Microcredit Delivery by Banks and Microfinance Institutions – A Comparative Study in Andhra Pradesh and Tamil Nadu

A Doctoral Thesis Submitted in Partial Fulfillment for the Award of the Degree of

DOCTOR OF PHILOSOPHY

IN

MANAGEMENT

BY

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Date
Place: Hyderabad

DECLARATION

I hereby declare that the research embodied in the present thesis entitled, "Microcredit Delivery by Banks and Microfinance Institutions – A Comparative study in Andhra Pradesh and Tamil Nadu" has been carried out by me and is an original research work under the supervision of Prof. P. Jyothi, School of Management Studies, University of Hyderabad in partial fulfillment of the requirement for the award of the degree of Doctor of Philosophy in Management.

I declare to the best of my knowledge that this thesis or a part thereof has not been earlier submitted for the award of degree at any another University or Institute.

Signature of the Candidate

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CERTIFICATE

This is to certify that the research work embodied in the present thesis entitled as "Microcredit Delivery by Banks and Microfinance Institutions – A Comparative study in Andhra Pradesh and Tamil Nadu" has been carried out by B. Savitha (Register Number 08MBPH05) under my supervision, for the full period prescribed under Ph. D. ordinances of the University of Hyderabad.

I hereby declare that to the best of my knowledge that no part of this thesis has been submitted earlier for the award of Degree at any other university or institute.

Dean	Supervisor
School of Management Studies	**(Prof. P. Jyothi)**

Dedicated to

my beloved father

Late Prof. (Retd.) Dr. N. Balasubramanian,

IIT, Madras

who has been my inspiration.

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B.Savitha

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ABBRIEVATIONS

AP	Andhra Pradesh
APDPIP	Andhra Pradesh District Poverty Initiatives Project
APMAS	Andhra Padesh Mahila Abhivridhi Sangam
APRPRP	Andhra Pradesh Rural Poverty Reduction Project
APRACA	Asian and Pacific Regional Agricultural Credit Association
ASA	Activists for Social Alternatives
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CASHE	Credit and Savings for Household Enterprises
CCs	Community Coordinators
CGAP	Consultative Group to Assist the Poor
CRP	Community Resource Persons
CVs	Community Volunteers
DFID	Department for International Development
DRDA	District Rural Development Authoriy
DWCRA	Development of Women and Children in Rural Areas
GEM	Gender Empowerment Measure
GVMFL	Grama Vidiyal Microfinance Limited
IFAD	International Fund for Agricultural Development
IGA's	Income Generation Activities
IKP	Indira Kranti Pratham project
ILO	International Labour Organization
IPO	Initial Public Offering
IRDP	Integrated Rural Development Programme
JLG	Joint Liability Group
LIC	Life Insurance Corporation
MaThi	Mahalir Thittam
MEDP's	Microenterprise Development Programmes
MFI's	Microfinance intitutions
MIX	Microfinance Information Exchange
MMFL	Madura Microfinance Limited
MMS	Mahila Mandal Samakhyas

MS	Mandal Samakhyas
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non Banking Finance Company
NGO’s	Non Governmental Orgnization
NPA’s	Non Performing Assets
PAR	Portfolio at Risk
PMU	Project Management Unit
PPA	Participatory Poverty Assessment
PRA	Participatory Rural Appraisal
REDP’s	Rural Entrepreneurship Development Programmes
RRB	Regional Rural Banks
SAP	Standard Accounting Package
SAPAP	South Asia Poverty Alleviation Programe
SBLP	Self Help Group Bank Linkage Programme
SERP	Society for Elimination of Rural Poverty
SEWA	Self Employed Women Association
SGSY	Swarna Jayanti Grameen Swarojgar Yojana
SHG	Self Help Group
SKS	Swayam Krishi Sangam
SHPI’s	Self Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
TN	Tamil Nadu
TNWDC, Dew	Tamil Nadu Women Development Corporation
TNWDP	Tamil Nadu Women’s Development Project
UNDP	United Nations Development Programme
VO’s	Village Organizations
ZS	Zila Samakhyas

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Micro Credit Delivery Mechanism by Banks and Microfinance institutions – A comparative study in Andhra Pradesh and Tamil Nadu

Abstract

The provision of credit to the poor and underprivileged sections of the society is an important aspect of the larger mandate of social banking today. In India, the institutional credit delivery system of banks has been aptly complemented by the growth of self-help savings and credit groups. This has resulted in bringing together the banking system and the poor for mutual benefit. Micro credit is thus emerging as a viable alternative to achieve the objective of growth and poverty reduction. The experiment of microfinance in India through the SHG Bank linkage programme is an evidence of the effectiveness of group dynamism and credit recycling. Microfinance institutions borrow from banks and undertake on lending to borrowers and thus form part of the credit delivery system Irrespective of the model of credit delivery, the availability of loans often brings about a change in the household welfare of the borrowers and makes a significant impact on their empowerment and socio economic status.

