

Assessing Development Impact of Micro Finance Programmes



Findings and Policy Implications from a
National Study of Indian Micro Finance Sector



*Study commissioned by SIDBI and funded
under collaboration with DFID, UK*



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*Study conducted by
Agricultural Finance Corporation Limited*





Preface

In recent years, micro finance has gained growing recognition as an effective tool in improving the quality of life and living standards of very poor people. This recognition has given rise to a movement that now has a global outreach and has penetrated in the remote rural areas, besides slums and towns.

Micro Finance programmes extend small loans to poor people for their varied needs such as consumption, shelter, income generation and self-employment, etc. In some cases, micro finance programmes offer a combination of several services to their clients, in addition to credit. These include linkages with savings and insurance avenues, skill development training and marketing network. Micro credit programmes, thus, assume significance since they facilitate poverty reduction through promotion of sustainable livelihoods and bring about women empowerment through social and collective action at the grassroots. In addition, micro finance interventions lead to increased social interaction for poor women within their households and in the community, besides, greater mobility that increases their self-worth and self-assertion in the social circle.

In India, the micro finance movement has almost assumed the shape of an industry, embracing thousands of NGOs/MFIs, community-based self-help groups and their federations, co-operatives in their varied forms, credit unions, public and private banks. During the last decade, the sector has witnessed a sharp growth with the emergence of a number of Micro Finance Institutions (MFIs) that are providing financial and non-financial support to the poor in an effort to lift them out of poverty. The MFI channel of credit delivery, coupled with the national level programme of SHG-Bank Linkage, today, reaches out to millions of poor across the country.

In view of its large-scale intervention in the micro finance sector, SIDBI had, in 2001, commissioned an Impact Assessment Study of its micro finance programme vis-à-vis objectively verifiable socio-economic indicators. The seven-year longitudinal study was conducted in two stages during the period 2001-2007 by independent research agencies with a view to assessing the impact of its micro credit programme on the ultimate beneficiaries/clients and improving the practices by understanding the process of MFI intervention.

This document presents the main findings of the Longitudinal Study pertaining to 4510 households comprising 3253 client households and 1257 non-client households of 25 MFIs. The study highlights the benefits received by the client households from their association with micro finance, in terms of expansion and diversification of livelihood activities, growth in employment opportunities, income growth, asset-acquisition, savings, access to loans from various sources, reduction in vulnerability and enhancement of women empowerment. A Clients' Retrospective, based on in-depth interviews, gives a holistic picture of the changes brought about in their lives, as a result of the assistance.

The study has brought out that there is vast unfulfilled demand for micro finance in India, and the MFI sector has immense potential and scope to grow, supplement and complement the SHG-Bank Linkage Programme.

Micro Finance movement in India is making rapid strides and has raised high expectations in the country about the role that it can play in poverty reduction and women empowerment. This study showcases the significant contribution of the MFIs to a fairly large cross-section of clients, which would be of great help to the policy makers as well as the general public, to understand and appreciate the role that the MFIs can play, in ameliorating the lot of the poor and the underserved.

There are, however, certain areas of concern that need to be addressed by the combined efforts of all the stakeholders. Absence of a proper regulatory framework and supervision mechanism for the sector is a major hindrance in the orderly growth of the sector. We hope that the proposed Micro Finance Bill would be enacted soon, so as to provide a legal framework and direction to the sector. Other concerns like transaction cost of MFIs, transparency in dealing with poor clients, effective cost of credit to clients etc. need to be attended to. The challenge also lies in developing support systems for the sector in terms of building a pool of qualified professionals, introducing corporate governance in line with the best practices and promoting innovations in use of technology in delivering credit to the clients.

Being a longitudinal study, it was a comprehensive assignment that involved tracking of clients and non-clients over a period of seven years. We would like to take this opportunity to express our sincere gratitude to all the MFIs who participated in the study and extended full support to the research agencies. We would also like to place on record our sincere appreciation for the research teams, both at EDA Rural Systems Pvt. Ltd., Gurgaon (for Baseline study) and Agricultural Finance Corporation Ltd., Mumbai (for Endline study), that conducted the field-level surveys and data analysis to put together the findings in a comprehensive and lucid manner. Our special thanks are due to the members of the Technical Advisory Committees for their valuable guidance and suggestions for making the study meaningful.

We would also like to extend our sincere thanks to the Department for International Development (DFID), UK that funded the study and also to International Fund for Agricultural Development (IFAD), Rome for providing their valuable inputs on the study from time to time, besides providing substantial support in the form of capacity building grant and concessional loan which has contributed towards the exponential growth of the micro finance sector in India.

SIDBI is keen to carry forward the study and would welcome comments and feedback from the readers.

September 2008

Lucknow

Small Industries Development Bank of India

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Introduction

Small Industries Development Bank of India (SIDBI), the apex financial institution for promotion, financing and development of Micro, Small and Medium Enterprises (MSMEs) in India, launched its Micro Credit Scheme on a pilot basis, in 1994. On the basis of a review of the scheme in 1999, SIDBI started the National Micro Finance Support Project (NMFSP) with the main objective of developing a more formal, extensive and effective Micro Finance sector on a national scale, serving the poor, especially women. The programme is designed to address the lack of access to financial services for the poor. The project is being implemented by SIDBI Foundation for Micro Credit (SFMC), a department of SIDBI, in collaboration with the Department for International Development (DFID), UK and the International Fund for Agricultural Development (IFAD), Rome.

Research Design

SIDBI commissioned a seven-year impact assessment study in 2001 in order to assess, on a national scale, the development impact of MFI programmes in relation to different product designs and delivery systems in various parts of the country. Keeping in view the anticipated socio-economic impact of its micro finance programme, the two stage longitudinal socio-economic research was commissioned, through independent agencies, to assess the impact at the beneficiary level. The impact assessment comprised two stages as stated below:

Stage-I¹ of the Impact Assessment Study covered, besides pre-testing of research design, the study of 20 Micro Finance Institutions (MFIs) and conduct of the Baseline Survey (BLS) of 5,327 sample households (3908 clients and 1419 non-clients) during 2001-2004.

Stage-II² of the study, a continuation of Stage-I, was completed during 2004-2007 in four phases.

Phase-I, the baseline survey of 5 new MFIs covering a sample of 1365 households (clients and non-clients) was conducted.

Phase-II, the Endline Survey (ELS) was conducted for 10 out of the 20 MFIs covered in the baseline survey (Stage-I).

Phase-III covered the Endline survey of the remaining 10 MFIs of Stage-I.

Phase-IV involved the endline survey of the 5 MFIs that were profiled in Phase-I.

With a view to assessing the impact i.e., resultant change associated with the involvement in the micro finance programme, the endline survey had a two-pronged objective:

- **Document the impact** of micro finance services at the end user level, dealing with issues of attribution as objectively as possible; and
- **Improve practices** by understanding the process of MFI intervention and their impact at the end user level.

The results of the endline survey of the longitudinal study pertaining to all 25 MFIs in comparison to findings of the baseline survey are presented in this document.

Research Questions

The primary objective of the study was to find out how far the stated targeted goal of the NMFSP i.e., “Substantial poverty elimination and reduced vulnerability in India amongst users of micro finance

The primary objective of the study was to find out how far the stated targeted goal of the NMFSP i.e., “Substantial poverty elimination and reduced vulnerability in India amongst users of micro finance services, especially women” was achieved



¹Conducted by EDA Rural Systems Pvt Ltd, Gurgaon

²Conducted by Agricultural Finance Corporation Limited, Mumbai

services, especially women” was achieved. The key research questions addressed during the study include:

- Who is being served through micro finance?
- Does micro finance lead to poverty alleviation?
- Does micro finance contribute to enterprise growth and income?
- How does it affect rural women, particularly regarding empowerment?
- What effect does it have on other systems or sources of finance – both formal (local banks) and informal (moneylenders)?
- Which products and services of MFIs are found more effective in reaching the poor and responding to their financial needs?

These basic questions were translated into hypothesis linking input variables (MFI services) and moderating variables (client characteristics, programme characteristics and others) to ascertain the impact on households belonging to different socio-economic strata of the society.

Major impact assessment indicators covered in the study are given in the **Annexure**.

The traceable sample of the same client and non-client population and sample dropouts, subject to attrition, was covered during the endline survey for interview through structured questionnaires

Sampling Design

A Multi-stage sampling design with cluster based sampling was used. Selection of SIDBI's 25 partner MFIs was based on their geographical location, rural/urban presence and credit delivery models. Under each MFI, about 2-6 clusters with at least 30 client households per cluster were selected in a systematic manner, ensuring coverage of at least 200 client households per MFI during the baseline survey. Non-clients, about one-third of total clients, were selected from the same cluster, matching the sample clients in each wealth rank. The sample was spread across 111 clusters (92 rural and 19 urban) in 41 districts of 10 states.

The **endline survey** was designed to cover the same respondents, both clients and non-clients, who had been covered in the baseline survey, with the expected attrition rate of 25 per cent. However, during the endline survey, for all 25 MFIs taken together, the attrition rate worked out to 34 per cent in case of client households and 29 per cent for non-client households. The factors responsible for attrition were: (i) **client specific**: migration, change of job of spouses, shift of residence, marriage, inability to save; (ii) **MFI specific**: problems in loan recovery, organisational constraints, disagreement with group leaders/members, shifting of SHGs to banks. Keeping in view the fairly large size of re-surveyed sample and technical rigour of longitudinal design of research, the data relating to the baseline survey respondents who had been covered in the endline survey has been primarily considered for the longitudinal study.



The traceable sample of the same client and non-client population and sample dropouts, subject to attrition, was covered during the endline survey for interview through structured questionnaires. Besides, 20 per cent of sub-sample (972 households) of clients and non-clients was interviewed in detail to seek information on socio-economic indicators viz. household income, diet, food storage, illness and migration. In addition, a sub-sample of 5 per cent of clients (259 households) were covered for an in-depth study to have the client's own view of the socio-

Table 1: Coverage of sample in the endline survey

Model	Study States*	Study Districts (No.)	Sample MFIs (No.)	Number of Sample Households				
				Client	Non-client	Dropout	Sub-sample	In-depth Study
SHG	TN, AP, KTK, UP, RAJ	17	11	1506	591	155	436	116
Grameen	AP, TN, WB, ASM, UP, OSA	14	8	1037	396	138	322	96
Individual Banking	AP, WB, MAN, RAJ	9	5	574	228	115	177	37
Sector Specific	KER & TN	1	1	136	42	6	37	10
Total	10	41	25	3253	1257	414	972	259

*AP-Andhra Pradesh, ASM-Assam, KTK-Karnataka, KER-Kerala, MAN-Manipur, OSA-Orissa, RAJ-Rajasthan, TN-Tamil Nadu, UP-Uttar Pradesh, WB-West Bengal.

economic changes that took place since association with the MFI. The sample coverage in the endline survey are summarised in Table 1.

Data Collection Tools

The study combined the application of both quantitative and qualitative tools including questionnaire on different indicators addressed to beneficiaries and other stakeholders. Qualitative information was collected through Focus Group Discussions (FGDs), Case Studies and Semi-structured interviews to understand the situations that people face, how they use and perceive micro finance.

Poverty Assessment

Poverty assessment was the basic requirement for undertaking analysis of the outreach of the micro finance programme and variations in its impact on different poverty groups. A combination of Participatory Wealth Ranking (PWR) and Household Index-based Ranking (IBR) was used to arrive at Household Wealth Rank. While PWR reflects local perceptions of community, IBR enables standardised ranking relative to local conditions and indicators relating to employment status, housing status, household and transport assets. The indicators for wealth rank categories are given in Box 1.

A combination of Participatory Wealth Ranking (PWR) and Household Index-based Ranking (IBR) was used to arrive at Household Wealth Rank

Box 1: Indicators for different wealth rank categories

Indicator	Very Poor	Poor	Borderline	Self-sufficient	Surplus
Housing	Homeless, or small kutcha/thatched houses	Small houses, kutcha, or semi-pucca	Medium size houses, semi-pucca or pucca	Medium-large Mixed type of houses	Large pucca houses
Assets	No land, 1-2 goats, basic utensils	Marginal land (<1 acre), few milch animals, fan/radio, bicycle	Small lands (1-5 acres), 1-2 milch/draught animals, fan/radio, B&W TV, bicycle, some furniture, old two wheeler	Large land (5-10 acres), 1-2 milch/draught animals, well/tube-well, B&W TV, telephone, fridge, motorcycle	Large land (> 10 acres), more than 2 milch/draught animals, wells, lorry/tractors, colour TV, telephone, fridge, motorcycle, car
Employment	Low paid casual wage labour, single earner	Regular casual wage labour, one-two earners	Skilled wage labour/seasonal business/low paid salaried job	Adequate income source, small agriculture, small regular business, medium paid job	Assured income source, commercial agriculture, established business, high paid job

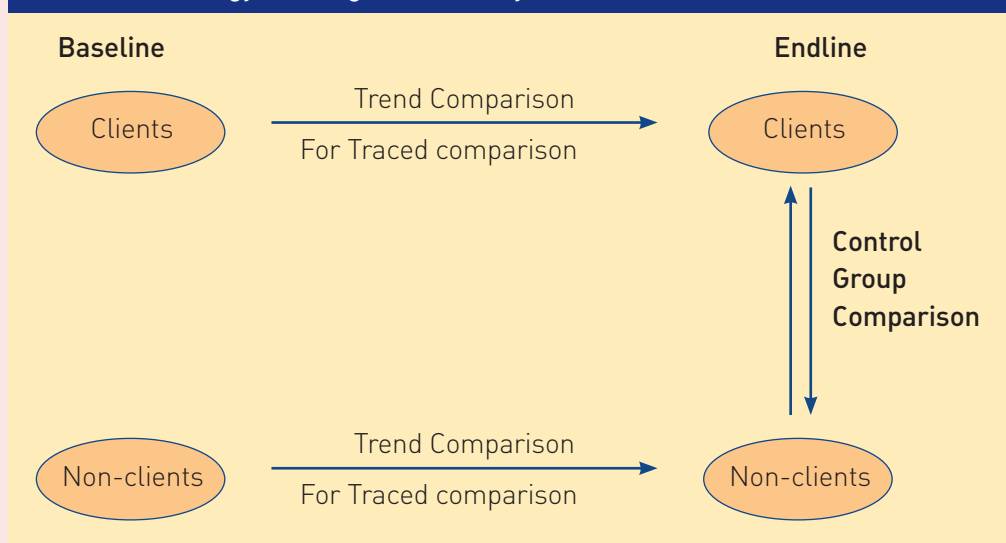


Data Analysis

The quantitative data of sample households was analysed to find out percentages, averages and frequencies for various indicators. The results were subjected to longitudinal analysis for three types of comparisons, i.e. client v/s non-client for endline data and baseline v/s endline results for clients and non-clients, and the same were tested for statistical significance. The results of comparisons were studied/super-imposed to find out whether the behaviour of a particular indicator supports the micro finance intervention as the cause of change. The quantitative results were supplemented by qualitative observations obtained from Case Studies, Focus Group Discussions and Semi-structured interviews.

