

Facilitated by



# Independent Study on **IMPACT OF INDIAN MICROFINANCE SECTOR**



Knowledge Partner



Enabling Sustainable Enterprises

# Report

## Impact of Indian Microfinance Sector (September 2022)

Sa-Dhan

# Acknowledgement

Ever since the first MFI came into existence in 1996, the microfinance sector has witnessed a stable growth, but the momentum picked up after 2004. The number of institutions providing microfinance services has gone up from a few to a couple of hundreds. As of March 2022, the quantum of credit made available to the poor and financially excluded clients has reached ₹2,62,599 crores and the number of active unique borrowers has crossed 61 million. The SHG Bank Linkage Programme has equally grown to touch the lives of 142 million families through more than 1.19 crore SHGs with an outstanding loan portfolio of ₹1,51,051 crore as of March 2022.

Indian Microfinance sector has already walked more than two decades and been identified as one of the essential stimuli for inclusive growth of the country. The sector has been challenged at different point of times, due to events like region / geography level crisis, demonetization at national level and Covid pandemic at global level. Every time when such an event has occurred, the sector has shown its resilience nature and revert back with stronger self. Regulators have also contributed significantly to shape up the sector, brought it under regulatory framework which help in navigating in such situations. Sa-Dhan being the oldest and largest Association of MFIs and a SRO appointed by RBI has also contributed to the growth of the sector in the earnest manner.

In order to understand the impact of microfinance, at different point of time, different agencies have conducted studies. With a view to get an independent view regarding the impact of microfinance in lives of the low income household, Sa-Dhan commissioned an independent study and its findings are presented here.

M2i prime consulting Pvt. Ltd is the knowledge partner worked under the guidance of an independent advisory committee constituted with eminent. Sa-Dhan would like to thank all members of advisory committee members Dr. S. Mahendra Dev, Mr. Brij Mohan, Dr. Tara Nair, Ms. Jayashree Vyas, Mr. Murali Srinivas for their guidance and inputs to successfully complete the study. Sa-Dhan wishes to thank SMILE Microfinance Limited for their support for the conduct of the study. We also thank Prime M2i for their insightful analysis and drafting of the study report. I would also like to express my sincere gratitude to those MFIs, their staff and end level borrowers who have participated in the study and giving the required information. I would like to thank my Team led by Dr. Saibal Paul, Ms. Sunitha Nara and our Regional Coordinators Mr. Mahtab Alam, Mr. Karthick Ramadas, Mr. Ambrish Gopal and Mr. Souvik Saha for conceptualizing and facilitating the study.

I am sure that the findings of the study will generate deeper understanding and will be helpful for the policy makers, bankers, investors and retail MFIs to take supportive decisions for the sector. We once again thank everyone who supported and enabled this study and bringing out this report.

**Jiji Mammen**  
CEO & ED, Sa-Dhan

# Advisory Committee Members



## **Prof. S. Mahendra Dev**

Prof. S. Mahendra Dev has been the Director and Vice Chancellor, Indira Gandhi Institute of Development Research (IGIDR) in Mumbai, India since 2010. Prior to this position, he was Chairman of the Commission for Agricultural Costs and Prices, Ministry of Agriculture from 2008 to 2010. He was Vice Chairman of the *Board of Trustees of International Food Policy Research Institute (IFPRI)*, Washington, D.C. He got the prestigious Malcolm Adisesaiah Award in 2016. He was Director, Centre for Economic and Social Studies, Hyderabad, India for 9 years from 1999 to 2008.

He received his Ph.D. from the Delhi School of Economics and did his postdoctoral research at Yale University.



## **Jayshree Vyas**

Jayshree Vyas a professionally qualified Chartered Accountant has been working as the Managing Director of Shree Mahila Sewa Sahakari Bank, Ahmedabad since 1986 which has more than 5,00,000 women clients. During her tenure she has taken active steps to introduce and operate an Integrated Micro Insurance Scheme for women working in the informal sector.

This scheme was introduced for the first time in the country and in a short period of three years covered more than 150,000 women. She has also devised and implemented various housing finance schemes, which have been accessed by over 20,000 poor women. She has introduced, organized and managed savings groups of poor women in more than 5000 villages in nine districts of Gujarat. This scheme has helped more than 150,000 women start saving for the first time in their lives, and availed credit facilities for coming out of the vicious circle of Poverty. In addition, she has prepared modules and manuals for providing training for running effective saving and credit programs for various national voluntary organizations involved in similar activity.



## **Brij Mohan**

Mr. Mohan is a former Executive Director of Small Industries Development Bank of India (SIDBI) and was closely involved in kick starting micro-finance in India with the setting up of SIDBI Foundation for Micro Credit (SFMC) as an apex financing & development micro-finance entity in 1998. Earlier he participated in setting up the development department in Industrial Development Bank of India (IDBI) during 1980-1990. Before joining IDBI, he was member of Indian Statistical Service & held the position of Deputy Director in Planning Commission (1976-80). He is a post graduate in Mathematics from Punjab University

Mr. Mohan took the lead in setting up North East Small Finance Bank with headquarter at Guwahati as Chairman of the holding company viz. RGVN (NE) Micro-finance Ltd. He is the Chairman of Foundation for Advancement of Micro Enterprises. He is also a Director on the Board of Sa Dhan, the industry network and Maanaveeya Development & Finance Ltd, a wholesale lender to micro-finance, renewable energy and SMEs.



### **Dr. Tara Nair**

Dr. Tara Nair is a Professor at the Gujarat Institute of Development Research (GIDR), Ahmedabad. She has contributed to the discourse on Indian microfinance since the late 1990s through research studies and policy critiques. Particularly, she has looked at the connections between the moral, social and economic aspects of the working of microfinance in the country. Her current research focuses on the implications of financial sector reforms and financialisation for household economies, the social economy of the fisheries sector, labour relations in agriculture, and violence against women and girls. She also works closely with many civil society groups and development organisations as member of advisory committees and governing boards.



### **Shri Murali Srinivas**

Shri Murali Srinivas is a social entrepreneur with extensive experience in Microfinance, micro housing and Microinsurance. His earlier experiences include startups in Drinking water, GIS and insurance BPO. He is also involved in mentoring several social enterprise startups and nonprofits. He is currently Managing Director and CEO of a microfinance NBFC in India named SMILE Microfinance limited.



### **Mr. Jiji Mammen**

Mr. Jiji Mammen has been appointed Executive Director & CEO of Sa-Dhan with effect from June 17, 2022. An industry veteran with over 36 years of experience in microfinance, agriculture and rural development, Mr. Mammen was earlier the Managing Director of NABFINS, an NBFC MFI promoted by NABARD. He was the founder MD & CEO of Micro Units Development and Refinance Agency Ltd. (MUDRA), an NBFC formed to support the flagship programme of Govt. of India viz. Pradhan Mantri Mudra Yojana for three years from 2015. He has been CGM at NABARD, heading the regional offices in Rajasthan, Andhra Pradesh and Telengana. Mr. Mammen was also the country head of Department of Refinance in NABARD.

A post Graduate from the Indian Agricultural Research Institute, New Delhi, Mr. Mammen also holds a degree in law and is a Certified Associate of Indian Institute of Banking and Finance (IIBF). He has been a faculty member at Bankers Institute of Rural Development, Mangaluru. He is widely travelled and has attended several international conferences / seminars.

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# Abbreviations

BPL	Below Poverty Line
BRAC	Bangladesh Rehabilitation Assistance Committee
COVID	Corona Virus Disease
FGD	Focus Group Discussion
JICA	Japan International Cooperation Agency
JLG	Joint Liability Group
MFI	Micro Finance Institution
MNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
NPS	New Pension Scheme
NBER	National Bureau of Economic Research
PMAY	Pradhan Mantri Awas Yojaa
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana
SFB	Small Finance Bank
SHG	Self Help Group
UPI	Unified Payments Interface

# Executive Summary

## Survey with a national scope...

This report presents the findings of an impact assessment study of clients of Microfinance Institutions (MFIs). The assessment is based on a primary survey of a sample of women who had received loans from MFIs. Overall 1,017 clients were interviewed distributed evenly across 17 states of India. The interviews were conducted using a structured questionnaire. 15 focus group discussions (FGD) were also held with around 80 clients (5-6 client per FGD).

Three-fourth of the respondents, in this study were between 30 years and 50 years in age. Agriculture and livestock related economic activity have emerged to be the most important occupation in the household of clients. This is followed closely by daily wage labour, service enterprise (barber shop, beauty parlour, tailoring etc.) and salaried employment. Small shop/vending-cart (grocery, fruits and vegetables, medicines etc.) has also emerged as an important occupation. Over two-thirds of the respondents have reported a monthly household income of less than ₹25,000.

## Respondents with varying years of experience with MFIs...

34% of the respondents had first borrowed from any MFI after 2019. Nearly 40% of the respondents had first borrowed from any MFI between 2014 and 2019. Over 26% had borrowed before 2016. 56% of the respondents had taken between one and three loans, and the remaining 44% had taken four or more loans over the years of their association with MFIs. Over three-fourths of the respondents have stated that they had one or two loans from a formal financial institution. 52% of the respondents have reported using their latest loan as working capital for their income generation activity. 31% have reported using it on income generating assets including livestock. Nearly 80% of the respondents have stated that the decision regarding utilization of loan is taken jointly by them and their spouse or a close family member.

## Confidence levels have improved for a significant proportion

Nearly 44% have reported a high improvement in their confidence in talking to outsiders - people whom they may not know, with another 55% reporting that it had improved somewhat. 46% of the respondents have stated that their confidence while moving out independently on their own has improved highly. Nearly 46% of the respondents have stated that after joining an MFI, their participation in community affairs has increased highly. Around 45% of the respondents have stated that they feel that their status in the society has improved highly after they associated themselves with an MFI.

## MFIs may have played a role in making their clients aware

17% of the respondents have stated that there are regular discussions about government's welfare schemes in their group meetings. 50% have stated that these are discussed sometimes. Overall, 43% of the respondents have stated that their awareness about literacy and education has improved highly after associating with an MFI. 43% of the respondents have also stated that their ability to read, write and count has improved highly after associating with an MFI. The awareness levels of the respondents about the welfare schemes of the government ranged from 81% for PMAY and 79% for Mid-day meal scheme to 40% for NPS and 52% for old age pension schemes.

## Better access to formal financial services

In the sample overall, 1% of the respondents have stated that they depend on moneylenders at present, as compared to 14% who have reported that they depended on moneylenders before associating with MFIs. The access to financial services seems to have improved after the respondents have joined any MFI with a higher proportion reporting having a savings bank account. Overall, 22% of the respondents have stated that they have used UPI for cashless transactions, while 62% have stated that their spouse or close family member such



as son or daughter has used UPI for cashless transactions. The subscription to voluntary insurance products remains low mainly because MFI clients appear not to be preferred targets for insurance agents.

### **Evidence of favorable impact on income**

A majority of the respondents (54%) have stated that they were dependent on a single income source before associating with the MFI. At the time of survey this proportion had come down to 25%. 61% of the respondents have stated that the main earners in their household experience more than 30 days of joblessness before joining an MFI as compared to 50% at present. Around 79% of the respondents have stated that they have at least some monthly savings in their households at present as compared to 54% who have stated that they had monthly savings in their households before they obtained their first loans. In the sample overall, 99% have stated that their economic and financial condition has improved at least somewhat after their association with an MFI, with more than half the respondents stating that it has improved highly. The most common reasons for the improvement in the economic and financial conditions are - "more earning members" (53% respondents) and "more work or customers" (43%). Nearly a third of the respondents (32%) attribute this improvement to either "access to loan funds from MFIs in a timely manner," or "access to lower cost loan funds from MFIs", or both.

Discussions with groups of MFI clients also suggest that the improvement in their economic and financial condition is not linear with time. The improvement in income is most pronounced for new clients. However, the odds that the increased income may not be sustained are also significant given that new MFI clients remain vulnerable to risks related to business, health as well as natural hazards. Access to timely follow-up loans plays a big role in ensuring that the increase in income either through higher operational scale, a new productive asset or a new business altogether is sustained. But there is a limitation to the scale of any enterprise activity that can be attained purely through access to JLG loans. Many clients use subsequent cycle JLG loans for maintenance of their enterprise (such as working capital, stock and inventory, replacement of cattle, replacement of equipment), and the impact of subsequent loans are not as significant as the first couple of loans. At the same time many clients do experience a steady improvement in their economic and financial conditions. They are able to graduate to individual loans, which allows them to keep increasing the scale of their enterprise or livelihood activity.

### **Microfinance for the extremely poor**

It is widely acknowledged that microfinance has enabled millions of poor on the fringes of poverty to significantly improve their economic and social status. The findings of this study only add to this evidence. At the same time, there is also some evidence that microfinance or microfinance like services do not reach the really poor. This may be on account of the fact that this segment may not have the capacity to make repayments on a monthly basis on microfinance loans. The MFIs on their part are limited by the amount of funds that are available to them for providing loans to the very poor segment. Most of them depend on banks and other financial institutions for their on-lending fund requirements. There are conditionalities attached with these funds that make it tough for MFIs to lend to the very poor, who may not be able to make regular repayments on their loans.

It is also a fact that MFIs, including SFBs and banks with significant microfinance operations, have the distributional network to reach out even to the really poor. There is an opportunity for the microfinance sector to intervene and help the really poor overcome constraints that keep them bound to poverty. To achieve this, they would need support from banks and other providers of on-lending funds. Incentives from social investors and other stake holders to MFIs can spur them into providing services tailor made for the really poor. In many ways, this would be similar to what the microfinance sector has achieved in the past - providing financial services tailor made to the needs of the poor, providing them with collateral free loans and finally making them part of the economic mainstream. Stakeholders such as banks and social investors, capacity building institutions and regulators played an important role in demonstrating that this can be accomplished at scale.

## Recommendations

The findings of this study lead to some imperatives for the microfinance sector.

- Several among MFI clients are talented entrepreneurs who remain constrained because of a lack of adequate access to funds. In this study, 32% of the respondents have stated that their monthly household income is more than ₹25,000. JLG loans may not fulfill their business needs. They will be better served by individual loans or microenterprise loans of larger sizes. Such financing will allow them to grow the scale of their businesses, generate employment and improve their financial condition substantially.
- In order to encourage talented entrepreneurs among their clients, MFIs can provide enterprise development trainings to them.
- The demand for loan remains high even among those clients who have little surplus after meeting their household expenditures. With low or nil savings, their ability to repay loans may not be adequate. This underlines the need to exercise due caution while appraising and sanctioning loans.
- Only 2% of the respondents have stated that they have borrowed for emergencies such as disease. Discussions with some of the respondents suggest have to depend on informal sources of credit to meet emergency needs such as hospitalization and other health emergencies. An emergency loan product that is disbursed quickly can greatly help MFI clients.
- The microfinance sector should seek to handhold that category of the economically poor, who cannot afford even JLG loans. Given the scale of microfinance in the countries today, this can be achieved without significantly impacting the financial performance of MFIs, provided support from stakeholders such as banks and financial institutions that provide on-lending funds as well as social investors is available.
- It has emerged during FGDs with MFI clients that most of them - 90% of the participants in FGDs, desire to improve the condition of their homes. Some of them have benefitted from schemes such as Pradhan Mantri Awas Yojana. MFIs can leverage their institutional resources and distributional strengths to make it possible for their deserving clients to benefit from this scheme. They can also provide gap financing so that their clients are able to construct durable homes.
- The subscription to non credit linked insurance remains low among MFI clients. In this study only 20% of the respondents have stated that they had voluntary life insurance which was not linked to loans and only 4% have stated that they had voluntary health insurance. It is possible that some of them have subscriptions to government insurance schemes such as life cover under Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana. However, they are not able to recall if they have these insurance covers. In such a scenario it is possible that they or their nominees may not claim the benefit amount available to them in case a risk materializes. MFIs should play a role in ensuring that their clients are aware of these schemes. Moreover, they should also try to make basic insurance services available to their clients.
- The subscription to pension products such as NPS appears negligible among MFI clients. In this study only 3% of the respondents have stated that they had subscribed to NPS. MFIs can play a role in popularizing pension products as well as other financial products that enhance social security.
- Around 66% of the respondents in the study have stated that they trust the staff of MFIs. This percentage appears low, and it needs to go up. Therefore, MFIs should ensure that their clients understand their products and processes, particularly loan pricing fully so that they do not feel that they have been overcharged. Also they should make sure that their clients are well versed with digital transactions - particularly in cases where MFIs provide loans or collect repayments digitally.

- Also, although only in very few cases (2% of the sample), we did come across instances where respondents have stated that they had to pay bribes in order to obtain loans from MFIs. Similarly, in a few instances, respondents have shown dissatisfaction with the behavior of the MFI staff. These occurrences expose not only MFIs but the microfinance sector as a whole to grave reputational risks. MFIs should tighten their operational monitoring and control systems to prevent these from happening even at a small scale.

### **Finally**

This study suggests that MFIs can play a constructive role during times of economic growth as well as during economic shocks. There is growing evidence that MFIs do play this role when they are managed in the intended way - in a transparent and lawful manner.

# 1. Introduction

This study has been undertaken to develop an understanding regarding the nature of impact of microfinance operations on the clients of MFIs. The important objective of this study is to assess the nature of impact of microfinance operations in the lives and business of clients as they progress through loan cycles and identify gaps that prevent full potential of impact.

## Literature Review and Questionnaire Development

A review of literature on impact of MFIs was undertaken to understand its key dimensions (presented in Appendix 1). A draft questionnaire which included items concerning the study objectives as well as various impact dimensions from the literature review was developed. It was finalized after considering the comments received on the draft questionnaire.

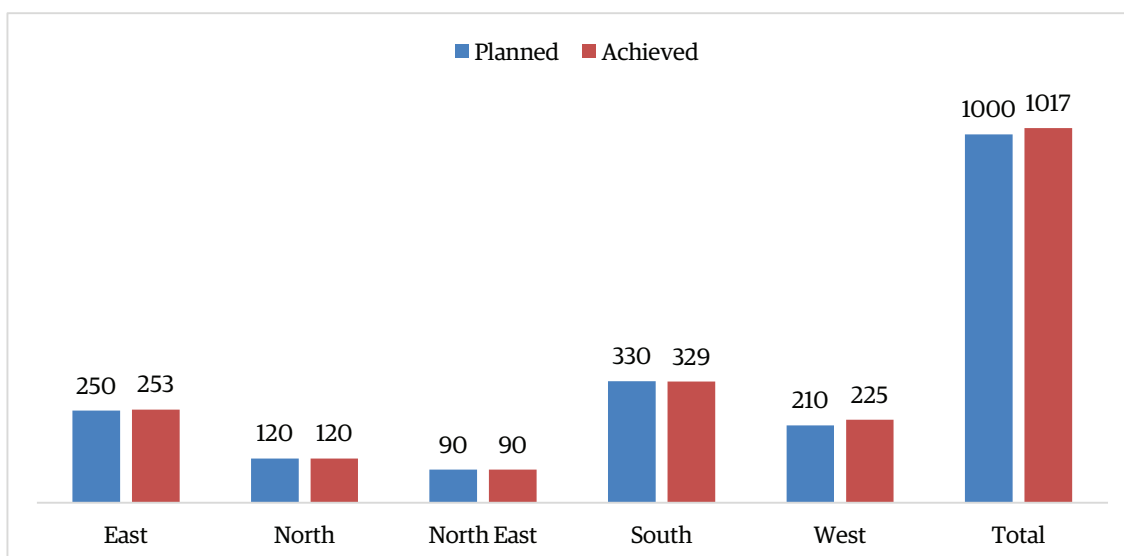
## Sampling

We used the number of microfinance clients per state as the basis to determine the sample size by regions - East, West, North and South. The data on the number of microfinance clients was obtained from the Bharat Microfinance Report 2021. At the next step we decided upon the number of MFI clients to be sampled in each major State in the regions. In total we selected 17 states across the country. In Tamil Nadu and Karnataka we identified six districts for sampling. For all the other States we identified three districts for sampling. We have attempted to identify one predominantly urban district, one predominantly rural district, and one semi-urban area with a district (outskirts of the district headquarters). The distribution of respondents in the final sample was in accordance with the planned distribution, as can be seen in the following illustration.

Region	State	Planned	Achieved
East	Bihar	60	60
East	Chhattisgarh	30	34
East	Jharkhand	40	40
East	Odisha	60	59
East	WB	60	60
North	Haryana	30	30
North	Punjab	30	30
North	UP	60	60
North East	Assam	60	60
North East	Manipur	30	30
South	Karnataka	150	150
South	Kerala	60	60
South	TN	120	119
West	Gujarat	40	46
West	Maharashtra	60	60
West	MP	60	62
West	Rajasthan	50	57
Total		<b>1000</b>	1017

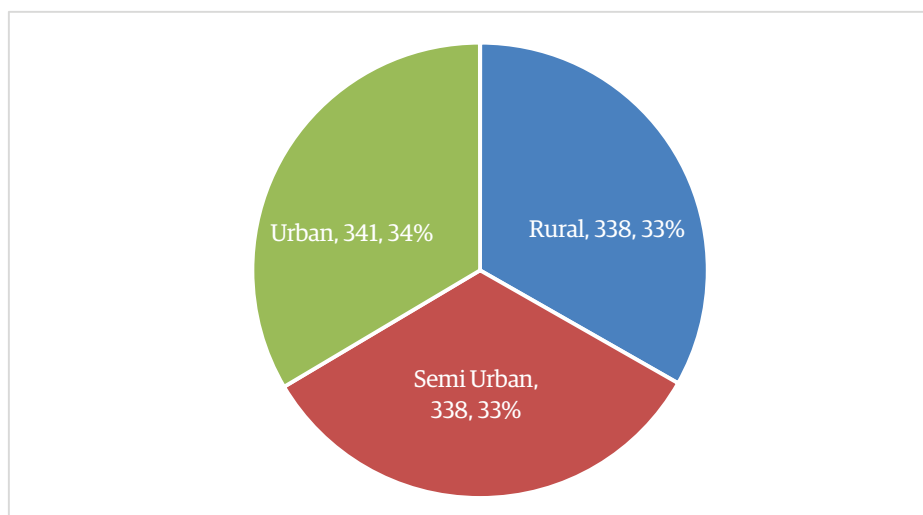
Overall 1,107 clients were interviewed distributed evenly across 17 states of India. Additionally 15 focus group discussions (FGD) were also held with nearly 80 clients (5-6 client per FGD).

### Sample - Planned & Achieved



As had been planned the sample was equally divided among urban, semi-urban and rural areas.

### Sample Composition - Rural, Semi Urban, Urban



### Survey

The survey was conducted in late June - early July 2022. For the purpose of the survey, we had taken the consent of 29 MFIs so that all the districts that had been identified during the sampling exercise can be covered. We had also asked the MFIs to introduce M2i enumerators to their clients. The enumerators themselves carried an authorization letter along with an Identity Proof (Aadhaar Card etc) when they went for the survey. The list of these 29 MFIs has been presented in appendix 7.

The respondents for this research were women clients of MFIs. Overall 72% of the respondents had Below Poverty Line (BPL) cards, ranging from 92% in the Southern region to 54% in the Eastern region. 74% in the North East, 67% in the West and 65% in the North also had BPL cards. All the respondents stated that they had Aadhaar cards as well as voter cards.

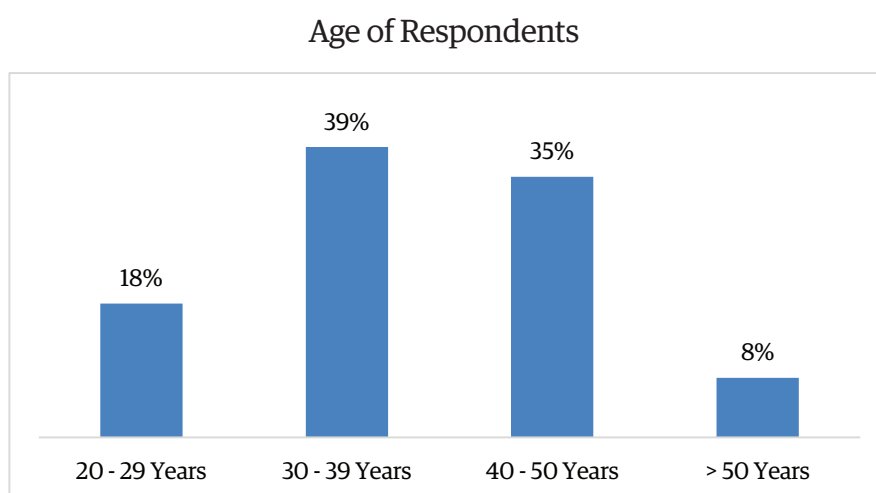
### Limitations

1. The precision of the estimates from the sample is limited by its sample size, particularly wherever regional or group wise estimates have been presented. Still, the overall sample size of 1017 is adequate for global estimates given the sampling strategy used in this study.

2. Respondent's recall has been used to determine whether she has experienced an improvement in her status on several aspects. It may also be possible that respondents have answered questions on items related to improvement in their status etc. based on what the response should be, rather than on the basis of what she actually perceives. Still, the overall estimates give us directional insights on the nature of the impact.
3. We cannot fully rule out unintentional errors while collecting data by the enumerators because of the way they asked the questions, or because of some shortcoming in the way they explained the question to the respondents. In order to minimize this, the enumerators had been trained on the tools used in this study. Also the data collection was done using a mobile based digital application. The data collection process was supervised by M2i's analysts and the data was checked for any errors of omission on a daily basis.

## 1.1 Distribution of Age of Respondents

Nearly 74% of the respondents were between 30 years and 50 years old. The distribution of the age of the respondents has been presented in the following illustration.



