Project Dissertation

FINANCIAL INCLUSION THROUGH MICROFINANCE IN INDIA

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CERTIFICATE FROM THE INSTITUTE

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The information and data given in the report is authentic to the best of my knowledge.

This Report is not being submitted to any other University for award of any other Degree, Diploma and Fellowship

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On the very outset of this report, I would like to extend my sincere & heartfelt obligation towards all the personages who have helped me in this endeavor. Without their active guidance, help, cooperation & encouragement, I would not have made headway in the project.

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ABSTRACT

In the ongoing scenario, merely owning a bank account may not be a good indicator to judge financial inclusion. Thus, a concept named microfinance has been gaining importance to achieve the comprehensive objective of financial inclusion. Today, both international and Indian banks are having partnerships with MFIs in order to maximize their returns and also benefit from the relatively low default rate. Moreover, government is also in the process of using the tool of MFI/SHG-BLP for financial inclusion. Keeping this in view, the present study comprehends the role of microfinance in financial inclusion and go through the outreach and present regulatory framework of the microfinance institutions in India.

This study have been divided into four major parts, which are:

- The study of the various phases the microfinance sector of India experienced over the past decade and what are the characteristics of those phases.
- The AP crisis, which studies the major reasons behind it as well as the extent of impact it had on the microfinance sector of India.
- Jan Dhan Yojana, its objectives and its milestones that it achieved in the past one and a half years since its launch.
- The current outreach of microfinance in India, how successful it is in achieving full financial inclusion of the population of India and also the various challenges faced by the sector.

Over the past decade, the microfinace sector have experienced a roller coaster ride, as the period between 2006 to 2010, it experienced a high growth before it met with the biggest crisis in the history of microfinance. Currently, this sector have again gained momentum with the help of positive policies and regulations from the regulatory authorities towards strengthening the position of the poor people with the help of microfinance.

The AP crisis, which started in Andhra Pradesh after a regulation passed by the state government in October, 2010, disrupted the operations of the microfinance institutions to the core and led to a huge crisis which was arguably the worst crisis ever encountered by the sector in the whole world. As an impact to the crisis, various

small scale MFIs become bankrupt and many had to go through corporate debt restructuring in order to repay their obligations to banks.

On 28th August, 2014, PM Narendra Modi launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) with the aim to facilitate financial inclusion in India. Its main aim was to provide financial services and these services would be available to every citizen at a manageable distance. This scheme have achieved many milestones and have also created a world record for opening highest number of bank accounts in a week (from 23 to 29th August, 2014).

According to World Bank Global Findex, from 2011 to 2014, the percentage of population having a bank account has increased from 35% to 53%. However, only a mere 15% of these accounts are actually used to make or received payments. This shows that although the sector is moving in the right direction, still there are many challenges that it has to overcome in order to make the various efforts by the government truly successful.

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CHAPTER 1: INTRODUCTION

Financial inclusion is a topic that is quickly gaining momentum in India. Currently, the total financial inclusion is the milestone that this new government wants to achieve. The term Financial Inclusion (or inclusive financing) means “the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable”. Hence, financial inclusion, with the help of microfinance is believed to be path to reduce and remove poverty from the country.

According to International Labor Organization (ILO), “Microfinance is an economic development approach that involves providing financial services through institutions to low income clients”.

In India, Microfinance have been defined by “The National Microfinance Taskforce, 1999” as “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards”.

1.1 History Of Microfinance

Although the term microfinance is said to have evolved in the 1970’s, but the concept of providing financial services to low income people is much older. There were a number of credit groups that were operating globally, for example the ‘chit funds’ in India, ‘susus’ in Ghana, ‘pasanaku’ in Bolivia, ‘tonties’ in West Africa, as well as numerous savings clubs and burial societies found all over the world. Also, there were many credit and formal savings institutions that have long been working throughout the world.

While the emergence of informal financial structures in Nigeria dated back to 15th century, but they were mainly established in Europe from the 18th century due to enormous increase in poverty there after the end of European wars (1618 – 1648). The first loan fund that was founded by author Jonathan Swift in Ireland (in 1720) targeting the poor people. Then in 1823, due to a special law which allowed the charity institutions to become formal intermediaries and following that, a big boom was initiated. During the period from 1823 to 1843, financial services were provided to almost 20% of all Irish households. Also, in Germany, the credit cooperatives was created in 1847 by Friedrich Wilhelm Raiffeisen, which later served 1.4 million people. He stated that the main objective for these cooperatives "should be to control the use made of money for economic improvements, and to improve the morale physical values of people and also, their will to act by themselves."

During the 1880's, the British controlled government tried to use the German experience in South India to address the issue of poverty and it resulted in more than 9 million poor Indians belonging to the credit cooperatives by 1946. During the same time period, the Dutch colonial administrators also constructed cooperative rural banking system in Indonesia which was also based on Raiffeisen model which eventually became as Bank Rakyat Indonesia (BRI), now known as largest MFI in the world.

1.2 Growth Of Microfinance In India

In India, the origins of formal microfinance can be traced back to the early 1970's, when Gujarat's Self Employed Women's Association ("SEWA") formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the main objective of providing banking services to the poor women employed in the unorganised sector in Ahmadabad City, Gujarat. From there, microfinance sector went on to evolve in the 1980s mostly around the concept of SHGs as well as informal bodies that would provide with much-needed savings and credit services to their clients. From slow beginning, this sector has grown significantly over many years to become multi-billion dollar industry, having bodies such as the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development which are devoting significant financial resources to microfinance. Today, the reach of top five private sector MFIs have extended to more than 20 million clients in almost every state in India and many Indian MFIs have been recognized as global leaders in the industry. The microfinance in India have emerged as an effort to reach out to the un-banked and the lower segments of the population.

The evolution of microfinance in India have been described below in brief:

Table 1: Evolution of Microfinance in India

1960 to 1980	1990	2000
Phase 1 : Social Banking	**Phase 2 : Financial Systems approach**	**Phase 3 : Financial Inclusion**
Private commercial banks were nationalized	Peer pressure	SHGs and NGO – MFIs gaining more legitimacy
Expansion of rural branch network undertaken	Establishment of MFIs, mainly of non-profit origin	MFIs now emerging as strategic partners to diverse entities interested in the low-income segments
Subsidized credit extended		Consumer finance emerging as high growth area
Rural regional banks established		There is increased policy regulations
Establishment of apex institutions such as NABARD and SIDBI		Increasing commercialization

In the **phase 1**, in rural India, the credit delivery system was largely dominated by the cooperative system. This period between 1960 to 1990 is referred to "Social Banking" phase. This phase mainly includes the nationalization of private commercial banks, extension of subsidized credit, expansion of rural branch networks and the establishment of apex institutions such as the Regional Rural Banks (RBRs), the National Bank for Agriculture and Rural Development (NABARD) and the Small scale Industries Development Board of India (SIDBI).

India, in **phase 2**, witnessed the "Financial System Approach" of credit delivery. In this phase, NABARD initiated the Self Help Groups (SHGs) – a Bank Linkage program, which linked informal women's group to the formal banks. This concept greatly appealed to the Non-Government Organizations (NGOs) that were working with the poor, thus prompting many of them to collaborate with NABARD in the program. This period also witnessed the entry of Micro Finance Institutions (MFIs) (which were largely non-profit origins at that time), with existing development programs.

The **phase 3** in the development of Indian microfinance began in 2000, which marked further changes in policies, operating formats and stakeholder orientations in financial services space. This phase mainly emphasizes on "Financial Inclusion" and "Inclusive Growth". During this period, many NGO-MFIs transformed into regulated legal formats such as Non-Banking Finance Companies (NBFCs). In order to extend their reach in the rural markets, the commercial banks adopted innovative ways of partnering with NGO-MFIs as well as other rural organisations. This phase also saw MFIs emerge as strategic partners to individuals and entities interested in reaching out to India's low income client segments.

1.3 Microfinance Profile In India

The microfinance sector in India have gone through 3 broad risk phases in the last 5-6 years:

I. High growth phase (till 2010)
II. High volatility phase (2010-2011)
III. Consolidation phase (2011-2013)
IV. Now entering phase IV having relative stability

Phase I, ended with the start of AP crises in 2010, saw high growth in this sector attracting both equity and debt investments for a highly profitable segment. Some of the key credit constraints for this phase were lack of seasoning of portfolio, high risk of regulatory and political intervention and portfolio concentration risks.