Comparison between baseline and endline data/results revealed changes in the socio-economic conditions of the clients and non-clients. The impact of the SIDBI's programme on the beneficiaries was assessed in terms of Outreach, Access, Credit Use, Entrepreneurial Activities, Income, Employment, Human Capital, Vulnerability and Women Empowerment.

Box 2: Methodology for Longitudinal Study



MFI Models and Practices

Profile of Selected MFIs

The 25 MFIs selected for the study covered a wide geographical area of the country with the States of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala from South, Uttar Pradesh from North, Rajasthan from West, Orissa and West Bengal from East, and Assam and Manipur from North-East. Andhra Pradesh had the largest sample share with 7 selected MFIs based in that State, followed by Tamil Nadu (5 MFIs). Tamil Nadu had the maximum share in the total number of households under the study. The State-wise distribution of MFIs and sample households is given at Table 2.

State	No. of MFIs	No. of Districts	Total Households*
Tamil Nadu	5	11	1307
Andhra Pradesh	7	8	1244
Karnataka	2	4	390
Uttar Pradesh	2	4	345
Rajasthan	2	2	255
West Bengal	3	4	344
Assam	1	3	186
Orissa	1	1	261
Manipur	1	3	90
Kerala	1	1	88
Total	25	41	4510

* Clients & Non-clients

Under the study, 41 districts out of the total operational districts of selected 25 MFIs were covered. Maximum 11 districts were covered in Tamil Nadu, followed by 8 districts in Andhra Pradesh

Operational Area of the MFIs

The operational areas of the MFIs were, however, spread over 17 States³ with most of them operating in more than one State. Ten of the total 25 MFIs were operating in one State each and another seven in two States each, five in three States each and two in four States each. The remaining one MFI was operating in seven States.

The sample MFIs covered a number of districts. Two MFIs covered over 20 districts, seven MFIs had their operations spread over 11 to 20 districts while another nine were operating between 5 and 10 districts. The remaining 7 MFIs covered less than 5 districts. Under the study, 41 districts out of the total operational districts of selected 25 MFIs were covered. Maximum 11 districts were covered in Tamil Nadu, followed by 8 districts in Andhra Pradesh.

³The operational area of MFIs as reported in the Chapter pertains to the period of study and hence, may have undergone a change now.

Of the 25 MFIs, nine were operating only in the rural areas while 16 MFIs were operating in both rural and urban areas. The MFIs had number of branch offices for conducting their micro finance operations. Two MFIs had over 150 branches and 7 MFIs had less than two branches. The remaining MFIs had 10 to 100 branches. Table 3 provides a snapshot of the outreach and operational areas of the sample MFIs.

Table 3 : Outreach of selected MFIs

Sl.No.	Name of MFI	State	Area of Operation		
			No. of Districts	Rural (R)/ Urban (U)	No. of Branches
SHG Model					
1.	League for Education and Development	Tamil Nadu, Karnataka, Pondicherry	14	R	32
2.	OUTREACH	Karnataka, Andhra Pradesh, Tamil Nadu	8	R	8
3.	Swayamkrushi Women's Development Mutually Aided Cooperative Thrift Society	Andhra Pradesh	1		0
4.	Bullock-cart Workers Development Association	Tamil Nadu, Pondicherry	9	R + U	10
5.	Sanghamitra Rural Financial Services	Karnataka, Tamil Nadu, Andhra Pradesh	13	R + U	12
6.	Andhra Pradesh Dalitbahujan Mutually Aided Cooperative Societies Federation	Andhra Pradesh	12	R	6
7.	Lupin Human Welfare and Research Foundation	Rajasthan, Uttaranchal, Madhya Pradesh, Maharashtra	13	R	11
8.	Sarvodaya Nano Finance Ltd.	Tamil Nadu, Uttar Pradesh	18	R	5
9.	Shramik Bharati	Uttar Pradesh	2	R + U	17
10.	Rashtriya Seva Samiti	Andhra Pradesh, Tamil Nadu, Uttar Pradesh	3	R + U	17
11.	Indian Association for Savings and Credit	Tamil Nadu, Kerala	6	R	8
Grameen Model					
12.	Spandana Sphoorty Innovative Financial Services Ltd.	Andhra Pradesh	1	R + U	219
13.	The Activities for Social Alternatives	Tamil Nadu	11	R + U	45
14.	Cashpor Micro Credit	Uttar Pradesh, Bihar	10	R	47
15.	Asmitha Microfin Limited	Orissa, Andhra Pradesh, Karnataka	37	R + U	81
16.	BANDHAN	West Bengal	14	R + U	156
17.	Village Welfare Society	West Bengal, Chhattisgarh	6	R + U	NA
18.	SKS Micro Finance Pvt. Ltd.	Andhra Pradesh, Karnataka	7	R + U	36
19.	Rashtriya Gramin Vikas Nidhi	Assam	10	R	32
Individual Banking Model					
20.	Bhartiya Samruddhi Finance Limited	Andhra Pradesh, Maharashtra, Orissa, Madhya Pradesh, Karnataka, Jharkhand, Rajasthan	37	R + U	38
21.	Vivekananda Sevakendra-o-Sishu Uddyan	West Bengal	1	R + U	10
22.	Youth Volunteers' Union	Manipur	6	R + U	3
23.	Pushtikar Laghu Vyaparik Pratishthan Bachat Evam Sakh Sahakari Samiti	Rajasthan	1	R + U	2
24.	Krishna Bhima Samruddhi Local Area Bank Limited	Andhra Pradesh, Karnataka	3	R + U	8
Sector Specific					
25.	South Indian Federation of Fishermen Societies	Kerala, Tamil Nadu, Andhra Pradesh, Pondicherry	7	R	10

MFI Models

The 25 selected MFIs followed four different models. 11 MFIs were based on SHG Model, 8 had Grameen model, 5 had Individual Banking Model and one was a Sector specific (fishery) Co-operative Model. These MFIs, however, did not strictly follow all the specific details of their respective model. Most of the models were hybrids or adapted to suit the local socio-economic requirements. For example, although the groups formed by Grameen MFIs were not SHGs, some of them followed certain features of SHGs like collection of savings and inter-lending among the group members.

Box 3: Operational features of micro finance models in India			
Operational Features	SHG	Grameen	Individual Banking & Sector Specific Model
Area of operation	Mainly rural	Rural & urban	Rural & urban
Main clients	Poor, borderline poor, Women	Poor & poorest, women	General, non-poor men & women
Service focus	Savings & credit	Cyclical credit	Need based credit (higher amounts)
Transactions	Monthly/Weekly meetings	Weekly meetings	Individual
Savings	Rs 20 –Rs 200	Rs 5 – Rs 30	Flexible, minimum 10-15 % of loan
Interest on savings	3% - 4%, Bank rate	Nil - 4%	4.5% – 9.5%
Loan size	Rs 2500 – Rs 50000	Rs 1000 – Rs 30000	Rs 5000 – Rs 200000
Effective interest rate	12% – 24%	21% - 26%	12% – 24%
No of loan installments (monthly)	12 – 24 months	12 – 18 months	12 – 36 months
Insurance	Mostly voluntary	Compulsory & voluntary	Compulsory
Developmental services	Training & linkage with enterprise development programmes	Group training & occasional market support	None, occasional enterprise support

Many of the MFIs started as development support institution, with the vision of improving the quality of life of the poor and underprivileged, through interventions in various social activities. They adopted micro finance activities subsequently. Their experience in working with the poor helped them in offering micro finance services to their clients. All of them were accepting savings from their clients earlier, but of late, many of them have stopped the practice, as they had no legal status to accept deposits. Apart from providing credit, some of them offered other services, like training facilities and marketing arrangement to their clients.

Sample Client and Non-client Households

Under the study, a total number of 4510 (3253 clients and 1257 non-clients) households were selected. Out of the total households, maximum number of households were from Tamil Nadu (1307 households) followed by Andhra Pradesh (1244 households). Kerala accounted for the least number of households (88 households). The State-wise distribution of client and non-client households is given in Table 4.

Sl.No.	Name of the State	State-wise Break-up of Client and Non-client Households Covered in the Study		
		Clients	Non-clients	Total
1.	Andhra Pradesh	816	428	1244
2.	Assam	136	50	186
3.	Karnataka	289	101	390
4.	Kerala	65	23	88
5.	Manipur	70	20	90
6.	Orissa	191	70	261
7.	Rajasthan	194	61	255
8.	Tamil Nadu	962	345	1307
9.	Uttar Pradesh	256	89	345
10	West Bengal	274	70	344
Total		3253 (72 %)	1257 (28 %)	4510 (100 %)

Organisational Forms of Selected MFIs

The 25 MFIs included 10 in the Corporate Sector (Six Non-Banking Financial Companies (NBFCs), Three Section 25 Companies and One Local Area Bank) and 15 in the Non-Corporate Sector (Eight registered Societies, Five Cooperative Societies and Two registered Trusts.)

Outreach

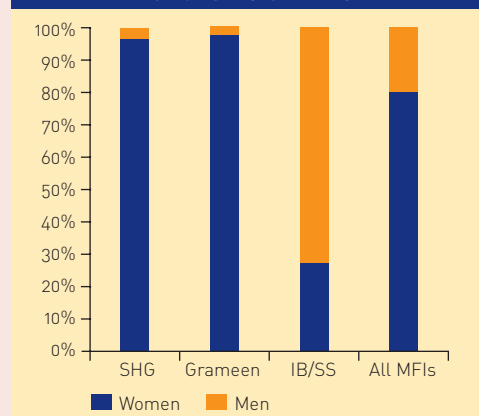
Hypothesis: Micro Finance is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance.

Partially Supported

- ☞ MFI movement is predominantly taking place in better developed Southern States and in rural areas.
- ☞ MFIs generally serve poor clientele, but 'very poor' clients are still un-reached.
- ☞ Majority of clientele is from socially disadvantaged Scheduled Castes and Tribes, and Backward classes.
- ☞ Coverage of women clients predominant.

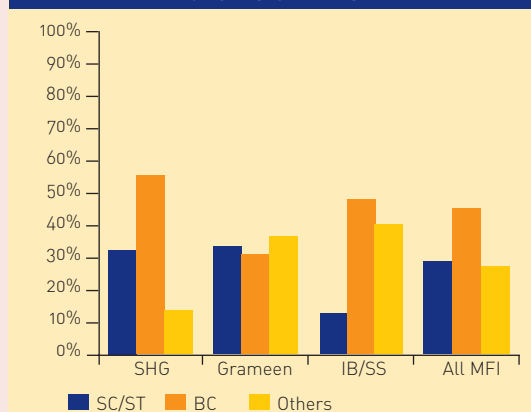
- Micro Finance movement has gained momentum mainly in the Southern States which have a better socio-economic scenario due to gender-inclusiveness of cultural traditions and rich natural resources. About 66 per cent of the sample clients were from the Southern region.
- MFIs generally serve rural clients (75 per cent clients). The proportion of rural clients under SHG, Grameen, Individual Banking and Sector-specific MFIs is 67 per cent, 86 per cent, 72 per cent and 100 per cent respectively.
- Female clients constituted 80 per cent of the total clientele - 96 per cent in case of

Figure 1: Gender distribution of clients of MFIs



Source: Survey Data

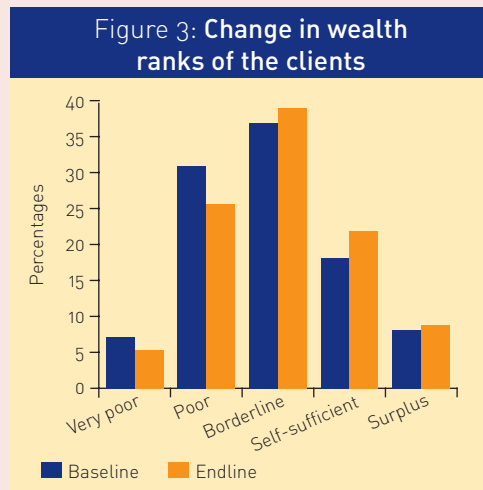
Figure 2: Social distribution of clients of MFIs



Source: Survey Data

group-based MFIs, 98 per cent in case of Grameen, 30 per cent in case of Individual Banking and 21 per cent in case of Sector-specific MFIs. Also, women headed households were only 13 per cent of the sample clientele (Figure 1).