As can be seen in the table below, the respondents in the northern and western regions were comparatively younger.

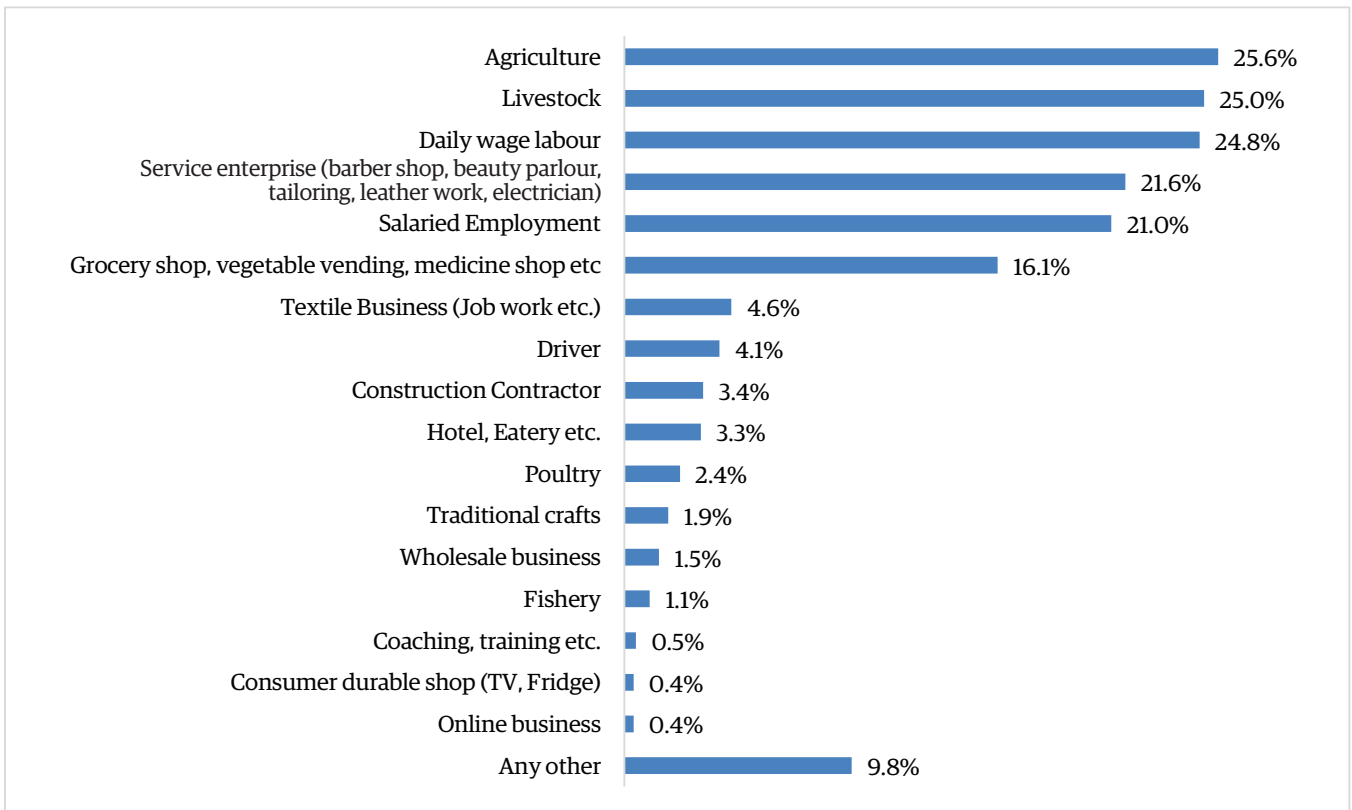
Age	Overall	East	North	North East	South	West
20 - 29 Years	18%	18%	21%	11%	18%	21%
30 - 39 Years	39%	42%	46%	43%	32%	42%
40 - 50 Years	35%	36%	28%	39%	37%	31%
> 50 Years	8%	5%	5%	7%	13%	6%
Eligible Responses	1017	253	120	90	329	225

The following table presents the rural-urban distribution of the sample.

Age	Rural	Semi Urban	Urban
20 - 29 Years	23%	20%	13%
30 - 39 Years	39%	40%	38%
40 - 50 Years	31%	32%	40%
> 50 Years	7%	9%	9%
Eligible Responses	100%	100%	100%

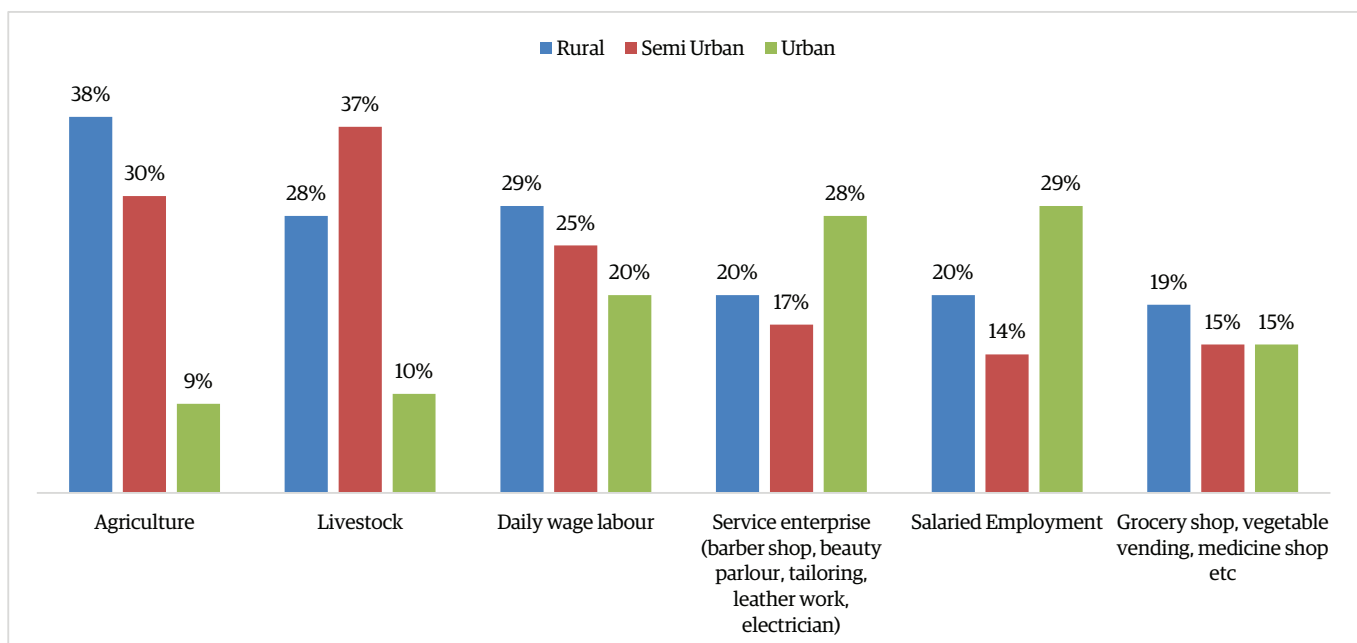
## 1.2 Occupational Profile

Agriculture and livestock related economic activity have emerged to be the most important occupation in the household of clients. This is followed closely by daily wage labour, service enterprise (barber shop, beauty parlour, tailoring etc.) and salaried employment. Small shop/vending-cart (grocery, fruits and vegetables, medicines etc.) has also emerged as an important occupation. This can be seen in the following illustration.



A higher proportion of respondents have stated that agriculture and livestock related activities are important occupations in their household in rural and semi-urban areas as compared to urban areas. Salaried employment and service sector enterprise are important occupations for respondents in urban areas as compared to other areas. This can be seen in the illustration below.

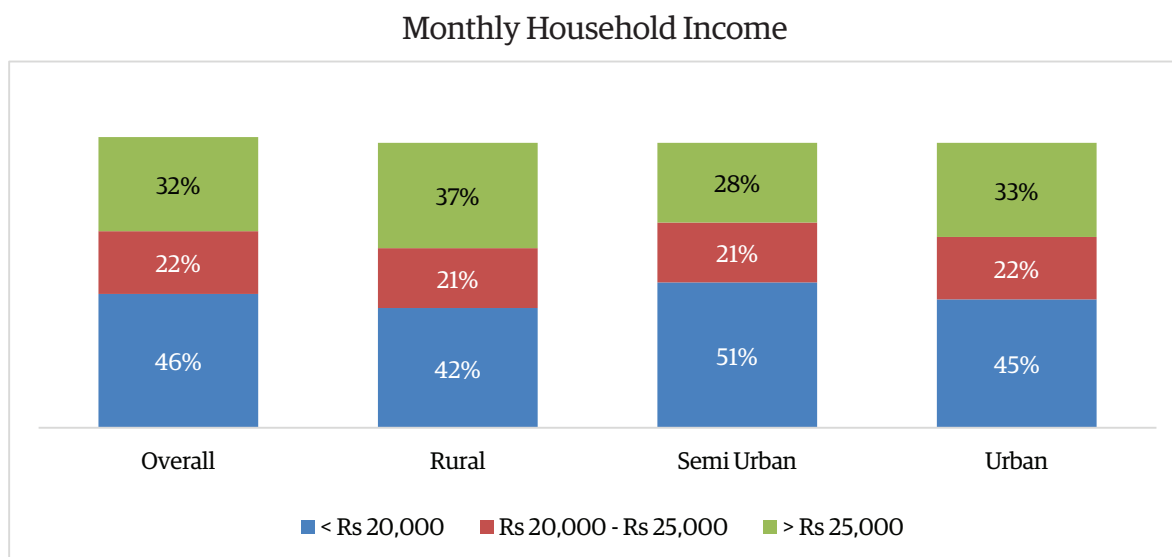
### Occupation - Rural, Semi Urban, Urban



It is worth mentioning here that in several cases, the respondents and their family are involved in multiple economic activities. For instance, 13% of the respondents overall have stated that agriculture and livestock related activities, both are important occupation in their households. Similarly, 8% of the respondents overall have stated that agriculture and daily-wage labour, both are important activities in their households. The full distribution has been presented in appendix 4, illustration 1.

### 1.3 Monthly Household Income

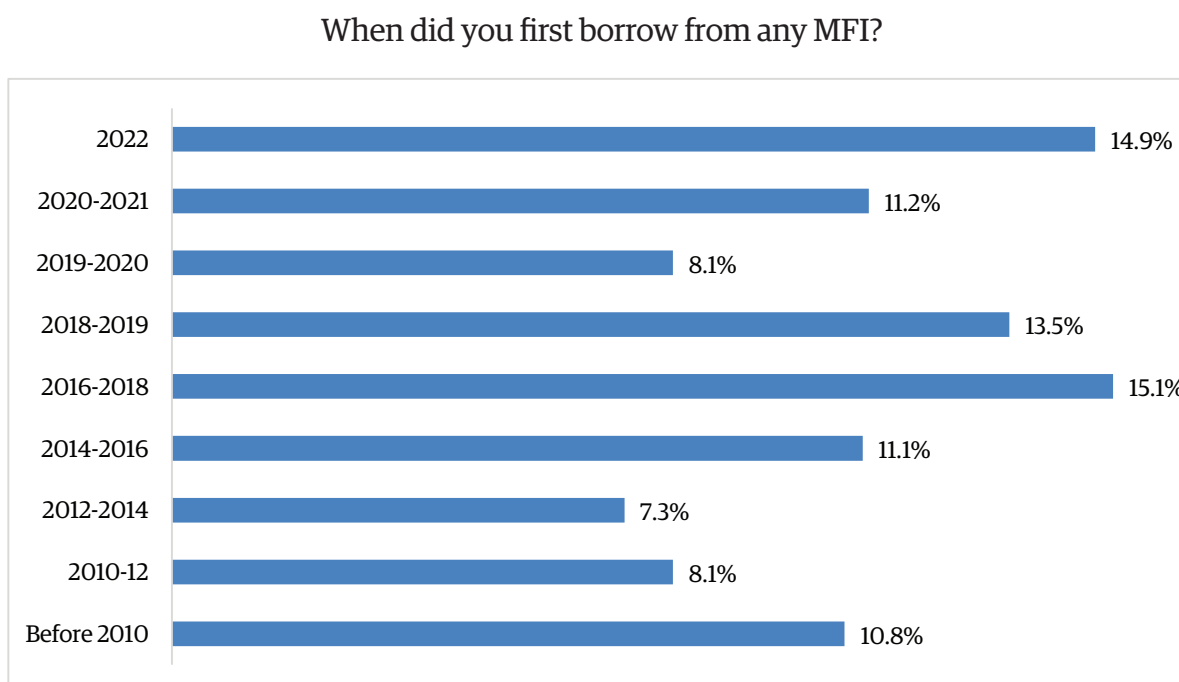
The modal monthly household income category among the respondents was “Less than ₹20,000”, with nearly 46% respondents belonging to it. Another over 21% reported a monthly household income of “Between ₹20,000 and ₹25,000”, with the remaining reporting a monthly household income of “Over ₹25,000”. The distribution of responses has been presented in the following illustration.



The full distribution has been presented in appendix 4, illustration 2.

### 1.4 No. of Years with Microfinance Institutions

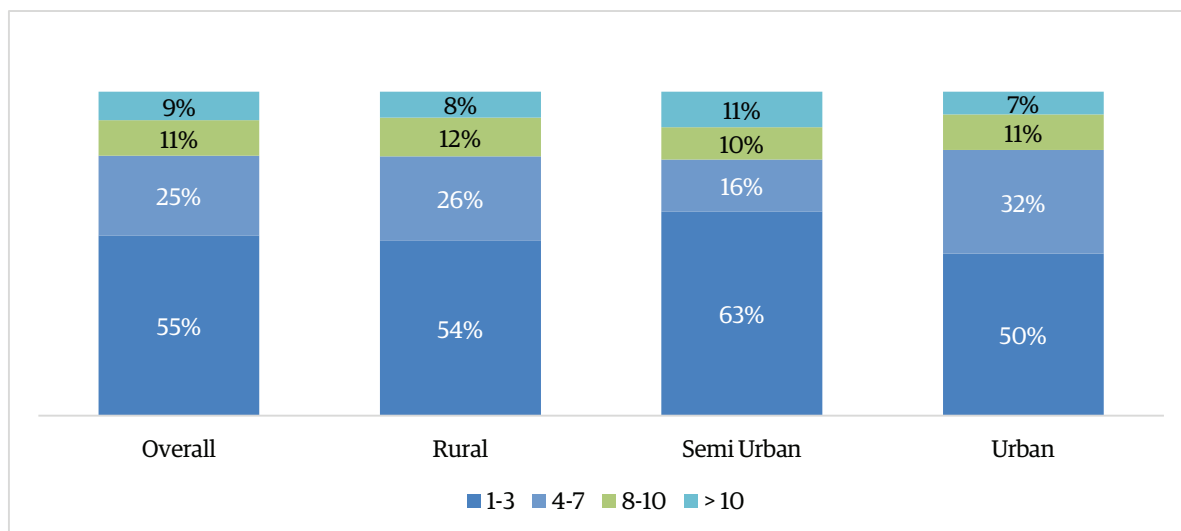
34% of the respondents had first borrowed from any MFI after 2019. Nearly 40% of the respondents had first borrowed from any MFI between 2014 and 2019. Over 26% had borrowed before 2016.





The distribution of responses by regions has been presented in appendix 4, illustration 3. 56% of the respondents had taken between one and three loans, and the remaining 44% had taken more than three loans over the years of their association with MFIs.

No. of Loans from MFI through the Years

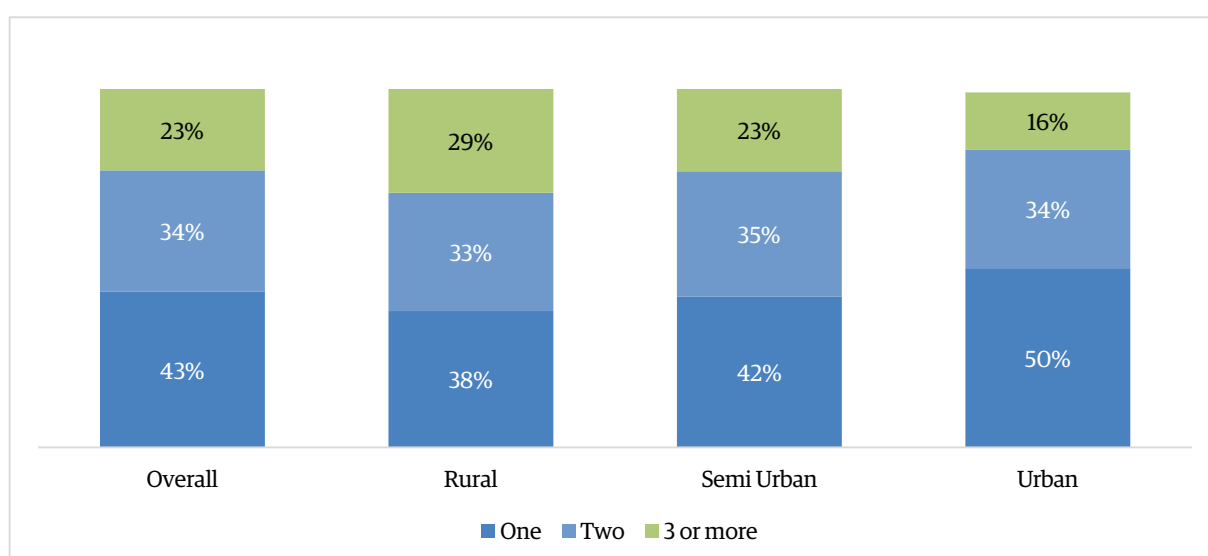


The full distribution of responses by regions has been presented in appendix 4, illustration 4.

### 1.5 Number of loans outstanding at the time of the survey

Nearly 43% of the respondents have stated that they had a single outstanding loan from MFIs and other formal financial institutions including SFBs, banks etc. 34% had two outstanding loans and another 23% had three or more outstanding loans. Respondents in North East had fewer outstanding loans. The difference among rural, semi urban and urban respondents does not appear significant. The full distribution of responses has been presented in the following illustration.

Number of loans outstanding

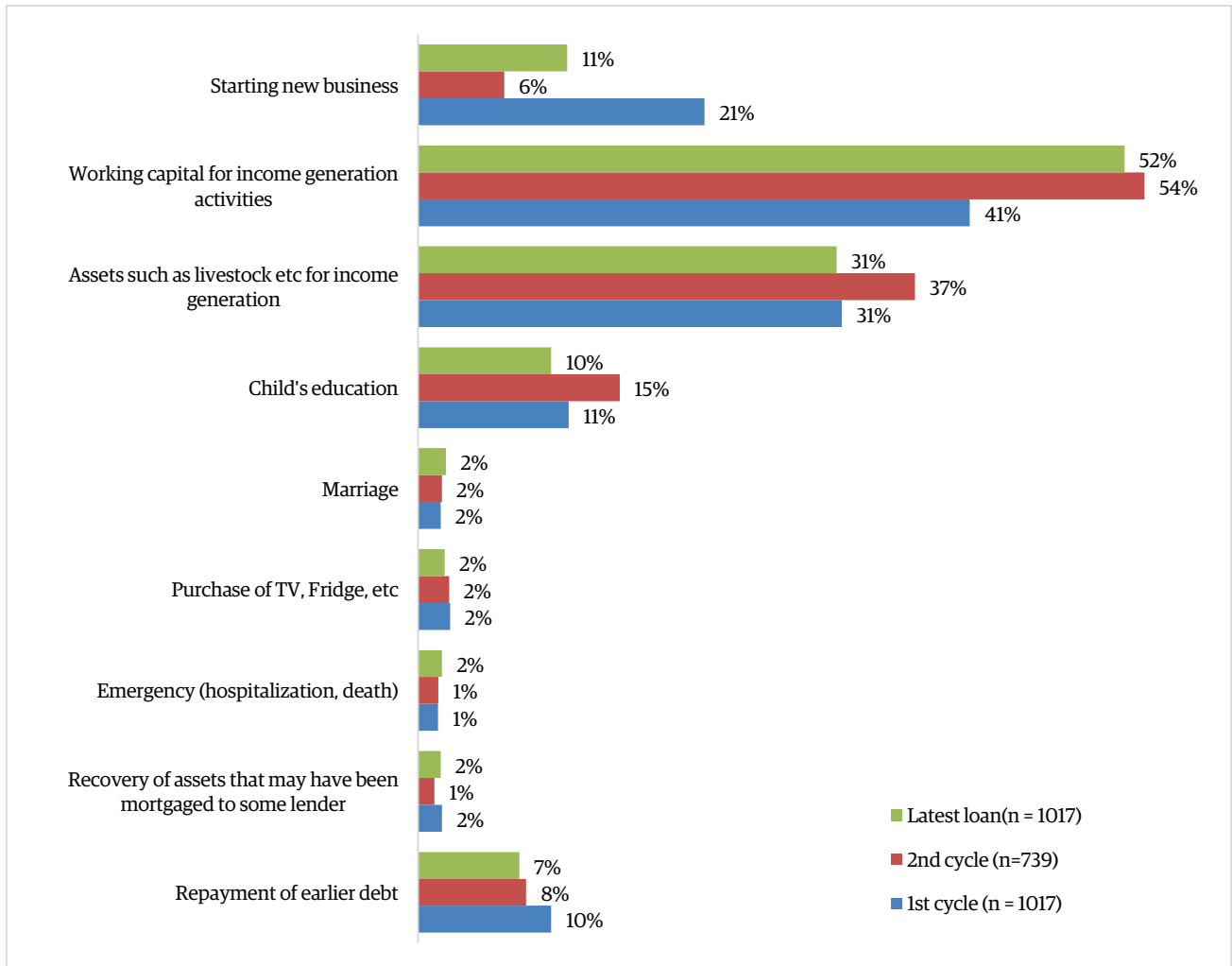


### 1.6 Loan Utilization

The illustration below presents loan utilization as reported by the respondents over loan cycles. 52% of the respondents have reported using their latest loan as working capital for their income generation activity. 31% have reported using it on income generating assets including livestock. The findings suggest that first cycle loans are more likely to be utilized for starting a new business, while subsequent cycle loans are more likely to

be used for working capital requirements. Only 2% of the respondents have stated that they have borrowed for emergencies such as disease. As this percentage appeared low, we reached out to a subset of respondents (50) to get their views. It emerges that during emergencies, it is more likely that an MFI client will borrow from a relative or a friend or even a moneylender because money is needed urgently. They may subsequently borrow from MFIs and use this to repay the loan that they may have obtained from a friend, relative or money lender. This is also supported by data because over 7% of the respondents have stated that they have borrowed to repay an existing debt.

### Loan Utilization



### Respondent in Barpeta, Assam



## 2. Social Dimensions

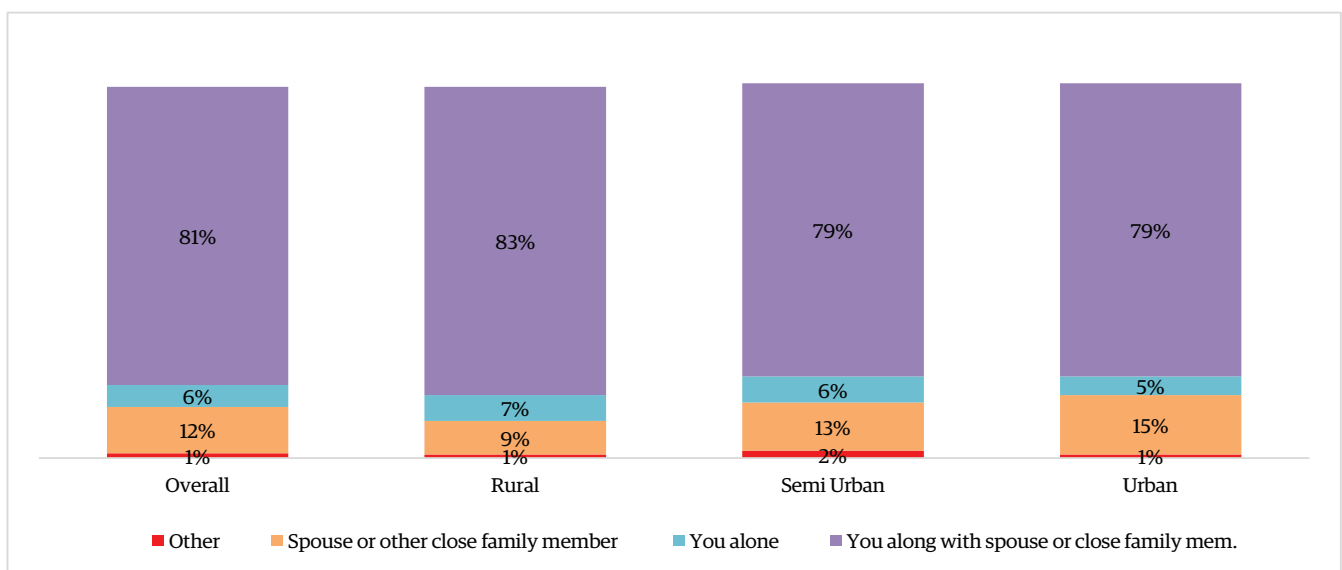
Economically underprivileged women are the primary clients of MFIs. MFI operations require them to interact with staff members of MFIs as well as transact with them. During the survey, we asked the respondents whether their experience with MFIs has helped improve their status on several social dimensions.

