

## **Microfinance in India - A State Wise Analysis**

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### **Abstract**

*Microfinance is a significant establishment of credit conveyance, especially for the poor people. Various initiatives have been taken up in India and other countries which feature the accomplishment of different microfinance projects to ease neediness in provincial regions, improvement in standard of living of the people and promoting undertakings for business advancement especially for the womenfolk. The significance of the microfinance programs is more because of the relentless disappointment and non-responsiveness of the formal monetary system especially in the rural areas. In India, microfinance administration has been noticed to be lopsided staying concentrated for the most part toward the Southern area of the nation while the North and the North-Eastern district are as yet inadequate with regards to microfinance administrations. With this foundation the paper makes an endeavour to investigate the effort of both the microfinance models (Self-help groups & Microfinance Institutions) in different districts of the country and develop a state-wise list of microfinance penetration.*

**Keywords:** *India, Microfinance, Microfinance Penetration, Self-help group, Microfinance Institutions.*

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### **Introduction**

Microfinance is a term for monetary administrations that are offered to people of lower financial foundations or the individuals who need admittance to conventional monetary administrations. Microfinance incorporates various administrations, for example, investment accounts, financial records, micro insurance, and microcredit.

Microfinance initially began with microcredit, which is the act of giving small advances to the individuals who don't have a consistent type of

revenue, guarantee, or any record as a consumer. It likewise expects to help and launch business visionaries who don't have the monetary support to start an independent company.

The target of microfinance is like that of microcredit; its will probably offer monetary types of assistance to assist with empowering business visionaries in underdeveloped and developing countries to follow up on their thoughts and get the monetary devices accessible to do as such and to ultimately get self-manageable. A couple of other greater overall objectives

incorporate to advance financial turn of events, decline joblessness, and help independent ventures.

### **History of Microfinance**

In 1983, Muhammad Yunus set up Grameen Bank in Bangladesh. The objective of Grameen Bank was to at first give little credits to business visionaries.

Yunus's vision for microcredit was motivated when he saw ladies who made bamboo stools in Bangladesh making two pennies per day. He concluded that if the ladies had the option to depend on a credit, they would have the option to work on their edges and gain a more generous benefit. Subsequent to giving them a credit of Rs.27, the ladies had the option to reimburse the advance and keep their business running. In 2006, Yunus got the Nobel Peace Prize for his endeavours with Grameen Bank.

### **Why does Microfinance focus on women?**

Micro-finance programmes not only give women and men access to savings and credit, but reach millions of people worldwide bringing them together regularly in organised groups. Although no 'magic bullet', they are potentially a very significant contribution to gender equality and women's empowerment, as well as pro-poor development and civil

society strengthening. Through their contribution to women's ability to earn an income these programmes have increased well-being for women and their families with wider social and political empowerment. Microfinance services and groups involving men also have potential to question and significantly change men's attitudes and behaviours as an essential component of achieving gender equality.

### **Aims of Study**

- [1] To investigate the regional variety in the spread of Microfinance Institutions.
- [2] To develop a state-wise index of Microfinance Penetration in the country.
- [3] To investigate why the Southern states are known as MFI-developed states and the Northern states known as the MFI-backwards states.

### **Research Methodology**

Scope of the Study: The present examination is a full-scale level investigation and the territory picked for the investigation is the entire of Indian sub-continent.

Data Collection: Information has been gathered from different distributed reports of NABARD, Government of India, Bharat Microfinance Report, Inclusive India Finance Reports,

Microfinance India, State of the Sector Report, Census of India 2011, Reserve Bank of India and other empirical research works.

Analysis: The line of investigation

followed for the present investigation is of elucidating type. For the satisfaction of the third aim Microfinance Penetration Index (MPI) has been built.

**Research Analysis**

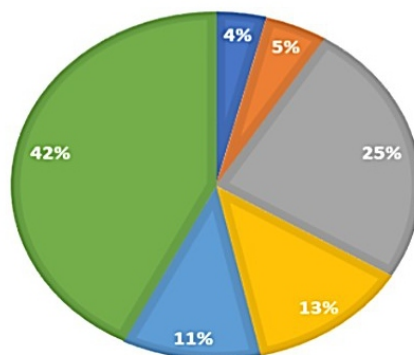
**[1] Spatial distribution of Self Help Groups**

Conveyance of SHG's in India has consistently stayed slanted towards the Southern locale which represents practically 48 %, trailed by Eastern district with 20 % portion, 12% by the western locale, 11% by the Central locale, 5% by the Northern and 4% by the North eastern locale of the absolute SHG's in 2014-15 (NABARD 2015). The shrewd dissemination of SHGs in India during the period 2014-15 has been exhibited in the figure underneath.

