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# *Micro Finance and Financial Inclusion of Women: An Evaluation*

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World over, micro finance is looked upon as means of credit-based poverty alleviation and financial inclusion. This study uses secondary and primary data on SHGs in order to evaluate the role played by these institutions towards financial inclusion of the groups/regions excluded from the formal financial system. In this connection, the study also analyses the geographical spread of micro finance institutions, access and affordability of micro finance for women borrowers and movement of women borrowers out of SHGs. The findings of this study reflect the significantly limited scale and spread of micro finance in India. The continued dependence of women members belonging to mature SHGs on informal sources, as revealed from the primary data, further corroborates the point regarding the limited spread of micro finance. The relatively high rates of interest on SHG loans, which are comparable with the rates of informal sector, underline the issue of affordability of micro finance for poor borrowers. Further, an issue related to interest rates is that of dropouts of members. The most commonly noted cause for dropouts among SHG members is the irregular repayments of loans. The members complain of an inability to repay their loans on time and subsequently drop out. Hence, the observations of this note reflect the considerable scope for micro finance to evolve as an effective means of financial inclusion that is accessible and affordable for the excluded groups/regions and that can help loosen the grip of informal sources of finance and ensure permanent inclusion of the excluded sections in the ambit of formal finance.

**JEL Classification :** G21

**Keywords :** Micro-finance, SHGs, Financial Inclusion

This is an evaluation study of micro finance in India using secondary and primary data on SHGs. The primary objective of this study is to evaluate SHGs as a means of financial inclusion of the groups/regions excluded from the formal financial system. In this

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connection, the study looks at the issues of geographical spread of micro finance institutions and SHGs, access and affordability of micro finance for women borrowers and movement of women borrowers out of SHGs.

The study uses secondary data from the annual publication of National Bank for Agriculture and Rural Development (NABARD) on micro finance, namely, "Progress of SHG-Bank Linkage Programme in India". Further, it also uses secondary data from the latest round of All India Debt and Investments Survey conducted by National Sample Survey Organisation (NSSO). The primary data are drawn from a field level survey of SHGs and SHG members conducted in 2006 in Kancheepuram district of Tamil Nadu, a State that has been known to be one of the leading States in the country in the development of micro finance.

The study is organised as follows. In Section I, we introduce the concept of micro finance as it is understood worldwide and as it has been implemented in India. In Section II, we discuss the concept of *financial inclusion* as it is described officially in India and its link with micro finance and the issues involved therein. In Section III, we discuss the secondary data on micro finance to analyse the geographical and agency-wise spread of micro finance in India. We also look at the existing scale of micro finance in India. In Section IV, we discuss first the features of the primary dataset used for the present study and then, our major findings from the primary data. We provide our concluding observations in Section V.

## Section I
## Concept of Micro Finance and its Implementation in India

Micro finance originated in Bangladesh with the institution of Grameen Bank in 1983. The basic principles of micro finance that distinguish it from the earlier modes of credit delivery are small amounts of loan, lack of physical collateral but emphasis on social collateral or peer monitoring and focus on women borrowers. With these three factors, micro finance is expected to effectively tackle the three problems that are often encountered in any credit delivery programme designed for the poor namely, targeting, screening of borrowers, and enforcement of the credit contract.[1] Under the model of micro finance promoted by the Grameen Bank, women borrowers are organised into Self-Help Groups (SHGs), which would be entitled to borrow from the lending institution either for their individual or group requirements. Such groups are normally created by women from similar socio-economic background that strengthen the solidarity among these women. The involvement of the entire group at each stage of seeking the loan and its repayment is essential in ensuring peer monitoring.

In several countries across the world, micro finance originated from the activity of Non-Governmental Organisations (NGOs) that were aided largely or partly by foreign donors for their lending operations.[2] There were also cases such as in Indonesia, where micro finance was promoted directly through state owned banks/ organisations.