### 2.1 Say in Household Decision

#### Decision on Loan Utilization

Nearly 80% of the respondents have stated that the decision regarding utilization of loan is taken jointly by them and their spouse or a close family member. 6% have stated that they themselves decide how loan will be utilized. However, over 12% have stated that their spouse or a close family members decides how loan will be utilized - this percentage is particularly high in the western region. The difference among rural, semi urban and urban respondents does not appear significant.

Who decides how loan will be utilized?

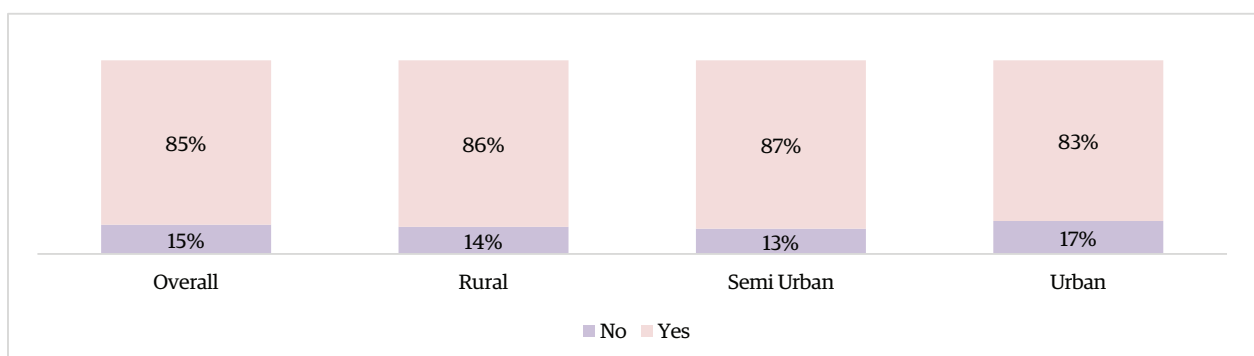


The full distribution of responses by regions has been presented in appendix 4, illustration 5.

#### Other Household Decisions

As can be seen in the illustration below, a very high majority of the respondents have reported a greater say in household decision making. The difference among rural, semi urban and urban respondents does not appear significant.

Greater say in household decisions after joining MFI?

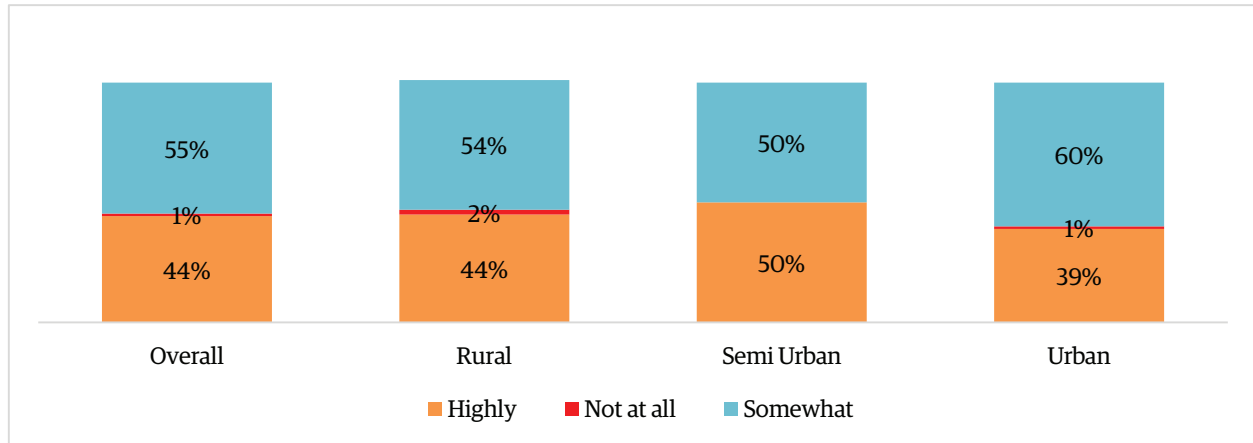


The full distribution of responses by regions has been presented in appendix 4, illustration 6.

## 2.2 Confidence Levels

We asked the respondents whether their association with the MFI had improved their confidence in talking to outsiders - people whom they may not know. Nearly 44% have reported a high improvement, with another 55% reporting that it had improved somewhat. The improvement is most pronounced in the western region. The difference among rural, semi urban and urban respondents does not appear significant.

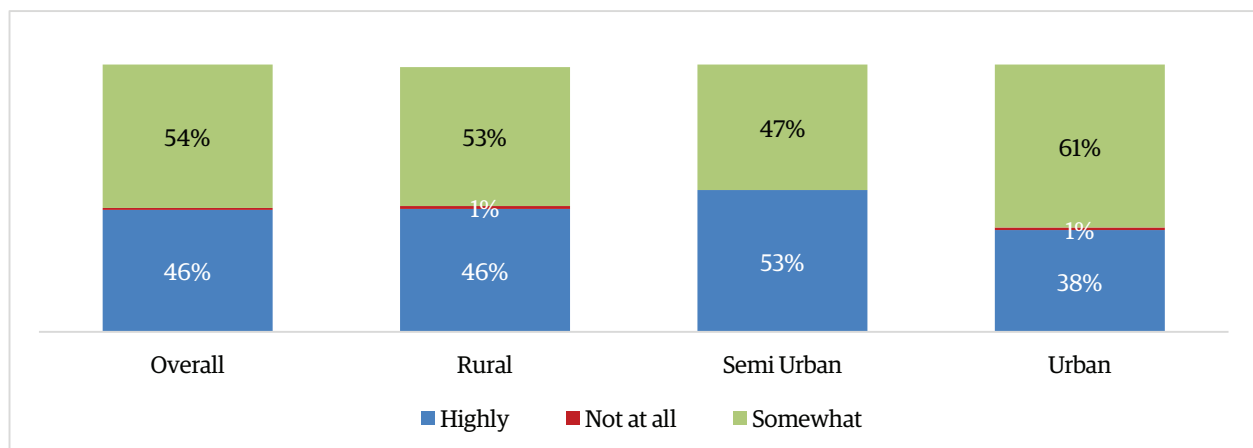
Improvement in Confidence in talking with people you may not know?



The full distribution of responses by regions has been presented in appendix 4, illustration 7.

The responses suggest that association with MFI favorably impacts the confidence of the clients to move out independently on their own. In the survey, 46% of the respondents have stated that their confidence while moving out independently on their own has improved highly with another 54% stating that it has improved somewhat.

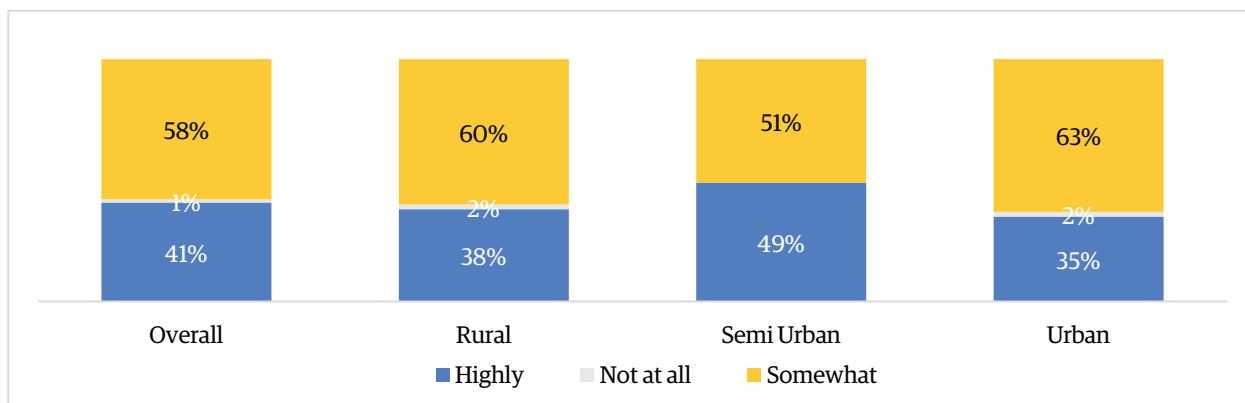
Improvement in Confidence while going out independently



The full distribution of responses by regions has been presented in appendix 4, illustration 8.

We specifically asked if the respondents felt more confident in interacting with people in banks after they had joined MFIs. 41% have reported that their confidence has improved highly with another 58% reporting it had improved somewhat. The reported improvement is more marked in the western region and comparatively higher among semi-urban respondents, as can be seen in the following illustration.

## Improvement in Confidence in interacting with people in Banks

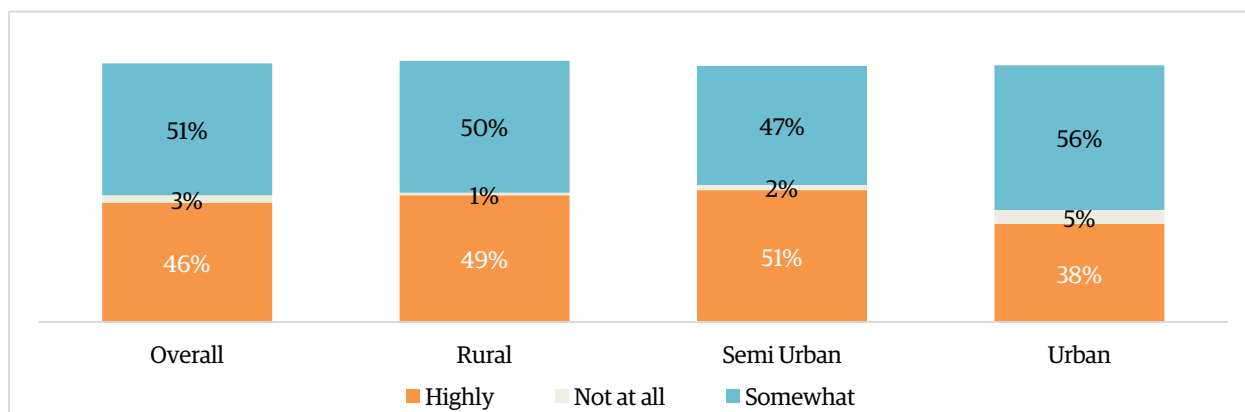


The full distribution of responses by regions has been presented in appendix 4, illustration 9.

## 2.3 Participation in Community Affairs

Nearly 46% of the respondents have stated that after joining an MFI, their participation in community affairs has increased highly, with another 51% stating that it has improved somewhat. The reported improvement is more marked in the western region and comparatively higher among semi-urban respondents. The full distribution of responses has been presented in appendix 4, illustration 10.

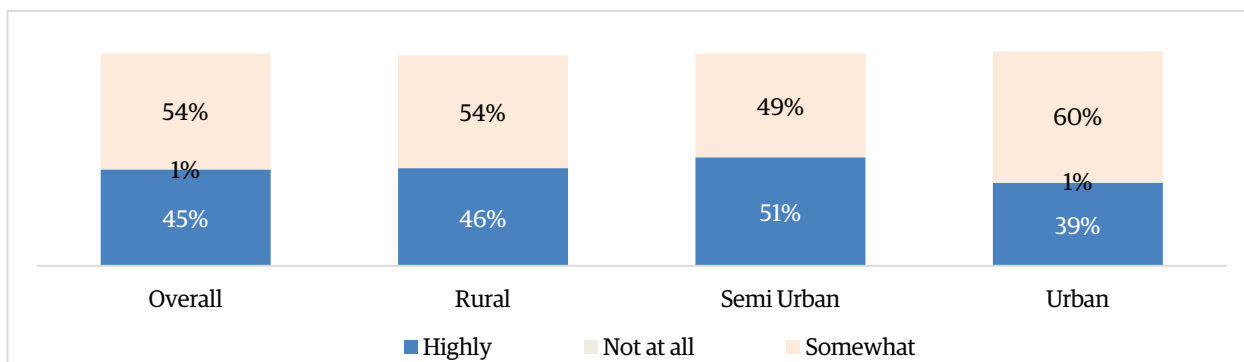
### Participation in Community Affairs



## 2.4 Status in Society

Around 45% of the respondents have stated that they feel that their status in the society has improved highly after they associated themselves with an MFI. Another 54% have stated that this has improved somewhat. The reported improvement is more marked in the western region and comparatively higher among semi-urban respondents. The full distribution of responses has been presented in appendix 4, illustration 11.

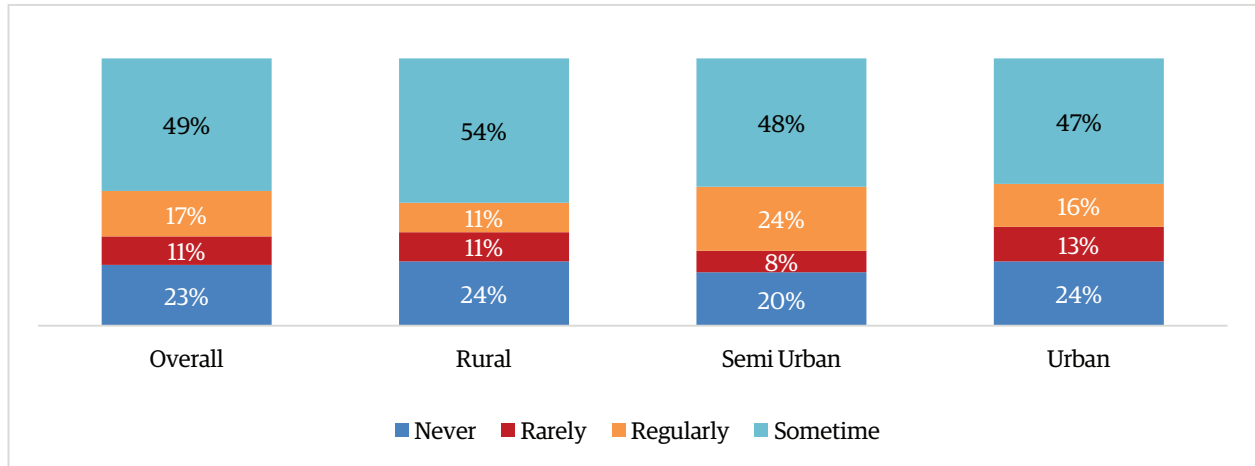
### Status in Society



## 2.5 Discussions in Group Meetings

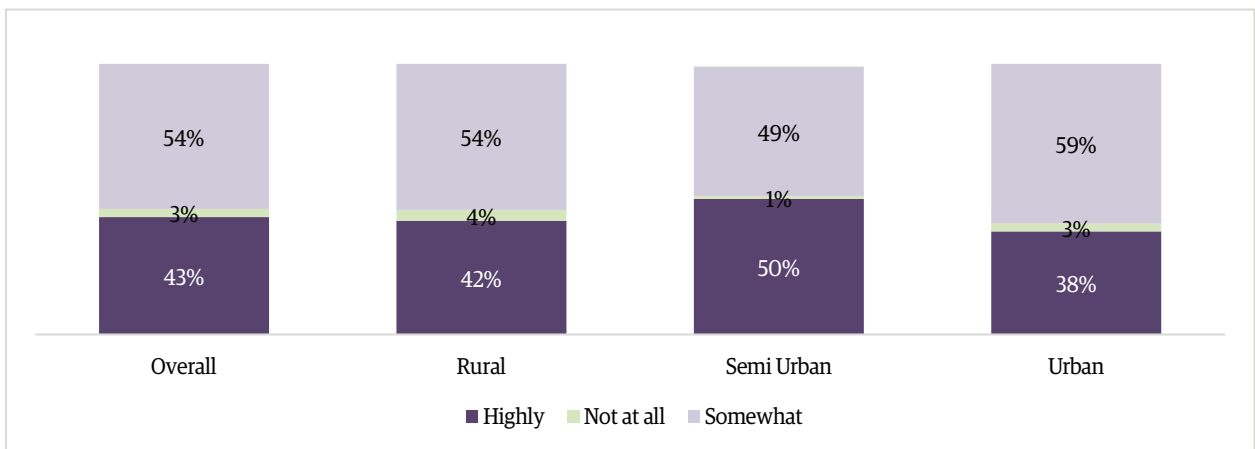
17% of the respondents have stated that there are regular discussions about government's welfare schemes in their group meetings. 50% have stated that these are discussed sometimes. The full distribution of responses has been presented in appendix 4, illustration 12.

Discussions in Group Meeting about Government's Welfare Schemes



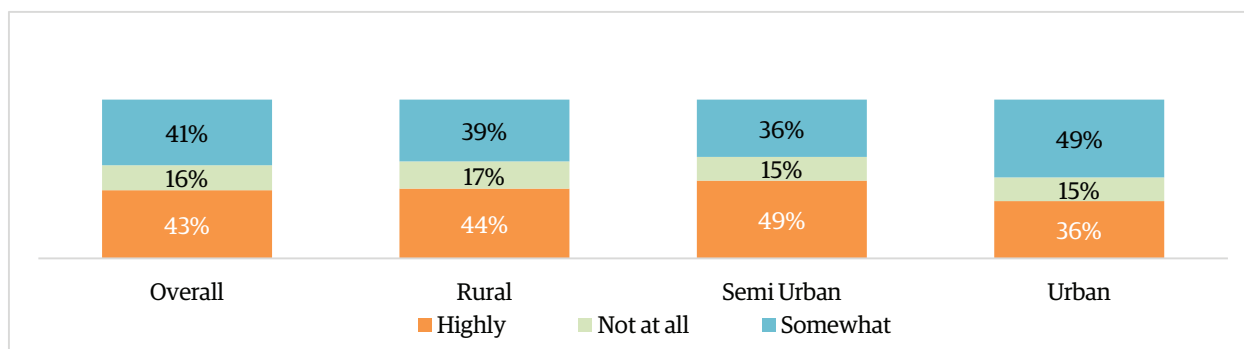
Overall, 43% of the respondents have stated that their awareness about literacy and education has improved highly after associating with an MFI. This proportion varies from 83% in the western region to 23% in the southern region. It is comparatively higher among semi-urban respondents. The full distribution of responses has been presented in appendix 4, illustration 13.

Awareness regarding literacy and education



On similar lines, 43% of the respondents have stated that their ability to read, write and count has improved highly after associating with an MFI. This proportion varies from 85% in the western region to 20% in the southern region. The reported improvement is comparatively higher among semi-urban respondents. The full distribution of responses has been presented in appendix 4, illustration 14.

## Ability to read, write and count



## 2.6 Government's Welfare Schemes

**Awareness:** As can be seen in the following table, the awareness levels of the respondents about the welfare schemes of the government ranged from 81% for PMAY and 79% for Mid-day meal scheme to 40% for NPS and 52% for old age pension schemes. The full distribution of responses has been presented in appendix 4, illustration 15.

Scheme	Awareness (% of all respondents)	Benefit from (% of those aware)	MFI helped (% of those benefitting)
Mid-day meal scheme	79%	48%	40%
Pradhan Mantri Awas Yojana	81%	20%	42%
Pradhan Mantri Jan Arogya Yojana	64%	46%	34%
Health insurance scheme of State Government*	53%	38%	21%
MNREGS	60%	35%	28%
National Pension Scheme	40%	12%	18%
Old age pension	52%	13%	25%
Pulse polio	67%	69%	30%

\* Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.

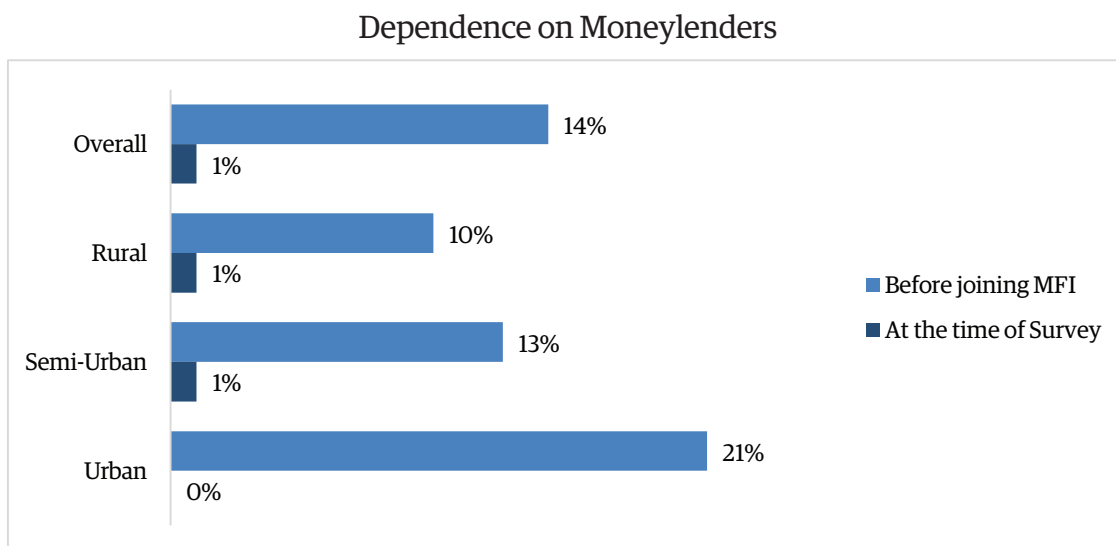
A very high proportion of respondents have reported that MFIs have helped improve their access to better health and educational facilities.

The full distribution of responses has been presented in appendix 4, illustration 16. We have analyzed if there was any association between the age of the respondents and improvement in their confidence on the indicators presented in the previous sections. However, we did not find any meaningful association (appendix 6).

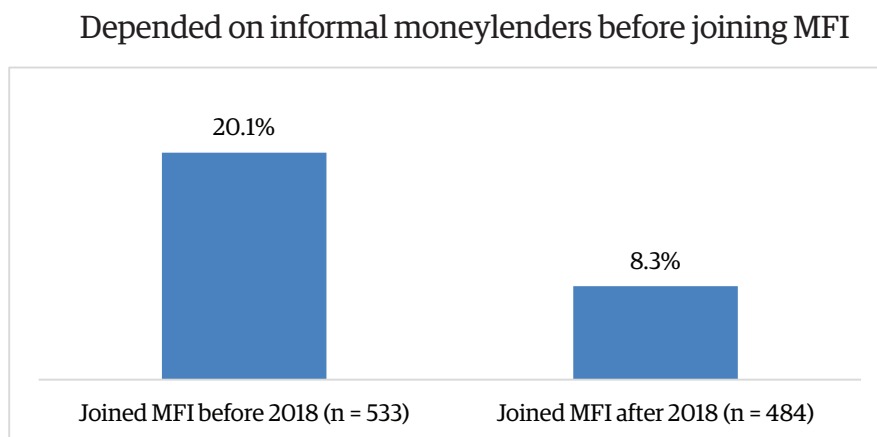
### 3. Financial Services

#### 3.1 Moneylenders

In the sample overall, 1% of the respondents have stated that they depend on moneylenders at present, as compared to 14% who have reported that they depended on moneylenders before associating with MFIs. The reduction in dependence on money lenders is most pronounced in the east and among urban respondents. The full distribution of responses has been presented in appendix 4, illustration 17.



It is noteworthy, that over 20% of those respondents who have reported joining an MFI before 2018, have stated that they had a dependence on moneylenders before they joined the MFI. This proportion is 8.3% for those who joined the MFI after 2018.



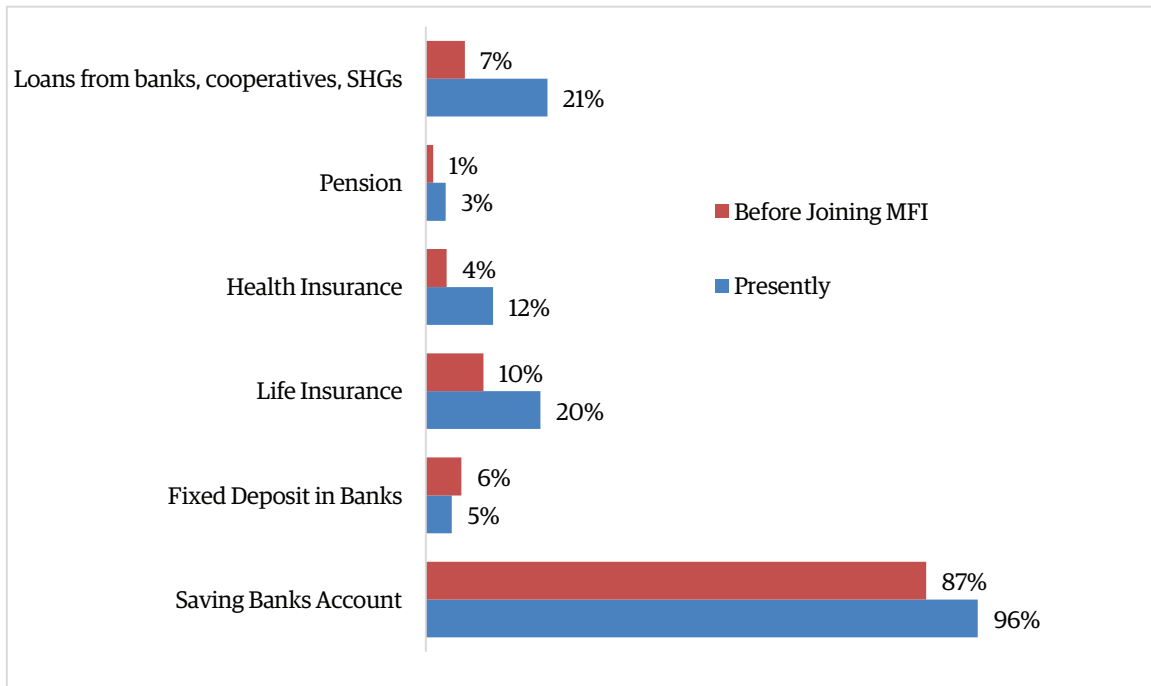
It needs to be mentioned here that the questions on money lenders was not asked to assess whether the respondent had obtained trade-credit from suppliers. Some other categories of informal borrowing may have also been missed.