Figure 1: Distribution of SHGs in different regions

**DISTRIBUTION OF MFI'S IN DIFFERENT REGIONS**

■ Northern ■ north eastern ■ eastern ■ central ■ western ■ southern



Made on Microsoft Excel using the data set from NABARD (2015)

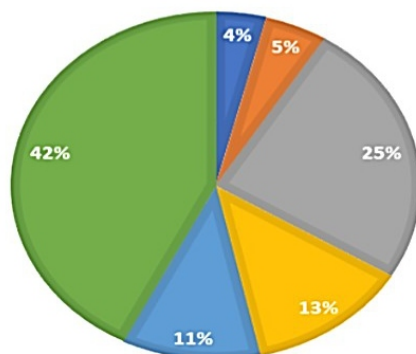
**[2] Regional Outreach of MFIs**

As per The Bharat Microfinance Report 2014, MFIs as of now work in 29 states, 5 Union Territories and 561 districts in India. Out of the absolute customer base of 330 lakhs, the Southern area adds to 42 % of the aggregate, trailed by 25 % in Eastern district. While the Central district and Western locale have added to 13% and 11% individually.

**Figure 2: Distribution of MFIs in different regions of India**

**DISTRIBUTION OF MFI'S IN DIFFERENT REGIONS**

■ Northern ■ north eastern ■ eastern ■ central ■ western ■ southern



Made on Microsoft Excel using the data set from NABARD (2015)

**[3] Microfinance Penetration Index**

Regional investigation of microfinance spread, as examined above, has uncovered a higher focus in the southern states. The Southern states have been overwhelming in microfinance endeavours since the earliest reference point in spite of the fact that as of late microfinance organize is spreading at a significant ratio in the eastern and focal areas of the nation. This can be reflected in the Microfinance Penetration Index (MPI).

The MPI calculation can be done using the following formula.

Share of microfinance clients in the state (in proportion to total clients of MFI and SHG models in India)

MPI = -----

Share of households in the state (in proportion to total households in India)

**Table 1: Microfinance Penetration Index Table 2014-2015**

| States         | Total no. of SHGs with loans outstanding | No. of SHG members | No. of MFI clients | Total Microfinance clients | Share of state to total | Total households | Share of households to total | #MPI |
|----------------|--|--------------------|--------------------|----------------------------|-------------------------|------------------|------------------------------|------|
| Andhra Pradesh | 810889                                   | 10541557           | 4600000            | 15141557                   | 16.62                   | 21024534         | 8.52                         | 1.95 |
| Bihar          | 189341                                   | 2461433            | 1700000            | 4161433                    | 4.569                   | 18940629         | 7.68                         | 0.60 |
| Delhi          | 1029                                     | 13377              | 200000             | 213377                     | 0.234                   | 3143600          | 1.27                         | 0.18 |
| Gujarat        | 65232                                    | 848016             | 700000             | 1548016                    | 1.700                   | 12181718         | 4.94                         | 0.34 |
| Karnataka      | 529953                                   | 6889389            | 5200000            | 12089389                   | 13.27                   | 13179911         | 5.34                         | 2.48 |
| Kerala         | 143358                                   | 1863654            | 600000             | 2463654                    | 2.705                   | 7716370          | 3.13                         | 0.86 |
| Madhya Pradesh | 97621                                    | 1269073            | 1600000            | 2869073                    | 3.150                   | 14967597         | 6.07                         | 0.52 |
| Maharashtra    | 202472                                   | 2632136            | 2800000            | 5432136                    | 5.964                   | 23830580         | 9.66                         | 0.62 |
| Odisha         | 236042                                   | 3068546            | 1700000            | 4768546                    | 5.235                   | 9661085          | 3.92                         | 1.34 |
| Punjab         | 15845                                    | 205985             | 200000             | 405985                     | 0.446                   | 5409699          | 2.19                         | 0.20 |
| Tamil Nadu     | 427153                                   | 5552989            | 3800000            | 9352989                    | 10.26                   | 18493003         | 7.50                         | 1.37 |

Source: Status of Microfinance in India (2014-2015) NABARD

The table above uncovers that every one of the Southern States have recorded colossal number of microfinance customers when contrasted with different states, both in regard of SHG institutions and MFI customers. The highest number of microfinance clients has been found to be at Karnataka followed by Andhra Pradesh and Tamil Nadu. The Northern States like Delhi, Gujarat and Madhya Pradesh. The Microfinance Penetration Index (MPI) in the table above uncovers that the Southern area is leading with more microfinance clients.

**Findings of the study**

There is lopsided Penetration of Microfinance in India. Southern states are known as MFI- developed states and the Northern states known as the MFI- backwards states.