Against this background, the Indian experiment with micro finance was different in mainly two respects. First, India involved its public banks network to provide micro finance. The commercial banking network, whose development after bank nationalisation in terms of geographical spread and functional reach is often deemed unparalleled in the world, was roped in for micro finance. The micro finance experiment in India has been described by NABARD as *relationship* banking rather than *parallel* banking elsewhere in the world.[3] In this experiment, there exists a link between SHGs, NGOs and Banks. The SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations; they are entitled to seek credit from the banks. There is an involvement of the concerned NGO before and even after the SHG-Bank linkage. This variant of micro finance is most popular in India.[4]

Secondly, *thrift* first and not *credit* first was considered to be the basis for micro finance in India. SHGs in India were encouraged towards saving within the group and managing their own finances and giving loans internally and then to deposit their savings with a bank thus providing them access to the banking network and finally, negotiating with the bank for credit.

The SHG-Bank linkage programme, which was undertaken since 1992 in India, had financed about 22.4 lakh SHGs by 2006. It involved commercial banks, Regional Rural Banks (RRBs) and cooperative banks in its operations, the details of which would be discussed in Section III.

## Section II
## Micro Finance and Financial Inclusion

Financial inclusion has been defined as the "provision of affordable financial services" (RBI, 2006a) to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include "payments and remittance facilities, savings, loan and insurance services" (*ibid.*). Micro finance has been looked upon as an important means of financial inclusion in India (RBI, 2006b). As already discussed, the Indian concept of micro finance encourages access of SHGs to banks both as means of savings and providers of loan services. However, going a step further, we can say that micro finance has to act proactively not just as a means of financial inclusion and also has to work towards reducing dependence of poor borrowers on various informal sources of credit that are often notorious for the onerous terms at which they offer credit. An effective financial inclusion is possible only with the accomplishment of the second.

Given the definition of financial inclusion, any means for financial inclusion, to begin with, has to be not just easily accessible but also *affordable* to the borrowers, who do not have access to formal financial system. Secondly, it should ensure that over time the borrowers are able to reduce their dependence on informal sources of finance and a certain degree of loyalty towards SHGs, which can work towards *permanent* or *effective* inclusion of these borrowers into the formal banking network.

## Section III
## Certain Issues regarding the Scale and Spread of Micro Finance in India

The pace at which micro finance has spread in India has been undoubtedly impressive. Taking data from NABARD, we find that the number of SHGs increased significantly from 637 in 1994 to 22.4 lakh by 2006 (Table 1).[5] Similarly, there was a vast increase in the amount of bank credit provided to the SHGs during this period. This includes credit provided by all three key institutions, namely commercial banks, Regional Rural Banks and cooperative banks. Of these, commercial banks have been instrumental in financing the largest number of SHGs till now (Table 2).

Notwithstanding its expansion, there are three observations that need to be made about the scale and spread of micro finance in India. First, regarding its scale, micro finance still remains a minuscule portion of total bank credit in India. The micro finance provided by the two major institutions, namely commercial banks and RRBs constituted less than one per cent of the total credit from these institutions in 2007 (Table 3).[6]

Another interesting *albeit* rough statistic that can highlight the relatively small scale of finance to SHGs is that the *total cumulative credit* disbursed through SHG-Bank linkage programme right from its inception in 1992 to 2006 by commercial banks, RRBs and cooperative banks formed only 6 per cent of the total agricultural credit disbursed in *just one year* of 2005-06 by these institutions together.

**Table 1: Cumulative number and amount of credit to SHGs**

(Amount in Rs. lakh)

| Year | Cumulative number of SHGs | | Cumulative amount of bank credit | |
|---|---|---|---|---|
| | India | Tamil Nadu | India | Tamil Nadu |
| 1994 | 637 | 74 | 80 | 9 |
| 2006 | 2238565 | 312778 | 113975400 | 27121900 |

**Note** : Figures for 1994 pertain only to 11 States, where the pilot project of SHG-Bank linkage was implemented.

**Source :** NABARD (2006), Nanda (1995).

**Table 2: Cumulative number of and amount of credit to SHGs, by agency, 2006**

(Amount in Rs. crore)

| Agency | Cumulative number of SHGs | Cumulative amount of bank credit |
|---|---|---|
| 1. Commercial banks | 1188040 (53.1) | 698745 (61.3) |
| 1.1 Public sector banks | 1141570 (51.0) | 643968 (56.5) |
| 1.2 Private sector banks | 46470 (2.1) | 54777 (4.8) |
| 2. Regional Rural Banks | 740024 (33.1) | 332215 (29.1) |
| 3. Cooperative banks | 310501 (13.9) | 108795 (9.5) |
| **All banks** | **2238565 (100.0)** | **1139754 (100.0)** |

