finance institutions in the country to provide integrated financial services to the clients. Their aim should be to promote co-operation and co-ordination among micro finance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better.

Integrity

The member institutions agree to:

i) Act honestly, fairly and reasonably in conducting micro finance activities.
ii) Conduct micro finance activities by means of fair competition, not seeking competitive advantages through illegal or unethical micro finance practices. No officer, employee, agent or other person acting on their behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.
iii) Prominently display the core values and code of conduct on the notice board of head office and all branches and put systems in place to ensure compliance.
iv) Ensure that their staff and all persons acting for them or on their behalf, are trained or oriented to put these values into practice.

Transparency

The member institutions agree to:

i) Disclose to clients all the terms and conditions of the financial services offered in the language understood by the client.
ii) Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.
iii) Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/quarterly/half-yearly), terms of repayment and any other information related to interest rates and other charges.
iv) Provide information to clients on the rate of interest offered on the thrift services provided.
v) Provide information to clients related to the premium and other fees being charged on insurance and pension services offered as intermediaries.
vi) Provide periodical statements of the MFI's accounts to the clients.

Fair Practices

Member institutions are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. Member institutions agreed to:

i) Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.
ii) Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.
iii) Recognise their responsibility to provide financial services to clients based upon their needs and repayment capacity.
iv) Promise that, in case of loans to individual clients below Rs. 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, *etc.*, as collateral security for loans, except when obtaining copies of these for fulfilling "know your customers" norms of the Reserve Bank. Only in case of loan to individual clients of Rs 25,000 and above can obtain land titles, house pattas, vehicle RC books, as collateral security.
v) Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.
vi) Maintain decency and decorum during the visit to the clients' place for collection of dues.
vii) Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.
viii) Avoid any demeanour that would suggest any kind of threat or violence.
ix) Emphasise using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what the obligations of social collateral are.

Governance

i) Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of board of directors. The MFI should ensure that the majority of the directors are independent directors and/or duly elected representatives of the community served, and that the board would be involved in all policy formulation and other important decisions.
ii) Ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.
iii) Put in the best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
iv) Place before the board of directors, a compliance report indicating the extent of compliance with this voluntary mutual code of conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

Feedback/ Grievance Mechanisms

i) Establish effective and efficient feedback mechanism.
ii) Take steps to correct any errors and handle complaints speedily and efficiently.

Wherever a complainant is not satisfied with the outcome of the investigation into her complaint, she should be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Reference :

Sa-Dhan, 2007. Core Values and Voluntary Mutual Code of Conduct for Micro Finance Institutions, available on www.sa-dhan.net/Resources/corevalues.pdf

Box V.5: Recommendations of Rangarajan Committee on Micro Insurance

The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), which submitted its report in January 2008, observed in its report that micro insurance should provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. Micro insurance in conjunction with micro savings and micro credit could go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

The Committee suggested that in order to economise on costs and to increase the outreach of micro insurance to the poor, the insurers need to utilise existing Government organisations and NGOs, having greater acceptability among the financially excluded. In the opinion of the Committee, there is a need to emphasise linking of micro credit with micro insurance. Further, as it helps in bringing down the inherent risk cost of lending, NABARD should be regularly involved in issues relating to rural and micro insurance to leverage on its experience of being a catalyst in the field of micro credit. The Committee suggested that the technology platforms being envisaged to facilitate financial inclusion should enable micro insurance transactions also. Towards this end, according to the Committee, there is a need to integrate the various modules - savings, credit, insurance, *etc.* - into the technology framework so that holistic inclusive efforts are possible in the rural areas.

The Committee observed that there are a large number of group life and health insurance schemes which are run by various central ministries and State Governments. The level of actual coverage in terms of claims preferred and settled in such schemes is disturbingly low. These schemes should be reviewed by an expert group set up by the Insurance Regulatory and Development Authority (IRDA).

Making specific recommendations about various insurance schemes available, the Committee observed that a wide range of products are available in life insurance category but penetration is really limited in rural areas. The procedural requirements at the time of entry and in case of claims settlement are cumbersome. The commission structure for agents is also heavily weighed in favour of getting new policies with very little incentive to service existing policies. In this regard, Micro Insurance Guidelines (MIG) 2005 issued by IRDA has provided for equal commission throughout the life of a policy and this will now remove the disincentive in servicing existing policy holders.