#### 3.2 Financial Products

The access to financial services seems to have improved after the respondents have joined any MFI. This may primarily be on account of increasing access and more willingness on the part of banks and other financial institutions to provide these services to the client segment represented in this study in addition to technological evolution and related decrease in providing services to these customers. The MFIs may have played a role in improving the confidence of the customers in accessing services from formal sources. It can be seen in the illustration below that while many respondents had savings bank account, very few had put money in Fixed Deposits.



## Financial Product Access

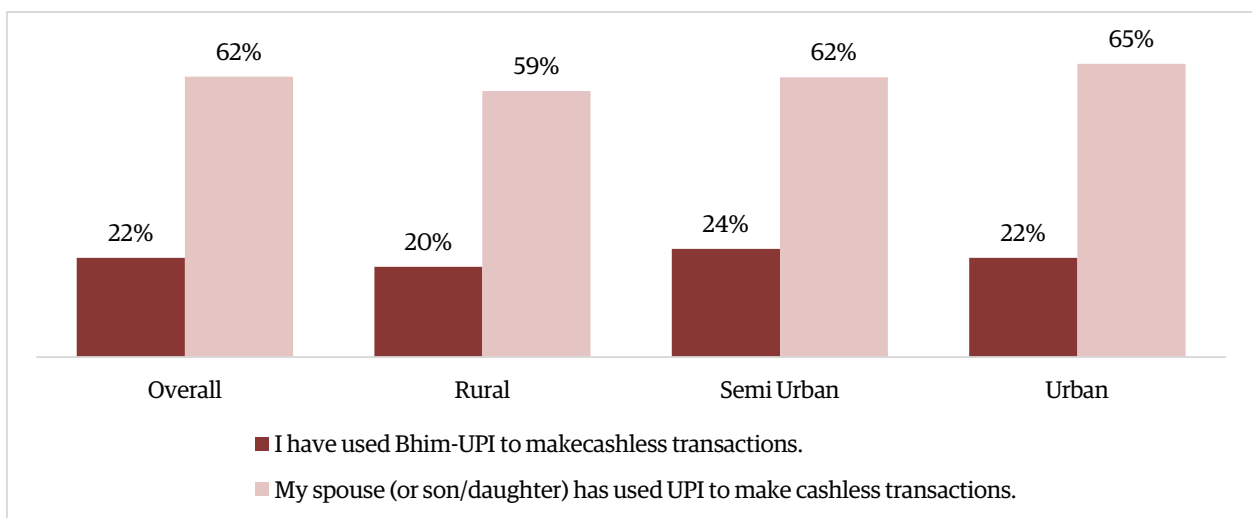


Discussions with clients revealed that they prefer to use household surpluses on physical assets that can generate income. These include using the surplus to increase stock, purchase of goats, poultry birds etc, or saving up to meet the cost of livestock like buffaloes for which they might also borrow. This is the reason that financial assets such as fixed deposits are not preferred. The distribution of responses across the different regions has been presented in appendix 4, illustration 18-a.

### Used UPI for cashless transactions

Overall, 22% of the respondents have stated that they have used UPI for cashless transactions, while 62% have stated that their spouse or close family member such as son or daughter has used UPI for cashless transactions. The distribution of responses can be seen in the following illustration.

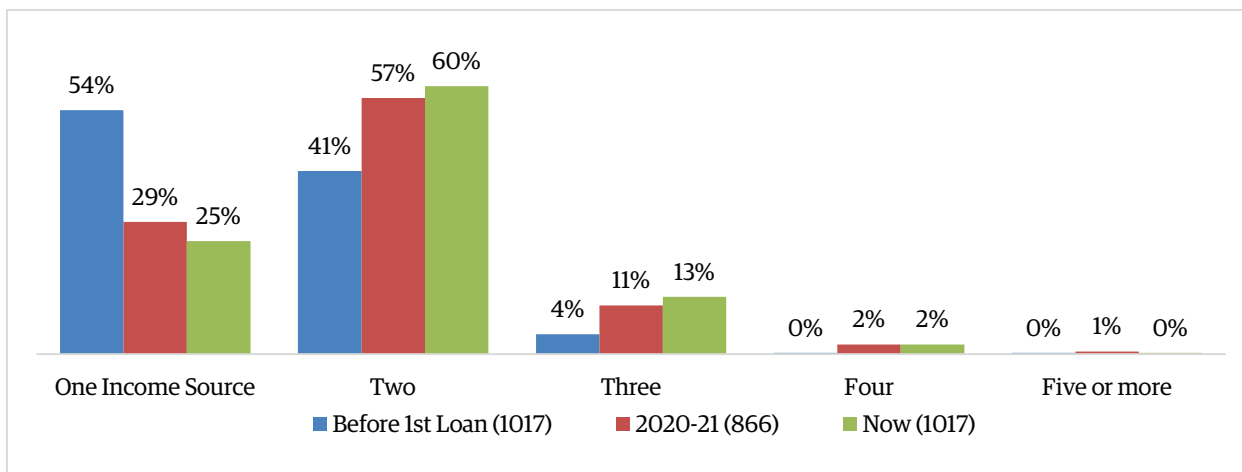
### Used UPI



## 4. Employment and Financial Condition

The survey findings suggest that MFIs have helped their clients in increasing the number of their income sources. A majority of the respondents (54%) have stated that they were dependent on a single income source before associating with the MFI. At the time of survey this proportion had come down to 25%.

Number of Income Sources

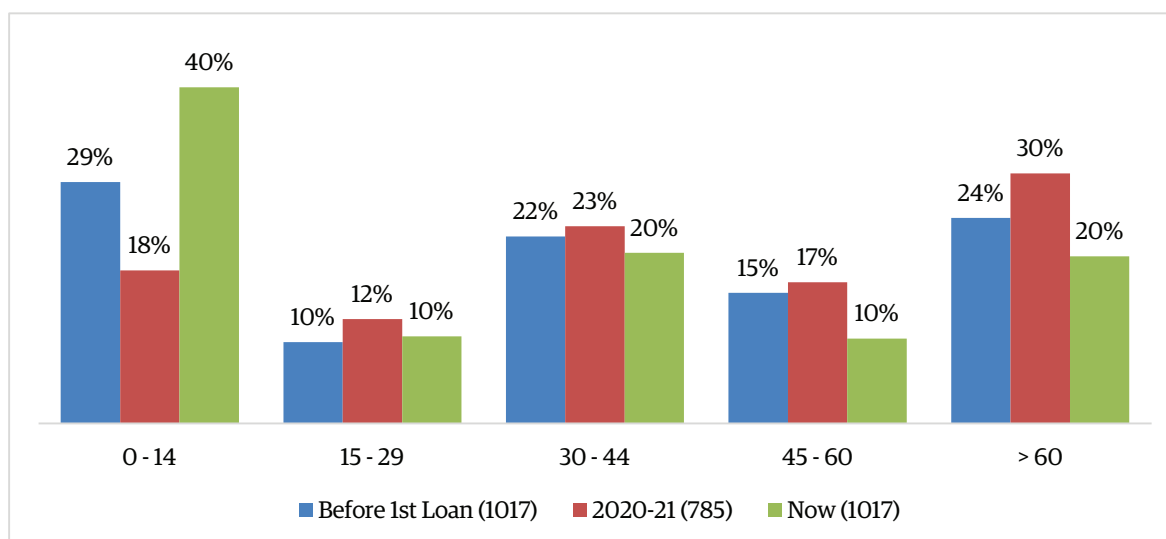


The full distribution of responses has been presented in appendix 4, illustration 19.

### 4.1 Number of Jobless Days for Main Earners

There is also evidence that association with MFIs decreases the number of days the main earners of a household experience joblessness. 61% of the respondents have stated that the main earners in their household experience more than 30 days of joblessness before joining an MFI as compared to 50% at present. At the same time, this was 70% during 2020-21, because of the disruptions caused by the pandemic. This can be seen in the illustration below.

Jobless Days for Main Earners

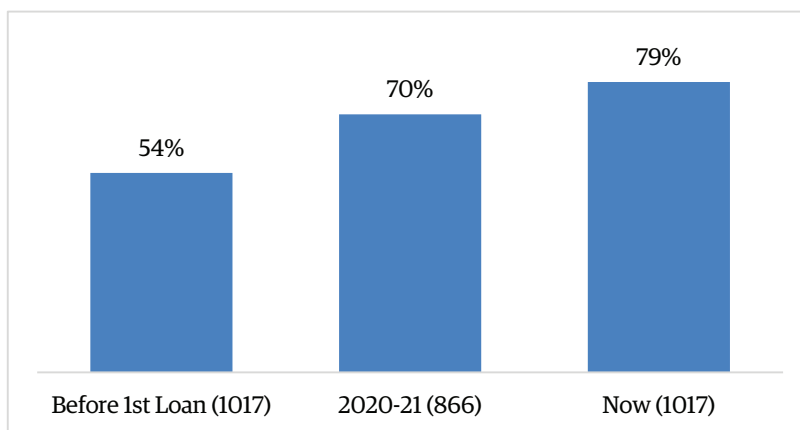


The full distribution of responses has been presented in appendix 4, illustration 20.

### 4.2 Household Savings

Around 79% of the respondents have stated that they have at least some monthly savings in their households at present as compared to 54% who have stated that they had monthly savings in their households before they obtained their first loans.

## Had savings in the household

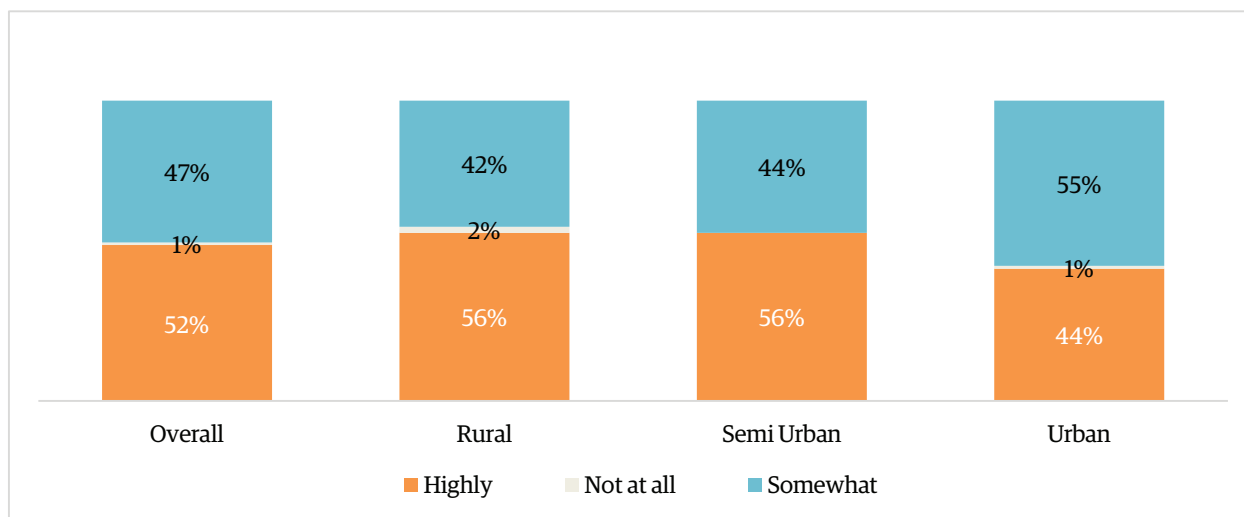


The full distribution of responses has been presented in appendix 4, illustration 21.

### 4.3 Improvement in Economic and Financial Condition

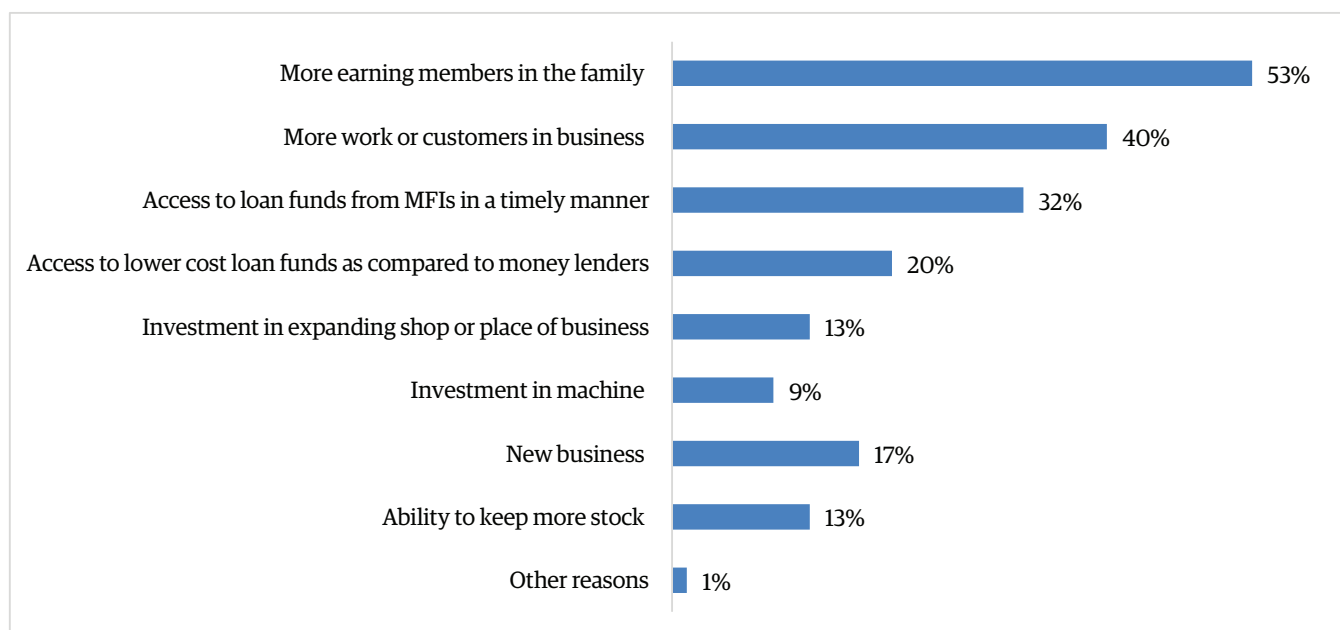
In the sample overall, more than half the respondents have stated that their economic and financial condition has improved highly after their association with an MFI. The distribution of responses has been presented in the following illustration (full distribution in appendix 4, illustration 22).

Has the economic and financial condition of your household improved after joining an MFI?



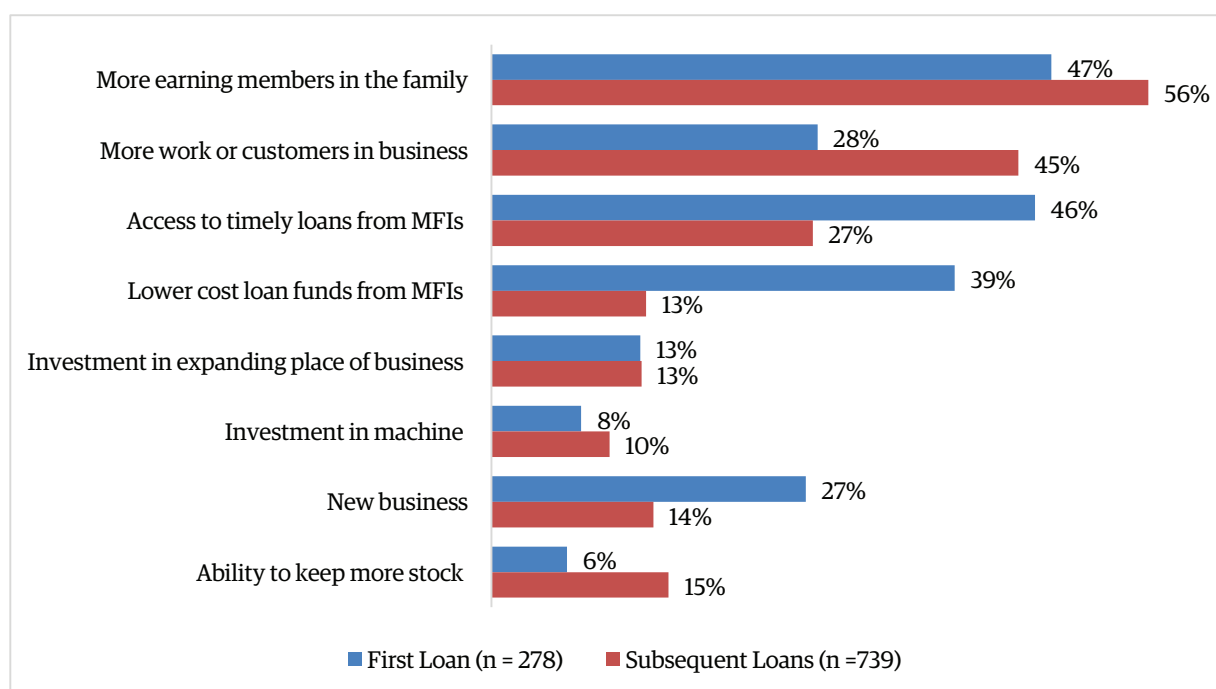
As can be seen in the following illustration, the most common reasons for the improvement in the economic and financial conditions are - "more earning members" (53% respondents) and "more work or customers" (43%). Nearly a third of the respondents (32%) attribute this improvement to either "access to loan funds from MFIs in a timely manner," or "access to lower cost loan funds from MFIs", or both.

## Why has household earnings improved?



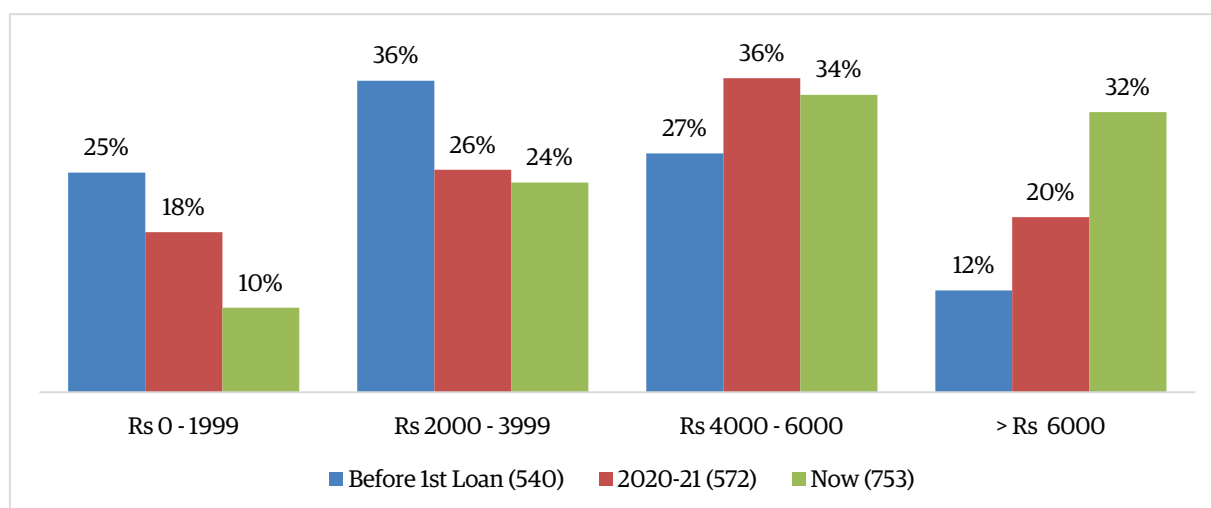
The full distribution of responses has been presented in appendix 4, illustration 23.

We have also explored if the reason cited for improvement in economic conditions differed for respondents in the first loan cycle as compared to respondents in second or subsequent loan cycles. In the sample a significantly higher proportion of first loan cycle respondents have attributed the improvement to “access to timely loans from MFIs”, “lower cost of loan funds from MFIs” and “new business” as compared to other respondents. In contrast the proportion of first loan cycle respondents attributing the improvement is significantly less for indicators like “more earning members in the family”, “more work or customers in business” and “ability to keep more stock”. The difference does not appear significant for “investment in expanding the place of business” or “investment in new machine”. The statistical tests performed for these indicators have been presented in appendix 6.



Consistent with the other findings respondents have reported an improvement in the level of their monthly savings after having associated with an MFI. As can be seen in the illustration below, there is a movement towards higher monthly household savings as reported by respondents after associating with MFIs.

## Monthly Household Savings



The full distribution of responses has been presented in appendix 4, illustration 24.

### Reasons for decline/no change in income status

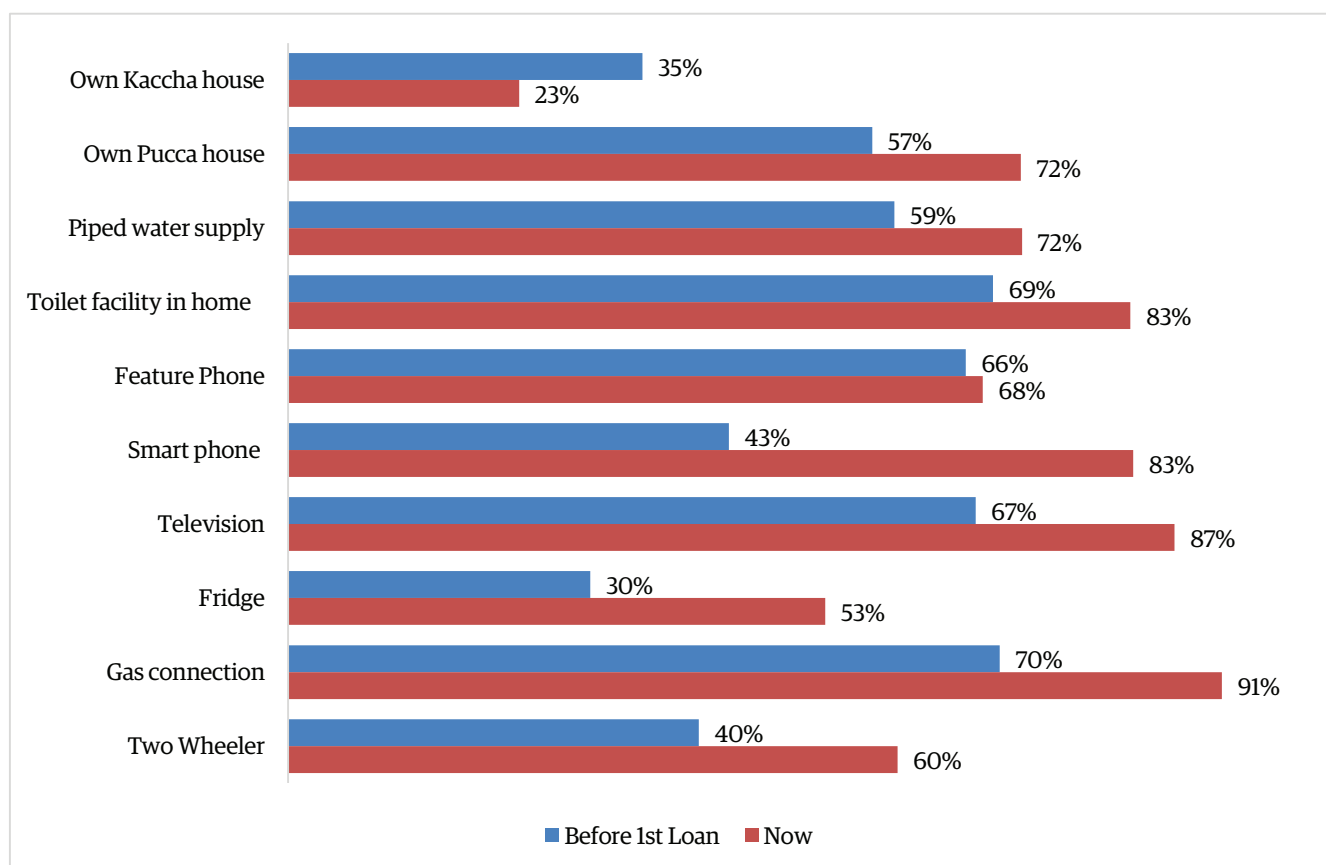
44% of those who have stated that their income has stagnated or declined have identified business failure as the reason. The reasons attributed for stagnation or decline in income has been presented in the following table.

Reason	Counts	Percentage
High burden of paying loan instalments	1	6%
Business failure	7	44%
Death or Illness in the family	2	13%
Low demand for work	3	19%
No increase in customers	0	0%
New business or livelihood activity	3	19%
Total	16	100%

## 4.4 Quality of Life

The respondents report an improvement in nearly all quality of life indicators such as housing, water, sanitation, phone and other household assets after joining an MFI.

## Ownership of assets



The distribution of responses across the different regions can be seen in appendix 4, illustration 25.

