Microfinance : The Sour Grape

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ABSTRACT

Microfinance, today, has become a powerful instrument for poverty alleviation, and enables the poor to accumulate assets, boosts their incomes, and reduces their economic vulnerability, but still, it is a much confused buzzword in the banking sector. Microfinance is still an evolving sector in countries like India as compared to many developed countries, where it is highly commercialized through created partnerships, leveraged public and private sector assets and shared know-how mechanisms. There are various opinions about the micro credit demand and supply in India. In the growing market, to meet the huge demand, comprehensive financial inclusive systems and approaches are required. The present paper examines the dominant delivery models of Microfinance - such as SHG Bank Linkage Model and Microfinance Institution Model in India.
Keywords: Microfinance, SBLP, MFI, SHG Bank Linkage Model and Microfinance Institution Model
JEL Classification : G20, G21

INTRODUCTION

Provision of services to the poor and underprivileged sections of the society has always been in focus of various programmes initiated by the Governments since independence (Dasgupta, 2001). Despite encouraging policies and having a wide network of rural bank branches in India, a very large number of the poorest of the poor continue to remain outside the field of formal banking system. A World Bank-NCAER (National Council of Applied Economics Research) Survey (2003) on 'Rural Access To Finance' indicated that 70 per cent of the rural poor do not have a bank account, and 87 per cent have no access to credit from a formal source. Access to other financial services in the category of insurance such as life, health and crop insurance are a mirage for the rural poor. The failure of India's rural banks to deliver finance to the poor may be attributed to a combination of factors. From the banks' perspective, serving the rural poor is a high-risk affair due to the uncertainty about the repayment capacity, high transaction costs, frequent transactions and government policies which contribute to a non-conducive financial climate to rural banking. From the poor rural borrower's perspective, banks do not provide conveniently accessible and flexible services, levy prohibitive transactions costs, including cumbersome, costly procedures and ask for hefty bribes. Furthermore, long processing times and lack of collateral securities, lack of steady employment, income and a verifiable credit history also act as obstacles (Basu, 2006). Further, various studies (World Bank, (2003) ; Basu, (2006); Deshpande et al., (2003); Robin et al., (2004); Tara S. Nair (2000); Yunus, (2003)) also revealed that in India, generally, banks were for the people with money, not for the people without money. The National Sample Survey Organization (NSSO), 59th round data revealed that in the highest income quartile, 92.4 per cent have savings, and 86 per cent have a bank account. By contrast, only 34.3 per cent of the lowest-income quartile have savings, and only 17.7 per cent have a bank account. In short, the government failed to deliver financial services to the majority of the poor people. They need to be able to borrow, save and invest money in order to overcome poverty and protect their families from adversity. Therefore, a need was felt for alternative policies, systems and procedures, saving and loan products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the rural poorest of the poor in India.

Microfinance is considered as a development tool to alleviate poverty in Asian, African and South American countries. Microfinance gives quick and tangible results to the poor people, especially women (Rajendran and Raya, 2011). It puts credit, savings, insurance and other basic financial services like fund transfer within the reach of poor and low-income households and their microenterprises (Robert et al., (2004)). The microfinance institutions can provide small loans to the poor people. These loans are generally offered without any collateral, and the loans granted to the poor are typically short term in nature and in small amounts. Microfinance has proven to be a powerful

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instrument for sustainable poverty reduction, enabling the poor to accumulate assets, boost their incomes, and reduce their economic vulnerability. It can also help to combat the temporary poverty generated by crisis situations (Kumaran, 2002).

DEMAND FOR MICROFINANCE SERVICES IN INDIA

In terms of demand for microfinance services, there are three market segments :

1) Landless agricultural labourers and manual labourers.

2) Small and marginal farmers, rural artisans' weavers, self- employed informal sectors such as hawkers, vendors and workers in household micro-enterprises.

3) Other farmers who are engaged in cultivating commercial crops and others engaged in dairy farming, poultry, fisheries, etc. and non - farm activities such as tea shops, provisional stores and other manufacturing activities There are various opinions about the micro credit demand in India. M-CRIL, a leading micro credit rating agency provides a conservative estimate for the annual demand at ₹ 480 billion based on 60-70 million poor families, with an average household credit demand of ₹ 8,000. Another estimate says that the current annual credit demand by the poor in the country is between ₹ 15,000 - ₹ 45,000 crores (Mahajan and Ramola, 2003). The number of households needing microfinance services ranges between 70 and 80 million (Sa-Dhan, 2004).