Understanding the credit delivery mechanism would require detailed analysis of the perception of the key players in the credit delivery process which includes, self help group members, group leaders, bankers, micro finance institutions. The states of Andhra Pradesh and Tamil Nadu were selected for the purpose of the study as these two states are leading states in India with regard to microfinance. These two southern states have made impressive progress with the regard to microfinance

The present dissertation is based on an empirical study of responses from members of self help groups in the two states of Andhra Pradesh and Tamil Nadu and also analysis of the performance of banks and microfinance institutions in these two states. The public and private sector banks operating these two states have been actively involved in the credit delivery mechanism.

The performance of public and Private sector banks in financing self help groups and microfinance institutions in the states of Andhra pradesh and Tamil Nadu is compared

and analysed in order to judge the more successful model of credit delivery. The performance of microfinance institutions in these two states has been mapped with the help of ratios which are indicative of their efficiency, portfolio quality, profitability and extent of preparedness of these institutions to handle the credit risk prevailing in the sector.

The results of the study provide an insight into how the availability of credit and membership in Self help groups has contributed to their social empowerment. The impact on the socio economic status of the borrowers as a result of membership in self help groups is also analysed. The relationship between availability of microcredit and financial independence of borrowers has also been studied.

The perception of self help group members, leaders on the organisational aspects of their groups and the role of non governmental organisations and microfinance organisations has also been presented. The perception of bankers who are the providers of credit has also been discussed. The research effort has been made with the intention of providing a holistic view of the credit delivery mechanism by analysing the impact of microcredit on recipients who are members of self help groups in these two states, the providers of micro credit which includes banks and microfinance institutions and making constructive suggestions which can better the existing model of credit delivery.

CHAPTERISATION OF THESIS

The research work is presented in seven chapters which are as follows:
Introduction, Models of Microfinance: Self Help Groups As A Medium Of Credit Delivery and SHG movement: An approach to Women empowerment, Role of Banks and Microfinance Institutions in the credit delivery Mechanism and Risks involved in Microfinance, Literature review, Methodology, Results and Discussions, Conclusions and Recommendations.

Chapter 1 is presented in two parts: Part A and Part B. Part A constitutes Introduction, meaning and definition of microfinance, terminology, key principles of microfinance, Global microfinance scenario, microfinance in Asia, microfinance models and players, microfinance in India and objectives of microfinance. Part B describes emerging issues and challenges in microfinance.

Chapter 2 has two parts. Part A discusses the Models of Microfinance and Self Help Groups as a medium of credit delivery. It also traces the origin of SHG movement and describes the emergence and growth of the concept in the states of Andhra Pradesh and Tamil Nadu. Part B describes SHG Movement as an approach to women empowerment.

Chapter 3 has two parts: Part A describes role of microfinance institutions in the credit delivery mechanism, the working and management of microfinance globally and the transition of this sector in India with special focus on the two states of Andhra Pradesh and Tamil Nadu. The current scenario faced by the sector following the crisis in Andhra Pradesh over the microfinance regulation ordinance is also discussed. Part B provides a view of the risk involved in microfinance.

Chapter 4 focuses on review of literature which presents findings of the various researchers under sub-headings. Keeping in line the objectives of the present study, the review of current literature in microfinance is presented in three parts – (a) SHG outreach and impact (b) commercial banks in microfinance – their role and competing landscape (c) micro credit as a means of socio economic empowerment.

Chapter 5 Research Methodology

Chapter 6 deals with results and discussion of data analysis which includes:

Part A - Demographic profile of the sample in the states of Andhra Pradesh and Tamil Nadu

Part B - Results from the analysis of performance of banks in the states of Andhra Pradesh and Tamil Nadu in relation to the models of credit delivery in operation.

