



Sa-Dhan

The Association of
Community Development
Finance Institutions

The Bharat Microfinance Report 2014

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Mission of Sa-Dhan

“To build the field of community development finance in India, to help its members and associate institutions to better serve low income households, particularly women, in both rural and urban India, in their quest for establishing stable livelihoods and improving their quality of life”.

Mission of NABARD

“Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives”.



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Community Development
Finance Institutions

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The Indian Microfinance Sector has witnessed a phenomenal growth over the past 15 years. The number of Institutions providing microfinance services has gone up from a few to several hundreds. The quantum of credit made available to the poor and financially excluded clients have gone past ₹33,500 crore and number of clients benefitted crossed 33 million as of March 2014. The SHG bank linkage program has equally grown to touch the lives of individuals through SHGs with an outstanding loan portfolio of approx ₹43,000 crores.

The Government of India and the Reserve Bank of India has created conducive policy and regulatory framework for Microfinance Institutions (MFIs) to operate in the country. This has provided necessary legitimacy and impetus to the sector. MFIs in general comply to the regulations, take care of client protection issues, adhere to the Industry Code of Conduct. These factors go a long way in infusing confidence among all the stakeholders.

In this context, I think there are three areas within our domain deserving our special attention. One is the need for articulating the fact that microfinance is a strategic part of the financial inclusion agenda of the government and that of the central bank. The second is the criticality of re-demonstrating our collective intention to help the poor and the unbanked populace by way of having the right mission, social performance measures and client protection process. The third area is in projecting the fact that microfinance institutions are sustainable financial institutions and they continue to be the investible destination for the bankers and the investors.

In order to articulate these positions, we need empirical data. This Bharat Microfinance Report has been designed to provide comprehensive information and newer perspectives on the above three areas. Primary data received from 155 MFIs who represent around 95 percent of the microfinance sector in India and analysis thereon forms the basis for this report.

Sa-Dhan, as the leading association of community development finance institutions in India, has been publishing The Bharat Microfinance Report for the past eleven years. This year 155 MFIs reported data, including 56 non-members of Sa-Dhan. We thank them for reposing confidence in us and valuing transparency through data reporting.

A dedicated team at Sa-Dhan secretariat consisting of Mr. Harihara Mohapatra and Mr. Ardhendu Nandi spearheaded the report work with active support of their colleagues Mr. Chandan Kumar, Abu Afzal Tauheed, Mr. P.M Kamalesh, Mr. Susanta Behera and Ms. Vineeta Gupta.

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We are thankful to NABARD for generously sponsoring the publication and dissemination of the report widely among all stakeholders. We are also thankful to SIDBI, RBI and Government agencies for their patronage with the work of Sa-Dhan.

We hope this report would be extremely useful to you. Enjoy reading!

Jagadananda
Chair, Sa-Dhan
December, 2014

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List of Abbreviations

1	ABCO	Active Borrower per Credit Officer
2	AUM	Assets Under Management
3	BC	Business Correspondent
4	BCNM	Business Correspondent Network Manager
5	BF	Business Facilitator
6	BPL	Below Poverty Line
7	CAR	Capital Adequacy Ratio
8	CBEO	Community Based Economic Organization
9	CDR	Corporate Debt Restructuring
10	CEO	Chief Executive Officer
11	CIB	Credit Information Bureau
12	CIF	Community Investment Fund
13	CmF	Centre for Micro Finance
14	CO	Credit Officer
15	CoC	Code of Conduct
16	COCA	Code of Conduct Assessment
17	CPPs	Client Protection Principles
18	CRR	Cash Reserve Ratio
19	CSP	Customer Service Point
20	DBT	Days Beyond Terms
21	DNBS	Department of Non-Banking Supervision
22	DOTs	Directly Observed Treatment, Short Course
23	DPD	Days Past Due
24	DRDA	District Rural Development Agency
25	DWCD	Department of Women and Child Development
26	ECB	External Commercial Borrowing
27	FCR	Finance Cost Ratio
28	FDI	Foreign Direct Investment
29	FER	Finance Expense Ratio
30	FI	Financial Institution
31	FIIs	Foreign Institutional Investors
32	FLCs	Financial Literacy Centers
33	FPIs	Foreign Portfolio Investors
34	GBA	Gramin Bank of Aryavart
35	GIC	General Insurance Corporation of India
36	GLP	Gross Loan Portfolio
37	GoI	Government of India
38	ICIB	Inclusive Credit Information Bureau
39	ICT	Information and Communication Technology
40	IMPS	Immediate Payment Service
41	IPO	Initial Public Offering
42	IRDA	Insurance Regulatory Development Authority
43	JLG	Joint Liability Group
44	KCC	Kisan Credit Card
45	KYC	Know Your Customer
46	LAB	Local Area Bank
47	LWE	Left Wing Extremism
48	MEPMA	Mission for Elimination of Poverty in Municipal Area
49	MFDRC	Micro Finance and Development Regulatory Council
50	MFIs	Microfinance Institutions
51	MIS	Management Information System
52	MoA	Memorandum of Association
53	MoF	Ministry of Finance
54	MoRD	Ministry of Rural Development
55	MoU	Memorandum of Understanding

56	NABARD	National Bank for Agriculture and Rural Development
57	NBFC	Non-Banking Finance Company
58	NBFC-ND	Non Deposit taking NBFCs
59	NBFC -SI -ND	Systemically Important Non-Deposit taking NBFCs
60	NCD	Non-Convertible Debenture
61	NGO	Non-Governmental Organization
62	NIM	Net Interest Margin
63	NoF	Net Owned Fund
64	NPA	Non Performing Asset
65	NPCI	National Payment Corporation of India
66	NPS	National Pension System
67	NRLM	National Rural Livelihood Mission
68	NULM	National Urban Livelihood Mission
69	OD	Overdraft
70	OER	Operating Expense Ratio
71	OSS	Operational Self Sufficiency
72	PAR	Portfolio at Risk
73	PFRDA	Pension Fund Regulatory and Development Authority
74	PLF	Primary Level Federation
75	PMDJY	Pardhan Mantri Jan Dhan Yojana
76	POS	Point of Sale
77	PSIG	Poorest State Inclusive Growth
78	PSL	Priority Sector Lending
79	PSU	Public Sector Unit
80	RBI	Reserve Bank of India
81	RF	Revolving Fund
82	RFF	Responsible Finance Forum
83	RFIP	Rural Financial Institutions Programme
84	RGMVP	Rajiv Gandhi Mahila Vikas Pariyojna
85	RMK	Rashtriya Mahila Kosh
86	RoA	Return on Asset
87	RoE	Return on Equity
88	RPCD	Rural Planning and Credit Department
89	RRBs	Regional Rural Banks
90	RSETIs	Rural Self Employment Training Institutes
91	RWAs	Risk Weighted Assets
92	SBLP	Self-Help Group Bank Linkage Programme
93	SC/ST	Scheduled Caste/Scheduled Tribe
94	SERP	Society for Elimination of Rural Poverty
95	SGSY	Swarnajayanti Gram Swarozgar Yojana
96	SHGs	Self-Help Groups
97	SHPI	Self Help Promoting Institute
98	SIDBI	Small Industries Development Bank of India
99	SLF	Secondary Level Federation
100	SLR	Statutory Liquidity Ratio
101	SMS	Short Message Service
102	SPM	Social Performance Management
103	SRLM	State Rural Livelihood Promotion
104	SRLP	State Rural Livelihood Promotion
105	SRO	Self-Regulatory Organisation
106	SRTT	Sir Ratan Tata Trust
107	UCBs	Urban Cooperative Banks
108	UT	Union Territory
109	WSHGs	Women Self Help Groups
110	Y-O-Y	Year On Year

ABCO

ABCO is an acronym for Average Borrower per Credit Officer, a measure of client-staff ratio. It is also known as Case Load

Average Loan Size

Average Loan size represents the client-per capita loan amount. It is calculated as: The Loan portfolio divided by the number of clients of an MFI.

Borrowing Cost

The total charge for taking on a debt obligation that can involve interest payments and other financing fees.

Capital Adequacy

Capital Adequacy is the means of measuring the solvency level of MFIs which is an important indicator of risk bearing ability of the entities. It is the proportion of the capital/own fund held by an MFI against its total asset

Capital to Total Assets

Ratio of net worth to total assets

Debt-Equity Ratio

Debt-Equity Ratio is the proportion of total debt borrowed to the total equity held in a given point of time.

Debt Funding

Debt Funding refers to the percentage of loan portfolio funded by outside borrowings

External Cost

External Cost here refers to Finance cost which is determined by the lending rate of banks and hence is beyond the control of MFIs

Finance Cost

Finance Cost here refers to the interest and other expenses incurred on average bank loan outstanding in the books of MFIs. This does not include notional cost of utilizing the equity fund.

Financial Inclusion

Financial Inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society.

Margin

Margin refers to the difference between the finance cost on portfolio and the total yield on portfolio. This term is analogous to the concept of Net Interest Margin (NIM) widely used in banking parlance. Margin Cap refers to the ceiling of Margin of 12 percent fixed by RBI.

Managed Loan Portfolio

Managed Loan Portfolio is the loan asset originated by MFIs and later sold to banks for getting liquidity. The MFIs continue to manage it - collection of repayment on behalf of the banks which purchased the portfolio.

Non Performing Assets (NPA)

A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The NPA is therefore not yielding any income to the lender in the form of principal and interest payments.

Operating Expense Ratio (OER)

Ratio of staff, travel, administration costs, other overheads and depreciation charges of the MFIs (non-financial costs) to the average loan portfolio during a year

Operating Self Sufficiency (OSS)

Operating Self Sufficiency (OSS) shows the sufficiency of income (operating income and investment income) earned by MFIs to cover the cost like operating cost, loan loss provision and finance cost, incurred for conducting the operation.

Portfolio Quality

Amount of risk of default in the loan portfolio. A high quality portfolio contains a lower amount of risk. Portfolio quality changes continually as loans are disbursed, payments are made, and payments become due.

Portfolio at Risk (PAR)

PAR indicates the proportion of outstanding amounts of all loan accounts having past due/arrears to the total outstanding loan. In general, PAR 60, i.e., the portfolio / part of the portfolio remaining unpaid 60 days and beyond crossing the due date, would be used as a measure to assess the portfolio quality.

Qualifying Assets

Qualifying Assets are loan portfolios created by MFIs adhering to certain conditions to make the MFIs eligible to be called as MFIs and to raise loans from banks under Priority Sector Advances Scheme (as per recent RBI norms).

Return on Asset (RoA)

Return on Asset (RoA) is the universally accepted profitability measure which, in essence, is the percentage net income earned out of total average asset deployed by MFIs during a given period, say a year.

Return on Equity (RoE)

Return on Equity (RoE) is the net income earned out of average equity of MFIs held by MFIs during the given period.

Self Help Groups (SHGs)

SHGs refer to groups of 10-12 women coming together to form a semi formal community based institution to meet their common financial and social needs.

SHG Bank Linkage Programme (SBLP)

SHGs are linked to mainstream banks for depositing surplus savings of the SHGs and to obtain loans. It is considered to be an effective strategy to ensure financial inclusion.

Surplus

Surplus is Yield minus Total cost

Yield on Portfolio

Yield represents total income from microcredit operation-Interest income, processing fee/ service charge – earned out of average loan portfolio outstanding. It does not, include investment income. It is a good proxy / surrogate for loan interest rate.

Context

The *microfinance sector* in India has experienced a rollercoaster trend in the last one and half decade, during which various changes and amendments took place under the legal and regulatory ecosystem. The much awaited and long standing MFIDR Bill 2012 got lapsed in the parliament while the sector has experienced various regulatory changes in the last fiscal year. Recognition of SRO is one such positive move. In addition, RBI has also allowed NBFC-MFIs to work as Business Correspondents.

On a macro perspective, the Govt of India has launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) which is a mission on financial inclusion aiming at opening 7.5 crore bank accounts before Jan 26, 2015. RBI has restructured and created a separate department for financial inclusion to boost the measures for inclusive financial services. Bank licensing, guidelines on Small and Payment banks, technological innovations and above all, the business potential at the base of the pyramid is driving the agenda of financial inclusion in a big way, under a very fast changing landscape.

Objective

This report is an attempt to collect primary data on MFI client outreach, their loan portfolio and other financials of MFIs in India, that includes both members as well as non-members of Sa-Dhan.

The report purports to provide primary data based analytical information to a wide range of stakeholders such as the Government, policymakers, regulators, banks and investors, researchers, media, MFIs and others, helping them to understand the current status and the underlying trends in the sector in order to take appropriate decisions/actions that are critical for the development of the industry.

Additionally, the report also aims to develop standards and benchmarks for the sector, enhancing transparency of financial reporting and improving the performance of MFIs.

Methodology

The contributing MFIs have voluntarily provided their data and detailed information as sought through a data acquisition sheet consisting of their financial, outreach, geographic spread, credit plus and developmental activities etc. For this report we have compiled data from 155 MFIs representing all legal forms (Societies, Trusts, Sec-25 Companies, NBFC-MFIs, Cooperatives) have been collated, validated, and analysed for peer groups.

The project team rigorously scrutinized the self reported data, validated it from the MFI's financial statements, and reconciled from other secondary sources. The validity of the findings however, is subject to the accuracy of the self-reported data, though reconciliation techniques used would have minimized such errors.

The analysis of the report was undertaken on the basis of a predesigned framework and the findings have been improved to the extent possible though advisory inputs from microfinance experts and practitioners. The chapters pertaining to SHGs and the BC model, while culled out from secondary sources, have been further enhanced by experts in the field and SHPI members of Sa-Dhan.

The Report Coverage

The report is divided into two parts. Part one covers the MFI sector and is based on primary data, whereas Part two covers the SHG sector and the BC model and is mainly culled out from secondary sources of information.

Part-1 is further divided into four chapters. Chapter-1 represents an overview of the microfinance sector within the larger ambit of financial inclusion, Chapter-2 deals with growth and outreach of MFIs, Chapter-3 deals with operational and financial aspects of credit services, while Chapter-4 deals with credit plus activities. Chapter-3 is further subdivided into 4 sections. Section-1 dwells upon the workforce, productivity and portfolio quality. Section-2 represents the cost and revenue aspects of the MFIs, Section-3 represents surplus, sufficiency and profitability of the MFIs, while Section-4 deals with capital structure and balance sheet distribution.

In the Part-2 of the report, Chapter-5 deals with the SHG section of microfinance and Chapter-6 presents an overview of the BC model and other technology led approaches of financial inclusion.

Highlights of the Report

Growth and Outreach

MFIs currently operate in 28 States, 5 Union Territories and 561 districts in India. The reported 155 MFIs with a branch network of 11,687 have reached out to an all time high of 33 million clients with an outstanding loan portfolio of ₹33,517 crore. This includes a managed portfolio of ₹4,075 crore. The average loan outstanding per borrower stood at ₹10,079 and 80% of loans were used for income generation purposes

Outreach grew by 20% and loan outstanding grew by 30% over the previous year. The Southern region continues to have the highest share of both outreach and loans outstanding, followed by East. However growth rates are higher in the Western and Eastern regions. Outreach proportion of urban clientele is increasing year on year (44% for 2013-14) as against the rural population. Women borrowers constitute 97% of the total clientele of MFIs, SC/ST borrowers constitute 19% and other minorities 14%.

Of the total, NBFC-MFIs contribute to 82% of both clients outreach and outstanding portfolio, while NGO MFIs contribute to the remaining. MFIs with portfolio size of more than ₹500 crore contribute significantly to the total outreach (74%) and loan outstanding (76%) of the sector.

Operational and Financial Aspects

MFI sector employs more than 80,000 personnel, out of which 19% are women, and 63% are field staff. Active borrowers per credit officer (ABCO) remained at 438, which is lower than the previous year indicating higher focus on client services and new recruitments.

Financial expense is the major expense (49%) incurred by MFIs. Personnel expense and other administrative expenses contribute 25% and 26% respectively. Median OER (Operating Expense Ratio) and FCR (Finance Cost Ratio) remained at 12.08% and 12.17% respectively. It is seen that the OER comes down with scale of operation. MFIs, with portfolio of more than ₹500 crore have a median OER of 9% and FCR of 11.6%.

The Yield of the sector for the year was 24.2%, which is the highest for the NBFC-MFIs (24.9%) and lowest for the cooperatives (20.1%). The Margin for different types of institutions was in the range of 11-12%. NBFC-MFIs maintained a median margin of 10.9%. Median OSS (Operational Self Sufficiency) is 114%. Approximately 10% of MFIs have OSS

less than 100%. This includes 4% of the NBFC-MFIs on account of AP portfolio and 8% not for profit MFIs. Generally, the OSS improves with the average loan size and yield of the institution.

Median ROA and ROE for the sector remained at 1.94% and 9.25% respectively. The returns are generally higher for not for profit MFIs and very large sized MFIs.

The CAR (Capital Adequacy Ratio) for all types of MFIs remained above the desirable level of 15%. NBFC-MFIs have CAR of 20.7%. Leveraging of the sector was 3.3. The sector received a sum of ₹23150 crore, which includes a portfolio sale of ₹4,075 crore. Total outstanding borrowing of MFIs stood at ₹27,663 crore, with a substantial share of this derived by NBFC-MFIs (85%) especially from the very large MFIs (73%).

SHG and its Role in Financial Inclusion

The movement is favourably skewed towards Southern states, followed by the Eastern and Western regions. Least progress is recorded in North and Northeastern states. Number of SHGs linked to credit and bank loan amount to SHGs has witnessed an increasing trend after 2010-11. However, the growth rate of the number of saving linked SHGs has experienced a declining trend; till date, 97 million families have been covered under the SBLP program with a total number of 74.29 lakh SHGs with a saving amount of ₹9,897 crores. A total of 42 lakh SHGs have a gross loan outstanding of ₹42,927 crores.

The amount of savings and the average per SHG savings (₹13,321) held in the banking system are both increasing since 2011-12. Average loan disbursed per SHG for 2013-14 is reported at ₹175,769, whereas average loan outstanding per SHG stood at ₹102,273.

The aggregate NPA of SHG loans remain a concern though it has reduced marginally by 0.2% from 7% in 2012-13 to 6.8% in 2013-14. NPAs in Southern region are lowest at 4.6% and highest in Central region at 18.9%. Quality of SHGs, their performance has emerged as one of the major issues affecting the movement.

However, one of the important developments under the domain of the SHG program is the provision to create JLGs within and among the SHGs, which allows the members of JLGs to access larger credit from banks to undertake economic activities. Also the fact that NRLM will push for improvement in the SHG bank linkage with better monitoring, lower rates of interest and a sharper focus on livelihood generation. Several private banks have also experienced reasonable success in direct SHG lending.

Performance Highlights: A Snapshot

Indicators: MFI Model	2014	2013	Change
Client Outreach	330 lakh	275 lakh	↑
Women Clients	97%	96%	↑
SC/ST Clients	19%	21%	↓
Other Minorities	14%	23%	↓
Rural Clients	56%	67%	↓
Gross Outstanding Portfolio	₹33517 Cr	₹25738 Cr	↑
Own Portfolio	₹29442 Cr	₹22338 Cr	↑
Managed Portfolio	₹4075 Cr	₹3400 Cr	↑
Avg. Loan per Borrower	₹10079	₹8112	↑
Income Generation Loan	80%	91%	↓
Female Staff in MFIs	19%	16%	↑
ABCO	438	510	↓
NPA	0.02%	0.4%	↓
OER	12.08%	12.00%	↑
FCR	12.17%	11.89%	↑
Yield	24%	22%	↑
Margin	10.6%	10%	↑
OSS	114%	111%	↑
ROA	1.94%	1%	↑
ROE	9.25%	4.8%	↑
CAR	19.6%	19.4%	↑
Leverage	3.3	3.9	↓
Fund Flow (Outstanding)	₹27663 Cr	₹20724 Cr	↑
Equity Outstanding	₹4233 Cr	₹2034 Cr	↑
Commercial Fund and Equity Flow			↑
SHG Model			
Total No of SHGs Linked	74.29 lakh	73.17 lakh	↑
No of Families Reached	97 Million	95 Million	↑
Total Savings of SHGs	₹9897 Cr	₹8217 Cr	↑
Gross Loan Outstanding	₹42927 Cr	₹39375 Cr	↑
Total Loan Disbursed	₹24017 Cr	₹20585 Cr	↑
Avg. Loan Disbursed per SHG	₹175769	₹168732	↑
Avg. Loan Outstanding per SHG	₹102273	₹88455	↑
NPA	6.8%	7%	↓

There have been debates, discourses, and numerous interventions to make financial inclusion a reality. Approaches towards financial inclusion are changing from time to time though the spirit remains intact. Financial inclusion is aimed at providing composite formal financial services to the excluded population, thereby impacting lives and livelihoods of poor, and alleviation of poverty etc. These services include safe savings, credit for multiple purposes, insurance, pension, remittances and most importantly, basic financial literacy for making suitable financial decisions.

It is believed that reaching out to the vast segment of excluded population into the mainstream financial architecture of the country will not only impact the lives of the poor but also lead to economic well being of the nation.

The Government of India and the Reserve Bank of India and has taken a number of initiatives from time to time to promote financial inclusion. Recently, the Reserve Bank of India has created the Financial Inclusion and Development Department to cater to the needs and challenges of financial inclusion.

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a recently launched mission on financial inclusion which aims at opening 7.5 crore bank accounts before Jan 26, 2015. The program is gigantic in nature and seems to be a national priority. It gives an equal opportunity for every household to access banking and credit services. The following are the salient features of the Program:

- a) A bank account for every Household
- b) Account opening to be integrated with DBT, credit, insurance and pension
- c) RuPay Debit card with ₹100000 accident cover
- d) Over draft facility of ₹5000 after satisfactory operations/credit history of 6 months
- e) Simplified KYC/e-KYC in place as per RBI guidelines

PMJDY addresses some of the key aspects of financial inclusion that includes opening up of a bank account, financial literacy and other financial services. However, it misses out one key component i.e access to credit. The vulnerable sections of society still remains out of reach from formal credit, while the PMJDY program only aims to provide overdraft (OD) of ₹5000, that too after banking history of six months. The condition of the lower strata still remains unchanged as they cannot borrow or access credit of more than ₹5000 at a time from the banking system. The amount set for OD seems to work only for emergency or seasonal uncertainty, while if anyone tries to start an economic activity the amount will be at lower side.

There is a huge demand for customized credit services i.e. hassle free, collateral free, adequate, timely and affordable. Conservative estimates show that the total demand for microcredit services is in the range of ₹500, 000 crore but could go up to ₹12,00,000 crore.

The SHG Bank linkage model has reached out to approximately 97 million households through 74.29 lakh SHGs with a gross loan outstanding of ₹42,927 crore. Micro credit services provided by MFIs in a tailor made fashion have reached out to 33 million individuals with an outstanding loan portfolio of ₹33,500 crore.

However, the demand supply gap remains gigantic. On one hand it requires an enabling and supportive policy and regulatory environment. On the other hand, the MF sector has to be responsive, responsible, sustainable and scalable.

A snapshot of the policy and regulatory environment for microfinance sector followed by the sectoral initiatives, issues and challenges is presented.

1. Micro Finance in Macro Environment

The microfinance sector is operating under a highly dynamic macro-political economy with various stakeholders involved directly or indirectly, starting from the Union Govt, State Govt authorities, people's representatives, media, regulator, banks and financial institutions, and people at large. Moreover, because of its client base which is largely the core poor segment of the population, it has always been a politically sensitive area. Therefore, the sector is subjected to multiple challenges, risks and uncertainties from time to time. This necessitates a facilitative and enabling environment for the MFIs to operate and provide uninterrupted financial services.

A number of policy related developments have taken place in recent years to address such uncertainties. By and large, the legal and regulatory framework for the MFIs is getting streamlined. This helped the sector in gaining investor confidence and thereby expanding the reach of MFIs to its clients. The following section defines the transition of the sector under the macro environment during the reporting period.

1.1 Legislative Framework

Lack of a formal statutory framework for the microfinance sector has been a major concern for quite some time. The Government had introduced a Bill in 2007 to regulate the sector, which was eventually lapsed in the 14th Lok Sabha. Subsequently in the aftermath of AP crisis, the Government of India introduced another Bill in 2012 (Microfinance Institutions Development and Regulation Bill 2012) which again got lapsed in the 15th Lok Sabha.

The 16th Parliamentary Standing Committee on Finance in its 84th report stated that the Micro Finance Institutions (Development and Regulation) Bill, 2012 *prima facie*, has failed to address certain key issues and suggested that these issues should be reviewed *de novo*.

The Committee suggested for formulating a national policy which also includes Microfinance. (*formulation of the National Policy on Financial Inclusion which includes micro finance is imperative on important grounds such as: (a) the financial sector lacking futuristic vision; (b) necessity of consolidation of banking system; (c) conflict over jurisdiction on enactment of Act on micro finance, etc. Further, the National Policy on Financial Inclusion will be the guiding document for enactment of legislation on the subject. This would ensure that there is no regulatory arbitrage and the concerns of State Governments and all stakeholders across the nation are addressed and interests of common people are protected*)*

The committee has also suggested the constitution of a unified and independent regulator for the entire micro finance sector as a whole, which may be termed as the Micro Finance and Development Regulatory Council (MFDRC) with representatives from all agencies and institutions concerned like, RBI, NABARD and SIDBI and the nominees from Central Government and MFIs.

To contain the ultimate rate of interest to the end borrower within acceptable limits, the committee has further suggested the introduction of a Base rate system for MFIs. It has also suggested for holding a wider consultation with state governments, RBI and other on their reservations against the Bill. The committee has suggested in depth studies on issues including scope and application of the bill extended to cover all MFIs in all forms;

*Source: 84th Report of Standing Committee on Finance

thrift mobilization from public; Ombudsman for redressal of Grievances; Self-Regulatory Organisation (SRO) of MFIs for efficient conduct of the business of MFIs; impact of the Bill on banks, SHGs; expenditure on Micro Finance Councils at National and State levels and District Micro Finance Committees and requirement of regulator; sector-related benchmarks; performance standards pertaining to methods of operation; source and cost of funding to MFIs (both from Banks and Equity Market); risk factors in pursuing financial inclusion as highlighted by the RBI such as money laundering; threat to financial stability; regulatory and supervisory structure to oversee the implementation of provisions of the Bill.

The Government is presently seeking the opinion of different stakeholders, primarily the state governments, before redrafting a new MFI Bill. However there is a feeling among the stakeholders that the regulatory measures taken up by the RBI would suffice in establishing the systems and processes of the MFIs as well as giving the requisite comfort to the lenders and investors.

1.2 Regulatory Framework

In the aftermath of Andhra Pradesh crisis and subsequent to the Malegam committee recommendations, RBI came up with two significant notifications. One was to accord priority sector status to bank lending to MFIs and the other was the NBFC-MFIs Directions 2011. While the former covers bank lending to all kinds of MFIs, the later covers the NBFC-MFIs which are recognized as a separate category of NBFCs.

Both the regulations define qualifying assets, income criteria for borrowers, limits for indebtedness, targets for income generation loan, pricing structure including margin cap and interest rate cap, lending practices etc. MFIs by and large are compliant to the regulatory prescriptions made by the Reserve Bank.

Revised Regulatory Framework for NBFCs: Implication for NBFC-MFIs

On 10th of November, 2014 RBI issued the revised regulatory framework for Non-Banking Finance Companies (NBFCs), with a view to streamline regulations in the financial sector. Clause 11.2 of the notification states that the *“revision brought through this circular shall be applicable to NBFCs-MFIs also except wherever in conflict with the provision of NBFC-MFIs Direction 2011, in which case the Directions ibid will be followed” i.e. if there is any conflict in this revised regulatory framework with the provision of NBFC-MFIs Direction 2011, then the Direction 2011 and subsequent changes after that which is collated under the Master Circular on NBFC-MFIs July 1, 2014, will be followed.* Following are the crucial items relevant for the NBFC-MFIs from the revised regulatory framework for NBFCs:

Net Owned Fund for NBFC- MFIs: Exiting NBFC-MFIs are required to have a minimum NOF of ₹5 crore (and ₹2 crore for NBFC-MFIs registered in North Eastern Region) by Mar 31, 2014. All New companies desiring NBFC-MFI registration are required to have a minimum NOF as prescribed above.

Systemically Significant: NBFC-MFIs with asset size of ₹500 crore and above will now be considered as NBFC-ND-SI (A change from the present classification of ₹100 crore and above) and those with asset size of less than ₹500 crore will be considered as NBFC-ND.

Prudential Norms: All NBFC-MFIs will come under prudential and conduct of business regulations.

Capital Adequacy: All NBFC-MFIs irrespective of their asset size will have to comply with CRAR norm of 15% of its risk weighted assets consisting of Tier I & Tier II capital. The total of Tier II capital at any point of time shall not exceed 100% of Tier I capital.

Asset classification and provisioning: Asset classification and provisioning norms will be applicable as per the extant regulation, (i.e NBFC-MFI Direction 2011)

Governance, Disclosure, and Reporting: Governance, Disclosure, and reporting norms as prescribed under the revised regulatory framework will be applicable to NBFC-MFIs with asset size of ₹500 crore and above, and suggested desirable from other NBFC-MFIs also.

Pricing: Pricing regulation will remain as usual i.e. with effect from 1st of April, 2014 margin caps may not exceed 10% for large MFIs (loan portfolio exceeding ₹100 crore) and 12% for the others. Moreover, with effect from the quarter beginning April 01, 2014, the interest rates charged by a NBFC-MFI to its borrowers will be lower of the following:

- a. The cost of funds plus margin cap (as mentioned above)
- b. The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rate of the five largest commercial banks shall be advised by the RBI on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

NBFC – MFIs as Business Correspondents

RBI in its notification dated June 24, 2014 allowed NBFC-MFIs to operate as Business Correspondents/ Facilitators. Removing an earlier restriction that was placed on NBFCs, RBI has restored the permission for non-deposit taking NBFCs (NBFC-ND) to become Business Correspondents (BCs) to commercial banks. However, NBFC-MFIs need to ensure that funds of the bank and the BC don't get mixed and all possible conflicts of interest are resolved through contractual arrangements between the two parties. The RBI has also placed the onus on banks to make sure that the BC does not adopt any restrictive practices that favor the NBFC's customers over non-customers, or any sort of forced bundling of NBFC-products to banking-customers. Making it more conducive, RBI has removed the maximum distance requirements on banks in choosing their BC's outlet locations. This section is further covered under Part 4 of this report.

Role of Credit Information Bureau in Regulatory Compliance¹

In order to address the concerns related to multiple lending, over- indebtedness, ghost borrowers etc, the idea of setting up Credit Information Bureau (CIB) was promulgated. The Andhra Pradesh Crisis in 2010 accelerated the need of a CIB for the sector. CRIF High Mark launched India's first CIB for Microfinance borrowers in March 2011, and now has a database of 150+ million loan accounts from nearly 190 member Institutions.

Today, three Credit Information Companies namely High Mark, ECIS Equifax and Experian capture the credit history of MFI clients, though only two - High Mark and Equifax - are providing services to MFIs. Equifax has 147+ million unique accounts from 140+ institutions. Nearly 3 million loan applicants are reviewed with these Microfinance CIBs on a monthly basis with an average hit rate of 75%-80%.

The development of the credit bureau system has certainly introduced more information symmetry & has been an important factor in the revival of the industry post the Andhra Pradesh crisis. The top 7 states, namely Tamil Nadu, West Bengal, Karnataka, Uttar Pradesh, Bihar, Madhya Pradesh and Maharashtra account for 71% of the total outstanding portfolio. A little over 1% of customers availed a loan value over ₹50,000.

¹ Based on inputs received from CRIF High Mark and ECIS Equifax

The Malegam Committee recommendations to control multiple-borrowing were adopted by Sa-Dhan and MFIN through a common Code of Conduct to be followed by their member institutions. CIB have enabled member MFIs to comply with these Code of Conduct guidelines. A recent study by Highmark on the outreach of microfinance in the PSIG states, which includes three of the top 7 states – Madhya Pradesh, Uttar Pradesh & Bihar, reinforces this observation. Such trend, despite significant portfolio growth in last few years, adds confidence to the sector.

Though the data acceptance rate is >98%, the CIBs are constantly working with the MFIs to improve the quality of data, especially KYC ID information, personal identifiable information and account level amounts and status information. It is envisioned that with increasing penetration and acceptance of Aadhaar (UID), the reliability of information shared with CIBs will improve.

In addition to Credit Information Reports, MFIs are also using the CIB analytics such as industry insight and location specific reports for market entry decisions and portfolio review reports to manage existing portfolios etc.

According to the MFI Directory published by Sa-Dhan, 91 NBFC-MFIs and 177 NGO-MFIs are operating in India. The present regulatory framework only mandates NBFC-MFIs to share their client's data with Credit Information Bureaus (CIB). NGO-MFIs which includes section 25 companies, Societies, Trust, etc. play a significant role in the MF sector; however they are not mandated to share their data with credit bureaus, though some NGO MFIs are voluntarily participating.

Credit information of clients from non reporting MFIs (mainly NGO-MFIs) remains outside of the scope of CIBs. Further, the same clients obtaining loans from banks under the SHG bank linkage model also remain outside the CIBs purview. A Highmark study with two leading banks shows nearly 40% overlap between SHG Bank Linkage and MFI clients. This leaves a wide scope of over-indebtedness/ghost borrowing, asymmetric information, moral hazard (which is a major challenge in any financial system), etc.

1.3 Self Regulatory Framework

Apart from the above mentioned regulatory framework for NBFC-MFIs, a Self regulatory Organization (SRO) is also in place to bring a standard and acceptable level of performance, service and code of ethics. Furthermore, the SRO will ensure the effective monitoring of the functioning of NBFC-MFIs, their compliance with regulations and code of conduct and in the best interest of the customers. Following from the Malegam Committee recommendation to put self regulatory structure in place for the sector, RBI on 26th of November, 2013 circulated a press release seeking the application from interested parties for recognizing as Self Regulatory Organization (SRO). The circular states that the SRO will have to adhere to a set of following functions and responsibility:

- Formulating and administering a Code of Conduct recognized by the Bank
- Having a grievance and dispute redressal mechanism for the clients
- Responsibility of ensuring borrower protection and education
- Monitoring Compliance with regulatory framework put in place by RBI
- Surveillance of the microfinance sector
- Training and awareness program
- Submission of its financials, including Annual Report to the RBI

Presently, Microfinance Institutions Network (MFIN) is recognized as a SRO for NBFC-MFIs and strengthening the self-regulatory measures and other associations may also follow. However, the sector has proactively developed such measures since long and started adhering to them in spirit especially after the AP crisis. Some of the those measures were instituted by the industry associations, some at the instance of funders and investors while a lot of measures were taken up by the MFIs themselves. Some of the key initiatives under self regulation are mentioned below:

RFF: The lenders, associations and other stakeholders have come together to form a Responsible Finance Forum (RFF). The forum, led by SIDBI advocates for the need to develop a robust client protection framework and ensure fair and sustainable outreach of financial services to low income households. The forum monitors the operations and activities in microfinance sector, and conducts various studies to understand client responses and delivery of Microfinance services.

COCA: Under this RFF umbrella, microfinance associations have developed a comprehensive Code of Conduct to be inculcated by the MFIs into their practice. The Code of Conduct focuses on the issues of client protection, disclosures, transparency, data privacy, and client education and grievance mechanisms. Code of conduct assessment tools have been devised by associations like Sa-Dhan and other rating agencies and MFIs are undergoing COCA validation. Till date, 62 MFIs have undergone COCA by external agencies and another 26 by Sa-Dhan. SIDBI and other lenders are insisting upon COCA rating reports of MFIs in making decisions to lend to an MFI. Besides COCA, MFIs have been voluntarily undergoing smart campaign assessment of CPP (Client Protection Principles) and SPM (Social Performance Management) assessment.

Transparency and disclosure: MFIs across the board are found to be transparent on pricing (interest rate, processing fee and insurance charges etc) to their clients. These rates printed on the loans cards/passbook held by the clients, along with other terms and conditions of the products and services offered by an MFI. Various studies and field interactions have showed that the awareness among the clients about the products, pricing, practices have been on the rise. They are aware of the total indebtedness limits, no of MFIs, credit bureau records, interest rates and so on and so forth.

On the other hand MFIs are reporting of data and information periodically to the concerned authorities and stakeholders including the regulator, banks and investors etc. Sa-Dhan is publishing the annual Bharat Microfinance report, MFIN produces quarterly micrometer, MIX compiles periodic financial data. Most of the MFIs have been publishing their audited financial in public domain.

Client protection measures and Grievance redressal: Increasingly, MFIs are dedicating time and resources to train their employees on aspects of client protection principles and to disseminate the grievance redressal mechanism for the clients. MFIs are setting up comprehensive grievance redressal mechanisms as mandated by the RBI and desired by the industry associations. The procedure for redressal is printed on the loan cards of the clients, displayed in the office premises of the MFIs and necessary education if offered to the clients. Both MFIN and Sa-Dhan have set up grievance redressal/enforcement committees to address any such dispute between the client and MFIs or between different MFIs.

Governance: Governance practices among MFIs in India have improved in recent years. NBFC-MFIs in particular have been improving their governance because of the RBI's requirement. Further, expectations of lenders and investors have led to for higher standards in corporate governance. Composition of board that include independent board members, expertise, experience and domain knowledge of board members, constitution

of various committees especially the audit committee chaired by an independent director are some of the important indicators of good governance that showed improvement in various rating and COCA assessment reports.

However, corporate governance practices among small and medium MFIs still remain a concern. It is common to find the promoter of the institution holding both the position of CEO as well as the chairman of the board. It is commonly seen that the spirit of internal audit gets defeated as the CEO is also a part of the audit committee or the internal auditors report to the chief executive. Presence of family members and relatives in the board is disproportionately high. Some of these issues were also noticed in large and professional MFIs.

The Member survey which was recently conducted by Sa-Dhan showed the need for capacity building of board members in taking sound board decisions on matters of business plan and growth, financial aspects, operations and practices etc.

1.4 Emerging Regulations

On 2nd of April, 2014 RBI “in-principle” approved Bandhan Financial Services Pvt. Ltd, which is the leading microfinance institutions in India, to function as a private bank with full focus on rural regions/areas of India. This initiative, taken by the apex bank of India is to envelop the marginalized section of the society into the formal financial system. In addition, based on the recommendations from Mor Committee i.e. Committee on Comprehensive Financial Services for Small Businesses and Low Income Households which highlighted the need for vertically differentiated banking structure, RBI has released “*the final Guidelines for Licensing of Payments Banks and Small Banks*”. The rationale for these differentiated banks is to further strengthening the financial inclusion initiatives by (i) provision of savings to the underserved, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries, etc. through high technology-low cost operations.

Most importantly the guidelines clearly state the importance and the significant role of Microfinance Institutions (MFIs) in small finance banking. Many of the MFIs are keen and suitably placed to apply for the small finance bank, however after fulfilling the following guidelines/conditions:

- Small Bank will be registered as a public limited company under the Companies Act, 2013.
- NBFCs/MFIs can apply to be a small finance bank.
- All the branches of the NBFC/MFIs should either be converted into banks branches or be merged/closed as per the business plan. Moreover, small finance bank and the NBFC/MFIs cannot co-exist.
- The small finance bank will undertake basic banking activities such as acceptance of deposits and lending. It can also undertake other non-risk sharing simple financial services activities, such as mutual fund units, insurance products, pension products, etc. It can also become a Category II authorised dealer in foreign exchange business for its clients’ requirements.
- The minimum paid-up equity capital is of ₹100 crore. Tier I capital should be at least 7.5% of RWAs (risk weighted assets) and Tier II capital should be limited to a maximum of 100% of total Tier I capital.
- Promoter contribution would be at least 40% for the first five years. Excess shareholding should be brought down to 40% by the end of fifth year, to 30% by the end of 10th year and to 26% in 12 years from the date of commencement of business.

- The foreign shareholding would be as per FDI (Foreign Direct Investment) policy for private sector. In case of FIIs/FPIs the aggregate holdings cannot exceed 24% of the total paid-up capital, which can be raised to 49% through a resolution by its Board of Directors followed by a special resolution in its General Body.
- Voting rights to be in line with the existing guideline for private banks.
- The small banks will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of CRR and SLR.
- The small banks will be required to extend 75% of its *adjusted net bank credit* to the sector eligible for priority sector lending (PSL).
- The applicant for small banks will be required to furnish their business plans along with project reports with their applications.
- The Board of the small banks should have a majority of independent Directors. Moreover it has to comply with the corporate governance guidelines including “fit and proper” criteria for Directors.
- Small bank cannot be a Business Correspondent (BC) for other banks; however it can have its own BC network.

It is noteworthy that India did experiment with small banks in the past by setting up Local Area Banks (LABs). The LABs were conceived as low cost structures which would provide efficient and competitive financial intermediation services in a limited area of operation i.e. primarily in rural and semi-urban areas. LABs were required to have a minimum capital of ₹5 crore and an area of operation comprising three contiguous districts. Through Small and Payment Banks, the Reserve Bank of India (RBI) further expanded the ambit with requisite conditions. It has been a challenge to provide extended banking services to the underserved and unserved sections of the population and it is earmarked that expansion of small banks would be instrumental in accessing bank credit and services in unbanked and under-banked regions. In addition to this, it would also supply credit to micro and small enterprises, agriculture and banking services in unbanked and under-banked regions. A number of MFIs are likely to apply for banking license under the proposed scheme. These emerging regulatory scenarios for financial architecture of the country would have significant impact on the overall microfinance sector of the country.

Micro-insurance Regulation

In order to provide a boost to micro insurance, IRDA notified the IRDA (Micro-insurance) Regulations 2005 that led to the emergence of the partner-agent model to offer life and general micro-insurance products. It recognized MFIs, SHGs and NGOs as agents for distribution of micro-insurance products. Micro-insurance products (both general and life policies) provide a maximum amount of coverage of ₹50,000 or less.

Currently, IRDA is considering various amendments in the existing regulation to expand the agent base, to allow these agents to work with Agriculture Insurance Company for distribution of crop insurance, to increase the policy term and sum assured amounts of life and general-insurance policies and a few other products.

Client outreach and loan portfolio are two key indicators of an MFI's contribution to Financial Inclusion. This chapter aims to provide a demographic structure of MFI's outreach and loan portfolio, based on the data received from 155 MFIs. This chapter is divided into two parts; the first part explains geographic distribution of microfinance and their client outreach. The second part takes care of portfolio outstanding, loan disbursement, and purpose of loan.

2.1 Geographical Spread of Microfinance

MFIs currently operate in 28 States, 5 Union Territories and 561 districts in India. Table 1 shows the distribution of MFIs by state. In particular, it shows the number of MFIs operating in each state, their total number of branches in the state and the number of districts with microfinance operation. Annexure 1 indicates the state wise presence of different MFIs.

A total of 87 MFIs (56% of the sample) have confined their operations to only one state, while 53 MFIs (34% of the sample) are operating in two to 5 states. Fifteen MFIs with a large outreach and portfolio have operations in more than 5 states, out of which 5 leading MFIs are operating in more than 15 states. MFIs with a smaller scale or regional focus have concentrated their operations in 1-2 states only whereas other MFIs have spread across a higher number of states in order to increase their size, scale and simultaneously mitigate concentration risk. MFIs operating in multiple states, in general, are typically larger in size and follow the legal form of an NBFC-MFI. List of 10 MFIs operating in number of states is presented in Figure 1.