SUPPLY OF MICROFINANCE SERVICES IN INDIA

The Indian microfinance sector is characterized by a variety of microfinance service providers. These include apex financial institutions like the National Bank for Agriculture and Rural Development (NABARD), Small Industrial Development Bank of India (SIDBI) and government owned societies like Rashtriya Mahila Kosh (RMK), formal sector financial institutions, Commercial Banks, Regional Rural Banks (RRBs), member-based institutions like Cooperatives, Mutually Aided Co-operative Societies (MACS), SHG Federations, private-sector companies, specialized Non Banking Financial Corporation's (NBFCs), Societies, Trusts, etc. Commercial banks are pursuing new and innovative approaches to microfinance as a potential business and not merely as a social or priority sector lending obligation. The new private sector banks, most notably ICICI Bank, AXIS Bank and HDFC Bank are actively seeking exposure in the microfinance sector. Different kinds of MFIs are also scaling up their activities with product diversification. International banks such as ABN-Amro, City Financial, etc. are also showing interest in the microfinance sector.

DELIVERY MODELS OF MICROFINANCE IN INDIA

The banking sector in India witnessed a large-scale branch expansion after the nationalization of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. Government of India and the RBI has taken several initiatives from time to time, such as prescription of priority sector lending and confessional interest rate for weaker sections. However, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater to the needs of most of the poor people. This led to a search for alternative models for reaching out to the poor to satisfy their credit needs. Microfinance services are provided in India through a variety of delivery models ranging from very popular Self-Help Groups (SHGs), Cooperatives and adapted models like Grameen methodology and For- Profit Corporate models. However, at present, there are two main models of microfinance delivery system in India. They are SHG Bank Linkage Programme Model and Micro Finance Institution Model.

THE SELF HELP GROUP BANK LINKAGE PROGRAM (SBLP) MODEL

The SBLP was introduced as a pilot program in 1991-92 to enable credit availability to the women falling in the low-income group. It was based on the findings of an action research project sponsored by NABARD in 1987. The encouraging results of the pilot study led to its mainstreaming in 1996 as a normal activity of banks. Subsequently, the Reserve Bank of India (RBI) encouraged banks to participate in this activity by reckoning it as a part of their lending to weaker sections. This was an important incentive, as banks in India are subject to priority sector lending requirements, which means that 40 percent of their net bank credit is to be directed to designated priority sectors, of which 10 per cent is to be directed to economically weaker sections (Raghavendra, 2003).

❖ **Progress of SBLP:** The programme exhibited significant growth in terms of coverage and outreach of credit to the rural poor. The SHG-Bank Linkage Programme has been positioned in the banking system as a commercial proposition with advantages of lower transaction costs and generation of goodwill among the rural clientele for the banks leading to other quantifiable benefits in business expansion. The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks and also the bank loans disbursed by the SHGs. The Table 1 presents the combined data of a number of SHGs financed by banks, bank loans, loan per SHG and Refinance from 1999-2000 to 2010-11.

Table 1 : Progress of SHG-Bank Linkage Programme

Year	Total Number of SHGs financed by Banks		Bank loans (₹ in Crores)		Loan Disbursed Per SHG		Refinance (₹ in Crores)	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1999-00	81780	114775	135.91	192.98	16619	34453	98.07	150.13
2000-01	149050	263825	287.89	480.87	19315	53768	244.85	394.98
2001-02	197653	461478	545.47	1026.34	27597	81365	395.26	790.24
2002-03	255882	717360	1022.33	2048.67	39953	121318	622.47	1412.71
2003-04	361731	1079091	1855.53	3904.2	51296	172614	705.44	2118.15
2004-05	539365	1618456	2994.26	6898.46	55515	228129	967.76	3085.91
2005-06	620109	2238565	4499.00	11397.46	72552	300681	1067.72	4153.63
2006-07	1105749	3344314	6570.00	17967.46	59417	360098	1292.86	5446.49
2007-08	1227770	4572084	8849.26	26816.72	72076	432174	1615.5	7061.99
2008-09	1609586	6181670	12253.51	39070.23	76128	508302	2620.03	9682.02
2009-10	1586822	77688492	14453.30	53523.53	91083	599385	3173.56	12855.58
2010-11	1196000	8964492	14547.73	68071.26	121637	721022	2545.36	15400.94

Source: NABARD.