Phase II began with AP (Andhra Pradesh) crises which led to bankruptcy of major AP based MFIs, due to geographical concentration and funding constraints for the overall sector.

In 2011, the RBI provide a strong regulatory regime, and the entered phase III of consolidation with MFIs adjusting their business model to the new market and the regulatory environment.

The sector is now entering into phase IV and the MFIs have adopted to the new business environment post the AP crises after more than 3 years. This phase is expected to witness a more stable regulatory environment, steady availability of funds, improved profitability with comfortable asset quality and capital adequacy and relatively lesser impact of concentration risk.

Specific reasons why there is an expectation to see a general improved environment are:

- Regulatory support due to recognised financial inclusion role – Support to the MFIs (large or small) has been at equitable terms looking at the larger goal of financial inclusion with RBI allowing margin cap at 12% for small and 10% for large MFIs.
- Continued efforts towards MFI bill to re-emphasize regulatory support – The government of India has introduced a draft MFI which is to be considered for approval in Parliament, indicating likelihood of a stable regulatory environment going forward.
- Improving funding environment – The total debt of the MFIs have increased from Rs. 6,661 crore in FY12 to Rs.11,001 crore in FY13. This sector has also been attracting regular equity infusion from private equity investors.
- Overall improvement in financial parameters – MFI's credit profile have shown improvement with improving profitability as stable margins were expected from FY14 onwards on account of removal of interest rate cap and control on operating expenses. The comfortable level achieved by overall gearing on account of equity infusion from the private equity investors post AP crises.

1.4 Activities In Microfinance

There are mainly four activities in microfinance, and they are:

- **Microcredit** – It is defined as a small amount of money that is loaned to a client by a bank or any other institutions. Microcredit is generally offered without collateral to an individual or through group lending.
- **Micro savings** – Micro savings are deposit services that allow an individual to save small amounts of money for future use. These savings accounts (often without minimum balance requirements) allow households to save in order to meet unexpected expenses and also plan for future expenses.
- **Micro insurance** – Micro insurance defines a system in which people, businesses and other organisations make payment to share risk. Access to insurance enables entrepreneurs to mitigate risks affecting property, health or

the ability to work and help them concentrate more on developing their businesses without any tensions.

- **Remittances** – Transfer of funds from people in one place to people in another, usually across borders to family and friends is known as remittance. Remittances are found to be relatively steady source of funds, compared to other sources of capital that can fluctuate depending upon the political or economic climate.

1.5 Key Players Of Microfinance System

National Bank for Agricultural and Rural Development (NABARD):

It is an apex institution, which is accredited with all the matters concerning policy, planning and operations in the fields of credit for agriculture and other economic activities in the rural areas of India. It was established in 1982 as a Development Bank for "providing and regulating credit and other facilities for the promotion and development agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto". The corporate mission set by NABARD envisages coverage of one-third of the rural poor through 1 million SHGs by the year 2006-07, in order to make available microfinance services to the very poor. In November 1998, a high-powered Task Force was set up by NABARD, with the objective to come up with suggestions for a regulatory framework that brings the operations of the microfinance institutions into main stream, to access the possible role of self-regulatory organizations and to explore the need for a separate legal framework for microfinance.

Some of the important functions that NABARD is entrusted with are:

- To provide refinance to lending institutions in the rural areas.
- To bring about and promote institutional development.
- To evaluate, monitor and inspect the client banks.
- To act as a coordinator in the operations of rural credit institutions etc.

Reserve Bank of India (RBI):

A Formal statement of monetary and credit policy of RBI had the earliest reference to micro credit, by former RBI president Dr. Bimal Jalan's Monetary and Credit Policy Statement of April 1999. The policy focused importance to the work of NABARD and public sector banks in the area of micro credit. The banks were also urged to make all efforts for provision of micro credit, especially forging linkages with SHGs, either on their own or by enlisting the support of NGOs.

Since, considerable work have been done by RBI in this sector. In 1994, RBI constituted a working group on SHGs. On the recommendation, SHGs would be reckoned as part of their lending to weaker sections and such lending would be reviewed by banks and also at the State Level Bankers committee (SLBC) level at regular intervals. Banks were also advised that SHGs, registered or unregistered, engaged in promoting saving, would be eligible to open savings bank account irrespective of them availing of credit facilities from bank.

The functions of RBI are divided into 3 heads:

I. Traditional Functions – These functions include monopoly of currency notes issue, agent and adviser to the government, banker to the bankers, clearing house of the country, controller of forex and credit, fight against economic crises and ensures stability of Indian economy etc.
II. Promotional Functions – Functions such as promotion of banking habit and expansion of banking systems, expansion of facilities for the provision of agricultural credit through NABARD, extension of facilities for small scale industries, helping cooperative sectors, innovation in the new banking business transactions etc.
III. Supervisory Functions – Functions include, granting license to banks, implements deposit insurance scheme, periodical review of the work by commercial banks, control non-banking finance corporations, ensure the health of financial system through on-site and off-site verification etc.

Self Help Groups (SHGs):

The concept of SHGs is the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. The SHGs were formed and started in 1975. The process of group formation and the establishment of SHGs can be traced to the existence of one or more problem areas around which the consciousness of rural poor is built. Especially for the women in villages, the SHGs are considered as new lease of life for their social and economic empowerment. Since SHGs have been able to mobilize savings from persons who were normally not expected to save anything and also to effectively recycle the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004).

Characteristics of SHGs:

- 10-20 member is the ideal size of an SHG.
- Registration of group is not required.
- Only 1 member from one family.
- Members to have same social and financial background.

Functions of SHGs:

- However small, but savings have to be regular and continuous habit among all the members.
- The savings to be used as loans to the members, with purpose, amount, rate of interest etc. to be decided by the group members.
- In every meeting, the members would discuss and try to find solutions to problems faced by them.

Micro Finance Institutions (MFIs):

MFIs can be a range of institutions in public as well as private sector that offers microfinance services in India. Based on asset size, MFIs can be divided into 3 categories:

- Within the last 5 years, 5-6 institutions have attracted commercial capital and scaled up dramatically. After 2000, these MFIs have converted into for-profit, regulated entities mostly Non-Banking Finance Companies (NBFCs).

- There are around 10-15 institutions with high growth rate, including boht News and recently form for-profit MFIs. Some of these MFIs are ESAF, Grameen Koota, Bandhan etc.
- Most of India’s 1000 MFIs and NGOs still struggling to achieve significant growth. In addition to microfinance, most of them continues to offer multiple development activities and have difficulty accessing growth trends.

Barring a few exceptions, most private MFIs in India are still fledging efforts and are unregulated. They secure microfinance clients of varying quality and use different operating models. When the sustainability of MFIs model as a banking enterprise for the poor is clearly established, only then the regulatory framework should be considered.

Non-Government Organisations (NGOs):

NGO is a legally constituted, non-governmental organization, created by natural or legal persons with no participation or representation by any government. In cases where NGOs are funded (fully or partially) by government, hey can maintain its non-governmental status by excluding government representatives from membership in the organization. “Non-governmental Organization” is a term in general use, but it is not a legal definition. In many jurisdictions, these types of organizations are referred as “civil society organizations” or some other names.

Objectives of NGOs:

- Promoting constructive communication and information collaborations between NGOs, to develop effective partnership with each other.
- Networking for the purpose to access, share and disseminate information.
- Develop electronic networking to strengthen community organizations by boosting its knowledge base and the ability to share information and experiences with strategic allies.
- To build capacity of grass root level NGOs through free online resources and information on a single platform.
- Serving NGOs, charities, grassroots and community groups, educational and research institutions.