Figure 1: Top 10 MFIs Operating in Number of Indian States/Union Territories

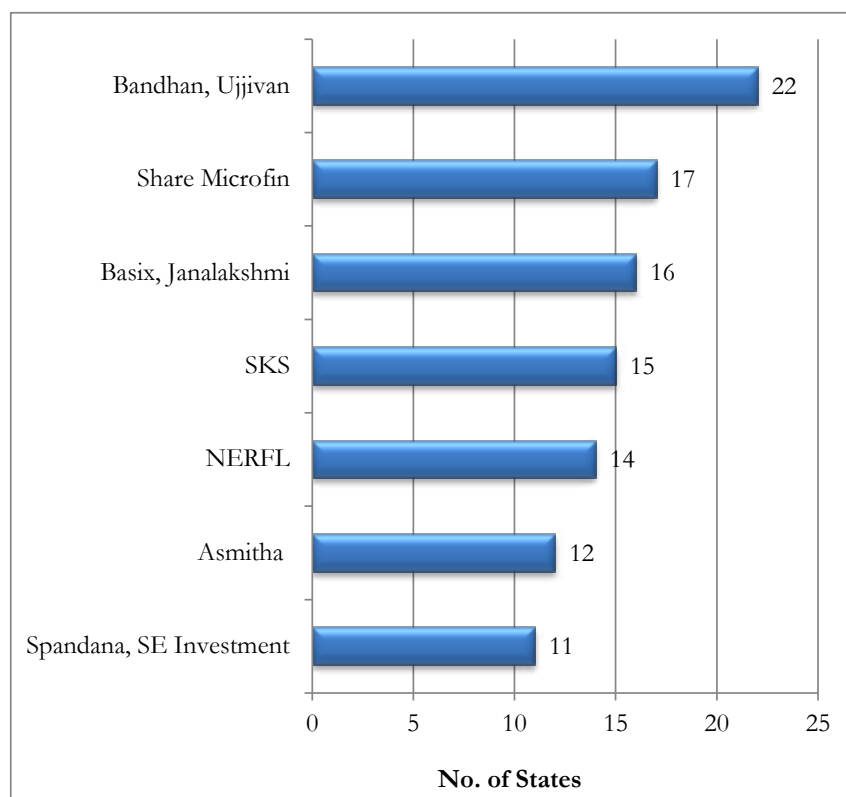


Table 1: No. of MFIs in Indian States/UTs and No. of Districts with MFI Operation

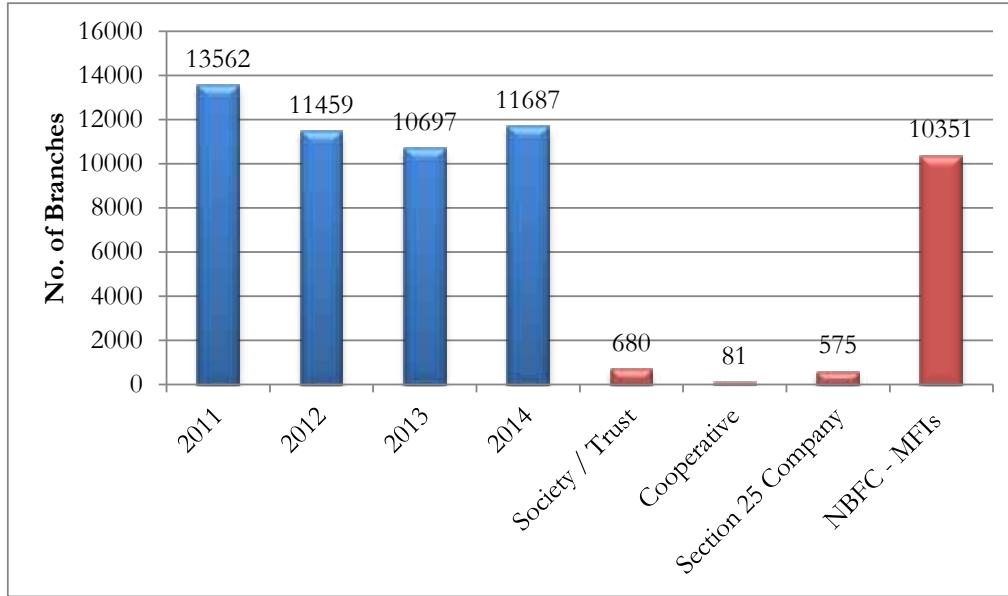
States/UTs	No. of MFIs Operating in the state (including those having Head Quarters outside)	No. of districts of the state where MFIs operate	No. of Branches
Andaman	1	1	1
Andhra Pradesh (Telangana included)	14	23	1107
Arunachal Pradesh	2	5	10
Assam	18	23	547
Bihar	26	38	717
Chandigarh	3	1	3
Chhattisgarh	13	16	223
Dadra & Nagar Haveli	1	1	1
Delhi	10	7	69
Goa	3	2	7
Gujarat	18	23	296
Haryana	11	19	81
Himachal Pradesh	3	4	5
Jammu & Kashmir	1	1	1
Jharkhand	19	23	182
Karnataka	23	30	1016
Kerala	14	14	217
Madhya Pradesh	28	49	645
Maharashtra	28	35	897
Manipur	7	9	39
Meghalaya	6	6	24
Mizoram	3	8	33
Nagaland	3	2	3
Odisha	25	30	989
Pondicherry	7	2	25
Punjab	7	17	73
Rajasthan	21	33	277
Sikkim	3	3	10
Tamil Nadu	32	32	1362
Tripura	5	4	93
Uttar Pradesh	22	70	884
Uttarakhand	12	10	85
West Bengal	38	20	1765
Total		561	11687

2.2 Branch Network

The MFIs in India had been consolidating their operations to cope with the effects of transitions happening in the sector. During 2013-14, MFIs have started increasing their number of branches.

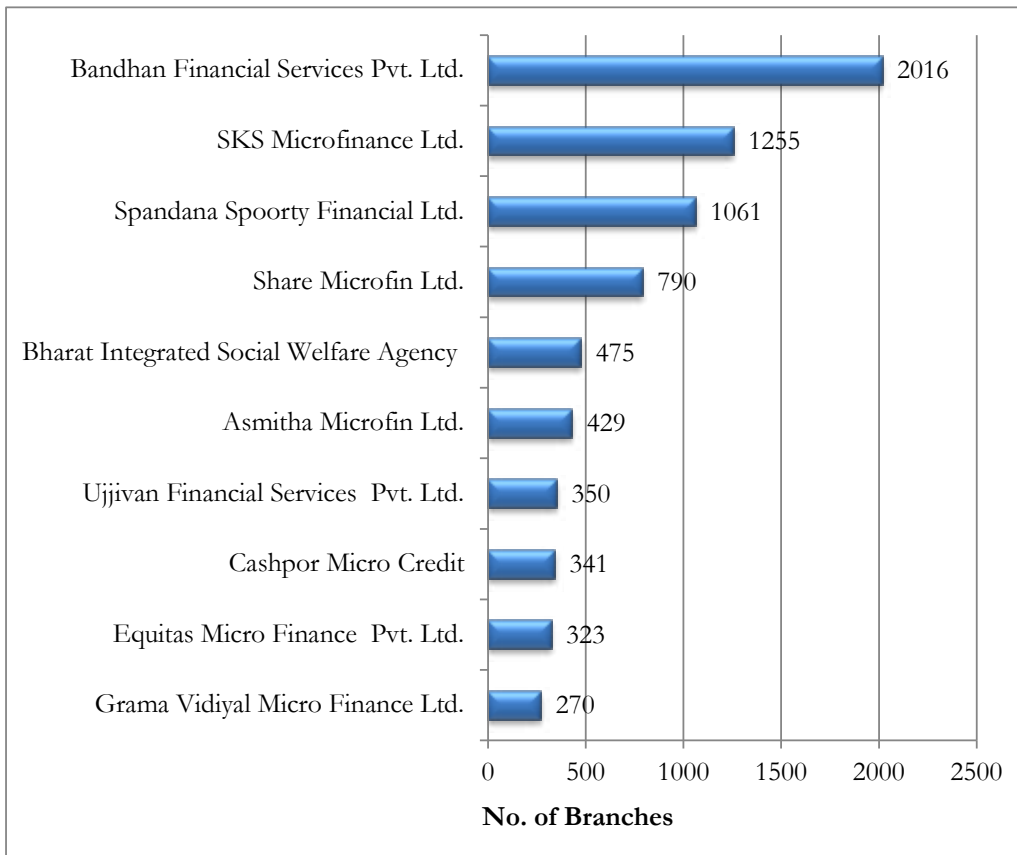
As of March 2014, the reporting MFIs had nearly 11687 branches spread across India. The distribution of branches among different categories of MFIs as of March 2014 showed that NBFC-MFIs have 10351 branches.

Figure 2: MFI Branch Network - Yearly Trend and Category- wise Breakup



Among MFIs, Bandhan has over 2000 branches. Names of Top 10 MFIs in terms of Branch Network are given in Figure 3

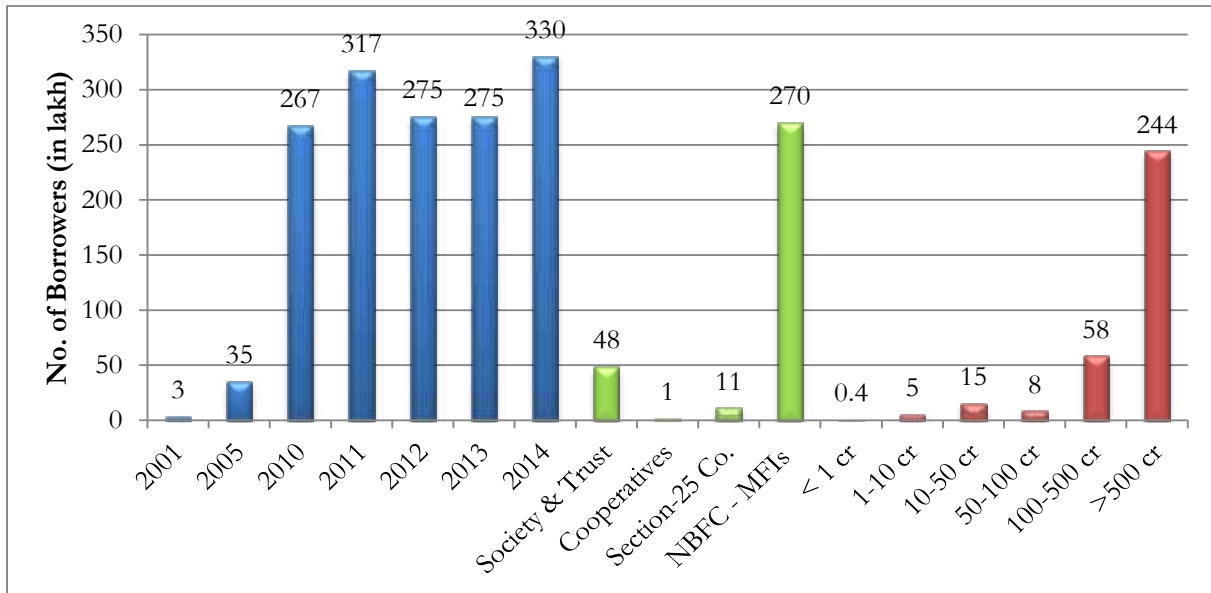
Figure 3: Top 10 MFIs in Terms of Branch Network



2.3 Client² Outreach

The total number of clients served by MFIs stood at 330 lakh as on 31 March, 2014. Client outreach of MFIs had been growing phenomenally since 2005 till 2011, reaching over 300 lakh. This trend slowed down during 2012 and 2013 and the number of clients slumped to 275 lakh. However, in 2014 we can see an astounding rise in clients/borrowers to an all time high of 330 lakh. Client outreach grew by 20% in 2014 relative to 2013. The majority of these clients are being served by NBFC-MFIs (81.82%), primarily the larger ones. MFIs with outstanding portfolio of 500 crore or above are responsible for reaching out to 74% of the clients in the industry.

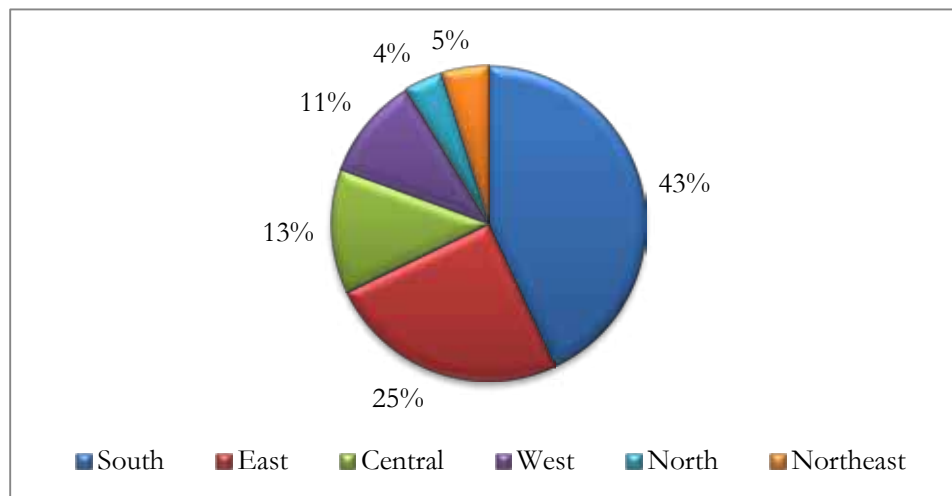
Figure 4: Client Outreach : Yearly Trend and Category-wise Breakup



2.3.1 Regional Outreach of MFIs

Out of the total client base of 330 lakh, the South alone contributes to 43% followed by 25% in East. Central region and West have 13% and 11% of total outreach respectively. Northeast and North have the least client outreach numbers with 5% and 4% respectively.

Figure 5: Regional Break up of Client Outreach



² Clients of MFIs are essentially Loan Borrowers. 'Clients' and 'Borrowers' have been interchangeably used in this report.

This year, a positive growth trend in client outreach is observed across all regions. Western region has grown 40%, followed by Eastern and Southern regions at 28% and 19% respectively. While the Central and Northeast regions have maintained a moderate growth rate of 14%, the Northern region has witnessed a negative growth of 24%. Though the reason for negative growth in the North could not be established firmly, closure of a few MFIs in Delhi, Haryana, Uttarakhand and non reporting of few MFIs operating in this region may have led to this negative growth.

2.3.2 State-wise Client Outreach

Client outreach in various states is mapped in Table 2. It is observed that most of the states have experienced an increase in client outreach. Northern states have also experienced a rise in client outreach excluding Delhi, Haryana, and Uttarakhand. From the Central region, Chhattisgarh also witnessed a negative growth.

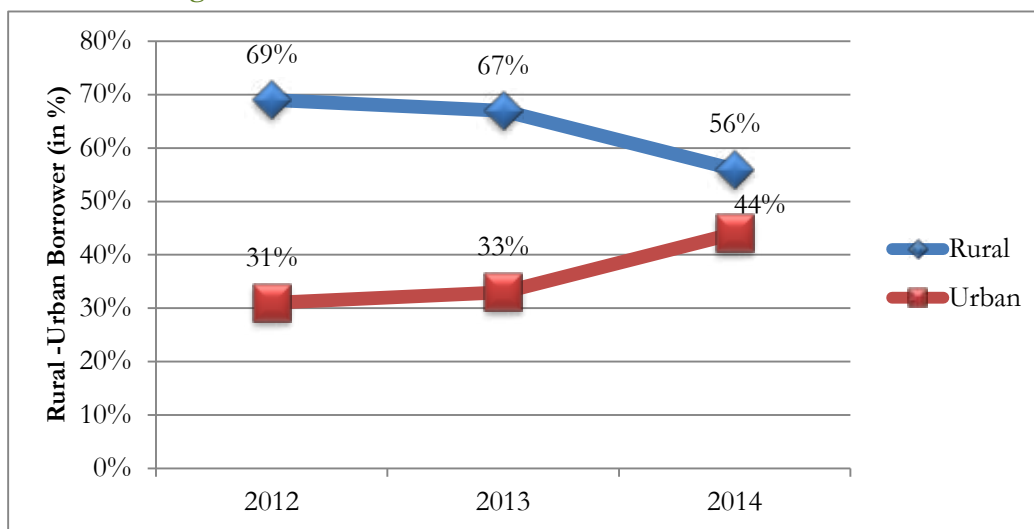
Table 2: Outreach (in lakh) of MFIs Across States/UTs – 2013 & 2014 (Decreasing Order)

States/UTs	2014	2013	Growth (%)
Karnataka	52	42	24%
Andhra Pradesh	46	34	35%
West Bengal	43	36	18%
Tamil Nadu	38	36	5%
Maharashtra	28	17	67%
Uttar Pradesh	21	15	39%
Bihar	17	12	41%
Odisha	17	10	67%
Madhya Pradesh	16	13	21%
Assam	12	10	20%
Gujarat	7	7	-7%
Rajasthan	6	6	5%
Kerala	6	7	-16%
Jharkhand	5	5	7%
Chhattisgarh	4	5	-25%
Tripura	3	2	32%
Delhi	2	4	-46%
Punjab	2	3	-37%
Uttarakhand	2	3	-37%
Haryana	2	4	-53%
Manipur	0.6	1	-35%
Mizoram	0.6	0.5	15%
Pondicherry	0.4	1	-59%
Meghalaya	0.3	1	-69%
Arunachal Pradesh	0.1	0.2	-37%
Sikkim	0.1	0.2	-39%
Goa	0.09	0.1	-16%
Chandigarh	0.05	0.04	8%
Nagaland	0.02	0.00	
Dadra & Nagar Haveli	0.02	0.01	53%
Andaman	0.01	0.01	3%
Jammu & Kashmir	0.01	0.00	
Himachal Pradesh	0.0	0.00	
Total	330	275	

2.3.3 Rural – Urban Share of MFIs Borrowers

A very interesting trend is seen in the rural-urban focus of MFIs. The proportion of rural to urban clients for the year 2013-14 is 56% to 44%. Outreach to urban clients is increasing y-o-y, while it is decreasing for rural clients proportionately. One of the key findings from our research shows that the business models of MFIs are becoming urban centric in order to minimize operational expenses and maximize their operational efficiency so that regulation on margin cap is complied and a reasonable profitability is maintained.

Figure 6: Trends in Rural - Urban Share of MFI Borrowers



2.3.4 Outreach to Special Segment of Borrowers (Women, SC/ST, and Minorities)

MFIs have always been focused on serving women. Moreover, there is a focus to serve people from Scheduled caste, Scheduled tribes and Minority backgrounds. Women clients constitute more than 97% of the total clients of MFIs. Similarly, SC/ST clients also constitute a substantial chunk (19%) of the clients. A trend analysis of women borrowers, SC/ST borrowers and minority borrowers is shown in numbers using the table below. It is observed that women borrowers have been consistently increasing for last three years, whereas the proportion of SC/ST clients and minority community clients has reduced in 2013-14.

Focusing microfinance services towards women, SC/ST and minorities, MFIs are contributing significantly to the wellbeing of the underprivileged, leading to a rise in their welfare and assisting with the financial inclusion agenda.

Table 3: Composition of Borrowers Category

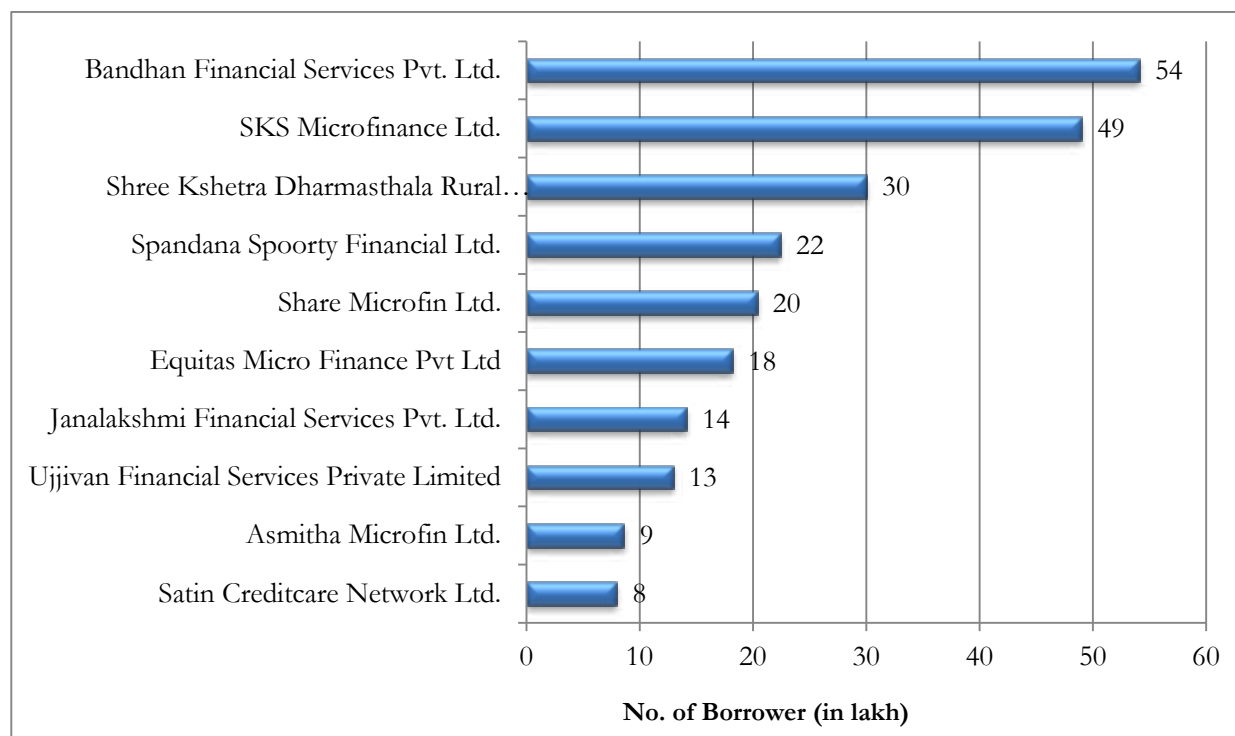
Year	% to Total Borrowers		
	Women Borrower	SC/ST Borrower	Minority Borrower
2011	94%		
2012	95%	20%	23%
2013	96%	21%	23%
2014	97%	19%	14%

Note: Data for SC/ST and Minorities is collected after 2012.

2.3.5 Leading MFIs in Client Outreach

It is evident that large NBFC-MFIs have a larger client outreach in contrast to other legal forms of MFIs. Among these, Bandhan Financial Services has the largest client outreach i.e. approximately 16% of the total client outreach of the sector. SKS, SKDRDP, Spandana are the other major players in this area

Figure 7: Top 10 MFIs with Client Outreach



Over the years, the entries into the Top 10 MFIs have remained more or less unchanged, except for a few new players. Interestingly, SKDRDP and CASHPOR are the only non-NBFC MFIs with a large client outreach. Other than legal form, factors like availability of funds, business plan, regulatory environment etc also determine the scale of operation and client outreach.

2.4 Loan Portfolio of MFIs

A majority of the population is still dependent largely on informal and expensive sources, including money-lenders to meet their credit needs. Credit needs vary from emergency loans to consumption loans, business loans, working capital loans, housing etc. Credit is the flagship service offered by MFIs to clients outside the net of formal financial services. For MFIs, loan portfolio is the primary revenue generating asset. It also gives details about the health of MFIs. Loan portfolio of the MFIs and its trends are analyzed below to understand the performance of the institutions and their contribution to the goal of financial inclusion.

As of March 2014, the total loan portfolio of MFIs has reached an all time high of over ₹33517 crore including a managed portfolio of nearly ₹4075 crore*. The net loan portfolio on the books of the MFIs stood at ₹29442 crore, which is an increase of 30% over the last year. The share of NBFC-MFIs stood at 82%, followed by Societies and Trusts at 15%. Nearly 76% of the portfolio is held by MFIs with a portfolio size above ₹500 crore.

List of top 10 MFIs with loan portfolio is given in Table 4.

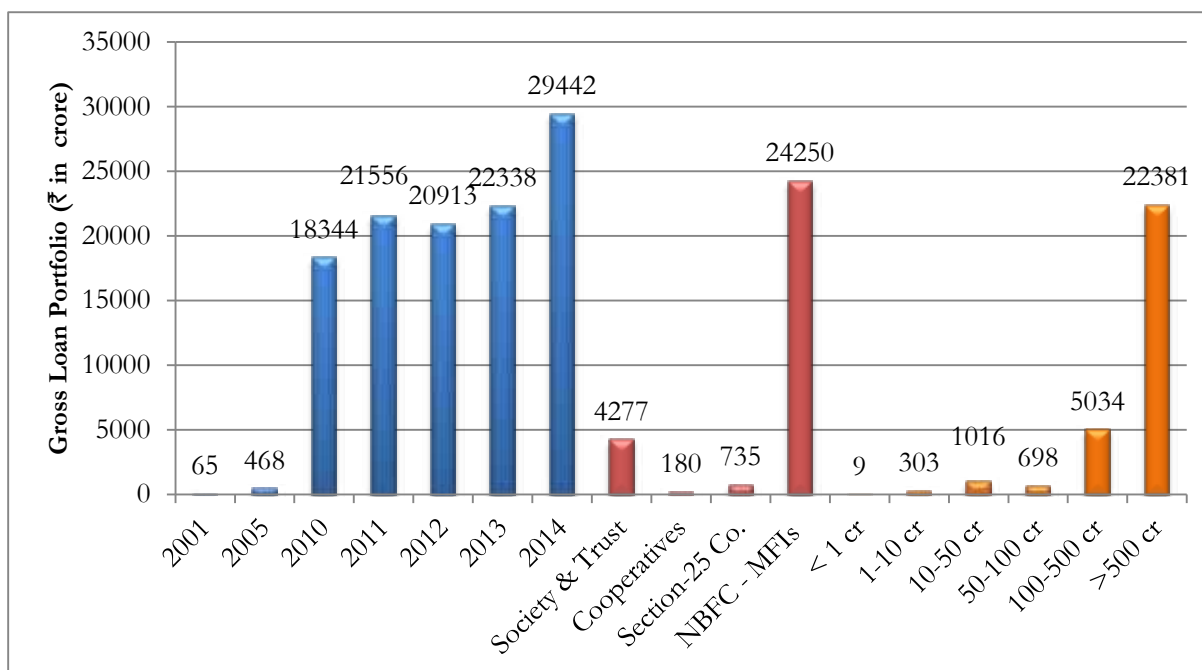
Table 4: List of Top 10 MFIs with Loan Portfolio³ as of March 2014

S.No	Name of MFI	Loan Portfolio (₹ in crore)
1	Bandhan	6107
2	SKDRDP	3200
3	SKS	3105
4	Spandana	2107
5	Janalakshmi	2053
6	Share Microfin	1767
7	Equitas	1729
8	Ujjivan	1617
9	Satin	1056
10	Asmitha	947

³ This includes the managed portfolio also

* MFIs manage/service nearly ₹4075 Cr loan portfolio as of March 2014 on behalf of banks. This was originally originated by MFIs and later sold to the banks/FIs.

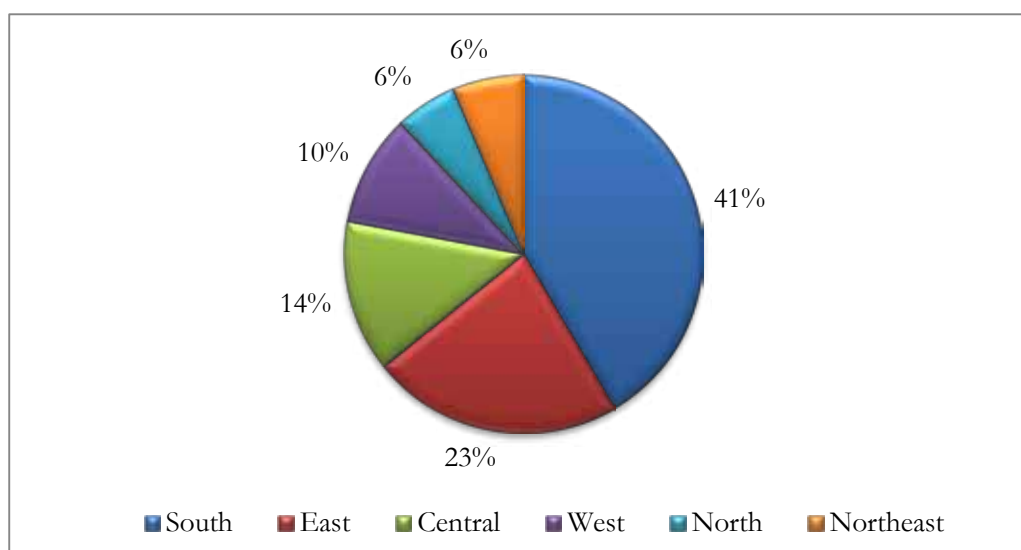
Figure 8: Gross Loan Portfolio⁴ – Yearly Trend and Category-wise Breakup



2.4.1 Regional Spread of Loan Portfolio

Among the regions, South still dominates the overall loan portfolio outstanding of MFIs with 41% followed by East with 23%. Central and West have 14% and 10% respectively while North and Northeast have least portfolio share of 6% each.

Figure 9: Region wise Loan Portfolio



All regions have experienced an upward trend in loan portfolio outstanding. Highest growth is visible in North with 60% followed by West with 49%. Central region, East and Northeast have grown at 37%, 33% and 32% respectively while South have grown least with 15%. The slower rate of growth in the Southern region could be due to market saturation.

⁴ Own Portfolio on the books of the MFIs.

2.4.2 Loan Portfolio Across States

State-wise loan portfolio outstanding as shown in Table 5, indicates that States like Delhi, Odisha, Bihar, Maharashtra, UP have substantially increased their portfolio size during 2013-14 compared to the previous year⁵. Very high growth in Delhi is reported due to large size outstanding figures reported by SE Investment⁶. In Andhra Pradesh, the portfolio has shrunk for obvious reasons; however the decline in 2014 is relatively smaller than the decline in 2013⁷.

Table 5: Loan Portfolio (₹ in crore) Outstanding Across States/UTs – 2013 & 2014 (Deceasing Order)

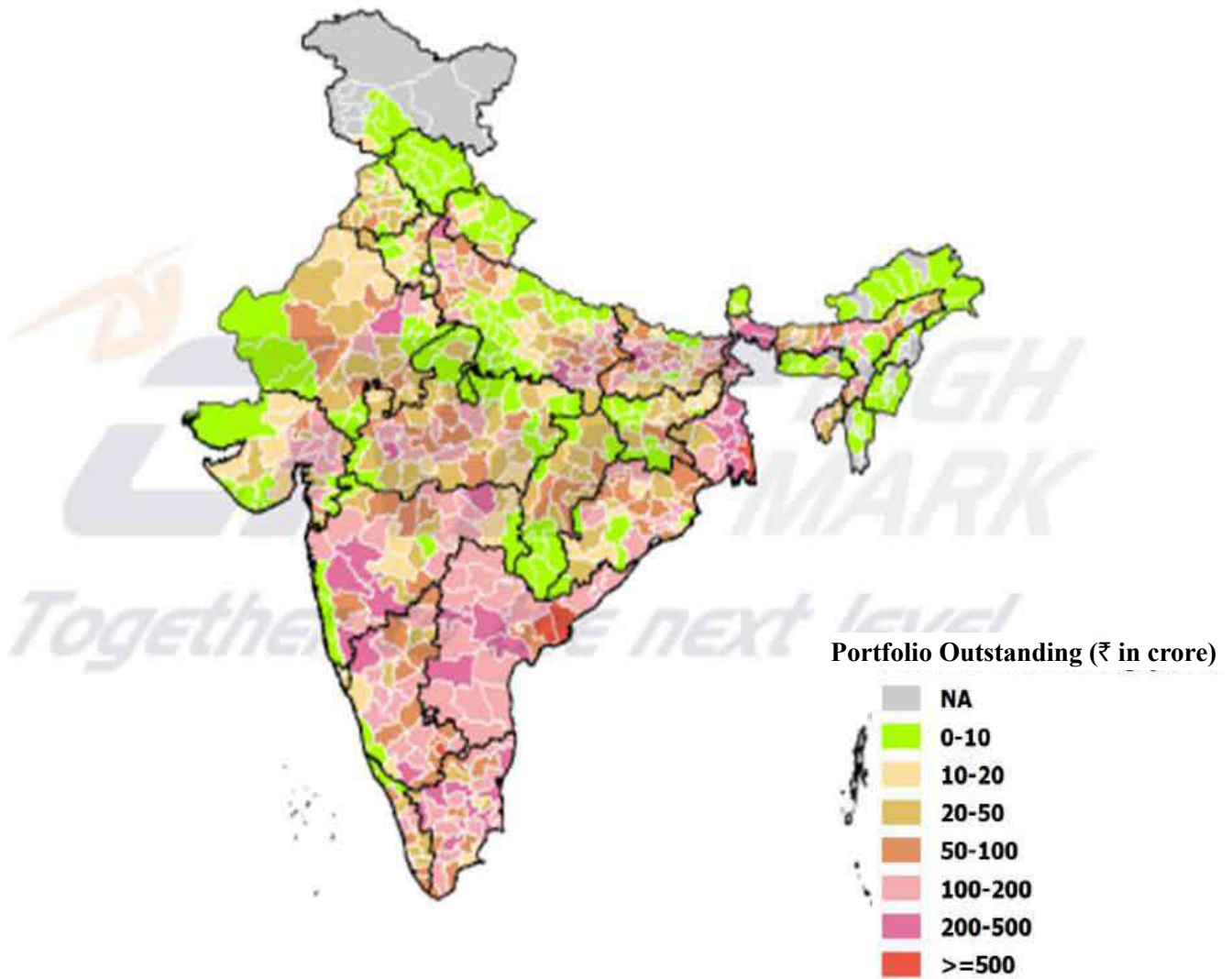
States/UTs	2014	2013	Growth (%)
Karnataka	5934	4595	29%
West Bengal	4078	3408	20%
Tamil Nadu	3656	2892	26%
Andhra Pradesh	3368	3835	-12%
Maharashtra	2757	1742	58%
Uttar Pradesh	2526	1603	58%
Bihar	1669	1036	61%
Madhya Pradesh	1470	1139	29%
Odisha	1389	855	62%
Assam	1370	982	40%
Delhi	789	260	203%
Kerala	749	547	37%
Gujarat	739	601	23%
Rajasthan	648	535	21%
Jharkhand	376	353	7%
Chhattisgarh	337	373	-10%
Tripura	312	253	24%
Haryana	220	215	2%
Uttarakhand	202	206	-2%
Punjab	195	140	39%
Mizoram	180	141	28%
Manipur	147	105	40%
Meghalaya	44	64	-32%
Arunachal Pradesh	43	47	-9%
Pondicherry	39	41	-5%
Sikkim	15	11	34%
Goa	13	20	-34%
Chandigarh	5	4	37%
Nagaland	4	1	320%
Dadra & Nagar Haveli	2	1	108%
Andaman	1	1	6%
Himachal Pradesh	0.8	0	121%
Jammu & Kashmir	0.7	0.1	

⁵ The comparison is based on gross outstanding portfolio of MFIs which also includes the managed portfolio. State wise segregated data of owned portfolio is not available with Sa-Dhan.

⁶ SE Investment as a NBFC can lend microfinance loans. upto 10% of its portfolio where as it is not subjected to the regulations under NBFC-MFI.

⁷ Refer Bharat Microfinance Report 2013.

District wise Portfolio Outstanding of MFIs⁸



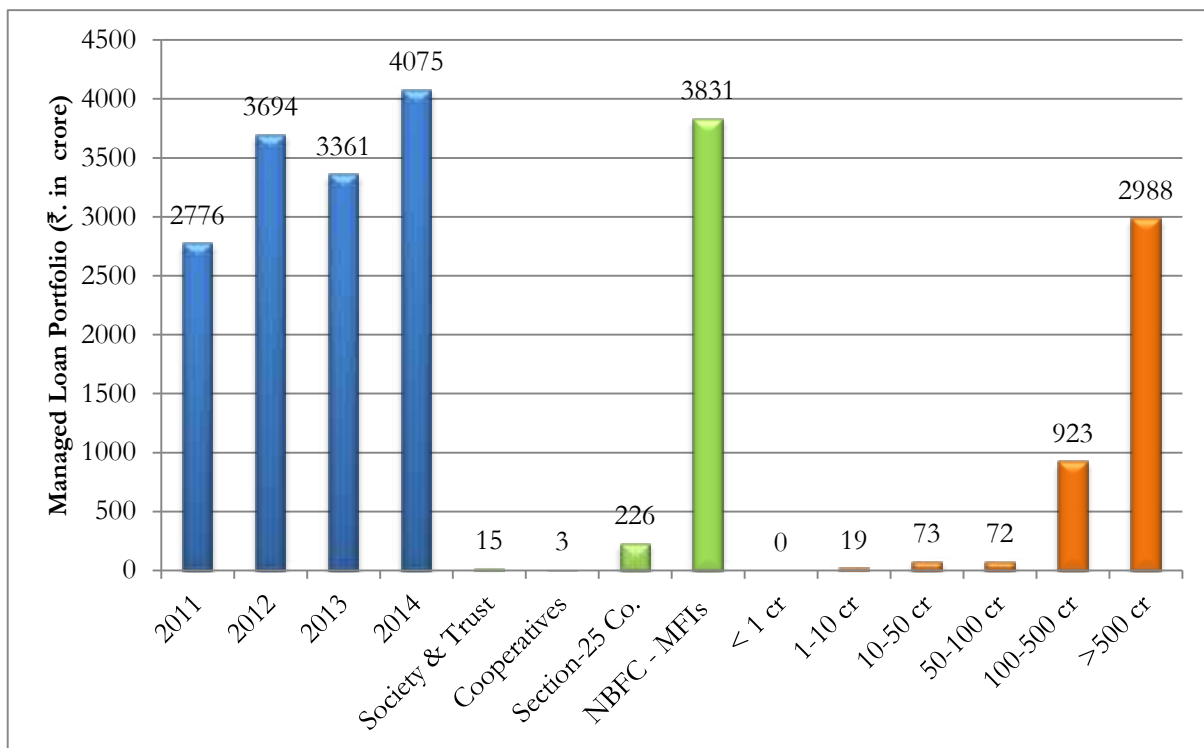
⁸ Source: CRIF Highmark

2.4.3 Managed Portfolio

MFIs have become increasingly prudent to use financial innovations to enhance their income and reduce risk. The securitization model was devised for the purpose of overcoming capital constraints. Under the guidelines of RBI, MFIs are required to maintain capital to the extent of at least 15% of their risk-weighted assets. In order to avoid further capital requirements on the mounting loan assets, they tend to sell a part of the portfolio to banks/FIs. They, however, continue to manage them, on behalf of the purchasing bank/FI and get fee income from these banks. On the other hand, the model of securitization has helped banks to meet priority sector lending targets as these loans on the books of the banks would qualify under direct agriculture portfolio.

Indian MFIs have collectively managed a portfolio worth of nearly ₹4075 crore as of March 2014. The distribution of the portfolio among different categories of MFIs is also displayed in the chart below.

Figure 10: Managed Loan Portfolio – Yearly Trend and Category-wise Breakup

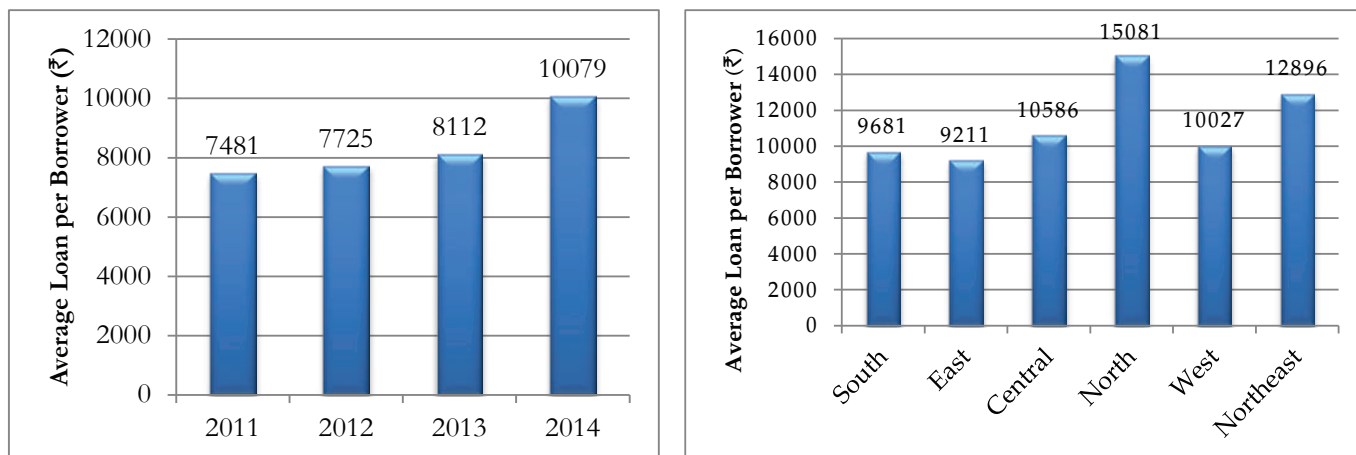


2.4.4 Loan Outstanding per Borrower

Average loan outstanding per borrower has been an important criterion to understand the general profile of clients borrowing from MFIs (a surrogate indicator for depth of outreach). It has implications on operating cost as well as the adequacy of loan amount for the purpose it was borrowed.

Average loan for the year stood nearly ₹10079 which is a big leap of 24% over the previous year. Average loan size in North is reported close to ₹15081 followed by Northeast at ₹12896. Large ticket size loans are offered in North and Northeast to support economic activities in the hilly regions.

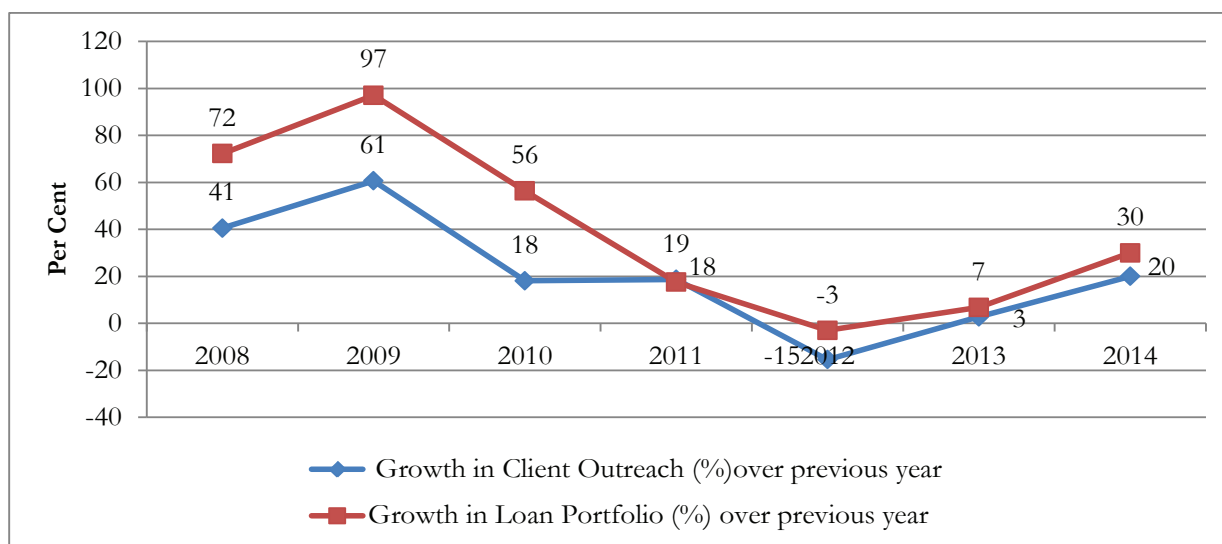
Figure 11: Loan Outstanding per Borrower Yearly Trend and Across Regions



2.4.5 Trends in Outreach and Outstanding Portfolio

Growth in outreach and loan portfolio has fluctuated year on year and reached its lowest level in 2012, owing to AP crisis and consequent drop in commercial funding to MFIs. In 2013, however, the reverse trend started. This upward growth is maintained in 2014 as well, thanks to resumption of bank funding to MFIs.