### 4.5 Is microfinance accessible?

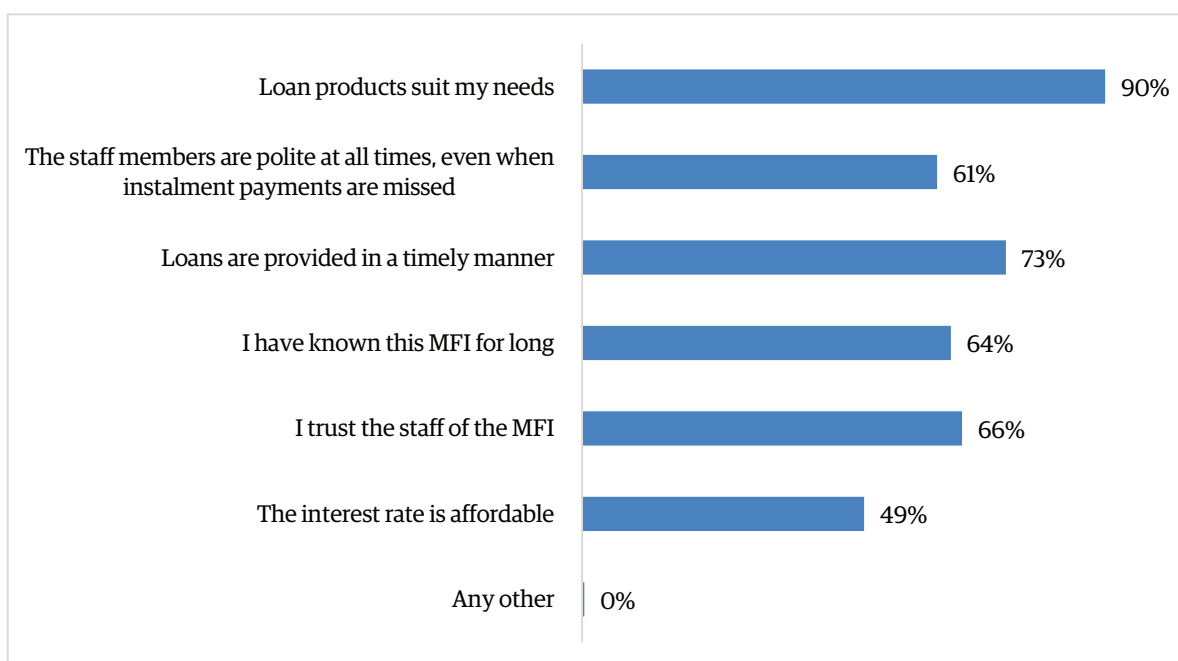
Nearly all the respondents (97.5%) have stated that microfinance services are available to those who stay in their area. However, nearly 18% have stated that they felt that microfinance is not available to the really poor. Of these 98% felt that it was because the really poor cannot pay back their loan installments, 25% felt that MFIs did not like doing business with them and 30% felt that MFIs did not have suitable loan products (small sized loan product) for them. It needs to be mentioned here that during FGDs we had asked the participants who they considered to be really poor. It emerged that people who did not have any source of regular income and depended on charity were considered really poor.

Reason microfinance is not available to the really poor	Counts	Percentage
The really poor cannot pay back their loan instalments	177	98%
The really poor can pay back but MFIs don't like to do business with them	46	25%
The really poor need small loans and MFIs don't provide such loans	55	30%
Total who say microfinance is not available to the really poor	181	100%

### Advantages of Microfinance

"Suitable loan products" (90% respondents) and "timely provision of loans" (73%% respondents) emerge as the most important value of microfinance. These are followed by "trust" (66% respondents), "acquaintance" (64% respondents) and "polite staff" (61% respondents). This has been presented in the following illustration.

## Advantages of Microfinance

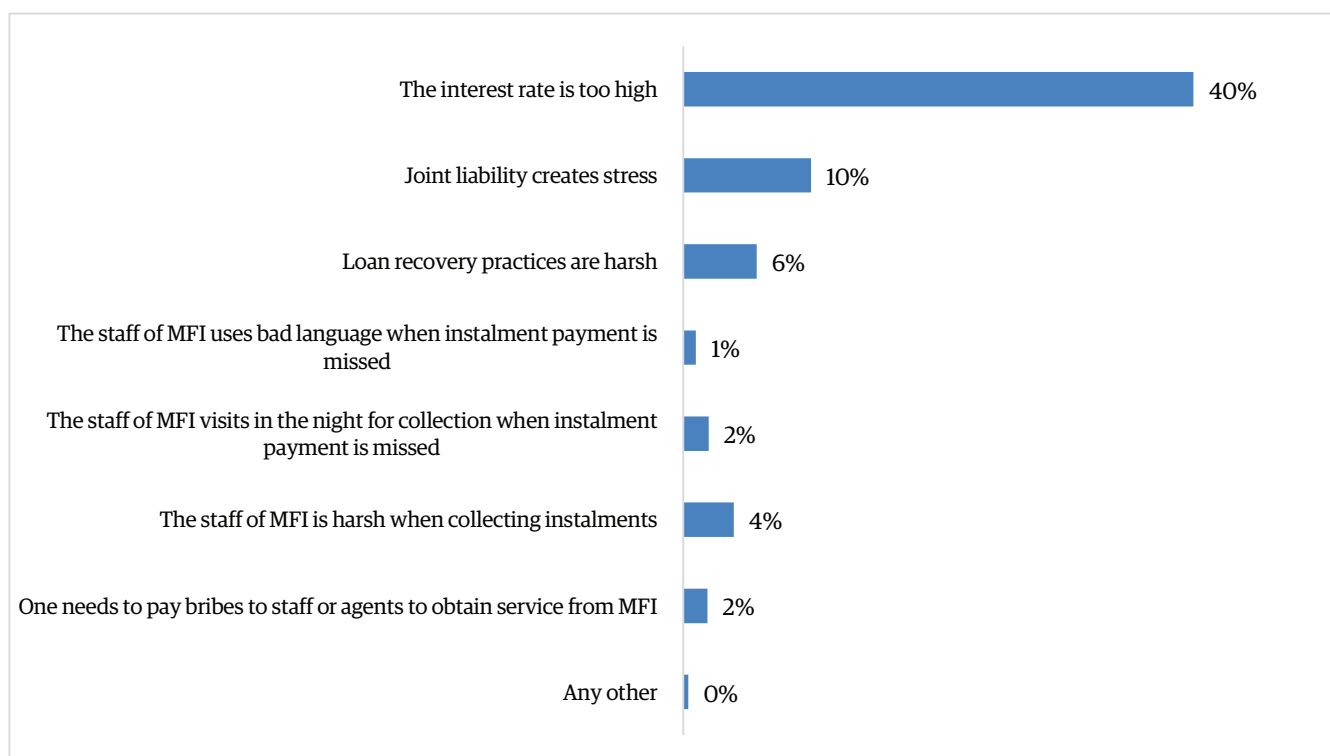


The distribution of responses across the different regions can be seen in appendix 4, illustration 26.

## Disadvantages of Microfinance

The most commonly reported disadvantage of microfinance was “high interest rate” (40% respondents). 10% of the respondents have stated that joint liability creates stress. 6% have stated that loan recovery practices of MFIs are harsh and 4% have stated that MFI staff is harsh when collecting installments. This has been presented in the following illustration (full distribution in Appendix 4, illustration 27).

## Disadvantages of Microfinance



## 5. Conclusion

This study suggests that microfinance clients are enterprising, with multiple members of a client's family engaged in income generating activity. These include agriculture, livestock related activities, salaried employment, service-based enterprises and shops on the one hand to daily wage labour on the other. Over two-thirds of the respondents have reported a monthly household income of less than Rs 25,000. Over three-fourths of the respondents have stated that they had one or two loans from a formal financial institution such as an NBFC-MFI, SFB, bank or finance companies (NBFCs). A number of respondents in this study have stated that MFIs have helped them in raising their awareness about health and other social issues. Discussions related to health issues happen during group meetings some of the times in many cases and frequently in a few. This is not unexpected as MFIs have played a role in raising awareness about sound hygiene and importance of vaccination as the COVID 19 pandemic has raged over the previous two years.

### **More access to loans but insurance coverage is low**

A significantly higher proportion of respondents have reported that they have obtained loans from banks, cooperatives or SHGs after joining an MFI. The relationship with MFIs has enhanced the confidence of clients to borrow from other sources including banks. At the same time, this also shows that the choice for customer has increased and in the future MFIs may face greater competition from different financial institutions. The subscription to voluntary insurance products including life and health insurance remains low. Discussions with groups of clients reveal that their awareness about the product features of insurance remains low. MFI clients appear not to be preferred clients of insurance agents which also contributes to low subscription levels. In a few cases where the respondent had an insurance policy, the agent had played a crucial role in making the respondent aware about the policy benefits as well as assuring her of support in claiming benefits if the need arose.

### **Improvement in Economic and Financial Condition of most borrowers**

Nearly all the respondents have reported that their savings have improved after they associated with an MFI. Many have witnessed improvement in their housing, water and sanitation as well as household assets such as TV, fridge and two wheelers. Nearly a third of the respondents (32%) attribute this improvement to either "access to loan funds from MFIs in a timely manner," or "access to lower cost loan funds from MFIs", or both.

Discussions with groups of MFI clients also suggest that the improvement in their economic and financial condition is not linear with time. The improvement in income is most pronounced for new clients. However, the odds that the increased income may not be sustained are also significant given that new MFI clients remain vulnerable to risks related to business, health as well as natural hazards. Access to timely follow-up loans plays a big role in ensuring that the increase in income either through higher operational scale, a new productive asset or a new business altogether is sustained. But there is a limitation to the scale of any enterprise activity that can be attained purely through access to JLG loans. Many clients use subsequent cycle JLG loans for maintenance of their enterprise (such as working capital, stock and inventory, replacement of cattle, replacement of equipment), and the impact of subsequent loans is not as significant as the first couple of loans. At the same time many clients do experience a steady improvement in their economic and financial conditions. They are able to graduate to individual loans, which allows them to keep increasing the scale of their enterprise or livelihood activity.

### **Microfinance for the really poor**

It is widely acknowledged that microfinance has enabled millions of poor on the fringes of poverty to significantly improve their economic and social status. The findings of this study only add to this evidence. At the same time, there is also some evidence that microfinance or microfinance like services do not reach the really poor. Nearly 18% of the respondents in this study have stated that they felt that microfinance is not available to the really poor. This may be on account of the fact that this segment may not have the capacity to



make repayments on a monthly basis on microfinance loans. The MFIs on their part are limited by the amount of funds that are available to them for providing loans to the very poor segment. Most of them depend on banks and other financial institutions for their on-lending fund requirements. There are conditionalities attached with these funds that make it tough for MFIs to lend to the very poor, who may not be able to make regular repayments on their loans.

It is also a fact that MFIs, including SFBs and banks with significant microfinance operations, have the distributional network to reach out even to the really poor. There is an opportunity for the microfinance sector to intervene and help the really poor overcome constraints that keep them bound to poverty. To achieve this, they would need support from banks and other providers of on-lending funds. Incentives from social investors and other stake holders to MFIs can spur them into providing services tailor made for the really poor.

In many ways, this would be similar to what the microfinance sector has achieved in the past - providing financial services tailor made to the needs of the poor, providing them with collateral free loans and finally making them part of the economic mainstream. Stakeholders such as banks and social investors, capacity building institutions and regulators played an important role in demonstrating that this can be accomplished at scale.

To take an example, given the scale microfinance has achieved in the country, if MFIs were to allocate even 0.5% of their portfolio to such clients using a product that requires a repayment to be made only when the client has a profit, a dent can be made on poverty, without taking too much of the sheen of the financial performance of MFIs. This is so because they would then be providing funds to over 1.1 million very poor households annually.

Gross Loan Outstanding in December 2021 (₹)	2,320,000,000,000 <sup>1</sup>
0.5% of Gross Loan Outstanding (₹)	11,600,000,000
Average Outstanding to the very poor (₹)	10,000
Nos. of very poor clients that can potentially be reached annually	1,160,000

The experience of Bangladesh, where MFIs such as BRAC have evolved programs to reach out to the extremely poor, needs to be considered<sup>1</sup>. There is evidence that this has helped significantly in poverty reduction. The following abstract of the working paper 114 - Bangladesh's Achievement in Poverty Reduction: The Role of Microfinance Revisited, of the JICA Ogata Sadako Research Institute of Peace and Development, is instructive<sup>2</sup>. "Overall, microfinance participation, which is found to be cost-effective for borrowers, has contributed to about one-seventh of the total reduction in moderate poverty and one-eleventh of the total reduction in extreme poverty in rural Bangladesh."

## Recommendations

The findings of this study lead to some imperatives for the microfinance sector.

- Several among MFI clients are talented entrepreneurs who remain constrained because of a lack of adequate access to funds. In this study, 32% of the respondents have stated that their monthly household income is more than ₹25,000. JLG loans may not fulfill their business needs. They will be better served by individual loans or microenterprise loans of larger sizes. Such financing will allow them to grow the scale of their businesses, generate employment and improve their financial condition substantially.
- In order to encourage talented entrepreneurs among their clients, MFIs can provide enterprise development trainings to them.

<sup>1</sup> Prasanna Mohanty, What can India learn from Bangladesh's MFIs?, November 2019, Business Today

<sup>2</sup> Bangladesh's Achievement in Poverty Reduction: The Role of Microfinance Revisited, JICA Ogata Sadako Research Institute of Peace and Development, Shahidur R. Khandker and Hussain A. Samad, February 2016, Working paper 114 - (Available at [https://www.jica.go.jp/jica-ri/publication/workingpaper/wp\\_114.html](https://www.jica.go.jp/jica-ri/publication/workingpaper/wp_114.html))

- The demand for loan remains high even among those clients who have little surplus after meeting their household expenditures. With low or nil savings, their ability to repay loans may not be adequate. This underlines the need to exercise due caution while appraising and sanctioning loans.
- Only 2% of the respondents have stated that they have borrowed for emergencies such as disease. Discussions with some of the respondents suggest have to depend on informal sources of credit to meet emergency needs such as hospitalization and other health emergencies. An emergency loan product that is disbursed quickly can greatly help MFI clients.
- The microfinance sector should seek to handhold that category of the economically poor, who cannot afford even JLG loans. As we have argued earlier in this report, given the scale of microfinance in the countries today, this can be achieved without significantly impacting the financial performance of MFIs, provided support from stakeholders such as banks and financial institutions that provide on-lending funds as well as social investors is available.
- It has emerged during FGDs with MFI clients that most of them - 90% of the participants in FGDs, desire to improve the condition of their homes. Some of them have benefitted from schemes such as Pradhan Mantri Awas Yojana. MFIs can leverage their institutional resources and distributional strengths to make it possible for their deserving clients to benefit from this scheme. They can also provide gap financing so that their clients are able to construct durable homes.
- The subscription to non credit linked insurance remains low among MFI clients. In this study only 20% of the respondents have stated that they had voluntary life insurance which was not linked to loans and only 4% have stated that they had voluntary health insurance. It is possible that some of them have subscriptions to government insurance schemes such as life cover under Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana. However, they are not able to recall if they have these insurance covers. In such a scenario it is possible that they or their nominees may not claim the benefit amount available to them in case a risk materializes. MFIs should play a role in ensuring that their clients are aware of these schemes. Moreover, they should also try a make basic insurance services available to their clients.
- The subscription to pension products such as NPS appears negligible among MFI clients. In this study only 3% of the respondents have stated that they had subscribed to NPS. MFIs can play a role in popularizing pension products as well as other financial products that enhance social security.
- Around 66% of the respondents in the study have stated that they trust the staff of MFIs. This percentage appears low, and it needs to go up. Therefore, MFIs should ensure that their clients understand their products and processes, particularly loan pricing fully so that they do not feel that they have been overcharged. Also they should make sure that their clients are well versed with digital transactions - particularly in cases where MFIs provide loans or collect repayments digitally.
- Also, although only in very few cases (2% of the sample), we did come across instances where respondents have stated that they had to pay bribes in order to obtain loans from MFIs. Similarly, in a few instances, respondents have shown dissatisfaction with the behavior of the MFI staff. These occurrences expose not only MFIs but the microfinance sector as a whole to grave reputational risks. MFIs should tighten their operational monitoring and control systems to prevent these from happening even at a small scale.

## Finally

The work of several eminent Economists, including the Noble Laureates Prof. Abhijit Banerjee and Prof. Esther Duflo, shows that the analysis of impact of microfinance is made complicated by external factors that play a large role in determining how the life of MFI clients change<sup>3</sup>. During times of economic growth, the income level and quality of life, of the clients are likely to rise because of more and better livelihood opportunities.

<sup>3</sup> Can Microfinance Unlock a Poverty Trap for Some Entrepreneurs? Abhijit Banerjee, Emily Breza, Esther Duflo, and Cynthia Kinnan NBER Working Paper No. 26346, October 2019, JEL No. D25,O1,O14,O16

Conversely, when there are economic shocks, such as the one caused by COVID 19, there is a secular decline in opportunities and consequently income levels and quality of life decline as well. During such times, people who are economically poor suffer more.

This study suggests that MFIs can play a constructive role in both these scenarios - by giving their clients the means to make productive investments when there are economic opportunities and by helping the clients absorb income shocks by postponing the collection of loan installments and rescheduling loans. There is growing evidence that MFIs do play this role when they are managed in the intended way - in a transparent and lawful manner.

# Appendix 1: Literature Review: Impact of Microfinance

Microfinance and its impact have been areas of significant interest for researchers. Studies and analysis to determine its impact in the lives of clients have been carried out since the early days, when most MFIs used to be not for profit organizations<sup>4</sup>. A comprehensive national level impact assessment study of microfinance was conducted as part of National Microfinance Support Program (NMSP) implemented by SIDBI. The study was undertaken by an independent research institution and ran from 2002 to 2007. Stage I (2001–2004) of the study involved a baseline study with a sample of 20 partner MFIs, while Stage II, (2004–2007), the endline study involved five more MFIs. This study concluded that microfinance services, on the whole, have proved to be an important component in the efforts towards poverty alleviation and women's empowerment. It found significant evidence for the following hypotheses:

- There is an overall improvement in access to and use of MFI loans but not of other services (i.e. savings, insurance and non-financial services).
- Microfinance increases enterprise activity.
- Microfinance contributes to improvement in income related aspects.
- Microfinance builds capacity of vulnerable households to manage risks.

It also partially supported the following assertions:

- Microfinance is an effective strategy for extending financial services to the poor and disadvantaged groups not reached by the formal finance sector.
- Microfinance contributes to women empowerment.
- Microfinance brings about overall improvement in the socio-economic status of clients.
- Microfinance improves the terms, conditions and accessibility of other financial services.

An impact study of Portfolio Risk Fund (PRF) - a funding support from Government of India (GoI) to SIDBI to enhance micro-finance lending in India, was undertaken by SIDBI with the help of independent agencies during 2013-14<sup>5</sup>. This study included a survey of 26 MFIs and 5720 clients located across the country. Some of the key findings of this study are as follows:

- Respondents uniformly (98%) report an improvement in their confidence levels after associating with the MFI.
- Nearly 90% also report an improvement in their status within their families as well as within the society.
- While the respondents had varying level of awareness regarding government welfare schemes, it was independent of whether or not, social issues were discussed in the group meetings conducted by MFIs.
- There was marginal improvement in the proportion of clients who said they voted on issues of their own interest now, as compared to before joining the MFI.
- They also reported marginal increase in access to savings services. There was a distinct increase in access to life insurance. However, there was little difference in access to health insurance and pension schemes.

<sup>4</sup> IFAD/SIDBI, National Microfinance Support Programme - Project Performance Assessment (2013), <https://sidbi.in/en/impact-assessment-studies>

<sup>5</sup> PWC/M2i (2014), Study on Credit Enhancement Practices - Institutional Lending to Microfinance Institutions- Role and Impact of Portfolio Risk Fund (<https://sidbi.in/files/subordinate-legislations/Study-on-Credit-Enhancement-Practices-Institutional-Lending-to-MFIs---Role-and-Impact-of-Portfoli.pdf>)

- Less than a quarter of the respondents had access to loans from banks and cooperatives, with access to microfinance making little difference.
- Nearly a third to half of the respondents reported improvement in awareness regarding literacy and education as well as improved ability to read and write after associating with the MFI. Around 40% respondents reported access to better education facilities.
- 90% of the respondents said that their economic and financial condition has improved after they associated with the MFI.
- Respondents in the sample also reported increase in the sources of income as well as increase in value of business assets in their households.
- There was also an increase in average incomes and savings, adjusted for inflation at 8% annually, reported by the respondents.
- Respondents also reported an improvement in amenities such as toilet facility at home (48% before association with MFI to 61% now), cell phone (67% to 87%), television (57% to 72%) and fridge (18% to 23%).

This study discusses factors that contribute to positive impact on clients. This included:

- Client relationship management by MFIs
- Access to Patient Risk Capital
- Sound governance and strong management in MFIs
- Sound risk management

Many eminent experts have also observed that in the absence of sound governance and regulatory oversight, microfinance can be misused to charge high rates of interest for loans given to the poor (Nair, 2011)<sup>6</sup>. Moreover, structures can be created to generate supernormal profits for promoters and investors of MFIs (Sriram, 2010)<sup>7</sup>. These necessitate adequate regulatory oversight on the one hand and sound governance on the other (Nair, 2011)<sup>8</sup>. The fact that the Government of Andhra Pradesh had to impose severe restrictions on the operations of MFIs in 2010 provides evidence to the scale of the problem.

The events of 2010 resulted in the Reserve Bank of India bringing in a set of regulations that effectively defined the institutional and operational framework for microfinance. This was coupled by the recognition of Sa-Dhan and MFIN as Self Regulatory Organizations (SROs) and introduction of Code of Conduct Compliance Assessments (COCA) for MFIs. In the decade since, while there has been materialization of secular risks in the form of demonetization and COVID 19, fewer questions have been asked about the governance of MFIs – particularly MFIs manipulating the laws of the land to enrich promoters and investors. Wherever, mal-governance has been found it has been in the nature of frauds, as against large scale manipulation of laws to skim profits at the cost of poor clients.

Nobel laureates Abhijit Banerjee and Esther Duflo have also researched the impact of microfinance<sup>9</sup>. They have attempted to determine the impact through a series of three endline surveys conducted in 2007, 2010

<sup>6</sup> Nair, T (2011), Microfinance: Lessons from a Crisis, Economic & Political Weekly, vol xlvi no 6

Nair, T (2014), Indian Microfinance and Codes of Conduct Regulation: A Critical Examination (chapter), Globalization and Standards: Issues and Challenges in Indian Business (book), Springer, DOI:10.1007/978-81-322-1994-1, ISBN: 978-81-322-1993-4

<sup>7</sup> Sriram, MS (2010), Commercialisation of Microfinance in India: A Discussion on the Emperor's Apparel, IIM Ahmedabad, W.P. No. 2010-03-04

<sup>8</sup> Nair, T (2011), Microfinance: Lessons from a Crisis, Economic & Political Weekly, vol xlvi no 6

Nair, T (2014), Indian Microfinance and Codes of Conduct Regulation: A Critical Examination (chapter), Globalization and Standards: Issues and Challenges in Indian Business (book), Springer, DOI:10.1007/978-81-322-1994-1, ISBN: 978-81-322-1993-4

<sup>9</sup> Banerjee A, Breza E, Duflo E, and Kinnan C (2019), Can Microfinance Unlock a Poverty Trap for Some Entrepreneurs? NBER Working Paper No. 26346

Banerjee, A., E. Duflo, R. Glennerster, and C. Kinnan (2015): "The Miracle of Microfinance? Evidence from a Randomized Evaluation," American Economic Journal: Applied Economics, 7, 22-53.

Banerjee, A., E. Duflo, and R. Hornbeck (2018a): "How much do existing borrowers value Microfinance? Evidence from an experiment on bundling Microcredit and insurance," *Economica*, 85, 671-700.

and 2012, as part of their randomized control trials on microfinance clients in Andhra Pradesh. To quote the authors, “Essentially all of the benefits of credit access accrue by increasing entrepreneurship on the intensive margin: for those individuals with an existing business before the entry of microfinance (who we call gung-ho entrepreneurs or GEs), we find economically meaningful, positive effects on household businesses and consumption. Within this group, the bulk of effects come from households who escape from the fixed-cost-driven poverty trap and move into a more productive technology (with the remainder coming from already-productive businesses scaling up to exploit constant returns). The rest of the sample—those who start new businesses, or who never start a business at all—exhibit essentially zero impact of credit access. Notably, for this group the effect is a fairly precise zero throughout the distribution: while these reluctant entrepreneurs and consumption borrowers do not experience benefits from microcredit access, neither do they appear to experience harm.”

The authors also note, “In sum, it appears that there are indeed sizable benefits from microfinance for some people, but it takes time for these benefits to accumulate.” Apart from the impact on business and consumption, the authors also found evidence that, “access to formal finance reduces these households’ take-up of informal credit. This crowd out effect may explain why impacts of microfinance are minimal among certain sub-populations: while microfinance may reduce borrowing costs, overall demand for credit may change very little for some groups. In contrast, microfinance crowds in other sources of borrowing among the gang ho entrepreneurs and is key to replicating the magnitudes of the long run impacts in the model simulations.”

The experience in Bangladesh supports the assertion that microfinance has a favorable impact on poverty reduction. The following abstract of the working paper 114 - Bangladesh’s Achievement in Poverty Reduction: The Role of Microfinance Revisited, of the JICA Ogata Sadako Research Institute of Peace and Development, is instructive<sup>10</sup>.

“Using long panel survey data collected three times between the years 1991/92 and 2010/11, this paper examines the role of microfinance in poverty reduction in rural Bangladesh. More specifically, in assessing the impact of microfinance on poverty, this paper makes a distinction between the effects of current participation in microfinance programs and those of past participation, and between the effects of continuous participation in microfinance programs and those of irregular participation. Findings suggest that there is a greater decrease in poverty levels for participants in microfinance programs than for non-participants, and for female participants more than for male participants. Additionally, continuous borrowers fare better than irregular borrowers. Overall, microfinance participation, which is found to be cost-effective for borrowers, has contributed to about one-seventh of the total reduction in moderate poverty and one-eleventh of the total reduction in extreme poverty in rural Bangladesh. Finally, this paper recommends the expansion of microfinance funded growth-oriented activities in the non-farm sector, in particular manufacturing and processing activities, so as to reap larger benefits from microfinance.”