The cumulative number of SHGs credit linked with banks increased enormously from 114775 in 1999-2000 to 8964492 in 2010-11. During the study period, the cumulative bank loans disbursed to SHGs also witnessed an increase from ₹ 192.98 crores in 1999-2000 to ₹ 68071.26 crores in 2010-11. Total bank loans disbursed were at ₹ 14547.73 crores during the year 2010-11. In addition, bank finance per group increased from ₹ 34453 in 1999-2000 to ₹ 721022 in 2010-11. The massive expansion of the programme was witnessed during the period from 1999-00 to 2010-11 with credit linkage of 1114220 new SHGs by the banking system. Total refinance increased from ₹ 150.13 crores in 1999-00 to ₹ 15400.94 crores in 2010-11. Studies revealed that on time repayment of SHG loans to banks was over 90 per cent and highly profitable for the banks relative to other financial products despite interest rates, which are among the lowest in developing countries (Seibel & Dave, 2002).

The analysis shows that phenomenal growth can be accounted for the sustainability movement launched by NABARD and banks. However, it is disappointing to note that there is no formal mechanism to generate data on the benefits gained by the beneficiaries in this growth.

The rosy figures are certainly encouraging, but at the same time, one should understand that bankers have never bothered to know whether the loan that was disbursed is being used productively or otherwise, but rather, they are more concerned about how much to distribute to fulfill their target figures. In a democratic country like India, illiterate folk, middlemen jugglery and *dalari* institutions are certainly playing a crucial role to pocket their own share. Hence, a need for developing a foolproof system of accountability is the need of the hour.

❖ **Agency Wise SBLP Position:** The SBLP model has emerged as the dominant model in terms of the number of borrowers and loans disbursed. In terms of coverage, this model is considered to be the largest microfinance model in the world (Aghion and Modruch, 2005). NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to partner agencies. The partners include Commercial Banks, Cooperative Banks, RRBs, Farmers' Clubs, NGOs and individual rural volunteers and development departments, which have effectively taken up the role of promoting and nurturing SHGs.

COMMERCIAL BANKS AND THE SHG LINKAGE PROGRAMME

Commercial banks dominate the Indian banking industry. They have played a crucial role in the growth and development of the SBLP, as they are relatively transparent in their operations and have adopted international benchmarks and best practices of disclosure. The Post-nationalization era witnessed a phenomenal change of focus for the commercial banks, giving a thrust to social and mass banking and expanding their network. The commercial banks have been better at reducing costs by centralizing processes through the use of technology. The strategy of commercial banks is to stimulate economic growth and reduce poverty. Reforms in the commercial banking system include removal of procedural and transactional bottlenecks, including elimination of Service Area Approach, reducing margins, redefining over dues to coincide with crop cycles, new debt restructuring policies, one-time settlement and relief measures for farmers indebted to non-institutional sources (NABARD,2007).

Commercial banks have had a larger share in the linkage programme right from the initial years. The SHGs linked with the banks were 61619 in 1999-00, which increased to 5146644 in 2010-11. In 1999-00, total loan amount disbursed to SHGs was ₹ 127.83 crores, which increased to ₹ 43875.56 crores in 2010-11. In 1999-00, loan disbursed per SHG was ₹ 20745.22, which increased to ₹ 85250.82 in the year 2010-11 (Table 2).

Table 2 : Commercial Banks (Cumulative)

Year	No.of SHGs	Bank Loan (₹ in Crores)	Loan Disbursed Per SHG
1999-00	61619	127.83	20745.22
2000-01	137246	295.87	21557.64
2001-02	255247	600.90	23541.90
2002-03	361061	1149.50	31836.73
2003-04	538422	2254.80	41877.93
2004-05	843473	4115.95	48797.65
2005-06	1188040	6987.45	58814.94
2006-07	1759676	10906.39	61979.53
2007-08	2494795	16310.29	65377.28
2008-09	3499382	24370.82	69643.21
2009-10	4476903	34151.01	76282.67
2010-11	5146644	43875.56	85250.82