Figure 12: Growth Fluctuations in Outreach and Loan Outstanding over the Years



A correlation between outreach and outstanding loan growth over the previous year is well established. Growth of MFIs was slowed down during 2010-12 has observed a positive trend thereafter.

2.5 Loan Disbursement

Loan disbursement is a factor of funds received by the MFIs from lenders, primarily the commercial banks. Loan disbursement in during 2010-11 was higher⁹ on account of large size sanctions made by the banks to the MFIs before the crisis hit in Andhra Pradesh. Subsequent years witnessed a sharp fall in disbursement as fund flow to the sector was severely constrained. Disbursement by MFIs in recent years indicates a positive trend in 2013 and 2014. Loan disbursement increased by ₹12762 crore during 2013-14 over the previous year accounting for 49.5% increase.

List of top 10 MFIs disbursing loan during 2013-14 is given in Figure 14.

⁹ No of MFIs reported in 2010-11 was much higher than other years (184 MFIs)

Figure 13: Loan Disbursement over the Years

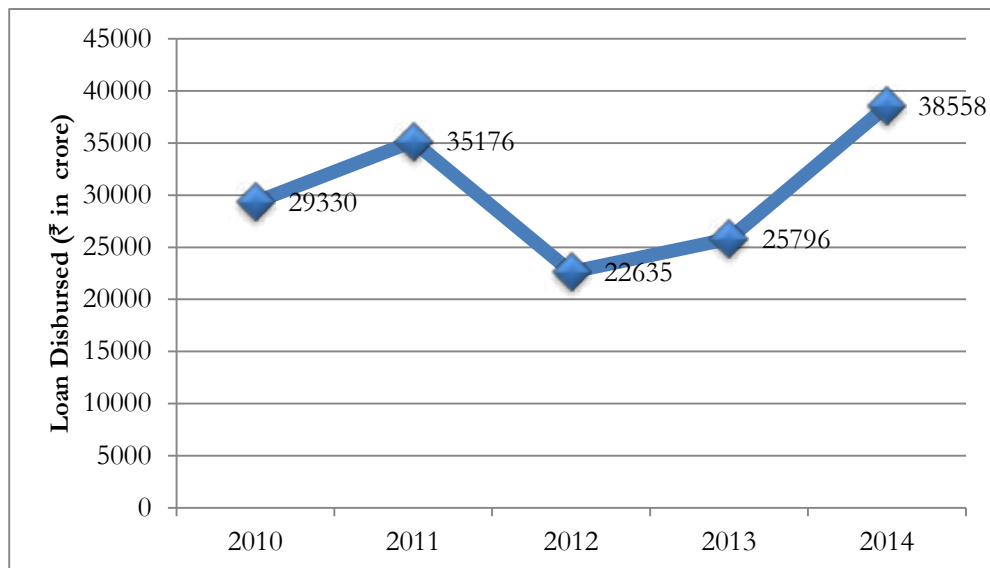
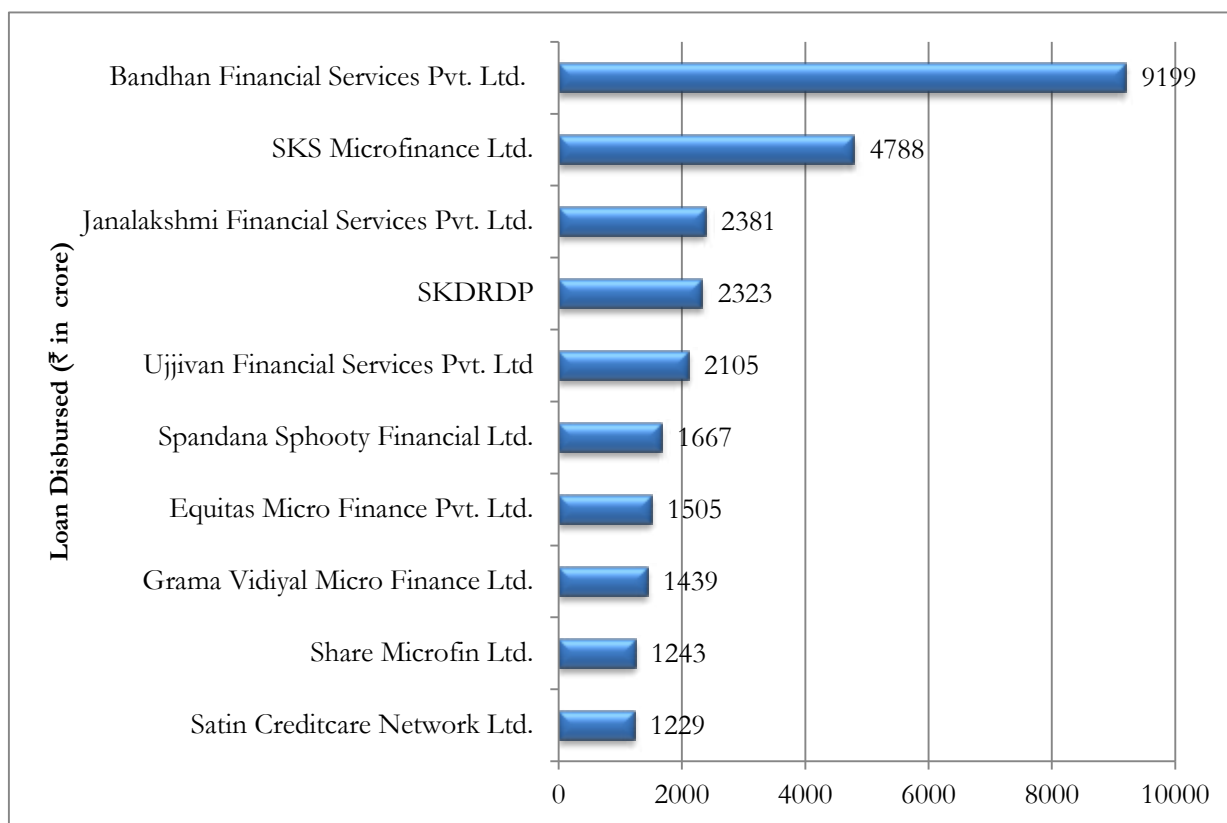


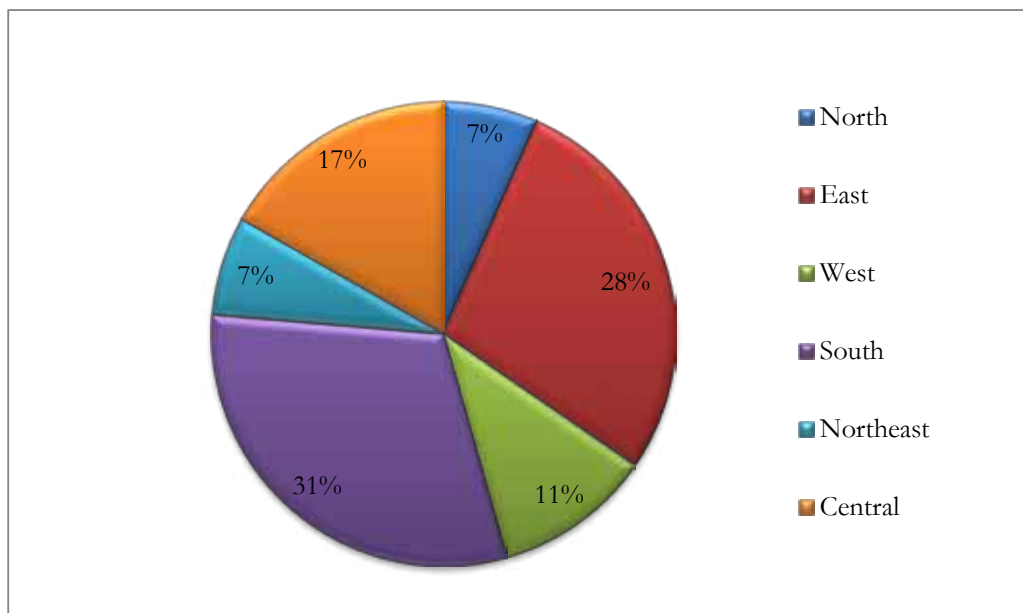
Figure 14: Top 10 MFIs Disbursing Loan During 2013-14



2.5.1 Loan Disbursement-Regional Pattern

The year 2013-14 has experienced a remarkable growth in MFI loan disbursement in all regions. Among all regions, the Eastern and Southern regions have the largest shares of loan disbursements (31% and 28% respectively); the same trend was followed in year 2012-13 also.

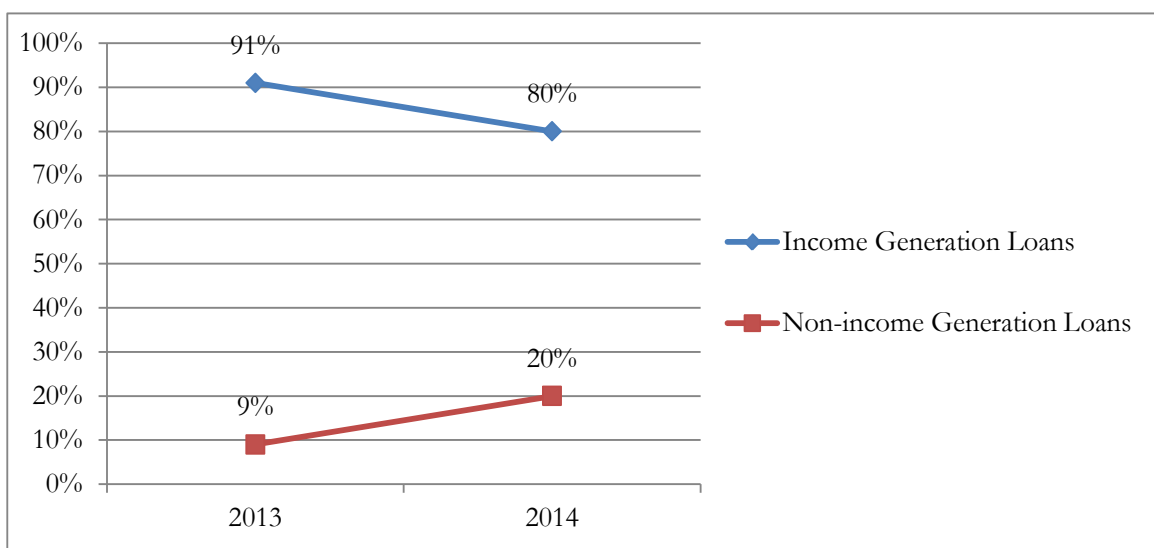
Figure 15: Regional Pattern of Loan Disbursement



2.5.3 Purpose of Loan

Traditionally, MFIs have been lending for both consumption and productive purposes. It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. In 2011, RBI regulation stipulated that a minimum of 70% of the MFI loans are to be deployed for income generating activities. Analysis of the loan portfolio held by reporting MFIs for 2013-14 shows that the proportion of income generation loan to non-income generation loan is 80:20. Loan usage under different sub sectors is presented in Figure 16 for both income generation and non income generation loans. Agriculture and trading are major sub-sectors where income generation loans are deployed. Non-income generation loans are used for consumption, housing, education, water & sanitation, health etc.

Figure 16: Share of Income Generation Loans and Non-income Generation Loans

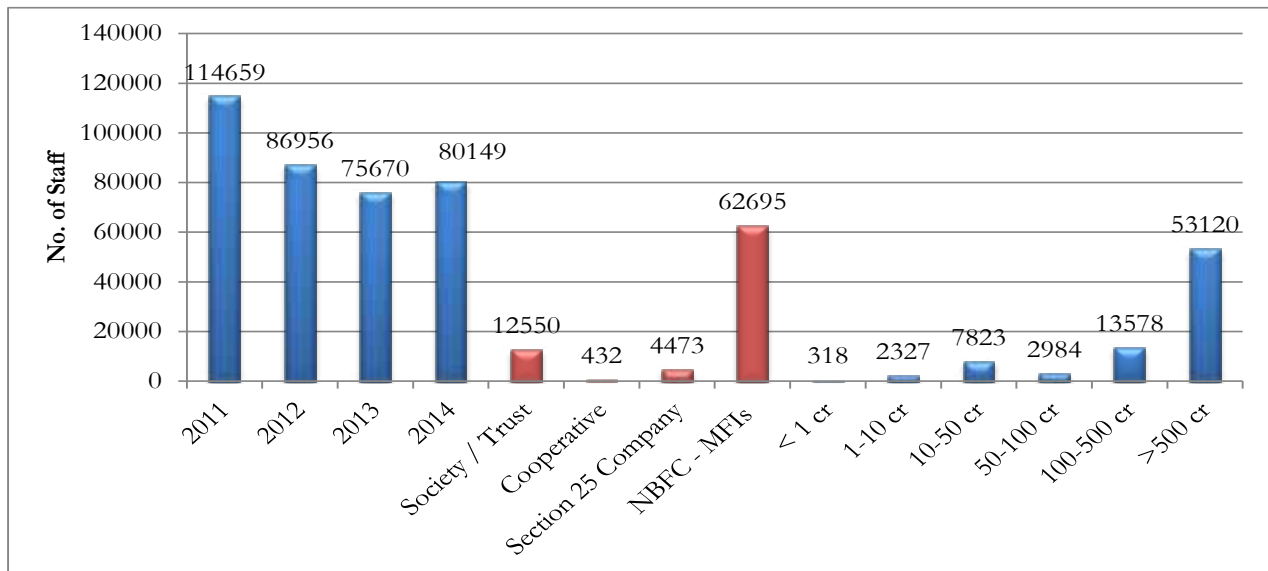


3.1.1 Workforce in MFIs

Microfinance services, by nature, have a close human touch with clients on the ground. Even with the advent of technology, these services still predominantly depend on human resources for ensuring effective delivery. Considering the fact that personnel cost contribute substantially to the total expenses of MFIs (i.e. 25% as given in section 3.2 of this report), staff productivity plays a major role in determining their cost efficiency. Staff productivity is measured through some key indicators such as active borrowers per credit officer (ABCO), active borrowers per MFI staff, amount of loan outstanding per credit officer etc.

The MFI sector had brought down its workforce significantly from over one lakh in 2011 to just over 75000 in 2013. Thanks to an increased fund flow to the MFI sector, MFIs increased their workforce to over 80000 in 2014 in order to support their enhanced activity. The following figure illustrates the trend and further shows that NBFC–MFIs and large MFIs have major share of employees (Figure 1).

Figure 1: No. of MFI Staff - Yearly Trend and MFI-Category-wise Break-up



Sixty three per cent (63%) of total staff is field staff, working in the branches of MFIs. This is obviously because of the labour-intensive nature of the MFI-operation which involves human interaction with clients, cash handling etc. Female staff comprises of approximately 19% of the total workforce of MFIs and this proportion has been increasing over the years. Among female staff, 64 % work in the field, mainly as credit officers. Involvement of women in the field operations can enhance service efficiency, given the fact that 95 % of MFI clients are women.

Table 1: Yearly Trend of Total Staff vs Women Staff

Year	Total Staff	Women Staff	% of Women Staff to Total Staff
2011	114659	9265	8%
2012	86956	10435	12%
2013	75670	12283	16%
2014	80149	15279	19%

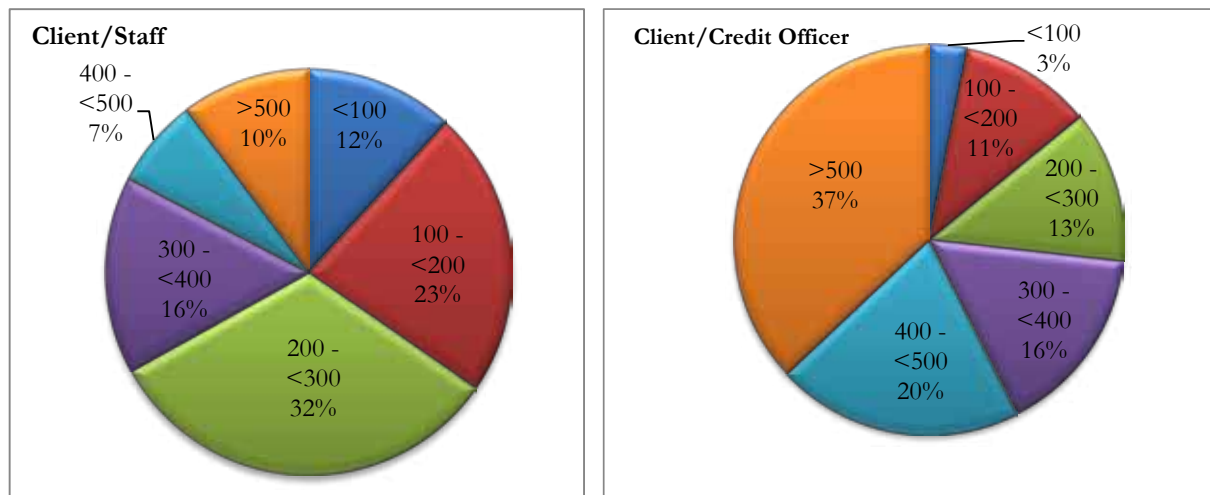
3.1.2 Staff Productivity

Active Borrowers per Credit Officer (ABCO) and No of Borrowers per Staff

ABCO measures the number of active borrowers served by a credit officer (CO). This ratio is an effective way to measure the productivity as it determines the quantity and quality of time spent by the credit officer with a borrower, affecting his/her service quality. With very low ratio of ABCO, better service is possible, but it involves a higher cost to MFIs. Similarly, a very high ABCO ratio would affect the service quality

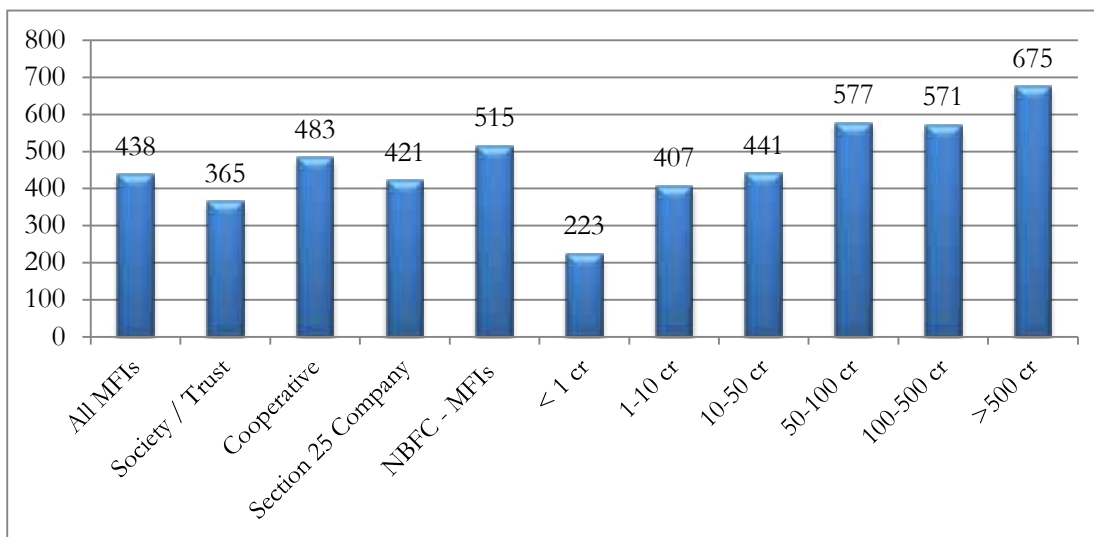
Diversity in the microfinance industry is also reflected in staff productivity levels among different MFIs. Figure 2 depicts the staff productivity ratios measured through active borrowers per staff member and ABCO. We can find that about 35% of MFIs have less than 200 borrowers per staff member, 32 % have 200-300 borrowers per staff and 33% have more than 300 borrowers per staff. Similarly for ABCO, 27 % of MFIs have ABCO less than 300 while 36% fall between 300 to 500 and 37% have ABCO above 500.

Figure 2: Distribution of MFIs Based on Clients Served per Staff & Credit Officer



The Median ABCO for 2014 stands at 438 as against 510 in 2012-13. ABCO has remained high for NBFC-MFIs (515) followed by cooperatives (483). Societies and Trusts typically have lesser ABCO of 365, as most of these organisations follow the philosophy of providing financial services along with some development activities. ABCO seems to be increasing with the scale of operations. MFIs with larger scale of operations have systems and processes in place that requires minimal time for credit officers to be spent at the client level.

Figure 3: ABCO - Across MFIs

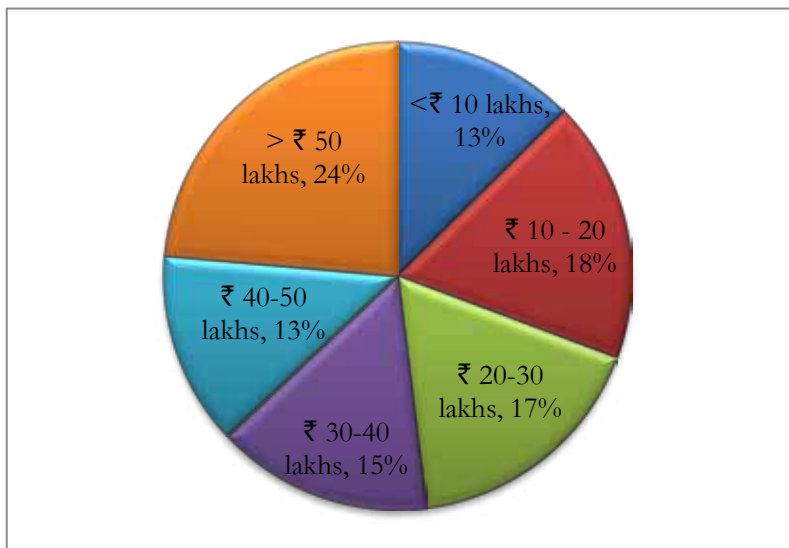


Distribution of MFIs Based on Loan Portfolio per Credit Officer

In addition to the number of clients reached by credit officers, the amount of loan handled by them is also an important measure that contributes to staff productivity. Figure 4 presents the distribution of MFIs across various bands of loan portfolio handled by each credit officer. Approx. 31% of MFIs have credit officers handling a loan portfolio of less than ₹20 lakh, while 32% of MFIs have a range of ₹20-40 lakh loan portfolio

per credit officer. About 24% of MFIs in our sample have loan officers handling a portfolio worth more than ₹50 lakh.

Figure 4: Distribution of MFIs Based on Loan Portfolio per Credit Officer



3.1.3 Portfolio Quality

The loan portfolio is the primary income-generating asset in an MFI's balance sheet. Interest income typically constitutes over 90 % of the total income of MFIs. Lending, obviously, is fraught with the inherent risk of repayment default. Therefore, maintaining a healthy loan portfolio with minimum loan default ensures the profitability and financial health of an MFI. This section presents the analysis of current performance of the loan portfolio quality as measured through Portfolio at Risk¹⁰ (PAR 30 Days)

The portfolio quality of Indian MFIs is by and large healthy if we exclude the CDR (Corporate Debt Restructuring) MFIs figures based in Andhra Pradesh. The overall PAR for the MFI sector has been coming down since 2012.

Figure 5: MFI Loan Portfolio at Risk (PAR)

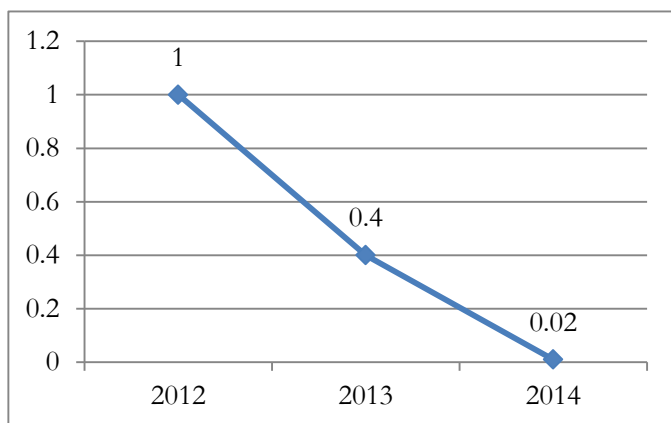
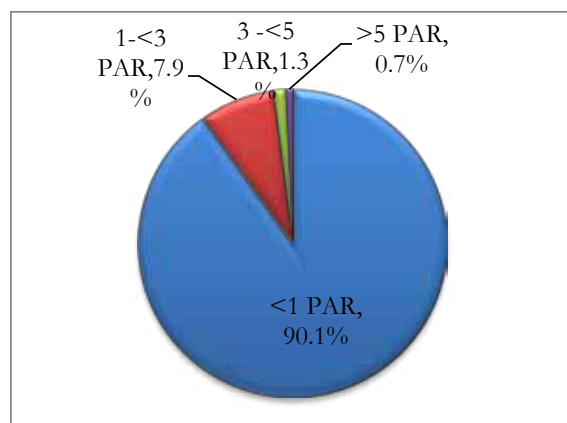


Figure 6: Distribution of MFIs Based on PAR

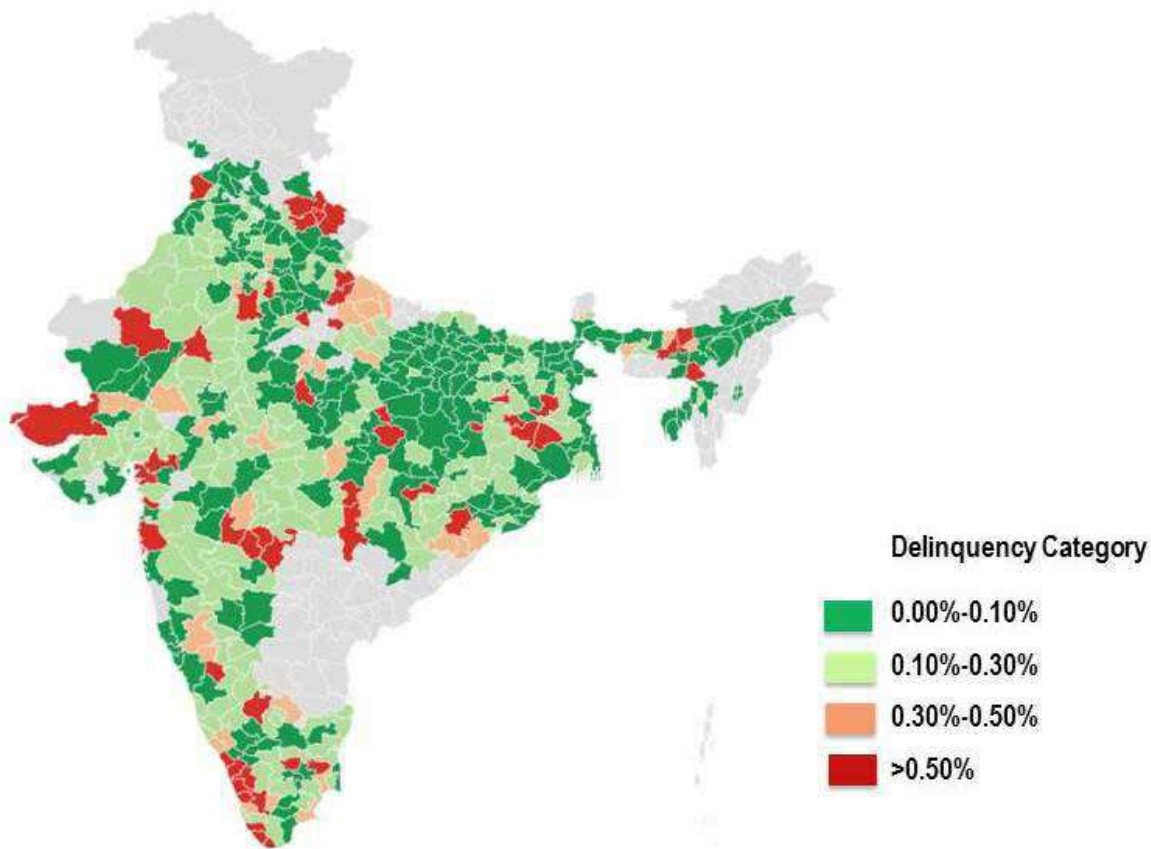


¹⁰PAR indicates the proportion of outstanding amount of all loan accounts having past due/arrears to the total loan portfolio. In general, PAR 30, that is, the portfolio / part of the portfolio remaining unpaid 30 days and beyond crossing the due date, would be used as a measure to assess the portfolio quality.

Distribution of MFIs as per various levels of PAR shows (Figure 6) that over 90% of MFIs have PAR <1 for 30 days and only about 1% of MFIs have a PAR of more than 5%. Approx 8% of MFIs have PAR in the range of 1-3%.

A heat map with district level delinquency is given below to understand the portfolio risk at various pockets of the country.

Heat Map (District Level Delinquency 30+ dpd)¹¹



Another important indicator of portfolio quality is overdue installments beyond 180 days. The pending installment amount is ₹1424 crore as of March 2014, which is much lower compared to March 2013 (3430 crore). This is just the backlog of bad assets held in the balance sheets of CDR MFIs based in Andhra Pradesh. The significance of this amount is that the MFIs concerned ought to make 100 % provision in the balance sheet as per RBI prudential norms.

¹¹ Source –Equifax (Delinquency for 30 days past due)

This section attempts to provide an analysis of the cost structure of the MFIs and their income patterns in order to understand their overall business profitability. This includes the expenditure pattern of MFIs, both operational and financial expenses, income patterns and yield, margins and surplus, operational self-sufficiency and finally their return on assets and equity.

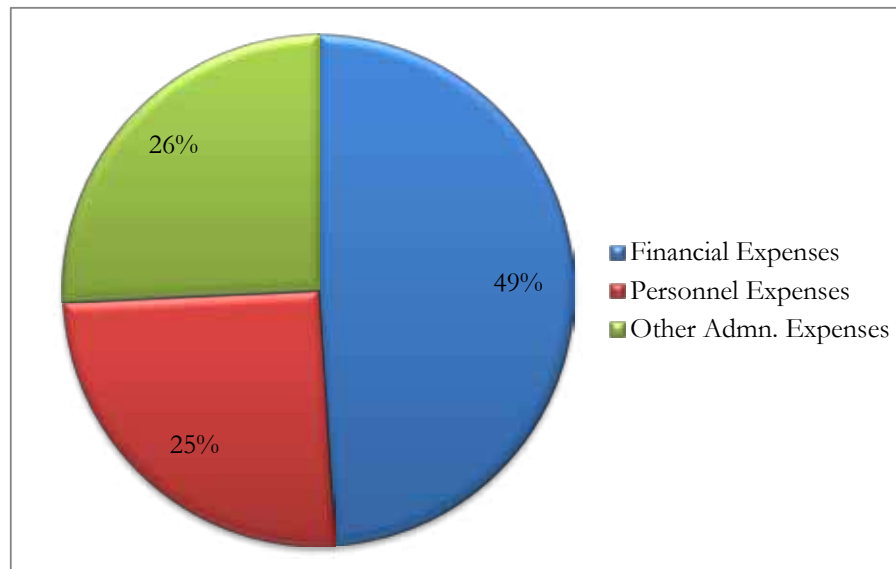
3.2.1 Expenditure Analysis

There are two types of cost in MFI operations – Operating cost which includes personnel expense, administrative expense, loan loss provision and secondly, finance expense which is mainly the interest expense incurred on borrowing. Operating expenses are internal to the MFI whereas finance expense is an external factor.

The reporting MFIs have spent over ₹5200 crore while conducting microfinance operations during 2013-14, which is approximately ₹1800 crore less than the expenditure compared to the previous year. This is because there was a large loan loss provision expense of ₹3100 crore in 2012-13 which has come down to about 300 crore in 2013-14.

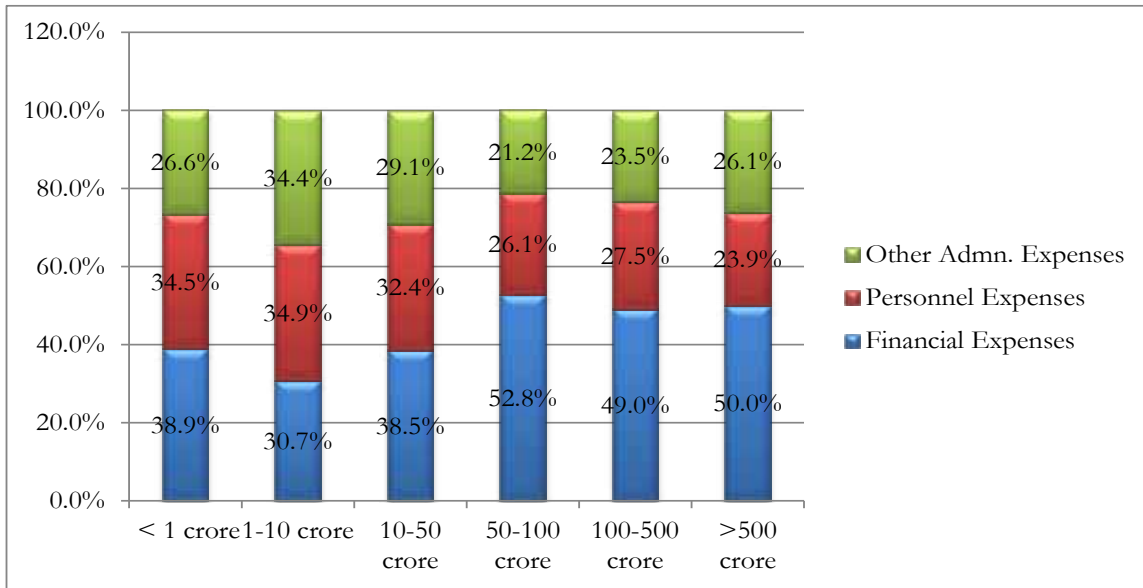
Out of the total expense this year (from Figure 1), 49% was incurred as finance expense in comparison to 51% as operating expense. Operating expense is further comprised of personnel expense (25%) and other administrative expense (26%). Loan loss provision for the reporting year remained a miniscule of 0.05% and is included under operating expenses.

Figure 1: Break up of Expenses by Indian MFIs



The expenditure pattern of MFIs on the basis of their size was analysed to understand the trend. It is seen that large MFIs with a portfolio size of 50 crore and above have typically spent close to 50% towards financial cost whereas personnel expense remained in the range of 24-27%. On the contrary, MFIs with a portfolio size of less than 50 crore have spent less than 40% towards financial expenses and 32-35% towards personnel cost. This could be due to economies of scale wherein the finance expenses grow at a faster rate as the MFI borrows more and increases its interest expense. Whereas operating expenses as a percentage of total expenses do not typically grow at the same rate.

Figure 2: Break up of Expenses by Indian MFIs Based on Portfolio Size



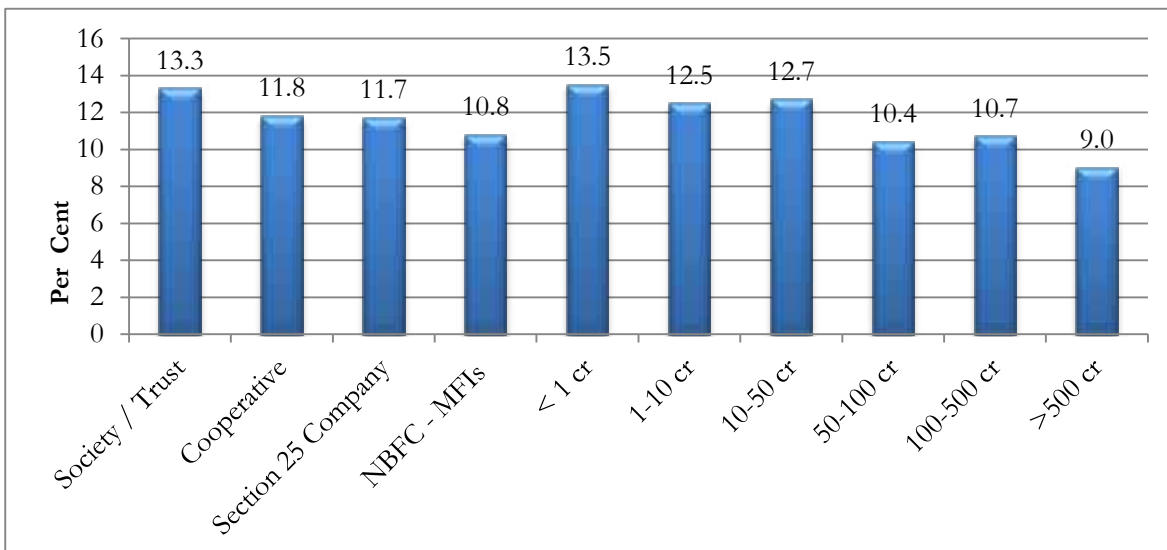
Operating Expense Ratio¹² (OER)

Operating expense is a major component of the total expenditure incurred in MFI operations. The labour-intensive MFI sector has a higher operating cost as compared to banking. The median OER for the MFIs in 2014 remained at 12%. Figure-3 showcases the operating expense ratio for reporting MFIs based on type of MFIs and scale of operation.

OER is typically higher for NGO MFIs in comparison to corporatized MFIs. NBFC-MFIs have a median OER of 10.8%, whereas Section-25 companies and cooperatives have a median OER of 11.7% and 11.8% respectively. Societies & Trusts have the highest OER of 13.3%.

OER comes down with scale of operations. MFIs with a portfolio of upto 1 crore have the highest OER of 13.5%. MFIs with a portfolio size of 1 to 50 crore have an OER of approx 12.5% whereas MFIs with portfolio of 50 crore to 500 crore have a median OER close to 10.5%. MFIs with more than 500 crore portfolio have a median OER of 9%.

Figure 3: Operating Expense Ratio Across MFIs



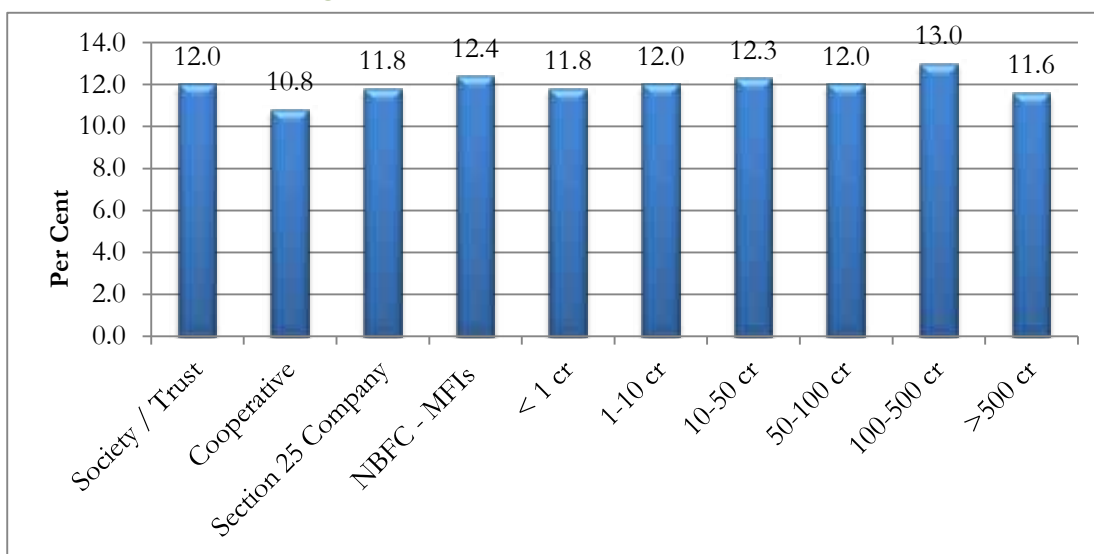
¹² Denotes ratio of all administrative and salary expenses to average loan portfolio

Finance Cost Ratio¹³ (FCR)

Bank funds are the key source of financing for MFIs in India. Finance cost is therefore an important component of the total cost to MFIs. The median FCR for 2013-14 remained at 12.17%. Cost of funds for NBFC MFIs is 12.4%, while it is marginally lower for NGO MFIs. This may be due to some of the grant funds, revolving funds and cheaper loans available to them from Government sources. Cooperatives maintained the lowest FCR of 10.8%, mainly because of the cheaper source of deposits mobilized from members.

Amongst MFIs of different sizes, giant MFIs have the lowest cost of funds (11.6%) as they have a larger bargaining power. FCR is the highest for MFIs with a portfolio size between 100-500 crore. The cost of funds for smaller MFIs is relatively less as a number of MFIs within these segments are NGO-MFIs or cooperatives with cheaper source of funds as mentioned above.

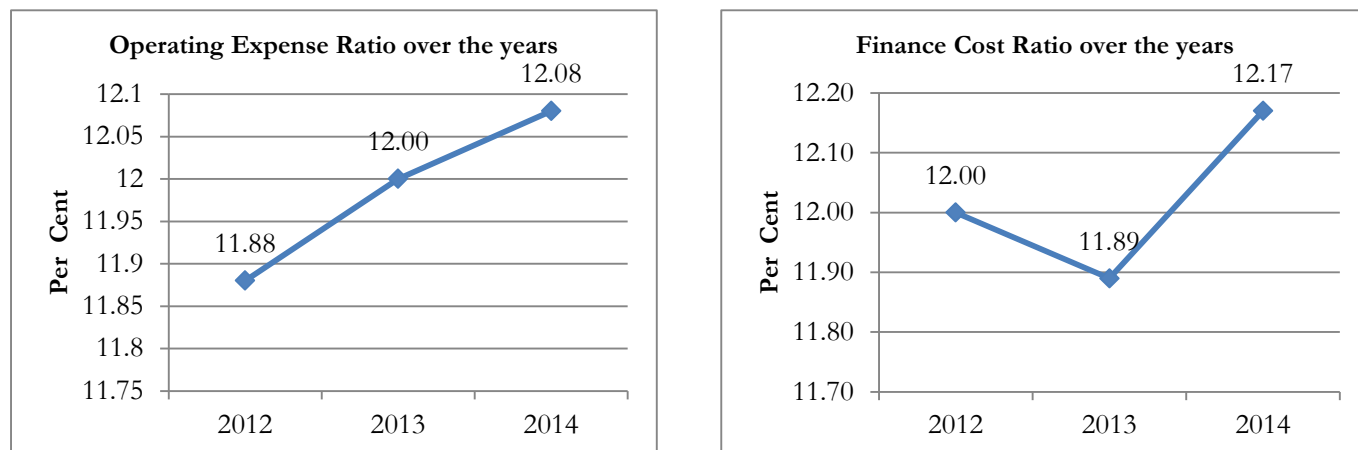
Figure 4: Finance Cost Ratio Across MFIs



Trends of OER and FCR

Comparing the OER over a period of three years, it is observed that OER for the sector has been increasing over the years', in spite of conscious efforts by the sector to comply, from 11.88% in 2011-12 to 12% in 2012-13 and then marginally to 12.08% in 2013-14. The increase in 2012-13 may be attributed to the higher loan loss provision made by the AP based MFIs in that year.