As far as health insurance is concerned, the Committee observed that its penetration level was even much lower than life insurance. The two categories *viz.*, critical illness and hospitalisation are the main product segments. Some State Governments have developed health insurance schemes which are still in very early stages. The Committee has recommended mutual health insurance models as a better alternative to the take care of existing situation.

As regards crop insurance, the committee recommended that policies be evolved to make crop insurance universal, *viz.*, applicable to all crops/regions and pricing actuarial.

About asset insurance the Committee again recommended that involving local NGOs, MFIs and SHGs, among others, as distribution channels as well as facilitators of claims settlements would be quite useful.

Reference :

Rangarajan, C. 2008. Report of the Committee on Financial Inclusion, available on www.nabard.org/report_comfinancial.asp

SHG-Bank Linkage Programme Approach

5.58 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 cumulative number of SHGs credit linked with banks increased sharply from 33,000 in 1992-99 to 264,000 in 2000-01 and further to 2,239,000 in 2005-06. During the above period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from Rs. 57 crore in 1992-99 to Rs.481 crore in 2000-01 and further to Rs.11,398 crore in 2005-06 (Table V.1 and Chart V.1).

5.59 The provisional data available so far indicates that during the year 2007-08, 552,992 new SHGs were provided with bank loan and 186,883 existing SHGs with repeat loans. Total bank loans disbursed during the year were at Rs.4,228 crore, of which repeat bank loans to existing SHGs were at Rs.1,686 crore. The growth of number of SHGs has decelerated in recent years, particularly in the southern region, where rapid progress was made earlier. The scheme is catching up slowly in the northern region. The MFIs have also expanded their operations, which might have impacted the growth of the SBLP to some extent.

5.60 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 regional rural banks and co-operative banks (Table V.2). Among the commercial banks, public sector banks accounted for the largest share of loans

Table V.1: SHG-Bank Linkage Programme*

(Amount in Rs. crore)

Year	Total SHGs financed by banks (in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1992-99	33	33	57	57	52	52
1999-00	82	115	136	193	98	150
	(147.9)	(247.9)	(138.1)	(238.1)	(88.5)	(188.5)
2000-01	149	264	288	481	244	394
	(82.3)	(129.9)	(112.0)	(149.2)	(149.0)	(162.7)
2001-02	198	461	545	1,026	395	790
	(32.6)	(74.9)	(89.0)	(113.4)	(61.9)	(100.5)
2002-03	256	717	1,022	2,049	622	1,412
	(29.5)	(55.4)	(87.0)	(99.6)	(57.2)	(78.7)
2003-04	362	1,079	1,856	3,904	705	2,118
	(41.4)	(50.4)	(81.0)	(90.6)	(13.3)	(50.0)
2004-05	539	1,618	2,994	6,898	968	3,086
	(49.1)	(50.0)	(61.0)	(76.7)	(37.3)	(45.7)
2005-06	620	2,239	4,499	11,398	1,068	4,153
	(15.0)	(38.3)	(50.3)	(65.2)	(10.3)	(34.6)
2006-07	1,106	–	6,570	–	1,293	5,446
2007-08 P	740	–	4,228	–	1,616	7,062

P : Provisional. – : Not Available

* : Relating to commercial banks, RRBs and Co-operative banks.

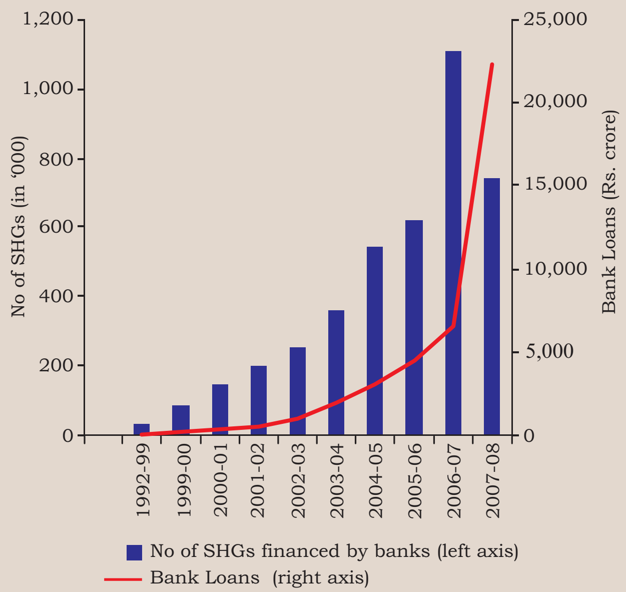
Note : 1. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of *'Swarnjayanti Gram Swarozgar Yojna'* (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07. As such data for 2006-07 onwards are not comparable with the data in the previous years.