Source: NABARD

COOPERATIVE BANKS AND THE SHG LINKAGE PROGRAMME

Cooperative banks provide financial assistance to the people with small means to protect them from the debt trap of the money lenders. It is a part of the vast and powerful structure of cooperative institutions, which are engaged in tasks of production, processing, marketing, distribution, servicing and banking in India. Cooperative banks are financial entities, which belong to its members, who are, at the same time, the owners and customers of their bank. Cooperative banks are often created by persons belonging to the same local or professional community or share a common interest. These banks generally provide their members with a wide range of banking and financial services (deposits, loans etc.). Cooperative banks differ from stock holder banks by their organization, their goals, their values and their governance. The cooperative banking system in India is characterized a relatively comprehensive network at the

grass root level. This sector mainly focuses on the local population and micro banking among middle and low income strata of the society. These banks operate mainly for the benefit of the rural areas (Bhasak, 2010).
Cooperative Banks are much more important in India than anywhere else in the world. The distinctive character of this bank is a service at a lower cost and service without exploitation. Cooperative Banks have gained importance by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate in. Cooperative banks' role in rural financing continues to gain importance day by day, and their business in the urban areas has also increased phenomenally in recent years, mainly due to the sharp increase in the number of primary cooperative banks. In the rural areas, as far as the agricultural and related activities are concerned, the supply of credit is inadequate, and money lenders exploit the poor people in rural areas by providing them loans at higher rates. So, cooperative banks mobilize deposits and purvey agricultural and rural credit with a wider outreach and provide institutional credit to the farmers. Cooperative banks are an important instrument for various development schemes, particularly, subsidy-based programmes for the poor (Bhasak, 2010).
Cooperative banks have been late entrants to microfinance through SHGs. The performance of cooperative banks has, to a large extent, been influenced by the state government policies. Cooperative banks are now slowly coming to appreciate the business potential in financial inclusion and also the need for better involvement. The SHGs linked with the banks were 7028 in 1999-00, which increased to 1290970 in 2010-11. In 1999-00, the total loan amount disbursed to SHGs was ₹ 7.69 crores, which increased to ₹ 6445.16 crores in 2010-11. The loan disbursed per SHG in the year 1999-00 was 10941.95, which increased to 49924.94 in 2010-11 (Table 3).

Table 3 : Cooperative Banks (Cumulative)

Year	No.of SHGs	Bank Loan(₹ in Crores)	Loan Disbursed Per SHG
1999-00	7028	7.69	109471.95
2000-01	19755	25.03	12670.21
2001-02	30493	79.50	26071.56
2002-03	78,959	172.00	21783.46
2003-04	134,671	371.10	27556.04
2004-05	211,137	639.85	30304.97
2005-06	310,501	1087.95	35038.53
2006-07	464415	1686.67	36318.16
2007-08	629416	2480.19	39404.62
2008-09	828846	3479.68	41982.23
2009-10	1061350	4819.60	45410.09
2010-11	1290970	6445.16	49924.94

Source:NABARD

REGIONAL RURAL BANKS AND THE SHG LINKAGE PROGRAMME

The Regional Rural Banks (RRBs) have been growing in importance since their inception in 1975, as special institutions playing a catalyst role in the development of the rural areas. The RRBs have been playing a significant role in financing the weaker sections of the community in the rural areas, and also in inculcating banking habits among the rural masses. RRBs are a new species in the multi- agency credit delivery system of India, particularly at the grass root level, and it is worthwhile to study their contribution to the economic development of India. While being more liberal than the cooperative banks, RRBs are conservative as compared to the commercial banks. RRBs had 46128 groups, which were disbursed loans amounting to ₹ 57.46 crores in 1999-00 and had 2528012 groups, which were disbursed loans amounting to ₹ 17751.03 crores in 2010 -11. Loan disbursed per SHG by RRBs increased from ₹ 12456.64 in 1999-00 to ₹ 70217.35 in 2010-11 (Table 4).

Table 4 : Regional Rural Banks (Cumulative)			
Year	No.of SHGs	Bank Loan (₹ in Crores)	Loan Disbursed Per SHG
1999-00	46128	57.46	12456.64
2000-01	106824	159.96	14974.16
2001-02	175738	345.9	19682.71
2002-03	277,340	727.2	26220.52
2003-04	405,998	1278.2	31482.91
2004-05	563,846	2142.64	38000.45
2005-06	740,024	3322.15	44892.46
2006-07	1121223	5374.88	47937.65
2007-08	1448873	8026.72	55399.75
2008-09	1854442	11220.21	60504.51
2009-10	2231239	14553.41	65225.69
2010-11	2528012	17751.03	70217.35
Source: NABARD			

THE MICROFINANCE INSTITUTION MODEL

The Microfinance Institutions in India provide financial assistance to individuals or eligible clients who are poor, either directly or through a group mechanism. Thus, the poor people, who would normally be regarded as financial risks, and unable to obtain funds through conventional banks, get financial assistance from the MFIs (Mahendra, 2011).