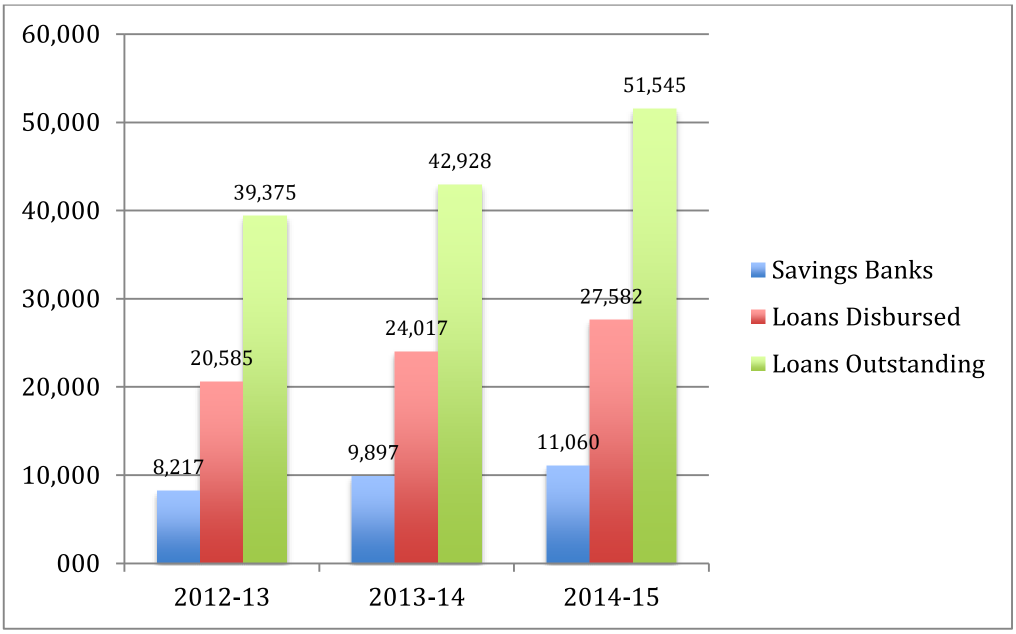
Functions of NGOs:

- To organise poor people into groups.
- Train and help them in the organizational, managerial and financial matters.
- To channelize group effort for various development activities.
- To help them in availing opportunities, widening the options available for economic development.

1.6 Microfinance Models

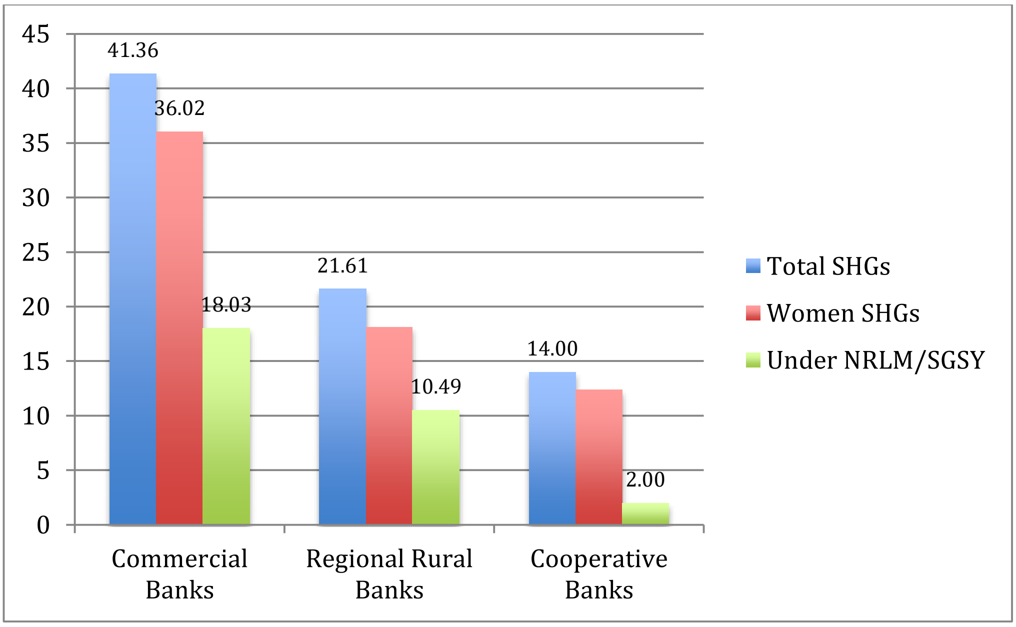
I. **SHG – Bank Linkage Programme** – Micro finance in India was majorly dependent on subsidies and the concept of providing finance to the people at exceedingly low rates of interest. It also inculcated a culture of increased tolerance for loan defaults, waivers and lax appraisals and monitoring of loans. In this backdrop, informal groups of people came into existence. These groups known as Self Help Groups (SHGs) were a way for people to come together in order to pool their savings and dispense small unsecured loans. NABARD recognized the potential of these groups and realized that they are constrained only due to the meagreness of their financial resources. In order to overcome this problem the concept of linking the groups to a bank was to overcome financial constraints was designed, popularly known as the SHG Bank Linkage programme. It was started as a pilot project in 1992 and has come a long way since then. As of March 2011, there were 7.4 million SHGs under this scheme covering over 10 crore households with savings balance of over Rs 70 billion (7000 crores). About 49 lakh of these SHGs have also accessed bank credit and have over Rs 31,000 crore as outstanding credit from the banking system. In other words, the SHG-BLP has so far been the most preferred and viable model for financial inclusion of the unreached poor.

Table 2: SHG-Bank Linkage Highlights (in Rs. crores)



Source: Status of Microfinance in India report, 2014-15, NABARD

Table 3: Agency-wise distribution of SHG savings (No. In lakhs)



Source: Status of Microfinance in India report, 2014-15, NABARD

II. **The Grameen Model** – Grameen Model was pioneered by Dr. Mohammed Yunus in the form of Grameen Bank of Bangladesh. It is amongst the most well-known and widely practiced model in the world. In this model, groups consisting of 5 borrowers each are formed voluntarily. These groups of five meet together weekly, with seven other groups, so that bank staff meets with forty clients at a time. The lending is made to 2 members of the group first, and other 3 people would get loan only when these first 2 members repay the loan. Hence, this collaborative pressure becomes collateral for the bank in this model.

III. **Joint Liability Group Model** – A Joint Liability Group (JLG) is an informal group comprising of 4 to 10 individuals coming together for the purposes of availing bank loan either singly or through group mechanism against mutual guarantee to the MFIs. The JLG members offers a joint undertaking to the bank that enables them to take loans. The members are expected to engage in similar economic activities like crop production and also they should be residing in the same region and should know and trust each other well enough.

IV. **Cooperative Model** – A cooperative is an organization owned by the members who use its services. This model works on the principle that every community has enough financial and human resources to manage their own financial needs and institution. Its members are one who owns it as well as use its services and can come from different sections of the same community such as agriculture, wholesale, retail etc. By proper networking, small scale local institutions can scale up and become sustainable while locals maintain the ownership and control over it. An example of successful cooperative running in India is Sahavikasa or Cooperative Development Foundation (CDF).

Apart from the above, there are another type called "Small Finance Bank" are gaining importance with the licenses provided by the government. These small finance banks provide basic banking services of collecting deposits and lending money. The purpose of these banks is to provide better services to regions and people with inadequate access to the financial system. Therefore, the banks focus on rural areas and / or micro and small businesses or small farmers.

1.7 Need For Microfinance In India

Even after 68 years of independence, India has still not managed to achieve financial inclusion for all its citizens. Hence, the policy makers have been pushing for reforms due to 3 pressing needs, which are:

- Creating a platform to inculcate the habit of saving – India is a type of economy with high savings rate. However, due to lack of proper banking facilities for many households, a large part of this savings does not find its way into the financial system of the country. Hence, a presence of comprehensive banking services and financial inclusion for all would help to bridge this gap and bring at least some portion of this money into the formal financial system of the country and help in capital formation.
- To provide formal credit avenues – Most of the population near the poverty line of the country have to depend on either family and friends or moneylenders for their credit needs. Hence, availability of proper banking facilities them to access easier, more transparent and substantially cheaper credit.
- Plug gaps and leaks in public subsidies and welfare programs – Until recently, most of the benefits provided by state to people were either done through subsidizing products or making cash payments, which left a huge scope for corrupt practices to develop. Hence, with the development of microfinance, these benefits can be provided through direct cash transfers into bank accounts. This would help in reducing subsidy bill and also provide relief only to the real beneficiaries. And all of these efforts will require an affordable, efficient and transparent banking system that have the capacity to reach out to all.

Hence, we can see that microfinance is the need of the hour. It is one of strongest tools available to fight poverty and uplift millions of Indians to a better standard of living. Since more than 10 million young Indians joins the workforce every year, microfinance can be of immense use to provide gainful employment to some of them. Financial inclusion and financial literacy can change the way rural India banks. Inclusive growth is possible only when all the parameters go hand in hand. Although, some projects like Jan Dhan Yojana etc. have given a boost to the rural economy but when the entire efforts of the corporates, banks and the government should be together geared towards development, only then will our India shine and it will rise as well.