In the decade spanning 2010-20, the microfinance sector has evolved further. It has become integrated with the formal economy, with Commercial Banks, apart from Small Finance Banks and NBFs, accounting for a majority of microfinance assets. Moreover, it has lived through risk events such as “demonetization”. The COVID 19 pandemic on its own has proved to be the most significant risk event for the microfinance sector in this century. Sa-Dhan has conducted a survey based research that has shown that microfinance clients have been greatly affected by the pandemic and a significant proportion of them has still not been able to rebuild their livelihoods.

<sup>10</sup> Bangladesh’s Achievement in Poverty Reduction: The Role of Microfinance Revisited, JICA Ogata Sadako Research Institute of Peace and Development, Shahidur R. Khandker and Hussain A. Samad, February 2016, Working paper 114 - (Available at [https://www.jica.go.jp/jica-ri/publication/workingpaper/wp\\_114.html](https://www.jica.go.jp/jica-ri/publication/workingpaper/wp_114.html))

# Appendix 2: Questionnaire

## Section 1 (Client Questionnaire): Introduction

1. Date of Interview
2. Name of the Client
3. Name of the MFI
4. Address of the Client
  - a. Post Office
  - b. District
5. Gender: Male/Female
6. Age (Years):
7. Below Poverty Line (BPL) card holder: Yes / No
8. Aadhar card holder: Yes / No
9. Voter Id card holder: Yes / No
10. In which year did you first borrow from any MFI?
  - a. Before 2010
  - b. 2010-12
  - c. 2012-2014
  - d. 2014-2016
  - e. 2016-2018
  - f. 2018-2019
  - g. 2019-2020
  - h. 2020-2021
  - i. 2022
11. Number of MFI loans taken so far?
12. Number of MFIs from whom current loan outstanding
13. Primary Occupation(s) of the earning members in the client's household (Multiple choice)
  - i) Livestock, ii) Poultry iii) Agriculture, iv) Textile business, v) Hospitality business (Tourism/Hotel/ Eatery), vi) Construction contractor vii) Consumer goods and durables, x) Education and training (Coaching institute), xi) E-commerce xii) Traditional crafts (Floral garlands, handicrafts etc.), xiii) Daily wage labour xiv) Retail trading xv) Wholesale trading xvi) Service enterprise (barber shop, beauty parlour, tailoring, leather work, electrician) xvii) Salaried employment (govt, pvt), xviii) Any other (please specify)
14. What is your present monthly household income?
  - a) Less than ₹10,000
  - b) Between ₹ 10,000 & ₹ 15,000
  - c) Between ₹15,000 & ₹20,000
  - d) Between ₹20,000 & ₹25,000
  - e) Between ₹25,000 & ₹30,000
  - f) Over ₹30,000

## Section 2 (Client Questionnaire): Social Dimension

1. Whether your association with the MFI has improved your confidence in dealing with people from outside your village or locality?

Yes	Somewhat	No

2. Are you aware of the following schemes?

Issue	Yes/No
Mid-day meal scheme (Children get free lunch in school)	
Pradhan Mantri Awas Yojana	
Pradhan Mantri Jan Arogya Yojana under Ayushman Bharat	
Health insurance scheme of State Government such as Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.	
MNREGS (100 days employment guarantee scheme)	
National Pension Scheme	
Old age pension	
Pulse polio	
Any other state or central government scheme (please specify)	

3. Are you a beneficiary of any of the following schemes?

Issue	Yes/No/Not applicable
Mid-day meal scheme (Children get free lunch in school)	
Pradhan Mantri Awas Yojana	
Pradhan Mantri Jan Arogya Yojana under Ayushman Bharat	
Health insurance scheme of State Government such as Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.	
MNREGS (100 days employment guarantee scheme)	
National Pension Scheme	
Old age pension	
Pulse polio	
Any other state or central government scheme (please specify)	

4. Are there discussions in your JLG/SHG meetings on government schemes?

Regularly	Sometime	Rarely	Not ever

5. Have MFIs helped you in benefitting from any of the following government schemes?

Issue	Yes/No/Not applicable
Mid-day meal scheme (Children get free lunch in school)	
Pradhan Mantri Awas Yojana	
Pradhan Mantri Jan Arogya Yojana under Ayushman Bharat	
Health insurance scheme of State Government such as Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.	
MNREGS (100 days employment guarantee scheme)	
National Pension Scheme	
Old age pension	
Pulse polio	
Any other state or central government scheme (please specify)	



6. Whether your association with the MFI has improved your confidence in dealing with/talking to people in banks?

Highly	Somewhat	Not at all

7. Whether your association with the MFI has improved your confidence in moving out independently on your own?

Highly	Somewhat	Not at all

8. Whether your association with the MFI has improved your confidence in talking to outsiders - people whom you may not know?

Highly	Somewhat	Not at all

9. Who decides how your loan from MFI will be used?

- You alone
- You along with spouse or other close family member
- Spouse or other close family member alone
- Other (please specify)

10. You have a greater say in household decision making because of your association with the MFI?

Yes	No

11. Whether your association with the MFI has improved your status in the society?

Highly	Somewhat	Not at all

12. Your participation in community affairs has improved because of your association with the MFI?

Highly	Somewhat	Not at all

13. Which of the following financial services were you accessing before joining the MFI?

Type of service	Yes/No	Service provided by
Saving Banks Account		Financial Institution/Informal mechanism*
Fixed Deposit		Financial Institution/ Chit funds/Other Informal Mechanism*
Life Insurance		
Health Insurance		
Pension		
Loans from money lenders (informal sources)		
Loans from banks, cooperatives, SHGs		

\*Financial Institution could be Commercial Banks, Cooperative Banks, Regional Rural Banks, NBFs etc.

14. Which of the following financial services you access now?

15. Type of service	Yes/No	Service provided by
Saving Banks Account		Financial Institution/Informal mechanism*
Fixed Deposit		Financial Institution/ Chit funds/Other Informal Mechanism*
Life Insurance		
Health Insurance		
Pension		
Loans from money lenders (informal sources)		
Loans from banks, cooperatives, SHGs		

\*Financial Institution could be Commercial Banks, Cooperative Banks, Regional Rural Banks, NBFCs etc.

16. Whether your association with the MFI has improved your awareness regarding literacy and education?

Highly	Somewhat	Not at all

17. Has your ability to read and write improved because of your association with the MFI?

Highly	Somewhat	Not at all

18. Has the MFI helped to improve your household's access to better health facilities?

Yes	No

19. MFI has helped to improve your household's access to better education facilities?

Yes	No

20. The MFI has provided services relating to livelihoods, health, education (credit plus services) to you apart from loans?

Yes	No

21. I have used Bhim-UPI (phone-pe, Google-pe, Paytm any other app) to make digital & cashless transactions.

Yes	No

22. My spouse (or other close household member such as son or daughter) has used Bhim-UPI (phone-pe, Google-pe, Paytm any other app) to make digital & cashless transactions.

Yes	No

### Section 3 (Client Questionnaire): Economic Dimension

1. Surveyor should fill the following table on the basis of information provided by the respondent:

Loan utilization over time	1st loan cycle*	2nd loan cycle*	Latest loan*
Year			
Repayment of earlier debt	Yes/No	Yes/No	Yes/No
Recovery of assets that may have been mortgaged to some lender	Yes/No	Yes/No	Yes/No
Emergency (hospitalization, death)	Yes/No	Yes/No	Yes/No
Purchase of TV, Fridge, etc	Yes/No	Yes/No	Yes/No
Marriage	Yes/No	Yes/No	Yes/No
Child's education	Yes/No	Yes/No	Yes/No
Assets such as livestock etc for income generation	Yes/No	Yes/No	Yes/No
Working capital for income generation activities	Yes/No	Yes/No	Yes/No
Starting new business	Yes/No	Yes/No	Yes/No
Any other (Please specify)			
*Include top-up loans (Eg if in the 1 <sup>st</sup> loan cycle a top up loan was taken for emergency, this information should be filled up under the 1 <sup>st</sup> loan cycle column)			

Change in economic profile over time	Before 1st loan	Latest (Now)	2020-21
Number of sources of income			
Value of assets employed for income (Rs)*			
Monthly income (Rs)*			
Monthly Expense on Food (Rs)*			
Was/Is there any monthly savings	Yes/No	Yes/No	Yes/No
Amount of Monthly Savings (Rs)*			
Nos. of days without work for the main earner (Joblessness in household)			
<i>Guidelines: First ask the present value of assets, income and savings. Then ask the respondent to relate it to the value before the 1<sup>st</sup> loan. For example, ask whether the value of assets has doubled or increased by 50%.</i>			

Change in Quality-of-Life Assets	Before 1st loan	Now
Own Kaccha house	Yes/No	Yes/No
Own Pucca house	Yes/No	Yes/No
Piped water supply	Yes/No	Yes/No
Toilet facility in home	Yes/No	Yes/No
Feature Phone	Yes/No	Yes/No
Smart phone	Yes/No	Yes/No
Television	Yes/No	Yes/No
Fridge	Yes/No	Yes/No
Gas connection	Yes/No	Yes/No
Two Wheeler	Yes/No	Yes/No
Any other improvement (specify)		

15. What has been the change in your family income after your association with MFI?
- Increase of over ₹10,000
  - Increase Between ₹8,000 ₹10,000
  - Increase Between ₹5,000 & ₹8,000

- h. Increase Between ₹3,000 & ₹5,000
- i. Increase Between ₹1,000 ₹ 3,000
- j. Increase of less than ₹1,000
- k. No increase
- l. Income has gone down

16. Reason for improvement in earnings and savings (multiple choice)

- More earning members in the family (Yes/No)
- More work or customers in business (Yes/No)
- Access to loan funds from MFIs in a timely manner (Yes/No)
- Access to lower cost loan funds as compared to moneylenders/suppliers (Yes/No)
- Investment in expanding shop or place of business (Yes/No)
- Investment in machine (Yes/No)
- New business (Yes/No)
- Ability to keep more stock (Yes/No)
- Any other (Please specify)

17. If there is no improvement, reasons for no improvement (multiple choice)

- High burden of paying loan instalments (Yes/No)
- Business failure (Yes/No)
- Illness in the family (Yes/No)
- Death in the family (Yes/No)
- Low demand for work (Yes/No)
- No increase in customers (Yes/No)
- New business or livelihood activity (Yes/No)
- Any other (Please specify)

18. Have you started a new business after joining the MFI?

Yes	No

19. Your economic and financial condition has improved after joining the MFI?

Highly	Somewhat	Not at all

20. The primary business of your household was the same before you joined the MFI (Yes/ No/ Not applicable)

#### Section 4: Opinion about Microfinance

1. Do you think microfinance services are available to those who stay in your area?

Yes	No

2. Do you think microfinance services are available to the really poor?

Yes	No

3. If no, why not? (multiple choice)

- The really poor cannot pay back their loan instalments (Yes/No)
- The really poor can pay back but MFIs don't like to do business with them (Yes/No)
- The really poor need small loans and MFIs don't provide such loans (Yes/No)
- Any other reason (please specify)

4. What are the advantages of microfinance? (multiple choice)

- Its loan products suit my needs (Yes/No)
- The staff members are polite at all times, even when instalment payments are missed (Yes/No)
- It provides loans in a timely manner (Yes/No)
- I have known this MFI for long (Yes/No)
- I trust the staff of the MFI (Yes/No)
- The interest rate is affordable (Yes/No)
- Any other (please specify)

5. What are the disadvantages of microfinance? (multiple choice)

- The interest rate is too high (Yes/No)
- The loan recovery practices are harsh (Yes/No)
- The staff of MFI uses bad language when instalment payment is missed (Yes/No)
- The staff of MFI visits in the night for collection when instalment payment is missed (Yes/No)
- The staff of MFI is harsh when collecting instalments (Yes/No)
- Joint liability or group guarantee creates stress (Yes/No)
- One needs to pay bribes to staff or agents to obtain service from MFI (Yes/No)
- Any other (please specify)

## Appendix 3: Sampled Branches

Branch	Urban/Rural/SemiUrban	State	Region
Barpeta	Rural	Assam	North East
Kamrup Metro	Urban	Assam	North East
Shivasagar	Semi Urban	Assam	North East
Katihar	Rural	Bihar	East
Muzaffarpur	Semi Urban	Bihar	East
Patna	Urban	Bihar	East
Balod	Rural	Chhattisgarh	East
Mahasamund	Semi Urban	Chhattisgarh	East
Raipur	Urban	Chhattisgarh	East
Dahod	Semi Urban	Gujarat	West
Khera	Urban	Gujarat	West
Navsari	Rural	Gujarat	West
Faridabad	Urban	Haryana	North
Jind	Rural	Haryana	North
Kurukshetra	Semi Urban	Haryana	North
Bokaro	Rural	Jharkhand	East
Hazaribagh - outskirts	Semi Urban	Jharkhand	East
Ranchi	Urban	Jharkhand	East
Bangalore	Urban	Karnataka	South
Chitradurga	Rural	Karnataka	South
Haveri	Rural	Karnataka	South
Mysore	Semi Urban	Karnataka	South
Tumkur	Semi Urban	Karnataka	South
Udupi	Urban	Karnataka	South
Ernakulam	Urban	Kerala	South
Kottayam	Semi Urban	Kerala	South
Pallakad	Rural	Kerala	South
Amravati	Semi Urban	Maharashtra	West
Jalgaon	Rural	Maharashtra	West
Pune	Urban	Maharashtra	West
Chandel	Semi Urban	Manipur	North East
ImphalEast	Urban	Manipur	North East
Ukhrul	Rural	Manipur	North East
Indore	Urban	MP	West
Mandsaur	Rural	MP	West

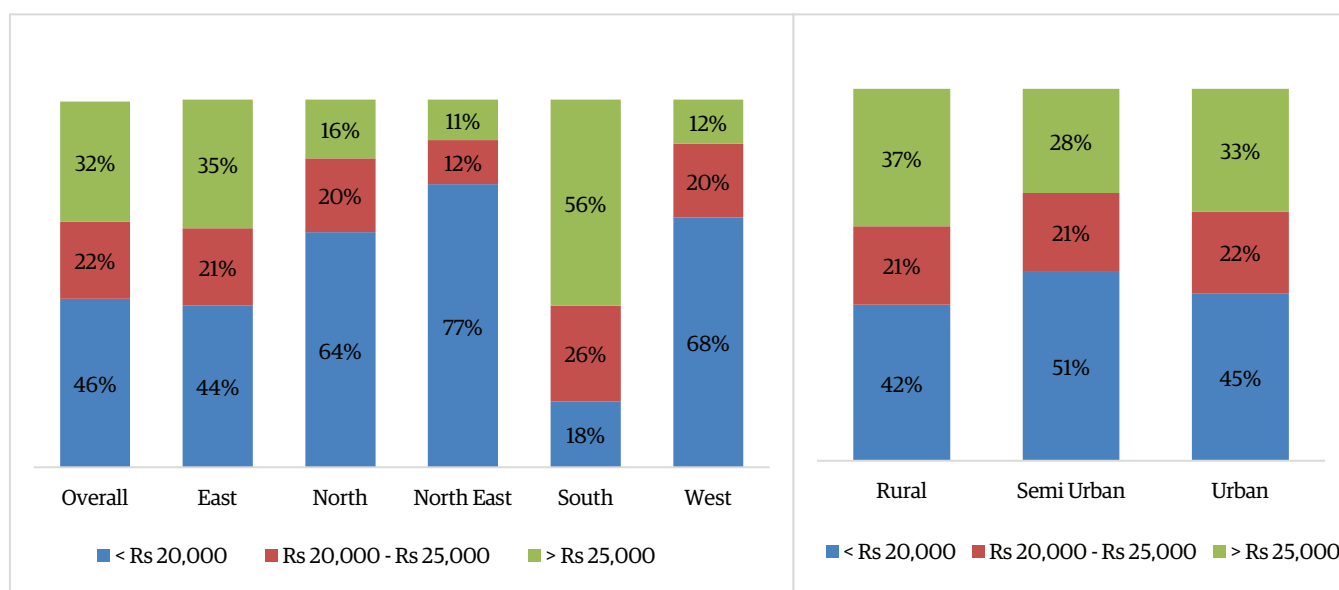
Ratlam	Semi Urban	MP	West
Bhadrak-outskirts	Semi Urban	Odisha	East
Khurda	Urban	Odisha	East
Sambalpur	Rural	Odisha	East
Faridkot	Rural	Punjab	North
Ludhiana	Urban	Punjab	North
Sangrur	Semi Urban	Punjab	North
Banswara	Rural	Rajasthan	West
Jhujhunu	Semi Urban	Rajasthan	West
Udaipur	Urban	Rajasthan	West
Chennai	Urban	TN	South
Coimbatore	Urban	TN	South
Cuddalore	Rural	TN	South
Dindigul	Semi Urban	TN	South
Theni	Rural	TN	South
Tirunelveli	Semi Urban	TN	South
Aligarh	Urban	UP	North
Bahraich	Rural	UP	North
Saharanpur	Semi Urban	UP	North
Kolkata	Urban	WB	East
North twenty four Parganas	Semi Urban	WB	East
Purulia	Rural	WB	East

# Appendix 4: Data Distribution by Regions

## 1. Livelihood Activities

Livelihood Activities	East	North	North East	South	West
Agriculture	23.3%	18.3%	10.0%	29.5%	32.4%
Livestock	10.3%	41.7%	47.8%	21.0%	29.3%
Daily wage labour	11.1%	7.5%	27.8%	42.2%	22.7%
Service enterprise (barber shop, beauty parlour, tailoring, leather work, electrician)	14.2%	27.5%	6.7%	29.5%	21.3%
Salaried Employment	24.9%	4.2%	7.8%	28.0%	20.9%
Grocery shop, vegetable vending, medicine shop etc	17.8%	10.8%	22.2%	17.9%	12.0%
Textile Business (Job work etc.)	1.2%	4.2%	20.0%	3.0%	4.9%
Driver	5.9%	4.2%	0.0%	1.2%	8.9%
Construction Contractor	5.9%	2.5%	1.1%	3.0%	2.7%
Hotel, Eatery etc.	4.3%	0.8%	1.1%	5.8%	0.9%
Poultry	2.0%	0.0%	17.8%	0.6%	0.4%
Traditional crafts	3.6%	0.8%	3.3%	1.2%	0.9%
Wholesale business	2.8%	0.8%	4.4%	0.9%	0.0%
Fishery	3.6%	0.0%	0.0%	0.6%	0.0%
Coaching, training etc.	0.8%	0.0%	0.0%	0.6%	0.4%
Consumer durable shop (TV, Fridge)	0.4%	0.0%	3.3%	0.0%	0.0%
Online business	1.2%	0.0%	0.0%	0.3%	0.0%
Any other	13.0%	6.7%	2.2%	3.6%	19.1%
Eligible Responses	253	120	90	329	225

## 2. Monthly Household Income

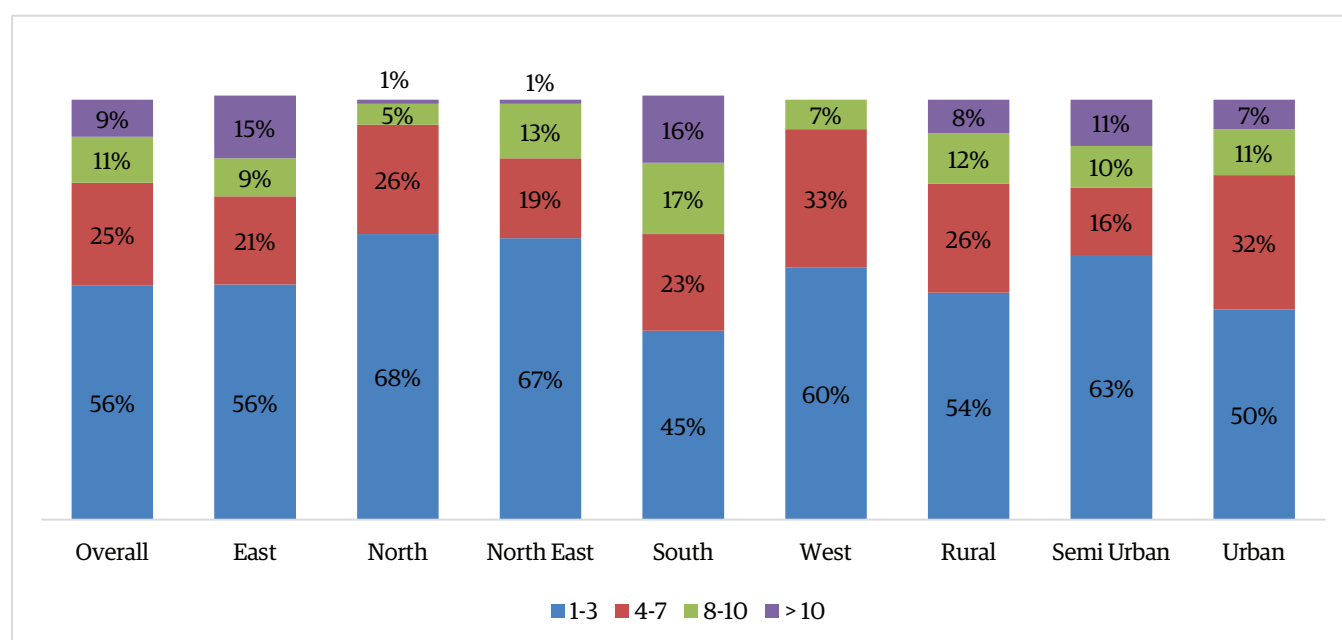




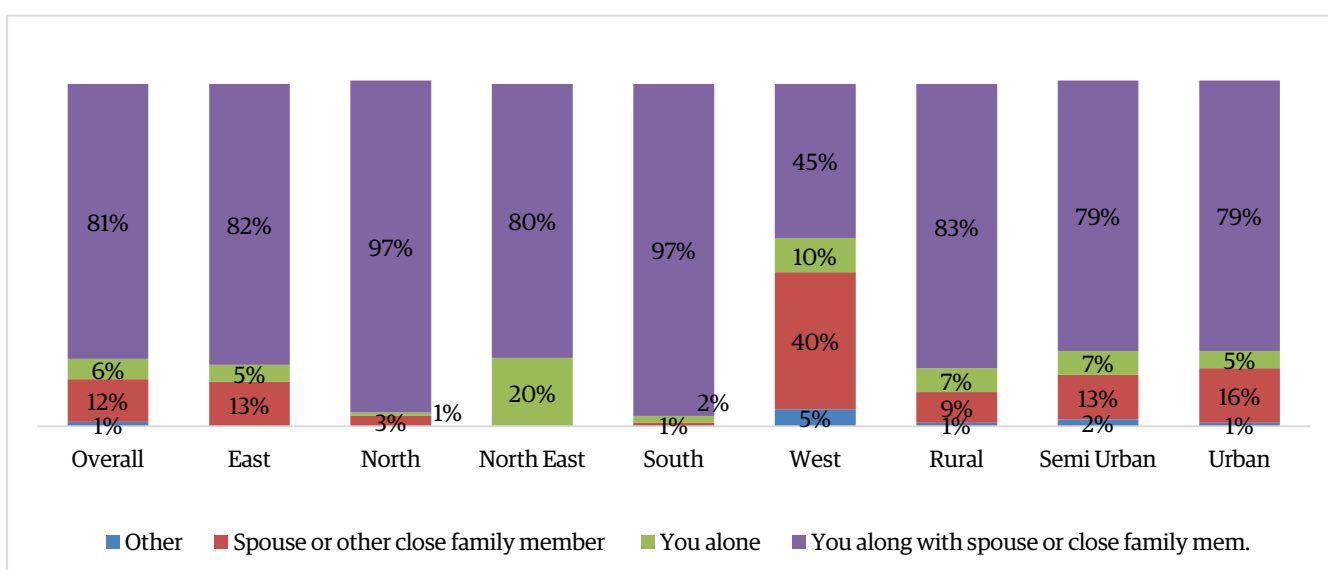
### 3. First Borrowed

First borrowed in	East	North	North East	South	West
Before 2010	15%	4%	2%	15%	7%
2010-12	6%	4%	9%	14%	3%
2012-2014	9%	9%	4%	7%	6%
2014-2016	17%	14%	4%	7%	12%
2016-2018	16%	21%	17%	11%	17%
2018-2019	14%	7%	29%	13%	11%
2019-2020	6%	12%	9%	8%	8%
2020-2021	12%	9%	16%	5%	18%
2022	5%	20%	10%	20%	18%
Eligible Responses	253	120	90	329	225

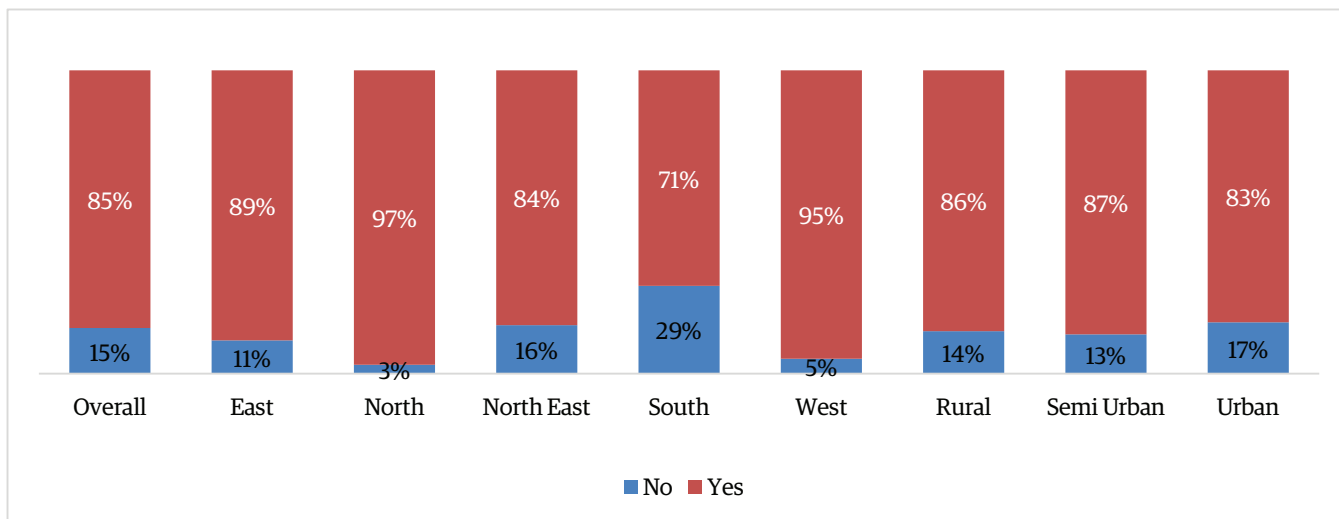
### 4. No. of Loans from MFI through the Years



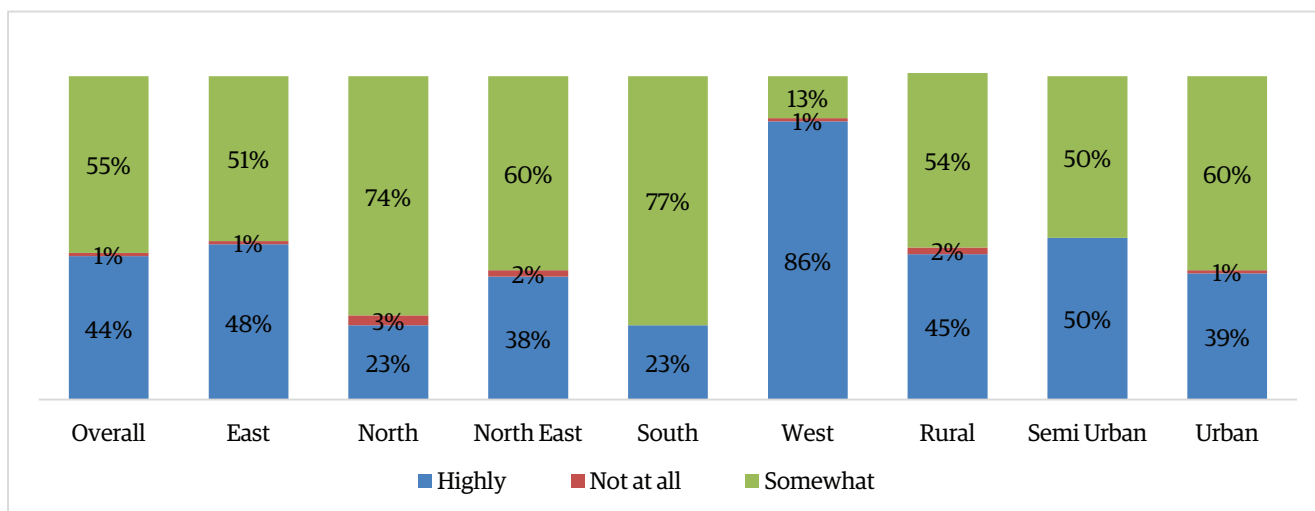
### 5. Who decides how loan will be utilized?