**Note:** Figures in brackets indicate percentage share in total.
**Source:** NABARD (2006).

Secondly, not only that credit to SHGs had an extremely small share in total credit and total loan accounts, we find that there was a falling trend in these shares during the five-year period from 2002 to 2007 (Table 3).

The third point regarding the regional spread of micro finance is that there has been a significant concentration of these institutions in the Southern region of the country (Table 4).[7] By 2006, more than half of the SHGs were located in the Southern region and about three fourth of

**Table 3: Percentage share of credit outstanding to SHGs in total credit outstanding of scheduled commercial banks (including RRBs)**

| Year | Amount of credit outstanding to SHGs (in Rs. crore) | Total credit outstanding (in Rs. crore) | Number of loan accounts for SHGs | Total loan accounts |
|---|---|---|---|---|
| 2002 | 41321 (1.8) | 2258529 | 290904 (0.5) | 483280 |
| 2007 | 81156 (0.8) | 10094629 | 53034408 (0.3) | 166820470 |

**Note** : Figures in brackets indicate percentage share of accounts/amount to SHGs in total accounts/amount.
**Source:** Basic Statistical Returns, various issues.

**Table 4: Cumulative number of and amount of bank credit to SHGs, by regions, 2006**

| Region | Cumulative number of SHGs | Cumulative amount of bank credit |
|---|---|---|
| Northern region | 133097<br>(5.9) | 39859<br>(3.5) |
| North-Eastern region | 62517<br>(2.8) | 16570<br>(1.5) |
| Eastern region | 394351<br>(17.6) | 93542<br>(8.2) |
| Central region | 267915<br>(12.0) | 80501<br>(7.1) |
| Western region | 166254<br>(7.4) | 52514<br>(4.6) |
| Southern region | 1214491<br>(54.3) | 856769<br>(75.2) |
| *Tamil Nadu* | *312778*<br>*(14.0)* | *271219*<br>*(23.8)* |
| **India** | **2238565**<br>**(100.0)** | **1139754**<br>**(100.0)** |

**Notes :** 1. Figures in brackets indicate percentage share in total for India.
2. The region-wise classification of States follows from the NABARD publication.
**Source :** NABARD (2006).

the bank credit was given to SHGs located in this region.[8] Of the total number of SHGs in the Southern region, one fourth were located in Tamil Nadu, the State from which we have primary level information.

Interestingly, the Southern region has historically been the most vanguard region in terms of banking development in the country. A greater concentration of micro finance is possibly owing to the already well-developed banking infrastructure in the region but it further reinforces the existing inequality between regions in the development of banking infrastructure.

Further, as micro finance is essentially driven towards including the poorer sections of the population into the ambit of banking, it is useful to compare the supply of micro finance to the number of poor across regions in order to judge the effective spread of micro finance. We find taking this indicator too, the spread of micro finance works out to be the largest in the Southern region and the smallest in the Central region. We find that the number of SHGs (formed on a cumulative basis) per 1,000 poor persons in the Southern region was about four to five times more than the corresponding figure in other regions.[9] Given that an SHG normally comprises 15 members and that about 60 per cent of SHGs in the country have members from families belonging to the Below Poverty Line (BPL) category (as found by NCAER, 2008), we can estimate that even for the Southern region, only about one third of its poor population is covered by SHGs (Table 5). Further, in the case of Tamil Nadu, the coverage of poor persons by SHGs is only about 8 per cent. Here, however, we need to remember that there are arguments from scholars that the official poverty line under-estimates the number of poor persons in the country (Swaminathan, 2000). In this case, the coverage by SHGs of poor persons is expected to be even narrower.