1.8 Objectives Of The Study

The main objectives of this research are:

i. To study the various phases that the Indian microfinance sector have passed through over the last decade.
ii. The study the factors and impact of the major crisis occurred after 2010 (The AP crisis)
iii. The study the schemes government have implemented to achieve total financial inclusion (Jan Dhan Yojana)
iv. To study the current outreach of microfinance in India as well as the challenges faced by the sector.

CHAPTER 2: LITERATURE REVIEW

In this section, review of the existing literature on impact of microfinance have been conducted. Since, there are several studies that are conducted in this area in last couple of decades, hence I will first cover the most notifiable studies that are conducted worldwide and then those studies that are conducted to analyse microfinance and its activities in the various parts of India will be taken up.

Some of the important studies conducted worldwide over the past few decades are:

- **Mohammed Anisur Rehman (2007)** examined about the impact of microfinance on poor people on the society having the main focus on Bangladesh. Since the study was built through client's perspective (that is, the poor people, who borrowed loan from microfinance institutions), hence the objective of this study was to show how microfianace works, by using group lending methodology for reducing poverty and how it affects the living standard of the poor people in Bangladesh. The result found that microfinance had a positive impact on the standard of living of poor people and on their lifestyle. It also revealed that microfinance has not only helped the poor people to come above the poverty line, but also helped them to empower themselves.
- **Susy Cheston (2002)**, in her study, examined that microfinance has the potential to have a powerful impact on women's empowerment. Empowerment is a complex process that all individuals experience differently. Most women experience some degree of empowerment through microfinance even if it is not empowering for all women. Most women need, want and also profit from credit and other financial services. Strengthening women's financial and economic condition plays a vital role in empowering them. Hence, the microfinance product design and program planning should also take women's needs and assets into account. So, MFI's should design product, srevices and service delivery mechanisms that can mitigate the

negative impacts and enhance positive ones in order to strengthen the position of women in the society.

- **Chintamani Prasad Patnaik (2012)** examined that microfinance have seemed to generate a view that it could provide an answer to the major problems of rural financial market development. But he stated that microfinance is inadequate to address issues of rural financial market development, although the development of microfinance is invariably critical in improving access to finance for unserved and undeserved poor and low-income households and their enterprises. Although, it is envisaged that self-help groups play an important role, but still there is a need for structural orientation for groups to suit the requirements of new business. Under SHG framework, microcredit movement has to be viewed from a long-term perspective, which underlines the need for some deliberate policy implication in favour of assurance in terms of technology backup, product market and human resource development.
- **Eoin Wrenn (2005)** examined in his study that in order to enable people to move out of poverty, microfinance creates an access to productive capital for the poor, which together with human capital, addressed through social capital, and education and training, achieved through local organization building. The sense of dignity of a poor person is strengthened by providing material capital and this can help to empower the person to participate in the economy and society. Hulmeand Mosley (1996) stated that, "the impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation". However, it is seen that microfinance has had positive impacts, not just on clients, but also on their families and on the wider community, when it is implemented and managed carefully and when services are designed to meet the needs of the clients.
- **Reginald Indon (2007)** explained in his study that informal businesses represent a very large cross-section of economic enterprises operating in our country. These informal businesses may be classified into 2 categories:
  - The Livelihood/ survival type
  - The entrepreneurial/ growth-oriented type

Livelihood enterprises are those which generally shows very limited potential for growth in both income and employment generation. Although there are existing policies, programs and services that directly or indirectly cover the informal businesses through a variety of support programs, services and information (offered by different institutions), still these programs and support services fail to reach or remain inaccessible to informal business operators and owners. This is mainly borne out of and also perpetuated by lopsided economic policies and poor governance which inadvertently encumber informal businesses from accessing mainstream resources and services.

- **Jenniffer Meehan (2004)**, in her research, stated that microfinance would need to do three things simultaneously:
  - First, it would need to rapidly scale up home to high numbers of the world's poor, in key markets like India.
  - Second, in the above process, a clear priority is needed for philanthropic, quasi-commercial and commercial financing for business of MFIs targeting the poorest segments of the population, especially women.
  - Third, microfinance would also need to realise its possibility as a broad platform and movement, rather than simply an intervention and industry.

  The pioneering financings by leading, poverty-focused MFIs have shown this industry what is possible - large amounts of financing that leads to rapid expansion of financial services to new poor customers. The MFIs offer a model to others that have the potential to tap the financial markets. If these leading MFIs continue on their present course and also adopt some or all of the suggestions offered, then financial market interest, or more specifically, debt capital market interest, in leading and poverty focused MFIs are expected to grow.
- **P. Crabb (2008)** studied the relationship between success of microfinance institutions and the degree of economic freedom in their host country. The research suggests that the economic environment in which the institution operates is one of the important factor in the ability of the institution to reach the goal of making these microfinance institutions self-sustaining and thus furthering its mission of outreach to the poor. In the study, the sustainability of the micro-lending institutions was analysed using a large cross-section of

institutions and countries. The results obtained showed that microfinance institutions operate primarily in countries with a relatively low degree of overall economic freedom and also various economic policy factors were important to sustainability.

- **Muhammad Yunus (1998)** is one of the most notable figures to have worked on pioneering the concepts of microcredit and microfinance. He explained that the primary causes of poverty are neither lack of human capital nor lack of demand for labour. Lack of demand for labour is rather a symptom, and not the cause of poverty. Poverty is rather caused by our inadequate understanding of human capabilities and also by our failure to create frameworks, concepts, institutions as well as policies to support those capabilities. His main argument in the research was that economics as we know that may even be a hindrance (not only unhelpful) in getting the poor out of poverty.

  In 1977, Yunus founded Grameen Bank in Bangladesh, after working for 6 months to get a loan from the Janata Bank. He tried to convince people to seek out Grameen Bank for help (for microloans). He also described the process by which the Grameen Bank lends money. In the first project, Yunus chose a villager to be in charge of collecting the loan repayments (which were to be made in very small amounts). He also tried to explore those institutions that prolong poverty, and shared ideas for effective poverty alleviation institution for poverty alleviation in the future. Yunus also encouraged people to save some of their money in case of some emergencies, such as natural disasters, or to use this money for other opportunities.

- **Ernest Aryeetey (2005)** explained in his study that informal finance and microfinance suitable for financing growing small to medium size enterprises (SMEs) in Sub-Saharan Africa, by stating that:

  “First, I present the characteristics of informal finance, focusing on size, structure and scope of activities. Informal finance has not been very attractive for the private sector. Indeed, the informal sector has considerable experience and knowledge about dealing with small borrowers, but there are significant limitations to what it can lead to growing microbusinesses. Second, I discuss some recent trends in microfinance. While externally driven microfinance projects have surfaced in Africa, their performance relative to small business finance has not been as positive as in Asia and Latin America. Third, I introduce some possible steps toward a new reform agenda that will make informal and microfinance relevant to private sector development, including focusing on links among formal, semi-formal and informal finance and how these links can be developed."

Now, some of the notable studies analysing the microfinancing in India are:

- **Seibel and Parhusib (1990)**, in their study, mentioned that state interventions approach for expansion of credit coverage was based on the premise that rural micro entrepreneur are unable to organise themselves. They need subsidized credit to increase their income since they are too poor to serve.
- **Yaron (1994)**, in his study, found that microfinance is much more that microcredit, by stating " Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban and urban areas for enabling to raise their income levels and improve their living standards". The Self Help Group (SHG) promoters emphasize that the first building block of financial services is the mobilization of savings. Microfinance programs have also rapidly extended in the recent years, like, membership of Sa-Dhan (a leading association) have expanded from 43 to 96 community development. This study also revealed that results of microfinance outreach represents achievements that are far beyond any ambitious outcome, which could have been imagined only 15 years is a very short span of time.
- **Otero (1994)** analysed that financial intermediaries, providing services and generating domestic resources must have capacity to achieve excellent repayment and generate domestic resources in order to be successful. These intermediaries must have access to clients, and in order to do so, MFIs need to find ways to cut down on their administrative cost. This cost reduction can be achieved through simplified and decentralized loan application approval and collection processes.