2. Figures in parentheses indicate percentage variations over the year.

Source : NABARD.

disbursed to SHG sector (88.8 per cent) in 2006-07. Out of the total loans disbursed by the commercial banks, 86.9 per cent of the loans were disbursed exclusively to women SHGs (Appendix V.1).

Chart V.1: Progress of SHG- Bank Linkage Programme



5.61 Under the SBLP, as on March 31, 2007, 2.9 million SHGs had outstanding bank loans of Rs.12,366 crore (Table V.3).

5.62 Of the three models under the SBLP, the Model II, *viz.*, SHGs promoted by NGOs/ Government agencies and financed by banks has emerged as the most dominant model in the case of India (Table V.4).

Table V.2: Agency-wise SHG -Bank Linkage Position

(Amount in Rs. crore)

Agency	SHGs Credit Linked (in '000)		Bank Loan Disbursed	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
Commercial Banks	572	312	3,919	2,043
	(52)	(42)	(60)	(48)
RRBs	381	241	2,053	1,599
	(34)	(33)	(31)	(38)
Co-operative Banks	153	187	599	586
	(14)	(25)	(09)	(14)
Total	**1,106**	**740**	**6,570**	**4,228**

P : Provisional data.

Note : 1) Figures in parentheses are percentage shares in the respective total.

Source : NABARD.

Table V.3: Bank Loans Outstanding under SBLP

(as at end-March 2007)

(Amount in Rs. crore)

Agency	No. of SHGs	Loans Outstanding
1	2	3
Commercial Banks	1,893,016	8,760
	(65.4)	(70.8)
Regional Rural Banks	729,255	2,802
	(25.2)	(22.7)
Co-operative Banks	272,234	804
	(9.4)	(6.5)
Total	**2,894,505**	**12,366**
	(100.0)	**(100.0)**

Note : Figures in parentheses are percentages to the respective totals.
Source : NABARD.

5.63 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 region (Table V.5).

5.64 In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal 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 an increase in the number of SHGs credit linked in these States from 100 thousand as on March 31, 2002 to 1.4 million as on March 31, 2007. Thus, the spread of the programme in the 13 States led to a significant decline in the share of the southern States in SHGs linked to banks.

5.65 As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs. 3,513 crore, thereby covering more than 58 million poor households under the programme. Commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent) (Table V.6). Among the commercial banks, the public sector banks accounted for the largest share of savings (95.9 per cent), while private sector banks accounted for marginal share (4.1 per cent). It is noteworthy that around 87.3 per cent of the savings were by exclusive women SHGs (Appendix V.2).

Table V.4: Model-wise Cumulative Linkage Position

(as at end-March)

Model Type	2004		2005		2006	
	No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)
1	2	3	4	5	6	7
(i) Model I- SHGs promoted, guided and financed by banks	218	550	343	1,013	449	1,637
	(20.0)	(14.0)	(21.2)	(14.7)	(20.1)	(14.4)
(ii) Model II- SHGs promoted by NGOs/ Government agencies and financed by banks	777	3,165	1,158	5,529	1,646	9,200
	(72.0)	(81.0)	(71.6)	(80.2)	(73.5)	(80.7)
(iii) Model III- SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries	84	189	117	356	143	561
	(8.0)	(5.0)	(7.2)	(5.2)	(6.4)	(4.9)
Total (i+ii+iii)	**1,079**	**3,904**	**1,618**	**6,898**	**2,239**	**11,398**

Note : 1. NABARD has changed the data reporting format since 2006-07 and now does not publish model-wise cumulative figures relating to SHG Bank Linkage Programme.
2. Figures in parentheses are percentages to the respective total.

Source : NABARD.

Table V.5: Regional Pattern of SBLP

(as at end-March)

(Per cent to total)

Region	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7
Northern	3.4	4.2	4.9	4.9	5.3	5.9
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8
Eastern	8.4	9.9	12.7	14.7	16.4	17.6
Central	10.9	10.4	11.4	11.8	12.2	12.0
Western	5.9	6.4	5.9	5.1	5.9	7.4
Southern	71.1	68.8	64.6	62.5	58.0	54.3
All-India	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : NABARD.