Fourthly and finally, as micro finance is regarded as a means of drawing greater number of women into the banking system, we analyse the trends in bank credit to and deposits from women and juxtapose the same with the figures for men in order to understand the degree of *absolute* and *relative* financial exclusion of women.

**Table 5: Cumulative number of and bank credit to SHGs per person below poverty line, 2005**

| Region | Cumulative number of SHGs per thousand persons below poverty line | Cumulative bank credit to SHGs per person below poverty line (Rs. '000) |
|---|---|---|
| Northern region | 8 | 24 |
| North-Eastern region | 10 | 28 |
| Eastern region | 5 | 13 |
| Central region | 3 | 10 |
| Western region | 5 | 16 |
| Southern region | 36 | 252 |
| *Tamil Nadu* | *9* | *37* |
| **India** | **9** | **48** |

**Note :** Figure for population below poverty line is taken from NSSO for the year 2004-05. The comparison here assumes that the cumulative number of SHGs were all functional in 2005.

**Source :** NABARD (2006), GOI (2007).

Here, for women's credit, we consider together (group) credit to SHGs and (individual) credit to women as provided in the Basic Statistical Returns. In the case of deposits, however, as data on (group) deposits from SHGs are not separately available, we consider only the (individual) deposits from women. It may be noted that the (group) credit to SHGs may not be *entirely* credit to women but it is *principally* credit to women and hence, can be clubbed together with individual credit to women for arriving at a proxy for total bank credit to women.

On the bank credit front, there was an evident disparity between women and men. On an average, there were 21 loan accounts per 10,000 women as against 118 loan accounts per 10,000 men in 2007 (Table 6). Further, the average amount of credit outstanding per woman in 2007 was Rs. 1,139 as compared to Rs. 5,652 per man (Table 7). These statistics need to be contrasted with the fact that women constituted half (48.4 per cent) of the total population making 93 women per every 100 men in the country in the same year. If we considered deposits, the proportion worked out to be much higher (Tables 6, 7). During the six-year period considered in Tables 6 and 7, there appeared to be a change towards reducing the gender gap but even then, women's access to basic banking facilities remained at disquietingly low levels.

**Table 6: Loan and deposit accounts per 10,000 persons, for women and men**

| Year | Loan accounts per 10,000 persons | | Deposit accounts per 10,000 persons | |
|---|---|---|---|---|
| | Women | Men | Women | Men |
| 2001 | 2<br>(11) | 19 | 2149<br>(37) | 5731 |
| 2007 | 21<br>(18) | 118 | 2123<br>(36) | 5858 |

**Notes :** 1. Figures in brackets indicate percentage share of accounts of women to those of men.
2. Loan accounts for women for 2007 includes individual loan accounts for women and loans accounts of SHGs.

**Source :** Basic Statistical Returns, various issues, <www.censusindia.net>.

**Table 7: Amount of credit and deposits per capita, for women and men**

| Year | Credit per capita | | Deposits per capita | |
|---|---|---|---|---|
| | Women | Men | Women | Men |
| 2001 | 625 (15) | 4290 | 3219 (30) | 10669 |
| 2007 | 1139 (20) | 5652 | 5310 (30) | 17721 |

**Notes :** 1. Figures in brackets indicate percentage share of amount of women to that of men.
2. Credit amount for women for 2007 includes individual credit to women and credit of SHGs.

**Source :** Basic Statistical Returns, various issues, <www.censusindia.net>.

## Section IV
## Access and Affordability of Micro Finance as Evident from Primary Data

The primary data are drawn from a field level survey conducted in 2006 in Kancheepuram district of Tamil Nadu by Centre for Micro Finance (CMF).[10] These data are collected through interviews of both SHGs and SHG beneficiaries in the district using structured schedules. These SHGs were promoted and nurtured by Hand-in-Hand, a non-Governmental organisation based on Tamil Nadu that has been working in the field of micro finance. There were 35 SHGs selected for the survey and three members from each SHG were interviewed making the total sample size of 105 members. The SHGs were randomly selected from the group of SHGs who were operational for five years or more in the district. The information on the operation of SHGs was taken from the loan registers maintained with Hand-in-Hand. Further, from each group, the animator or the group leader along with two members were randomly selected for interview.