- **Barry (1996)** viewed that MFIs must have the potential to attract more resources and services to the clients in order to become financially viable, self-sustaining and integral to the communities in which they operate. Data suggested that only about 2% of the suffering world and 500 million small entrepreneurs were estimated to have access to the financial sector, despite the focus of MFIs.
- **Benjamin and Piprek (1997)** traced a traditional approach in rural finance. Under this approach, the lack of market in rural areas, absence of moderate technology and prevalence of un-spurious money lenders in the rural areas were the key problem areas in rural financial market. The study have a considerable literature for monitoring the development of microfinance sector.
- **Singh (2001)** undertook a study in Uttar Pradesh, comparing the pre and post situations of women SHGs. During the study, he found that between pre and post SHG periods, the average value of assets were increased by 46% and the annual income per household also increased by 20%. Although, the borrowing for consumption purpose was also done during pre SHG, but in the post SHG situation, it was completely absent. One of the important benefit of SHGs was compulsory savings, even cutting the necessary expenditures. But the commercial banks usually links SHGs with loans.
- **NABARD (The National Bank for Agriculture and Rural Development) (2002)** conducted a study, covering 560 households from 223 SHGs in 11 states of India analysed that there has been a positive result in the living standard of SHG's members in case of asset ownership, saving and borrowing capacity and income generating activities and income levels. There was an increase in average value of asset including livestock and consumer durable has increased considerably. Also, housing condition of the people (from mud walls to thatched roofs to brick walls and tiled roofs) had improved. Almost all the members developed the habit of saving post SHG. The trend of consumption loan came down and the loan for income generating purpose increased considerably.
- **Pubazhendi (2002)** aimed to understand the process of micro financialization particularly at the spatial dimension and dynamics. The results highlighted that in order to enhance our understanding of complex process of current

regional development in India, spatial variation and changes in development of microfinancing sector can be helpful. A supplementary mechanism for providing credit report to the real people can be done by linking of formal credit investment to borrowers through group approach.

- **Sapovadia (2007)** explored that the typical microfinance clients were self-employed, household-based entrepreneurs with low income who didn't have access to formal financial institutions and also lacked business skills. Just in getting started, the micro entrepreneurs face many hurdles. They generally lack the necessary skills to manage financial aspect of their business and in many cases, they indulge in a particular business by default. Various micro enterprise development programs have helped micro entrepreneurs (who look for collateral security or are able to find such collateral needed to secure alone or those who have low credit), in achieving great success and growth. These programs have provided them with training, help in developing business plan, and assistance in building their business. The study revealed that successful micro entrepreneurs have contributed to society by creating wealth, economic assets and jobs.
- **Sinha (2007)** revealed that microfinance sector in India has seen a series of critical developments. To achieve scale and spread their operations well beyond their traditional operational areas, the MFIs have started to leverage the new found management expertise. The data from a sample of lending MFIs showed that they have recorded a high growth rate of about 80% per annum in terms of number of borrowers and around 40% per annum in terms of portfolio, reaching from 30,000 to 1 million clients each. It also revealed that expansion of MFIs have either been either to less developed areas of the country, like, Jharkhand, Rajasthan, Madhya Pradesh, Orissa, Assam etc. or to areas like Maharashtra that also have substantial number of low income families in some region even if their overall development indicators are not as low as those for other states.

  Sinha also revealed that SHGs were started by NGOs that generally had a broad anti-poverty agenda. In 2007, there was an increase of 31% over the cumulative number of SHGs ever linked and an increase of 11% over the number of new SHGs linked in 2006 for financing through SHGs.

- **Hans (2008)** analysed credit as one of the critical inputs for economic development. The timely availability of credit (in the right quantity and at affordable cost) goes a long way in contributing to the well-being of the people especially in the lower rungs of the society. The study revealed that as the number of loan accounts constituted only 13% of the adult population, the extent of exclusion from credit markets is much more. With credit coverage at 25% for southern region and as low as 7.7% and 9% in north eastern and central regions respectively, regional differences were significant. The microfinance revolution in western and southern India have received most attention, both in academic research as well as in media. SHARE, BASIX, PRADHAN, SEWA and MYRADA are some of the prominent MFIs. In particular, Andhra Pradesh had witnessed remarkable growth in microfinance and its success stories had been widely reported. But, in comparison, eastern India have not enjoyed the lime light in the stage of microfinance.

Some Other Studies on Microfinance:

Table 4: Brief Description of Various Microfinance Studies

Author	Study In Brief
Emerlson Moses	Microfinance emerged as a catalyst of rural development, especially in overpopulated country like India.
S. Sarumathi and Dr. K. Mohan	Microfinance bought more psychological and social empowerment than economic empowerment.
Devraja T.S.	Studied the India’s achievement of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy.
Manisha Raj	To incorporate the poor in the financial sector, Microfinance institutions have been proved a very important financial wing.
Rajesh and Ravi	The unethical and extortionist practices by MFIs led to a draconian measure in its home turf Andhra Pradesh halting the industry in its tracks.
K. Muralidhara Rao	Private MFIs in India, excluding a few exceptions, are still fledgling efforts and are therefore unregulated.
Jonathan Morduch and Stuart Rutherford	Microfinance movement is still striving to match the convenience and flexibility of informal sector, while adding reliability and the promise of continuity and in some countries it is already doing this on a significant scale.

2.1 Rationale of the Study

From the previous studies, it can be seen that most of these studies were either too aggregative or wherever disaggregation had been done, it had been done with reference with one or more aspect. Most of the studies had covered the institutional level microfinancing, so there is enough scope for research in this area. Keeping this in view, the present study/research has been undertaken to cover the microfinancing in India, to analyse its trends in India and also to study various factors (issues as well as success factors) of microfinance.

CHAPTER 3: RESEARCH METHODOLOGY

Research methodology is a framework for the study which is used as a guide for collecting and analysing the data. It defines a strategy specifying the approach used for gathering and analysing data, which also includes time and cost budget since most studies are done under these two constraints. The research methodology includes:

- An overall research design
- Sampling procedure
- Data collection method
- Analysis procedure

3.1 Research Technique Used

Descriptive Research:

In this project, descriptive research technique have been used. In descriptive research, description of state of affairs, as it exists, are presented. Hence, it has no control over the variables, it could only report what has happened or what is happening.

Descriptive research technique is concerned with describing the characteristics of particular individual or of the group. Here, a researcher must be able to define clearly what he/she wants to measure and must find adequate method for measuring it.

3.2 Data Collection Sources

According to the type of the problem to be studied, and also the type of research, the data to be collected can be primarily of 2 types:

- Primary Data – Primary data is that which is collected for the first time and thus happen to be original in character. There are various sources and methods to obtain primary data, such as, through surveys, through observation or direct communication with the respondent in one form or another, or through personal interviews.

- Secondary Data – The secondary data is the type of data which have been collected by someone else, and which have already been passed through statistical process. Hence a researcher using this type of data generally uses the secondary data already available to him/her (through magazines, books, articles, newspapers, publications, reports and websites etc.) from a different angle and conducts the research which have a unique angle as well as analysis.

This research have used the secondary data for case study analysis, where the data have been collected from various secondary sources such as:

- Internet – In this study, the main source of data is the internet. Various websites have been visited and data have been referenced from them, some examples being, www.indiamicrofinance.com, www.capital.ifmr.co.in, www.wikipedia.com etc.
- Newspapers – Some data have also been referenced from articles of various newspapers, such as, Indian Express, Economic Times and Times of India and so on.
- Journals – Many research papers related to the field of this project have been taken up and analysed from various journals such as the ISOR Journal of Economics and Finance (ISOR-JEF), articles from HBR etc.

Other than that, some of the other sources of secondary data such as various books on the topic of research or other related topics, magazine articles and reports from various different sources and companies working on microfinance in India and across the globe have also been referenced for the study.

CHAPTER 4: CASE STUDY ANALYSIS

4.1 Introduction To The Case

India's microfinance sector has experienced a roller coaster ride in the past decade. Form a promising growth before the crisis in 2010, to the biggest crisis microfinance have experienced, to bouncing back to become one of today's most important microfinance markets in the world. Hence, there are many lessons to be learned from the story of microfinance in India, since a number of regulators, politicians and practitioners have gone over their book in order to transform the financial sector of India. Therefore, we can see that the story of India highlights the importance of a sound regulation, working industry bodies with a support from an open-minded political system.