- Among various social groups, clients belonging to Backward Classes have the highest share (45 per cent) in the sample, followed by clients belonging to Scheduled Castes (26 per cent). However, Scheduled Tribe clients had the least representation (1.9 per cent). (Figure 2)

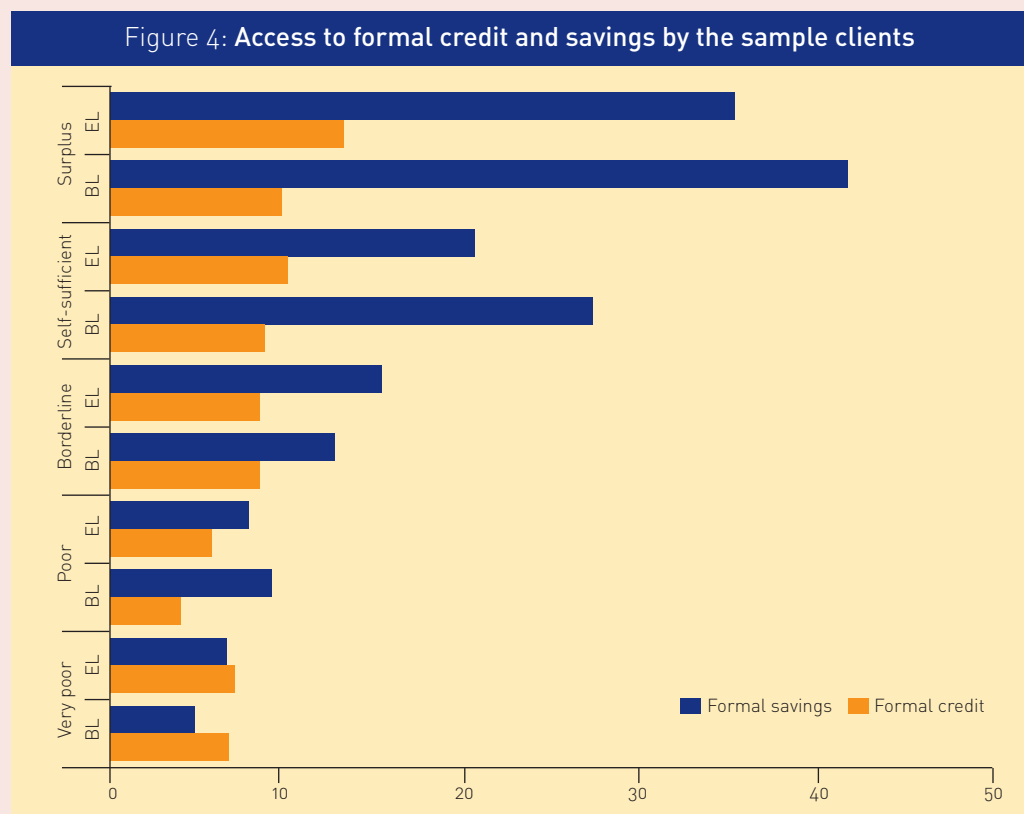


Source: Survey Data

- Classification by wealth rank revealed that, majority of the clients belonged to 'borderline' category (37 per cent) followed by 'poor' category (31 per cent). However, 'very poor' clients have least representation (7 per cent). (Figure 3)
- Majority of the women clients were illiterate (55 per cent) followed by those who had completed primary level education (38 per cent). In the case of male clients, the scenario was better and the corresponding percentages were 26 and 35.
- Percentage of clientele with access

to formal financial institutions like banks and post offices increased slightly in case of formal credit (7 per cent to 8 per cent) but decreased in case of formal savings (16 per cent to 15 per cent). (Figure 4)

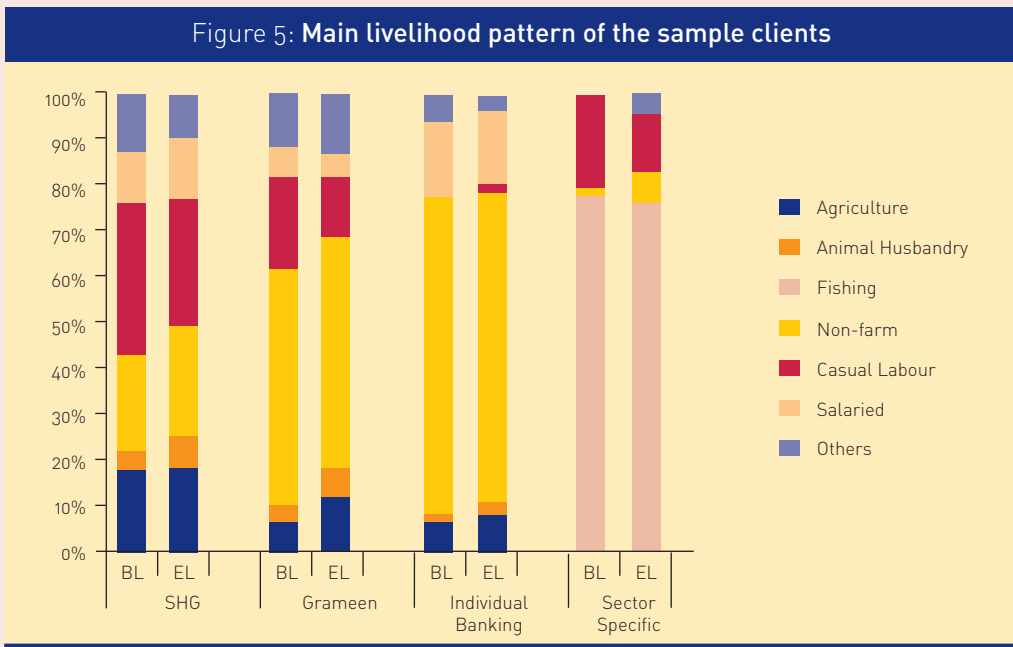
The percentage of households reporting their main source of income as agriculture, animal husbandry and non-farm activities went up, whereas, those reporting casual labour and others went down in the endline period. The fishing activity and salaried income did not register any significant change.



Source: Survey Data



The analysis of livelihood pattern of the sample households under different MFI models indicated that the percentage of client households of SHG model reporting animal husbandry, non-farm activities, salaried income and others as their main source of income went up in the endline period with fall in casual labour and agriculture. In Grameen models, the rise was most significant in agriculture followed by animal husbandry and other activities, but the non-farm activities, salaried income and casual labour witnessed a decline over the period. (Figure 5)



Source: Survey Data

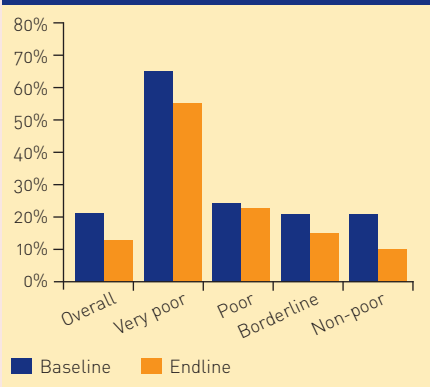
Access to Micro Finance, Contribution and Use

Hypothesis: There is an overall improvement in access and use of MFI loans but not of other services

Supported

- ☞ Access to micro credit has improved for clients
- ☞ Savings, under MFI programme has experienced a setback
- ☞ Micro Credit has been utilised for investment in productive activities besides other household requirements

Figure 6: Share of MFI/Group savings in total savings (by Wealth Ranks)



Source: Survey Data

Access to Micro Savings

Though savings was the most popular micro finance service among the clients, the discontinuation of savings schemes by some MFIs, resulted in fall in number of clients with savings with MFIs (overall from 84.4 per cent to 71.7 per cent) in endline across all wealth ranks. (Figure 6)

Provision of opening micro savings account in the group under the programme had proved to be a boon for the clients, especially for the vulnerable ones. (Box 4)

Box 4: Savings scheme a boon to the women

The reasons for preference of the savings scheme, especially by women, were their ability to:-

- ◆ maintain savings account at their doorstep
- ◆ save small amounts on regular basis which was not possible in any formal financial institution
- ◆ create emergency fund to give them a kind of security against the odds
- ◆ contribute to their family or near and dear ones during distress
- ◆ pay monthly instalments in case of paucity of funds
- ◆ exercise control over the expenditure decision
- ◆ create fellow feelings/bondage among the members of the group

Members felt that savings in SHG was a panacea as it helped in emergency situation including releasing of mortgaged land or house, medical purposes, children's education and social and religious functions

Source: FGD

Access to Micro Credit

- Micro credit has made a perceptible impact on the lives of many client households through provision of small loans with easy repayment terms, which, in turn, has helped them in starting new enterprises or expanding their existing ones.

- Availing of loan from MFIs went up across all wealth rank categories but the increase was more visible for the 'very poor' category and all of them opted for it at the expense of group loan. (Figure 7)
- Average size of MFI loan and Group loan went up for all individual wealth ranks in endline. The rise was more significant for 'very poor' category (from Rs.7,000 to Rs. 14,000).

Use of Micro Credit

- Micro credit has been utilised for various purposes by the client households. Direct investment occupied the major share (64.9 per cent) in MFI loan-use pattern for all wealth ranks, both in the baseline and endline.
- Micro credit used for risk needs was highest for 'very poor' category (23.1 per cent) in Baseline, but substantially came down in the endline period (14.7 per cent). This showed that with the support of micro credit, the clients belonging to the vulnerable groups were gradually gaining strength, over a period of time, for coping with their vulnerability and were utilising the fund for productive investment. (Box 5)

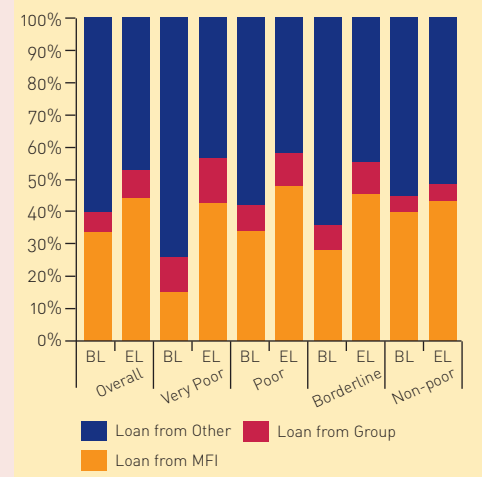
Access to Insurance

- The number of MFIs offering life insurance went up marginally for all models, except for the sector specific MFI, as this particular MFI had withdrawn the service in the endline.
- The percentage share of clients having Life Insurance coverage among the clients of the MFIs, which were offering the facility, had fallen from 78 per cent to 58 per cent for the Grameen model but increased substantially for the Individual Banking model from 44 per cent to 62 per cent.
- The coverage under Asset Insurance remained at the nascent stage across all models and is yet to make any perceptible impact among the clients.
- Many MFIs initially started their own in-house insurance schemes but due to the problems that arose in the running of these schemes, most of them stopped offering their own insurance products, while a few sought assistance of established insurance companies.

Use of Non-financial Services

- While some MFIs were providing non-financial services like specialised training pertaining to the clients' occupation and/or enterprise development programme, a number of them had not taken adequate initiative in skill development of their clients in spite of the demand for such services.
- The coverage of clients under various training programmes went up from 23 per cent to 37 per cent between baseline and endline. Similarly, coverage under Enterprise Development Programme (EDP) improved from 13.8 per cent in baseline to 20.2 per cent in the endline. The coverage under health related services went up from 5.0 per cent in baseline to 22.1 per cent in endline. (Box 6)

Figure 7: Share of MFI/Group loans in total borrowing (by Wealth Ranks)



Source: Survey Data

Box 5: Advantages of micro credit

- ◆ It was available at the doorstep
- ◆ Involved less paper work
- ◆ Accessible to the poor
- ◆ No corruption involved
- ◆ No involvement of middlemen

The groups expressed that:

- ◆ The loans from MFIs were far better and cheaper than borrowing from private sources
- ◆ The loans were given without delay and the entire processing was completed at their doorstep
- ◆ The repayment was also easy

Source: FGDs

Box 6: Demand for skill development training from clients

- ◆ There was unanimous demand from group members in all villages that skill development/training was required for undertaking any income generating activity and they felt that MFI loan alone would not help in improving the livelihood.
- ◆ Most of the members felt that MFIs could have encouraged them in improving their skills. They also felt that had there been a proper venue for training, they could have extended their skills to others in the village. The non-clients had also shown interest in this regard.

Source: FGD

The group leaders occupied a better position in comparison to their fellow members regarding amount of micro credit availed

Access to Micro Credit by Group Leaders

The study attempted to assess whether the group leaders utilise their position for their own benefit by availing larger chunks of micro credit.

- The profile of group leaders showed that 70 per cent of them came from 'borderline', and 37 per cent from the 'non-poor' categories in baseline. The pattern remained almost the same in the endline with a marginal change.
- The group leaders occupied a better position in comparison to their fellow members regarding amount of micro credit availed.



Micro Finance and Enterprises

Hypothesis: Micro Finance increases enterprise activities

Supported

- With micro credit support, clients have either started new or expanded existing enterprises which not only provided better employment opportunities but also increased enterprise income.

Micro Credit for Enterprises

Many clients have used micro credit for developing their existing activities or diversifying into new activities with a view to increasing their sources of income. Between the baseline and the endline surveys, the number of enterprises of the client households increased by 1.2 per cent while those supported by micro credit increased by 5.7 per cent. The overall proportion of micro credit supported enterprises to total enterprises increased slightly from 42.7 per cent to 44.7 per cent. The MFI credit had smoothened the income cycle of the family by way of ensuring regular income and helped the financially backward in developing their own enterprise and standing on their own feet, thus improving their standard of living to a large extent. (Box 7)

Between the baseline and the endline surveys, the number of enterprises of the client households increased by 1.2 per cent while those supported by micro credit increased by 5.7 per cent

Box 7: Assistance from MFI helped in the development of own enterprise and sustenance of the family

Mrs. Bandana Manna, 35 years of age, found it difficult to make ends meet. She had studied up to the primary level. She and her family had no savings and stayed in a medium sized pucca house. Her husband ran a small floriculture business, earning Rs. 200 daily. Two of Bandana's sons were employed – one ran a barber shop, which was on rental basis and the other a zari worker. Bandana joined the group two years ago and availed of loan twice. With the help of the loan received from the MFI, Bandana was able to assist her eldest son in purchasing the barber shop. Her son's present income was Rs. 100 daily, amounting to Rs. 3,000 per month. Though the income did not increase much, Bandana and her son were proud that they owned the shop and would be able to increase their business. The MFI credit had smoothened the income cycle of the family by way of ensuring regular income and helped the financially backward in developing their own enterprise and standing on their own feet, thus improving their standard of living to a large extent.

Source: Case Study

New Enterprises Supported by Micro Credit

The proportion of new enterprises started by client households with micro credit support declined from 26.4 per cent to 13.3 per cent. It was observed that, in general, the clients were not very eager to take up new enterprises with micro credit due to lack of skills and marketing problem. Rather, they used the available credit for stabilising and developing existing enterprises.

Sectoral Profile of Micro Credit Financed Enterprises

Over the period, the proportions of the enterprises supported by micro credit in various sectors to the total enterprises increased marginally from 15.4 per cent to 15.8 per cent for **agriculture** and 20.2 per cent to 21.2 per cent for **animal husbandry** but declined for **fisheries and non-farm activities**.

Activities Pursued by the Clients

The main enterprises pursued by the clients did not differ much between baseline and endline. But there were many instances of both expansion and diversification of enterprises with micro credit support. (Boxes 8 & 9)

Box 8: Carving one's livelihood with MFI

Atchyutha Anjaneyulu, born in a poor family and with no formal education, lived with his father and assisted him in running a small teashop. The family struggled with meagre income. To increase his prospects, he migrated with his wife and father to another town and initially started a small tea stall, which was patronised by a few customers. However, the income was meagre and he was not able to make much profit. Besides, he had three children, all attending government school and assisting him in his tea stall business during their leisure time.

Anjaneyulu heard about the MFI group and enrolled as a member and approached for a loan of Rs. 10,000, which was sanctioned to him. With the first loan amount, he acquired a house on lease at a rent of Rs. 300 per month and started a Tiffin centre. His business gradually improved and his profits rose from Rs. 200 to Rs. 250 a day. He repaid the loan in 12 instalments and took a second loan of Rs. 15,000 for starting a provision shop. Gradually, his business grew in size and stature and so his profits and he was left with a surplus of Rs. 300 to Rs. 400 per day. He opened a savings account and started saving Rs. 50 per day, in the name of his daughter. To increase his business prospects further, Anjaneyulu wanted to clear up the present loan and take another loan, for a larger amount, in order to purchase the rented house, presently occupied by him and his family.