5.66 About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks reported recovery in the range of 50-79 per cent. Some differences were observed in recovery rates of commercial banks, co-operative banks and regional rural banks (Table V.7). While the recovery rate of public sector banks varied between 52 per cent and 99 per cent, the same of private sector banks varied between 60 per cent and 100 per cent. Out of the 26 private sector banks, the recovery rate of four banks was 100 per cent (Appendix V.3).

5.67 Many groups promoted under various Government sponsored programmes also constituted a part of the SBLP. As on March 31, 2007, the number of SHGs having outstanding bank loans under the *Swarnjayanti Gram Swarozgar Yojana* (SGSY) were at 700 thousand constituting 23.7 per cent of the total SHGs under the SBLP. The loan amount outstanding under these SGSY loans were Rs.3,273 crore which constituted 26.5 per cent of the total amount outstanding under the SBLP.

Table V.6: Savings of SHGs with Banks

(as at end-March 2007)

(Amount in Rs. crore)

Agency	Total Savings		Exclusive Women SHGs	
	No. of SHGs	Amount of Outstanding Savings	No. of SHGs	Amount of Outstanding Savings
1	2	3	4	5
Commercial Banks	2,293,771 (55.1)	1,892 (53.9)	1,794,720 (54.9)	1,651 (54.6)
Regional Rural Banks	1,183,065 (28.4)	1,158 (32.9)	974,811 (29.8)	1,043 (34.5)
Co-operative Banks	683,748 (16.4)	462 (13.2)	501,708 (15.3)	331 (10.9)
Total	**4,160,584 (100.0)**	**3,513 (100.0)**	**3,271,239 (100.0)**	**3,025 (100.0)**

Note : Figures in parentheses are percentages to the respective totals.
Source : NABARD

MFI Approach

5.68 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 SHGs. During the year 2006-07, bank loans amounting Rs. 1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to Rs.1,584 crore to 550 MFIs as on March 31, 2007 (Table V.8).

Table V.7: Recovery Performance of Bank Loans to SHGs

(as at end-March 2007)

(No of banks)

Agency	Total No. of Reporting Banks	Recovery Performance of Bank Loans to SHGs			
		95 per cent and above	80-94 per cent	50-79 per cent	less than 50 per cent
1	2	3	4	5	6
Commercial Banks	36	11 (30.6)	15 (41.7)	10 (27.8)	0 (0.0)
Regional Rural Banks	73	20 (27.4)	35 (47.9)	13 (17.8)	5 (6.8)
Co-operative Banks	181	76 (42.0)	55 (30.4)	35 (19.3)	15 (8.3)
Total	**290**	**107 (36.9)**	**105 (36.2)**	**58 (20.0)**	**20 (6.9)**

Note : Figures in parentheses indicate percentage shares in agency-wise totals.
Source : NABARD

Table V.8: Bank Loans Provided to MFIs
(as at end-March 2007)

(Amount in Rs. crore)

Agency	Loans Disbursed by Banks to MFIs during 2006-07		Outstanding Bank Loans to MFIs as on March 31,2007	
	No. of MFIs	Amount	No. of MFIs	Amount
1	2	3	4	5
Commercial Banks	327	1,151	541	1,584
Regional Rural Banks	7	0.2	8	0.2
Co-operative Banks	–	–	1	0.01
Total	**334**	**1,152**	**550**	**1,584**

– : Nil/ Negligible.
Note: 1) Figures may not add up to their respective total due to rounding off.
2) The actual number of MFIs would be less as some MFIs have availed loans from more than one bank.
Source: NABARD.

5.69 The Reserve Bank carried out a survey of MFIs in 2007, which revealed that most of the MFIs have a good recovery rate. Commercial banks remained the most important source of funds for almost all the MFIs. Even though some complaints regarding high interest rates and forcible loan recovery were registered in some parts of the country, most of the borrowers reported that it was easy or very easy to get a loan from MFIs (Box V.6).

5. Micro Finance in India - Impact

5.70 There are several instances of experiments of SHGs that have made a positive impact on the income and employment situation of the poor (Box V.7).

5.71 A few assessment studies have been carried out on the impact of the SBLP in India at the grassroot level. Puhazhendi and Satyasai (2000)[1] 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.

5.72 In another assessment, Puhazhendi and Badatya (2002)[2] 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.

5.73 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.