*Certain general observations about the SHG members*

The sample of SHG members selected for the survey reveals the following points. First, the entire sample was of women SHG members. Secondly, about 56 per cent of the women interviewed reported a family income of less than Rs. 40,000 per annum making their monthly family income approximately Rs. 3,300. Thirdly, about 26 per cent of these women were housewives, but the rest 74 per cent were engaged in various occupations. The most important being agricultural labour followed by cultivation and then, weaving. Given that Kancheepuram district is known for its silk weaving business, weaving offered an important source of livelihood for these women (though that might not have been the main source of income for their families). Fourthly, about 77 per cent of these women belonged to landless category with no land owned by their respective families. Even those few families, which owned land, had land less than 2 acres making each of such families "marginal" landowners.

*Heavy reliance on informal sources of finance*

The sampled women members belonging to various SHGs in the studied region relied heavily on other informal sources of finance notwithstanding the fact that they were associated with the SHGs for over five years and in the micro finance parlance, were considered as matured members.

The informal sources, which the surveyed members drew upon, were primarily professional moneylenders (Table 8). There were also members that reported loans from relatives and friends, which as revealed by most primary level surveys, is an innocuous source of finance that is drawn on by any individual in times of need. These loans normally come interest free. However, the loans from moneylenders are loans taken often at heavy (explicit and implicit) rates of interest. Hence, for the present discussion, we mainly focus on loans from moneylenders.

**Table 8: Number of loans of SHG members, by sources other than SHGs**

| Source | Number of loans | Percentage of loans |
|---|---:|---:|
| Bank | 10 | 10.8 |
| Professional moneylenders | 39 | 41.9 |
| Relatives and friends | 25 | 26.9 |
| Other sources | 19 | 20.4 |
| **Total** | **93** | **100.0** |

**Source*:*** Primary data.

Juxtaposing the data provided by the All India Debt and Investment Survey (AIDIS) in 2003 for Tamil Nadu, we get a fairly similar picture of the predominance of informal sources in general, moneylenders in particular. We find that of the total number of rural households in the State, 68 per cent reported having taken at least one loan from informal sources and of these, 53 per cent reported at least one loan from professional moneylenders (Table 9). Further, only 14.4 per cent of the rural households in the State reported at least one loan from commercial banks. Evidently, there was greater dependence on informal sources, particularly moneylenders in Tamil Nadu than in India as a whole.

*High interest cost of micro finance*

The interest cost of micro finance was high as revealed by the survey and was in fact comparable to the rates charged by moneylenders. Over 75 per cent of the SHGs surveyed charged rates in the range of 24 to 36 per cent per annum (Table 10). These rates were almost double the rates charged by banks. The modal rate of interest charged

**Table 9: Percentage of households reporting at least one loan outstanding, by source**

| Source | Tamil Nadu | India |
|---|---|---|
| **Formal Sources** | **44.4** | **50.7** |
| Government | 1.9 | 3.0 |
| Cooperatives | 26.1 | 26.1 |
| Commercial banks | 14.4 | 21.5 |
| Other sources | 5.6 | 2.5 |
| **Informal Sources** | **68.0** | **58.3** |
| Landlord | 1.4 | 1.4 |
| Agricultural moneylender | 4.6 | 12.3 |
| Professional moneylender | 53.1 | 25.9 |
| Trader | 0.9 | 3.3 |
| Relatives and friends | 7.4 | 14.1 |
| Others | 4.3 | 3.9 |

**Note :** The figures may not add up to 100 as there are households that have taken loans from more than one source.

**Source :** NSSO (2006).

**Table 10: Distribution of SHGs, by rates of interest**

| Interest rate | Number of SHGs | Percentage of SHGs |
|---|---|---|
| 12.0 | 1 | 3.0 |
| 13.2 | 1 | 3.0 |
| 18.0 | 5 | 14.0 |
| 24.0 | 26 | 74.0 |
| 36.0 | 1 | 3.0 |
| Not reported | 1 | 3.0 |
| **Total** | **35** | **100.0** |