This case study research will be focussing on the major factors that led to the crisis in 2010 (the AP crisis), and the extent of impact it had on the region as well as the microfinance sector in India as a whole. Other than this, the study also focuses on some major steps taken towards microfinance and increase of financial inclusion across the socially and financially weaker sections of the country. Finally, this report will be discussing about the current status of financial inclusion in India, the outreach of microfinance among the diverse population of the country, as well as the major challenges faced by the microfinance sector in the country.

This study would be concluded by some of the major findings surfaced during the course of the research and some of the recommendations from my side in order to achieve the target of 100% financial inclusion, poverty alleviation and to strengthen the economic position of the country through the use of microfinance tools primarily.

4.2 Analysis Of The Case

According to the World Bank, in 2011, only 35% of the country's adult population had an account at any financial institution. By 2014, this percentage had increased to 53%, however, many of them never used those accounts. Today, financial inclusion is amongst the top priorities of India's government and the Reserve Bank of India, RBI.

During this period, from 2010 till today, the microfinance sector in India went through a series of phases that are explained in brief below:

- Phase I, ended with the start of AP crises in 2010, saw high growth in this sector attracting both equity and debt investments for a highly profitable segment. Some of the key credit constraints for this phase were lack of seasoning of portfolio, high risk of regulatory and political intervention and portfolio concentration risks.
- Phase II began with AP (Andhra Pradesh) crises which led to bankruptcy of major AP based MFIs, due to geographical concentration and funding constraints for the overall sector.
- In 2011, the RBI provide a strong regulatory regime, and the entered phase III of consolidation with MFIs adjusting their business model to the new market and the regulatory environment.
- The sector is now entering into phase IV and the MFIs have adopted to the new business environment post the AP crises after more than 3 years. This phase, backed by political agenda, is expected to witness a more stable regulatory environment, steady availability of funds, improved profitability with comfortable asset quality and capital adequacy and relatively lesser impact of concentration risk.

In addition to the above, there is increased attention from the political point of view to the sector when the RBI issued one of just two general banking licenses to Bandhan (a MFI focused on the rural population), which was a remarkable step considering that these were the first general banking licenses issued within a decade.

Therefore, we can see that a lot have changed in the past few years and it is still changing continuously. The story of microfinance in India is far from complete and definitely not free from challenges and uncertainties in going forward. Still, a long awaited political and regulatory banking to the microfinance sector have proven to be a road map to guide its next chapter.

The AP Crises:

One of the most devastating crisis in the field of microfinance in the whole world was the Andhra Pradesh (AP) crisis. In Andhra Pradesh, the microfinance sector was marred by a series of mishaps which occurred due to multiple lending, that resulted in over in-debts, defaults and ultimately suicides amongst borrowers.

The microfinance sector growth in India from the period 2006 to 2010 was more intensive in certain parts of the country (including AP) than the rest of the country and hence becoming saturated and more prone to high competition and aggressive lending.

The main reasons which led to this massive crisis in Andhra Pradesh were:

- High Debt – According to a study by CGAP, the average household debt in Andhra Pradesh was Rs. 65,000 which was almost 9 times higher than the national average of Rs. 7,700. Hence, higher the debt can lead to higher chances of default.
- High competition for clients – As stated earlier, there was high penetration of both SHGs and MFIs that led to a stiff competition for client outreach among them which ultimately led to over in-debts from multiple sources, more than the capacity of the client to pay back.
- High interest rates and unlawful collection mechanisms – Using coercive recovery practices to pressurize the clients to pay back the loan amounts. Also, some of these were charging a much higher rate of interest for loans and were somewhat unregulated.
- An ordinance passed by the Andhra Pradesh government – In October, 2010, the state government implement an ordinance in order to regulate MFIs operating in the state. According to this ordinance, no MFI was allowed to carry out its operations until they are registered with the government, which led to standstill of business and loss of precious time. Hence, major MFIs suffered due to wrongdoings of some.
- Negative attitude of local politicians – To worsen the condition of the microfinance sector in the state, the local politicians began advising and urging people to not pay back the loans at all. Hence, borrowers began to lose their discipline and default rate soared for the first time ever.

All the above factors lead to the huge crisis, now known as the AP crisis, which greatly impacted the microfinance sector in India, some of the major effects of that impact were:

- Funding constraints due to regulatory uncertainty – hence, the major impact was on the life of the borrowers, especially in Andhra Pradesh, because now they may face a hard time in getting access to credit from a formal financial institutions of the country.
- Adverse effect on several MFIs – Many MFIs had to undergo Corporate Debt Restructuring, in order to repay their obligations to banks. Many small MFIs (mainly operating only in Andhra Pradesh) were closed down.
- Impact throughout India – This crisis was not just constrained in Andhra Pradesh, but on MFIs throughout India, who were unable to raise funds from banks (their primary source of funds) for about 2 years after the crisis.

Considering such a huge impact of the AP crisis, the Government of India took some necessary and major steps to avoid such crisis to occur in future and also to revive the microfinance sector, like:

- Now, the NBFC-MFIs are regulated by RBI and they are not under the control of any state government. Hence, no rash decisions can be made by the state government which can undermine the future of the sector in the future.
- In 2011, after the crisis, a committee was set up (called the Malegam Committee), to investigate the activities of MFIs and bring out recommendations for the microfinance industry and also to bring about regulatory intervention in the industry.

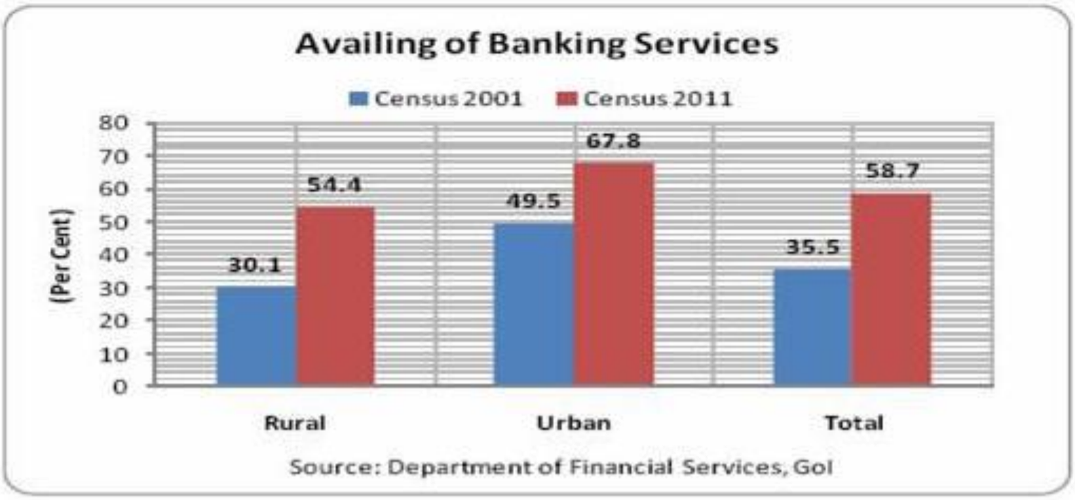
In addition to the above steps, the government continued to emphasize and re-emphasize on the importance of microfinance for financial inclusion and it has been the primary focus for the present government. They have shown significant work in this direction through various schemes, such as, Pradhan Mantri Jan Dhan Yojana, which is explained in detail in the next section.

Jan Dhan Yojana (August, 2014):

From its official site (www.pmjdy.gov.in), the Prandhan Mantri Jan Dhan Yojana (PMJDY) is defined as a "National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension and financial literacy in an affordable manner". As discussed earlier, financial inclusion is the term used for the availability and delivery of financial products and services to the whole population in a particular region at an affordable cost. Hence, the main challenge of any economy is the financial inclusion of people belonging to socially and economically weaker sections of the society and have little or no access to the country's financial system.

This scheme was launched on 28th August, 2014 (by PM Narendra Modi), with the aim to facilitate financial inclusion in India. The importance and reach of this scheme can be seen from the perspective that even after more than 6 decades of post economic independence era, only 0.46 lakh out of 5.92 lakh villages in the country had bank branches, more than 10 crore households (out of 25 crore households) did not have a bank account. Also, 44% households in rural areas and 33% in urban areas did not have a bank account.

Table 5: Availing of Banking Services



Looking at the above statistics, it is clear that almost half the population was not linked to the formal financial system of the country and they were depend on the sahukars and moneylenders in order to meet their financial needs.