5.74 The study conducted by EDA Rural Systems and APMAS (2006) brought out that a significant proportion of sampled groups (40 per cent) had a weak record of account keeping.The study pointed out that financial statements are not being regularly prepared by the SHGs. Only 28 per cent of the SHGs (22 per cent in the South and 35 per cent in the North) prepared an income and expenditure statement and an equal number of SHGs prepared a balance sheet and portfolio information. While members were usually able to provide approximate figures of total savings and total SHG loans outstanding, they were not able to provide information about profits earned or loan outstanding to banks. Further, the SHGs do not have a clear policy on how to deal with defaults or with dropouts, which formed about 10 per cent of membership.

[1] Puhazhendi, V. and K. J. S. Satyasai, 2000, *Microfinance for Rural People: An Impact Evaluation*, NABARD
[2] Puhazhendi, V. and K. C. Badatya, 2002, SHG Bank Linkage Programme for Rural Poor-An Impact Assessment, available on www.microfinancegateway.org

Box V.6: Reserve Bank Survey on MFIs

In order to have a better understanding of the working of MFIs, regional offices of the Reserve Bank carried out a survey of MFIs operating in their areas of jurisdiction in November-December 2007. The objective of the study was to gain an insight into the activities of MFIs, especially in rural areas, to assess the financial services needs of the rural households and the informal products and processes that currently meet these needs. The study was aimed at gaining a better understanding of the operations of the MFIs and explore the possibility of linkages with banks resulting in extending banking outreach to the poor. In all, 77 MFIs were surveyed in the States of Karnataka, Orissa, Andhra Pradesh, Madhya Pradesh, Bihar, West Bengal, Kerala, Maharashtra, Rajasthan and Tamil Nadu. The survey was carried out through the lead district officers (LDOs) who held discussions with officials of district administration, branch managers, borrowers and MFIs.

The survey revealed that MFIs were adopting various models for micro finance such as through the SHGs, *Grameen* model/joint liability groups (JLGs) model, individuals as well as through cluster associations of the SHGs. The loan range varied widely across MFIs and across states. The loan range also varied across individuals and across SHGs. For individuals the loans ranged from as low as Rs.1,000 to Rs.20,000. For the SHGs, the range was between Rs.30,000 to Rs.2 lakh.

The number of clients served by the MFIs varied significantly across the States and ranged from as low as 79 to more than 100,000. The average loan range per client was between Rs.4,000 to Rs.5,000 for individuals and between Rs.60,000 to Rs. 1.3 lakh for the SHGs.

Majority of the loans given by the MFIs in the surveyed States were for work or occupation related purposes. Occupation related loans ranged from 46 to 100 per cent of the total loans in most of the states. This was followed by other purposes like consumption, social events, health, travel and education.

The duration of the loans ranged from 6 to 20 months. The interest rates charged by the MFIs were not uniform and varied widely across MFIs and across states. While some MFIs charged flat rates of interest, others charged diminishing rates. The flat rates ranged between 10-14 per cent and the diminishing rates ranged between 10-27 per cent. Besides, many MFIs charged flat processing fee in the rage of 1 to 1.5 per cent.

Apart from the loans, some of the MFIs offered other services such as health insurance and life insurance. In many cases, asset insurance was compulsory, especially when it related to loans for animal husbandary.

Almost all the MFIs reported good recovery percentage of the loans, *i.e.*, more than 90 per cent. Most of the borrowers also reported that the MFIs adopted fair practices for recovery. The MFIs have a close monitoring system which ensures that there are minimum defaults.

Only a few MFIs were providing performance related incentives to their staff. Some of the parameters used for providing the incentives were (i) business turnover; (ii) maintenance of clientele (low customer drop out rate); (iii) reaching the annual target about number of customers; (iv) recovery performance; (v) percentage of insurance coverage; and (vi) loan utilisation.

Only in the States of Karnataka and Andhra Pradesh, MFIs reported that the money lending legislations were applicable to them. In other States the MFIs reported that they were not bound by the money lending legislations. Almost in all States surveyed, the enforceability of money lending legislation was very poor.

Commercial banks remained the most important source of funds for almost all the MFIs. Some of the MFIs also received funds from other financial and developmental institutions and donor agencies.

The survey attempted to find out what additional support the MFIs expected from banks. Some of the suggestions and expectations were (i) low interest loans; (ii) loans for operational and infrastructure expenses; (iii) flexible banking products; (iv) continuous lending support; (v) better customer service; (vi) simplified access; (vii) capacity building by banks; (viii) IT and EDP support; (ix) sharing establishment costs; and (x) training.