The initial impetus for promoting Indian microfinance can, however, be traced to the 1990s, when as a result of financial sector reforms, the lending of the formal banking sector to the low-income groups came down drastically. As a percent of total loans outstanding, lending to these groups dropped from 19 percent in 1993 to 5 percent in 2003 (Mahajan, 2007). However, their requirement for credit remained the same. By the late 1980s, the group lending model adopted by the Grameen Bank in Bangladesh became known, and a number of NGOs started examining ways to replicate it in India (Kumar, 2009). The early MFIs were set up as cooperative banks, societies or trusts. As the profitability of microcredit became established, some of them started transforming into Non- Banking Finance Companies (NBFCs), not-for-profit companies and local-area banks, so that they could access equity in order to leverage the funds increasingly becoming available from the banking system. In the mid 1990s, the Mutually Aided Cooperative Societies (MACs) Act was passed, which led to a number of cooperatives being registered under the Act (Ghate, 2006).

However, from the late 1990s onwards, there has been a steady migration to the Non Banking Financial Company (NBFC) form. Such transformations have been observed worldwide for several reasons. First, companies have to meet more stringent disclosure and audit requirements than societies and trusts. Second, by providing for ownership of capital, there is a stronger sense of ownership among promoters, which is likely to lead to better management and governance. Third, with increasing interest in microfinance as an asset class among social as well as commercial investors, NGOs were able to access the equity required for such transformations (Ghate, 2007).There are some positive aspects to the rapid expansion of the MFIs. First, geographic expansion can result in greater availability of microfinance services and choice for the customers. A number of MFIs have expanded into adjoining urban areas and are catering to the urban poor, who are also often in need of microfinance. Another positive aspect is that larger scale of MFIs enables greater use of technology. A number of MFIs are now computerizing their MIS systems so as to have better control over operations and manage their resources better. In addition, various pilot projects are being carried out on the possibilities of the use of mobile banking, and smart card based technologies by MFIs to reduce transaction costs (Srinivasan, 2009).

However, the sector is dominated by a few large MFIs. It is estimated that MFIs incorporated as NBFCs, which are around 30 in number, account for 70 percent of MFI loans (Microfinance Insights, 2010). It is interesting to note that at least for the SBLP model, there are some formal institutional reporting that makes available some recorded

Exhibit 1 : Comparison of The SBLP Model And The MFI Model		
Aspect	**SBLP Model**	**MFI Model**
Members	Group of 10-20 members.	5 member groups, with 5 to 7 groups forming a center.
Formation	Group formation and monitoring for some time by NGO, but the NGO eventually withdraws.	Group formation and monitoring by MFIs.
Loans	Loan advanced by Banks. Loans are given to SHGs, which are then lent to members.	Loan advanced by MFIs. Loans are given to members individually, though on a joint liability basis.
Record Keeping	Group members are trained in record keeping and bank transactions.	MFI staff carries out the record keeping and bank transactions.
Savings	Savings can be collected by banks for 6 to 12 months to precede borrowing.	Savings cannot be collected by MFIs due to regulatory reasons.
Focus	Delivery of microcredit viewed by some NGOs as secondary to goals of female empowerment and social transformation.	Microcredit is the main focus.
Subsidy	On an ad hoc basis, government subsidies are given to SHGs by way of grants equivalent to a part of the loan.	There is no direct subsidy element in MFIs.
Loan Size	Average loan size: ₹ 3789 (Sadhan, 2010).	Average Loan size: ₹ 6519 (Sadhan, 2010).
Source: Priya Basu (2006)		

information regarding SHGs linked, loans disbursed etc., but unfortunately, in the MFI model, there is no formal data available. This limits the comparison of both the models to determine the relative effectiveness. The researchers felt that the government or the surveillance authority should make an attempt to have a single window information system

Table 5 : Indian MFIs In The MIX Top 100 List			
Sl.No.	**Name of MFI**	**Ranking in 2009**	**Ranking in 2008**
1	Grameen Fin Services	4	180
2	SKS	7	3
3	Spandana	8	23
4	BASIX	11	32
5	SHARE	12	26
6	Bandhan	13	5
7	Village Fin Services	15	219
8	Asmita	18	127
9	Grama Vidyal	20	-
10	SWAWS	23	269
11	Gram Utthan	28	196
12	BISWA	31	90
13	Cashpor	33	7
14	SKDRDP	39	59
15	Saadhana	45	109
16	Sarvodaya Nano	57	15
17	SMSS	78	407
18	BSS	84	40
19	ESAF	86	19
20	NEED	89	293
Source: Srinivasan, 2010.			