This scheme was launched to primarily fulfil 6 mission mode objectives, which are:

I. **Universal access to banking facilities** – Universal access in such a manner that every habitation has access to banking service within a reasonable distance of about 5 km by 14th August, 2015 (barring few parts of J&K, Himanchal Pradesh, Uttarakhand, North East and Left Wing Extremism affected districts).

II. **Providing basic bank accounts with overdraft facility and RuPay debit card to all households** – Effort to cover all households by August, 2015, by opening basic bank accounts. Facility of overdraft to be provided to account holders satisfactory operations, having credit history of 6 months.

III. **Financial Literacy Programme** – Financial literacy in order to literate or create awareness so as to let the beneficiaries make best use of the financial services being made available to them.

IV. **Credit Guarantee Fund** – Creation of credit guarantee fund to cover the defaults in overdraft accounts.

V. **Micro Insurance** – To provide micro insurance by 14th August, 2018, to all willing and eligible persons.

VI. **Unorganized sector pension schemes** – Pension schemes to be made available by 14th August, 2018 and then on an ongoing basis.

Some of the milestones and achievements achieved by this scheme are:

- The target of opening 1 account per household was achieved by 26th January, 2015, excluding few areas in J&K and Left Wing Extremism affected areas.
- As on 28th August, 2015, more than 17.74 crore bank accounts have been opened under the scheme with the total deposit of more than Rs. 22,000 crore. Currently, it is Rs. 36,759.30 crore.
- Around 131012 Mega Financial Literacy camps have been organised by banks in coordination with various agencies 89876 Financial Literacy counters have been set up, to spread awareness on PMJDY, use of RuPay cards etc.
- More than 1 million accounts became available for overdraft facility, out of which 164962 account holders availed this overdraft facility.
- Also, zero balance accounts under this scheme have declined from 76% in September, 2014 to 45.74% on 22nd August, 2015 to 26.52% in April, 2016.

No. of accounts opened as on 20th April, 2016 under PMJDY are:

Table 6: No. Of Accounts Opened as on 20th April, 2016 under PMJDY

(All Figures in Crores)

S. No.		No. of Accounts			No. of RuPay Debit Cards	Balance in Accounts	% of Zero Balance Accounts
		Rural	Urban	Total			
	Public Sector Bank	9.50	7.49	16.99	14.37	28876.72	26.79
	Rural Regional Bank	3.29	0.54	3.83	2.66	6480.21	22.85
	Private Banks	0.49	0.31	0.80	0.75	1402.37	39.31
	Total	13.27	8.34	21.61	17.78	36759.3	26.52

Source : http://www.pmjdy.gov.in/account-statistics-country.aspx

As we can see from the above table, there have been a rapid growth in terms of financial inclusion and also the weaker sections of India Society have immense unrealized potential, and this scheme help to utilize the potential for the betterment of the poor people. This Jan Dhan Yojana gives a perfect example to show what the power of collective savings as well as the potential of the economically weaker sections of India is and what we can achieve through it.

Outreach of Microfinance In India:

Currently, the MFIs are operating in 28 States, 5 Union Territories and 561 districts of India. There is a variety of MFIs based on their sizes that are working in the country, from as small as ones which only operates in 1-2 states, to typically larger MFIs whose operations are spread across multiple number of states, which generally their size, scale and simultaneously mitigate concentration risk. Following is the list of top 10 MFIs operating in India:

Table 7: List of Top 10 MFIs Working in India

MFIs	No. of States
Ujjivan	24
Bandhan	22
SKS	19
Janalakshmi	17
Basix	15
Share Microfin	14

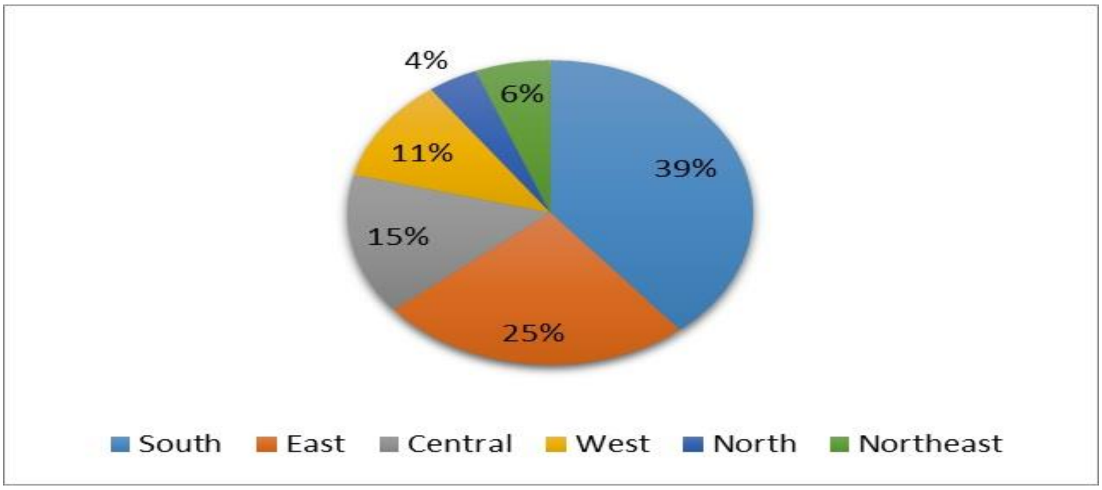
Spandana, Asmitha	12
NERFL Satin Creditcare	11

Source: The Bharat Microfinance Report, 2015

Another table the number of MFIs operating in various states and districts of the states in which MFI have presence is given in Annexure 2. The table also demonstrates the number of branches of micro finance institutions in various Indian States. It can be seen from the table that Madhya Pradesh and Maharashtra have the highest number of MFIs (37) working there, hence it shows higher concentration of services from these MFIs. Also, the highest number of branches (1740) have been set in West Bengal, which suggests that West Bengal might have higher percentage in terms of financial inclusion.

Regional Outreach of MFIs – The pie chart given below shows the regional breakup of the total cliental base of about 371 lakh people in India. According to it, the Southern area of the country have the highest client outreach, contributing to 39%, followed by 25% in the Eastern region. Northeast and the Northern region have the least outreach having 6% and 4% respectively.

Table 8: Regional Breakup of Client Outreach



Hence, as can be seen from the above data, more than 60% of the population still do not have a functional bank account. Furthermore, there is a huge disparity in the client outreach in terms of geographical diversity. Therefore, there is still a long way to go in order to achieve total financial inclusion in the country irrespective of the geographical location of the people of the country.

Challenges Faced by Microfinance Sector in India:

There can be no doubt that microfinance have made great impact on the lives of poor people, also helping in poverty eradication, but still, it has not managed to have a desired impact. It is because of several challenges, some of them are:

- **Financial Illiteracy** – One of the biggest challenge faced by this sector. Since the target clients of the MFIs and SHGs are the people who are either illiterate or have very basic level of education, it makes their work very difficult since most of these people are highly ignorant about the financial system.
- **Deepening of Outreach** – As stated earlier, the MFIs and SHGs have still not managed to reach the poorest of the poor people. Also, there is high disparity among people living in different regions of the country. Hence, higher effort have to make to provide financial services to such people.
- **Problem of Multiple Lending** – With increasing number of MFIs expanding their operations, there have been overlapping of membership and the potential over-indebtedness is beginning to emerge (as can be seen in AP crisis), especially in certain parts of the country.
- **High NPAs in the Sector** – The overall Non Performing Assets (NPAs) for the year 2014-15 is about 7.4%. Majority of these loans are utilized for consumption purposes, thus not generating any profit due to lack of economic activity which ultimately affects the repayment of these loans.

Table 9: Non-Performing Assets of SHGs (Amount in Rs. crore)

Year	NPA loans to all SHGs		NPAs against NRLM/SGSY		NPAs against other than NRLM/SGSY	
	Amount of Gross NPAs	NPA %	Amount of Gross NPAs	NPA %	Amount of Gross NPAs	NPA %
2012-13	2786.90	7.08	859.70	9.39	1927.20	6.38
2013-14	2932.90	6.83	975.20	9.58	1957.50	5.98
2014-15	3814.70	7.40	1720.92	8.71	2093.70	6.58

Source: Status of Microfinance in India report, 2014-15, NABARD

- **Dropouts and Migration of Group Members** – The concept of microfinance loan disbursement is based on group lending technique, where the entire group is responsible for loan taken by one of its members. Hence, these two problem becomes a major cause for concern which affects the continuity of the group and diminishes its record.