**Source:** Primary data.

by banks as revealed by the survey was 12 per cent per annum (Table 11). Interestingly, however, the rates of interest on SHG loans were fairly comparable to the rates charged by moneylenders in the study region; about one third of moneylenders' loans were in the range of 24 to 36 per cent (Table 12). Moneylenders in the region charged even higher rates of interest going up to 240 per cent per annum. Given the

**Table 11: Percentage distribution of loans by SHG members from banks, by interest rates**

| Interest rate equal to | Number of loans | Percentage of loans |
|---|---|---|
| 9.0 | 1 | 10.0 |
| 10.0 | 2 | 20.0 |
| 12.0 | 3 | 30.0 |
| Not reported | 4 | 40.0 |
| **Total** | **10** | **100.0** |

**Source:** Primary data.

**Table 12: Percentage distribution of loans by SHG members from moneylenders, by interest rates**

| Interest rate equal to | Number of loans | Percentage of loans |
|---|---|---|
| 24 | 1 | 2.6 |
| 36 | 13 | 33.3 |
| 60 | 3 | 7.7 |
| 120 | 13 | 33.3 |
| 144 | 3 | 7.7 |
| 240 | 2 | 5.1 |
| Not reported | 4 | 10.3 |
| **Total** | **39** | **100.0** |

**Source:** Primary data.

fact that most of the loans from SHGs were taken towards production related purposes (Table 13), we expect that any member borrowing from SHGs has to get a rate of return of over 24-36 per cent from her business venture in order to break even, which indeed is a high rate of return to be expected from the small business ventures that these women put their funds to.[11]

Again, we compare the data available from the AIDIS in this regard and find that 43 per cent of the rural households in the State reported at least one loan outstanding at rates higher than 30 per cent per annum (Table 14). This was in line with the observation made earlier regarding the dominance of informal sources of finance for households in the State.

*Movement of members out of SHGs*

Of the total number of SHGs surveyed, more than half of the SHGs (18 SHGs) reported dropouts of up to 3 members since the time of their formation (Table 15).[12] As against this, only 6 per cent of the SHGs (2 SHGs) reported an addition of members while about

**Table 13: Percentage distribution of loans from SHGs, by purpose**

| | Purpose | Share in amount | Share in number |
|---|---|---|---|
| 1 | **Directly income generating activities** | **52.0** | **28.0** |
| | 1.1 Agriculture | 12.0 | 5.0 |
| | 1.2 Livestock | 1.0 | 1.0 |
| | 1.3 Business/shop | 39.0 | 21.0 |
| | 1.3.1 Silk business | 14.0 | 6.0 |
| 2 | **Consumption related activities** | **44.0** | **70.0** |
| | 2.1 House construction | 0.3 | 0.3 |
| | 2.2 Education | 6.0 | 6.0 |
| | 2.3 Health | 36.0 | 61.0 |
| | 2.4 Ceremonial expenditure | 2.0 | 2.0 |
| | 2.5 Others | 0.05 | 0.04 |
| 3 | **Not reported** | **4.0** | **3.0** |
| | **Total** | **100** | **100** |

*Source*: Primary data.

**Table 14: Percentage distribution of households reporting at least one loan outstanding, by interest rate classes**

| Interest rate class | Tamil Nadu | India |
|---|---|---|
| 0 | 13.8 | 17.3 |
| 0 < rate ≤ 6 | 0.7 | 3.0 |
| 6 < rate ≤ 10 | 2.5 | 2.8 |
| 10 < rate ≤ 12 | 5.1 | 5.5 |
| 12 < rate ≤ 15 | 20.2 | 26.3 |
| 15 < rate ≤ 20 | 19.4 | 16.3 |
| 20 < rate ≤ 25 | 15.6 | 14.4 |
| 25 < rate ≤ 30 | 0.4 | 0.3 |
| 30 < rate | 43.2 | 26.8 |
| Not reported | 0.0 | 0.9 |
| **Total** | **100.0** | **100.0** |

**Note:** Interest rate classes are as given in NSSO (2006).
**Source:** NSSO (2006).

43 per cent of the SHGs (15 SHGs) had the same number of members since the time of their formation.