Part C - The performance of selected microfinance institutions in the states of Andhra Pradesh and Tamil Nadu in terms of efficiency is also presented.

Part D - The perception of managers of banks and role of Non-governmental organizations/Microfinance Organizations from both the states is also presented.

Part E - Results from the responses from the members of self help groups and Self help group leaders in the states of Andhra Pradesh and Tamil Nadu

Chapter 7 ends with conclusions and recommendations for improving the credit delivery mechanism

CHAPTER - 1

Introduction

CHAPTER - 1

Introduction

Chapter 1 is presented in two parts: Part A and Part B. Part A constitutes an overview of the microfinance scenario which includes - Introduction, meaning and definition of microfinance, terminology, key principles of microfinance, Global microfinance scenario, microfinance in Asia, microfinance models and players, microfinance in India and objectives of microfinance. Part B describes emerging issues and challenges in microfinance.

Part A: Microfinance Scenario

Background of the Study

Provision of credit to the poor has been a key concern of policy makers in India since Independence. Rural development and poverty reduction form the core of socio economic development programmes in our country. There have been several poverty alleviation initiatives made by the government of India which include the Integrated Rural Development Programme (IRDP) in 1980 which envisaged self employment among the poor through loans provided by banks for the purchase of productive assets along with subsidies provided by the government. As the goal of poverty reduction through increased growth did not achieve desired results due to the modest growth rate of our economy, the need to develop a people centric programme of development was thought to be imperative. A series of research studies conducted by National Bank for Agriculture and Rural Development (NABARD) in the early eighties showed that despite a wide network of rural bank branches and implementation of a variety of poverty alleviation programmes, a large number of poor people continued to be outside the fold of the formal banking system as the existing banking policies, systems and procedures, deposit and loan products were perhaps not suited to meet the immediate needs of the poor.

Thus, began a search for alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanism which will fulfill the requirements of the poor. The need to improve access of the poor to the banking network in the country was thought to be of utmost importance.

NABARD's vision of a participatory approach to development, with focus on social mobilisation and recognition of the the potential of women in thrift and management, lead to the development of the self help group bank linkage model in our country. The strategy involved forming small cohesive participative groups of the poor, encouraging them to pool their thrift regularly and use these pooled resources to make small interest bearing loans to their members. This marked the beginning of the microfinance movement in our country and this microfinance movement has developed into an organised means of dealing with poverty reduction as the strength of a group is greater than the total strength of individual members. Microfinance is the provision of loans and other financial services to the poor. The microfinance movement has evolved due to the efforts of committed individuals and financial agencies to promote self employment and contribute to poverty alleviation and provision of social security.

Access to financial services can be an important tool for preventing people from falling into - or moving out of - poverty. Research shows that poverty is aggravated with restricted access to finance. All economic agents, low-income households and micro-entrepreneurs can benefit from credit, savings, and insurance services. These services can help them take advantage of business opportunities, increase their earning potential, build assets, and reduce vulnerability to external shocks. Without access to finance from professional service providers, low-income and disadvantaged groups have to rely on informal sources of funding such as family, friends, or money lenders and may become targets of predatory schemes. Financial exclusion and restricted access to financial services thus reduces the potential welfare of individuals and the productivity of enterprises in an economy (World Bank, 2004a).

Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without." (Gert van Maanen, 2004).

Microcredit is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor, charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty." (Muhammad Yunus, 2003).

Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance is micro savings, money transfer vehicles and micro insurance. Microcredit is an innovation for the developing countries. Micro credit is a service for poor people that are unemployed, entrepreneurs or farmers who are not bankable. The reason why they are not bankable is the lack of collateral, steady employment, income and a verifiable credit history, because of this reasons they can't even meet the minimal qualifications for an ordinary credit. By helping people with micro credits it gives them more available choices and opportunities with a reduced risk. It has successfully enabled poor people to start their own business generating or sustain an income and often begin to build up wealth and exit poverty. Microfinance plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one's children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability to external shocks like illness, weather and more.