Figure 5: Trends of OER and FCR



¹³Denotes ratio of financial expenses paid to banks/FIs on average borrowing outstanding.

Box 1: Role of MIS in Reducing Operational Cost

Strong MIS can play a very significant role in managing and monitoring the operational processes and improving efficiency by bringing a reduction in overall operational expenses. SVCL has set an example by reducing the operational cost by approximately 20% as compared to the industry and peer MFIs. The steps towards building a strong and effective Management Information platform enabled us to increase our penetration in the same branch, improve fund management efficiency and optimize the use of different hierarchies within the system. This also helped to keep the Supervisory and Monitoring team lean and avoid unnecessary travel time to collect the data.

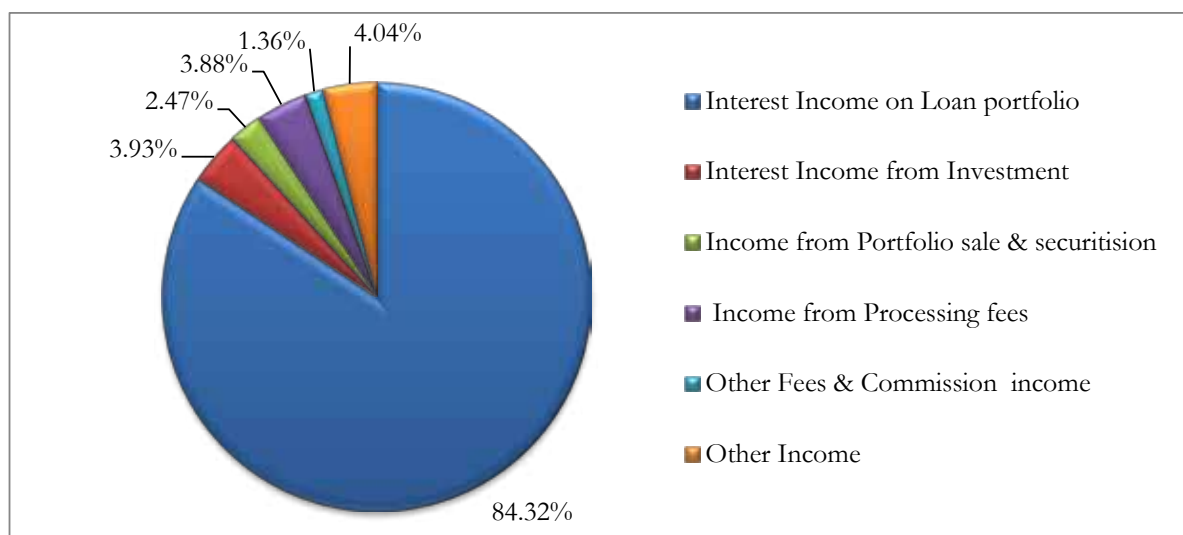
We get to know the productivity, performance and problems of the field on a real-time basis, which provides a basis to take more informed decisions and plan in a better way. Now, the staff gives much more time in the field. SVCL has started using smart tablets and we believe that with this step, we should be able to cater the other financial needs of our clients in a more controlled environment without increasing spending.

Rakesh Dubey, CEO, SV Creditline (P) Ltd

3. 2. 2 Income Analysis

Interest income from their loan portfolio is the predominant income of MFIs, contributing over 84% of their total income. Processing fees, Investment income and income from portfolio sale are the other types of income, contributing 2-4% each (Figure 6). The total income of MFIs has gone up during 2013-14, as compared to the previous year. All in all, MFIs earned a total income of nearly ₹6560 crore during the year, which is 2174 crore (approx 45%) higher than 2012-13. All categories of MFIs have raised their income level during the year, as compared to last year.

Figure 6: Break-up of Income



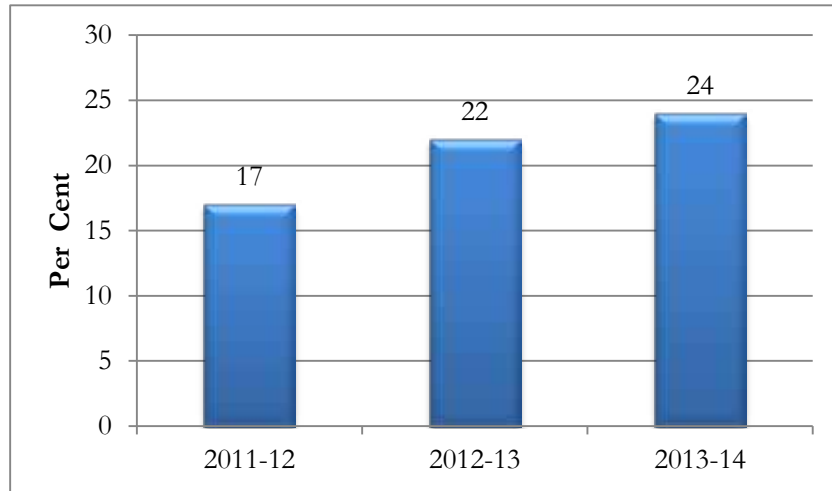
Yield* on Loan Portfolio (Financial Revenue Ratio)

The portfolio quality of an MFI directly leads to yield on Loan Portfolio (That includes the interest income and processing fee from the loan portfolio). Analysis of yield not only helps in understanding the income pattern but also helps in analysing their margin compared to cost.

Yield was greatly affected in the aftermath of AP crisis as a large portion of the portfolio was classified under non-performing assets. The situation is improving slowly year on year. Median yield for 2013-14 is 24.2%, an increase from 22% in 2012-13 (Figure 7).

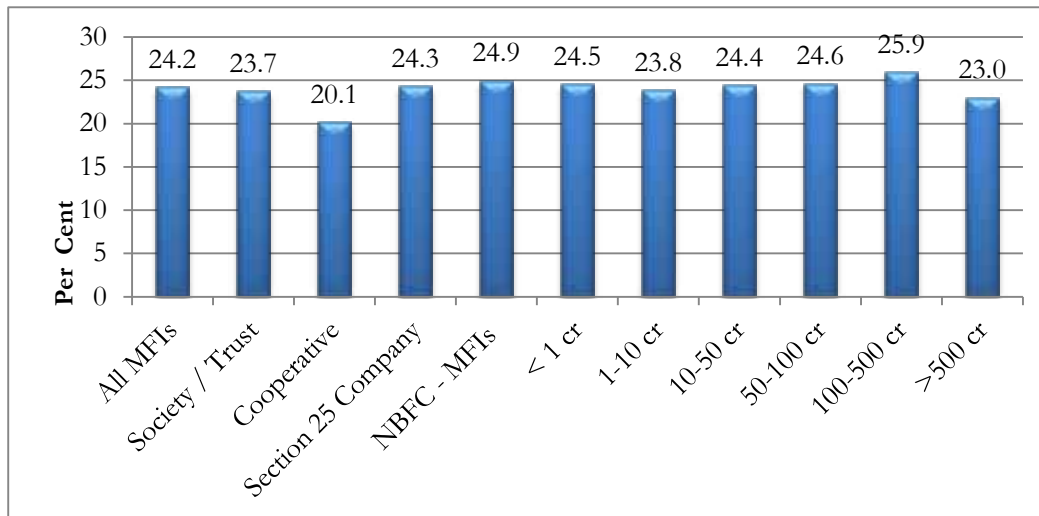
* Denotes % interest income + processing fee to the average loan portfolio.

Figure 7: Yield Trend of MFIs



Among various categories of MFIs (Figure 8), NBFC-MFIs have the highest median yield of 24.9%, followed by Sec 25 Companies at 24.3%. Societies and Trusts have a median yield of 23.7% while cooperatives have the least at 20.1%. Size wise, most of the categories are in the range of median yield. Yield is highest for large MFIs (26%) while it is the minimum for the giant MFIs (23%). Yield for giant MFIs is less due to the lowered income level of some of the MFIs from their AP portfolio, which remains non-performing.

Figure 8: Yield on Portfolio Across MFIs



3.2.3 Margin¹⁴

The Reserve Bank of India had prescribed a revenue margin (Net Interest Margin) for MFIs, especially the NBFC-MFIs this year. As per the present norm, the margin should be kept below 12%. The logic behind the margin cap is to have control over the operating expenses through increased efficiencies, thereby reducing the interest rate to the borrowers. The margin over the finance cost will include the cost of delivering the services and a reasonable surplus that is necessary to sustain the MFIs.

Our data shows that different types of MFIs have a margin within the range of 10-11% and are comfortably compliant to the margin cap prescription of the regulator. The median margin level for NBFC MFIs was 10.9%.

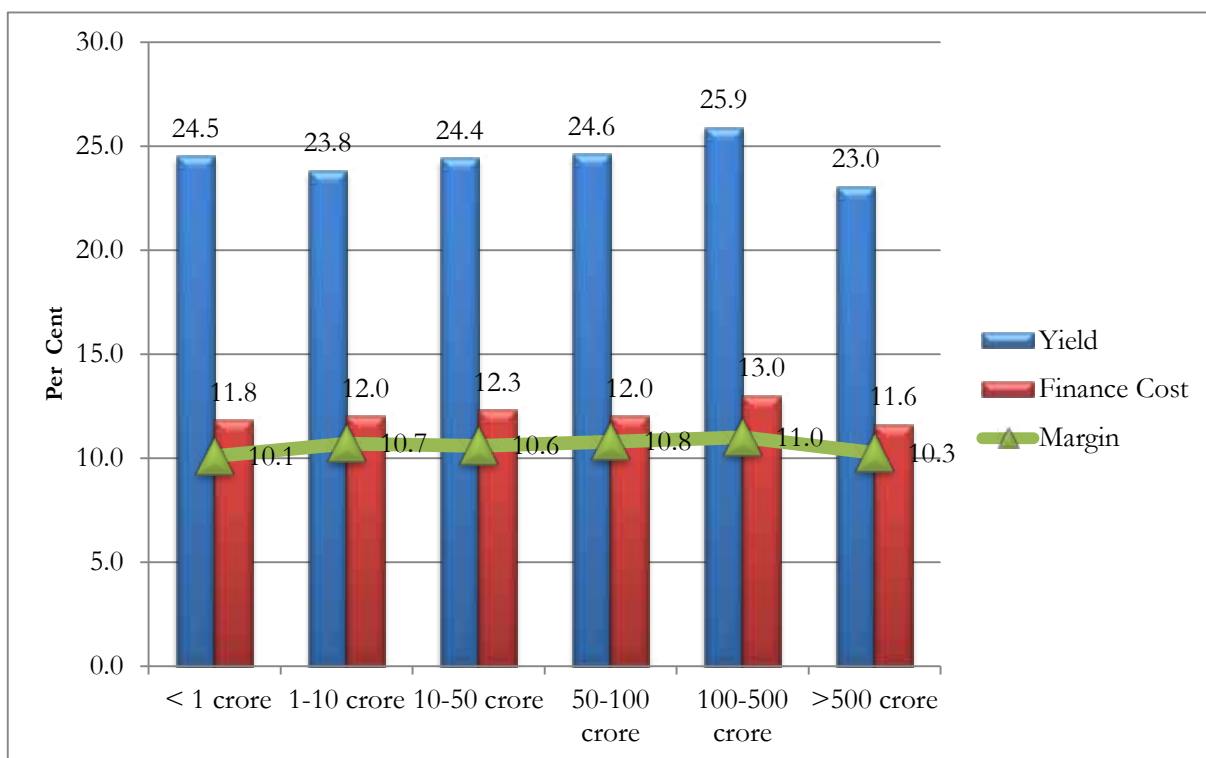
¹⁴ Margin is the difference between MFIs Financial revenue (excluding processing fee) % age on average loan portfolio and the financial cost % age on average outstanding borrowing from different sources.

3.2.4 Yield, Cost and Margin: Performance Across MFI Size

An analysis of yield, financial cost and margin of MFIs shows that the margin is a function of the other two parameters (Figure 9). Yield and cost across MFIs of different sizes have remained close to each other, and so have their margin levels.

Yield and cost for MFIs in the segment of ₹100-500 crore portfolios has remained relatively higher with a higher margin (11%) as well, whereas margins for MFIs in the segment of ₹500 crore and above remained relatively low as the net interest income from their portfolio was less compared to other segments.

Figure 9: Yield, Cost and Margin of MFIs—Size wise



Profitability and self sufficiency of MFIs are measured through ratios such as Operational Self Sufficiency (OSS), Return on Asset (ROA) and Return on Equity (ROE) etc. For the purpose of calculation of these ratios, operational profit (net surplus) of the MFIs has been taken after payment of all taxes.

3.3.1 Surplus

The net surplus (after tax) of the sector in general is positive. Out of the total surplus of ₹734 crore reported, NBFC-MFIs have a lion's share of ₹648 crore (88%). Among the size wise category, giant MFIs have 623 crore in surplus (84%) vis-a-vis their outstanding portfolio contribution of 77%. Some important Andhra based MFIs belonging to the 100-500 crore category have a negative surplus. A few non-AP based NGO MFIs have reported a negative surplus' as well.

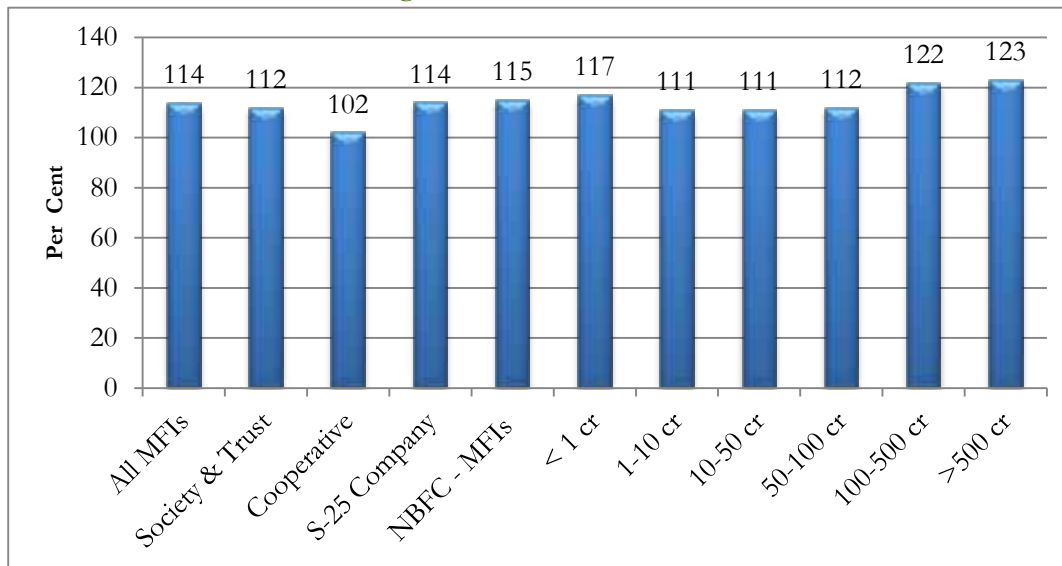
3.3.2 Operational Self Sufficiency (OSS)

The median OSS of the sample is 114%. In aggregate, all types of MFI have achieved more than 100% self sufficiency in the year 2013-14 indicating that the income from their operations is sufficient to cover up their expenses (Figure 1).

All categories reported an OSS between 112% -114% except for cooperatives that are just above 100%. NBFC-MFIs have the highest OSS followed by Section 25 Companies and Societies & trusts. OSS below 100% was recorded by 4% of NBFC-MFIs mainly with remnant AP portfolio. From the not for profit category, a total of 8% of the MFIs reported an OSS below 100% for the reporting year.

In general, the OSS shows improvement with increase in the scale of operations. MFIs with portfolio size more than ₹500 crore have an OSS of 123%, followed by large MFIs with 122%. Other MFIs have a median OSS of 111%-112%, whereas tiny MFIs spared better at 117%.

Figure 1: OSS Across MFIs



Impact of loan size on OSS: A general pattern of improved OSS is observed when it is analysed against the average loan size of MFIs (Figure 2). The median OSS for MFIs with an average loan size of less than ₹5000 is found to be 113%, while the median OSS steadily increases with increase in average loan size. MFIs with an average loan of more than ₹15000 have the highest OSS of 122%. However, the aberration in MFIs with average loan size of ₹5000-8000 is mainly due some of the leading MFIs based out of AP, whose operational income is still not sufficient to cover up their expenses.

Figure 2: OSS Against Average Loan size

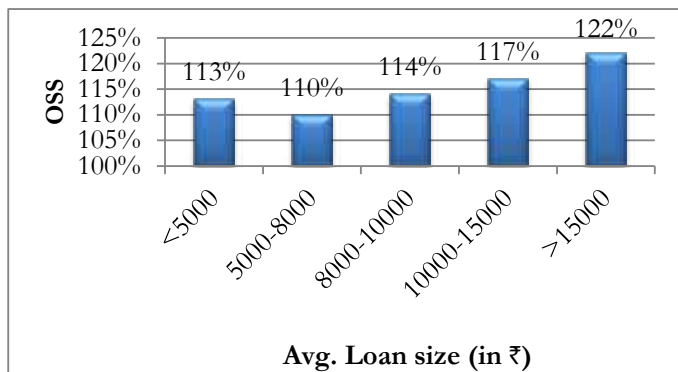
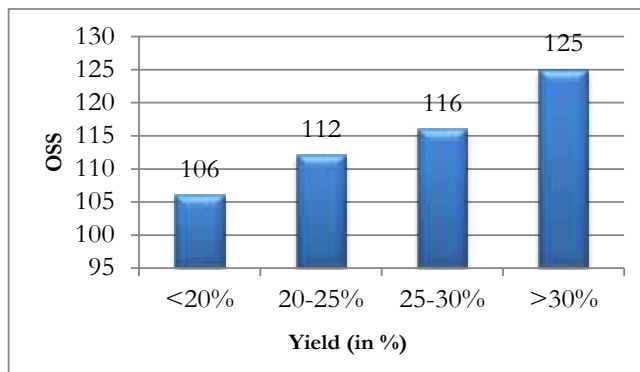


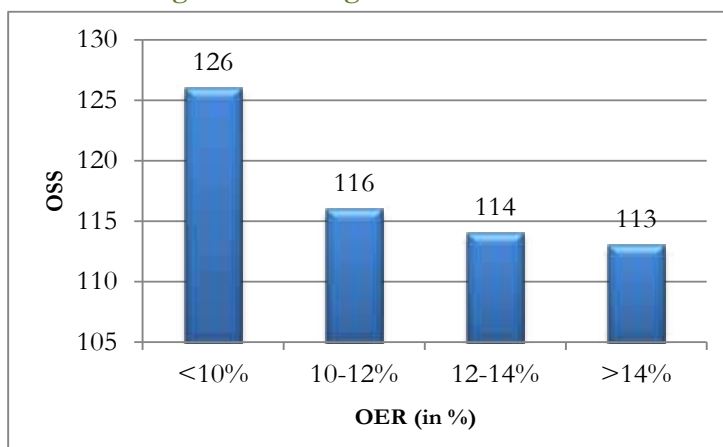
Figure 3: OSS Against Yield Category



While comparing OSS against yield of MFIs (Figure 3) it was found that in general, OSS increases with increase in portfolio yield. Median OSS for MFIs with yield <20% is 106% while the highest OSS of 125% is observed for MFIs with yield of more than 30%. A median OSS of 112% is observed for MFIs with yield between 20%-25%, a range which includes 45% of the sample MFIs. Another 45% of MFIs with a reported yield between 25-30% have a median OSS of 116%.

Impact of Operating Expense Ratio (OER) on Operational Self-Sufficiency (OSS): Comparing the relationship between OER and OSS, it is observed that OSS gradually decreases with an increase in OER. MFIs with an OER of less than 10% have a reasonably good quality OSS of 126%. OSS drops significantly with increase in OER beyond 10% and reduces as the OER is increased. The least OSS of 113% is shown for MFIs with OER of more than 14%.

Figure 4: OSS Against OER of MFIs



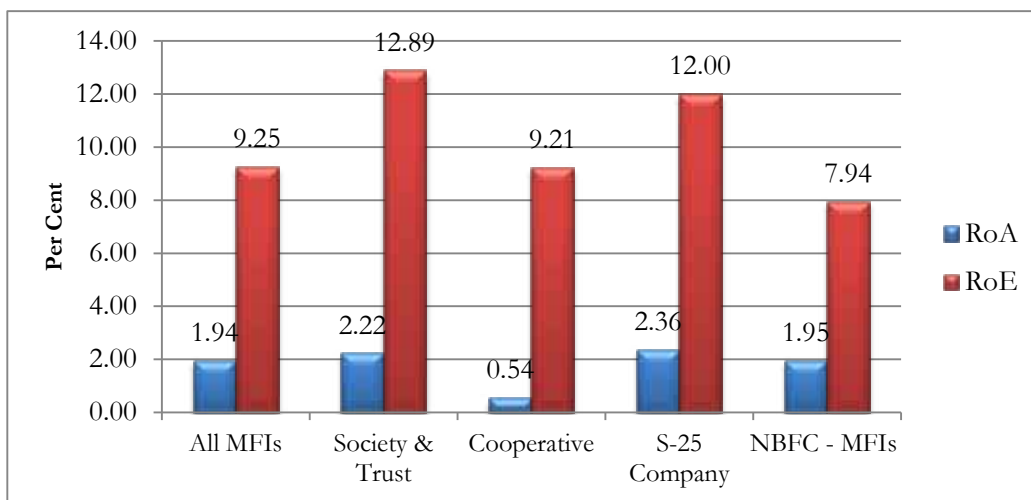
3.3.3 Profitability Ratios

Return on Asset (ROA) and Return on Equity (ROE) are the two profitability measures that the MFIs and their investors generally consider for judging the viability of their MFIs. The sector-average ROA and ROE are generally viable and healthy at a median range of 1.94% and 9.25% respectively. This is a reasonably good leap from last year where the reported ROA and ROE were 1% and 4.8% respectively. Clearly, the microfinance sector has revived well within a period of 4 years of its worst crisis. This is very encouraging sign for investors as it adds positive expectation about the microfinance business.

From Figure 5, it is seen that the median ROA of Sec-25 Companies is 2.36%, followed by Societies & Trust at 2.22%, whereas median ROA for NBFC-MFIs is at 1.95%. Median ROE of Societies & Trust is 12.89% followed by Sec-25 Companies at 12.36%, whereas median ROE for NBFC-MFIs is at 7.94%.

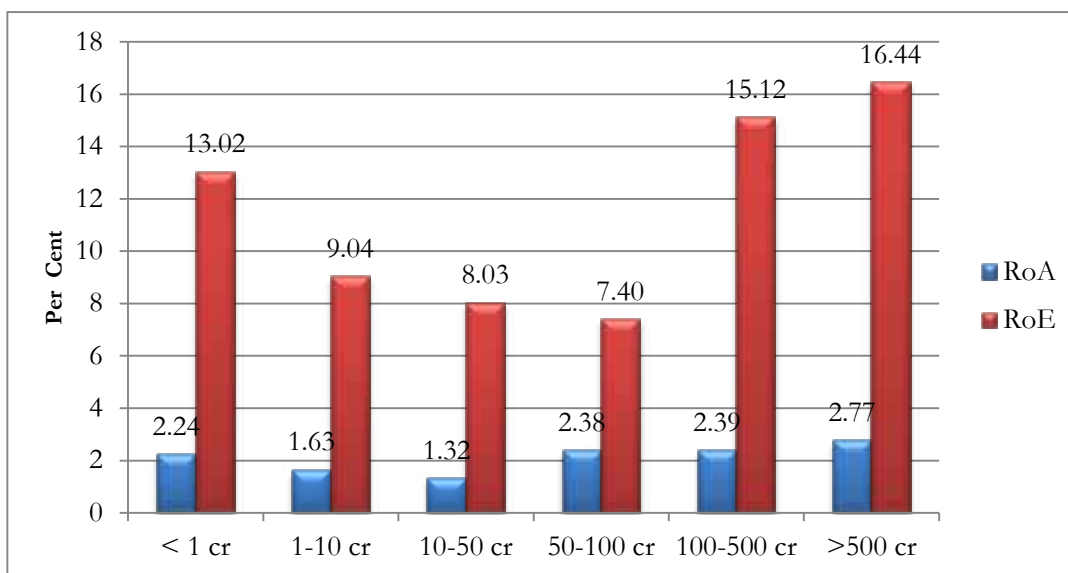
Median ROA and ROE for NBFC MFIs is lower than that for not-for-profit MFIs, possibly because a number of AP based NBFC MFIs still have negative returns, or have started making only marginal profits. Another reason could be the tax factor, which reduces the operational profit margin of the NBFC MFIs. Lower base of equity and asset could also be a reason for higher ROA and ROE for the NGO MFIs. Cooperatives have the lowest ROA of 0.54% but a reasonable ROE of 9.21%.

Figure 5: Return on Asset (ROA) and Return on Equity (ROE) Across MFI Types



Impact of scale of operation on ROA and ROE: MFIs with very large scale of operation tend to have higher returns. MFIs with portfolio of more than 500 crore have the highest ROA of 2.77% and an ROE of 16.44%, followed by large MFIs with portfolio size of 100-500 crore with an ROA and ROE of 2.39% and 15.12% respectively (Figure 6). However, moderately large MFIs have the lowest figures, possibly due to the negative returns reported by a number of MFIs in this category. Tiny MFIs have reasonably better ROA and ROE because of higher yield with a smaller capital base.

Figure 6: Return on Asset (ROA) and Return on Equity (ROE) of MFI-Size wise



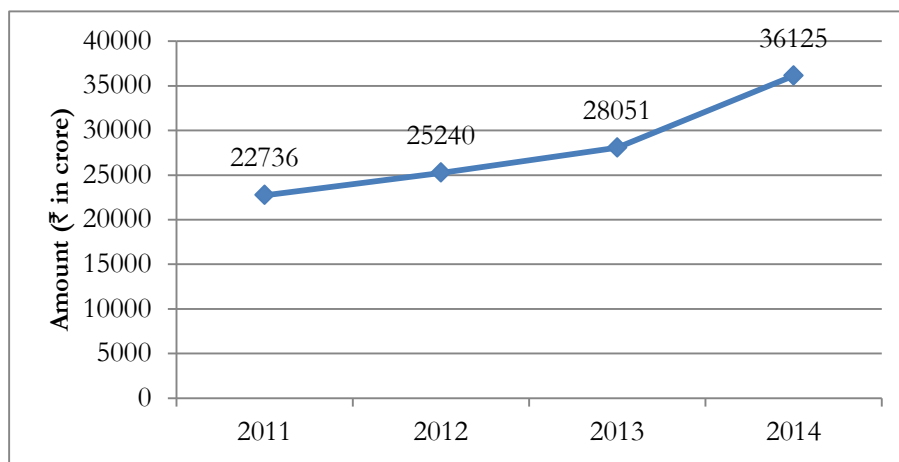
It was also observed that the returns of MFIs are, by and large, higher with an increase in average loan of MFIs. MFIs with median OER of 10-12% have reported the highest ROA and ROE.

We have analysed the income and expenses patterns of MFIs in the previous sections. This section of the chapter makes an attempt to understand the pattern of balance sheet structure by analysing their allocation of assets, funding patterns and extent of leverage. In a nutshell, it analyses the balance sheet management pattern of the MFIs, given that it has a direct bearing on the profitability of MFIs and their potential to attract investors.

3.4.1 MFI Assets

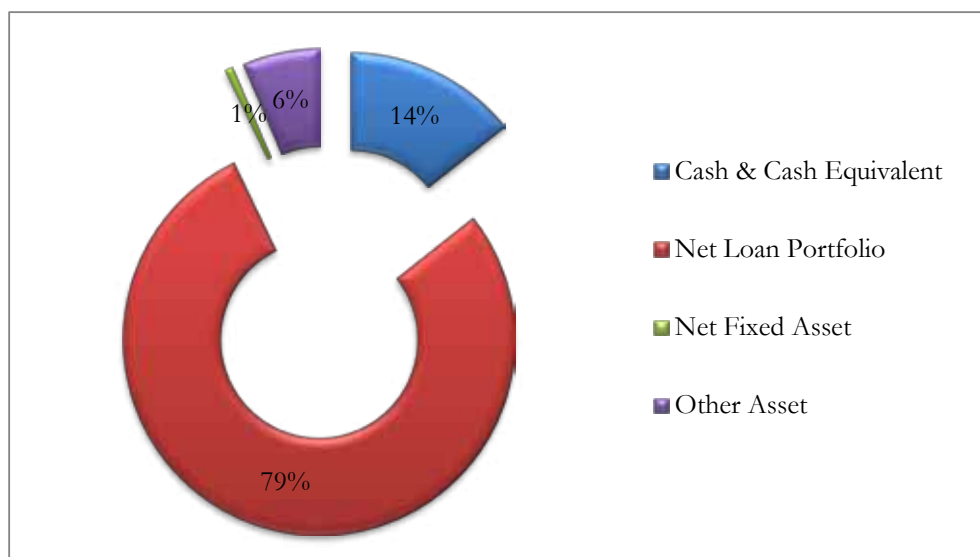
The total assets of MFIs in India have been on the increase over the years. Their total assets as on March 31st, 2014 stood at ₹36125 crore. The growth of asset holdings in 2013-14 is primarily due to the reported 30% growth of loan portfolio over 2012-13.

Figure 1: Total Assets- Yearly Trend



Distribution of Assets: Net Loan Portfolio is the major component of the assets of MFIs. Loan portfolio constitutes over 79% of total assets where as cash and cash equivalents constitute 14%. Typically, an MFI gets bank loans at the very end of the financial year, too late to be lent to their clients, leading to idle cash held in the bank accounts.

Figure 2: Composition of Total Assets



3.4.2 Pattern of Portfolio Financing

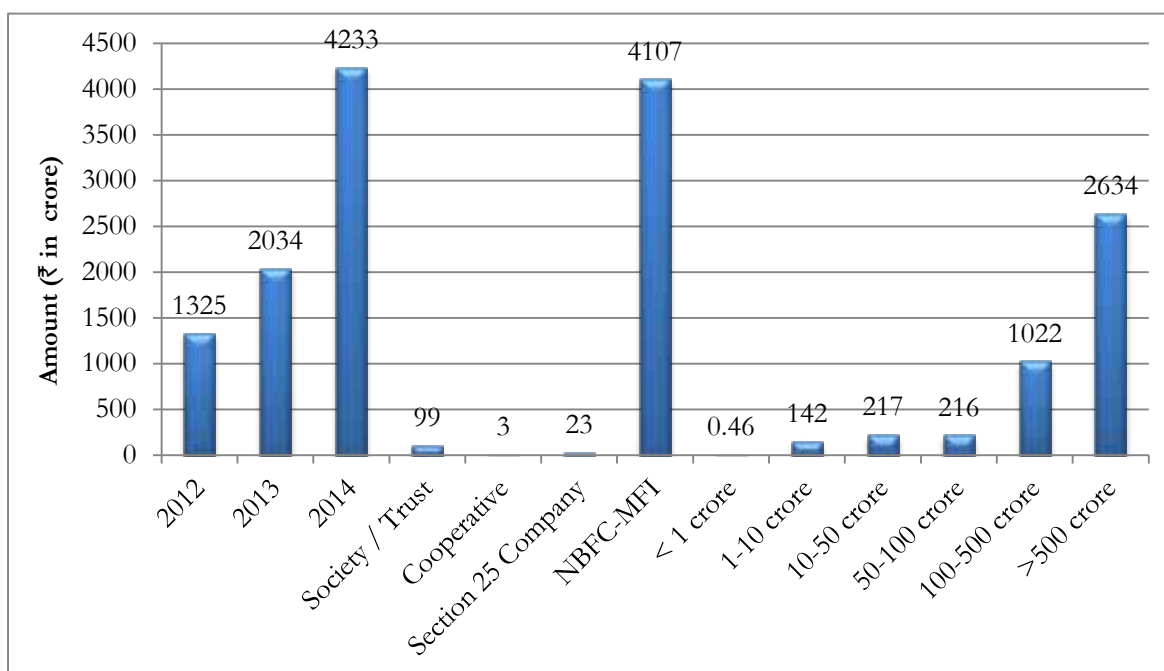
3.4.2.1. Net Owned Fund (NOF)

Paid up Equity, share premium, retained earnings and other reserves constitute NOF. The reported MFIs collectively have an NOF close to ₹4719 crore, out of which NBFC-MFIs contribute close to ₹4405 crore. Societies and Trusts have an NOF of ₹179 crore, while the rest is from Sec-25 companies and cooperatives. Paid up equity is the major source of net owned fund among MFIs

Equity Outstanding

Paid up Equity and share premium, is the major source of NOF. MFIs collectively held equity worth nearly ₹4233 crore as of 31 March 2014. Equity outstanding in 2013-14 has almost doubled, as against ₹2034 crore in 2012-13. MFIs from every category have enhanced their equity holding year on year. NBFC-MFIs have a lion's share of the equity, close to 97%. The Section-25 companies and Cooperatives have a 'legitimate' share of equity, while Trusts and Societies have got some, perhaps donated- non returnable, equity. Over 60 % of equity amount of the sector is held by MFIs with a loan portfolio size of ₹500 crore and above. Another 24% of equity is held by moderately large MFIs with a portfolio size of ₹100 crore to ₹500 crore. However, the figures pertaining to equity flow during the reporting year could not be established properly.

Figure 3: MFI Equity Outstanding - Yearly Trend and Category-wise Break-up



Box 1: Going 'LONG'* on the Microfinance Sector: Regulations Continue to Aid the Future Landscape for MFIs, as Capital Pours in

Microfinance is back to being the darling of the investment community. As I write this, most analysts covering the stock have a 'buy' call on SKS Microfinance, the lone listed micro-finance (the other two smaller listed players in the microfinance space have also seen much activity). A more encouraging indicator is a slew of private placements in the microfinance space, especially the mid sized players working in some of the most financial excluded districts in the country.

Building on the momentum from the previous fiscal, the Indian microfinance sector has grown leaps and bounds in the recent times. Aided by a slew of regulatory measures, as well as further stress on self-regulation, the microfinance community has seen a ~50% growth in the disbursements while maintaining healthy quality of portfolio in the new assets deployed since the crisis in Andhra Pradesh in 2010. Banks continue to remain the single largest source (~80%) primarily driven by priority sector lending targets, followed by NBFCs/FIs. In the smaller MFIs though, bulk of the funding is from the NBFCs, which has a higher cost, as Banks seem to concentrate** on the mid to large tier MFIs. On similar lines, securitization/asset sales were up ~50% (to ₹52 billion), mainly by large and mid sized MFIs, to banks. The debt capital markets activity seems to be picking up as in the last year with a few Non-convertible debenture (NCD) issuances made by NBFC MFIs and several are in the pipeline. Though given the NCDs don't qualify as PSL, Banks have largely stayed away from investing in these, and most investors have been Foreign Institutional investors (besides small, opportunistic investments by domestic wealth managers), which otherwise have limited ability to do debt for Indian MFIs. This was also largely focused on top tier / large players and smaller MFIs continue to face challenges on this front due to scale. With the volatility in rupee in early part of the year impacting hedging costs, the all-in-costs for the NCDs was similar to domestic term borrowings. However, there was still strong interest in these, perhaps given the NCDs are bullet repayment compared to the amortizing nature of term borrowings.

The private equity investments into microfinance continue to grow, with funds with diverse investment objectives picking up significant equity stakes in MFIs. Like last year, there are significant highlights and among those are, a) mid-sized MFIs, especially those operating in poorer regions in North and Eastern part of the country, and b) scale of investments continuing to grow- there have been 3 investments of over \$50 million ticket size in the last 12 months or so. This trend is encouraging, and will augur well for these companies to scale up and take up the challenge of service the vast demand for credit, in their target market.

While the launch of SKS IPO in July 2010 and subsequent first day of trading on August 16, 2010 caused the capital markets and investor community at large to stand up and take serious notice of the emergence of this asset class, the RBI's in-principle nod to Bandhan (on April 2, 2014) for setting up a microfinance bank somewhat put the spotlight back on the sector and the role it has to play in the financial inclusion agenda. This will augur well for the efforts towards inclusion, as the newer banks will be mandated toward financial inclusion right from the start, unlike bank licenses in the past, say the 90s, where key mandate was more on technological up-gradation in banking and bringing it on par with international standards, which in fact has been surpassed.

Subsequent regulation that came in later, mainly the small finance bank and payment bank guidelines offer new opportunities for microfinance practitioners, amongst others. MFIs will be strong candidates for small finance banks, given their experience with the business model as well as the client segment. One of the key aspects for existing MFIs to consider would be the domestic ownership and control.

Consider this- amongst the leading NBFC MFIs with asset size of ₹100 crore or more, the number of MFIs that are owned and controlled by residents, is in single digits. This, along with 'fit-and-proper' status of promoter (group), will be one of the key criteria for granting bank licenses. As such, there is a huge potential for these MFIs to tap large, domestic pools of patient capital, perhaps even including the state owned LIC and GIC.

Next 18 months or so will be very crucial for the sector to watch how these new banks, especially those in the microfinance space, pan out. There have been many arguments on how deposit mobilization costs will make it unviable for these businesses in the near term (ICRA estimates that deposit mobilization costs could be as high as 10%-12% of the amount, at ticket sizes of around ₹1,000, with upto 2,500 depositors per branch. These could be lowered with higher depositor base and tickets sizes). Only time will tell how the MFI in this new avatar unfolds.

As someone famously said-“people need banking, not banks”. Or do they, in this case?

Shashi Srivastava, Grameen Capital India

* Long position: buying of a security with the expectation that the asset will rise in value

**Refer BMB 2013: “Capital Inflow into the Indian Microfinance sector in FY13: Emergence of the New Normal”

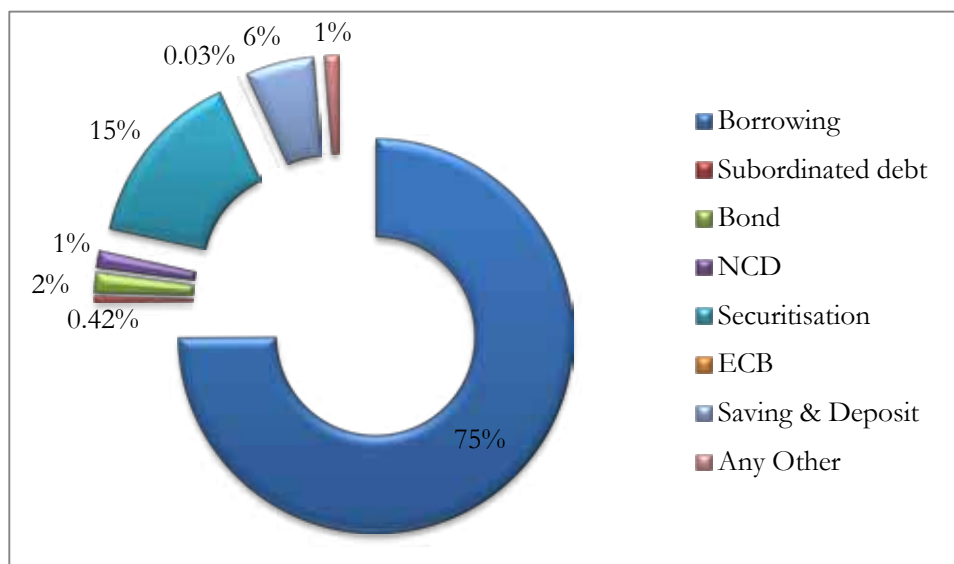
3.4.2.2 Debt Financing

MFIs, in effect, are micro banking intermediaries between mainstream banks and the unbanked population. A substantially large chunk of the lendable resources for the MFIs comes from banks. The Andhra Pradesh crisis had led to a near drying-up of bank funds to MFIs during 2011-12. But the confidence of lenders was built rapidly with the introduction of a new set of RBI guidelines and a strengthened regulatory framework. This move was further supported by the performance of MFIs outside of Andhra Pradesh, their operational sufficiency, the functioning of Credit bureaus etc.

The data collected by Sa-Dhan indicates that banks have collectively provided over ₹23150 crore during 2013-14. Funding for MFIs has largely been through two sources, borrowing (75 Per cent) and securitization / Portfolio sale (17 per cent), though other forms do exist to some extent. The other forms include: Subordinated Debt, Over Draft, Bond, Non-Convertible Debenture, External Commercial Borrowing, Savings and Deposits from borrowers/members (only applicable for cooperatives). Outstanding borrowing alone was over ₹20724 crore, which is 18% higher than the previous year.

Securitization / Portfolio sale is the next important source of funds. As per the latest Crisil report¹⁵, 26 MFIs have opted for securitization deals in the year 2013-14. MFIs constitute 17% of all issuances in the domestic securitization market to the tune of ₹3900 crore. Data available with Sa-Dhan shows a total deal of approx ₹4075 crore.

Figure 4: Sources of Funding Based on Types of Instruments

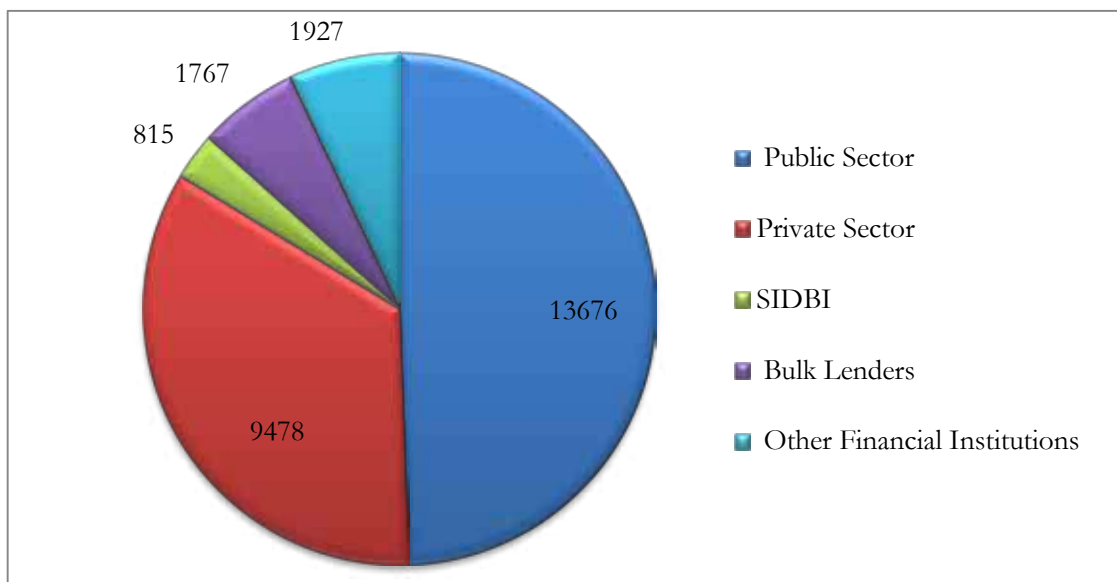


Segregated data on outstanding borrowing amounts collected from the MFIs is analysed below. There is a YOY growth in terms of outstanding borrowed amount to the banks and FIs. As seen in the Figure 6, reporting MFIs had a total outstanding borrowing of ₹27663 crore as on 31 March 2014, which is approx. ₹7000 crore (33%) more than the previous year.