Almost all the MFIs were willing to work as business correspondents (BC) of banks. One MFI however suggested that it was unwilling to work as a BC because it would lose focus on its core activity. Another MFI was unwilling to work as a BC because of the stringent conditions stipulated by banks for their BCs.

In most of the States surveyed, district administration was not maintaining the details of MFIs in the district as it was not compulsory. Furthermore, there were only very few complaints against the MFIs received by the district administration. In Krishna district in Andhra Pradesh there were complaints against MFIs for charging high rates of interest and forcible loan recovery. In Madhya Pradesh also there were some complaints pertaining to high interest rates.

The survey also attempted to obtain the response of clients with respect to the ease of availing loans from MFIs. Most of the borrowers surveyed reported that it was easy or a easy to get a loan from MFIs.

Almost all the bank branch managers opined that MFIs were good customers of banks and they could be used as business facilitators or correspondents.

5.75 The study also observed that 30 per cent of SHGs in the sample were involved in community actions. These involved improving community services (43 per cent of the total actions, including water supply, education, health care, veterinary care, village road), trying to stop alcohol sale and consumption (31 per cent), contributing finance and labour for new infrastructure (12 per cent), protecting natural resources and acts of charity (to non-members). The most common type of action taken up by SHGs was the attempt to close down local liquor outlets.

Box V.7: Innovative Approaches of SHGs

The self help group movement in India has gained momentum in recent years and it has been responsible for bringing in a qualitative change in the lives of thousands of people. Some of the innovative experiments in this regard are:

Sheetal SHG, Saharanpur, is an excellent example of people who have brought transformation in their socio-economic status by determinative and collective efforts. This SHG was formed in September 2006 with the joint motivation of the Punjab National Bank and a social organisation named "SANKALP" which has been working for mainstreaming the disabled and their families. Fourteen *dalit* women had volunteered to become members of this SHG, of which two were disabled. They started saving Rs.100 every month and opened their bank account with bank's branch in October 2006. NABARD helped in providing 30 days of vocational training in commercial candle making with exposure to market for purchases and sales. They were also given training for making *dhoop battis* and *agarbattis*.

Four members of this group have now started a candle making unit with the help of loan from the bank. The women now work in their spare times and are earning additional income for their families. They have become self-dependent and are confidently meeting the bank and Government officials and also travelling independently for the business requirements. The SHG has now multiplied into eight women SHGs and have recently formed a 'Mahila Manch', which is exclusively working for the economic and social upliftment of their families.

Annapurna SHG of Tidhara village in Navsari tehsil in Gujarat supported by Bank of Baroda consists of elevan women members from below poverty line. They were working as daily wage labourers in the village and started saving from their little earnings and opened an account with the bank branch. The group after managing to save a decent corpus of fund started catering service in the village with guidance from the bank branch. The group opened a canteen at the village panchayat office with a loan of Rs. one lakh from the bank. They also gained additional income by extending their services to various ceremonies and other occasions in the village and neighbouring areas. The group has gained popularity in the area for providing tasty and hygienic food to the locals and each group member earns a minimum of Rs.2,500 per month.

Pragathi Mahila Sakthi Sangham of Kurakapalli village in East Godavari district of Andhra Pradesh comprises members who worked as agricultural labours. The members took an initial loan of Rs.25,000 from Bank of Baroda which was used for internal loaning purposes. The members then ventured into agriculture with another loan of Rs.1,80,000 after repaying the earlier loan. They took agriculture land on lease and prospered by cultivating and distributing the profits among themselves. The group has become a role model for other landless agriculture labourers in the village.

Source : Punjab National Bank
Bank of Baroda.

5.76 The study also pointed out that such community actions inculcated a new boldness and confidence amongst women, often putting pressure on the authorities (*panchayat*, district officers and police) to do their jobs, whether through petitions or by staging rallies and blockades.

5.77 Some of the States like Andhra Pradesh are trying to implement various developmental and poverty alleviation schemes through SHGs.

5.78 To sum up, micro finance has come of age in India. Although it is not a panacea for the poor, it has now developed into an important delivery mechanism for reaching the poor and achieving financial inclusion. Studies have brought out the positive impact of micro finance on participating clients. As such, its role in enhancing human capital in the long-term would be considerable. It has particularly helped women to become owners of assets, have an increased say in decision making and take up leadership positions. The challenges facing the sector are being addressed on a continuing basis, in consultation with all stakeholders.