Anjaneyulu was of the opinion that MFI should grant loans at a lower rate of interest so that repayment was easier. Mr. Anjaneyulu's case demonstrated how the support of micro credit was capable of bringing about change in the economic condition and raising the standard of living.

Source: Case Study

Client households reporting non-agricultural activities as the main source of income increased for all categories of clients

Change in Income from Activities

Clients reported increase in income from majority of activities. The activities which accounted for higher income gain are self-employed – manufacturing (75 per cent of units reported increase in income), trading (70 per cent) and service (66 per cent) indicating their higher potential for income generation.



Non-agricultural Enterprises as Income Sources

Client households reporting non-agricultural activities as the main source of income increased for all categories of clients. Thus, micro finance showed a positive impact by increasing non-agricultural enterprise activity in the client households. (Box 9)

Employment Pattern

Labour requirement per household, which was 1.45 persons in baseline improved to 1.78 in the endline. Micro Finance has, not only, provided increased employment opportunities to under-employed family members, but

Box 9: Micro credit enabled diversification of enterprises

Sandhya Rui Das was a basket seller by profession for the last 15 years. She lived with her husband, a casual labour worker and her three sons. The family had been through very rough times, yet the family had managed to remain afloat because of Sandhya's grit and determination. She held the family together in time of crisis. Sandhya joined the MFI two years ago. She availed of the loan facility from the MFI when the family was going through a financial crisis and decided to start zari work. With the first loan of Rs. 1,000 she purchased a 'dhadda' frame, which cost her Rs. 1,200. The extra amount of Rs. 200 was provided by her husband. Sandhya also trained her elder son in the art of zari work and continued her trade of basket selling, as the newly started activity of zari work was yet to generate income. Subsequently, she took a second loan of Rs. 5,000 from the MFI, out of which, Rs. 1,500 was used to purchase raw materials for zari work and the balance amount of Rs. 3,500 was diverted for the purchase of raw materials to prepare more baskets. Her basket selling trade had also picked up and she had to devote more time to it. Since this activity was doing brisk business, Sandhya had to rope in her younger son to assist her and she passed on the entire responsibility of zari work to her elder son. The demand for her baskets was very high and she was able to make a profit of Rs. 3,000 per month, and the income from zari work fetched her Rs. 1,000 to Rs. 1,500 per month.

Source: Case Study

also had a spill-over effect of creating demand for hired labour (28 per cent in baseline to 33 per cent in endline.)

Risk and Closure of Activities

Many of the clients of micro finance were affected by several risk factors like cash crunch (28 per cent), marketing problems (16 per cent), and illness (13 per cent). Since they worked at a very small scale and had little financial backing, these factors often forced them to close their activities. Inability of the MFIs to supply timely and adequate credit and rigidity of some in sticking to their loan amounts specified for various rounds had been responsible for the cash crunch faced by many clients.

Clients' Perception on Differences made by Micro Credit

Majority of the clients (54 per cent) reported that the increase in the size of activity was the main difference that micro credit had made. Also, qualitative improvement (39 per cent) and market support (11 per cent) were the other differences mentioned by the clients. Among different wealth ranks, larger percentages of non-poor (65 per cent) reported that micro credit had made more difference in their activities.

Majority of the clients (54 per cent) reported that the increase in the size of activity was the main difference that micro credit had made

Box 10: Micro credit and its multi-faceted benefits

Ramachander earned his livelihood as a labourer in a stove repairing shop where his wages were extremely low. He gave up this petty job and took to repairing brass vessels, travelling on foot to different places/villages. Gaining expertise in brass repairing, he started his own shop by borrowing Rs. 5,000 from money lenders, undertaking replacement of small stove spares as also repairing all kinds of stoves.

He then came across an MFI and applied for the first loan of Rs. 10,000. With this amount, he added new stoves to his stock in the shop and started selling new stoves as also repairing stoves. With the profit gained, he repaid the first loan and took a second loan of Rs. 12,000 and utilised it to expand the stove business and trading and repair of brassware.

His business gradually increased and he was able to earn a monthly income of Rs. 7,500, of which he paid Rs. 700 as rent for the shop, Rs. 200 as electricity charges and miscellaneous expenses amounting to Rs. 100. He was left with a balance of Rs. 6,500 which was enough to support his wife and three children, who had all graduated from college. His future plan was to avail of another loan of Rs. 30,000 to start an agency and prosper further.

Source: Case Study

Micro Finance and Income Related Effects

The indicators used to study the income related effects on client households, included amongst others, saving habits, asset acquisition, diversification of livelihood, dependency on moneylenders, reported trends in overall income, ability to send children to school and change in wealth rank status.

Hypothesis: Micro Finance contributes to improvement in income related aspects

Supported

- ☞ Micro credit contributed to improvement in asset acquisition
- ☞ Partially helped clients to take advantage of educational opportunities for their children
- ☞ Produced positive impact on diversification of livelihood for the poor
- ☞ Contributed to reduction in casual labour
- ☞ Contributed to improved level of income
- ☞ Reduced dependence on costly informal sources
- ☞ Brought about reduction in the incidence of poverty among clients

Acquisition of Assets

Acquisition of assets is an indication of capital formation and also improvement in the living standards of clients. In the case of “very poor” category, the percentage of households reporting acquisition of assets increased from 32.3 per cent in baseline to 40.0 per cent in endline. However, for the overall sample, the percentage of households acquiring assets remained almost same between the baseline and endline, indicating that the loan amounts were used more for working capital than acquisition of productive assets. The average value of assets increased from Rs. 23170 to Rs. 25323 between baseline and endline. The share of productive assets in the total assets increased from 37.0 per cent in the baseline to 47.0 per cent in the endline.

Availability of credit played an important role in the acquisition of assets. The proportion of sample client households acquiring assets with micro credit support increased from 73 per cent in baseline to 79 per cent in endline. (Box 11)

Human Capital

Micro credit helped the clients in realising the need for providing education to their children. In the endline period, all children (below 14 years) of 57 per cent of households were going for school education. More remarkable was the fact that 65 per cent of female children were going to school (the percentage was 71 per cent for ‘very poor’ clients).

Availability of credit played an important role in the acquisition of assets. The proportion of sample client households acquiring assets with micro credit support increased from 73 per cent in baseline to 79 per cent in endline

Overall dependence of households on credit for education purpose came down from 17.9 per cent in the baseline to 12.2 per cent in the endline period.

Box 11: MFI assistance enabled a family to sustain itself and improve its standard of living

Smt. K. Bujji, a poor illiterate woman lived with her husband, two sons and in-laws. Besides working as a wage labourer outside, she also assisted her husband, a marginal farmer, to cultivate the land leased to them. But, this did not take care of even the bare requirements of the entire joint family. The lease amount had to be paid out of loans borrowed from moneylenders at exorbitant rates of interest.

On being made aware of the MFI, she joined the group and took her first loan of Rs. 5,000. The investment yielded substantial income and enabled her to clear off the first loan and then she took the second loan of Rs. 6,000. With this amount in hand, she and her husband added their own savings of Rs. 4,000 and purchased a buffalo which yielded a she-calf. When the she-calf matured it was sold for an amount of Rs. 12,000. Subsequently, the third and fourth rounds of loans were taken by Bujji for leasing land for cultivation. The standard of living of Bujji and her family improved and she was able to educate her children and also acquire household assets, which amply proved that MFI assistance had enabled Bujji and her family to improve their living conditions and rise above their misery and poverty.

Source: Case Study

Multiple Sources of Income

Majority of the client households (over 67 per cent) had multiple sources of income. Between baseline and endline, the proportion of households with multiple sources of income declined slightly, mainly for the 'non-poor' category. However, for 'very poor' and 'poor' clients, there was an improvement, indicating that micro credit had helped the poorer clients to seek more sources of income. (Box 12)

Wealth rank wise, the dependency ratio (i.e. total number of members per earner in the household) of client households had fallen drastically for the poorer and borderline clients but risen for the non-poor indicating that the number of earners

Majority of the client households (over 67 per cent) had multiple sources of income. Between baseline and endline, the proportion of households with multiple sources of income declined slightly, mainly for the 'non-poor' category

Box 12: MFI credit aids an enterprising man in giving the family stability and a higher standard of living

Sri Sanjeevaiah received only primary education as his father, a cloth vendor, could not educate him sufficiently. With an amount of Rs. 5,000, which he received from his father, he purchased a cycle for Rs. 1,000 and sarees and other items of clothing with the balance amount. He roamed around villages selling clothes and initially was able to make a profit of Rs. 200 per day. Some years later, he came in contact with a field officer of a MFI who encouraged him to enroll as a member and subsequently he applied for a loan of Rs. 10,000 depositing Rs. 1,000 towards cash security and a processing fee of Rs. 200. His immediate aim was to set up a shop, so, he further borrowed money at an interest rate of 24 per cent, and with the amount, he set up a shop on lease basis. He prospered gradually, raising his income to Rs. 350 a day, saving Rs. 100 per day in a local bank. He also repaid the loan in 12 instalments.

A year later, he applied for a higher loan of Rs. 20,000 and increased the stock in his shop. His earnings increased, leaving him with a surplus of Rs. 500 to Rs. 600 per day. With the rise in income, B. Sanjeevaiah's standard of living improved immensely, he gained confidence and became more self-reliant. He was able to send his sons for higher education, enrolling one for MCA and the other for a course in Biotechnology. This proved that micro finance enabled an ordinary vendor to become a full-fledged businessman. The case revealed that timely availability of successive MFI credit, coupled with its judicious use by an enterprising man, had succeeded in giving the family the much desired stability and better way of life.

Source: Case Study

per household is on the increase. For non-client households, the ratio had risen for all wealth ranks except those in 'self-sufficient category'.

Dependence on Casual Labour

There was a decline in the casual labour employment among client households (41 per cent in baseline to 37 per cent in endline). (Box 13)

Box 13: MFI assistance helped the downtrodden in achieving stability and success in life

Smt. Yesamma, aged 30, was an illiterate woman living with her husband, a casual labourer, and four daughters. She earned her livelihood by collecting and selling human hair. They earned about Rs. 65 per day, which was insufficient to support a family. Hers was a miserable existence, with no food, shelter and clothing. They could afford only one meal a day and most of the time they begged for a living.

On learning about MFI, she enrolled herself as a member and took a number of loans, simultaneously repaying the previous loans. With the first loan of Rs. 4,000, she opened a kirana (grocery) shop. The second loan of Rs.7,000 was utilised for expanding her business. Her income grew gradually and her standard of living improved a great deal. The third and fourth loans of Rs. 10,000 and Rs. 30,000 availed by her, were used for investment in another shop, constructing a house, purchasing consumer durables and for educating her children in a private school. On finding the hair business more lucrative, as the amount to be invested was less and the returns high, she took a fifth loan of Rs. 50,000 and invested the same in the business. She traded with wholesale companies and this increased her profits and her fortune soared. She took the sixth and seventh loans of Rs. 75,000 and Rs. 40,000 for investment in the hair business which continues to flourish. Hers is a 'rags to riches' story, but without MFI assistance, it would have been impossible for Yesamma to achieve the height of success.

Source: Case Study

Micro Finance offered relatively cheap credit in a simplified manner to the clients who, otherwise, would not have been eligible to get any credit from institutional sources

Cost of Borrowing

Micro Finance offered relatively cheap credit in a simplified manner to the clients who, otherwise, would not have been eligible to get any credit from institutional sources. However, this amount being small, the clients continued to borrow from non-MFI sources. But their proportion declined between baseline and endline across all wealth ranks. (Table 5)

Table 5: Borrowing from Non-Institutional Sources

Clients by Wealth Rank	No. of House holds	Percentage of Households Borrowing from					
		Moneylenders		Friends		Others	
		Baseline	Endline	Baseline	Endline	Baseline	Endline
Very poor	220	6.36	5.45	4.55	2.27	1.82	2.73
Poor	994	7.44	4.73	4.02	3.12	1.01	0.80
Borderline	1190	8.66	6.72	5.80	1.68	2.35	2.52
Self-sufficient	586	7.85	3.07	5.80	4.10	3.41	1.37
Surplus	263	8.37	2.66	7.60	1.90	2.66	0.76
All	3253	7.96	5.04	5.32	2.61	2.12	1.66



The percentage of households borrowing from money lenders came down from 7.96 per cent to 5.04 per cent while from friends came down from 5.32 per cent to 2.61 per cent.

Interest Rate of Different Sources

Interest rates on MFI loans, as reported by the clients, were less than the interest rates charged by moneylenders. However, compared to the interest rates charged by sources other than moneylenders, MFI loans were not cheap.

Reduction in Poverty

A wealth ranking exercise was done to assess whether micro finance has improved the position of the clients with respect to poverty. An Index Based Ranking was also designed for the purpose. Using these ranking exercises, the clients were ranked in five categories in the endline survey.

The results showed that half of the clients in the 'very poor' category had moved up to 'poor' category. Only about 17 per cent still remained in the same category in the endline. The remaining clients had moved to still higher category. For the poor category, about 40 per cent remained in the same category and a number of them moved to higher categories. About 10.0 per cent of them moved down to 'very poor' category. (Table 6)

A wealth ranking exercise was done to assess whether micro finance has improved the position of the clients with respect to poverty. An Index Based Ranking was also designed for the purpose

Table 6: Change in Wealth Ranking

Clients By Wealth Ranks	Households in Baseline (No.)	Percentages in Baseline	Percentages of Households in Endline					
			Very poor	Poor	Border line	Self sufficient	Surplus	Not Available
Very Poor	220	6.76	17.3	48.6	29.1	3.6	0.5	0.9
Poor	994	30.56	9.6	39.5	38.9	10.7	1.1	0.2
Borderline	1190	36.58	2.3	23.4	48	22.4	3.8	0.3
Self-sufficient	586	18.01	0.9	8.5	34.6	42.5	13.5	0
Surplus	263	8.08	0	1.5	12.5	29.7	54.4	1.9
Total	3253	100	5.1	25.6	38.7	21.7	8.6	0.4

Since micro financing provided mainly one input (credit) for economic upliftment, perhaps it may not be right to expect that all clients would come above the poverty level because of participating in the programme.

Box 14: MFI assistance brings stability to a poverty ridden life

Smt. Gangi Kondamma, a labourer, was married at the age of 14 and lived with her husband, also a labourer. They belonged to a backward class. After marriage, she joined a tobacco company and worked there, earning Rs. 30 to Rs. 40 per day. Her husband also worked as a labourer. The income earned by them was very meagre and did not suffice to meet their basic needs.