Public sector banks have been the largest lenders to the sector, with 49% of the total exposure (Figure 5), followed by private sector banks with 34%. SIDBI and NABARD contribute 3%, while bulk lenders and other financial institutions have a share of 6% and 7% respectively. Regulatory measures taken up by RBI have enabled the banks and investors to start lending to the MFIs and this has resulted in increase of portfolio and outreach amongst MFIs.

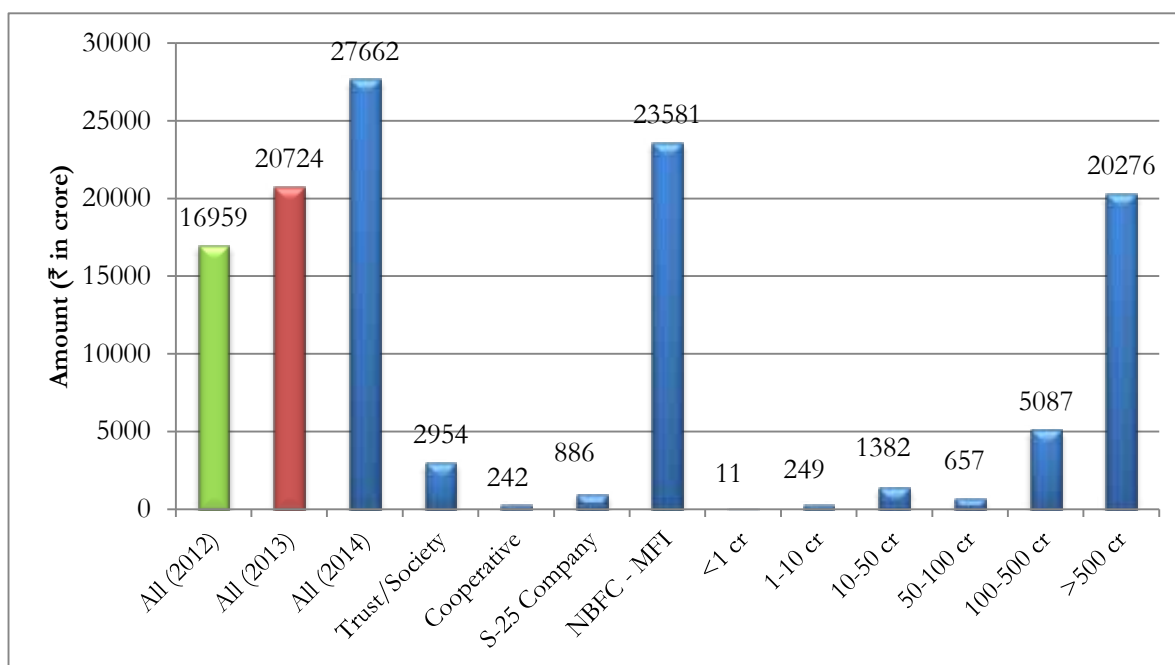
¹⁵ CRISIL report on India's 25 Leading MFIs, June 2014

Figure 5: Sources of Funding Based on Institution Types (Amount in ₹ crores)



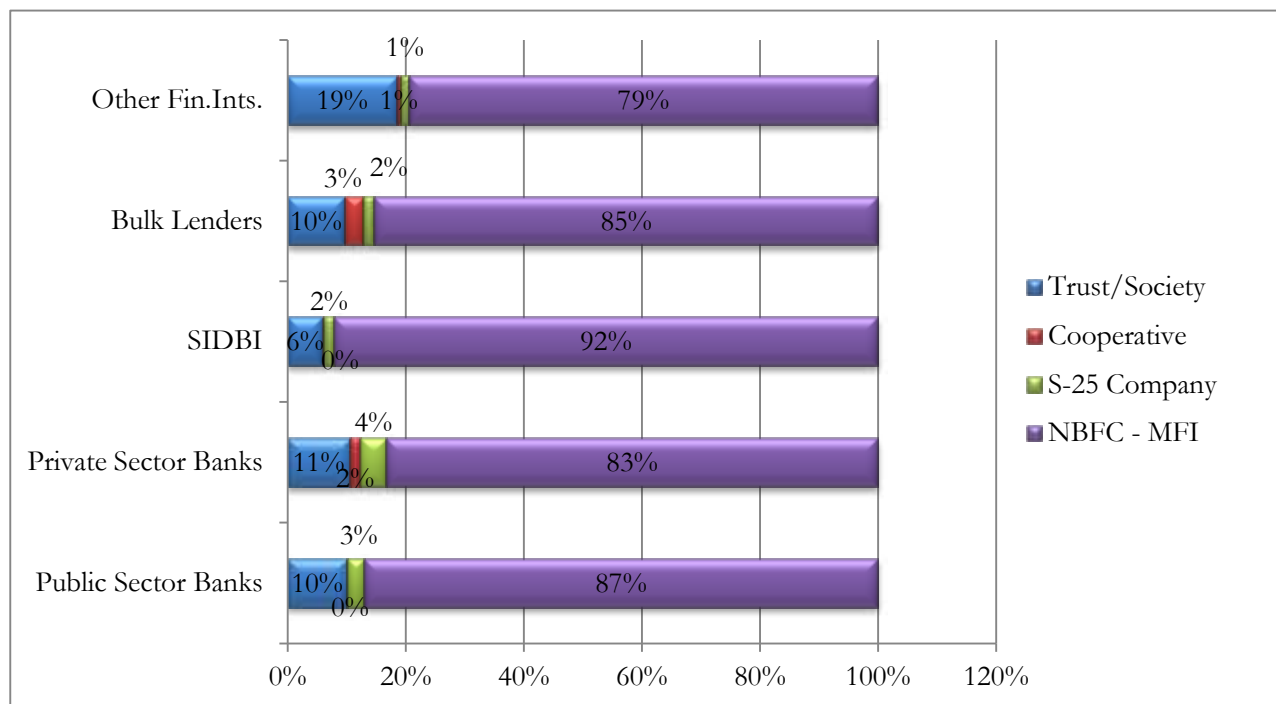
Out of total outstanding borrowing to lenders, the share of NBFC-MFIs alone constitutes ₹23581 crore (85%), whereas NGO-MFIs hold an outstanding borrowing close to 15%. Size-wise, MFIs with portfolio size above ₹500 crore hold 73% of the total outstanding amount and MFIs with portfolio size of 100-500 crore hold another 18%. Smaller MFIs hold a miniscule amount of the outstanding borrowed portfolio. The outstanding figure for the moderately large category is smaller because of a lesser number of reporting MFIs under that category.

Figure 6: Outstanding Borrowing – Yearly Trend and Category wise Break-up



Lenders' institutional preference would be an area of interest to all. The fund flow data for 2013-14 has been cast to plot graphs showing the flow of funds from different institution types, as lent to different types of MFIs (Figure 7).

Figure 7: Source wise Share of Loans-Across MFIs



By and Large, lenders across the board prefer NBFC-MFIs as the appropriate channel to lend money, given that it is the most regulated form of MFIs. More or less, a similar trend was seen as far as size of MFIs is concerned. MFIs with a portfolio of ₹100 crore or above hold approximately 80% of the loan outstanding amount from all lenders.

Top Lenders to MFIs during 2013-14

The data of reporting MFIs has been further analysed to enumerate major banks and bulk lenders having outstanding balances with MFIs as of March 2014. The MFIs had been asked to list down lenders names who appear under TOP 10 lenders as per their books as of March 2014.

Table 1 list of banks and bulk lenders respectively, which appear in the list of TOP 10 lenders in the books of the MFIs. This list is obviously significant, though not exhaustive, as it contains the names of lenders who happened to be TOP 10 among the reporting MFIs

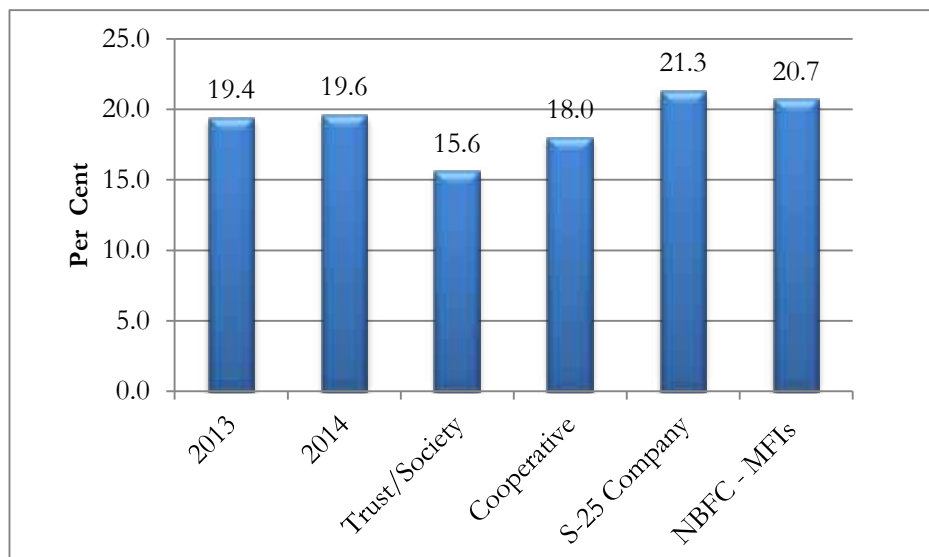
Table 1: List of Banks and Bulk Lenders Reported Among Top 10 Lenders of the Individual Reporting MFIs (in Terms of Outstanding as of March 2014)

Bank	No of MFIs	Bulk Lenders	No of MFIs
IDBI Bank	28	Maanaveeya	11
State bank of India	26	RMK	10
SIDBI	19	Reliance Capital Ltd	9
Corporation Bank	15	IGS	9
Central Bank of India	15	MAS	9
Dena Bank	14	NEDFI	5
Canara Bank	14	Ananya	3
Union Bank of India	13	FWWB	3
UCO Bank	13	Rang De	3
Indian Overseas bank	11	OIKO Credit	2
NABARD	11	IFMR	2
South Indian Bank	11	ACABL	2
Axis Bank	10	KIVA	1
Andhra Bank	9	Dia Vikas	1
ING Vysya	9	ABFL	1
Yes Bank	9	Muthoot Fincorp Limited	1
ICICI Bank	9	Assam Financial Corporation	1

3.4.3 Capital¹⁶ (Net owned Fund) to Total Asset Ratio

The Capital Adequacy of Indian MFIs, by and large, is well above the prescribed norms. The RBI has stipulated that NBFC-MFIs need to maintain at least 15 per cent capital on their risk weighted assets. The risk-weighted asset details are not readily available. However, with the help of Net Owned Fund and Total Asset particulars, Figure 15 brings out the estimates of CAR for the MFIs who reported this data. The median CAR for 2013-14 stands at 19.6, which is slightly above the figure of 19.4 for 2012-13.

Figure 8: Capital to Total Asset Ratio



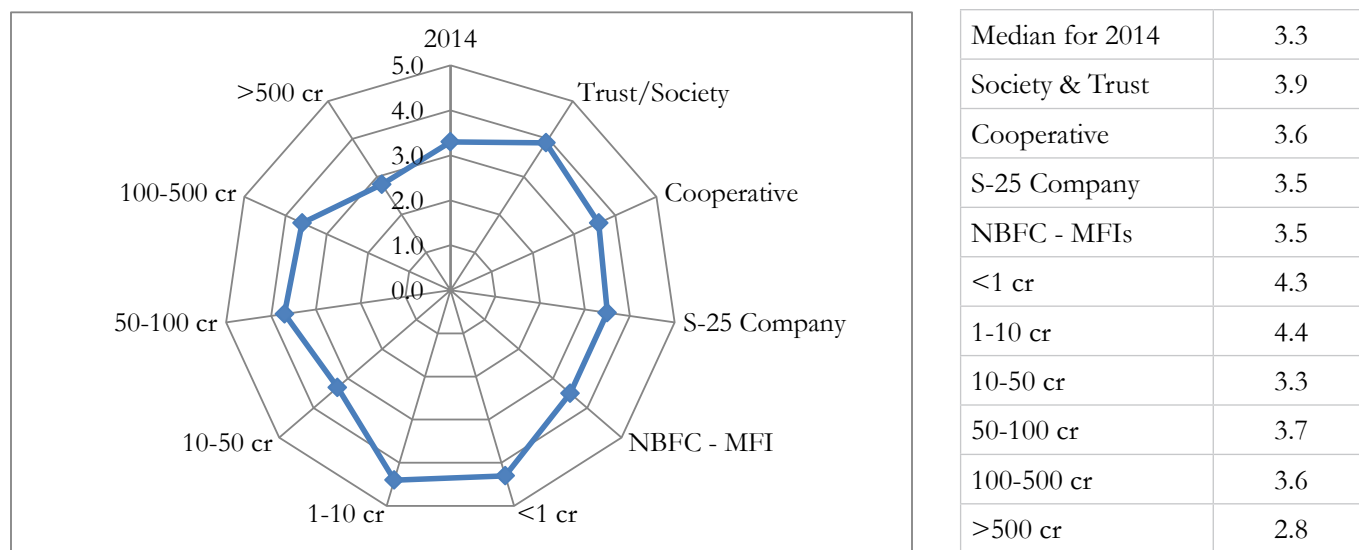
¹⁶The capital includes the free reserves and surplus also (Collectively termed as Net Owned Fund)

NBFC-MFIs, for which maintaining capital adequacy is now mandatory, have an adequate CAR of 20.7% in aggregate, while Sec-25 Companies have the highest CAR of 21.3%. Trust/ Society / Cooperative also have a median CAR above the desirable limit of 15%.

3.4.4 Leverage / Debt – Equity¹⁷ Ratio

MFIs, like any other business institution, use their own funds as a base for borrowing from banks. Their borrowing capacity depends on their capital. This leverage is generally understood as a multiple of their own capital amount; these borrowings are from outside sources including banks. Debt-Equity Ratio is the parameter considered for measuring the extent of leveraging of equity to raise outside debt. The leverage needs to be optimum to balance between the profitability and stability of MFIs.

Figure 9: Debt - Equity Ratio - Across MFIs



Leverage of Societies and Trusts is highest at 3.9, followed by cooperatives at 3.6. NBFC-MFIs and Sec-25 companies have a leverage ratio of 3.5 each. Institutions with a higher CAR have lower leverage and vice versa. As far as size of MFIs is concerned, the leverage ratio comes down with an increase in scale. MFIs with portfolio of more than ₹500 crore have the least median leverage of 2.8

¹⁷Equity refers to Net Owned Fund (Equity + Free Reserves and Surplus)

In recent times, the nation has enlarged the envelope of Financial Inclusion by including insurance, pension and other activities into its definition and priorities. The Pradhan Mantri Jan Dhan Yojana (PMJDY), which advocates for micro insurance and pension along with credit and savings is one such recent development for an inclusive financial system. However, the Microfinance sector which is comprised of MFIs and SHPIs/SHGs has been proactively providing credit plus services such as micro-credit, savings, micro-insurance, micro-pensions, and other development related activities. The sector clearly understands the importance of credit plus services to low-income people. This chapter throws a light on such credit plus activities provided by MFIs and SHPIs.

4.1 Micro Insurance

Micro-Insurance is much younger than other financial services for the poor and receives significant respect from all stakeholders. On 2005, IRDA issued the regulation on Micro-Insurance, which ambitiously aimed to provide both general and life micro-insurance products to the much needed lowest decile of the population. The authority adopted the agent model to facilitate insurance penetration, and identified MFIs, SHGs, NGOs and others as potential partners for reaching the base of the pyramid. Micro-insurance aims at providing both general and life cover to the insured with an assured sum of ₹50,000 or less.

The number of individual micro insurance policies issued reached to 27.73 lakh in 2013-14, from a modest beginning of 9.38 lakh in the year 2007-08, while the individual premium reached ₹94.11 crore from ₹18.23 crore during the same period. The micro insurance agents as of 31st March, 2014 are 20057 and the numbers of micro-insurance products offered were 28¹⁹.

4.1.1 MFIs Acting as Micro Insurance Agent

In distributing micro insurance products, the insurance industry faces various challenges such as 1) challenge of high transaction cost, 2) high upfront investments to reduce risk so that premiums are affordable, 3) technical knowhow etc. MFIs are well placed to overcome these challenges given their experience in providing financial products in remote areas. Microfinance Institutions are one of the most effective and efficient delivery channels for credit; further adding micro insurance to the product mix enables them to achieve both social and economic objectives. Additionally, MFIs not only provide micro-insurance policies but also spread awareness about risk management. Out of 28 micro insurance products, MFIs also helps their clients choose cost effective policies. MFIs face some challenges in providing micro-insurance policies such as;

- 1) Relationship challenges with insurers such as burdensome claims documentation, delays in paying claims, and occasional claims rejections.
- 2) To structure the product and price it appropriately, as they typically lack the in-house expertise to do this. The two most common approaches are either: a) to pick a nice round number that the MFI thinks the clients can afford; or b) the MFI copies the pricing offered by insurers.
- 3) Other challenge of delivering the policies is of educating staff and clients about the products.

However a large numbers of MFIs have been providing micro insurance products. As the Table 1 below states that 43 MFIs have reached to 15.83 million clients/beneficiaries.

¹⁸ Hand Book of Microfinance, 2013

¹⁹ Source-IRDA

Table 1: MFIs Involved in Micro Insurance

S.N	Name of the Organization	No. of Clients	State
1	Adhikar Microfinance Pvt. Ltd.	45285	Odisha
2	AIR Credit Cooperative	1256	Odisha
3	Annapurna Microfinance Pvt Ltd	185684	Odisha
4	Arohan Financial Services Pvt. Ltd	1859	West Bengal
5	Bandhan Financial Services Pvt Ltd	10738191	West Bengal
6	BWDA Finance Limited	43752	Tamil Nadu
7	Cashpor Micro Credit	1165062	Uttar Pradesh
8	Chaitanya India Fin Credit Pvt. Ltd.	46361	Karnataka
9	Darabar Sahitya Sansad	314	Odisha
10	Dhosa Chandaneswar Bratyajana Samity	2600	West Bengal
11	dMatrix Development Foundation	1385	Maharashtra
12	G U Financial Services Pvt Ltd	12046	Odisha
13	Grama Vidiyal Microfinance Ltd.	761282	Tamil Nadu
14	Grameen Financial Services Pvt Ltd	890374	Karnataka
15	Grameen Sahara	27627	Assam
16	Guardian	26771	Tamil Nadu
17	Hand in Hand India	49317	Tamil Nadu
18	Kalighat Society for Development Facilitation	71	West Bengal
19	Kotalipara Development Society	692	West Bengal
20	Mahasemam Trust	117195	Tamil Nadu
21	Mahashakti Foundation	10439	Odisha
22	Matashree Gomati Devi Jan Seva Nidhi	1260	Rajasthan
23	Planned Social Concern	1523	Delhi
24	Prayas Organization for Sustainable Development	32264	Gujarat
25	Prochesta Thrift and Credit Cooperative Society Ltd.	1419	Assam
26	Rors Finance Pvt Ltd	6250	Karnataka
27	Samarthan Weaking Development Foundation	42	Jharkhand
28	Samhita Community Development Services	105913	Madhya Pradesh
29	Sankalp Gramin Mahila Swayamsiddha Sangh	375	Maharashtra
30	Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)	643358	Karnataka
31	Social Action for Rural Community	390	Odisha
32	Society for Model Gram Bikash Kendra	17187	West Bengal
33	Sonata Finance Ltd	323277	Uttar Pradesh
34	Sreema Mahila Samity	78327	West Bengal
35	Swashrayee Mahila Sakha Sahkari Sanstha	4538	Madhya Pradesh
36	Swayanshree Mahila Samabaya Ltd	12675	Odisha
37	The Saath Saving And Credit Co Operative Society Ltd	10877	Gujarat
38	Virutcham Microfinance Ltd.	2842	Tamil Nadu
39	Volunteers for Village Development (VVD)	5611	Manipur
40	Welfare Services Ernakulum	5397	Kerala
41	Yashvardhini Gramin Mahila Swayamsiddha Sangh	399	Maharashtra
42	Youth Volunteers Union (YVU)	5677	Manipur
43	Chanura Microfin Manipur	443350	Manipur

4.2 Micro Pension

In India, almost 400 million people (more than 85% of working population of the country) work in the unorganized sector and 88 % of the Indian workforce are excluded from pension coverage. Of these, at least 120 million are women and the majority have no access to a formal old age income security scheme. Tenuous labor market attachments, intermittent incomes, poor access to social security etc render the unorganized workers highly vulnerable to economic shocks during their working lives and deprive them of old age security. Swavalamban is one such program supported by the Government to provide a pension scheme under NPS.

4.2.1 NPS: Swavalamban

Swavalamban secures old age income for the vast and growing multitude of workers and subscribers in the unorganized sector. Under this scheme, the Government contributes ₹1000 per annum to each NPS account opened in the year 2010-11 and for the next three years, the benefit will be available only to persons who join the NPS with a minimum contribution of ₹1000 and maximum of ₹12000 per annum. It is an ambitious flagship scheme of the Government of India, forming an integral and important part of the overall NPS (National Pension System) program. Since the launch of NPS in 2010-11, more than 28 lakh (approx) subscribers have been registered. As on 31st March, 2014 the total number of NPS subscribers was 6.5 million and out of this, Swavalamban subscribers were 2.8 million, which accounts for 43% of total subscribers.

Figure 1: Composition of NPS Subscribers

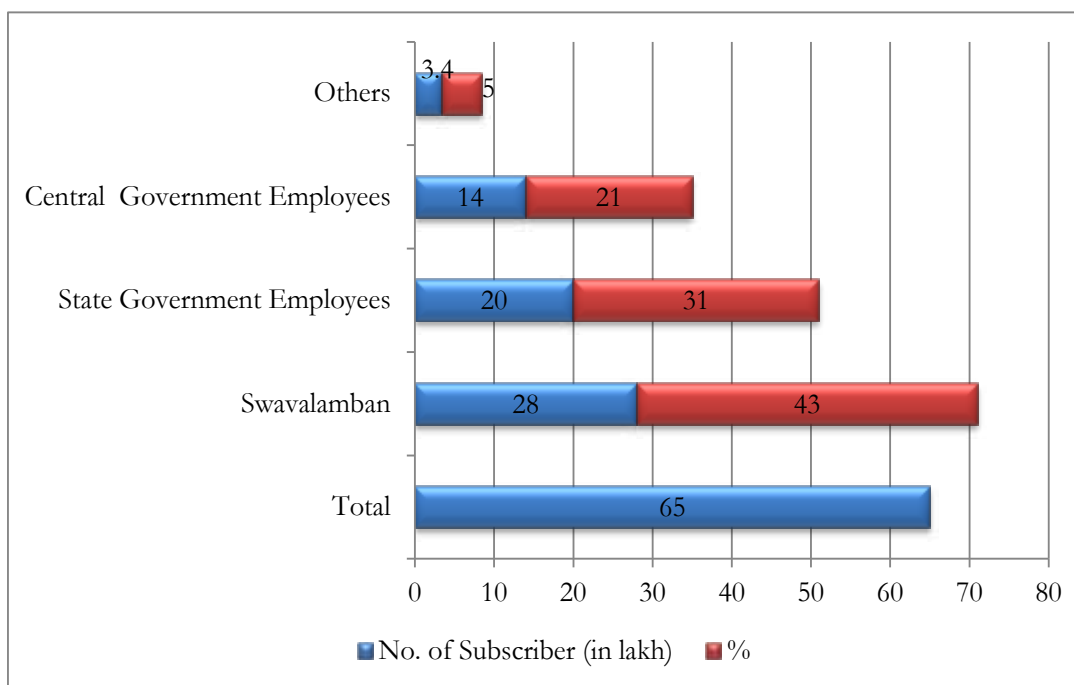
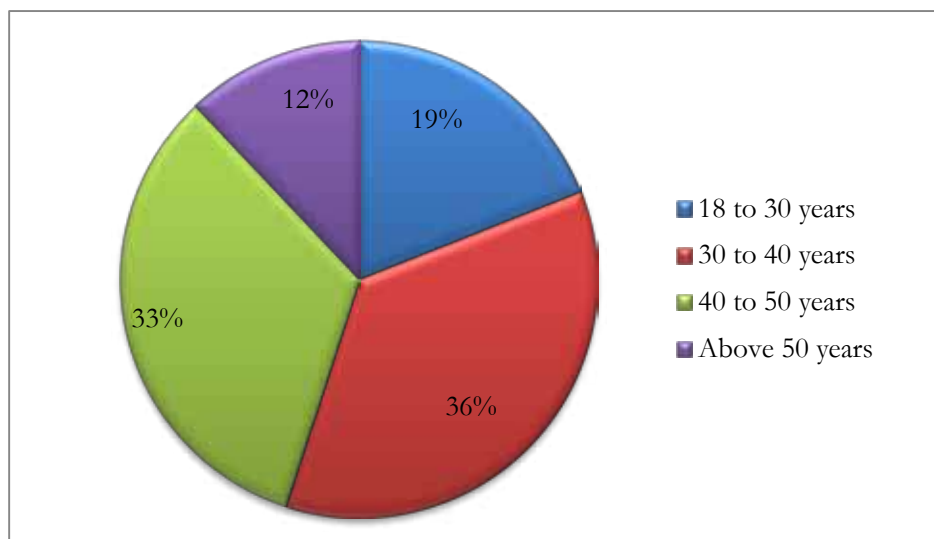


Table 2: No. of NPS Swavalamban Subscribers and Assets Under Management

Year	Subscribers Registered (Cumulative)	Swavalamban Eligible Subscribers	Assets under Management at the end of March (₹ crore)
2010-11	438, 509	301, 922	3.1
2011-12	933, 861	643, 979	140.5
2012-13	1, 733, 094	1, 101, 079	436.1
2013-14	2, 804, 469	1, 596, 606	843.8

Source – PFRDA Annual Report

Figure 2: Age wise Composition of NPS – Swavalamban Subscribers



The Asset under Management (AUM) under the NPS is at ₹48136 crore as of the end of March 2014, of which the Central Government and Central autonomous entities accounted for 50 % of the total assets, the State government/state autonomous entities for 42 % , all citizens for 6 % and the NPS Swavalamban for about 1.8 % of the total assets under management. A comparative position of NPS Swavalamban as on March 31, 2013 and March 31, 2014 is given below in Table 3:

Table 3: Comparative Position of NPS Swavalamban

	March – 13	March – 14	% Growth
Asset Under Management (in ₹ crore)	436	844	93.5
No. of Subscribers	1779944	2816027	58.2
AUM/Subscriber (in ₹ lakh)	0.02	0.03	

Source: PFRDA Annual Report

NPS Swavalamban is operationalized through an ‘Aggregator’, who act as an intermediary between the subscriber and National Pension System. As of 31st March, 2014 there are 79 aggregators including some State Government entities, Public Sector Banks, Regional Rural Banks, MFIs, NBFCs and private sector entities for effective implementation of the scheme. With a view to incentivize the aggregators to promote and popularize NPS Swavalamban amongst the target group, the government pays incentives to the aggregators based on number of subscribers added by the aggregator during the financial year.

Table 4: Revenue Structure for Aggregators

		Subscribers Enrolment per Year (₹)			
		Below 1 Lakh	1 Lakh – 3 Lakh	3 Lakhs – 5 Lakhs	Above 5 Lakhs
Fixed Incentive	Defined as per regulation	100	100	100	100
Variable Incentive	Volume driven incentive	20	30	40	50

4.2.2 MFIs acting as Aggregators

As explained above, micro pension is an essential need for individuals to maintain the same level of consumption in future. Given the large geography of the country, micro pensions need a distribution channel that reaches interior areas; microfinance institutions are blessed with the advantage of reaching the base of the pyramid in

remote areas. Additionally, if MFIs along with other aggregators continue to provide micro-insurance, then the number of beneficiaries will grow exponentially. Moreover, MFIs, among all the aggregators, are better placed to overcome challenges like high transaction cost, reaching remote areas, forming a personal interpersonal connection with clients, etc. As stated in the table below, 18 MFIs have provided micro pensions to 0.95 million clients/beneficiaries. Albeit, the number of beneficiaries reached out by these 18 MFIs are low; in the coming time MFIs have a major role to play in micro pension and other credit plus services.

Table 5: MFIs as Aggregators

S.No	Name of the MFIs	No. of Clients	State
1	Adhikar Microfinance Pvt. Ltd	10255	Odisha
2	Arohan Financial Services Pvt. Ltd.	655	West Bengal
3	Bandhan Financial Services Pvt. Ltd.	307065	West Bengal
4	BWDA Finance Ltd.	10539	Tamil Nadu
5	Cashpor Micro Credit	89382	Uttar Pradesh
6	ESAF Microfinance & Investment Pvt. Ltd.	171428	Kerala
7	Grameen Financial Services Pvt Ltd	1970	Karnataka
8	Jagaran Microfin Pvt. Ltd.	5769	West Bengal
9	Kotalipara Development Society	88	West Bengal
10	Mahashakti Foundation	50	Odisha
11	Margdarshak Financial Services Ltd.	22327	Uttar Pradesh
12	Sambandh Finserve Pvt. Ltd.	83100	Odisha
13	Samhita Community Development Services	13383	Madhya Pradesh
14	Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)	234915	Karnataka
15	Swashrayee Mahila Sakha Sahkari Sanstha	910	Madhya Pradesh
16	Swayanshree Mahila Samabaya Ltd	237	Odisha
17	Ujjivan Financial Services Pvt. Ltd.	755	Karnataka
18	Welfare Services Ernakulum	711	Kerala

4.3 Other Development Services

As we have seen, the Microfinance sector (MFIs, SHPIs, SHG federation and etc.) along with other stakeholders has been significantly contributing in providing micro-insurance and micro-pension. There are also various other services which the MFIs and SHPIs provide, such as capacity building, empowerment of the community (especially for the women), education, financial literacy, housing, health & sanitation, training, livelihoods etc.

Box 1: Credit Plus Activity of Satin Creditcare Network Ltd

Satin Creditcare Network Limited (SCNL) undertakes credit plus activities on various areas such as women's empowerment, financial literacy, education, health & hygiene and several other need-based social initiatives along with its focus on core business of providing financial services to economically active poor

In past few months, SCNL by itself and in collaboration with NGOs/ hospitals has conducted health camps such as 'Free Eye Check-up Camp', screening and 'Cancer Awareness Camp' to impart education to the masses on international days like 'World No Tobacco Day' at several locations. At SCNL, they also ensure that their employees are actively involved in such activities (at a voluntarily level). Their initiatives on World Environment Day, Save Girl Child Day, International Poverty Day, Women's Day, International Literacy Day, World Sight Day are a few steps towards building a better life for the vulnerable. Apart from the above, SCNL has been actively involved in Focused Group Discussions wherein the staff educates the community on financial literacy, shares information about government initiatives in their respective areas and also their legal rights. Be it a disaster relief camp in Jammu or blanket distribution activities in peak winters, SCNL is continuously doing its bit to reach out to the under-privileged.

The reported MFIs undertake several developmental activities. No. of MFIs engaged in such activities are given in Table 6.

Table 6: Finance + Development Services of Reporting MFIs – Outreach Figures

Development Activities	No. of MFIs Rendering the Service
Capacity Building Initiatives	32
Education	30
Financial Literacy	45
Health and Sanitation	58
Livelihood Promotion	44
Social Development Programs	2
Training Initiatives	46
Total	257

Sa-Dhan has received special reports from MFIs on their development activities undertaken during the last year. MFIs responded and their primarily development interventions are summarized in Table 7, 8, 9 &10.

Table 7: MFIs and Livelihoods Intervention

MFI	Main Livelihoods Intervention
Adhikar (Odisha)	Safe Water Project, Arranges Health Camp for Awareness Development, Imparting Health & Education, Making Household Visit, Distributing Health Kits, Participating in Government Vaccination Programme, Distribution of Nutrient-rich Vegetable Seedling, Training of Health Volunteers,
Annapurna Microfinance Pvt Ltd. (Odisha)	Involved in manifold activities viz. Coir unit, Dairy, Animal Husbandry, Epics, Vegetable cultivation, Fishing, Bamboo work, Cotton work, Spice making and others. It has got 85, 877 beneficiaries under Livelihood Intervention.
Bandhan Financial Services Pvt. Ltd. (West Bengal)	Enabled poor artisan families in the state to achieve sustainable livelihoods through design inputs, skill development, technical know-how and market access.
BWDA Finance Ltd. (Tamil Nadu)	Undertook livelihood promotion by conducting awareness and training programs in cashew nut machine operation, tailoring machine operation, phenyl preparation, beautician training etc. BWDA also facilitated marketing opportunities and provided loans to start their own business in their areas.
Darabar Sahitya Sansad (Odisha)	Promoted 3 vegetable growers cooperatives and has got 1150 members, 1 Handicraft cooperative having 100 members, 1 Thrift Credit cooperatives having 990 members and enterprise promotion services only for women.
Grameen Sahara (Assam)	Promoted system of Rice Intensification and Piggery.
Kalighat Society for Development Facilitation (West Bengal)	Involved in Entrepreneurship development programme, Industrial motivation camp, Entrepreneurship and skill development programme
Kotalipara Development Society (West Bengal)	Impart training for duck and goat rearing among SHG members.
RGVN (North East) Microfinance Ltd.	Provided training on Livestock treatment, Food processing, Livestock training, Cutting and Knitting, Doll making, Crop production and so forth.
Social Action for Rural Community (Odisha)	Imparted training on mushroom cultivation.
Virutcham Microfinance Ltd. (Tamil Nadu)	Imparted training on cattle rearing and poultry rearing

Note: The list of MFIs doing the service is not exhaustive

Table 8: MFIs and Women Empowerment Intervention

MFI	Main Women Empowerment Intervention
CDOT (Bihar)	Business skills training and Gender issues
Cashpor Micro Credit (UP)	Awareness creation on gender issues, health care, etc. Besides, provides credit to women beneficiaries for undertaking income generating activities to raise their household income.
Grama Vidiyal (Tamil Nadu)	Awareness creation on women issues like alcoholism and globalization.
IDF (Karnataka)	Business Training for women livelihood market opportunities. Conducts festival bazaars which provide a platform for SHG members to exhibit talents/workmanship
Sarala Women Welfare Society (West Bengal)	Adult education on gender equilibrium, legal rights, etc.
Volunteers for Village Development (Manipur)	It encouraged and promotes group based agriculture and agriculture related farming through SHG. During FY 2013-14, ₹146, 500 has been allocated for the same.

Note: The list of MFIs doing the service is not exhaustive

Table 9: MFIs and Education Intervention

MFI	Main Education Intervention
Belghoria Janakalyan Samity (West Bengal)	Has set up a non-formal education centre for 3-12 years old children. These children are imparted primary level education
Centre for Providing Sustainable Livelihood (Bihar)	Credit is provided for admission in schools, colleges. For paying tuition fees in educational institutions, for buying books and stationary etc.
IDF (Karnataka)	Trainings in improving the skill levels of clients
New Life (Tamil Nadu)	Provide early learning centres, coaching classes, special school for child laborers, food, shelter and education to deprived children
PWMACS (Uttar Pradesh)	Training and awareness programme on health, hygiene and sanitation
Prayas (Gujarat)	Basis health and nutritional education of women and children
Sreema Mahila Samity (West Bengal)	Poor students particularly girls are supported through providing books, uniforms, tuition fee, admission fee etc.
Society for Model Gram Bikash Kendra (West Bengal)	Established a well equipped educational institution imparting quality education to poor from rural area and inculcate human values among the children. At present, 277 students are studying in the school.
Unnaco (Assam)	Children/youth education – pre primary schools, non-formal primary schools. Merit scholarship award being given to children of clients every year.
Virutcham Microfinance Ltd. (Tamil Nadu)	Provide general awareness education programme to 144 women in 50 villages on gender balance and women rights.
Youth Volunteers Union (Manipur)	Cash awards to poor children with academic potential, awareness in safe drinking water and sanitation

Note: The list of MFIs doing the service is not exhaustive

Table 10: MFIs and Health Intervention

MFI	Main Health Intervention
Bandhan Financial Services Pvt. Ltd. (West Bengal)	Safe water project. Training of health volunteers, imparting health education, making household visits, distributing health kits, participating in government vaccination programme, distribution of nutrient-rich vegetable seedling
Barasat Anweshan (West Bengal)	Arranges health camp for awareness development, blood donation camps, free medical aid, free eye camp, works for providing spectacles, special medical services for children
Bhartiya Micro Credit (Uttar Pradesh)	Awareness about cleanliness, health checkup and vaccination
BWDA Finance Ltd. (Tamil Nadu)	Promotes Tuberculosis awareness program among village health and sanitation committee on monthly basis. It also identifies the patients and facilitate in providing DOTS treatment.
Cashpor Micro Credit (Uttar Pradesh)	Runs health education programme and organize eye care camps for its clients.
ESAF Microfinance and Investments Ltd (Kerala)	Run two major programs – Arogyam Project and Arogya Mithra Project where ESAF provides health education session to clients. The topics ranging from reproductive and child health, ante-natal care, cleanliness and hygiene to child care etc.
Jagaran Microfin Pvt Ltd. (West Bengal)	Organize health camp for blood test, eye check up, eye operation camp, mother-child health check and so forth
Jeevankiran (Kerala)	Health awareness programs rendered health checkups, health camps, distribute basic medicine kits and so forth
New Life (Tamil Nadu)	Offers quality medical services to the tribal people free of cost. A mobile medical unit is functioning and visits hilly villages daily and provides health care services.
Rashtriya Seva Samithi (Andhra Pradesh)	General medical camps are regularly organized for SHG members and their families at field level in which reputed doctors from Govt. and Pvt. Hospitals are involved. Necessary medicines are provided free of cost
Sarala Women Welfare Society (West Bengal)	Provides low cost primary healthcare, offer preventive care advice and sell generic medicine at 50% below market price.
SKDRDP (Karnataka)	‘Sampoorna Suraksha’ health programme is implemented in a big way
Satin Creditcare Network Ltd. (Delhi)	Organize health check up cum awareness camp, Female sanitation and cancer awareness camp and so forth
Unnati Trades & Fincon Pvt. Ltd. (West Bengal)	Provides healthcare services to all borrowers along with their family in rural and urban areas through qualified doctors. It also promotes awareness and usage of generic medicines at low cost
Welfare Services Ernakulum (Kerala)	Awareness camps for SHG members on cancer care, water born diseases and so forth

Note: The list of MFIs doing the service is not exhaustive

SHG – Bank linkage programme, the largest microfinance model in the world, began formally in 1992 with a set of guidelines passed by NABARD. Further RBI facilitated commercial banks to lend to SHGs without collateral. Since then it has taken the shape of a movement. This chapter will present an aggregate picture of various programs and schemes of SHGs such as SBLP, WSHG, NRLM etc and the institutional approaches such as SHPIs, Federations and BCs.

The following sections present a brief overview of each of the points highlighted above.

5.1 Self Help Group Bank Linkage Programme (SBLP)

Self Help Group Bank Linkage Programme (SBLP) is a step to bring the “unbanked” poor into the formal banking system and to inculcate thrift and credit habits. A natural corollary for the group members to graduate to seek better livelihood opportunities through access to credit from financial institutions. In recent times, various initiatives have been taken by the Government, RBI, NABARD and banks to bring the poor into the fold of the formal financial system.

Key Statistics under SBLP as of March 2014²⁰

- Total number of SHGs saving-linked with banks – 74.29 lakh
- Total saving amount of SHGs linked with banks – ₹9897 crore
- Total number of SHGs with loan outstanding – 42 lakh
- Total loan amount outstanding – ₹42927 crore
- Total No. of SHGs credit linked during 2013-14 – 13.66 lakh
- Total Amount of Loans Disbursed during 2013-14 – ₹24017 crore
- Estimated No. of families covered – 970 lakh

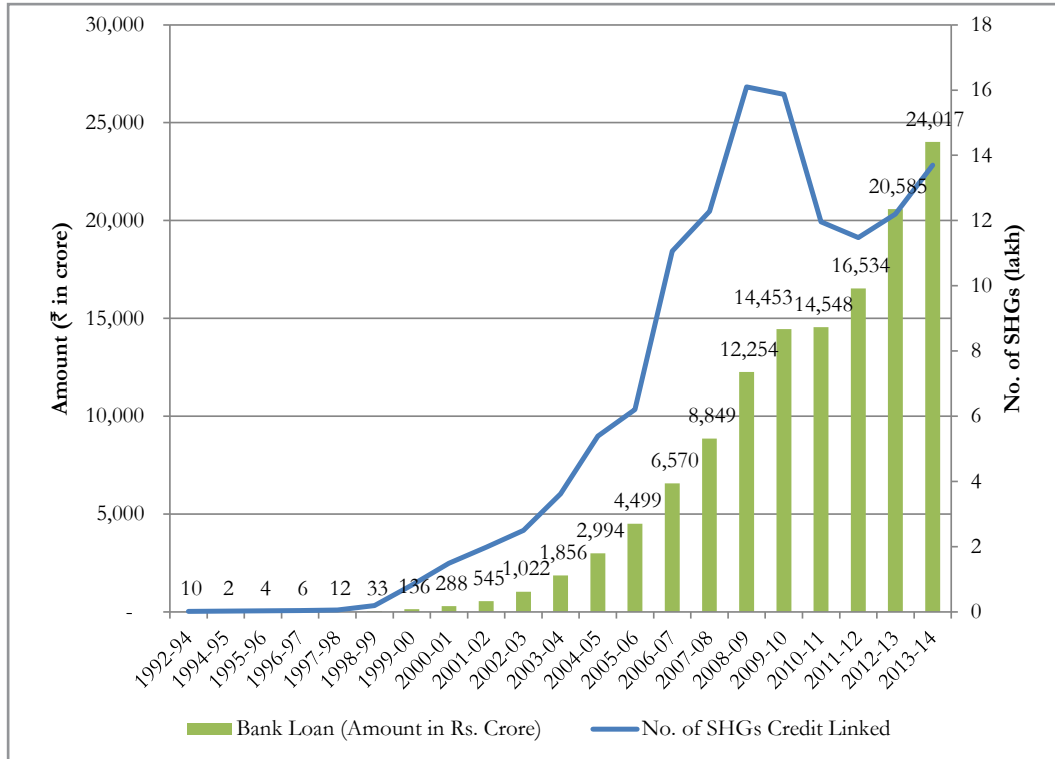
SBLP Activity since Inception

Banks have been active in accepting SHGs savings and lending to SHGs since the early nineties. Figure 1 brings out the historical trend in credit linkage of SHGs.

Trend of SHGs linked to banks has remained positive since its beginning, though the credit linked SHGs have witnessed a decline during the year 2010-11 and 2011-12 as a ramification of the AP crisis. The credit linkage to banks resumed a positive trend after year 2012-13 and continued in 2013-14.