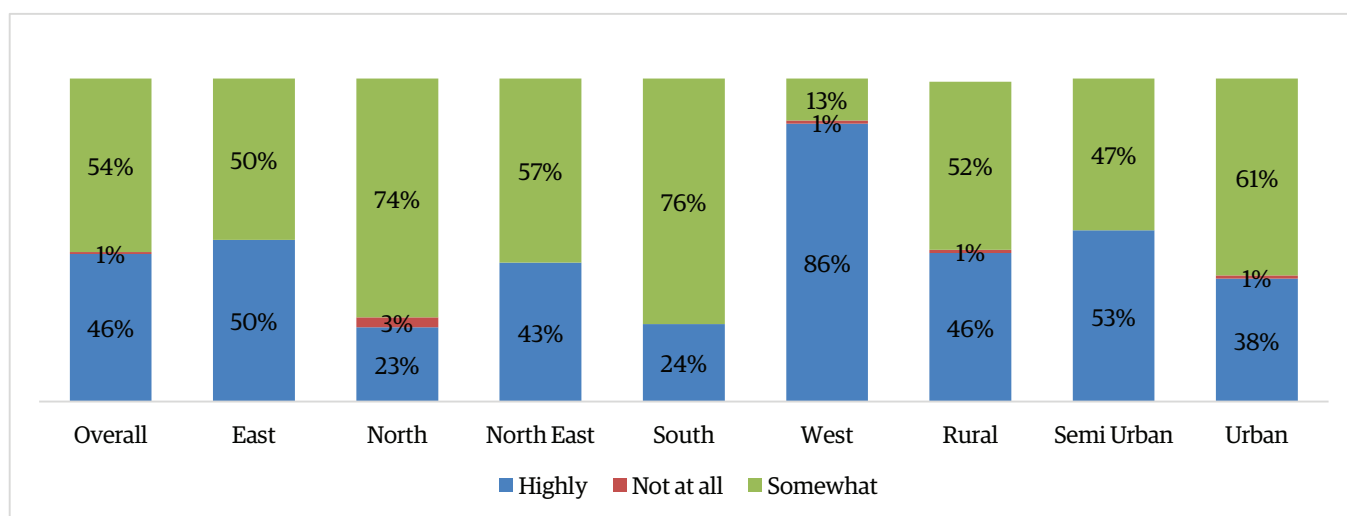
## 6. Greater say in household decisions after joining MFI?



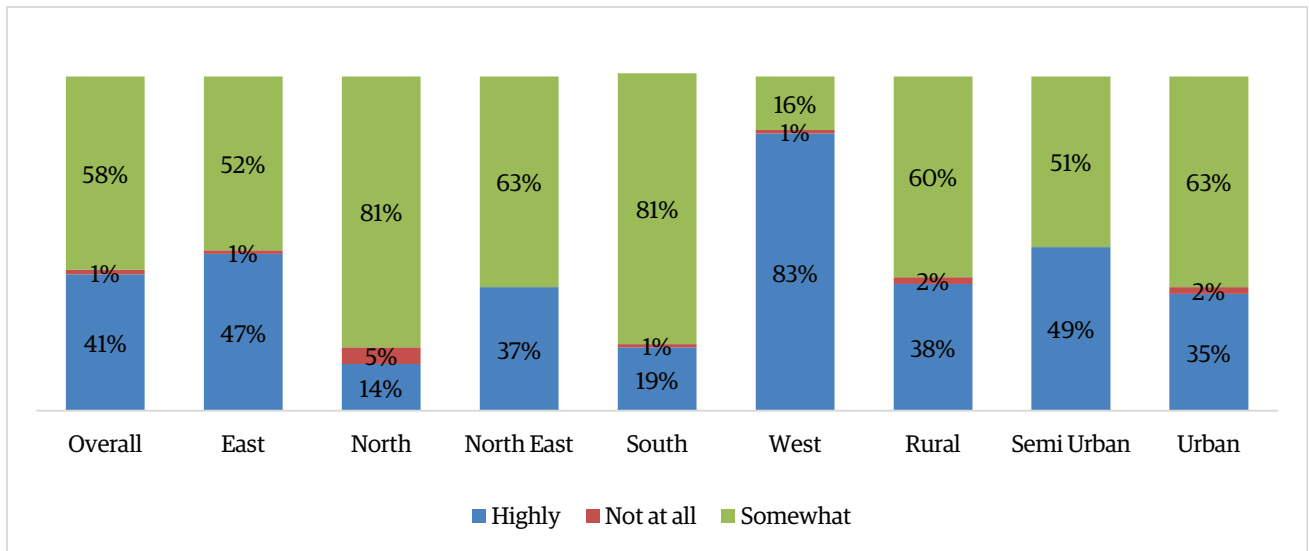
## 7. Improvement in Confidence in talking with people you may not know?



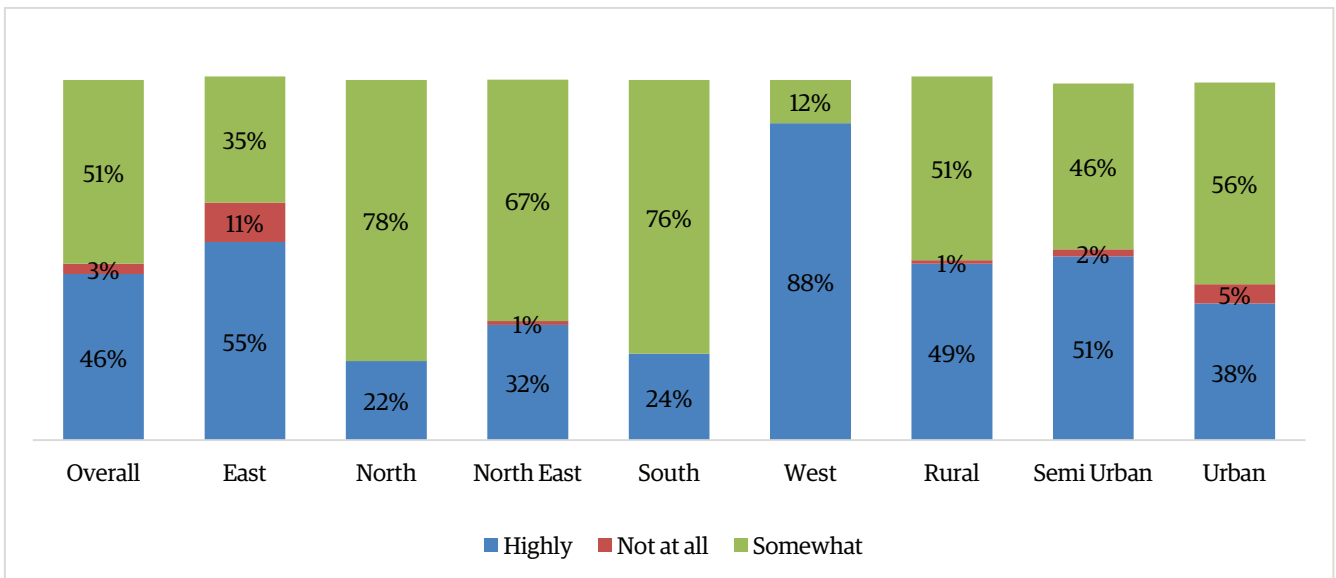
## 8. Improvement in Confidence while going out independently



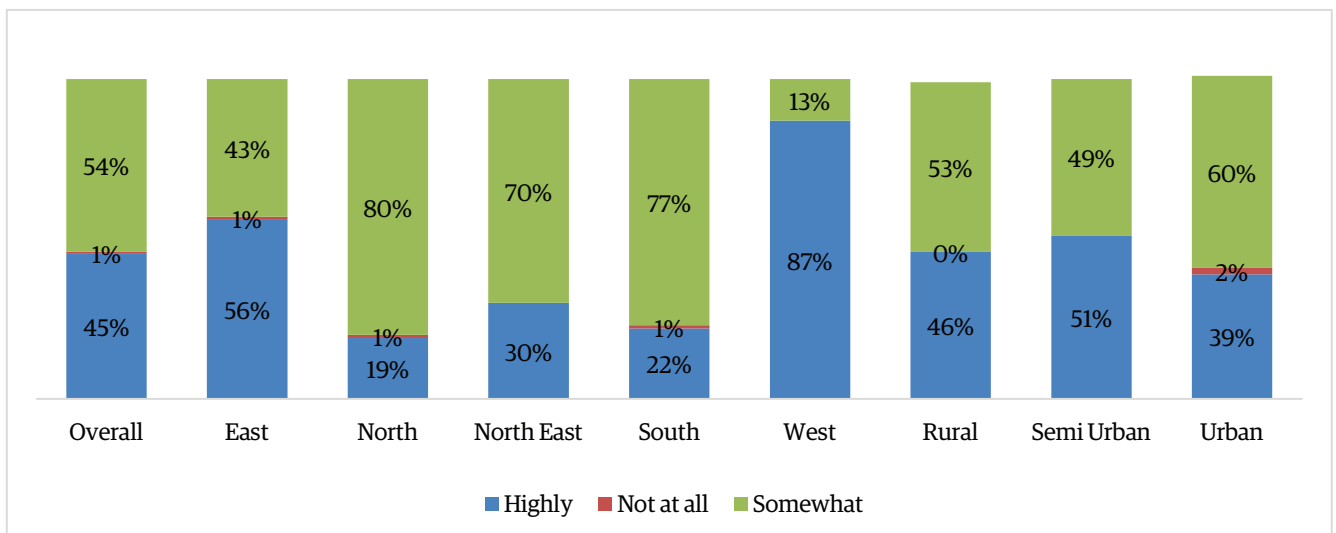
## 9. Improvement in Confidence in interacting with people in Banks



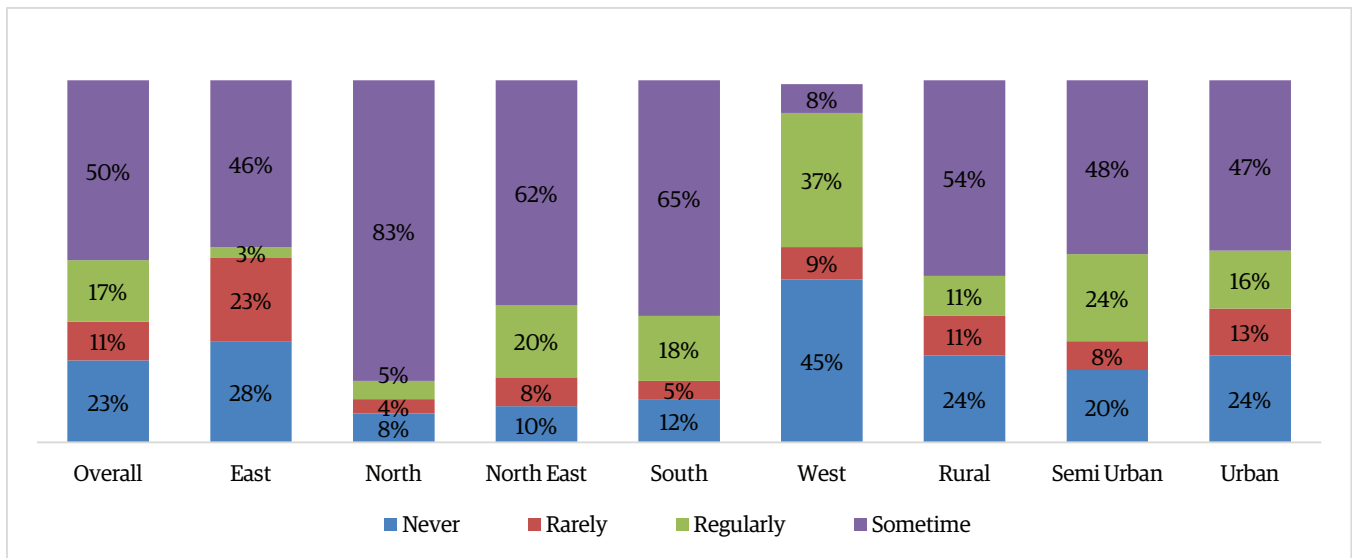
## 10. Participation in Community Affairs



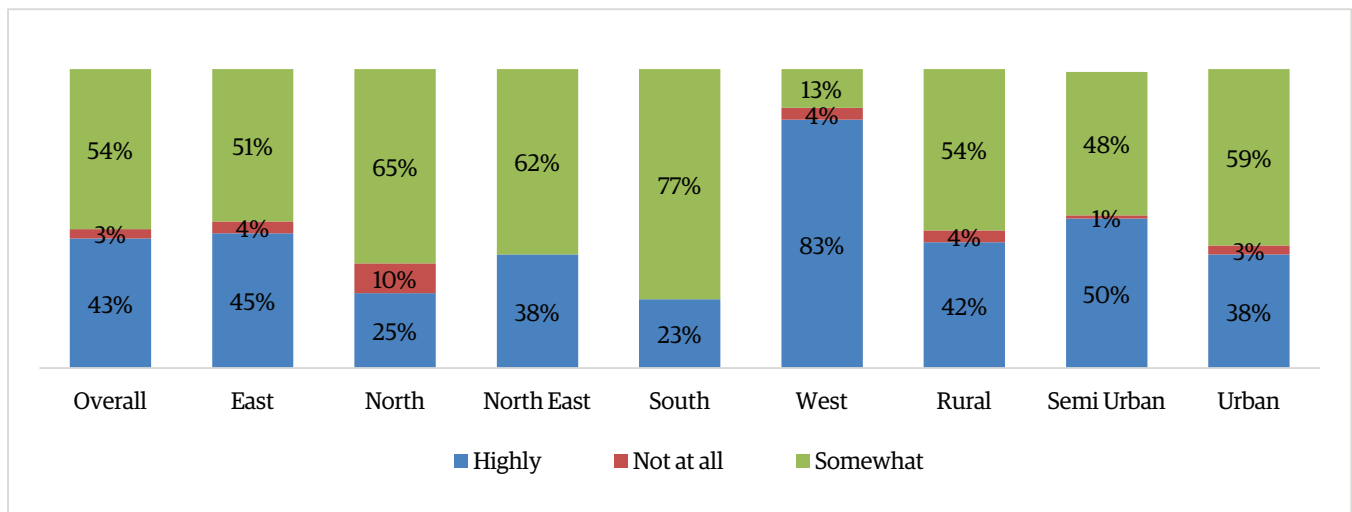
## 11. Status in Society



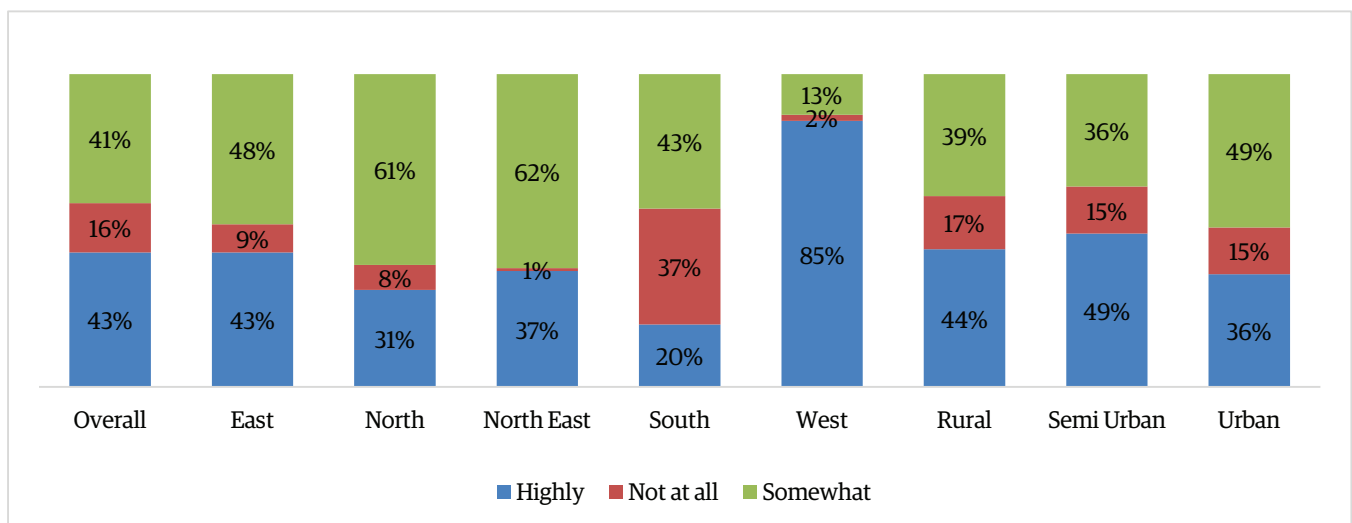
## 12. Discussions in Group Meeting about Government's Welfare Schemes



## 13. Awareness regarding literacy and education



## 14. Ability to read, write and count



## 15. Schemes of the Government (Awareness, Benefit from, MFI helped)

Awareness (% of all respondents)	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Mid-day meal scheme	79%	74%	67%	89%	99%	59%	77%	86%	75%
Pradhan Mantri Awas Yojana	81%	70%	98%	52%	80%	97%	76%	87%	80%
Pradhan Mantri Jan Arogya Yojana	64%	49%	93%	39%	86%	44%	72%	59%	61%
Health insurance scheme of State Government*	53%	47%	48%	17%	94%	16%	53%	54%	51%
MNREGS	60%	58%	54%	33%	91%	28%	73%	57%	49%
National Pension Scheme	40%	19%	31%	54%	72%	15%	38%	41%	40%
Old age pension	52%	19%	60%	66%	95%	14%	54%	49%	52%
Pulse polio	67%	68%	42%	67%	85%	53%	62%	69%	70%

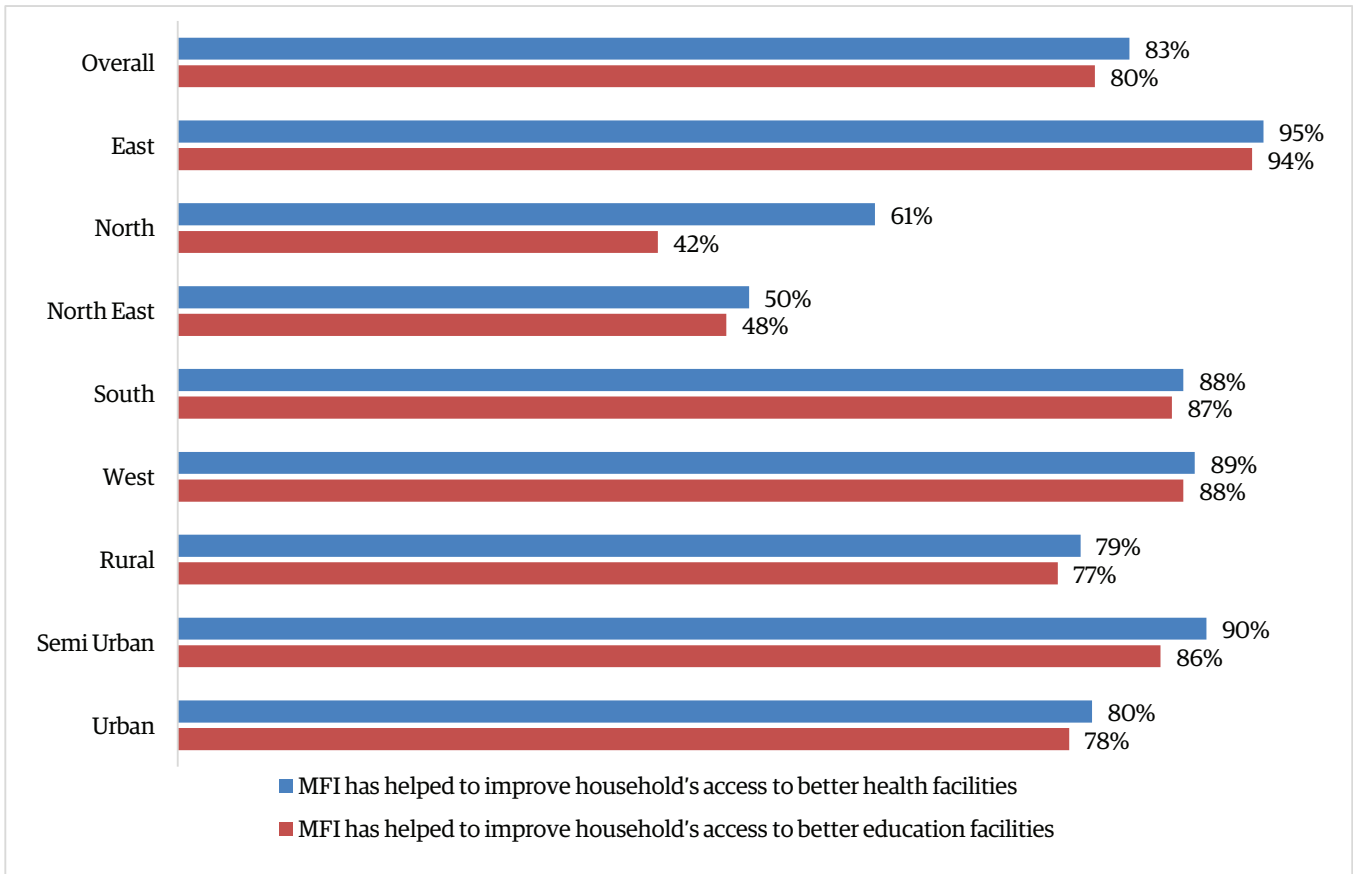
\* Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.