Micro credit has widely been directed by the non-profit sector while commercial lenders require more conventional forms of collateral before making loans to microfinance institutions. But now it is successfully growing bigger and getting more credibility in the traditional finance world. Due to that the traditional banking industries have begun to realize that these borrowers fit more correctly in a category called pre bankable. The industry has realized that those who lack access to traditional formal financial institutions actually require and desire a variety of financial products. Nowadays the mainstream finance industry is counting the micro credit projects as a source of growth. Before almost everyone were neglecting the success of micro credit in the beginning of the 1970s when pilot projects such as ACCION were released until the United Nations declared 2005 the International Year of Micro credit.

Most of the micro credit institutions and agencies all over the world focus on women in developing countries. Observations and experience shows that women are a small credit risk, repaying their loans and tend more often to benefit the whole family. In another aspect it is also seen as a method giving the women more status in a socioeconomic way and changing the current conservative relationship between gender and class when women are able to provide income to the household. Women are in most cases responsible for children, and in poor conditions it results in physical and social underdevelopment of their children. A recent World Bank report confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it is because 70% of the world's poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services.

Thus, it can be said that there is no universal definition of microfinance. It varies by country and can take different forms depending on a particular economy's level and structure of development. Broad regional variations can be observed in loan sizes, types of services, target clientele, outreach, and delivery methodologies. However, in general terms, microfinance caters to the poor and underserved segments of the population by providing "small-scale financial services . . . to people who farm or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing economies, in both rural and urban areas" (World Bank and Open Society Institute 2003).

In India, the most authoritative definition is provided by the Reserve Bank of India:

"Microfinance is defined as the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to small enterprises and households."

The main objective of microfinance is often regarded as poverty alleviation but financial inclusion subsumes this objective as long as reaching the poor (or maximizing the depth of outreach) is given equal attention in product design, delivery systems and monitoring.

The key principles of microfinance outlined by Consultative Group to Assist the poor (CGAP) and endorsed by the G8 at Sea Island Summit 2004 are listed below.

Key Principles of Microfinance

1. **The poor need a variety of financial services, not just loans.** Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit, but also savings, cash transfers, and insurance.

2. **Microfinance is a powerful instrument against poverty.** Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education.

3. **Microfinance means building financial systems that serve the poor.** Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In many countries, microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially-responsible investors. In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector.

4. **Financial sustainability is necessary to reach significant numbers of poor people.** Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable

institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor.

5. **Microfinance is about building permanent local financial institutions.** Building financial systems for the poor means building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services. Dependence on funding from donors and governments - including government-financed development banks - will gradually diminish as local financial institutions and private capital markets mature.

6. **Microcredit is not always the answer.** Microcredit is not appropriate for everyone or every situation. The destitute and hungry who have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings.

7. **Interest rate ceilings can damage poor people's access to financial services.** It costs much more to make many small loans than a few large loans. Unless microlenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding. When governments regulate interest rates, they usually set them at levels too low to permit sustainable microcredit. At the same time, microlenders should not pass on operational inefficiencies to clients in the form of prices (interest rates and other fees) that are

far higher than they need to be.

8. **The government's role is as an enabler, not as a direct provider of financial services.** National governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's savings. The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high-delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. In special situations, government funding for sound and independent microfinance institutions may be warranted when other funds are lacking.

9. **Donor subsidies should complement, not compete with private sector capital.** Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity, etc.), and support experimental services and products. In some cases, longer-term donor subsidies may be required to reach sparsely populated and otherwise difficult-to-reach populations. To be effective, donor funding must seek to integrate financial services for the poor into local financial markets; apply specialist expertise to the design and implementation of projects; require that financial institutions and other partners meet minimum performance standards as a condition for continued support; and plan for exit from the outset.

10. **The lack of institutional and human capacity is the key constraint.** Microfinance is a specialized field that combines banking with social goals, and capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government development entities and donor agencies. Most investments in the sector, both public and private, should focus on this capacity building.

11. **The importance of financial and outreach transparency.** Accurate, standardized, and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative. Bank supervisors and regulators, donors, investors, and more importantly, the poor who are clients of microfinance need this information to adequately assess risk and returns.