They heard about the MFI and joined the group and availed of a number of loans. The first three loans of Rs. 5,000, Rs. 10,000 and Rs. 12,000 were utilised for house repairs and improvement and the next two loans of Rs. 15,000 and Rs. 10,000 were used for daughters' marriages, clearing debts and on food consumption. Apart from monetary loans, the MFI also assisted them in presenting loans in kind, in the form of gas-stoves, water filters and shelves. Gangi Kondamma firmly believed that it was only because of MFI assistance that the standard of living for herself and her family had improved and they were able to lead a balanced and stable life. The daily expenditure of Kondamma still continued to be substantial, as her children were young and, to be married, but she was confident that MFI assistance would enable her to face the various ups and downs in life and manage her home and family life in a stable and balanced manner.

Source: Case Study



Micro Finance and Vulnerability

One of the major problems confronting the poor households is the lack of adequate income and assets to deal with several risk situations such as major illness, accidents, irregular employment, death of the main earner and so on. Devising suitable products and services to help these vulnerable sections is a major challenge before the MFIs and it is interesting to explore the data collected in this longitudinal study to understand how the MFIs have grappled with this problem.

Hypothesis: Micro Finance builds capacity of vulnerable households to manage risks

Supported

- ☞ Micro Finance has helped in building resilience of vulnerable households through income enhancement
- ☞ Decreased risk borrowings by clients
- ☞ Improved their capacity for coping with risk situation
- ☞ Reduced dependence on costly informal sources for risk loans

The study revealed that on account of prolonged terminal illness and death of the main earner, desertions were encountered by some clients

Social groups are subject to different degrees of vulnerability on account of differences in their socio-economic conditions. Among the poor households, certain types such as 'women-headed households' or 'SC/ST households' are more prone to vulnerability. Compared to 'male headed households', 'women as sole earners' households had a much higher proportion (61 per cent) in the 'very poor' and 'poor' categories as against 36 per cent among 'male headed households'.

Relief in Distress

The study revealed that on account of prolonged terminal illness and death of the main earner, desertions were encountered by some clients. The MFIs had tried to assist them, to the extent possible. However, the major problem with many MFIs was their shortage of resources to adequately meet the loan requirements of the members. Consequently, the capability of many MFIs to increase the income of the clients was restricted, so was their ability to help them in distress. Even so, the MFIs have been endeavouring to help their clients in risk situations as a result of which there is increased resilience in the vulnerable categories of clients such as 'poor', 'SC/STs', 'women as sole earners' and 'women headed



households' enabling them to take proactive action and to cope with risk situations of various types. In contrast, the non-clients in similar situations had not received similar assistance. Case studies given at Box 15 and 16 are some of the instances of clients successfully coping with risk situations with the help of MFI assistance.

Building Resilience with Insurance

There was an increase in the proportion of households with life insurance, between baseline and endline (46 per cent to 49 per cent). Grameen and individual banking model

Box 15: The significance of MFI credit for the poor and the downtrodden

Shaik Nazira, an agricultural labourer lived with her husband in a joint family. Her husband used to do 'road-bunding works' and earned Rs. 100 per day, which was insufficient to run a family. When the family size increased, she resumed her labour work, but found it difficult to continue, as her energy level was very low.

On hearing about MFI she enrolled herself as a member and took the first loan of Rs. 5000 and started vegetable vending activity. She was able to save about Rs. 100 per day. Meanwhile, differences cropped up in the group and the entire borrowing activity stood at a standstill. They reconciled after a while, and Shaik Nazira took a second loan of Rs. 5000, out of which, part of the amount was spent on family expenditure and the rest in the vegetable vending business. Sometime later, there was a mishap and their house was gutted in flames, but MFI came to their rescue and assisted them in supplying 10000 bricks, Rs. 1000 in cash for the material and Rs. 500 for food consumption. On clearing the 2nd loan, they took a 3rd loan of Rs. 15,000 and added Rs. 10,000 of their own savings and purchased an auto-rickshaw on hire-purchase basis. Their income increased and they were able to clear the loans. They were grateful that MFI assisted them in their time of need. This case proved that because of MFI's timely assistance, Shaik Nazira and her family managed to come out of the crisis that they were engulfed in, thus, signifying the importance of MFI credit for the poor and the downtrodden.

Source: Case Study

Box 16: MFI assistance enables a widow to cope with the challenges of life

Smt. Poorani and her husband lived together with their three children. They possessed 2.50 acres of agricultural land and earned their livelihood by cultivating the land and working on a brick kiln seasonally. Her husband, who was a cloth merchant also visited nearby villages for sales. During his sales visits, he developed unlawful relations with women and contracted the fatal illness, AIDS and since then, ill health constantly pestered him. Smt. Poorani left no stone unturned, seeking medical help and spent all her savings on her husband's treatment. Finally, she sold the brick-kiln for Rs. 25,000 and spent the entire amount on his medical treatment as she earnestly wished her husband to be cured completely. With renewed confidence and hope, she approached the group leader of the SHG, who immediately sanctioned her a loan of Rs. 20,000 for his medical treatment. But, it was of little use, as her husband finally passed away, leaving her to fend for herself and her three children.

Having failed to save her husband, Poorani did not become bitter but took on the onus and responsibility of looking after her home and her children. With the balance amount of Rs. 10,000, she started dairy activity, further utilising two MFI loans of Rs. 5000 and Rs. 4800 for cultivation of commercial crops like onion, groundnut and paddy. Her income gradually increased, both from the dairy activity and the cloth business, with assured food security from her agricultural land. She asserted that, but for the timely MFI assistance and counseling, she would not have been able to cross the various hurdles and challenges of bringing up her children single-handedly and develop strategies for coping with it.

Source: Case Study

MFIs were able to expand coverage of life insurance among their clients. SHG - MFIs, however, lagged behind. There is a much greater scope for popularising insurance as an anti-vulnerability measure. Case studies given at Box 17 and 18 underline the importance of insurance for the assets owned by the poor in order to cope up with unforeseen situations.

Box 17: Natural calamity ravaged an upcoming enterprise

Smt. Poonam and her family were solely dependent on the sale proceeds of the produce of their orchard having expanse of five bighas and producing guava. She had to borrow money from private sources at an exorbitant rate of 48 to 60 per cent towards the cost of agricultural inputs and maintenance of the orchard and thereby had to shell out a huge chunk of the sale proceeds for repayment of the loan. More so, there was no assurance of getting loan in time. Subsequently, Poonam became a member of the group and borrowed a sum of Rs. 5,000 for investment in the orchard. Consequently, the income of the family went up due to lesser burden on account of interest payment. Being encouraged, she further availed of another loan of Rs. 10,000 the next year and utilised it for purchase of insecticide and arranging for irrigation, but the orchard was washed away and completely devastated by the excessive release of water from the Ganga Barrage due to flood in the upper reaches. The family had again gone back to a pitiable condition and was confronted with the problem of repayment of loan.

Source: Case Study

Box 18: Political disturbance and natural calamity destroyed a family's enduring efforts to fight back against all odds

The income from the mobile tea and food-stall run by Badri Mistry, husband of Minoti Mistry at the nearby weekly haats and weekly bazaar of Garo hills was sufficient to sustain their family of eight. Unfortunately, he fell ill and died 14 years back. The family had to sell their valuables to meet his medical expenses and his enterprise was completely closed. Smt. Mistry had to take up multiple activities like working as a house-maid, or wage labourer in betel nut processing unit. Her sons, who were studying at the time of her husband's death, left studies and started working as helpers in others' shops to sustain the family. On coming to know about the group's activities, Minoti joined as a member and after saving for three months, took a loan of Rs. 2,000 with an intention of starting a mobile cloth shop in different weekly haats (local weekly markets) of the locality, but eventually had to utilise it for part repayment of her son's debt of Rs. 5,000 as he suffered from illness. Somehow, she managed to repay the MFI loan and the next year, got the opportunity to finally start the cloth business with the micro credit of Rs. 4000. Her youngest son, having experience in the trade, could manage to lift stock from the cloth merchants on credit. This was the first independent enterprise the family owned after the demise of her husband.

Unfortunately, again she had to take a private loan of Rs. 5,000 at monthly interest rate of five per cent for treatment of her youngest daughter, which she repaid partly from the family earnings and partly out of the next loan of Rs. 6,000, which she took from the group for utilising in the business. With the investment of another amount of Rs. 10,000 from the successive loan, her other two sons joined the business. The activity became a family enterprise and brought back sunny days for the family with gradual increase in income. However, the fate of the family was once again eclipsed by the shadow of ill-luck when political disturbances leading to bandh and consequent halt in business activities, and devastating flood destroyed their stock valued at Rs. 20,000. Not having been covered by insurance, the business suffered heavy losses and she could repay only a part of her loan with the group, drawing from her savings. She had to leave the group with which, she still has an outstanding amount of Rs. 2,000 to be adjusted. Ultimately, her sons had to migrate to work as daily wage labourers, while she took to working as a maid in a school. She is afraid of taking any further loan. The enduring efforts of the family in establishing a business venture starting from a scratch and against all odds were nipped in the bud following external problems beyond control, on account of not taking insurance cover for the business, coupled with the stringent policy adopted by the group for repayment without due consideration of emergencies.

Source: Case Study

Box 19: MFI activity helps in treatment and revival of a mentally ill woman

Ajija Begum, was running her puffed rice making business with the MFI loan of Rs. 1,000 taken six years back. She was not only contributing to her family income but also helped her son-in-law to repay his debt by availing of a second loan of Rs. 3,000 from the group. Her third loan of Rs. 6,000 was utilised for purchase of two sewing machines for her sons. Ajija and her family members were unhappy when suddenly she was struck by a mental illness and as a result, her business venture came to a standstill. The family was at a loss. At that time, the leader of the group came to her rescue. She came up with the suggestion of utilising the fund accumulated in her optional savings account for her treatment and arranged for withdrawal of the same from the MFI. Ajija got cured and again became member of the MFI after one year. She restarted her business and availed a credit of Rs. 10,000 for construction of boundary wall of her house. Thus, the MFI activity has helped not only in her business endeavour but also in building the support system to fall back on during vulnerable situations.

Source: Case Study

Micro finance emerged as a valuable source of risk borrowing for two of the most vulnerable sections of the poor households, i.e. 'women sole earner' and 'women earning along with men

MFI Borrowings in Risk Situation

Risk borrowings comprise borrowings for the following purposes:

- (i) Lifecycle events (mainly marriage)
- (ii) Debt redemption
- (iii) Emergency house repair
- (iv) Medical costs
- (v) Emergency food needs.

The proportion of households borrowing for risk went down across all wealth ranks (47.1 per cent in baseline to 29.6 per cent in endline for overall sample). Availability of loans from MFIs could partly explain the higher proportion of client households borrowing for risk purposes.

Purpose-wise Risk Borrowings

The proportion of households borrowing for meeting marriage expenses went up slightly across most wealth ranks, particularly among the poor. The proportion of client households borrowing for meeting medical expenses also increased slightly between baseline and endline (from 25.5 per cent to 26.1 per cent) among client households.

Contribution of Costly Informal Sources (CIS) to Risk Loans

The dependence of the households for risk borrowing from CIS, mainly moneylenders, reduced after receiving increased credit support from MFIs. The proportion of client households borrowing from Costly Informal Sources for risk purposes declined sharply from 36.5 per cent to 23.9 per cent.

Relative Dependence on MFIs and CIS for Risk Borrowing

Between baseline and endline surveys, higher proportion of client households was depending on the MFIs rather than on CIS, as compared to non-clients. (Table 7)

Particulars	Share of Micro Finance & CIS in Risk Borrowing			
	Clients		Non-client	
	Baseline	Endline	Baseline	Endline
Percentage of households borrowing for risk purposes				
MFI	59.4	72.0	-	-
CIS	36.5	23.9	60.5	46.0
Percentage share in amount of risk borrowing				
MFI	21.9	37.3	-	-
CIS	52.8	36.2	66.2	55.2

Risk borrowing by women-headed households

Micro finance emerged as a valuable source of risk borrowing for two of the most vulnerable sections of the poor households, i.e. 'women sole earner' and 'women earning along with men'. However, covariate risks were often beyond the powers of the MFIs to overcome and needed intervention of Governments at various levels. (Boxes 20 & 21)

Box 20: MFI rehabilitates an indigent tribal woman

Smt. Poleramma, an illiterate scheduled tribe woman earned her livelihood, since childhood, by selling iron scrap. Later, she married a man engaged in the same activity, but found it extremely difficult to support her family consisting of three sons and three daughters and resorted to begging for food and clothes. However, to make both ends meet, she began knitting/weaving bamboo baskets and selling them but found that the income was meagre.

On hearing about the MFI, she joined the group and took the first loan of Rs. 4,000 and started a scrap shop. She cleared the loan and availed of eight successive loans and utilised them as follows: the second loan of Rs. 10,000 for investment in business, the third loan of Rs. 15,000 for purchasing a kutccha house, the fourth loan of Rs. 50,000 to clear all outside debts, the fifth of Rs. 60,000 for investing in hair-selling business, the sixth loan of Rs. 70,000 to purchase 10 mobile carts, the seventh loan of Rs. 1,00,000 to again clear debts, the eighth loan of Rs. 3,50,000 to construct a pucca house and the ninth loan of Rs. 2,50,000 was utilised for iron scrap business. There was a complete metamorphosis in the life of Poleramma – from almost a beggar to a woman of substance – an entrepreneur and busy woman engaged in multiple business activities. At the time of the study, as an entrepreneur, Poleramma headed her business activities and was also the leader of the group. Subsequently, she got all her six children married and got her three sons involved in her business activities. Poleramma's case proved that MFI credit enabled a very poor woman 'living a hand to mouth existence' to become an entrepreneur, leading a highly successful life.

Source: Case Study

Box 21: MFI assistance enabled a handicapped woman to come out of her sheltered existence and to increase and better her prospects in life

Ms. Bagyalakshmi joined the group as a spinster breaking all norms of only married women joining the group. She had a slight handicap in her leg, which she suffered from a tractor accident and this created obstacles in her marriage and led to a lot of social problems for her and her family. Despite the handicap, she wanted to prove her worth and so joined the MFI group and availed of her first loan of Rs. 10,000 which was utilised for starting the dairy business. On meeting the group members, she felt motivated and her confidence soared. Her income from the dairy business increased and she repaid her first loan and took a second loan of Rs. 5,000 and purchased cooking and other household articles for domestic purpose. On seeing her success through micro finance assistance by the MFI, she was married to a worthy suitor and also later started assisting her father-in-law in his agricultural activity. She availed of two additional loans of Rs. 20,000 and Rs. 6,000 respectively, to purchase bullocks for her father-in-law to further assist him in his agricultural activity and in her sister-in-law's marriage. This enhanced her image and status in her house and in the society at large. Bagyalakshmi's case was a unique one. Through her grit and determination, she was able to rise up in life and succeed in her endeavours only because of MFI's assistance, which proved the important role played by MFI credit.