Table 6 : Top 10 MFIs By Outreach (Billions)					
Sl.No.	Name of MFI	Outreach (No.)	Loan O/S	Own funds	Borrowings
1	SKS	5795028	29.7	9.7	27.3
2	Spandana	3662846	21.6	4.9	22.2
3	SHARE	2357456	17.2	3.0	20.6
4	Bandhan	2301433	12.1	2.0	13.6
5	AML	1340288	11.0	2.0	14.3
6	SKDRDP	1225570	6.2	0.4	5.9
7	BASIX	1114468	7.9	2.0	9.7
8	Equitas	888600	4.8	2.8	4.4
9	GV	772050	4.1	0.7	5.0
10	Ujjivan	566929	3.8	1.1	2.4
	Total	**20024668**	**118.3**	**28.4**	**125.4**
Source: Srinivasan, 2010					

for both these models in the future.

THEORETICAL COMPARISON OF THE SBLP MODEL AND THE MFI MODEL

There are some important differences between the two predominant models, the SBLP and the MFI model, as summarized in the Exhibit 1.

PROGRESS OF THE MFI MODEL

Despite reported problems and concerns arising from rising default rates and attention of the wrong kind from some state authorities, the sector has posted good growth. The growth rates were modest in the year 2010, but were far ahead of any other sector in the Indian economy. As per the provisional data made available by Sa- dhan (2010), Microfinance Institutions (MFIs) achieved a client outreach of 26.7 million and loan portfolio of 183.44 billion, 18 per cent growth in clients and 56 per cent growth in the loan portfolio over 2009. In terms of vibrancy and future potential, the sector seemed to be the best bet among the investor community. A poll of 50 investment banking firms/companies brought out that microfinance is the top-ranked destination for investments in the financial sector today. Of those who voted, more than 80 per cent rated microfinance as the best sector for investments. The continuing acceleration of client acquisition and business volumes on a very large expanded base indicates strong demand and inadequate supply to meet the needs of vulnerable people. During 2009, 20 Indian MFIs made it to the Top 100 list of Mix Market and 15 were in the top 50. In 2008, only 10 Indian MFIs had figured in the Microfinance Information Exchange (MIX) Top 100 list (Table 5). Indian MFIs have posted vigorous growth, whereas MFIs in other countries

Table 7: Comparative Performance of Top 5 MFIs							
Sl.No.	MFI	Clients (millions)		Per cent	Loans (Billions)		Percent
		2009	2010		2009	2010	
1	SKS	3.52	5.80	65	24.6	29.7	21
2	Spandana	2.43	3.66	51	18.7	21.6	15
3	SHARE	1.50	2.36	57	12.2	17.2	41
4	Bandhan	1.45	2.30	59	5.3	12.1	128
5	AML	0.88	1.34	52	7.1	11.0	54
Source: Srinivasan, 2010							

have faced difficulties. The analysis has relied on the MIX market database to which 77 Indian MFIs had reported. These 77 MFIs had a share of 89.6 per cent of the clients and 89.6 per cent of the loan outstanding of all MFIs that reported to Sa-dhan. Predictably, the top spot in terms of clients and loans was captured by SKS Microfinance (Table 6). The top five MFIs accounted for 59 per cent of the clients and 58 per cent of outstanding loans. Bandhan had a noticeable jump in its loan portfolio among MFIs that had remarkable growth rates as a group. Spandana's growth rate in loans outstanding seemed moderate at 15 per cent as was SKSs' at 21 percent. This is more attributable to the securitization and assignment of debts that had reduced outstanding in the books of MFIs for raising resources rather than the reduction in average loan size. In 2009, the growth was primarily from higher loan sizes than from client acquisition for four out of the top five. In 2010, the trend seems to be that client growth had been higher as compared to loan growth, except in two cases, Bandhan and AML. While all top five MFIs recorded a client growth rate higher than the sector average of 45 per cent, at least three MFIs (SKS, Spandana and SHARE) reported below average growth rate in loans (Table 7).