The concept of Microfinance has been influenced by two schools of thought namely the institutionalist and the welfarist. While the institutionalist school focuses on the development of a financially sustainable institution to serve the poor, the welfarist school focuses on the immediate improvement of economic safety for the poor. Though the objectives of the two approaches are different, the common objective is to improve the economic and socio-economic impact of microfinance in a way that leads to financial sufficiency. The Microfinance sector today is faced with the challenge of providing financial access to the poor while covering operational costs while designing their product services and delivery method to improve impact. The sector strives to achieve objectives in six dimensions:

Table 1: Six Degrees of Outreach of Microfinance

Breadth:	Serve as many people as possible
Depth:	Serve people who are underserved by financial institutions
Length:	Generate enough revenue to cover costs, provide adequate returns to investors to maintain their support
Cost:	Control costs, maximize efficiency and productivity to keep interest rates as low as possible.
Worth:	Keep clients satisfied so that they continue to choose the Microfinance Institution over competitors
Scope:	Understand client needs for financial services and offer a product menu to address those needs

Source: Mark Schreiner, 2002

The success of the Microfinance sector today depends on available partnerships, legal and regulatory environment, internal capacity and the future plans. The strategic direction of any player is driven by the relationship between its vision, mission, values, and objectives. The effectiveness of the strategic direction can be enhanced by ensuring clarity in its mission, vision and value. This can be developed through a participatory process that involves key stakeholders. Schreiner (2002) notes that the social benefits of microfinance will depend on all six dimensions. The best way to maximize all six dimensions of outreach is through better performance.

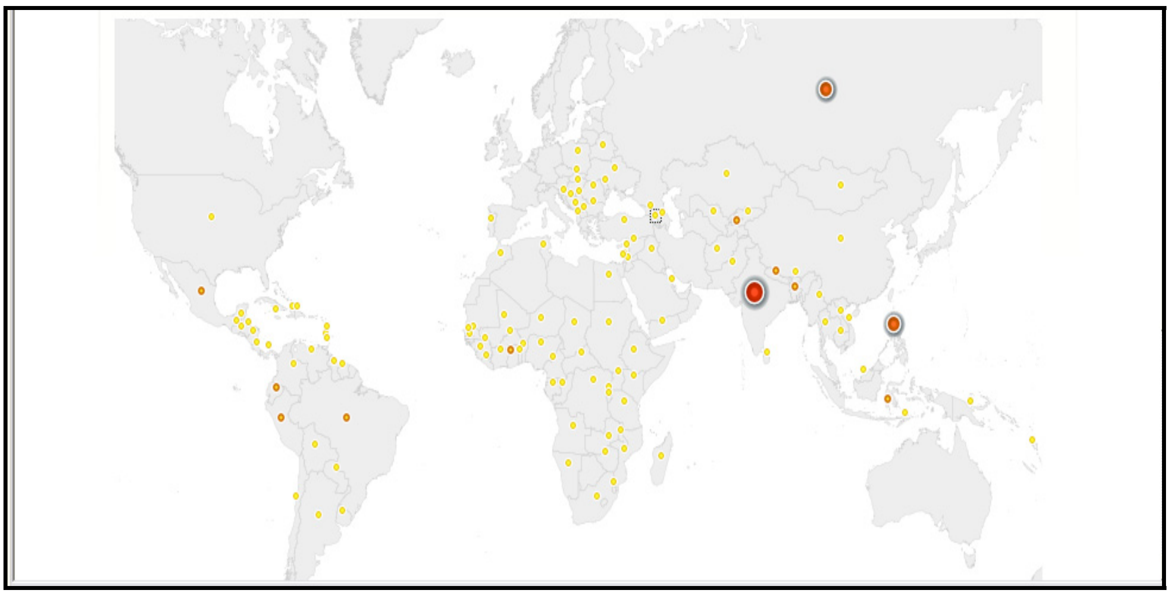
Global Microfinance Scenario

At a time when the world's richest countries are sinking into debt and middle-class consumers everywhere are defaulting on their loans, lending money to the world's poor hardly seems wise. Yet, the practice of providing small sums to low-income entrepreneurs - known as microfinance - has never been more popular, or more important. Microfinance has existed in many forms for decades, but has only recently garnered global attention as a commercially viable activity that can offer real opportunities for micro-entrepreneurs. This is in large part due to the efforts of Mohammed Yunus, who founded Grameen Bank in 1983 and was awarded the Nobel Prize in 2006 for his efforts to increase financial access for the world's poor.