Source: Case Study

Micro Finance and Women Empowerment

Hypothesis: Micro Finance contributes to women empowerment

Partially Supported

- ☞ Micro Finance contributed towards increase in savings by women in their own name
- ☞ Micro Finance created new economic avenues for women
- ☞ Ownership of assets jointly with male members has improved
- ☞ Micro Finance enabled increased control of women over running family enterprises

Micro Finance helped women in contributing to their household incomes by pursuing activities like tailoring, dairy, agriculture, floriculture, running tea shops and small grocery shops either on their own or with the help of their spouses

Women constituted over 80 per cent of the sample. The study, therefore, attempted to throw light on how far the micro finance programmes have contributed to their empowerment. Empowerment was broadly measured in terms of women's access to saving and credit, their ownership of assets, employment benefit and enterprise management.

Women's Access to Financial Services

The proportion of client households saving with MFIs declined significantly between baseline and endline from 77.7 per cent to 51.5 per cent. The reasons for this have been already discussed earlier.

The proportion of women households saving with other formal sector institutions such as banks, post office, LIC and PF also increased (from 14.2 per cent to 16.2 per cent) but that with the informal sector declined (from 11.2 per cent to 6.5 per cent). The poorer women clients benefited significantly in comparison with other wealth rank categories as also compared to non-clients.

Share of Women in Total Household Savings

Women clients had higher share (30.5 per cent) in the total savings of households than the non-clients (28 per cent). The share of women savings in total household savings increased significantly for the 'very poor' category from 72 per cent in baseline to 80 per cent in endline.



Economic Activities Pursued by Women

Micro Finance helped women in contributing to their household incomes by pursuing activities like tailoring, dairy, agriculture, floriculture, running tea shops and small grocery shops either on their own or with the help of their spouses. Some of the instances and a case study are given in Box 22 & 23.

Box 22: Economic empowerment of women

- ◆ Women enjoyed full liberty in saving with the group and saving in their name without any inhibition. They were able to influence their husbands to contribute to savings. Many were happy to say that savings in their name gave some social status at home and in the community.
- ◆ Regarding utilisation of savings for purchase of assets or ornaments women had the power, but none of them (excepting single women households), wanted to take decision without consulting their husbands or other elder members in the house. However, many of them reported that they enjoyed freedom of spending the savings on purchase of clothes and other household goods.
- ◆ Decisions regarding utilisation of loan, whether for husband's business or new activity or repayment of loan, were taken jointly by husband and wife.
- ◆ Savings out of income from business were spent on education of children and purchase of assets. The decision to spend the savings was taken jointly.
- ◆ One of the women participants who availed of an individual loan of Rs. 1.00 lakh for business purpose, had got her son educated as an engineer. Her son completed the engineering course and wanted to go for MS course in US.
- ◆ The women told that they earned prestige and importance in their homes and their family members also helped them in domestic work. Their spouses listened to them and consulted them in domestic decision making.
- ◆ Women, however, commented that the burden of their domestic work had not been reduced, their earlier spare time was now utilised for business purpose.

Source: Case Study

Box 23: A widow became self-reliant and financially stable

C. Rama Subbamma became a widow at the tender age of 18 years with two children to feed. With courage and determination she started a roadside 'dosa' stall and earned a meagre sum of Rs. 15 to Rs. 20 a day. She was unable to invest more and moneylenders were not willing to help her because she was a widow.

Fortunately, on hearing about the MFI, she enrolled herself as a member and availed of her first loan of Rs. 5000. With the amount she purchased a small bunk, serving eatables and tit-bits to children, continuing her original trade of serving 'dosa'. Her income rose to Rs. 50 per day, and she was able to clear off the first loan and availed of a second loan of Rs. 10,000. With this second loan, she opened a provision and a sweet shop and this further increased her income to Rs. 150 per day and helped her in clearing the second loan. Subsequently, she took the 3rd and 4th loan of Rs. 11,000 and Rs. 15,000 respectively, purchased a shop to help her son and daughter-in-law to set up business and also expanded her own business. The total business turnover increased, leaving her with a surplus of Rs. 300 per day. Her standard of living and that of her family improved immensely. Apart from saving a sum of Rs. 50,000, she also constructed her own house and opened her own saving account in a bank, saving an amount of Rs. 100 per day.

The case revealed C. Rama Subbamma's strong will power in the face of adversity, coupled with the social empowerment instilled by SHG/MFI activities and timely availability of successive MFI credit that succeeded in giving the family the much desired financial stability.

Source: Case Study

Women's Share in Family Employment in MFI Supported Activities

Women's share in family employment generated by MFI supported activities, showed overall improvement going up from 41 per cent in baseline to 44.8 per cent in endline.

Opportunities for Individual Growth

Greater opportunities for increased responsibility, awareness and skills were available mainly to women in leadership positions, especially, Group Presidents and Secretaries in SHG Model MFIs and Centre Leaders in Grameen MFIs. (Box 24)

Box 24: MFI assistance developed a poor woman into an entrepreneur

Ms. Valarmathi was a dynamic and enterprising woman. She and her husband ran a charcoal business. The income derived from this business was very meagre, Rs. 5000 to Rs. 6000 per annum. She very keenly observed the functions of the MFI in the village and volunteered to join the group. She took the first loan and played an active role in group discussions, meetings; voiced her opinions boldly on various issues and encouraged the group members to participate actively in 'morchas' (protests) for social causes, organised by the MFI. She formed a new SHG in the village and became its leader.

As a leader, she managed the group effectively and gained the confidence of the members. During the period, she also managed to take 10 group loans of Rs. 5000 each and invested the amount for further expansion of her charcoal business. To enhance her business further, she took two MFI loans of Rs. 10,000 and Rs. 25,000, and started a new shop, selling plastic goods, artificial/cosmetic jewellery and toys. She was ably supported by her husband. Her income from the charcoal business and the 'fancy shop' gradually increased and improved her standard of living. Besides the management of these enterprises, she also acted as a 'Counsellor' for other poor women in her community. She motivated a relative, a young widow, to join the MFI group, arranged MFI loans for her and invested the same in her 'fancy shop' and made her partner of the shop with an arrangement for sharing the profit. Thus, MFI assistance enabled Ms. Valarmathi to increase her household income, become a successful entrepreneur and also assist other poor women in the village in becoming more confident and self reliant.

Source: Case Study

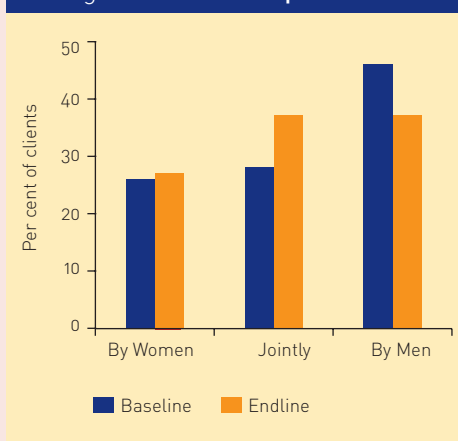
Empowerment at the Household Level

Empowerment at the household level covered women's ownership of assets within the household, their involvement in enterprise management, contribution to income and involvement in decision making.

Ownership of Assets

The study showed that ownership of assets exclusively by men declined from 46.0 per cent to 37.0 per cent, while joint ownership (both men and women) improved significantly from 28.0 per cent to 37.0 per cent and ownership exclusively by women improved slightly from 26.0 per cent to 27.0 per cent. (Figure 8)

Figure 8: Ownership of Assets



Women's Involvement in Enterprise Management

The management of micro credit supported enterprises by women improved marginally. This trend towards greater share in management by women households was more pronounced in the South/West regions (from 39.9 per cent to 46.9 per cent) as compared to the North/East regions.

Contribution to Household Income and Involvement in Decision Making

With the support of micro finance, women were contributing to the income of the family. Women have started taking decisions on children's education, improving the condition of housing and purchasing household assets.



Micro Finance and Women Empowerment in Community

Many MFI client women were emboldened by their participation in group meetings or federation meetings, to participate in the Gram Panchayat meetings and in 'morchas' (public demonstrations) for social causes. Some had successfully contested in the local Panchayat elections. The backing of the MFI and the Group gave women courage and self confidence to fight for the success in their activities and for their economic betterment. In difficult - sometimes hostile - social milieu, they tactfully manoeuvred their way and attained success.

The backing of the MFI and the Group gave women courage and self confidence to fight for the success in their activities and for their economic betterment

Socio-economic Effects of MFI Assistance

Hypothesis: Micro Finance brings about overall improvement in the socio-economic status of clients

Partially Supported

- ☞ Micro Finance contributed to improvement in household income
- ☞ Micro Finance contributed partially to improvement in pattern of food consumption
- ☞ Micro Finance did not influence migration

A number of factors were responsible for income variation, e.g. poverty level of clients, regional disparity in general development of the area, client coverage with different rural/urban developmental settings, longer association of clients, variations in provision of successive loans and enterprise support by MFI

Average Household Income

- The client households recorded an increase of 68.6 per cent in average household income as compared to non-clients (31.2 per cent) across all wealth ranks. Among this, poorer households showed significant income increase. The increased income is generated from the activities pursued by the clients with micro credit support.
- Frequency distribution showed that all households had not benefited equally with increase of household income. On the whole, 78.6 per cent households showed increase in income; 29.7 per cent of client households recorded increase of over 200 per cent, another 48.9 per cent recorded increase of 100 per cent to 200 per cent.

- Average income level of clients of all MFIs worked out to be Rs. 45306. [Among SHG model MFIs, clients of 7 out of 11 MFIs had below average level of income of Rs. 37958. Among the Grameen model MFIs, clients of 6 out of 8 MFIs had below average level of income of Rs. 32667 and among Individual Banking model MFIs, clients of 2 out of 5 had income level below the average level of Rs. 61,357]. A number of factors were responsible for income variation, e.g. poverty level of clients, regional disparity in general development of the area, client coverage with different rural/urban developmental settings, longer association of clients, variations in provision of successive loans and enterprise support by MFI.

A comparison of the income of the sub sample clients covered by different MFIs with the coverage of poor by these MFIs (according to the total sample) showed that the clients of MFIs having lower coverage of poor had higher level of average income.



Number of Meals per Day

- There was a decline in the proportion of client households having one or two meals per day and a substantial increase in the proportion of client households having three meals a day (66.2 per cent in the baseline to 78.9 per cent in the endline). The pattern was observed across all wealth ranks including the 'very poor' and 'poor'. A similar change was also observed in the proportion of non-client households, though endline proportion of households having three meals per day was lower than client households. Thus, micro finance contributed to an improvement in the pattern of food consumption of the client households.

Health Care

- Overall, the proportion of client households having treatment at private hospitals increased sharply at the expense of other modes of treatment. This was also true in the case of 'very poor' and 'poor' households also.
- There was no clear evidence that on account of better affordability of medical treatment, there was a fall in the proportion of client households losing working days due to illness.
- Larger number of clients showed preference for child birth at Government hospital rather than at home or at the Public Health Centre. The clients with longer association with MFI had more preference for private hospitals. They were ready to spend more in the case of child delivery.

Purchase of Clothing

- Clients showed preference for purchasing clothes 'at any time' rather than at festivals, across all the wealth ranks in endline. The proportions of households shifting in favour of 'any time purchases' were higher among clients than among non-clients.

Education

- The proportion of households having children in primary schools showed a decline and those going to secondary schools and colleges increased (30.4 per cent to 33.8 per cent), both among clients and non-clients, with marginal variations in proportions.
- In endline, large proportion of client households moved from low-cost education to high cost education, partly because of the graduation of children from primary to secondary and college education and also partly because of the keenness of the clients to send their children to better schools.

Employment

- As revealed in the FGDs, micro finance has succeeded in generation of employment opportunities. The impact on reducing unemployment was positive but not so large as to provide employment to everyone in the family.

Seasonal Migration

- Data showed that there was hardly any impact of MFI loaning in the proportion of client families migrating during the endline survey, though the average number of days did show

The impact on reducing unemployment was positive but not so large as to provide employment to everyone in the family





some decline from 23 to 14. The volume of MFI loaning was not so large as to create large employment opportunities to decrease client household migration. Besides, the local markets were not large enough to provide sufficient opportunities to the clients.

Awareness of Clients of Different Types of Models

- The clients' awareness regarding micro finance and banking was quite good, particularly in regard to their own savings and micro credit. This awareness was better among higher wealth ranks. Knowledge about interest offered on savings or withdrawability of savings was, however, lower. As regards micro credit, clients were aware of the interest rates but not so much about the calculation of loan instalment.
- Nearly 60 per cent of the clients had visited a bank and MFI branch accompanied by others, though fewer had visited on their own.
- Similarly, about 40 per cent of the poor clients were familiar with the process of withdrawal of cash from bank account and other aspects of bank accounts. (Table 8)

Table 8: Micro Finance awareness & banking experience

Indicators	Very Poor & Poor	Borderline	Non-poor
A. Micro Finance Awareness	(Per cent to Total)		
1 Savings related knowledge			
(i) Own saving a/c	52.8	63.0	77.7
(ii) Whether withdrawable	48.8	42.7	52.9
(iii) Interest rate	45.3	56.2	72.3
2 Micro credit related knowledge			
(i) Knowledge about interest rate	64.2	67.4	75.2
(ii) Calculation of loan instalment	57.1	59.1	63.6
B. Banking Experience			
1 Visiting a Bank/MFI branch	58.7	67.0	77.3
2 Of those who visited			
i) Who visited on their own	27.6	39.5	53.7
ii) With other programme member	27.9	23.9	20.2
3 (i) Clients who know process of withdrawing cash	40.2	60.1	72.3
(ii) Clients who know type of account/interest rate	40.5	56.2	70.7

- Clients of SHGs were generally better informed of micro finance and banking related matters than clients of Individual Banking and Grameen models.

Box 25: Positive and negative impacts of MFI assistance

- ◆ Positive economic impact of micro finance was observed in terms of increased income, diversification of household activities and reduced dependence on the single main occupation of the household, larger employment opportunities - particularly for women, increased number of earning members per household, improvement in their dietary habits, general improvement in their quality of life, including housing conditions and education of children, particularly of girl child. **Reduced dependence on the moneylender, however, can be considered to be a net gain of the micro finance movement.**
- ◆ Large spending on social occasions like marriages and festivities, tendency to increase borrowing, overall increase of workload of women, engagement of children in the production process in some of the family enterprises were side-effects of MFI assistance.