²⁰Source NABARD; <https://www.nabard.org/english/home.aspx>

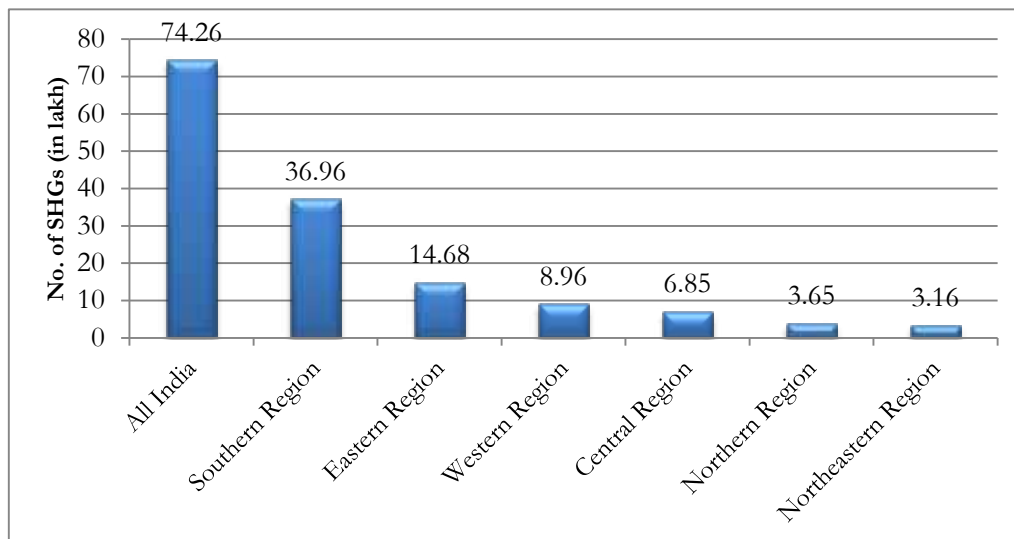
Figure 1: Historical Trend in Credit Linkage and Bank Loan Disbursed



Source: Data Compiled from Various reports of NABARD²¹

Figure 2 depicts the all India and Regional Trend of number of SHGs as on 31st March, 2014. Maintaining the trend, the Southern region leads the chart with the maximum number of SHGs. The Southern region has about 36.96 lakh SHGs and accounts for around 49% of total SHGs. Eastern region is a distant second with 14.68 lakh SHGs followed by the Western, Central, Northern and Northeast regions respectively.

Figure 2: All India and Regional Trend of No. of SHGs



Source: NABARD²²

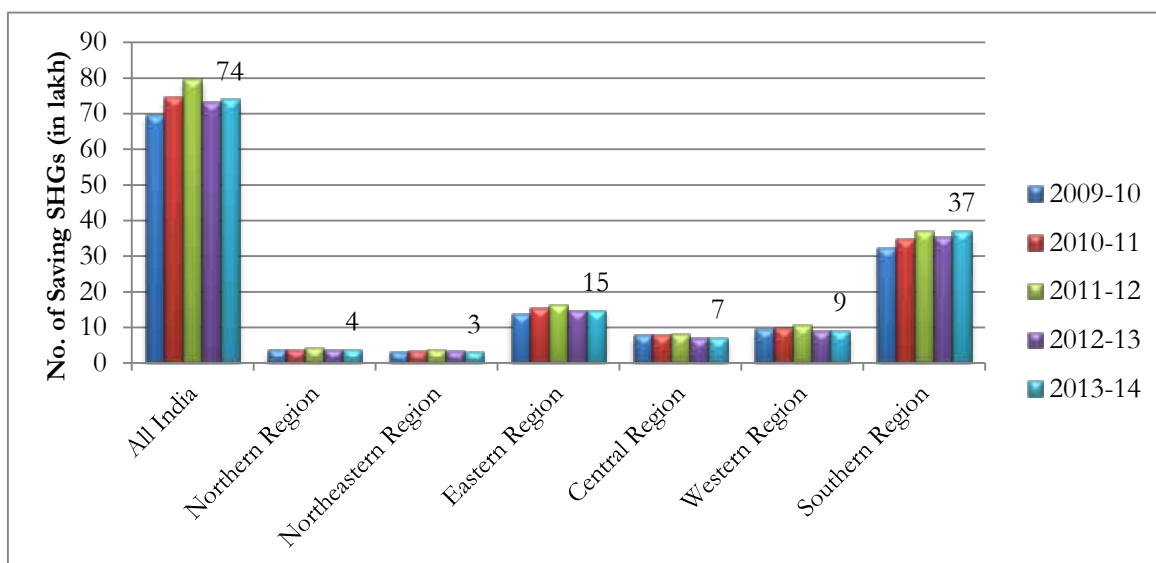
²¹ <https://www.nabard.org/english/Home.aspx>

²² *ibid*

5.1.1 Savings Performance of SBLP

Overall growth of the number of savings SHGs both at national and regional level has remained relatively static over the past two years. Number of savings SHGs had increased across all regions till 2011-12, which witnessed a decline of 7.5% in 2012-13 and went up marginally in 2013-14 (Figure 3). Among the regions, the Southern region witnessed highest growth of around 5% cent in comparison to the previous year. However, all the regions are yet to emulate the performance of year 2011-12.

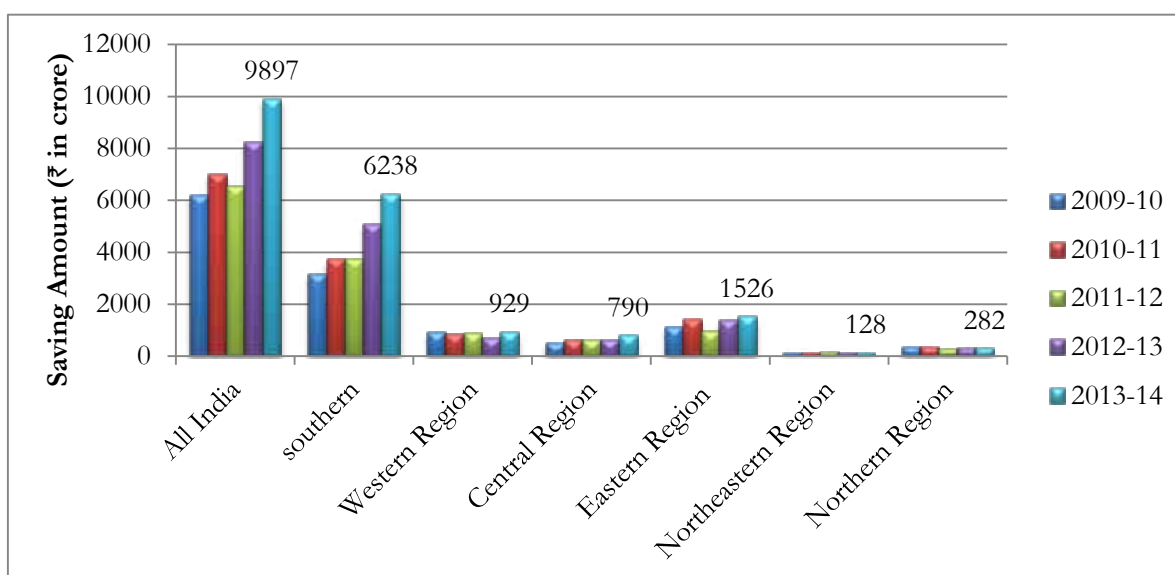
Figure 3: All India and Regional Trend in No. of SHGs Savings – Linked with Banks



Source: NABARD

The number of savings linked SHGs in the Southern states remained unaffected even during the Andhra Pradesh crisis and reported an increase after the year 2012-13. This indicates that the SHG members from this region, mainly the poor, have placed significant importance on the SHG system for meeting their financial requirements.

Figure 4: All India and Regional Trend in SHG Savings Amount Held at the Indian Banking System



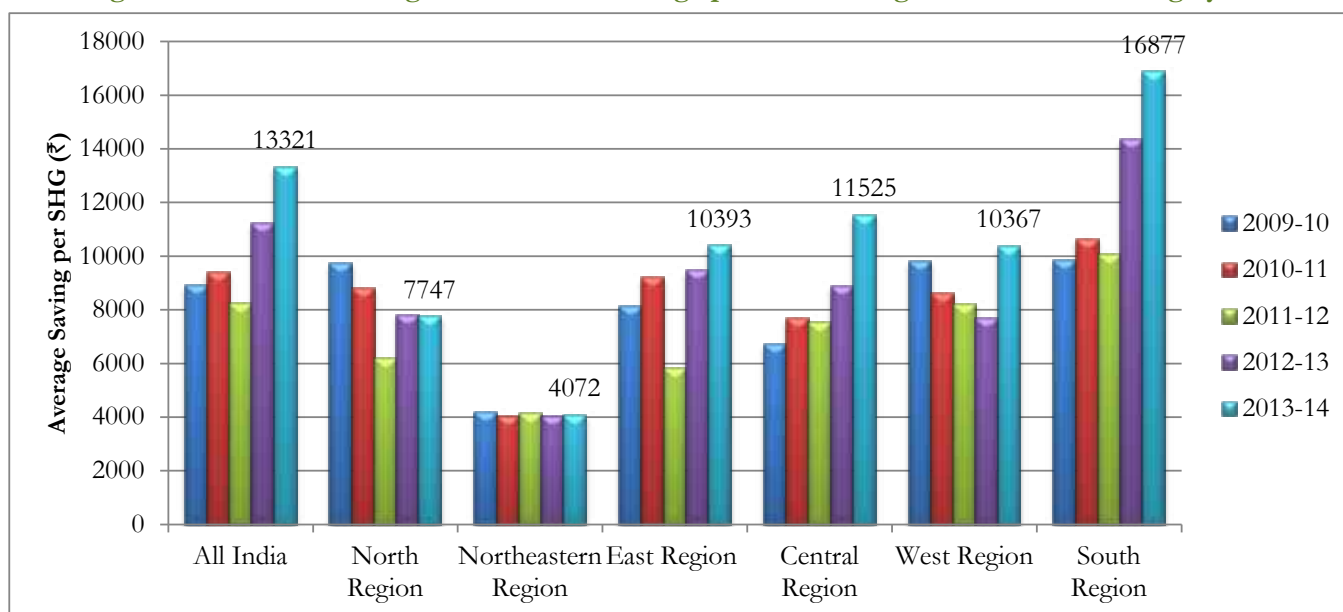
Source: NABARD

The SHG savings amount held by banks has been growing (Figure 4) except for a marginal decline in 2011-12. This is largely due to the decline in saving of SHGs in the Eastern region. As of March 2014, the banking system held SHG savings to the tune of ₹9897 crore. At an all India level, the SHG savings amount witnessed an increasing trend of around 20%. The growth is mainly driven by the Southern region, where the banks had savings outstanding of over ₹6000 crore. The Southern region alone accounts for 63% of total savings outstanding. Southern region is followed by Eastern, Western, Central, Northern and Northeast regions respectively. Post 2011-12, all the regions have been maintained increasing trend except Western and Northeast region, which have witnessed decline in the year 2012-13.

Average Savings per SHG

The Average savings per SHG amount to ₹13321 at an all India level as of March 2014. Figure 5 depicts the trend in the average savings held by the banking system.

Figure 5: All India and Regional Trend in Average per SHG Savings Held in the Banking System



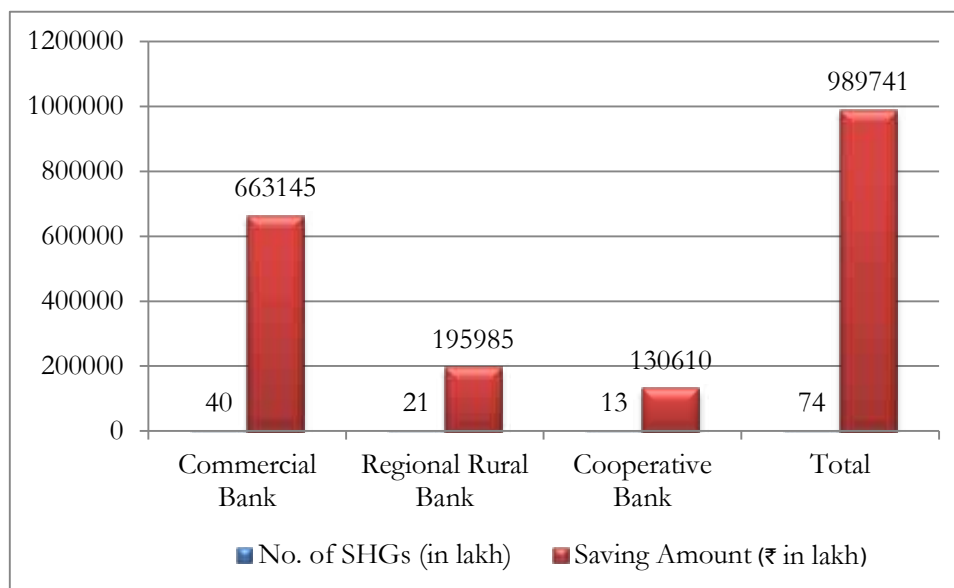
Source: NABARD

Average savings per SHG have been on an increasing trend since 2011. Year 2013-14 witnessed an increase of 18% in comparison to last year. Average savings had previously witnessed a downfall of 12% in 2011-12. In 2013-14, only Northern region experienced decline in average savings per SHG. Western region has witnessed highest growth of 34%, followed by Central and Southern region with 29% and 17% respectively.

Maintaining the trend, the Southern region leads the table followed by Central, Eastern, Western, Northern and Northeast regions respectively. In 2011-12, when all the regions experienced a declining trend, the Northeast region witnessed an increase of 3%. However, the year 2012-13 witnessed an increasing trend in all regions except Northeast and Western regions. The Eastern region witnessed the maximum hike of around 62%, which was followed by Southern region with increase of 42%. In the same year of 2012-13, Average savings per SHG at all India level witnessed jump of around 36%.

Figure 6 depicts the savings of SHGs as on 31 March 2014 with Banks viz. Commercial Banks, Regional Rural Banks and Cooperative Banks. Commercial banks continue to play a leading role, serving as a savings institution for 54% of total SHGs and accounting for 67% of the total savings by SHGs in the banking system. RRBs are distant second, followed by Cooperative Banks with 20% and 13% of savings respectively.

Figure 6: Savings of SHGs with Banks

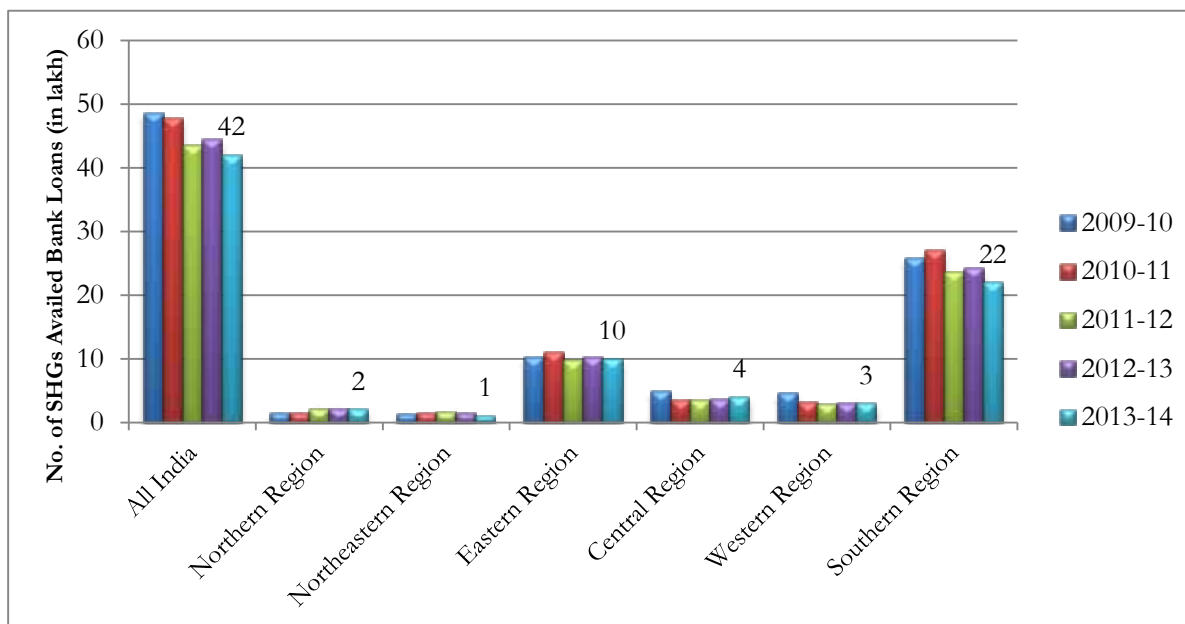


Source: NABARD

5.1.2 No of SHGs with Bank Loan

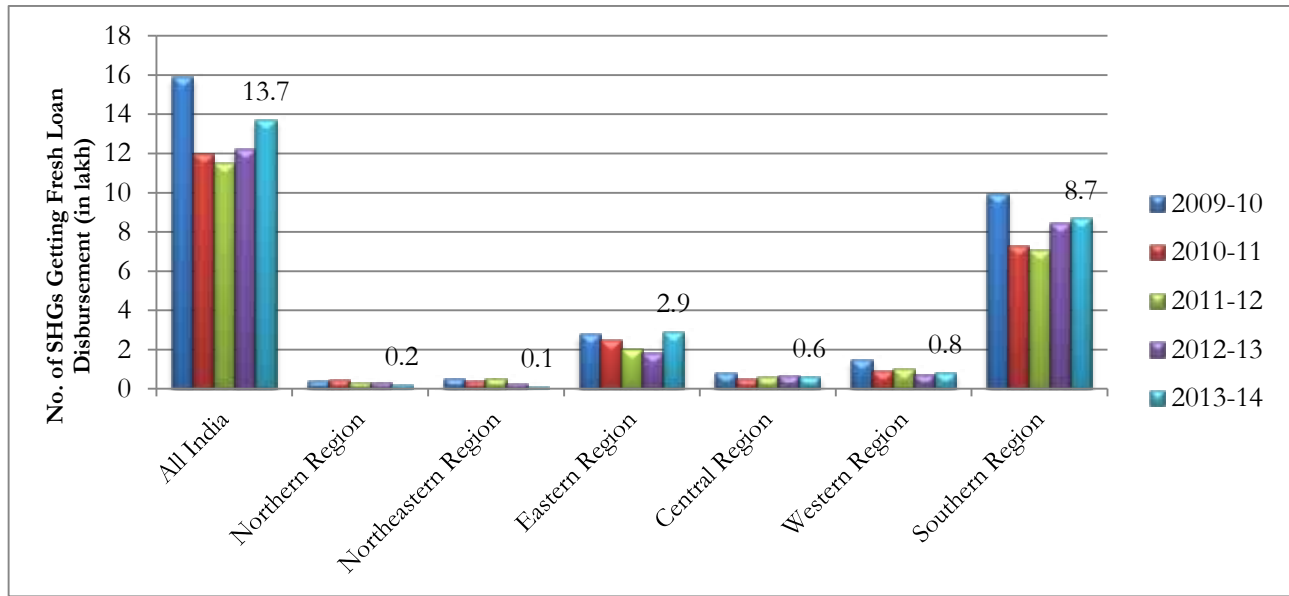
The year 2013-14 witnessed a 6% decline in the number of SHGs availing bank loans, as evident in Figure 7. Number of SHGs in Northern, Northeastern, Central and Western regions remained stagnant, while Southern and Eastern regions witnessed a decline in number of SHGs with Bank Loan. It is palpable that more or less all regions have remained stagnant over a period of years.

Figure 7: All India and Regional Trend in No. of SHGs Availing Bank Loan



Source: NABARD

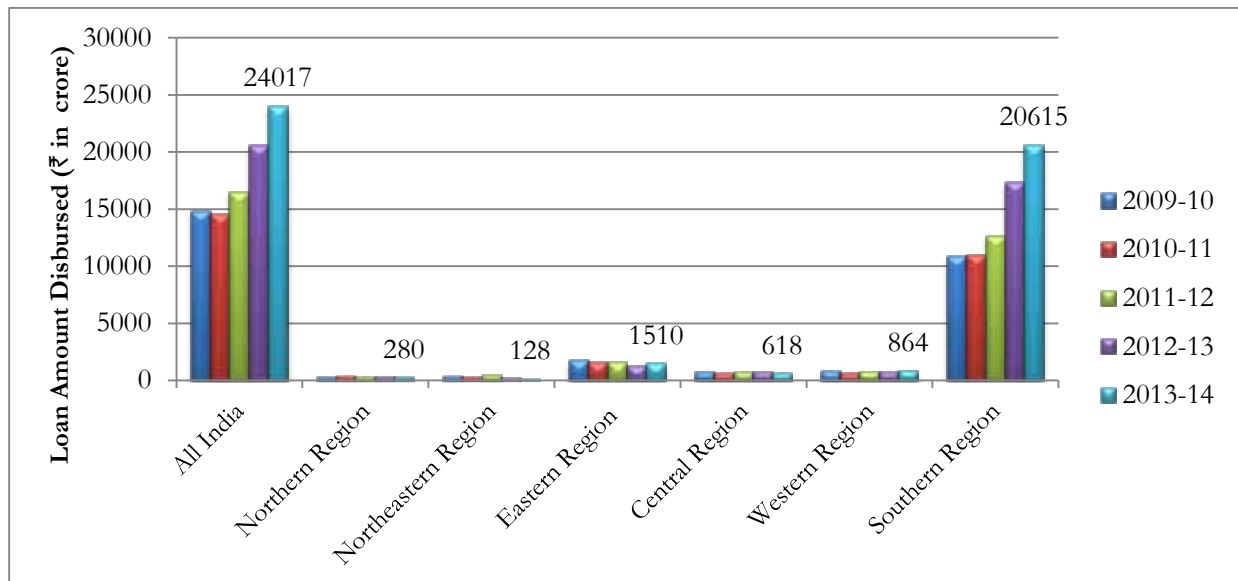
Figure 8: All India and Regional Trend in No. of SHGs Availed Bank Loan During 2013-14 from the Banking System



Source: NABARD

Figure 8 depicts that the no. of SHGs getting loan disbursements during the year has increased. At an all India level, it has witnessed a growth of around 12% in comparison to the last year. The Southern region is leading the chart with 63% of loan disbursements during the year. However, the Northern, Northeastern and Central region witnessed a decline. Among all the regions, the Eastern region witnessed highest growth of 61% in comparison to last year.

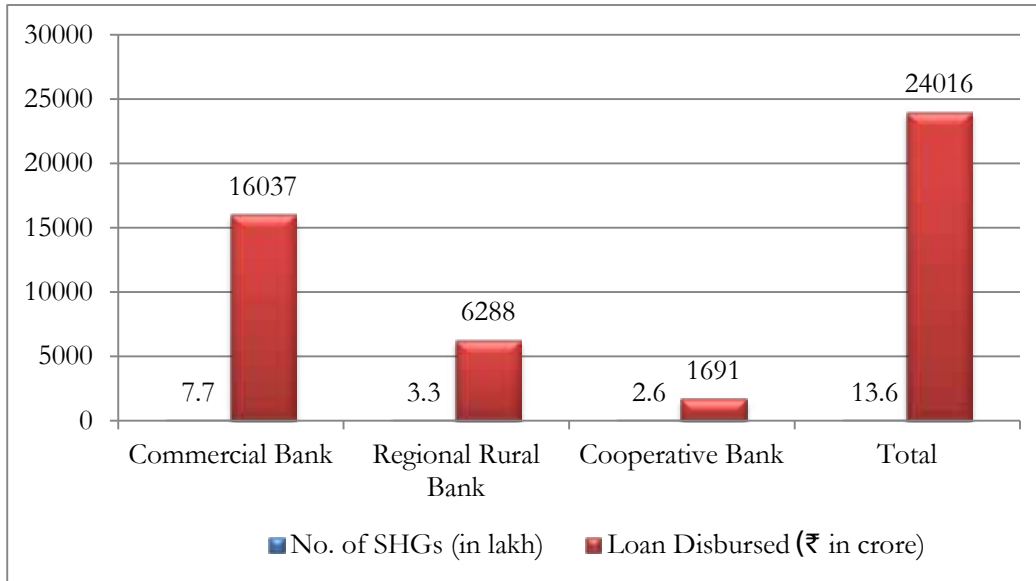
Figure 9: All India and Regional Trend in Bank Loan Amount Disbursed to SHGs



Source: NABARD

The total amount of loans disbursed has also been increasing. Northern, Northeastern and Central Regions have witnessed a decline. Maintaining the trend, Southern region is leading with a disbursement of ₹20615 crore, which accounts for around 85 per cent of total disbursements.

Figure 10: Bank Loans Disbursed to SHGs During 2013-14



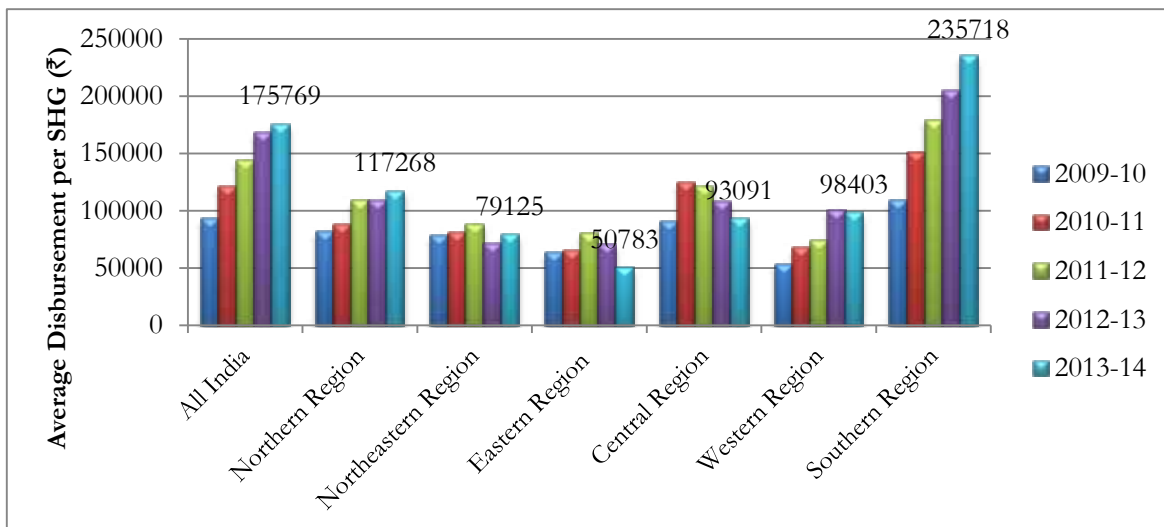
Source: NABARD

Maintaining the trend, Commercial Banks are leading the chart in terms of bank loans disbursed to SHGs during 2013-14 with a whopping 16037 crore having been given out to 7.7 lakh SHGs (Figure 10). Commercial Banks alone account for around 67% of the total loan amount disbursed to SHGs. RRBs and Cooperative banks come in at the second and third positions with 26% and 7% respectively.

Average Loan Disbursement per SHG

The average loan amount disbursed per SHG has been on the increase. It was ₹175769 during 2013-14 across India (Figure 11). Average loan amount disbursed per SHG has been maintaining the increasing trend over a period of years. Year 2012-13 witnessed a big jump of 17%. This is mainly due to satisfactory and sustainable performance of Southern region, which also witnessed an increasing trend. Other regions have been experiencing a mixed trend. However, the Eastern, Central and Western regions witnessed a bit of a decline in year 2013-14.

Figure 11: All India and Regional Trend in Average Bank Loan Amount Disbursed per SHG

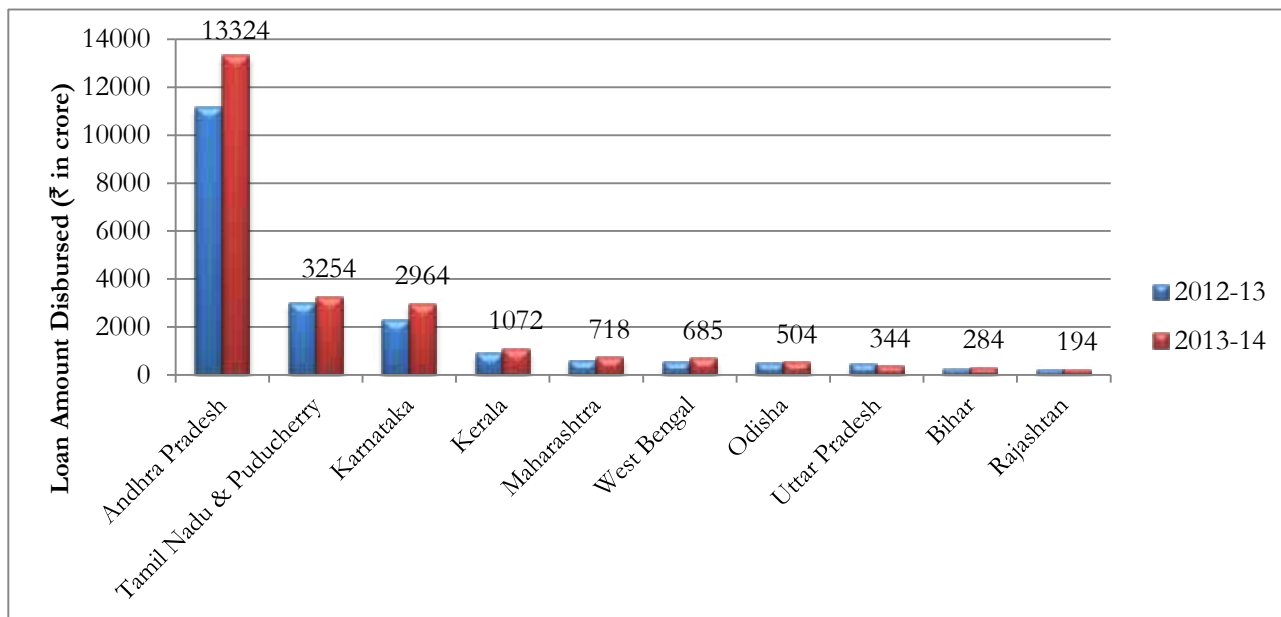


Source: NABARD

Bank Loan Disbursement in Top 10 States

Southern states, namely Andhra Pradesh, Tamil Nadu and Karnataka lead in terms of SHG loan disbursements (Figure 12). Andhra Pradesh alone accounts for 55% of the total loan disbursement and continues to lead among states in terms of SHG activity. Excluding Uttar Pradesh and Rajasthan from the list of top 10 states, all others have witnessed an increasing trend in terms of loan disbursement.

Figure 12: Amount of Bank Loan Disbursed to SHGs in Top 10 States

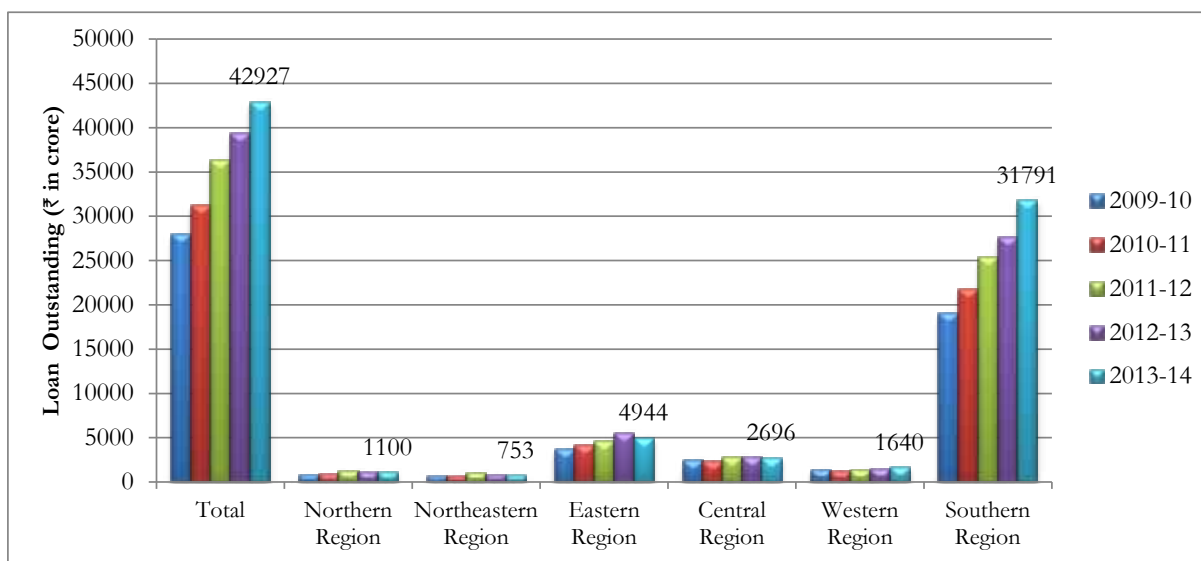


Source: NABARD

5.1.3 Loan Outstanding with SHGs

The outstanding loan amount has been on the increasing trend, which demonstrates the business viability of SHG lending for banks (Figure 13) in these areas. In 2013-14, at an all India level, the loan outstanding amount has witnessed a growth of 9% in comparison to last year.

Figure 13: All India and Regional Trend in SHG Loan Outstanding in the Books of Banking System

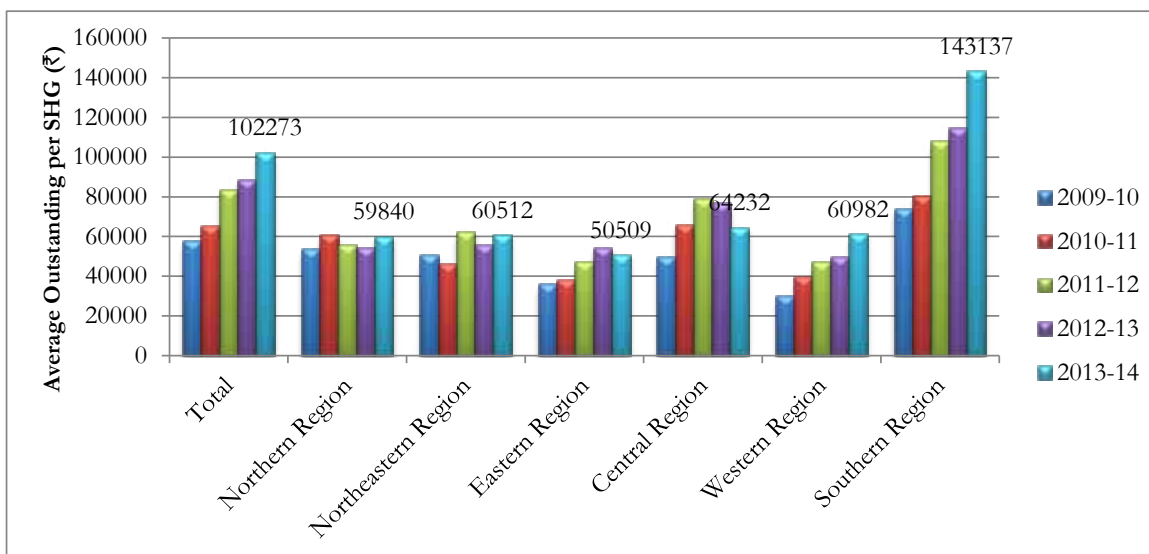


Source: NABARD

Regionally, Northern, Northeast, Eastern and Central regions have declined. In the Western region, the outstanding amount has increased by ₹172 crore. Southern states maintain the increasing trend and account for 74% of total outstanding loans. Northeast Region witnessed a major decline of 19% in 2012-13 which further went down in 2013-14.

Average Loan Outstanding per SHG

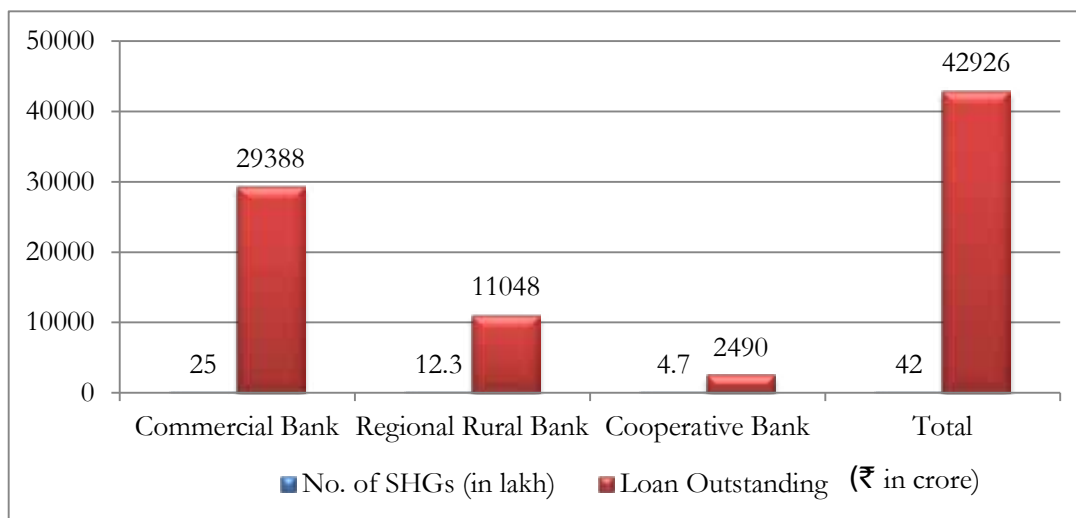
Figure 14: All India and Regional Trend in Average per SHG Loan Outstanding in the Banking System



Source: NABARD

On an average, the loan outstanding per SHG as of March 2014 is ₹102273 at an all India level, which is a jump of around 15%. This average has increased despite declining trends in the Eastern and Central regions. The increasing trend was attributed to an increase of more than 25% in the average loan outstanding per SHG in the Southern region.

Figure 15: Bank Loans Outstanding Against SHGs



Source: NABARD

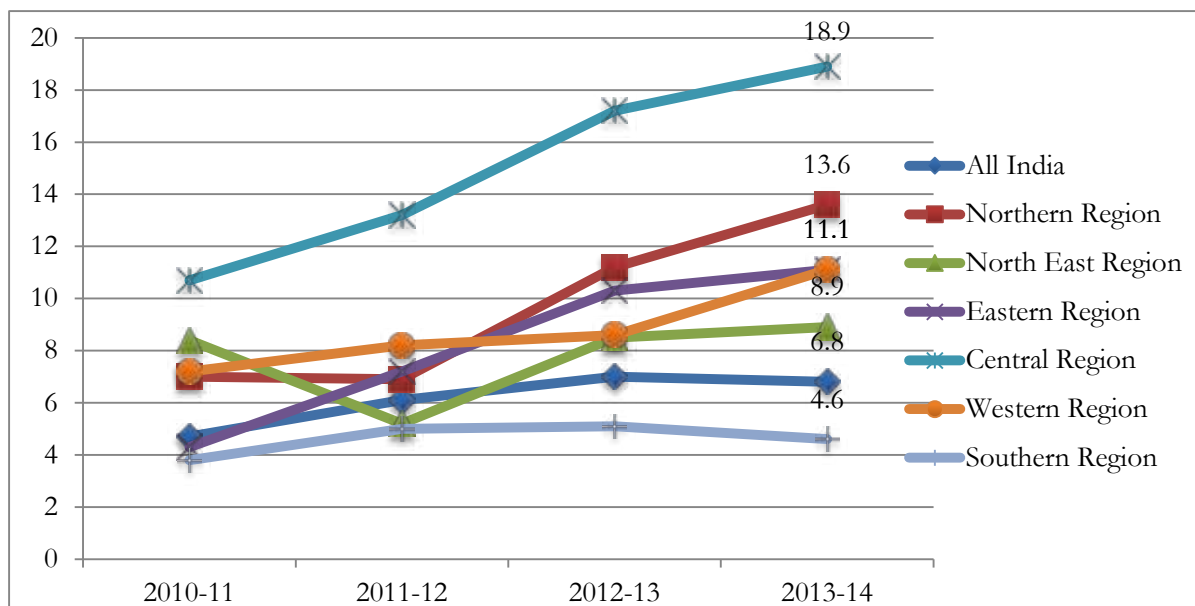
Figure 15 depicts the agency wise bank loans outstanding against SHGs as on 31 March 2014. Yet again, Commercial banks lead the chart, with around 69% of total bank loans outstanding. RRBs are a distant second with 26%, followed by Cooperative banks with 5%.

5.1.4 Issues and Challenges

Portfolio Quality

At an all India level, the NPAs of banks stood at 6.8%, with a nominal decline of 0.2% in comparison to last year. This is primarily due to a decline in NPAs in the Southern region, which account for 74% of the total loans outstanding to SHGs.

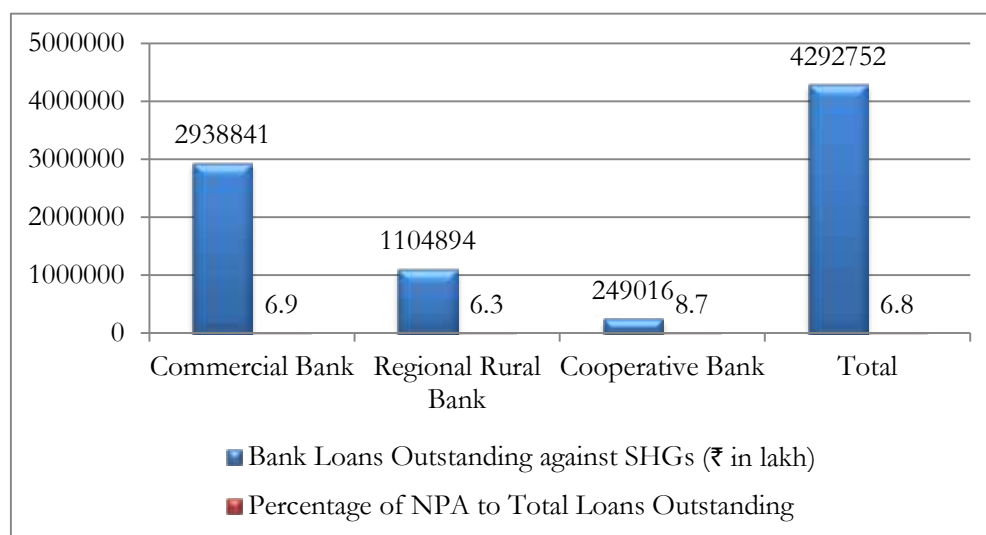
Figure 16: Non Performing Asset of SHG Loans with Banks



Source: NABARD

The SHG portfolio NPAs of the banks are on the rise in all regions excluding the southern region, where NPAs have declined from 5.1 to 4.6%. The central region has the highest amount of NPAs, around 19%, followed by the Northern, Eastern and Western regions.

Figure 17: NPAs of Banks Against SHGs Loan Outstanding



Source: NABARD

Figure 17 throws light on Non Performing Assets of Banks against SHG loans outstanding as of 31 March 2014. It is evident that Cooperative Banks have highest NPA with 8.7%. However, they account for only 5.8% of total bank loans outstanding. On the contrary, commercial banks, which account for 68% of total loan outstanding, have an NPA of 6.9%. RRBs are also beset with high NPAs vis-à-vis commercial banks.

Integration of credit history of individual SHG members in the Credit bureau could be a way forward for reducing NPAs. A recent report from the Aditya Puri Committee highlighted the need for sharing the data of SHG members with CIBs. Furthermore, the Nachiket Mor Committee also stated the need to develop a robust legal and regulatory framework around customer data generated in various transactions (credit and payments, digital and off-line), with the objective of customer ownership of their own transactions data and its use, among others, for signaling credit-worthiness and reduction of NPAs. Therefore, credit reporting systems are very important in today's financial system; this information flow enables credit markets to function more efficiently.

In this endeavour, Sa-Dhan in association with PlaNet Finance is rolling out a project on building an Inclusive Credit Information Bureau (ICIB) that aims at capturing data sets of individual level SHG members. The project aims at building credit history and strengthening creditworthiness of the clients, reduction in NPAs and building transparency in the system.

Box 1: Inclusion of SBLP clients in CIBs: Experience of CRIF High Mark

The lending under SBLP is largely uncovered by the Credit Information Bureaus. This creates a large data gap and thus, a risk to the microfinance sector. Amongst many others, High Mark has taken few initiatives to include SBLP in the fold. There is a strong overlap of 40-45 % between SBPL and JLG clients (also advocated by Damodaran Committee). Credit Bureau checks can improve the portfolio quality of SHG loans, further enhancing the banks and other player's confidence in them.