For the majority of the groups the dropout rate (number of dropouts as a per cent of the initial number of members) varied between 5 and 10 per cent (Table 16). The number of SHGs tended to fall as we moved towards higher dropout rate classes. When the information was collected from the SHGs to find the possible causes of dropouts, it was observed that most of these members exhibited irregular repayments of their loans. These members complained of an inability to repay their loans and subsequently were either asked

**Table 15: Number of SHGs classified by the dropout/ addition of members**

| SHGs | Number of SHGs | Percentage of SHGs |
|---|---|---|
| With dropouts | 18 | 51.4 |
| With no dropouts | 15 | 42.9 |
| With additions | 2 | 5.7 |
| **Total** | **35** | **100.0** |

**Source:** Primary data.

**Table 16: Number of SHGs with dropouts, by dropout rate**

| Dropout rate | Number | Percentage |
|---|---:|---:|
| 0 < rate ≤ 5 | 1 | 5.6 |
| 5 < rate ≤ 10 | 8 | 44.4 |
| 10 < rate ≤ 15 | 4 | 22.2 |
| 15 < rate ≤ 20 | 4 | 22.2 |
| 20< rate ≤ 25 | 1 | 5.6 |
| **Total** | **18** | **100.0** |

**Source:** Primary data.

to leave by the organisers or they dropped out. The inability to repay needs to be seen in the light of the earlier discussion on interest rates.

There were natural causes like death and other causes, such as migration or husband's/family's opposition for drop outs but they appeared relatively less important. Most (60 per cent) of the members who dropped out, kept their savings with the group, which were used to settle their loans.

## Section V
## Concluding Observations

This note was a preliminary attempt to understand the scale and spread of micro finance as an important tool of financial inclusion in India using secondary and primary level data.

Following are the major concluding observations from the exercise based on secondary data. First, micro finance *albeit* its expansion has remained a minuscule of bank credit in India. In 2007, that is a decade and half since its inception in the form of SHG-Bank linkage programme, credit to SHGs constituted less than one per cent of the total bank credit from scheduled commercial banks. Secondly, the data available for the last five years show that there has been a falling trend in the percentage share of bank credit to and loan accounts held by SHGs. Thirdly, there has been considerable regional disparity in terms of the spread of micro finance in India. The Southern region of India is way ahead of the other regions not just in terms of the absolute number of SHGs formed and the bank credit supplied to these SHGs but also in terms its coverage of poor persons residing in this region. A comparison with the number of poor persons is useful as micro finance is essentially a means of providing bank credit to the poor sections of the population. Given that the Southern region has been historically one of the well-developed regions in terms of banking infrastructure, this concentration of micro finance undoubtedly adds to regional disparity. Fourthly, as micro finance is primarily driven towards women, the coverage of women under the existing banking network can also be an indicator of the spread of micro finance. Though there are about 93 women per 100 men in India, there were only 21 loan accounts per 10,000 women as compared to 118 loan accounts per 10,000 men in the country. Further, on an average, the amount of bank credit outstanding per woman worked out to Rs. 20 for Rs. 100 outstanding per man. The disparity in terms of deposits was little less but it still reflected the wide gap that prevailed in the financial inclusion of women *vis-à-vis* men.

The major observations based on primary data collected from Kancheepuram district of Tamil Nadu from SHG members and SHGs (functional for over five years) are as follows. First, the surveyed SHG members relied heavily on informal sources of finance in general, moneylenders in particular, despite their longstanding association with their respective SHGs. The dependence on professional moneylenders of rural households in Tamil Nadu also came out from the data provided by the recent All India Debt and Investment Survey. Secondly, the rates of interest of SHG loans ranged between 24 and 36 per cent per annum, which was almost double the rate on bank credit reported by SHG members and fairly comparable to the rates of interest reported on moneylenders' loans. Thirdly, more than half of the surveyed SHGs reported dropouts of up to 3 members per group and the major reason for dropping out as reported by SHGs was the inability of the concerned members to repay on time and hence, either the members dropped out on their own or they were asked to leave by the organisers. Majority of these members, however, left their savings with the groups which were used to settle their loans.