Positive Impact – Some Instances

- ◆ The participants told that their economic status had improved with the financial support provided by the MFI. A number of income generating activities had come up in the villages like dairy, opening of shops viz. general store, telephone booths, etc. One woman was reported to have received President's Medal for her commendable achievement in animal husbandry.
- ◆ The villagers purchased more buffaloes, expanded their shops or opened more shops apart from the existing ones. The participants said that a few villagers had also utilised the loan amounts for agricultural purposes to increase their production. With the financial support made available to the local community by the MFI, their living standard improved to a substantial extent.

Negative Impact – Some Instances

- ◆ The expenditure during festive time increased twofold.
- ◆ **Implication of strict adherence to norms and conditions and MFI staff behaviours:** The autocratic behaviour and unilateral decision making by the Group leaders, in some cases, affected the dynamics of grassroots democracy. Misconduct by group leaders and strict adherence to norms particularly in recovery matters, sometimes, led to malfunctioning of groups. On some occasions, it led to dropouts.
- ◆ **Child labour:** To a certain extent, increased admission of children in the school reduced child labour menace. However, a negative impact was that in some cases, especially in case of poor household families with limited incomes, girl children were found to be contributing their labour in the family enterprises. This was, however, found only in case of certain specific productive activities like **zariwork** (Embroidery).
- ◆ **Expenditure on social functions:** There was a general increase in the ostentatious expenditure on social ceremonies, such as marriages, **shradhas** (annual death rites) and funerals. The participants opined that this expenditure was very essential for the changing society. According to them, it was not a negative impact.

Source: FGDs



Reduced dependence on the moneylender, however, can be considered to be a net gain of the micro finance movement

Other Financial Services

Hypothesis: Micro Finance improves the terms, conditions and accessibility of other financial services.

Partially Supported

- ☞ Access to formal banking services improved through SHG-Bank linkage programme
- ☞ Increased reliance on micro finance and formal sector has reduced dependence on informal sector
- ☞ Fall in proportion of clients borrowing at high interest rates
- ☞ Clients continue to avail costly informal services from moneylenders during emergencies or fill the gap for enterprise financing

Involvement in group activities had inculcated savings habit not only from additional income but also from curtailment of expenditure on lavish feasts, entertainment and purchase of clothes

Access to Savings Options

Access to savings was an important feature of the micro finance movement. Savings constituted the basis of their credit worthiness with the MFI.

Access to MFI membership raised the status of clients with banks, which started offering them savings account facilities. The proportion of client households holding formal savings accounts went up from 30 per cent in the baseline to 32.7 per cent in endline. For non-clients, it went down from 33.3 per cent to 27.5 per cent. (Table 9)

Table 9: Formal savings accounts

Particulars	Percentage of Households			
	Clients		Non-Clients	
	Baseline	Endline	Baseline	Endline
By Wealth Rank				
Very Poor	9.6	18.2	9.1	5.0
Poor	19.3	25.1	16.6	18.0
Borderline	25.9	32.9	34.9	26.5
Non-poor	53.5	45.2	58.8	47.6
By Model				
SHG	26.2	26.0	30.5	28.4
Grameen	20.8	21.4	26.8	18.2
Sector Specific	50.7	60.3	59.5	50.0
Individual Banking	51.6	64.3	47.4	36.8
Total	30.0	32.7	33.3	27.5

When some of the MFIs decided to discontinue savings facilities - both compulsory as well as voluntary - the members were extremely disturbed. Members started clamouring for their restoration in all group meetings and when this was not done,

some of them were not keen for availing credit and had withdrawn from the membership.

Access to Credit Options

The client households, across all wealth ranks and models, showed their increased reliance on micro finance as also on formal sector and reduced dependence on informal sector (both costly sources of finance and other private informal sources). There was a fall in the proportion of clients borrowing at very high rates of interest and with outstanding debts. (Box 26)

Box 26: Value-addition for being member of the MFI

They feel that the membership entitlement itself has a value-addition effect as it creates opportunity for them to get access to other credit facilities from the friends/relatives/neighbours as the membership itself proves to be a guarantee for repayment of the loan.

Another important point which came out during the discussion was that earlier, the relatives/friends/neighbours were apprehensive to give loans to them, as they were not sure about their capacity for repayment. But now the members can get easy loans from them in case of emergency, as they are sure to get the money back through the MFI assistance of the client.

Source: FGDs

MFI Activities and Formal Financial Sector

The overall relationship between the MFIs and the banks was becoming closer in matters of mutual benefits. Many public and private sector banks have started giving long-term loans to MFIs for on-lending through SHGs or directly. The volume of funds available for the target group from the commercial banks, through this medium is increasing.

Informal Financial Services

Moneylenders continued to function throughout the country. In areas where the micro finance movement has gained momentum, the demand for loans from them has come down and the rates of interest in the informal market have declined. Wherever the MFIs were weak and the volume of their loaning has been small, the operations of money lenders have remained unaffected. In Southern India, interest rates in informal market came down more than in the North and East due to increased micro finance activities.

Demand for loans from moneylenders has come down in areas where micro finance movement has gained momentum

Process of Change: Clients' Retrospective- An In-depth Study

The in-depth study has revealed that MFIs had extended support to clients' efforts in innovation, diversification and restarting even after failure

In the In-depth Study, clients (small sub-sample of 259 clients, about 8 per cent) with a fairly long association with the MFIs were further interviewed with a view to get the clients' own review of their life, since they joined the micro finance movement and of the process of change through which they had passed. The interview covered details of all loans received by the clients till the endline survey to ascertain how they had utilized them and, how they visualised overall benefits received from participation in the micro finance operations. Their experience during the association offered insights for impact assessment of the assistance. Since the period covered was fairly long, there were some information gaps due to memory lapses. But they responded effectively and provided insight into how the support from MFIs and Groups had helped them in income stability and developing a new sense of confidence. Not all are success stories; in a few cases calamities like drought and prolonged illness had destabilised their lives. It is credible for the MFIs that clients expressed their gratitude for providing a number of benefits such as assistance for developing existing activities, diversifying into new activities and repayment of their costly past debts.

The in depth study has revealed that MFIs had extended support to clients' efforts in innovation, diversification and restarting even after failure, without which, perhaps, the clients would not have been successful. (Table 10)

Table 10: Purpose-wise number of loans (MFI/Groups) taken by the households selected for the in-depth study

Sl. No.	Purpose	Number ⁴	%
1.	For financing productive activities	243	63.9
2.	Repayment of old loans	19	5.0
3.	Repairs to or construction of house	30	7.9
4.	Medical treatment	21	5.5
5.	Education of children	25	6.6
6.	Social purpose	11	2.9
7.	Acquisition of household assets	9	2.4
8.	Consumption or household expenditure	22	5.8
Total		380	100.0

Source: In-depth study of sample clients during endline survey

⁴Since loans could be for more than one purpose, there is considerable overlapping and the number of loans exceeds that of the borrowers.



The overall benefits derived from MFIs and their limitations as elaborated by the sample clients are given in Box 27.

Box 27: Benefits of Micro Finance programmes and their limitations

Overall Benefits from MFIs	Limitations of MFIs
<ul style="list-style-type: none"> ◆ 77 per cent able to develop their existing activities; ◆ 37 per cent able to diversify into new activities. ◆ 39 per cent able to repay their past costly debts and current debts ◆ 76 per cent able to increase their income through MFI assistance. ◆ 66 per cent improved their food consumption. ◆ 56 per cent could improve their housing conditions ◆ 47 per cent could acquire additional households assets ◆ 77 per cent could provide better educational facilities to their children ◆ 59 per cent considered raising of their social status as a result of association with micro finance movement. 	<ul style="list-style-type: none"> ◆ Inability of the MFIs to provide adequate quantum of assistance to the clients. Reasons are: (i) MFIs were not able to raise enough resources for on-lending; (ii) Loan products offered by them were not according to the requirement of the activities chosen by the clients. ◆ MFIs' resource problem was interfering with its sincere efforts to rehabilitate the lives of its own indigent clients. ◆ Only 37.5 per cent clients found the loan amount adequate. Others had to supplement the remaining amount required with own funds, borrowings from formal institutions, moneylenders or friends and relatives. ◆ MFIs are providing finance only for meeting income smoothening or meeting emergency or risk situations, where financial needs were urgent but not large. ◆ MFIs have to be graduated into micro-enterprise funding institutions. The present situation shows MFIs are not able to finance the activities where investment needs are higher for buying high cost assets. ◆ Clients are of the opinion that the rate of interest charged by some of the MFIs for the loan is high. Besides, they also include additional costs on account of loan processing fee, insurance premium and non-interest bearing special deposit.

Feedback on MFI Services

The clients, in general, expressed their satisfaction with micro finance programme of the MFIs. Of the total sample of 3,253 clients, while 79 per cent responded to the questions, the remaining made no comment. Ability to come out of the clutches of moneylenders with micro finance support was considered a highly significant achievement of MFI movement. As members of well-knit groups, a close bond of friendship developed among women members which gave them strength and confidence. Broadly, the clients gave feedback on savings, loans from the MFI, insurance, other development support services and group dynamics. (Box 28)

Ability to come out of the clutches of moneylenders with micro finance support was considered a highly significant achievement of MFI movement

Box 28: Positive aspects of micro finance services				
Services	Positive aspects as per clients	SHG	Grameen	IB/SS
Savings				
Service	Ability & opportunity to save, & compulsory saving opportunity	↑	↑	↑
Loans				
Service	Easy access to loan	↑	↑	↑
Cost	Low interest rate compared to moneylender/costly informal sources	↑	↑	↑
Availability	Timely availability of loan & for emergency in adequate amount without collateral	↑	↑	↑
Repayments	Easy repayments in small installments at doorstep	↑	↑	↑
Insurance	Asset insurance facilities			↑
Enterprise services	Helped in enterprise development & economic conditions	↑	↑	↑

- **Savings related:** About 19 per cent of all sample clients considered inculcating 'ability to save' among the poor as a positive aspect of the programme. Response was high for the clients of MFIs with SHG model at 31 per cent. Other important aspects of the programme which were appreciated are, facility of collection of deposits at the doorstep, compulsory savings opportunity and flexibility in savings.
- **Loan related:** Nearly one fourth of all sample clients considered 'easy access to loan' a positive aspect of the MFI lending. Next in importance were 'low interest rates' and 'timely availability of loan'.

Suggestions of Clients for Improvement

- **Savings related:** Major suggestions include continuance/restarting collection of deposits, increasing interest paid on deposits and to keep the deposits in banks.
- **Loan related:** A large number of clients (32 per cent) considered interest charged on loan too high and wanted it to be reduced. **Other suggestions were:** increasing the amount of loan, making repayment on monthly basis, providing loans for purposes like education, housing, consumption, land purchase and

marriage, making loan repayment flexible, providing loans to all members on a regular basis, reducing service charges and providing additional loans when required.

- **Other Services:** Regarding other services, providing training on skill development was considered important by about 11 per cent of clients. Providing insurance facilities (covering life and/or assets), conducting awareness programmes for new groups and improving behaviour of the MFI staff collecting loan repayment instalments were also suggested by the clients. (Box 29)

Box 29: Expectations/Suggestions of clients for improvement of micro finance services

Services	Expectations/Suggestions of clients
Savings	
Service	Restart/Continue collection of deposits
Interest	Provide interest on deposits
Amount	Allow clients (micro-entrepreneurs) to save more depending on income flow
Withdrawal	Allow withdrawal of a proportion of savings and interest after a specified period, depending on their current loan and requirements
Loan	
Cost	Reduce interest rates on loans and interest be charged on reducing balance, reduce service charges, remove deductions for welfare activities/funds
Amount	Increase amount of loan
Purpose	Provide loan for various purposes depending on needs like housing, education, marriage, housing assets, etc
Loan cycle	Provide loan to all members regularly
Repayments	Provide flexibility in instalments of repayment of loans matching with income flow of the livelihood activities, repayment schedule be made monthly
Security	Loan be provided without collateral and joint liability be considered adequate
Insurance	Provide life and asset insurance facilities
Enterprise services	Provide training on skill development, provide more support for enterprise development for input procurement/marketing

The positive feature of programme is that 11 per cent of the dropouts had graduated to formal banking with the benefit of micro finance

Feedback from Dropouts

- Responses from a sample number of dropouts (414) who were clients of MFIs in the baseline, were gathered to know the reasons for their action. Wealth rank-wise, 36 per cent of 'borderline' clients, 31 per cent of 'poor' clients, 15 per cent of 'self-sufficient' clients and less than 10 per cent of 'surplus' and 'very poor' clients dropped out. (Table 11)

Table 11: Distribution of dropouts

Wealth Rank	MFI Models				Total
	SHG	Grameen	Individual Banking	Sector Specific	
Very Poor	15	19	1	0	35
Poor	37	58	32	1	128
Borderline	64	40	43	4	151
Self-sufficient	29	13	18	1	61
Surplus	10	8	21	0	39
All	155	138	115	6	414



- The positive feature of the programme is that 11 per cent of the dropouts had graduated to formal banking with the benefit of micro finance. Other broad reasons given by dropouts were:
 - (a) withdrawal of savings facility;
 - (b) inability to follow all rules and conditions of micro finance programmes;
 - (c) not satisfied with the programme;
 - (d) group's functioning not favourable; and
 - (e) other personal problems.

Feedback from Non-clients

- The non-clients in the sample clusters expressed their views on whether they were willing to join in the MFI programme and why they had not joined yet. After significant expansion of the micro finance programme in the surrounding areas, awareness among half of the surveyed 1257 non-clients has increased regarding the operational details of the MFI programme in their area and 45 per cent of them showed willingness to join the programme. This indicated a scope for increasing the outreach of the micro finance programme in the existing coverage.

Issues and Recommendations

The Study has brought out certain important issues and has made relevant recommendations for improving the functioning of the MFIs.