Case 1: A pilot survey conducted by CHM in Villupuram (TN) in 2012 under the aegis of zonal offices of RBI & NABARD and leading banks operating in the district; found that 28% of SHG clients of PSU bank branches from the district had existing credit from another lender.

Case 2: 39% of members from about 2000 SHG Groups with a large private bank were found to have an overlap with JLG Clients of Microfinance Institutions.

Case 3: More than 50% of 8 lakh+ SHG members of a private bank operating in all major states have at least one existing JLG credit relationship with an MFI. The bank has been using Credit reports from Highmark for evaluating SHG members prior to loan disbursement for the past 2 years, and the SHG loan book of nearly ₹200 crores has observed less than 0.5% delinquency (30+ days past due).

Regional Disparity

The SHG Bank Linkage Program (SBLP) has now completed more than 22 years since its inception. As we have witnessed, in aggregate the growth trend in the no of SHGs credit linked with banks is on increasing side, along with bank loan amounts (Figure.1). However, the overall growth of the number of savings SHGs, both at national and regional levels has remained relatively static over the past two years (Figure 2). Moreover, there is also an increasing trend in gross savings amounts (mostly in southern region), bank loans disbursed to SHGs, etc. One of the major challenge of SBLP is that it is geographically skewed, which creates regional disparity both in terms of the spread of SHGs linked to banks and cumulative banks loans disbursed under the programme. In addition to inter-regional disparity, there is also a wider intra-regional disparity among the constituent states in the SHG spread.

The bank's loan disbursed to SHGs is also unevenly distributed among the regions; referring to Figure 9, it is observed that approximately 86% is concentrated in the southern region. Additionally, among all three kinds of

banks, (Figure 10) commercial banks account for 67% of the bank loans disbursed to SHGs, as compare to 26% and 7% respectively from RRBs and Cooperative Banks. Furthermore, the NPAs are also showing an increasing trend in most regions, albeit the aggregate trend is moderate because of the decline in the southern region. The major cause of this disparity can be attributed to the literacy/awareness and socio-economic development in the southern region.

For ensuring a balanced growth of the programme, NABARD has identified States like Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal. In 2013-14, a sum of ₹51.39 crores was spent on activities such as formation and linkage of SHGs through SHPIs, training and capacity building, documentation, awareness and innovation, which will further help to strengthen the SBLP²³.

Sustainability of SHGs

The issue of the sustainability of SHGs has been a major issue engaging practitioners, policy makers and other stakeholders. SHGs sustainability needs to be viewed in the context and objectives of their promotion. It is also important to consider the sustainability of SHGs within the objectives of the SHG programme. The SBLP itself was conceived as a supplementary programme to reach the poorest families un-served by the banking system²⁴. However, it is generally accepted that in practice, SHGs have not included the poorest families.

The viability of sustainability of SHGs in financial terms is generally not an issue. SHG income through interest charges and fines, for absence and late attendance of meetings is matched by an extremely low cost of operations limited to maintenance of books of accounts and payment of an honorarium to the local accountant. Typically, borrowings are at around 12% per annum under the bank linkage scheme and on-lending to members is at 2% per month.

The organizational sustainability of SHGs is more open to question. Experience suggests that even after a period of three to five years, the time usually taken for SHGs to achieve the experience and maturity required to function as an independent financial entity, SHGs in many regions are not equipped to engage directly with banks and other agencies. The sustainability of SHGs is clearly related to the 'quality' of groups promoted.

5.1.5 Recent Development in SBLP

Joint Liability Groups within and outside SHGs:

The Reserve Bank of India in its recent notification²⁵ has considered the creation of JLGs (Joint Liability Group) consisting of members of one or more SHGs, wherein a few members of those SHGs can avail extra loans to undertake enterprise or livelihood activities. In such cases, other members may not like to stand as mutual guarantors for large sized loans availed by these members. The members of such JLGs will continue to remain as members of their respective SHGs and continue to participate in the activities of SHGs as earlier. RBI has directed the banks to encourage creation of such enterprise / livelihood based JLGs within SHGs and may finance these JLGs in addition to the loan / credit limit extended to the SHGs.

For this initiative, NABARD will further support and provide training to branch offices of banks. NABARD will also provide grant assistance to banks and other JLPs (Joint Liability Promoting Institutions) for formation, nurturing and financing of new JLGs @ ₹2,000 per JLG. These incentives will also be provided to banks for using BCs/BFs; it will increase credit flow and improve their overall asset quality in JLG financing. Furthermore, NABARD will provide 100% refinance assistance under investment credit to all banks against their lending to JLGs.

There are two models which the bank can use for financing JLGs²⁶:

²³ NABARD Annual Report, 2013-14

²⁴ Banking on Self Help Groups – Ajay Tankha

²⁵ RBI notification; <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FIDDC42CB1114FL.pdf>

²⁶ *ibid*

- 1) **Financing Individuals in the JLG:** JLG member will be provided an individual KCC / GCC or term loan. The financing bank can determine the credit requirement, based on the crop to be cultivated, available cultivable land /activity to be undertaken and the credit absorption capacity of the individual. Similar assessment of credit will be done for off-farm activities like dairy, poultry, etc. and nonfarm activities. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group. Any member opting out of group or joining the group will necessitate a new loan agreement, to be kept on record in the bank branch.
- 2) **Financing the JLG as a Group:** The JLG functions, operationally as one borrowing unit in this model. The group would be eligible for accessing one loan, which could be the combined credit requirement of all its members. The credit assessment of the group could be based on the available cultivable area of each member of the JLG/ activity to be undertaken for farm sector, off-farm sector or non-farm sector. All members would jointly execute the document and own the debt liability jointly and severally. Any change in composition of the group, will lead to a new document being registered by the bank branch.

Role of Banks:

In recent times, banks (both private and public) have gone forward to strengthen SHG saving and credit linkages. In the fiscal year 2014-15, ICICI Bank has planned to reach out to over two million women with cumulative loan disbursements of ₹2,500 crore under its programme for self-help groups (SHG). HDFC Bank has also financed more than 70,000 SHGs and over a lac of JLGs till date. In addition, YES Livelihood Enhancement Action Program (YES LEAP) provides comprehensive financial services (savings, credit & micro-insurance) to SHGs through SHPIs acting as BCs. As on march 2014 YES LEAP has reached to about 40,000 SHGs spreading across 15 States of the nation. SBI has actively participated in SHG-Bank Credit Linkage programme since its inception in 1992 as a pilot project of NABARD. Since then, the Bank has made a steady progress in financing SHGs. SBI is maintaining its position as a leader among Commercial Banks in credit linking of SHGs and is a prime driver for the movement. As on 31st March 2014, Bank's exposure under the scheme is ₹5,134 crore to 4.47 lakh SHGs, 92% of these SHGs are women's SHGs²⁷.

SBI has used various innovative initiatives to strengthen the SBLP, such as sensitization of staff, special training programmes in SHGs, close liaison with NGOs, lending to NGOs / federations of SHGs, Sahayog Niwas (SBI has launched its Housing Loan product SAHAYOG NIWAS for SHG members), SBI Life - Grameen Shakti (SBI Life, which is the first to introduce a life insurance scheme especially designed for SHG members), Rural Self Employment Training Institutes (RSETIs), Financial Literacy Centers (FLCs).

5.2 Women Self Help Groups Scheme (WSHG)

A scheme for the promotion and financing of Women Self Help Groups (WSHGs) is being implemented across 150 backward districts of the country. The scheme is an attempt to use the services of Self Help Promoting Institutions (SHPIs) not merely for promoting and enabling credit linkage with banks, but also serving as the anchor for a particular district, as a banking/business facilitator in tracking, monitoring these groups and also being responsible for loan repayments. The objective of the scheme is to saturate the districts with viable and self sustainable WSHGs by involving anchor NGOs who shall promote and facilitate credit linkage of these groups with banks, provide continuous handholding support, enable their journey for livelihoods establishment

²⁷ Yes bank website;

and also take responsibility for loan repayments. NABARD shall provide grant support of ₹10,000/- per SHG to these NGOs over a period of three years and also bear the cost of training and other capacity building initiatives.

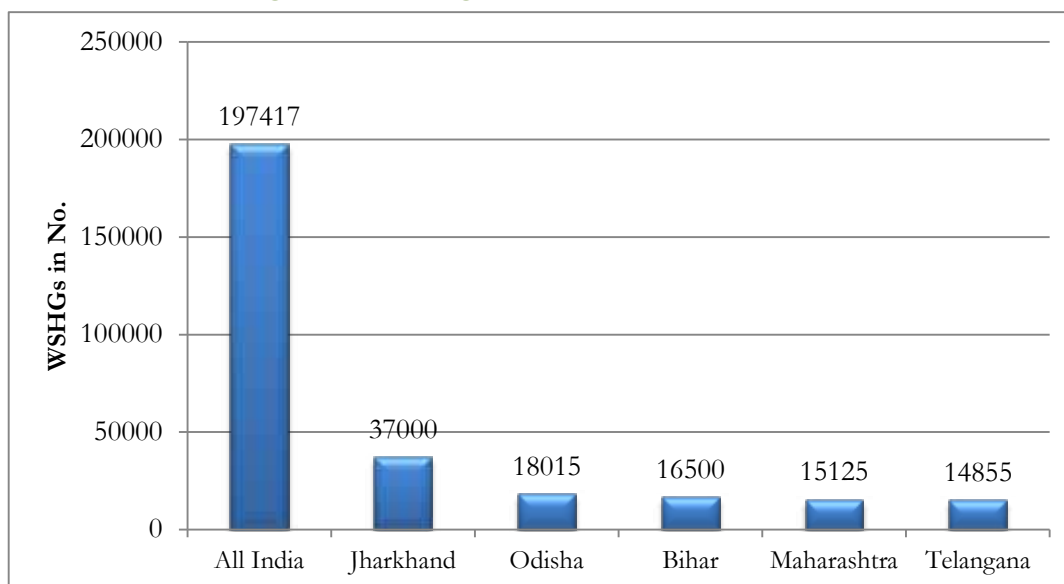
Table 1: WSHG Status as on 30th June, 2014

S.No	State	District Covered	Total No. of WSHGs Sanctioned	Total No. of WSHGs Saving Linked	Total No. of WSHGs Credit Linked	Total Grant Sanctioned (₹Lakh)
1	Andhra Pradesh	8	14085	15333	6043	165.48
2	Telangana	8	14855	16857	6799	253.41
3	Arunachal Pradesh	2	1489	226	0	9.15
4	Assam	4	1320	689	153	18.51
5	Bihar	16	16500	24882	16886	184.01
6	Chhattisgarh	10	9425	6257	2013	183.62
7	Gujarat	3	3750	1787	357	36.12
8	Goa	1	387	263	79	7.77
9	Haryana	2	3000	2380	569	52.09
10	Himachal Pradesh	2	2955	1936	704	50.61
11	Jammu & Kashmir	3	2000	1225	129	25.42
12	Jharkhand	18	37000	19312	2577	583.67
13	Karnataka	2	3000	7174	6206	90.48
14	Kerala	2	2200	1913	551	43.23
15	Maharashtra	6	15125	9542	2006	237.3
16	Madhya Pradesh	9	11025	6782	1471	187.39
17	Manipur	2	767	466	1	12.9
18	Meghalaya	2	1000	518	7	10.11
19	Mizoram	2	1000	801	76	19.51
20	Nagaland	2	800	249	0	7.06
21	Odisha	19	18015	10921	2214	284.99
22	Punjab	1	1800	822	301	31.67
23	Rajasthan	4	7100	6652	1373	143.29
24	Sikkim	2	740	422	1	5
25	Tripura	2	1500	796	136	23.74
26	Tamil Nadu	2	1929	1053	417	36.73
27	Uttar Pradesh	8	11400	7190	1173	146.52
28	Uttarakhand	2	4050	2703	839	72.25
29	West Bengal	6	9200	8221	2025	189.89
	All India Total	150	197417	157372	55106	3111.92

Source: NABARD

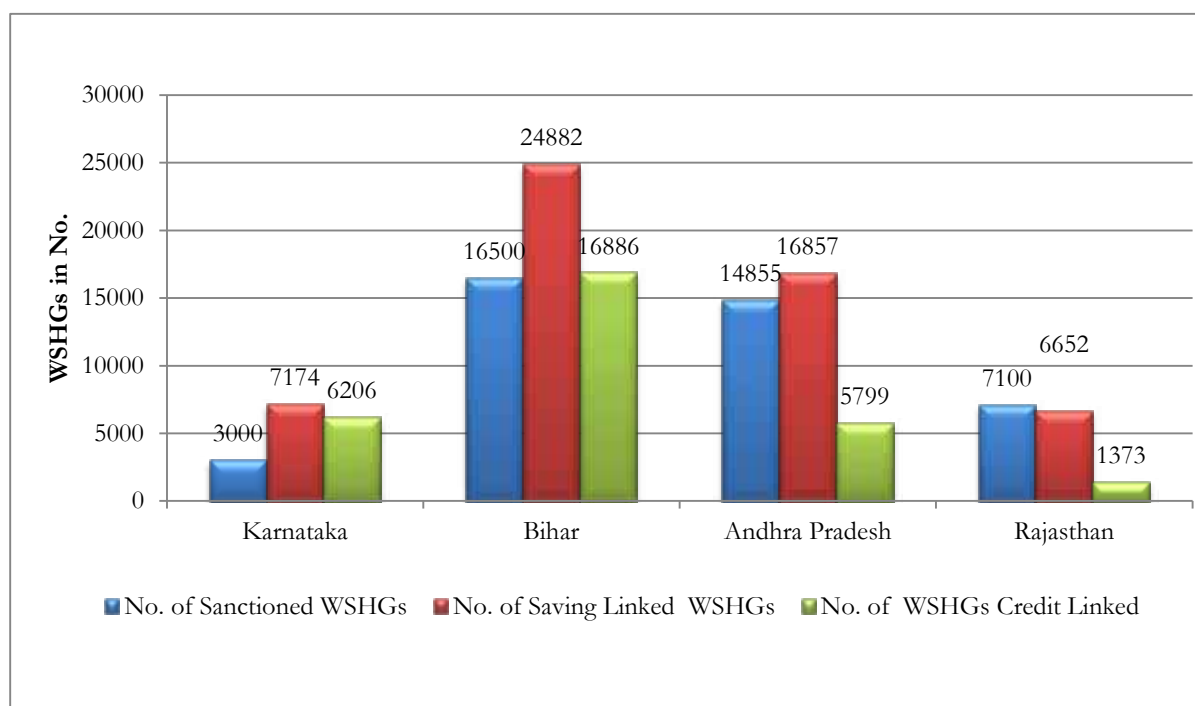
At an all India level, the total number of sanctioned WSHGs is 197,417. Jharkhand is leading in terms of sanctioned WSHGs, followed by Odisha, Bihar, Maharashtra and Telangana (Figure 18). Jharkhand alone accounts for around 19% of total sanctioned WSHGs.

Figure 18: Leading States with Sanctioned WSHGs



Source: NABARD

Figure 19: Leading States in Terms of Saving Linked WSHGs and Credit Linked WSHGs



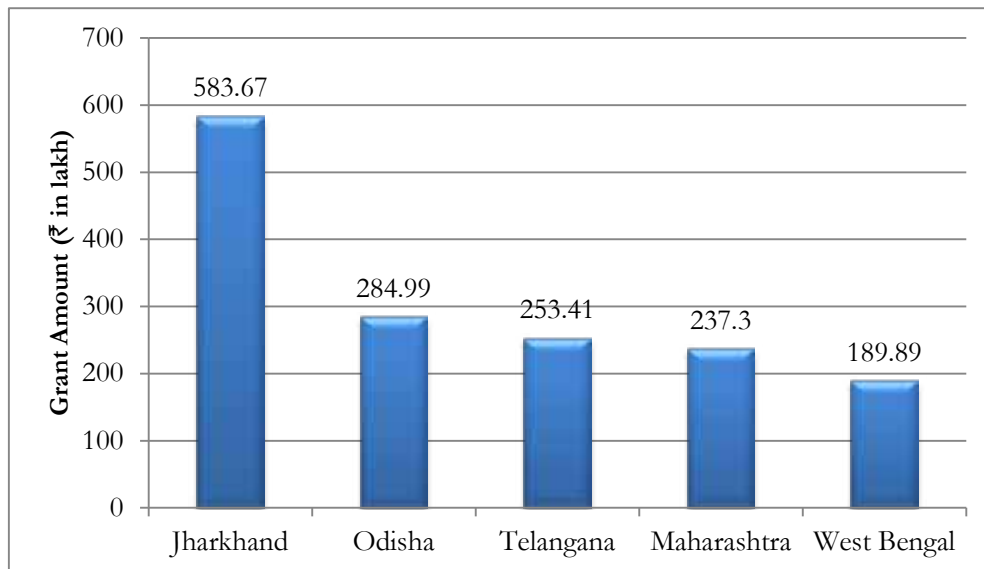
Source: NABARD

Figure 19 depicts the leading state in terms of number of sanctioned WSHGs vis-à-vis the no. of saving linked WSHGs and credit linked WSHGs. Karnataka is leading the chart, followed by Bihar, Telangana, Andhra Pradesh and Rajasthan.

Karnataka has got around 86% WSHGs credit linked. Bihar, Telangana, Andhra Pradesh and Rajasthan have got 67%, 40%, 39% and 21% WSHGs credit linked respectively.

However, North eastern states viz. Nagaland, Arunachal Pradesh, Manipur, Sikkim and Meghalaya are lagging behind in terms of credit linked WSHGs. In Nagaland and Arunachal Pradesh, none of the WSHGs are credit linked.

Figure 20: Leading States in Getting Grant to Anchor Agencies

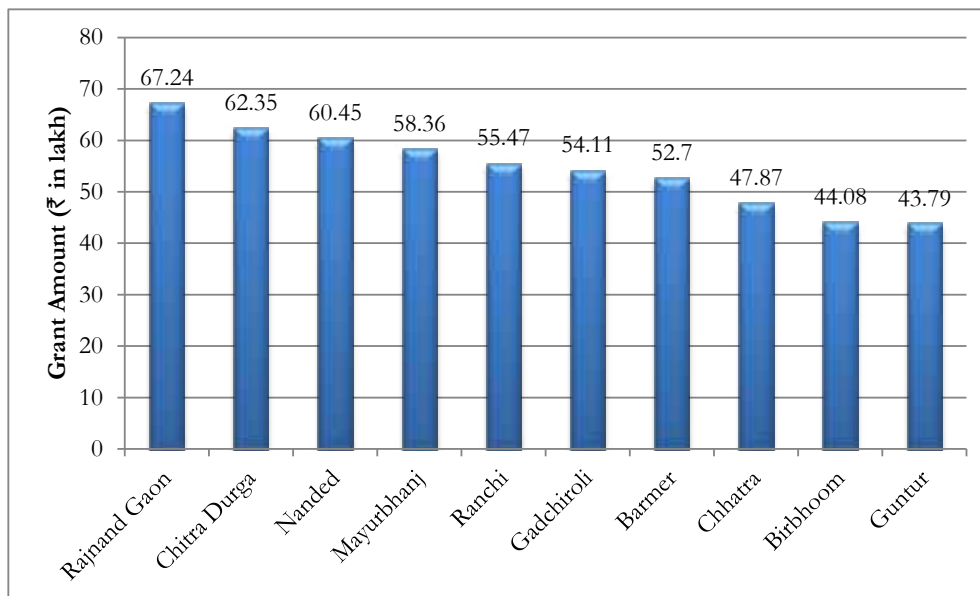


Source: NABARD

Jharkhand is leading the list in terms of getting grants to anchor agencies. As of 30th June, 2014 Jharkhand has received ₹583.67 lakh (Figure 20) in grants. Jharkhand alone accounts for around 19% of total grants sanctioned. Jharkhand is followed by Odisha, Telangana, Maharashtra and West Bengal. Sikkim, with a grant total of ₹5 lakh is at the bottom of the chart, followed by Nagaland, Goa, Arunachal Pradesh and Meghalaya respectively.

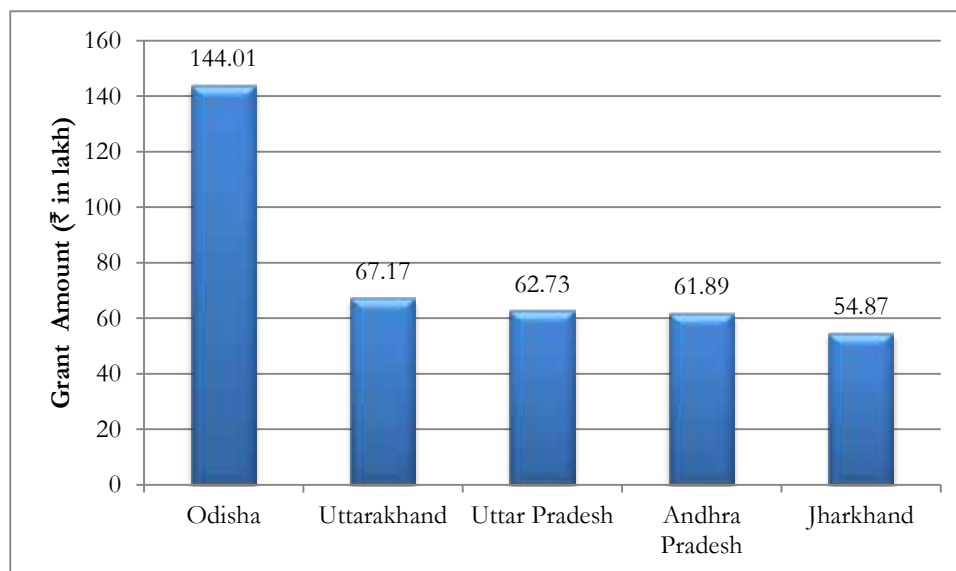
Rajnand Gaon district of Chhattisgarh leads the list of districts in getting grants to anchor agency (Figure 21). Rajnand Gaon is closely followed by Chitra Durga of Karnataka, Nanded of Maharashtra, Mayurbhanj of Odisha and then Ranchi. The others are Gadchiroli, Barmer, Chhatra, Birbhoom and Guntur.

Figure 21: Leading Districts in Getting Grant to Anchor Agencies



Source: NABARD

Figure 22: Leading States in Getting Grant for Capacity Building & Publicity Campaign



Source: NABARD

Women Self Help Groups (WSHGs) scheme has one component of grants for capacity building and a publicity campaign. Odisha is leading the list of states getting grants for capacity building and publicity campaign with a whopping ₹144 lakh (Figure 22). Uttarakhand is a distant second, which is closely followed by Uttar Pradesh, Andhra Pradesh and Jharkhand.

Nagaland and Manipur jointly lead the list of states from the bottom in getting grants for capacity building and publicity campaign. They are followed by Meghalaya, Arunachal Pradesh and Mizoram.

With the feedback from Sa-Dhan members – SKDRDP, Janhit Foundation, Support, Chaitanya, We The People, Holy Cross, Satin Creditcare etc., some of the practical issues of implementation of the scheme is presented below :

- Most districts have witnessed inordinate delays in opening and linking bank accounts and not are giving importance to SHG members.
- There is a need for instituting an exposure and training programme for local bank managers on the role of SHGs as an important channel to achieve the Financial Inclusion agenda. Sensitization of Banks is also required. Banks need to be more proactive and supportive.
- There could be regular consultations between the MoF officials, NABARD and some of the implementing NGOs on the above policy advocacy issues in order to strengthen the WSHG movement.
- Sa-Dhan has suggested modifying guidelines on credit linkages to be made within three months based on merits of the WSHGs, as under the SHG – 2 model.

The list of Anchor NGOs/SHPIs who are members of Sa-Dhan and are taking part in the project is given in Table 2.

Table 2: List of Sa-Dhan Members Involved in WSHGs Implementation

S.No	Name of the Member Institutions	State	Districts	Lead Bank	Bank
1	We the People	Himachal Pradesh	Simour	UCO Bank	UCO Bank
2	Support	Jharkhand	(a) Hazaribagh (b) Bokaro (c) Giridih	Bank of India	Bank of India
3	Holy Cross Social Service	Jharkhand	Ramgarh	Bank of India	Bank of India
4	Shri Kshethra Dharmasthala Rural Development Institute (SKDRDP)	Karnataka	Chitra Durga	Canara Bank	Canara Bank, Pragathi Gramin Bank
5	Chaitanya	Maharashtra	Nandurbar	SBI	SBI, ICICI Bank
6	Asmitha Microfinance	Odisha	Ganjam	Andhra Bank	Andhra Bank
7	NEED	Odisha	Koraput	SBI	SBI, UGB, AB, IOB
8	Grameen Development Services (GDS)	Odisha	Malkangiri	SBI	SBI
9	Janhit Foundation	Uttar Pradesh	(a) Chitrakoot (b) Jaunpur (c) Sonebhadr (d) Chandauli	Allahabad Bank, UBI	Allahabad Bank, UBI
10	Himalayan Action Research Centre (HAARC)	Uttarakhand	Chamoli	SBI	SBI
11	PRAGATI	Odisha	Koraput	SBI	SBI, UGB, AB, IOB
12	Satin Credit Care Network Ltd.	Madhya Pradesh	(a) Rewa (b) Anuppur	UBI, CBI	UBI, CBI, Allahabad Bank, Central Madhya Pradesh Gramin Bank

5.3 Aajeevika – National Rural Livelihoods Mission (NRLM)

Aajeevika – National Rural Livelihoods Mission was launched by the Ministry of Rural Development (MoRD), Government of India by restructuring Swarnajayanti Gram Swarozgar Yojana (SGSY), effective from April 2013. Aided in part through investment support by the World Bank, the Mission aims at creating efficient and effective institutional platforms for the rural poor, enabling them to increase household income through sustainable livelihood enhancements and improved access to financial services.

NRLM has set out with an agenda to cover 7 crore rural poor households, across 600 districts, 6000 blocks, 2.5 lakh gram panchayats and 6 lakh villages in the country through self-managed Self Help Groups (SHGs) and federated institutions and support them for livelihoods collectives over a period of 8-10 years. In addition to this, the poor would be facilitated to achieve increased access to their rights, entitlements and public services, diversify risk and improve social indicators of empowerment. It is also envisaged to harness the innate capabilities of the poor and complements them with capacities to participate in the growing economy of the country.

NRLM is a centrally sponsored scheme and the financing of the programme would be shared between the Centre and the States with a ratio of 75:25.

The blocks that are taken up for implementation of NRLM, 'intensive blocks' would have access to a full contingent of trained professional staff and cover a whole range of activities of universal and intense social and financial inclusion, livelihoods, partnerships etc.

Table 3: Status of Aajeevika – National Rural Livelihoods Mission

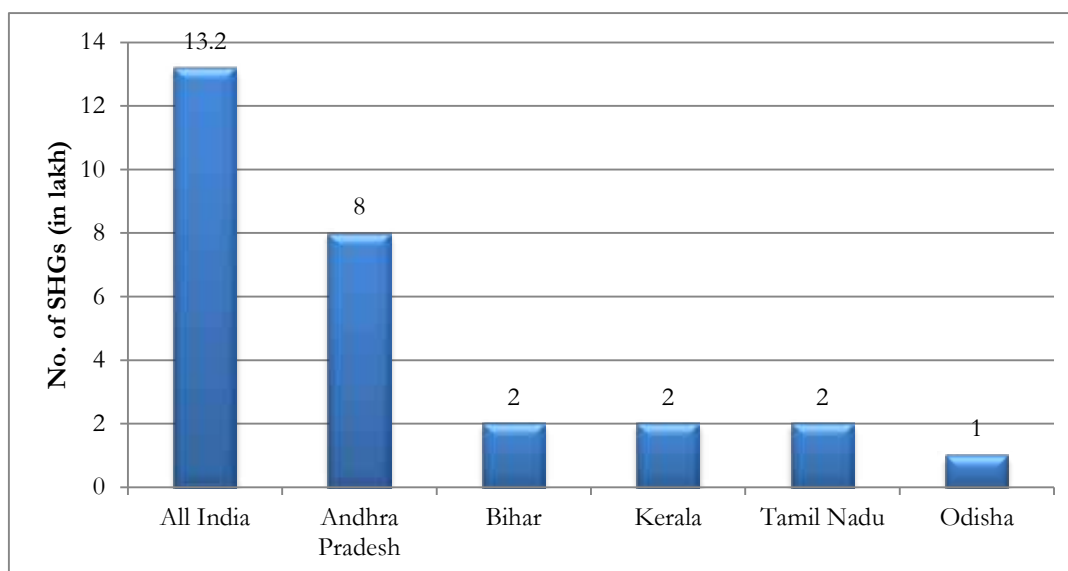
S.No	Indicators	Achievement
I.	Geographical Coverage under NRLM	
1	No. of States transitioned to NRLM (27 states + 1 U.T)	28
2	No. of districts with intensive blocks in NRLM states	344
3	No. of blocks identified for intensive approach in NRLM states	2631
4	No. of blocks where intensive implementation has commenced	2449
5	No. of Grampanchayat in which intensive implementation has started	41908
6	No. of village in which intensive implementation has started	136610
II.	Progress in Intensive Blocks (includes NRLM-EAP/State Projects)	
7	No. of household mobilized into SHGs (in lakh)	124.5
8	No. of SHGs promoted (in lakh)	13.2
9	No. of village organizations promoted	46026
10	No. of SHGs providing Revolving Fund	245999
11	Amount of revolving fund disbursed to SHGs (in lakh)	35322.8
12	No. of SHGs provided Community Investment Fund (CIF)	162757
13	Amount of Community Investment Fund disbursed to SHGs/Village Organization (in ₹ lakh)	84458.3
14	No. of Community Resource Person Developed	3654994
15	Amount of Credit mobilized through banks (in ₹ lakh during FY 2013-14)	319985
16	No. of youth provided self employment training under RSETI during 2013-14 (in lakh)	2.27
17	No. of Mahila Kisans supported under MKSP (in lakh)	24.5
18	No. of Producer Group Promoted	1485
19	Net cropped area brought under sustainable agriculture (in lakh acres)	36

Source: NRLM²⁸

Andhra Pradesh has promoted the largest number of SHGs (Figure 23), followed by Bihar, Kerala, Tamil Nadu and Odisha. However, there are many states viz. Arunachal Pradesh, Assam, Gujarat, Chhattisgarh, Himachal Pradesh, Jammu & Kashmir, Karnataka and other states in the North East region that are yet to reach the number of 1 lakh in terms of promotion of SHGs. Andhra Pradesh alone accounts for 60% of total SHGs promoted under NRLM. At an all India level, around 13.2 lakh SHGs have been promoted as of 31st March 2014.

²⁸ <http://nrlm.gov.in/nrlmlive/outerReportAction.do?sessionId=BBC710E7810E53861E9AA0720CF202E5?methodName=showIndex>

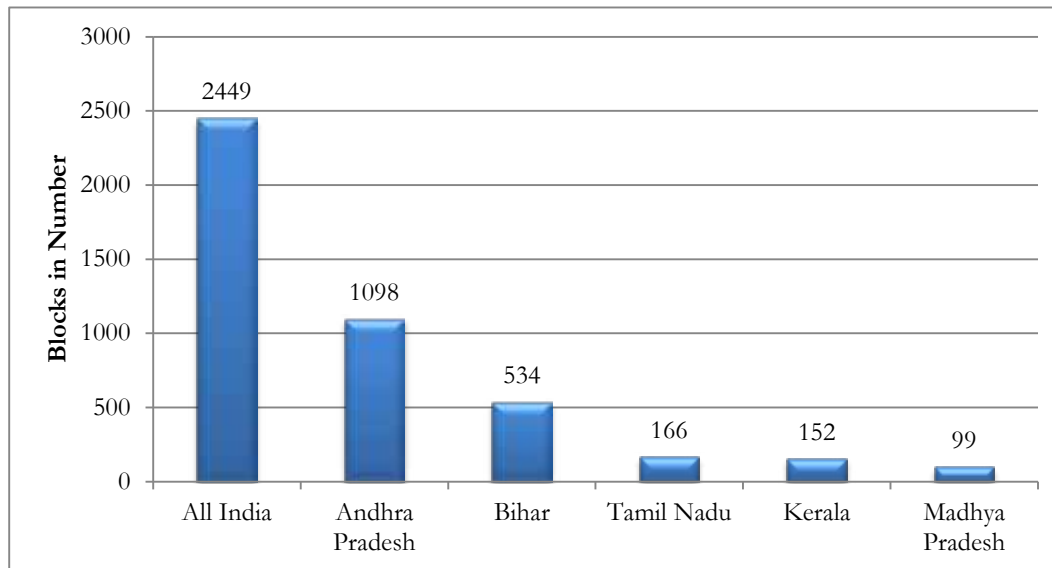
Figure 23: Leading States in Terms of No. of SHGs



Source: NRLM

A total of 2631 blocks have been identified for intensive approach in NRLM states. As of 31 March 2014, intensive implementation has already commenced in 93% of identified blocks. There are 344 districts with intensive blocks in NRLM states. Andhra Pradesh is leading with 1098 in terms of covering highest number of intensive blocks (Figure 24), followed by Bihar, Tamil Nadu, Kerala and Madhya Pradesh.

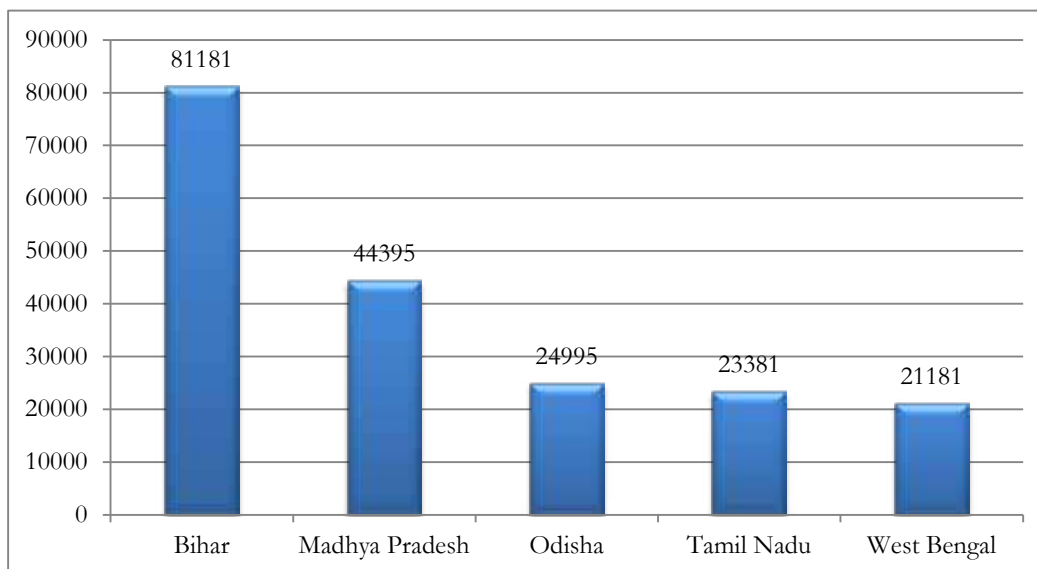
Figure 24: Leading States in Terms of No. of Intensive Blocks Covered



Source : NRLM

However, Northeastern states, Himachal Pradesh and Punjab are leading from the bottom. In addition to this, intensive implementation has been started on 41908 Grampanchayat and 136610 villages.

Figure 25: Leading States in Providing Revolving Fund to SHGs

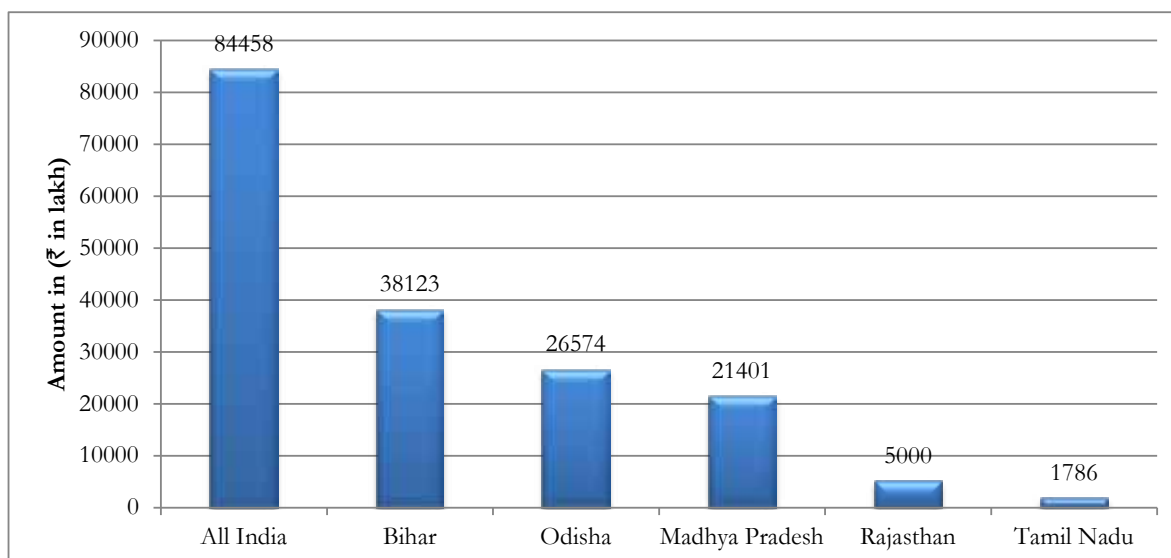


Source: NRLM

NRLM provides a Revolving Fund (RF) to support SHGs in existence for a minimum period of 3/6 months. Only those SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of ₹10,000/- and up to a maximum of ₹15,000/- per SHG. The purpose of the RF is to strengthen their institutional and financial management capacity and build a good credit history within the group. As of March, 2014 a total of 245,999 SHGs across the country have been provided with revolving fund of ₹35322.8 (in lakh). Bihar is leading the chart in terms of providing revolving fund to SHGs. In Bihar, 10152 lakh has been disbursed among 81,181 SHGs (Figure 25), which amounts to an average of ₹12,505 per SHG. The state of Bihar is followed by Madhya Pradesh, Odisha, Tamil Nadu and West Bengal in terms of total RFs disbursed.

Community Investment Fund (CIF) is another important component associated with NRLM. CIF, to the tune of ₹3000 per SHG member is provided in the intensive blocks, to be maintained as resource in perpetuity. The CIF is used, by the federations, to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities.

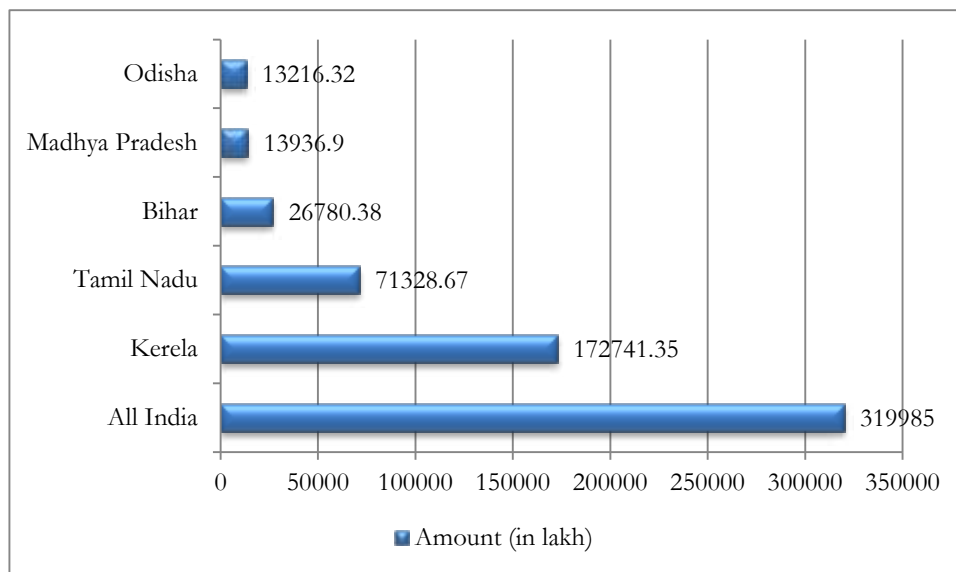
Figure 26: Amount of Community Investment Fund (CIF) to SHGs



Source: NRLM

₹84458 lakh has been disbursed to SHGs/Village Level Organizations as Community Investment Fund as of 31st March, 2014. Figure 26 depicts that among all of these states, Bihar has witnessed the largest disbursement, followed by Odisha, Madhya Pradesh, Rajasthan and Tamil Nadu. Bihar alone accounts for 45% of the total disbursement.

Figure 27: Leading States in Mobilizing Credit Through Banks



Source: NRLM

Across the country, ₹319,985 lakh of credit has been mobilized through banks during FY 2013-14. Kerala is leading the chart (Figure 27), followed by Tamil Nadu, Bihar, Madhya Pradesh and Odisha.

Mobilizing the women/poor, identifying their needs, skill sets, local socio economic conditions, training them for taking up livelihood activities and, facilitating linkages are all part of the strategies of livelihood promotion followed under NRLM.

National Urban Livelihoods Mission (NULM)

This program aims to reduce poverty and vulnerability of urban poor households by enabling them to access gainful self employment and skilled wage employment opportunities, resulting in an appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots level institutions of the poor. The mission would aim at providing shelters equipped with essential services to the urban homeless in a phased manner. In addition, the mission would also address livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.

NULM has got following components:

- Social Mobilization & Institutional Development
- Employment through Skills Training & Placement
- Self Employment Program
- Capacity Building & Training
- Support to Urban Street Vendors
- Scheme of Shelters for Urban Homeless

5.4 Self Help Promoting Institutions (SHPIs)

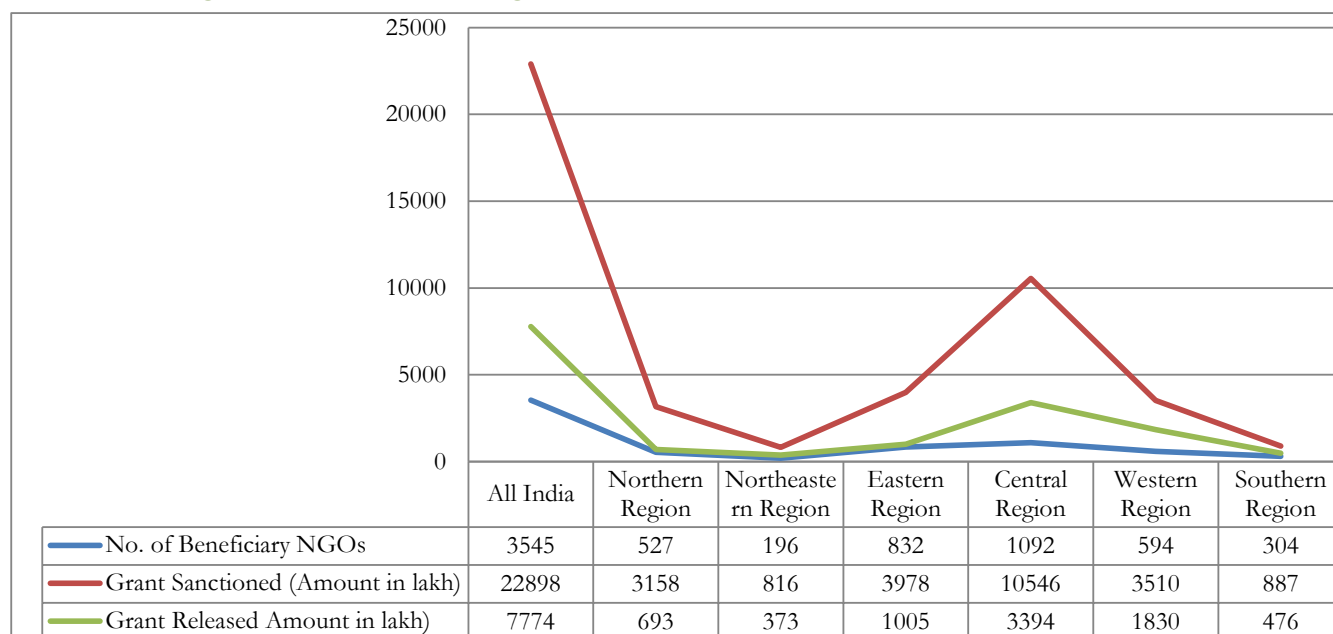
The innovation of SHG-bank linkage as a means of enabling access of the poor to financial services attracted NGOs as well as national and international donors. Many NGOs started promoting SHGs and facilitated SHG-bank linkage. Some NGOs had viewed SHG promotion as a means to enable the access of poor households to the formal banking system. Other NGOs, who had earlier formed SHGs and similar groups as community organizations for supporting livelihoods of the poor and facilitating the empowerment of women too came forward to participate in SBLP. Many NGOs, in addition, promoted activities such as marketing of SHG products, training and technical counseling, apart from grant of credits to enable SHGs promoted by them to augment the income of their members.