To conclude, the findings of this study reflect the significantly limited scale and spread of micro finance in India. The continued dependence of women members belonging to mature SHGs on informal sources corroborates the point made earlier regarding the spread of micro finance. The high interest rates on SHG loans also points towards the affordability of micro finance for the poorer borrowers who in effect are expected to have a very high rate of return from their business ventures in order to just cover the interest cost. Hence, the observations made in this note reflect the considerable scope for micro finance to evolve as a means of financial inclusion that is accessible and affordable for the excluded groups/regions and that can help loosen the grip of informal sources of finance and bring the excluded sections permanently into the ambit of formal finance.

**Notes:**

[1] See Hulme and Mosley (1996) for a discussion on this issue.

[2] As regards Grameen Bank, it was originally sponsored by the central bank of Bangladesh and some state owned commercial banks and foreign donor institutions. It was subsequently made into an independent banking organisation through government legislation. For a major part from its inception, Grameen Bank relied on funds from foreign donors. However, since 1995, Grameen Bank claims to have become self-reliant and does not rely on foreign funds. See <www.grameen-info.org> for these details.

[3] See Jayaraman (2001).

[4] There are two other major variants of micro finance popular all over the world. In one of these, NGOs directly provide credit to SHGs. They may be seeking credit themselves either from banks or from foreign donor institutions. In the second one of these, banks themselves create and nurture and provide credit to SHGs. For discussion on some other types of variants, see Nanda (1994).

[5] The SHG-Bank linkage programme as a pilot project was started in 1992. However, we were able to get the required information only from 1994 onwards.

[6] For this comparison, we have used data from Basic Statistical Returns, which from 2002 has started capturing the finance given to SHGs and NGOs. It is noteworthy that in India, banks lend very little through NGOs as compared to their own loans to SHGs. We find that credit to NGOs formed only about 11 per cent of the total bank credit to SHGs and NGOs in 2007, see NABARD (2008).

[7] The Region-wise classification of Indian States is given in Appendix I. It follows from the NABARD publications.

[8] In the Southern region, it was Andhra Pradesh that topped the list in terms of the development of micro finance. The regional inequality in micro finance is a point that has been noted earlier in some studies; see for example, Chakrabarti (2005).

[9] As the number is cumulative, we assume here that all those SHGs were functional in 2005.

[10] The survey was conducted by Lucie Gadenne and Veena Vasudevan for CMF. A part of these data were made available to us for our study by the CMF. For various details regarding the survey, we have drawn on the original report by Gadenne and Vasudevan (2007).

[11] The question of what is an ideal rate of return for such small business ventures started with SHG loans is difficult to answer. We found some evidence regarding the rates that are expected by venture capitalists. Based on a sample of venture capitalists from across five countries, one study suggested that these capitalists require a rate of return between 36 and 45 per cent for early stages of investment and 26 and 30 per cent for later stages involving expansions, acquisitions, etc. (Manigart *et al*).

[12] It needs to be reiterated at this juncture that all the SHGs surveyed were functioning for more than 5 years.

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# Appendix 1

## Region-wise classification of States

| |
|---|
| **Northern region** |
| Haryana |
| Himachal Pradesh |
| Jammu and Kashmir |
| New Delhi |
| Punjab |
| Rajasthan |
| **North-Eastern region** |
| Arunachal Pradesh |
| Assam |
| Manipur |
| Meghalaya |
| Mizoram |
| Nagaland |
| Sikkim |
| Tripura |
| **Eastern region** |
| Andaman and Nicobar Islands |
| Bihar |
| Jharkhand |
| Orissa |
| West Bengal |
| **Central region** |
| Chhatisgarh |
| Madhya Pradesh |
| Uttar Pradesh |
| Uttarakhand |
| **Western region** |
| Goa |
| Gujarat |
| Maharashtra |
| **Southern region** |
| Andhra Pradesh |
| Karnataka |
| Kerala |
| Pondicherry |
| Tamil Nadu |
| **India** |