4.3 Findings And Recommendations

Findings:

Some of the important findings of this research are:

- **Microfinance for women** – According to an article in "The Indian Express" (on 8th March, 2016), women account for 99% microfinance borrowers in India. Also, according to a report on the SHG-Bank Linkage Programme, 2014-15 by NABARD:

Table 10: SHG-BLP Highlights, 2014-15

S.No.	Particulars	Achievements	
		Physical (No. in Lakh)	Financial (Rs. Crore)
1	**Total number of SHGs saving linked with banks**	76.97	11059.86
i)	Out of total SHGs - exclusive Women SHGs	66.52	9264.33
2	**Total number of SHGs credit linked during 2014-15**	16.26	27582.31
i)	Out of total SHGs - exclusive Women SHGs	14.48	24419.75
3	**Total number of SHGs having loans outstanding as on 31 March 2015**	44.68	51545.46
i)	Out of total SHGs - exclusive Women SHGs	38.58	45901.95

Source: Status of Microfinance in India, 2014-15, NABARD

It tells that more than 90% of the clients are in fact women, hence we can safety say that microfinance many opportunities to the traditionally disadvantaged sections of women.

- **Success of SHG-BLP model** – The SHG-BLP programme in India is the world's largest microfinance programme by a huge margin. It also is the largest coordinated financial inclusion programme. This saving led model is a successful tool which has covered almost 10 crore households in the country. It is also important to note that women constitute a huge part of the program since 86% of the groups are exclusively women groups. The important USPs of the model are making other stake holders as partners, developing savings habit, smoothening the systems for financial inclusion and meeting the financial deficits of the poor household (emergent as well as entrepreneurial needs).

- **Usage of microfinance loans** – The loans are generally used for income generation purposes supporting borrower's self-employment. These can include working capital for small business, purchase of productive asset like tractors, milch animals etc., paying an existing high-cost debt from informal sources, or paying children's school fees. Loans for consumption purposes like spending on festivals and weddings are discouraged. As per RBI's Guidelines, the NBFC-MFIs cannot extend more than 30% of their portfolio for non-income generating activities.
- **Microfinance as tool for poverty alleviation** – It provides an alternative and to informal sources of borrowing and in some cases a replacement to high-cost debt and hence, help borrowers to earn more out of their existing business activities, which can be helpful to improve the economic conditions of the borrowers and their families.
- **Financial inclusion in backward districts** – MFIs in India have a total client base of more than 30 million borrowers, which is the largest outreach to microfinance borrowers across the globe. However, almost 460 million people don't have formal savings account and 650 million people don't have any formal source of borrowing. Hence, although microfinance have come a long way in its efforts but there is still a long way to go in achieving a desired level of financial inclusion in the backward regions of the country.
- **Banking licenses in 2014 and 2015** – In 2014, one out of just two general banking licenses was awarded to Bandhan, a MFI focused on rural population. Again, in 2015, 8 out of 10 small finance bank licenses were also given to various MFIs. Hence, this shows the positive attitude of the authorities towards the upliftment of this sector.
- **Microfinance IPOs** – MFIs like Esaf Microfinance, Equitas, Suryoday Microfinance and Ujjivan Financial Services are looking to offer shares to the public through IPOs and their issues could hit the markets within the next 6 months.

Recommendations:

- **Forming Regulations** – With new government policies, the sector is expected to grow at a higher pace, hence proper regulations are needed to protect the interest of the stake holders and promote stable growth.
- **Enhancing bargaining power through transparent pricing** – We should adapt a practice for charging interest which is transparent and open so that the buyer gets to understand the different products and services and make a comparative choice.
- **Using Technology to reduce operational cost** – Use of common softwares like MIS and other software technology to reduce operational costs for micro financing.
- **Women-centric financial products** – Since, more than 90% of microfinance clients are women, hence the financial products should be designed in such a way that in should be more women centric to cater the needs of them more specifically.
- **Reach to rural population** – New branches of MFIs must be opened in the interiors of rural India, so that they can achieve greater financial inclusion in the country.
- **Encouraging financial literacy** – Financial literacy campaigns should be among the top priorities of the MFIs, they can also include them as their Corporate Social Responsibility programs which should go beyond the beneficiary learning to put in her/his signature.
- **Offering a complete range of products and services** – MFIs should provide a complete range of financial services such as credits, savings, financial advice, remittance and also non-financial services such as training and support to become a one-stop shop for the clients.
- **Monitoring of services** - The quality of the services provided must be monitored and supervised.

4.4 Limitations Of The Study

Some of the major limitations that were encountered during the course of the research were:

- **Secondary Data** – Since the research is largely based on the secondary data, hence all the limitations of the same consequently apply in some degree, like lack of verification of data etc.
- **Resource Constraint** – Since only secondary data is considered, availability of the data in a particular dimension was sometimes hard to find and in some cases, not available at all.
- **Wide Area of Study** – The area taken for the study was very wide. Hence, limitations due to lack of expertise knowledge and skills was also present in the study.
- **Time Constraint** – Shortage of time becomes a very big constraint considering the topic chosen for the study is quite to study properly.
- **Lack of Availability of Direct Source of Information** – Most of the information collected is from indirect sources and in some cases information data was not available.
- **Future Analysis** – Since the whole study is based on the historical data, hence the usefulness of this study analysis and prediction of the future can be very limited.

Although there are various limitations to the research, still this research gives a strong insight into the microfinance sector of the country and how it have evolved over the years, which can help the future researches and policy makers to understand the Indian market and economy more properly and also help them to shape the future of microfinance according to the needs of the people.

4.5 Conclusion

By looking into the various findings from this research, it is safe to say that providing financial inclusion (through microfinance) have a good shot in improving the condition of the people who are socially, financially and economically weaker and who are either below the poverty line of India or just above it (but still their condition is very grave), but there is still a long road ahead in order to achieve this seemingly very difficult goal.

The Government of India and other regulating authorities have also started to realize the importance of microfinance. By granting eight out of 10 Small Finance Bank licenses to MFIs (in 2015), the Reserve Bank of India (RBI) has shown faith in what microfinance can achieve for financial inclusion. This is a big responsibility and opportunity for the sector. However, the main work is not done yet. The recipients of these licenses have about 18 months' time in order to prove their ability to comply with the increased requirements for banking operations and become fully operational as a financial bank.

On the other hand, it has been seen that although maximum number of microfinance institutions have been set up in Madhya Pradesh and Maharashtra district, but the maximum number of branches have been set up in the West Bengal district. Thus, it can be inferred that the government is taking a number of steps to imprint and rear up the presence of micro finance institutions and their branches in different states and their respective districts in India. This will also help the government to use SHG Bank Linkage Programme as an effective tool for linking the unbanked population to the banks in every state and district. In whole, it can be said that, indeed microfinance has been proving and can become a perfect tool for financial inclusion in India.

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CHAPTER 6: ANNEXURE

No. of MFIs in Indian States/UTs and No. of Districts with MFI Operation:

Table 11: (Annuxure-1) No. Of MFIs in Indian States/ UTs and Districts

States/ UTs	No. of MFIs operating in the state	No. of districts of state where MFIs operate	No. of Branches in the state
Andaman	1	1	1
Andhra Pradesh	10	23	776
Arunachal Pradesh	3	7	11
Assam	19	24	552
Bihar	28	38	915
Chandigarh	1	1	3
Chhattisgarh	17	16	248
Dadra and Nagar Haveli	1	1	1
Delhi	13	7	70
Goa	3	2	7
Gujarat	22	23	386
Haryana	13	19	129
Himachal Pradesh	4	4	6
Jammu & Kashmir	1	1	1
Jharkhand	19	23	231
Karnataka	29	30	1016
Kerala	13	14	220
Madhya Pradesh	37	40	870
Maharashtra	37	35	980
Manipur	8	9	45
Meghalaya	7	6	26
Mizoram	4	8	34
Nagaland	2	4	2
Odisha	26	30	742
Pondicherry	11	3	17
Punjab	7	17	93
Rajasthan	21	33	287
Sikkim	3	3	10
Tamil Nadu	34	32	1377
Tripura	6	6	99
Uttar Pradesh	23	70	1063
Uttrakhand	13	10	95
West Bengal	25	20	1740
Total		561	11687

Source: The Bharat Microfinance Report, 2015