SHPIs have to incur considerable costs in promoting such SHGs. The cost of promotion and maintenance is directly borne by the SHPIs, who mobilize funds from different sources with a manifold funding structure.

Figure 28 throws light on the general trend on an all India and regional basis in grant support sanctioned and released to Non Government Organizations (NGOs) as Self Help Promoting Institutions (SHPIs) as on 31st March, 2014.

The Central region leads in terms of grants sanctioned and grants released, followed by the western region and the North East region. In terms of number of beneficiary NGOs, the Central region leads, followed by the Eastern and Western regions respectively.

Figure 28: All India and Regional Trend in Grant Support to NGOs as SHPIs



Source: NABARD

Sa-Dhan in association of CMF, Jaipur and SRTT undertook a study with the objectives of finding answers to three questions: (a) What is a reasonable funding requirement for the promotion and maintenance of SHGs (b) Can SHGs become self sustainable? & (c) What will be the motivational factors (apart from financial sustainability) that will encourage members to remain associated with their SHGs in the long run.

Some of the key findings of the study and recommendations are presented below for the perusal of the reader:

- The cost structure of promoting and sustaining SHGs needs to be more flexible, taking into account geographic and other field-level considerations

- In regards to the LWE program run by the Ministry of Finance (MoF), the grant incentive of ₹10,000 appears to be appropriate for promoting SHGs in normal conditions. However, to sustain the SHGs for a longer period, it need to be ensured that the SHGs are credit linked and they maintain minimum average loan outstanding to render sufficient service charges to respective SHPIs. For this, an atmosphere of trust needs to be promoted and banks should find lending to SHGs a profitable business proposition. However, the issue of growing NPAs with banks regarding SHG portfolio is worrisome and needs to be addressed at the earliest. As several other studies have reflected that the NPAs are correlated with quality of SHGs, supporting the promotion of quality SHGs and their capacity building will obviously help in this regard.
- One of the crucial aspects of sustaining SHGs for a longer period is through developing members' confidence in the SHGs and using it as an effective tool in their fight against poverty. In this regard, it is important to understand that members not only feel the need for financial services, but also technical and other support for promoting sustainable livelihoods. SHPIs need to assess the needs of SHGs and plan accordingly at a micro-level.
- The study has also shown that it takes a long time to attain the desired goals of SHGs, so focus shouldn't only be given on promotion of SHGs but also to sustaining them for longer period. In this regard, SHG federations could be of higher importance. Effective support mechanisms have to be in place so that these federations meet the expectations of member SHGs and become financially and operationally self-sustainable over a period of time.

5.5 SHG Federations

In order to provide financial and operational sustainability to the SHGs and draw the benefits of the economies of scale, the SHG-Federation model has been evolved in India. Even though SHGs are now recognized as an institution per se through RBI guidelines and can operate their own bank account, there are still inherent limitations for a small unregistered group.

The rationale behind promoting SHG federations (APMAS, 2007) is:

1. To strengthen SHGs
2. To promote new SHGs of the poor
3. To provide member SHGs with access to various services
4. To provide a sense of solidarity among members of different SHGs
5. To ensure sustainability of SHGs
6. To facilitate linkages &
7. To empower women.

Nair (2005) has suggested that there are five predominant benefits of federating SHGs:

1. Creation of economies of scale
2. Reduction of transaction costs
3. Reduction in default rate at all levels
4. Provision of value added services such as special loan products, insurance services etc.
5. Reduction in the cost of promoting SHGs.

Besides, federations play an important role in SHG capacity building and conflict resolution – both internally and externally. The whole range of services provided by federations could be grouped into four categories, viz. institutional development, financial intermediation, livelihoods and business development service and social intermediation. The SHG-Federations, which are primarily an association of all SHGs operating in a nearby geography, can extend support to these SHGs and also work as a platform for strengthening demands from external agencies. Table 4 displays statistics on the network of Federations in India.

Table 4: Region wise Spread of SHG-Federations in India in Year 2013

Region	NGO				Government				Total			
	PLF	SLF	TLF	Total	PLF	SLF	TLF	Total	PLF	SLF	TLF	Total
Northern	395	40	1	436	15,320	0	0	15,320	15,715	40	1	15,756
North Eastern	300	4	0	304	1,205	0	0	1,205	1,505	4	0	1,509
Eastern	27,970	2,757	2	30,729	17,180	453	39	17,672	45,150	3,210	41	48,401
Central	3,611	149	0	3,760	3,459	0	0	3,459	7,070	149	0	7,219
Western	1,073	4	0	1,077	10,539	315	0	10,854	11,612	319	0	11,931
Southern	11,147	570	2	11,719	79,304	2,795	22	82,121	90,451	3,365	24	93,840
Union Territories	8	0	0	8	0	0	0	0	8	0	0	8
All India	44504	3524	5	48033	127007	3563	61	130631	171511	7087	66	178664

Source: Microfinance India, State of the Sector Report 2013, Access Publication

[Note: PLF – Primary Level Federation at village level; SLF – Secondary Level Federation – at cluster level; Tertiary Federation]

According to Table 4, as of March 2013, there were 178,664 federations in the country. These included 171,511 PLFs, 7,087 SLFs and 66 TLFs. Federations are predominant in Andhra Pradesh, Kerala, Tamil Nadu, Rajasthan and West Bengal. In the northern region, more than 99% of federations are concentrated in Rajasthan, promoted by the Department of Women and Child Development (DWCD) and State Rural Livelihood Promotion (SRLM). In the North-East, Assam SRLM plays the major role in federating SHGs.

As for the Eastern region, a majority of the federations in Odisha have been promoted by the state government under the Tripti project of Mission Shakti. These are three-tier structures. In fact, most of the tertiary federations in India exist in this region.

The number of SHG federations has increased in the Central region as compared to 2012, mainly due to the activities of RGMVP in Uttar Pradesh and SRLM in Uttarakhand.

In the Western region, MAVIM, Chaitanya, Sampada Trust, SEWA and ANANDI are promoting federations. The presence of SHPIs in this region is limited, hence it accounts for only around 7% of total SHG federations in the country.

Box 2: Why SHG members Act as Bank Agents?

1. SHG members are integrated into their community and trusted by them.
2. SHG members have basic financial literacy, experience in working with banks and other financial institutions.
3. SHG members are mostly women who are known to be more responsible and trustworthy with money. Being women they are able to tap the financially most excluded part of women population.
4. SHG members can facilitate group transactions and mobilize savings, thus improving the viability of model at all levels.

The Southern region is home to more than half (52%) of the federations in the country. They are supported by the state governments through the Society for Elimination of Rural Poverty (SERP) and the Mission for Elimination of Poverty in Municipal Areas (MEPMA) in Andhra Pradesh.

The Government of India, State governments and their projects implemented with external funding are the major players in promoting SHG federations with Andhra Pradesh in the lead. The number of government promoted SHG federations has increased from 93,773 in 2009 to 130,631 in 2013. With the impetus given by NRLM, the total number of SHG federations in the country is likely to reach 500,000 by 2018.

Even though the SHG federation model initiated by the NGOs has widespread acceptance, the scale achieved by them is minimal compared to government programmes.

5.6 SHG as BCs²⁹

It is very much advocated that members of SHGs or SHGs themselves can be an effective and efficient last-mile agent for financial services. Several innovations have taken place in using SHGs as financial intermediaries.

Recently, the Rural Financial Institutions Programme (RFIP) has implemented one such pilot project in Uttar Pradesh and Madhya Pradesh, in which selected SHG members, so called Bank Sakhis, are trained and equipped with the technology to offer banking services at the doorstep of villagers, particularly women and poor households.

In 2013, this initiative was implemented in Unnao district of UP in association with Gramin Bank of Aryavart (GBA), Rajiv Gandhi Mahila Vikas Pariyojna (RGMVP), and the corporate business correspondent and technology service provider Bartronics. In 16 months the project expanded to 118 villages in 37 Gram Panchayats. The second phase of the project will cover about 25 Gram Panchayats and will introduce a new application to route transactions under the SBLP through the Bank Sakhis.

Table: 5³⁰ Penetration of Bank Sakhis

Progress till October 2014	Uttar Pradesh	Madhya Pradesh
No. of Bank Sakhis appointed	50	18
No. of active Bank Sakhis operational for more than 3 months	36	6
No. of villages reached by Bank Sakhis	118	31
No. of clients with bank account opened through Bank Sakhis	19,392	1320
Total number of transactions (deposits + withdrawals) cumulative	94,235	946
Total value of transactions (deposits, withdrawals) cumulative	1,05,63,258	3,25,850

These Bank Sakhis have been trained in handling new technology, creating awareness about banking services and making card-based transactions on behalf of the bank. A Bank Sakhi enrolls more than 100 Basic Savings Bank Accounts and makes more than 300 transactions per month. By October 2014, the 50 appointed and well trained Bank Sakhis in Uttar Pradesh had enrolled almost 20,000 clients who transacted more than 1 crore Rupees. A Bank Sakhi currently earns between ₹1,000 and ₹1,700 per month from transactions.

²⁹ RFIP, News letter, 2014

³⁰ *ibid*

SHGs Operating as BCs – A Case Study of the Janhit Model

Janhit Foundation facilitates the formation of Self Help Groups of women, motivates them to save, then links them to banks to access cash credit limit and empowers them to lend to their members at their own finalized terms and conditions, recovering the loans accordingly. Thus, creating an effective demand where the poor have an opportunity to access livelihood support services i.e. Microcredit, Skill Enhancement, Marketing etc and improving income generation and asset building capacity.

Janhit has also realized that empowering the poor is a long-term process and desired results can be achieved only with long term handholding by Self Help Groups and the creation of a win-win situation for the Self Help Groups, social intermediaries and financial institution.

Janhit has established a tie up with Shivalik Mercantile Cooperative Bank, wherein the bank extends customer friendly and high quality financial services to SHGs and Janhit indemnifies the Bank from any default in loan repayment by SHGs. Janhit also ensures concurrent monitoring for productive utilization of microcredit and timely repayment against a service charge of 6% of outstanding bank loan payable by bank to Janhit. This service charge will make the program operational i.e. sustainable after 2-3 years of starting operations and ensure long-term handholding. The impact of this model can be gauged from following.

- Shivalik Bank has extended bank loans to SHGs amounting to ₹49.74 crore with no NPA attributed to SHGs for their livelihood and other needs till 2013-14.
- SHGs have mobilized savings amounting to ₹7.42 crore and availed loan from their groups amounting to ₹55.14 crore with less than 5% default till 2013-14, and unburdened their members from high interest loans from Money lender through debt swapping extensively.
- Most of program units i.e. Blocks which are 2-3 years old have become sustainable or are inching towards it and are contributing towards the start of operations in new units.

These pilot projects clearly demonstrate that a community-driven and owned SHG structure can efficiently and effectively drive financial inclusion for banks. These SHG women members are successful community mobilisers. It also depicts the women empowerment associated with this initiative.

6.1 Business Correspondent Model

The BC model is the key resource being utilized by the RBI in order to fulfill their financial inclusion agenda. In November 2009, the RBI advised banks to establish a presence in every village with a population above 2000 individuals, through the use of business correspondents and business facilitators. Apart from banking outlets, branchless banking connectivity had been extended to 337,678 villages by 31st March 2014, using banking correspondents³¹, a ten-fold increase as compared to 31st March, 2010.

However, the model has faced critical challenges since its inception, namely feasibility, liquidity management, and technological issues which resulted in a high attrition and closure of BC outlets. Research indicates that due to the deliverables set by the government, banks have conducted ‘card rampages’ with banks aggressively opening accounts to meet targets³². A Microsave study in 2014³³, showed that the true reach and quality of the BC model was poor however, the branches offering a full suite of financial products, or anchor products such as remittances, were becoming stable or even making a profit and were able to sustain their operations. A majority of rural agents/CSPs offering G2P payments were facing difficulties in maintaining their profitability and faced liquidity issues as well. A lack of support from their banks was also stated as a major challenge in achieving visibility.

The following models of BCs are currently active in the microfinance sector:

- 1) Banks and NGO-MFIs as BCs
- 2) NBFC-MFIs as BCs
- 3) SHG Networks operating as BCs

Table 1: Key Statistics

Key Statistics (March, 2014)	
Banking Outlet in Villages – Branches	46,126
Banking Outlet in Villages – Branchless Mode	3,37,678
Banking Outlet in Villages – Total	3,83,804
Urban Locations covered through BCs	60,730
Basic Saving Bank Deposit A/c through BCs (No. in Millions)	116.9
Basic Saving Bank Deposit A/c through BCs (Amount in ₹Billion)	39.0
ICT A/Cs-BCs Transaction – (No. in millions) (During the year)	328.6
ICT A/Cs-BCs Transactions – (Amount in ₹ Billion) (During the year)	524.4

Source: RBI Annual Report 2013-14

The BC model is based on collaboration between various partners – the banks, the BCs, the technology providers and the agents/CSPs. Tasked with a difficult goal of financial inclusion, BCs face challenges on both the supply and the demand side.

³¹ RBI Annual Report 2013-14

³² Singh and Sasi (2014)

³³ Microsave (2014), ‘Building Viable Agent Models in India’

Table 2: Key Challenges

Supply Side	Demand Side
Financial Viability	Financial Literacy
Cash and Liquidity Management	Irregular and Uncertain Cash Flows
Dormant Accounts	Cost of Transacting
High Initial Investment	Mobile Literacy
Appropriate Products for the Poor	
Reputational Risks & Frauds	

Sa-Dhan, in collaboration with GIZ had organized two extensive workshops on 16th and 17th January 2014 with MFIs, SHPIs and SHGs and their federations on the business correspondent model respectively.

The workshop titled “MFIs as BCs – Paradigms for the future”, was organized to facilitate peer learning on the experience of MFIs as BCs, so as to make the BC operations more relevant, effective and sustainable. Another workshop was organized on “Evolving Role of SHPIs & SHGs Federations in Financial Inclusion: The BC Model” to have a discourse on the way forward for SHPIs and SHG federations in the BC model. The workshop was designed for understanding the key issues & challenges of the BC model and how to make it efficient and viable. Twenty three MFIs and twenty two SHPIs participated in the Workshop.

Table 3: Challenges & Institutional Preparedness for MFIs - BCs

Challenges	Suggestions for streamlining BC operation
1. Lack of Financial Awareness among clients.	<ul style="list-style-type: none"> Financial literacy of clients.
2. Lack of standardized processes followed by banks	<ul style="list-style-type: none"> Clear communication with bankers so that there is common understanding on issues such as operational processes, turnaround time and technology.
3. Lack of external training support for BCs	<ul style="list-style-type: none"> Standardization of processes and sound understanding of legal requirements.
4. Lack of awareness regarding technology among BCs	<ul style="list-style-type: none"> Capacity building of operational staff involved in the BC operations.
5. Considerable variability in the BC remuneration structure of banks	<ul style="list-style-type: none"> Negotiations with Banks on issues that impact BC viability such as: limits on transaction size performed by client and upper cap on transaction volume to determine remuneration for the BC, the high upfront cost required for setting BC operations and how part of this should be borne by other concerned stakeholders, how banks should allow greater depth of outreach and market saturation & why banks need to be more involved in ensuring greater outreach.
6. High upfront investments acting as entry barriers for starting up BC operations.	
7. Bank staffs are not aware enough and some banks also demand personal guarantee from promoter of BCs.	

Table 4: Challenges & Institutional Preparedness for SHPIs - BCs

Challenges	Suggestions for streamlining BC operation
1. Financial Viability	<ul style="list-style-type: none"> Financial estimates of costs and revenues that establish viability of the model need to be researched better and disseminated. Transactions related to government schemes should pass through BCs. Negotiation and advocacy towards this end are required. BC remuneration structure should be made more attractive.
2. Coordination among stakeholders	<ul style="list-style-type: none"> Common training modules need to be developed for all the stakeholders in the SHG-federation structure. Consumer protection initiatives should be built into the BC model.

Table 5: MFIs as Business Correspondents (BCs)

Bank	Name of the MFIs	No. of MFIs
Yes Bank	Mahashakti Foundation, Disha India Micro Credit, Samhita Community Development Services, Bhartiya Micro Credit	4
Axis Bank	Janalakshmi Financial Services Pvt Ltd	1
Union Bank of India	SKDRDP, Satin Creditcare	2
State Bank of India	SKDRDP, Swayamshree Micro Credit Services, Initiative for Development Foundation (IDF), Drishtee Foundation	4
Corporation Bank	SKDRDP	1
Canara Bank	SKDRDP, BWDA Finance	2
Punjab National Bank	CDoT	1
Allahabad Bank	CDoT	1
UCO Bank	CDoT	1
ICICI Bank	Cashpor Micro Credit, Shikhar Microfinance Pvt. Ltd., Prayas Juvenile Aid Centre	3
IDBI Bank	SKDRDP, People's Action for Transformation	2
Ratnakar Bank	SKDRDP	1
Pragati Krishna Gramin Bank	SKDRDP	1

6.2 Mobile Banking

In October 2008, the RBI permitted banks to facilitate funds transfer through mobile phones from one bank account to another bank account, both for personal remittances and the purchase of goods and services.

Real time inter-bank mobile banking payment has been facilitated through the setting up of the Inter-bank Mobile Payment Services, rechristened recently as Immediate Payment Service (IMPS) and operated by the NPCI. The IMPS enables real time transfer of funds between bank accounts and provides a centralized inter-bank settlement service for mobile banking transactions. As on 31 May, 2014, 86 banks, including 10 RRBs and 19 UCBs, had been permitted to launch mobile banking services. The customer base of banks who have subscribed to mobile banking services stood at nearly 30 million as of October 2013.

Despite low volumes, mobile banking has been growing in recent years. As per the data furnished by the Technical Committee on Mobile Banking, the users of mobile banking increased from 6 million in 2010-11 to 22.5 million in 2012-13. The value of mobile banking transactions during this period rose from `6 billion to `60 billion.

The technical committee on mobile banking has noted that mobile banking is more economical than the traditional banking channel in terms of per-transaction or per-branch costs. But, with a mobile subscriber base of 870 million and bank accounts of around 450 million, there are only 22.5 million active mobile banking customers in India. In other words, the large mobile subscriber base has not been leveraged for financial inclusion in the country. The committee has recommended that the mobile banking channel be encouraged in view of the long term economic gains.

Most banks already provide banking services through mobile phones via the Short Message Service (SMS). This collaboration between the financial and telecom sectors can be taken a step further by providing mobile banking for microfinance transactions. For instance, Vodafone has entered into such partnerships across countries like Kenya and Tanzania in Africa, Afghanistan and India in Asia to provide mobile banking facilities to people who have no access to banking.

While cash deposits and withdrawal services offered by microfinance bank branches and other agents is popular, there is a lot of demand for mobile based transaction facilities, like micro loans, borrowing and repayment, payment of utility and other bills, and money transfer between accounts.

MFIs around the world see m-banking as an opportunity to reach new customer segments and grow faster. Mobile phones can expand the reach of MFIs that struggle with the high costs associated with servicing extremely hard to reach rural customers. However, evidence suggests that the first benefit that results from m-banking for MFIs is improved customer service to existing customers. MFIs can effectively use m-banking services to facilitate both loan repayment and deposits. This does not necessarily increase credit risk and can make the transaction process more efficient for both the MFIs and the customer. MFIs can also consider working as an agent in the m-banking system. This can be a good way for an MFI to learn more about how mobile banking works without high investment costs. It allows customers to gain exposure to the system, helps MFIs differentiate themselves and brings enhanced liquidity to their branch locations.

Annexure 1 State wise Presence of Different MFIs

State	Name of the MFIs
Andhra Pradesh	PWMACTS, SWAWS, Trident, Suryoday, Spandana, SE Investment, RASS, Sanghamithra, SKS, Basi, IMPACT, Asmitha, Share Microfin, Future Financial
Arunachal Pradesh	NERFL, RGVN NE Fin.
Assam	Asomi, Arohan, Bandhan, NERFL, SATRA, Ujjivan, Village Fin, RGVN NE Fin, Ajagar, Grameen Sahara, Deshabandhu MFI, Prochesta, Nightingale Charitable, Nightingale Finvest, Uttrayan Fin, Unacco, ASA Int, Share Microfin
Andaman	BWDA
Bihar	Cashpor, CDoT, Intrepid Finance, Arohan, GBK, Bandhan, NBJK, Jagaran, Saija, Seba Raha, Satin, SVCL, Ujjivan, Vedika, Village Fin, Suraje, Mass care, CPSL, Unnati, Margdarshak, BISWA, ASA Int., SKS, Basix, Asmitha, Share Microfin
Chandigarh	NERFL, Satin, Ujjivan,
Chhattisgarh	Cashpor, Growing Opportunity, ESAF, Janalakshmi, Samhita, Bandhan, Annapurna Microfinance, Spandana, SE Investment, BISWA, SKS, Basix, Share Microfin
Dadra & Nagar Haveli	Bandhan
Delhi	Janalakshmi, Bandhan, NERFL, Shikhar Microfinance, Satin, Ujjivan, Prayas Jac, SE Investment, Basix, Share Microfin
Goa	Ujjivan, Spandana, Asmitha
Gujarat	Asirvad, Janalakshmi, Bandhan, Prayas, Sewa Bank, Ujjivan, Adhikar Micro Fin, Arman Fin, Suryoday, Spandana, Saath, SE Investment, Pahal Financial, Equitas, Asmitha, Share Microfin, Future Financial, Swadhaar Fin. Services
Haryana	Midland Microfin, Janalakshmi, Bandhan, NERFL, Shikhar Microfinance, Sonata, Satin, Ujjivan, Margdarshak, SKS, Share Microfin
Himachal Pradesh	Bandhan, NERFL, Ujjivan
Jammu & Kashmir	Satin
Jharkhand	ESAF, Janalakshmi, Bandhan, NBJK, Jagaran, Saija, Satin, Vedika, Spandana, KSDF, MESP, Support, SE Investment, Samarthan, BISWA, SKS, Basix, Asmitha, Share Microfin
Karnataka	Intrepid Finance, Chaitanya India, IRCED, Janalakshmi, Navachetna, NERFL, SWAWS, Ujjivan, Suryoday, SKDRDP, Spandana, Samasta Microfinance, Sanghamithra, Rors, IDF, SKS, Equitas, Grameen Fin Services, Basix, Asmitha, Share Microfin, Future Financial, BSS Microfin
Kerala	Ujjivan, SKDRDP, Spandana, SKS, Share Microfin, WSE, Impact, ESAF, Jeevankiran, Freed, Integrated Dev, Janashree Micro Fin, SKDRDP, Asirvad,
Madhya Pradesh	Intrepid Finance, Arth Finance, ESAF, Samhita, Bandhan, Swadhaar Fin. Services, Swashrayee Mahila Sakha Sahkari Sanstha, Prayas, Sonata, Satin, SVCL, Trident, Ujjivan, Vama, Annapurna Mahila, Aparajita, Hand in Hand, Spandana, Lok Biradari, SE Investment, BISWA, Grama Vidiyal, Sanghamithra, SKS, Equitas, Basix, Asmitha, Share Microfin

Maharashtra	Intrepid Finance, dMatrix, ESAF, IRCED, Janalakshmi, Bandhan ,Yashvardhini Gramin Mahila, Gramin Mahila Swayamsiddha , SWAWS, Trident, Ujjivan, Sahara Gramin Mahila Swayamsiddh Sangh, Sankalp Gramin Mahila Swayamsiddha Sangh, MAVIM, Suryoday, Spandana, SE Investment, Hindusthan Microfinance, Grama Vidiyal, Sanghamithra, SKS, Equitas, Grameen Fin Services, Basix, Asmitha, Share Microfin, Swadhaar Fin. Services, BSS Microfin
Manipur	Bandhan, NERFL, Chanura Microfin, WSDS, YVU, VVD,Unacco
Meghalaya	Bandhan, NERFL, Ujjivan, RGVN NE Fin, Grameen Sahara, Basix
Mizoram	Bandhan, NERFL,WSDS,
Nagaland	NERFL, RGVN NE Fin, ECOLOF
Odisha	AIR Credit Cooperative, Asirvad, Bandhan, Annapurna Microfinance, GU Financial, SWAWS, Ujjivan, Adhikar Micro Fin ,CARR, Hand In Hand, ORIDA, DSS , Sambandh, Suryoday, Mahashakti, Spandana, KSDF, SARC, Swayanshree Mahila, SMCS, BISWA, SKS, Basix, Asmitha
Pondicherry	Janalakshmi, Namathu Deepam, Ujjivan, Grama Vidiyal, BWDA, Sarvodaya Nano, Smile
Punjab	Midland Microfin, Janalakshmi, Bandhan, NERFL, Satin, Ujjivan, SKS
Rajasthan	Midland Microfin Ltd, Arth Finance, Janalakshmi, Bandhan, Pustikar, Sonata, Satin, SVCL, Ujjivan, Hand In Hand, Matashree, HAPPI, PSC, SE Investment, Surbhi, SKS, Equitas, Basix, Asmitha, Share Microfin, Swadhaar Fin. Services
Sikkim	Bandhan, RGVN NE Fin, Basix
Tamil Nadu	Growing Opportunity, Repco Micro Finance, Asirvad, ESAF, Janalakshmi, READ, Namathu Deepam, SWAWS, Ujjivan, Hand In Hand, Suryoday, ECOLOF, Mahasemam, Saadow, SE Investment, Guardian, Virutcham, Samasta Microfinance, Impact, Grama Vidiyal, RASS, Sanghamithra, New Life, Rors, Madura Microfinance, Equitas, Grameen Fin Services, BWDA, Share Microfin, Future Financial, Sarvodaya Nano, Smile
Tripura	Bandhan, NERFL, Unacco, ASA Int, Basix
Uttarakhand	Disha India, Janalakshmi, Bandhan, Balajee Sewa, NERF, Shikhar Microfinance, Sonata, Satin, Ujjivan, SKS, Basix, Share Microfin
Uttar Pradesh	Cashpor ,Intrepid Finance, Disha India, Janalakshmi, Gramottan Micro, Samhita, Bandhan, Shikhar Microfinance, Sonata, SVCL, Ujjivan, Ishara Fin, Spandana, HAPPI, SE Investment, Margdarshak, ASA Int, SKS, Basix, Asmitha, Share Microfin, BMC
West Bengal	BJS, Arohan, GBK, Purba Barasat Prerana, Barasat Sampark, BURS, Dhosa, Jamalpur, Janalakshmi, Bandhan, Sarala, Dakshin Budhakali, Seba Rahara, Sreema Mahila, Ujjivan, Village Fin, Barasat Anweshan, Barasat U Prostuti, BRWAS, Destiny, Disa, Unnati, KSDF, Agradut, Sahara Utsarga, SE Investment, Swayamsampurna, Uttrayan, VSSU, Unacco, KDS, BISWA, ASA Int, SKS, Basix, Asmitha, Share Microfin, Jagaran

Annexure 2 Distribution of Data Contributing MFIs for this Report

State and Membership wise MFIs			
State	Total No. of MFIs	Of which No. of Member MFIs	Of which No. of Non-member MFIs
Andhra Pradesh	10	10	0
Assam	10	5	5
Bihar	5	3	2
Delhi	6	4	2
Gujarat	5	4	1
Haryana	1	1	0
Jharkhand	5	4	1
Karnataka	11	9	2
Kerala	6	2	4
Maharashtra	12	4	8
Manipur	5	5	0
Madhya Pradesh	5	2	3
Odisha	13	11	2
Punjab	1	0	1
Rajasthan	4	2	2
Tamil Nadu	19	13	6
Uttarakhand	1	0	1
Uttar Pradesh	7	5	2
West Bengal	29	15	14
Total	155	99	56

Legal Form wise MFIs			
Legal Form	No. of MFI	Member	Non member
Society	54	28	26
Trust	10	4	6
Sec. 25 Company	17	9	8
Cooperative	10	7	3
NBFC	64	51	13
Total	155	99	56

Region and State wise MFIs		
Region	States/Union Territories	No. of MFIs
North	Delhi (6), Haryana (1), Rajasthan (4), Punjab (1), Chandigarh, Himachal Pradesh, J&K	12
East	Bihar (5), Odisha (13), Jharkhand (5), West Bengal (29), A & N Islands	52
West	Gujarat (5), Maharashtra (12), Goa, Dadra & Nagar Haveli	17
South	Andhra Pradesh (10), Karnataka (11), Kerala (6), Tamil Nadu (19), Pondicherry	46
North East	Assam (10), Manipur (5), Tripura, Nagaland, Sikkim, Arunachal Pradesh, Meghalaya, Mizoram	15
Central	Uttar Pradesh (7), Uttarakhand (1), Madhya Pradesh (5), Chhattisgarh	13
Total		155

Annexure 3 Profile of MFIs Contributed Data for this Report

(A) List of MFIs with Loan Portfolio Less than ₹1 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Bagaria Relief Welfare Ambulance Society	West Bengal	Society
2	Bal Mahila Vikas Samiti (VAMA)	Madhya Pradesh	Society
3	Balajee Sewa Sansthan	Uttrakhand	Society
4	Barasat Unnayan Prostuti	West Bengal	Society
5	Centre for Action and Rural Re-construction (CARR)	Odisha	Society
6	Centre for Promoting Sustainable Livelihood (CPSL)	Bihar	Society
7	Darabar Sahitya Sansad	Odisha	Society
8	Deshabandhu Micro Finance Institution	Assam	Society
9	Disha India Micro Credit	Uttar Pradesh	Section 25 Co.
10	Jamalpur Panchyajanya Gram Vikash Samity	West Bengal	Society
11	Mass Care International	Bihar	Society
12	Matashree Gomati Devi Jan Seva Nidhi	Rajasthan	Trust
13	Micro Enterprises & Sustainable Projects(MESP)	Jharkhand	Section 25 Co.
14	Namathu Deepam Micro Finance Services	Tamil Nadu	Section 25 Co.
15	New Life	Tamil Nadu	Society
16	Orissa Rural Infrastructure Development Association(ORIDA)	Odisha	Society
17	Prayas Juvenile Aid Centre	New Delhi	Society
18	Purba Barasat Prerana	West Bengal	Society
19	SAADOW	Tamil Nadu	Society
20	Samarthan Weakling Development Foundation	Jharkhand	Section 25 Co.
21	Social Action For Rural Community	Odisha	Society
22	Societal Upliftment & Rural Action for job & Empowerment (SURAJE)	Bihar	Society
23	Surbhi Women Multipurpose Cooperative Society	Rajasthan	Cooperative
(B) List of MFIs with Loan Portfolio between ₹1 and < 10 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Agradut Polly Unnayan Samity	West Bengal	Society
2	AIR Credit Cooperative	Odisha	Cooperative
3	Ajagar Micro Finance	Assam	Society
4	Aprajita Mahila Sakh Sahakarita Maryadit	Madhya Pradesh	Cooperative
5	Barasat Anweshan	West Bengal	Society
6	Barasat Sampark	West Bengal	Society
7	Belghoria Janakalyan Samity	West Bengal	Society
8	BURS	West Bengal	Society
9	Centre For Development Orientation & Training	Bihar	Society
10	Chanura Microfin Manipur	Manipur	Society
11	Dakshin Budhakali Improvement Society(DBIS)	West Bengal	Society
12	Destiny Finco Pvt. Ltd.	West Bengal	NBFC
13	Dhosa Chandaneswar Bratyajana Samity	West Bengal	Society
14	dMatrix Development Foundation	Maharashtra	Section 25 Co.

15	Duttapukur Institute for Social Advancement (DISA)	West Bengal	Society
16	Ecumenical Church Loan Fund of India	Tamil Nadu	Section 25 Co.
17	Forum for Rural Environment and Economic Development (FREED)	Kerala	Society
18	G U Financial Services Pvt.Ltd.	Odisha	NBFC
19	Gramin Mahila Swayamsiddha Sangh	Maharashtra	Society
20	Gramotthan Micro Finance Company	Uttar Pradesh	Section 25 Co.
21	Hindusthan Microfiance Pvt. Ltd.	Maharashtra	NBFC
22	Innovative Microfinance For Poverty Alleviation And Community Transformation(IMPACT)	Tamil Nadu	Section 25 Co.
23	Institute of Rural Credit & Entrepreneurship Development	Maharashtra	Society
24	Integrated Development Centre	Kerala	Society
25	Ishara Finance & Rural Development Pvt. Ltd.	New Delhi	NBFC
26	Janashree Micro Fin Ltd.	Kerala	NBFC
27	Jeevankiran	Kerala	Society
28	Kalighat Society for Development Facilitation	West Bengal	Society
29	Lok Biradari Trust	Madhya Pradesh	Trust
30	Mahashakti Foundation	Odisha	Trust
31	Nav Bharat Jagriti Kendra (NBJK)	Jharkhand	Society
32	Nightingale Charitable Society	Assam	Society
33	Planned Social Concern	New Delhi	Section 25 Co.
34	Prayas	Gujarat	Trust
35	Prochesta Thrift and Credit Cooperative Society Asom Ltd.	Assam	Cooperative
36	Pustikar Sakh Sahakari Samiti Ltd.	Rajasthan	Society
37	Rors Finance Pvt. Ltd.	Karnataka	NBFC
38	Rural Education And Action Development(READ)	Tamil Nadu	Society
39	Sahara Gramin Mahila Swayamsiddha Sangh	Maharashtra	Trust
40	Sankalp Gramin Mahila Swayamsiddha Sangh	Maharashtra	Trust
41	Seba Rahara	West Bengal	Society
42	Social Action for Appropriate Transformation and Advancement in Rural Areas (SATRA)	Assam	Society
43	Support	Jharkhand	Trust
44	Swashrayee Mahila Sakha Sahkari Sanstha	Madhya Pradesh	Cooperative
45	Swayamsampurna Mutual Benefit Trust	West Bengal	Trust
46	The Saath Saving And Credit Co Operative Society Ltd.	Gujarat	Cooperative
47	Trident Microfin Pvt. Ltd.	Andhra Pradesh	NBFC
48	Unnati Trade & Fincon Pvt. Ltd.	West Bengal	NBFC
49	Virutcham Microfinance Ltd.	Tamil Nadu	NBFC
50	Vivekananda Sevakendra -O- Sishu Uddyan (VSSU)	West Bengal	Society
51	Volunteers for Village Development (VVD)	Manipur	Society
52	WSDS Initiate	Manipur	Society
53	Yashvardhini Gramin Mahila Swayamsiddha Sangh	Maharashtra	Trust
54	Youth Volunteers Union (YVU)	Manipur	Trust

(C) List of MFIs with Loan Portfolio between ₹10 and < 50 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Adhikar Microfinance Pvt. Ltd.	Odisha	NBFC
2	Annapurna Mahila Coop Credit Society Ltd.	Maharashtra	Cooperative
3	Arman Financial Services Ltd.	Gujarat	NBFC
4	Arth Microfinance Pvt. Ltd.	Rajasthan	NBFC
5	ASA International India Microfinance Pvt. Ltd.	West Bengal	NBFC
6	Asomi Finance Pvt. Ltd.	Assam	NBFC
7	Bhartiya Micro Credit	Uttar Pradesh	Section 25 Co.
8	BWDA Finance Ltd.	Tamil Nadu	NBFC
9	Chaitanya India Fin Credit Pvt. Ltd.	Karnataka	NBFC
10	Grameen Sahara	Assam	Society
11	Growing Opportunity Finance(India) Pvt. Ltd.	Tamil Nadu	NBFC
12	Guardian	Tamil Nadu	Section 25 Co.
13	Hand In Hand India	Tamil Nadu	Trust
14	Humana People to People India	New Delhi	Section 25 Co.
15	Intrepid Finance and Leasing Pvt.Ltd.	Maharashtra	NBFC
16	Kotalipara Development Society	West Bengal	Society
17	Margdarshak Financial Services Ltd.	Uttar Pradesh	NBFC
18	Midland Microfin Ltd.	Punjab	NBFC
19	Navachetana Microfin Services Pvt. Ltd.	Karnataka	NBFC
20	Nightingale Finvest Pvt. Ltd.	Assam	NBFC
21	Pahal Financial Services Pvt. Ltd.	Gujarat	NBFC
22	Sahara Utsarga Welfare Society	West Bengal	Society
23	Samasta Microfinance Ltd.	Karnataka	NBFC
24	Sambandh Finserve Pvt. Ltd.	Odisha	NBFC
25	Samhita Community Development Services	Madhya Pradesh	Section 25 Co.
26	Sarala Women Welfare Society	West Bengal	Section 25 Co.
27	Sarvodaya Nano Finance Ltd.	Tamil Nadu	NBFC
28	Shikhar Microfinance Pvt. Ltd.	New Delhi	NBFC
29	Society for Model Gram Bikash Kendra	West Bengal	Society
30	Sreema Mahila Samity	West Bengal	Society
31	Swayamshree Micro Credit Services	Odisha	Section 25 Co.
32	Swayanshree Mahila Samabaya Ltd.	Odisha	Cooperative
33	The Payakaraopta Women's Mutually Aided Co-operative Thrift and Credit Society Ltd. (PWMACTCS)	Andhra Pradesh	Cooperative
34	Unacco Finanacial Services Ltd.	Assam	NBFC
35	Uttrayan Financial Services Pvt. Ltd.	West Bengal	NBFC
36	Welfare Services Ernakulam	Kerala	Society

(D) List of MFIs with Loan Portfolio between ₹50 and <100 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Annapurna Microfinance Pvt. Ltd.	Odisha	NBFC
2	IDF Financial Services Pvt. Ltd.	Karnataka	NBFC
3	Jagaran Microfin Pvt. Ltd.	West Bengal	NBFC
4	Mahasemam Trust	Tamil Nadu	Trust
5	Rashtriya Seva Samithi (RASS)	Andhra Pradesh	Society
6	Saija Finance Pvt. Ltd.	Bihar	NBFC
7	Shri Mahila Sewa Sahakari Bank Ltd.	Gujarat	Cooperative Bank
8	SWAWS Credit Corporation India (P) Ltd.	Andhra Pradesh	NBFC
9	Vedika Credit Capital Ltd.	Jharkhand	NBFC
10	Village Financial Services Pvt. Ltd.	West Bengal	NBFC

(E) List of MFIs with Loan Portfolio between ₹100 and <500 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Arohan Financial Services Pvt. Ltd.	West Bengal	NBFC
2	Asirvad Microfinance Pvt. Ltd.	Tamil Nadu	NBFC
3	Bharat Integrated Social Welfare Agency	Odisha	Society
4	Bhartiya Samruddhi Finance Ltd.	Andhra Pradesh	NBFC
5	BSS Microfin Pvt. Ltd	Karnataka	NBFC
6	Cashpor Micro Credit	Uttar Pradesh	Section 25 Co.
7	ESAF Microfinance and Investments Pvt. Ltd.	Kerala	NBFC
8	Future Financial Services Ltd.	Andhra Pradesh	NBFC
9	Grama Vidiyal Micro Finance Ltd.	Tamil Nadu	NBFC
10	Madura Micro Finance Ltd.	Tamil Nadu	NBFC
11	Mahila Arthik Vikas Mahamandal Ltd. (MAVIM)	Maharashtra	Society
12	North East Region Finservices Ltd.	Manipur	NBFC
13	RepcO Micro Finance Ltd.	Tamil Nadu	NBFC
14	RGVN (North East) Microfinance Ltd.	Assam	NBFC
15	Sanghamithra Rural Financial Services	Karnataka	Section 25 Co.
16	SMILE Microfinance Ltd.	Tamil Nadu	NBFC
17	Sonata Finance Ltd.	Uttar Pradesh	NBFC
18	Suryoday Microfinance Pvt. Ltd.	Maharashtra	NBFC
19	SV Creditline Pvt. Ltd.	Haryana	NBFC
20	Swadhaar FinServe Pvt. Ltd.	Maharashtra	NBFC

(F) List of MFIs with Loan above 500 crore			
S.No.	Name of the MFIs	State	Legal Form
1	Asmitha Microfin Ltd.	Andhra Pradesh	NBFC
2	Bandhan Financial Services Pvt. Ltd.	West Bengal	NBFC
3	Equitas Micro Finance Pvt. Ltd.	Tamil Nadu	NBFC
4	Grameen Financial Services Pvt. Ltd.	Karnataka	NBFC
5	Janalakshmi Financial Services Pvt. Ltd.	Karnataka	NBFC
6	S.E. Investments Ltd	Uttar Pradesh	NBFC
7	Satin Creditcare Network Ltd.	New Delhi	NBFC
8	Share Microfin Ltd.	Andhra Pradesh	NBFC
9	Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)	Karnataka	Trust
10	SKS Microfinance Ltd.	Andhra Pradesh	NBFC
11	Spandana Spoorty Financial Ltd.	Andhra Pradesh	NBFC
12	Ujjivan Financial Services Pvt. Ltd.	Karnataka	NBFC



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The Division of
Community Development
Finance Institutions

NURTURING RURAL PROSPERITY

National Bank for Agriculture and Rural Development (NABARD) since its establishment in 1982 by an Act of Parliament has been nurturing rural India, particularly the agriculture sector in the rural hinterlands of the country.

NABARD combines the role of a supervisor and a development facilitator. The multi – pronged strategy involves interventions in credit planning, resource support to banks, funding rural infrastructure development, strengthening of credit delivery system all aimed at inclusive growth. The SHG movement conceived, researched and piloted by NABARD is considered as the fastest growing and the largest micro-finance movement in the world. Presently, more than 7.4 million SHGs, involving around 97 million rural households are linked with banks. Besides promoting SHGs, NABARD has been actively engaged in Natural Resource Management through integrated watershed development initiatives covering over 1.8 million hectares. NABARD's development efforts also cover socially & financially excluded groups (Tribals) with 556 projects in helping them establishment of tree based livelihood initiative covering over 0.4 million tribal households with financial commitment of ₹16997 million.

NABARD has been able to make a difference in the lives of people of rural India and emerged as a reliable, transparent, innovative and financially strong organisation working towards its fulfillment its mandate.



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