***Reasons for this lopsided penetration is because of the following reasons-***

1. Historical background of the Southern states with relations to Microfinance:

Microfinance started in Kerala in the last part of the 1980s and mid-1990s. The advancement of SHGs in Andhra Pradesh traces all the

way back to 1979. The Government of India began the 'Improvement of Women and Children and Rural Areas' that pointed toward giving help to poor country ladies by assisting them with shaping SHGs. "Savings and Credit Management of SHGs" of Karnataka, one of NABARD's exploration projects, was supported by the Mysore Resettlement and Development Agency (MYRADA) alongside NABARD in 1986-87. A major reason for the heavy concentration of MFIs and SHGs in the southern states could be because MFI and SHG models were first replicated in the southern parts of India before it spread to the Northern states. These models were still alien to the northern states. There is generous proof supporting that the historical foundation of Southern India makes it increasingly helpful for have more MFIs. The strategies executed by various Southern state governments, helped make the possibility of Microfinance increasingly penetrable in South India.

2. Female literacy rate of the State-

Most MFIs target the womenfolk (98% of the 23 million clients Microfinance serves are women). Female proficiency is a strong

predictor for existence and success of MFIs in a particular region. There is a tremendous difference between the proficiency pace of males and females at a national level. A rate of expansion in female education is emphatically associated with the presence of a MFI in that state.

"The Women's Empowerment Program in Karnataka, directed an examination in favour of MFIs that showed a normal of 68 % of ladies in its program encountered an increment in their dynamic jobs in the areas of family arranging, children's marriage, purchasing and selling property, and sending their little girls to school—all spaces of dynamic spaces that were taken over by men"

The proficiency rate for ladies is essentially higher in the southern districts when contrasted with the remainder of the country, this can serve as a clear indication as to why we have greater penetration of MFIs and SHGs in the southern regions of India.

3. Wealth index and its correlation with Microfinance-

The wealth index is a composite measure of a household's cumulative living standard. The wealth index is calculated using



easy-to-collect data on a household's ownership of selected assets such as gold, property, financial assets, cars etc. This relationship is further steady within South India. On a normal scale the abundance record in the South (1.06) is genuinely higher than the different locales (- 0.357). In south India, many families practice cross-cousin marriages as a result the wealth of a household remains in the house and isn't transferred out. The wealth index for the southern states are positively skewed as compared to the northern states due to which we can see a higher concentration of MFIs in the southern regions as compared to the northern regions.

### **How MFI's responding to the COVID-19 crisis?**

As the COVID-19 pandemic unfurls, there properly has been a great deal of worry about the effect on MFIs and their customers. The **CGAP** (Global Pulse Survey of Microfinance Institutions) has assisted with revealing some insight into these effects by showing the disintegration of credit portfolios, the liquidity levels of MFIs and different pointers. However, there has been very less spotlight on how the MFIs themselves have reacted to the emergency: How are they changing their roles? How

much would they say they are offering mercy to their customers? Have they been compelled to lay off staff and close branches? Because of the beat review, we have a few responses to these inquiries, as well.

The first, most normal change MFIs have made is to scale back their loaning. More than 66% of all MFIs have decreased distributions because of COVID-19. There could be quite a few reasons why the MFIs have cut down loaning, including lower interest from customers, expanded peril of customers, lower hazard resistance by the MFI, more tight administrative principles or simply broad storing of money to meet a questionable future. More significantly, these reductions raise worries about the ramifications for low-pay customers who depend on microfinance to help their livelihoods.

Secondly, offering leniency to customers which gives fundamental space to breathe to borrowers who might have lost all or part of their wages. A little more than 1 out of 10 MFIs say they are doing more discounts because of COVID-19.

The third, most normal sort of measure taken is adaptable staffing. Branch terminations and cutbacks don't seem, by all accounts, to be far and wide. Short of what one of every six MFIs has cut off any branches or

laid staff and a little subset of MFIs has been hit hard with terminations and cutbacks. All things considered, most MFIs have embraced more adaptable measures.

Taken together, these figures paint the image of a microfinance area that is under critical strain yet reacting with adaptability, offering space to breathe for the customers and staff while working out better approaches to arrive at clients distantly. Until further notice, this adaptability is permitting MFIs to fight off the most exceedingly terrible results as they attempt to adjust and get past the emergency. This is empowering for moneylenders and borrowers the same.

### **Conclusion**

Microfinance has become, as of late, a support for advancement activities for poor people, especially in the Third World nations and is viewed as a significant device to eradicate poverty. In India microfinance has been working through the two models of Self - Help Group and Microfinance Institutions. Both these conveyance models have entered

profound into different areas of the nation; yet strikingly the Southern district has nearly arrived at the degree of immersion as far as convergence of microfinance exercises. While the North and North Eastern area, which stays in reverse regarding inclusion by formal money related organizations, has still a great deal staying unexplored for the microfinance division.

Admittance to a formal monetary framework, by making equivalent freedoms, empowers monetarily and socially rejected individuals to incorporate better into the economy and effectively and ensures themselves against financial shocks. In this way it is of most extreme need for the microfinance conveyance models to contact the unreached, rejected regions from the domain of formal monetary framework to ease destitution, decrease local aberrations, lessen disparities and spotlight on working ability of the generally disregarded areas of the general public.



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