Benefit from (% of those aware)	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Mid-day meal scheme	48.0%	45%	71%	69%	40%	45%	53%	50%	40%
Pradhan Mantri Awas Yojana	19.9%	26%	36%	9%	12%	19%	29%	19%	13%
Pradhan Mantri Jan Arogya Yojana	46.3%	16%	59%	23%	67%	18%	42%	67%	32%
Health insurance scheme of State Government*	38.4%	8%	84%	67%	40%	37%	43%	43%	28%
MNREGS	34.7%	11%	22%	80%	46%	27%	36%	38%	29%
National Pension Scheme	12.4%	13%	0%	27%	13%	3%	9%	14%	15%
Old age pension	13.0%	11%	0%	0%	20%	3%	11%	14%	14%
Pulse polio	68.7%	71%	96%	67%	53%	91%	65%	72%	69%

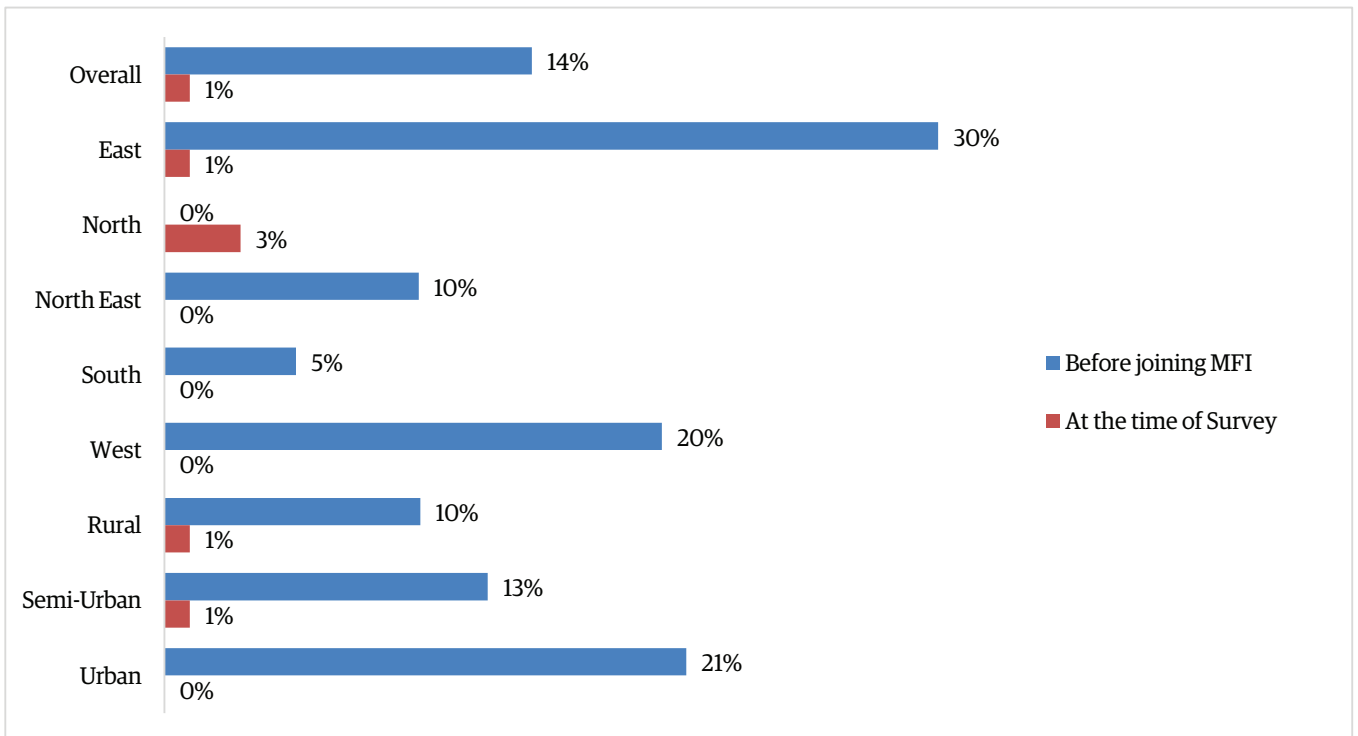
\* Bhamashah Swasthya Bima Yojana, CM Comprehensive Insurance Scheme etc.

MFI helped (% of those benefitting)	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Mid-day meal scheme	40%	7%	58%	35%	35%	83%	36%	47%	35%
Pradhan Mantri Awas Yojana	42%	2%	81%	75%	35%	46%	26%	67%	34%
Pradhan Mantri Jan Arogya Yojana	34%	5%	47%	25%	26%	100%	20%	50%	23%
Health insurance scheme of State Government*	21%	20%	24%	10%	12%	100%	9%	36%	14%
MNREGS	28%	25%	14%	50%	24%	41%	11%	55%	17%
National Pension Scheme	18%	50%	0%	0%	20%	0%	27%	32%	
Old age pension	25%	20%	0%	0%	26%	0%	10%	48%	16%
Pulse polio	30%	20%	6%	55%	32%	39%	22%	36%	30%

## 16. MFI helped access to better health and education facilities



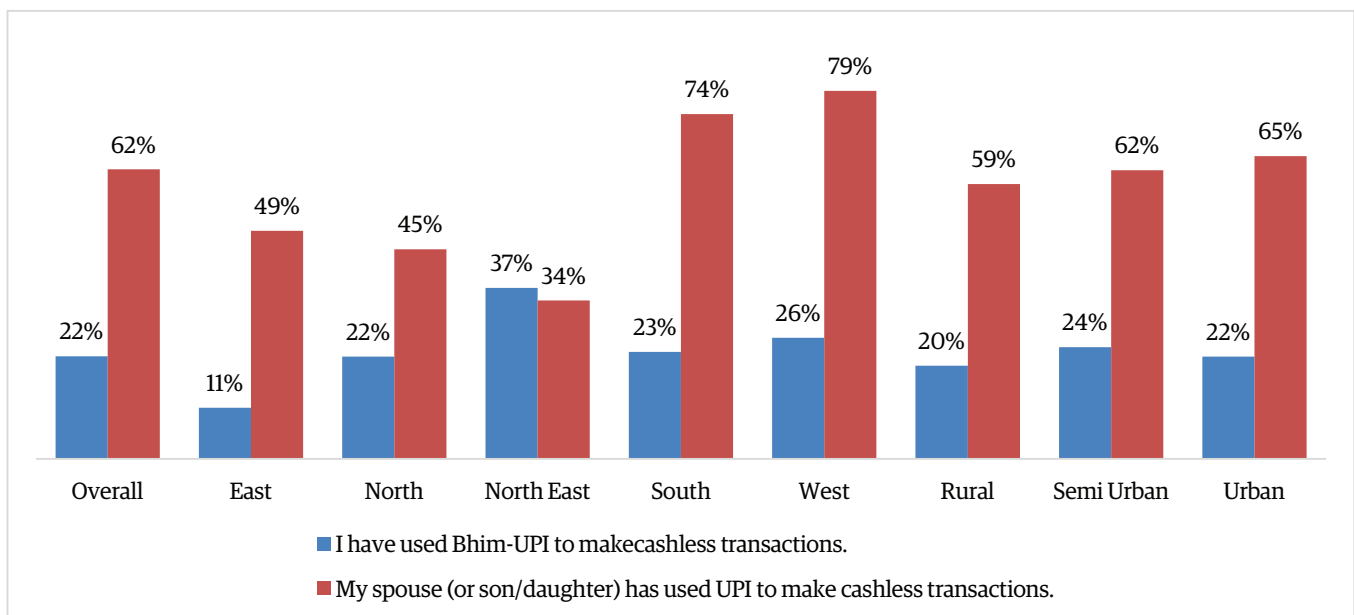
## 17. Dependence on Moneylenders



## 18-a. Financial Services Availed

Before Joining MFI	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Saving Banks Account	87%	74%	92%	91%	100%	79%	91%	85%	85%
Fixed Deposit in Banks	6%	4%	20%	3%	2%	9%	5%	10%	3%
Life Insurance	10%	5%	18%	21%	12%	4%	8%	11%	11%
Health Insurance	4%	1%	10%	7%	4%	1%	4%	2%	5%
Pension	1%	1%	2%	9%	0%	0%	1%	2%	0%
Loans from banks, cooperatives, SHGs	7%	1%	0%	13%	9%	12%	9%	0%	11%
Now	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Saving Banks Account	96%	98%	86%	97%	100%	93%	98%	91%	99%
Fixed Deposit in Banks	5%	7%	13%	3%	2%	1%	4%	6%	4%
Life Insurance	20%	12%	28%	36%	23%	13%	22%	24%	14%
Health Insurance	12%	4%	18%	18%	6%	22%	7%	18%	10%
Pension	3%	1%	3%	17%	1%	5%	2%	6%	2%
Loans from banks, cooperatives, SHGs	21%	40%	0%	29%	9%	26%	20%	20%	23%

## 18-b. Used UPI



## 19. Change in the number of income sources

<i>Number of sources of income, you had before the 1st loan</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
1	64%	80%	68%	37%	48%	51%	60%	51%
2	31%	19%	29%	60%	40%	42%	37%	44%
3	4%	1%	3%	2%	11%	7%	3%	4%
4	0%				1%		0%	1%
5				1%		0%		1%
Eligible Responses	253	120	90	329	225	338	338	341
<i>Number of income sources in 2020-21</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
1	45%	34%	30%	26%	11%	31%	31%	27%
2	42%	59%	52%	66%	64%	54%	59%	58%
3	10%	5%	5%	6%	24%	11%	10%	12%
4	2%		10%	1%	2%	4%	0%	3%
5	0%	1%	4%			1%	0%	1%
Eligible Responses	241	96	81	264	184	268	281	317
<i>Number of income sources now</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
1	40%	26%	31%	21%	13%	25%	26%	24%
2	45%	66%	51%	69%	63%	59%	62%	57%
3	13%	8%	7%	10%	22%	12%	11%	15%
4	2%		9%	1%	2%	3%	0%	3%
5		1%	2%			1%		0%
Eligible Responses	253	120	90	329	225	338	338	341

## 20. Change in joblessness in the household

<i>Joblessness in household before 1st loan</i>	East	North	North East	South	West	Rural	Semi Urban	Urban	Overall
0 - 14	40%	3%	17%	39%	19%	31%	30%	24%	29%
15 - 29	9%	13%	7%	9%	11%	9%	12%	7%	10%
30 - 44	14%	44%	51%	19%	12%	20%	22%	24%	22%
45 - 60	26%	20%	14%	12%	6%	19%	14%	13%	15%
> 60	11%	19%	11%	21%	52%	20%	21%	31%	24%
Eligible Responses	253	120	90	329	225	338	338	341	1017
<i>Joblessness in household in 2020-21</i>	East	North	North East	South	West	Rural	Semi Urban	Urban	Overall
0 - 14	24%	8%		19%	24%	14%	22%	17%	18%
15 - 29	12%	32%	9%	11%	4%	14%	16%	8%	12%
30 - 44	19%	42%	56%	22%	5%	21%	20%	28%	23%
45 - 60	24%	11%	30%	15%	5%	24%	17%	10%	17%
> 60	22%	6%	6%	32%	62%	26%	24%	37%	30%
Eligible Responses	216	96	70	254	149	243	254	288	785

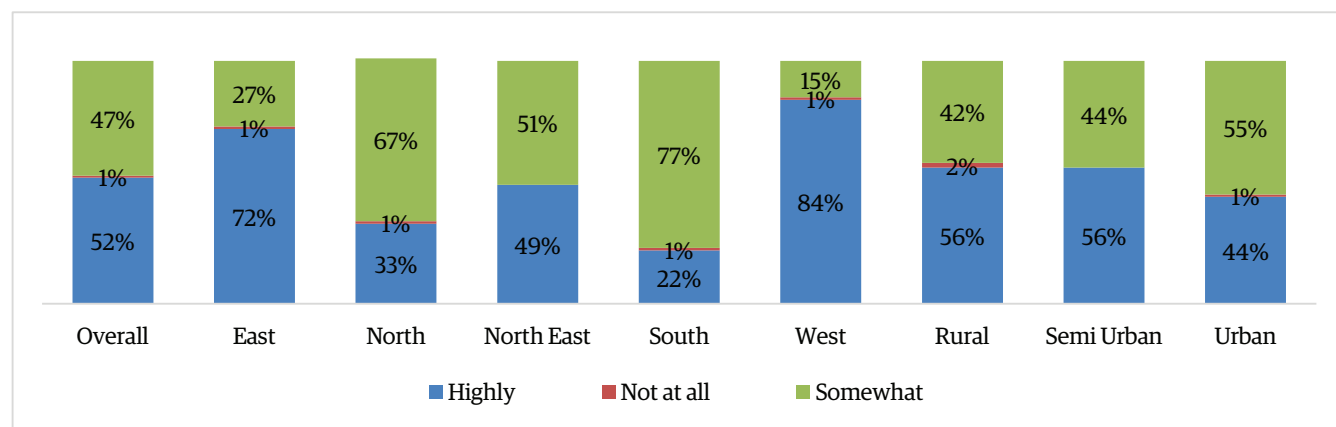


<i>Joblessness in household now</i>	East	North	North East	South	West	Rural	Semi Urban	Urban	Overall
0 - 14	63%	28%	21%	41%	25%	41%	44%	35%	40%
15 - 29	7%	30%	8%	9%	7%	13%	11%	7%	10%
30 - 44	9%	37%	56%	18%	12%	18%	19%	23%	20%
45 - 60	11%	4%	13%	15%	4%	13%	8%	10%	10%
> 60	9%	1%	2%	18%	52%	15%	18%	26%	20%
Eligible Responses	253	120	90	329	225	338	338	341	1017

## 21. Change in if there was any monthly savings in the household

Monthly savings in the household (Yes)	East	North	North East	South	West	Rural	Semi Urban	Urban	Overall
Before 1st Loan (1017)	64%	98%	77%	30%	46%	56%	56%	50%	54%
Eligible Responses	253	120	90	329	225	338	338	341	1017
2020-21 (866)	78%	100%	99%	36%	82%	71%	69%	70%	70%
Eligible Responses	241	96	81	264	184	268	281	317	866
Now (1017)	91%	99%	98%	57%	79%	80%	84%	73%	79%
Eligible Responses	253	120	90	329	225	338	338	341	1017

## 22. Has the economic and financial condition of your household improved after joining an MFI?



## 23. Reasons for increase in savings if any

Reason for increase in savings	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
More earning members in the family	53%	54%	50%	42%	35%	86%	49%	54%	57%
More work or customers in business	40%	40%	39%	28%	57%	20%	46%	37%	38%
Access to loan funds from MFIs in a timely manner	32%	9%	23%	18%	63%	24%	34%	38%	26%
Access to lower cost loan funds as compared to money lenders	20%	4%	18%	17%	44%	6%	21%	23%	17%
Investment in expanding shop or place of business	13%	21%	9%	21%	9%	8%	8%	13%	17%
Investment in machine	9%	18%	10%	8%	8%	3%	9%	7%	12%
New business	17%	12%	44%	20%	4%	28%	20%	17%	15%
Ability to keep more stock	13%	17%	31%	17%	2%	12%	13%	14%	11%
Other reasons	1%	2%	6%	2%	0%	0%	1%	1%	2%
Eligible Responses	1017	253	120	90	329	225	338	338	341

## 24. Monthly savings

<i>Monthly Savings (₹) before 1st loan</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
₹ 0 - 1999	14%	1%	25%	45%	50%	26%	22%	28%
₹ 2000 - 3999	54%	14%	39%	40%	27%	38%	36%	33%
₹ 4000 - 6000	28%	46%	28%	10%	22%	21%	34%	28%
> ₹ 6000	4%	39%	7%	5%	1%	16%	8%	11%
Eligible Responses	156	115	67	98	104	184	186	170
<i>Monthly Savings (Rs) in 2020-21</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
₹ 0 - 1999	5%		18%	37%	36%	23%	17%	15%
₹ 2000 - 3999	28%	1%	17%	23%	43%	26%	25%	26%
₹ 4000 - 6000	52%	25%	52%	26%	21%	30%	38%	39%
> ₹ 6000	15%	74%	13%	14%	1%	21%	19%	20%
Eligible Responses	176	89	77	84	146	175	183	214
<i>Monthly Savings (Rs) now</i>	East	North	North East	South	West	Rural	Semi Urban	Urban
₹ 0 - 1999	3%		17%	15%	16%	10%	9%	10%
₹ 2000 - 3999	20%	1%	12%	36%	38%	24%	27%	21%
₹ 4000 - 6000	38%	12%	41%	34%	42%	33%	35%	34%
> ₹ 6000	39%	87%	31%	15%	4%	33%	28%	36%
Eligible Responses	218	115	78	176	166	248	265	240

## 25. Ownership of assets - before & after

Before First Loan	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Own Kaccha house	35%	52%	13%	48%	26%	36%	40%	33%	30%
Own Pucca house	57%	46%	87%	51%	63%	48%	56%	58%	58%
Piped water supply	59%	51%	68%	47%	85%	31%	49%	63%	66%
Toilet facility in home	69%	54%	89%	68%	85%	52%	66%	73%	68%
Feature Phone	66%	40%	78%	38%	93%	62%	62%	67%	70%
Smart phone	43%	24%	53%	41%	54%	44%	43%	43%	43%
Television	67%	47%	59%	68%	95%	54%	63%	68%	71%
Fridge	30%	18%	47%	32%	47%	8%	25%	30%	33%
Gas connection	70%	45%	70%	80%	98%	51%	62%	72%	74%
Two Wheeler	40%	17%	47%	20%	73%	22%	38%	43%	39%
Eligible Responses	1017	253	120	90	329	225	338	338	341
Now	Overall	East	North	North East	South	West	Rural	Semi Urban	Urban
Own Kaccha house	23%	21%	3%	42%	22%	28%	28%	26%	14%
Own Pucca house	72%	77%	74%	56%	67%	79%	72%	63%	80%
Piped water supply	72%	80%	50%	59%	89%	55%	68%	68%	79%
Toilet facility in home	83%	87%	71%	80%	88%	76%	83%	79%	85%

Feature Phone	68%	45%	66%	32%	96%	69%	66%	69%	70%
Smart phone	83%	75%	73%	72%	93%	85%	79%	80%	89%
Television	87%	80%	74%	86%	96%	88%	80%	90%	91%
Fridge	53%	45%	68%	40%	67%	37%	43%	55%	60%
Gas connection	91%	89%	79%	84%	99%	92%	88%	91%	95%
Two Wheeler	60%	40%	55%	28%	87%	57%	54%	58%	67%
Eligible Responses	1017	253	120	90	329	225	338	338	341

## 26. Advantages of microfinance

Advantages	East	North	North East	South	West	Rural	Semi Urban	Urban
Loan products suit my needs	70%	97%	87%	98%	99%	88%	92%	91%
The staff members are polite at all times, even when instalment payments are missed	61%	56%	52%	98%	14%	70%	61%	52%
Loans are provided in a timely manner	72%	61%	44%	99%	55%	79%	69%	71%
I have known this MFI for long	53%	68%	18%	97%	43%	65%	63%	63%
I trust the staff of the MFI	60%	71%	30%	97%	37%	68%	66%	62%
The interest rate is affordable	40%	35%	30%	93%	9%	57%	48%	41%
Any other	1%	1%	0%	0%	0%	0%	0%	1%

## 27. Disadvantages of microfinance

Disadvantages	East	North	North East	South	West	Rural	Semi Urban	Urban
The interest rate is too high	40%	0%	20%	51%	51%	43%	33%	43%
Joint liability creates stress	23%	0%	14%	8%	1%	8%	7%	15%
Loan recovery practices are harsh	10%	0%	29%	1%	1%	4%	6%	7%
The staff of MFI uses bad language when instalment payment is missed	3%	0%	0%	0%	0%	2%	1%	0%
The staff of MFI visits in the night for collection when instalment payment is missed	7%	0%	0%	0%	0%	4%	1%	2%
The staff of MFI is harsh when collecting instalments	14%	0%	0%	0%	1%	4%	4%	4%
One needs to pay bribes to staff or agents to obtain service from MFI	1%	0%	14%	0%	1%	2%	4%	0%

Note: The distribution of responses across the different regions can be seen in the following table. "Joint liability creates stress" and "Loan recovery practices are harsh" are more pronounced in the east and north east. Also, "One needs to pay bribes to staff or agents" has been reported by 14% respondents in north east.

## Appendix 5: Comparison of Mean Age across choice categories for confidence indicators

There does not appear to be a significant difference in the mean age of respondents across choice categories (Not at all, Somewhat, Highly) for the different indicators related to their confidence. This can be seen in the table below.

Improved Status in Society	Counts	Mean age	Std. Dev.	Min	Max
Not at all	7	35.1	10.4	27	55
Somewhat	549	39.0	9.1	21	65
Highly	461	36.6	8.8	20	60
Greater Say in Household Decision	Counts	Mean age	Std. Dev.	Min	Max
No	153	39.6	9.5	22	65
Yes	864	37.6	9.0	20	64
Improved confidence in dealing with people in banks	Counts	Mean age	Std. Dev.	Min	Max
Not at all	14	34.0	9.6	22	49
Somewhat	588	38.6	9.0	20	65
Highly	415	37.0	9.1	21	63
Improved confidence in moving out independently	Counts	Mean age	Std. Dev.	Min	Max
Not at all	7	32.0	9.5	22	46
Somewhat	546	38.5	9.0	20	65
Highly	464	37.2	9.1	21	63
Improved confidence in talking with outsiders	Counts	Mean age	Std. Dev.	Min	Max
Not at all	10	37.0	9.7	22	51
Somewhat	556	38.6	8.9	20	65
Highly	451	37.0	9.2	21	62



3. Increase in income & savings due to access to timely loans from MFIs - variable represented by x175.

. ttest x175, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.2719892	.0163801	.4452857	.239832	.3041463
First Lo	278	.4604317	.0299479	.4993308	.4014773	.519386
combined	1017	.3235005	.0146766	.468042	.2947006	.3523003
diff		-.1884425	.0324116		-.2520439	-.1248411

diff = mean(> 1 Loan) - mean(First Lo) t = -5.8140  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.0000 Pr(|T| > |t|) = 0.0000 Pr(T > t) = 1.0000

4. Increase in income & savings due to lower cost loan funds from MFIs - variable represented by x176.

. ttest x176, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.1312585	.0124303	.3379115	.1068555	.1556614
First Lo	278	.3920863	.029334	.4890962	.3343404	.4498323
combined	1017	.2025565	.0126089	.4021024	.1778141	.2272989
diff		-.2608279	.0270954		-.3139972	-.2076585

diff = mean(> 1 Loan) - mean(First Lo) t = -9.6263  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.0000 Pr(|T| > |t|) = 0.0000 Pr(T > t) = 1.0000

5. Increase in income & savings due to investment in expanding place of business - variable represented by x177.

. ttest x177, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.1271989	.0122651	.3334213	.1031203	.1512776
First Lo	278	.1258993	.0199321	.3323341	.0866617	.1651369
combined	1017	.1268437	.0104408	.3329615	.1063557	.1473316
diff		.0012996	.0234381		-.0446931	.0472924

diff = mean(> 1 Loan) - mean(First Lo) t = 0.0554  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.5221 Pr(|T| > |t|) = 0.9558 Pr(T > t) = 0.4779

6. Increase in income & savings due to investment in machine - variable represented by x178.

. ttest x178, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.1001353	.0110498	.3003836	.0784425	.1218281
First Lo	278	.0755396	.0158778	.2647366	.044283	.1067961
combined	1017	.093412	.0091298	.2911521	.0754966	.1113273
diff		.0245957	.0204805		-.0155933	.0647848

diff = mean(> 1 Loan) - mean(First Lo) t = 1.2009  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.8850 Pr(|T| > |t|) = 0.2301 Pr(T > t) = 0.1150

7. Increase in income & savings due to starting a new business - variable represented by x179.

. ttest x179, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.1366712	.0126444	.3437325	.1118479	.1614945
First Lo	278	.2661871	.026555	.4427603	.2139118	.3184623
combined	1017	.1720747	.0118415	.3776311	.1488381	.1953114
diff		-.1295159	.0262699		-.1810654	-.0779663

diff = mean(> 1 Loan) - mean(First Lo) t = -4.9302  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.0000 Pr(|T| > |t|) = 0.0000 Pr(T > t) = 1.0000

8. Increase in income & savings due to ability to keep more stock - variable represented by x180.

. ttest x180, by(cyc)

Two-sample t test with equal variances

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
> 1 Loan	739	.150203	.0131513	.3575122	.1243846	.1760214
First Lo	278	.0647482	.0147856	.2465248	.0356418	.0938546
combined	1017	.1268437	.0104408	.3329615	.1063557	.1473316
diff		.0854548	.0232842		.0397641	.1311454

diff = mean(> 1 Loan) - mean(First Lo) t = 3.6701  
 Ho: diff = 0 degrees of freedom = 1015

Ha: diff < 0 Ha: diff != 0 Ha: diff > 0  
 Pr(T < t) = 0.9999 Pr(|T| > |t|) = 0.0003 Pr(T > t) = 0.0001



## Appendix 7: List of MFIs

<b>S.No.</b>	<b>Name of MFIs</b>
1	Annapurna Finance Private Limited
2	Arth Micro Finance Pvt Ltd
3	Aviral Finance Pvt Ltd
4	Digamber Capfin Ltd
5	Grameen Development & Finance Pvt Ltd
6	Jeevankiran
7	Kiara Microcredit Pvt Ltd
8	Mahasemam
9	Midland Microfin Ltd
10	NABFINS Limited
11	Navachetana Microfin Services Limited
12	New Opportunity Consultancy Private Limited (NOCPL)
13	Pahal Financial Services Pvt Ltd
14	Prayas Financial Services Pvt Ltd
15	Samasta Microfinance Limited
16	Samhita Community Development Services
17	Sanghamithra Rural Financial Services
18	Satin Creditcare Network Limited
19	Save Solutions Pvt Ltd
20	Socio Economic Action Trust (SEAT)
21	SEVA Manipur
22	Sonata Finance Private Limited
23	Svasti Microfinance Private Limited
24	Svantantra Microfinance Pvt Ltd
25	Vedika Credit Capital Ltd
26	Village Financial Services Ltd (VF SPL)
27	Virutcham Microfinance Ltd (VML)
28	Welfare Services Ernakulam
29	YVU Financial Service



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