Table 8 : Growth In Client Outreach - A Frequency Distribution

Growth Range	No.of MFIs
Increase (per cent)	**56**
0-25	18
25-50	22
50-100	16
More than 100	0
Decrease (per cent)	**13**
More than 50	4
25-50	1
1-25	8

Source: Srinivasan, 2010.

Of 69 MFIs for which comparative data is available, 56 recorded an increase in client numbers and 13 recorded a decline. High growth rates of 50 per cent to 100 per cent were recorded by 16 MFIs. In fact, of the 69 MFIs, none recorded a 100 per cent growth rate during the year, which indicates the moderation that has taken place in client expansion (Table 8).

MFIs have been classified size wise and age wise according to the loan portfolio outstanding for the purpose of segmenting the analysis of performance of MFIs. MFIs with more than 500 million in their loan portfolio are classified as 'Large'; those with 50 million to 500 million are classified as 'Medium' and those with less than 50 million are classified as 'Small'. MFIs that were operational for less than five years are classified as A, those operational for 5 to 10 years are classified as B and those operational for more than 10 years are classified as C. According to Sa-dhan, there are 37 Large MFIs, 30 Medium MFIs and eight Small MFIs. The Large MFIs had 94.5 per cent of the clients, and the Small ones had a negligible share. Medium MFIs had a share of 5.3 per cent of the clients, but in terms of loan volumes, they had a lesser share of 4 per cent. Since the data for this analysis comprises of almost all the Large MFIs but not all the Small and Medium MFIs (that did not report to MIX), the share of Large MFIs is significantly overstated. The share of Large MFIs alone in the overall market is 86 per cent of the clients and 97 per cent of loans (Srinivasan, 2010). The market is clearly dominated by the large ones and the likelihood that the voice of other MFIs will be heard by the other stakeholder is small. The form wise distribution of MFIs in the MIX database has NBFCs as the largest grouping. The analysis of the market share in terms of the form of organization of MFIs shows that NBFCs had a very strong hold on the market with a share of 85 per cent of loans. Societies, the next most popular form had a share of just 6.4 per cent of the market (Table 9). The market shares of different forms should be understood in the context of support available from other stakeholders such as banks, investors, rating agencies and others. Companies are the preferred form as there is a clearly defined ownership and governance structure, well-laid systems of accounting and audit and, therefore, accountability for performance to those who invest or lend.

Rating agencies subconsciously raise their ratings a notch when they see a company as the form in MFI as compared to a trust or society. Investors cannot buy equity in any other form with a potential for capital appreciation and dividends. The dominant market share of NBFCs has as much to do with their abilities as with the supportive framework provided by other stakeholders.

Table 9 : Form Wise Distribution of MFIs-Loan Portfolio

Form	No. of MFIs	GLP
NBFC	34	133.67 (85.0)
Society	23	10.09 (6.4)
Section 25	6	4.01 (2.5)
Trust	4	6.37 (4.0)
Cooperative Bank	5	1.17 (0.7)
Other	4	1.20 (0.8)
Local Area Bank	1	0.79 (0.6)
Total	**77**	**157.3(100)**

Source : Srinivasan, 2010
Note : Figures in brackets are percentages to the total

CONCLUSION

Microfinance in India has grown at a tremendous pace in recent years, achieving significant outreach amongst rural households across the country. Linkages between banks and SHGs supported by the NABARD on the one hand, and Microfinance Institutions (MFIs) on the other, have emerged as the two most prominent means of delivering microfinance services in India. In spite of the impressive trends, there still exists a huge demand-supply gap. The assumption of the gap in demand and supply is based on some available literature and the researchers' own rough estimates of the loan disbursements from various institutions. The actual quantitative gap needs to be analyzed, but it can only be done when there is a perfect accountable information system on MFIs. This information can be known only when all the registered MFIs report the data through a single institution. The government shall initiate some legitimate authority for at least one institution to serve as the data mine. In sum, the microfinance sector in India is at an inflexion point with new-generation MFIs and commercial banks driving the scale rapidly. Innovation in product design, channel configuration, and technology usage is widespread, and the sector is focusing largely on expanding outreach. It is believed that micro credit has effectively graduated from an experiment to a widely-accepted paradigm of financial inclusion in India. Thus, to achieve the desired goals, the financial system should be truly inclusive. Diverse channels are needed to get diverse financial services into the hands of a diverse range of people, who are currently excluded.

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