Box 30: Aspects, issues and recommendations		
Aspects	Issues	Recommendations
(i) Client Selection	Client selection is often focused to cover more 'economically active poor', giving preference to women with direct/indirect support of men.	High weightage needs to be given to the poor and especially to women, while covering all 'financially excluded' categories of poor households.
(ii) Capacity Building of Groups	Groups need to be trained for efficient functioning and inculcating credit discipline. MFIs do not possess financial skills and human resources for it, moreover, capacity building increases operational cost of micro finance operations.	There is a distinct need for capacity building of groups for long term strengthening and sustainability of micro finance. For reimbursing the cost of training, MFIs need to be supported by FIs and donor agencies to defray the training costs.
(iii) Savings Mobilisation	Besides credit, the poor need savings services to bridge income fluctuations and meet emergency needs. MFIs are not permitted to mobilise deposits, hence, are unable to offer savings services to their clients.	It is strongly recommended that MFIs may be permitted to mobilise savings at least from their own clients/members on the condition that they will follow prudential accounting norms. MFIs should offer interest on savings and savings be made withdrawable.
(iv) MFIs as agents of Commercial Banks	As Business Correspondent of Banks, MFIs can offer savings facilities to clients. However, they find the scheme unattractive as the commission does not cover the cost of door-delivery adequately.	Facilitating environment may be created for MFIs to work as agents of commercial banks, may be, by making commission rate negotiable and permitting the MFIs to loan back the savings mobilized by them on agreed terms.
(v) Delivery of Credit	Visits to branches impose extra costs on the borrowers in terms of transportation cost and time spent. However, it is a cost-effective delivery mode if large number of clients in a single cluster are covered.	For the benefit of the poor, credit delivery at the door-step should continue at a reasonable cost to clients.
(vi) Quantum of Loan	Due to small size of loans from MFIs, clients sometimes face problem in meeting larger investment requirement. They also need higher amounts for diverse purposes.	Loan amounts should be need based in case of production loans and diverse requirements.

(Contd.)

(Contd.)

Aspects	Issues	Recommendations
(vii) Interest Rate Policy	MFIs are often pressurised to bring down interest rates to unreasonable levels in the name of service to the poor without provision of any support. MFIs have to charge interest rates on loans to fully cover cost of funds, operational costs, loan loss provisions and reasonable margin of profit for servicing equity and building sustainability.	MFIs should follow a rational and transparent interest policy to avoid suspicions and encourage professionalism in the sector. MFIs may take steps like rationalising the cost of funds by accessing various sources of funds, increasing operational efficiency, involving local small NGOs, etc.
(viii) Transparency in Lending	Borrowers are often unaware of the effective cost of borrowing and complain about the high cost of loan and lack of transparency.	MFIs should be transparent with respect to interest rate and other costs charged and effective cost of credit to the borrowers.
(ix) Repayments	Most MFIs insist on weekly or monthly repayments, which are inconvenient for clients with seasonal or periodic income streams.	Credit discipline is the cornerstone of micro finance programmes which operate at high risk without collateral security; therefore, borrowers have to follow repayment schedule scrupulously. However, certain flexibility can be introduced in case of production loans for micro enterprises with periodic income streams.
(x) Insurance	Insurance is one of the important financial services necessary for the vulnerable poor for risk coverage. Insurance premium is often considered as an avoidable burden by the resource-crunched poor. Irregularities in insurance transactions convey a wrong message to clients and create hurdles in the growth of micro insurance industry.	MFIs need to take extra efforts to explain the need of life and asset insurance to clients and be transparent about their handling of insurance products. MFIs also have to endeavour to popularise asset insurance for security of MFI production loans.
(xi) Other Services	Vulnerable illiterate poor need guidance for identification of viable/suitable income generation activities, skill development, market linkages, etc. However, they do not have resources to pay for these services. This is possible if MFIs have access to grants from Government/Donor agencies. Otherwise recovering these costs would be an additional burden.	MFIs should provide services such as guidance and counselling in identification of suitable income generation activities, training for skill and entrepreneurial development, etc. for which suitable grant assistance from Government or donors is necessary.
(xii) Legal Framework	MFIs need backing of a proper legal structure for recourse in crisis.	To develop a strong and viable MFI sector and a suitable environment for sustainable growth, there is need for a legal framework covering regulatory mechanism and provision for capital adequacy, prudential norms, risk fund, etc.

Implications for Micro Finance Policy

The MF sector in India is growing fast. The growth is, however, taking place mainly in the informal sector; where MFIs are set up under different statutes, and there is hardly any monitoring thereunder. The major problems of this sector are the lack of equity and access to loanable funds, organisational weaknesses, shortage of trained staff, etc. and they strongly need developmental support in most of these areas.

Role of SIDBI

SIDBI has, over the past seven years, made multifarious efforts to develop the MFI Sector. These have, no doubt, yielded good results, but still much more needs to be done to enable the micro finance sector to increase its outreach and scale as a step towards financial inclusion. While a small number of MFIs have grown into large and sustainable institutions, many are yet to achieve sustainability. The MFI sector is also getting support – particularly financial – from other donor agencies, public and private sector banks and other financial institutions. But capacity building of the MFI sector is of crucial importance and SIDBI, which has developed close association with this sector, will have to address this problem principally, with such support as is available from other institutions.

SHG-Bank Linkage Programme (SBLP) and Space for MFI Sector

SBLP of NABARD is another major source of credit assistance to the financially excluded households in India. In fact, SBLP is the largest micro finance programme in the world. At the end of March 2006, 32.98 million poor households had been assisted under this programme through 2.24 million SHGs to the tune of Rs 113.9 billion. By comparison, the expanse and pace of growth of MFI assisted households is quite small. The SBLP, however, has developed extensively particularly in the Southern and Western regions of India, where the socio-economic conditions are more propitious for the growth of Self Help Group culture. In the other regions of the Country, particularly Northern, Eastern and North-Eastern regions, there is vast unsatisfied demand for micro finance from the financially excluded households. In the circumstances, even if the SBLP has been developing extensively, serious efforts need to be made by all concerned to promote the MFI Sector in a big way under the leadership of SIDBI with assistance of Government and donor agencies.

Serious efforts need to be made by all concerned to promote the MFI sector in a big way

Major Policy Issues

In the context of the urgent need to develop the MFI Sector to service the neglected sections of the Society, the study has highlighted the following policy issues.

- (i) There is need for the MFIs to have transparency in the interest rate charged by them. This would not only imbibe confidence of the clients, but also of the regulatory authorities towards MFIs.
- (ii) There is a need for a Central Legislation for strengthening the MFI sector through prudential norms, transparency and capital flows. The legislation would clear the decks for the operations of the national micro finance support institutions, in strengthening the sector, by toning up the working of the MFIs.

Support from Government, Financial/Regulatory/Micro finance promotional Institutions, with Government and donor assistance, should continue, on an increasing scale

- (iii) There is need to have national level “Regulatory Authority” which should be endowed with the responsibility of supervision, monitoring and guidance of the entire micro finance sector. This would not only ensure proper financial discipline amongst the MFIs, but also facilitate adequate transparency and adherence to requisite prudential norms, for balanced growth of the sector and as also to facilitate increased flow of funds into the industry.
- (iv) Emphasis, should, however, be placed on self-governance and self-regulation by individual MFIs, with minimal interference from the regulator.
- (v) Promotional support from Government, Financial/Regulatory/MF Promotional Institutions, with Government and donors’ assistance, should continue, on an increasing scale.

Support from Government, Financial/Regulatory/Micro finance Promotional Institutions, with Government and donor assistance, should continue, on an increasing scale.

Annexure

List of Issues/Indicators used in the Study

Categories	Issues/Indicators
Outreach and Access	<ul style="list-style-type: none"> Social profiles of clientele Percentage of women and men borrowers Increasing frequency of repaid, repeat and larger sized loans Variety, level of savings and turnover
Economic Impacts	<ul style="list-style-type: none"> Reported women's control over loan use Increased income by gender Reduced variability of income between seasons Increased access to land Reduced loss of land Recovery of assets pawned or mortgaged Increased savings, particularly for women Increased number of income sources Loan utilisation pattern over time (debt repayment, consumption, emergencies, investment) Increased value of assets (fixed and working capital)
Basic Survival and Economic Well being	<ul style="list-style-type: none"> Shift to higher status food Diversity of diet and child nutrition Regularity of meals Education and health related expenditures Attendance of boys and girls in schools Shift from second hand to new clothing Increased expenditure on consumer durables Improved housing Reduction in seasonal migration
Social and Political Impacts	<ul style="list-style-type: none"> Ability to buy in bulk and get cheaper prices for inputs and consumption goods Freedom from tied transactions with moneylenders, traders and brokers Improved knowledge of banking procedures Pressure on banking institutions to improve services Ability to understand accounts and interest rates choices Change in child labour pattern Involvement of women in new or non-traditional activities Increased confidence and assertiveness in the poor and women in particular Enhanced role of women in household and community decision making Wider access to new resources and arenas, particularly for women More ability to participate in local politics Group tensions and change in social networks Group intervention in solving family disputes

Categories	Issues/Indicators
Potential Negative Impacts or Risks	<ul style="list-style-type: none"> Child labour pattern Domestic violence Women's workload Control over loan use Increased reliance on girl's labour in household chores Reduced school attendance, particularly by girls Change in men's contribution to social welfare
Additional Impact Indicators	<ul style="list-style-type: none"> Increase in income in relation to loan Assessment on redemption of past loan from costly sources or moneylenders Changes in living standards with incremental income Diversification in sources of income and number of earners Incremental savings Incremental employment How the incremental income is being utilised Incremental investment in housing Incremental spending on education Reduction in loss of earning days due to illness Participation in family decision making including purchase of assets Reduction in wasteful expenditure Reduction of migration during lean season

Abbreviations

AFC	:	Agricultural Finance Corporation Ltd.
BL	:	Baseline
BLS	:	Baseline Survey
CIS	:	Costly Informal Sources
DFID	:	Department for International Development
EDP	:	Enterprise Development Programme
EL	:	Endline
ELS	:	Endline Survey
FGD	:	Focussed Group Discussion
FIs	:	Financial Institutions
IB	:	Individual Banking
IBR	:	Index based Ranking
IFAD	:	International Fund for Agricultural Development
LIC	:	Life Insurance Corporation of India
MFI	:	Micro Finance Institutions
MSME	:	Micro, Small and Medium Enterprises
NBFC	:	Non Banking Financial Companies
NGOs	:	Non-Government Organisations
NMFSP	:	National Micro Finance Support Project
PF	:	Provident Fund
PWR	:	Participatory Wealth Ranking
SBLP	:	SHG-Bank Linkage Programme
SC	:	Scheduled Caste
SFMC	:	SIDBI Foundation for Micro Credit
SHG	:	Self Help Group
SIDBI	:	Small Industries Development Bank of India
SMEs	:	Small and Medium Enterprises
ST	:	Scheduled Tribe





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About the Study

The UN Millennium Declaration, which was convened in 2002, committed the participating countries to work together to achieving the Millennium Development Goals (MDGs), the foremost being reducing absolute poverty in the world by one-half by the year 2015. Micro Finance programmes, that serve the poor, are being seen as an important vehicle for realising the MDGs and reducing poverty and vulnerability.

However, empirical evidence on the impact of Micro Finance is still quite limited and suffers from several constraints. Key issues and questions, such as, who is being served by micro finance, does Micro Finance lead to a reduction in poverty, etc., still need to be answered. This longitudinal study of 25 Micro Finance Institutions (MFIs) across the country attempted to explore the relationship between Micro Finance and poverty reduction and sought to review these questions in the context of the vibrant and fast-growing Micro Finance sector in India.

The study demonstrates that the Micro Finance programmes have, to a considerable extent, been able to help the poor in achieving a better level of living by providing them easy access to credit to start/expand income generating activities. Overall improvement in wealth ranks of households indicates a positive impact of the programme on poverty reduction. However, key challenges such as provision of loanable funds, organisational weaknesses in MFIs, lack of equity/capital, regional imbalance, need for central legislation, etc. need to be addressed if the Micro Finance sector is to achieve its stated objectives.

The findings would be of interest to the practitioners, researchers, policy makers, donor and funding institutions and all those who are closely associated with the Micro Finance sector.



Small Industries Development Bank of India

Small Industries Development Bank of India (SIDBI), established on April 02, 1990, is the principal financial institution for the promotion, financing and development of industry in the village, tiny, small-scale and medium sector in India. The business domain of SIDBI consists of Micro, Small and Medium Enterprises.

SIDBI's micro credit programme is being implemented by SIDBI Foundation for Micro Credit (SFMC) – a specialised department with the mission to create a national network of strong, viable and sustainable Micro Finance Institutions from the informal and formal financial sector to provide micro finance services to the poor, especially women. Currently, SFMC is implementing the National Micro Finance Support Project (NMFSP) in collaboration with the Government of India, Department for International Development (DFID, U.K.) and International Fund for Agriculture Development (IFAD, Rome). The project is designed to address the lack of access to financial services by poor in India and is expected to develop a more formal, extensive and effective Micro Finance sector on a national scale. SFMC provides a complete range of financial and non-financial services such as loan funds, capacity building grant support, equity, quasi-equity and institution building support to the retailing MFIs so as to facilitate their development into financially sustainable entities besides developing a network of service providers, rating agencies etc. As at March 31, 2008, SIDBI had, under its Micro Finance programme, sanctioned aggregate financial assistance of INR 19.47 bn. benefitting about 4.63 mn. poor through a network of over 100 MFIs spread across the length and breadth of the country. The Micro Finance portfolio of SIDBI stood at INR 9.50 bn. as of March 31, 2008.

Agricultural Finance Corporation Limited

Agricultural Finance Corporation Limited is a leading agricultural and rural development consultancy organisation in India established in 1968 and wholly owned by the commercial banks, NABARD and EXIM Bank. AFC extends professional consultancy services to national and international development funding/support institutions for carrying out Studies and Surveys of various types and Formulation, Appraisal, Monitoring and Evaluation of Programmes/Projects covering entire gamut of agricultural, rural and social development sectors. It has undertaken over 5000 assignments across Indian Continent and 250 International assignments spread over 33 Asian and African countries. Its experience and expertise are being drawn upon by wide range of clientele which includes bilateral and multilateral international funding organisations, Central Government, State Governments, financial institutions, NGOs, entrepreneurs, public and private sector companies, etc. Besides providing consultancy services to agricultural, rural banking and insurance sector, it also provides research and capacity building services for Micro Finance and micro-enterprise sector through its recently established Micro Finance and Livelihood Division. AFC is professionally organised to provide prompt services to its clients through nation-wide network with Head Office located at Mumbai, and Regional/Branch Offices in nine important States of the country.



Small Industries Development Bank of India, 15 Ashok Marg, Lucknow – 226001.

Tel: 91-522-2288546-550 Fax: 91-522-2288456, 2286925 Visit us at: www.sidbi.in E-mail: sfmc_lho@sidbi.in



Agricultural Finance Corporation Limited

Dhanraj Mahal, 1st Floor, Chhatrapati Shivaji Maharaj Marg, Mumbai – 400 001

Tel: 91-22-22028924 Fax: 91-22-22028966 Visit us at: www.afcindia.com E-mail: afcl@vsnl.com

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