From 2004 to 2008 microfinance enjoyed unprecedented growth in emerging markets. According to data from the Microfinance Information Exchange (MIX), the sector expanded at historic rates, with average annual asset growth of 39%, accumulating total assets of over US$60 billion by December 2008. The number of active borrowers remained higher in South Asia when compared to the other regions in the world. In 2009, Europe and Central Asia recorded a decline in the number of depositors while Central Asia had the lowest growth rate in terms of Gross Loan Portfolio. Yet the development and regulation of microfinance as a stand-alone sector, as well as the business environments in which it operates, vary greatly from country to country. The Microfinance Information Exchange (MIX) is the leading provider of business information and data services for the microfinance industry. Dedicated to strengthening the microfinance sector by promoting transparency, MIX provides detailed performance and financial information on microfinance institutions, investors, networks, and service providers associated with the industry.

As global economic growth slowed in 2008, microfinance institutions around the globe began to feel the impact in their own portfolios and performance. The sustained expansion in borrowers served in the first part of the decade ceded to slower growth and rising operating costs by 2008. The MIX global data was the first set to capture the impact of the crisis and economic slowdown on the operational and financial performance of Microfinance Institutions. Together, in 2011 2000 benchmarked Microfinance Institutions served 55 million borrowers with 32 billion USD in loans, and collected 22 billion USD in deposits. (MIX Market data 2011)

Fig 1: Global Distribution of Microfinance Institutions



Source: MIX Market 2010

Table 2: Global Microfinance Scenario

Region	Africa	East Asia And The Pacific	Eastern Europe And Central Asia	South Asia	Middle East And North Africa	Latin America And The Caribbean
Total No of Microfinance Institutions	508	289	419	368	76	478
Gross Loan Portfolio USD, 2010	4.6 Billion	21.2 Billion	8.2 Billion	9.0 Billion	1.2 Billion	22.9 Billion
Number of active borrowers 2010	4.5 Million	15.8 Million	2.8 Million	58.6 Million	2.2 Million	15.0 Million
Average loan balance per borrower USD, 2010	371.9	304.9	1682.6	144	610.8	1031.6
Deposits USD, 2010	4.7 Billion	3.3 Billion	6.0 Billion	3.3 Billion	122.0 Million	15.3 Billion
Assets USD, 2010	6.7 Billion	8.4 Billion	11.9 Billion	11.4 Billion	1.6 Billion	29.2 Billion
Number of depositors 2010	16.6 Million	5.8 Million	2.8 Million	26.4 Million	89552	15.4 Million

Source: Mix market data 2011

Microfinance in Asia

Microfinance in Asia remained profitable overall in 2008, although operating expenses reflected higher costs of personnel and financing in some sectors. Decreasing operating expenses will require innovation from Microfinance Institutions in order to result in lower costs to clients. The microfinance industry in Asia is one of the largest in the world with a huge number of microfinance service providers characterized by a strong focus on social mission. The unmet demand for microfinance is still growing. Asia has some of the largest Microfinance institutions including BRI Indonesia and ASA Bangladesh. They cater to different market segments. Historically, the microfinance sector in most countries has been resilient to external financial crises. In Asia, the microfinance sector in most countries has largely been funded by international donors, government development funds and individual deposit mobilisation, with India and to a certain extent the Philippines, being the exceptions. Hence the effect of the global liquidity contraction on the cost and availability of funding to Microfinance Institutions is yet to be determined and will depend on the funding structure of the institution. In countries where domestic commercial banks have begun lending to Microfinance Institutions, money flow has become tighter and slower and has more conditions attached.

Table 3: Asia 2009 Microfinance and Benchmarking Report

BENCHMARKS FOR ASIA		unadjusted	unadjusted	unadjusted
* all results are adjusted except as otherwise indicated for Asia trend results	Asia 2008	Asia 2006	Asia 2007	Asia 2008
INSTITUTIONAL CHARACTERISTICS				
Number of MFIs	283	140	140	140
Age	12	10	11	12
Total Assets	7,189,772	6,216,822	9,650,021	10,062,967
Offices	12	18	21	22
Personnel	134	169	211	229
FINANCING STRUCTURE				
Capital/ Asset Ratio	14.9%	16.8%	15.6%	15.5%
Debt to Equity	5.0	4.4	5.0	4.5
Deposits to Loans	30.8%	21.6%	21.5%	24.7%
Deposits to Total Assets	15.9%	14.7%	14.8%	19.0%
Portfolio to Assets	74.3%	74.6%	73.0%	73.9%
OUTREACH INDICATORS				
Number of Active Borrowers	17,239	25,047	31,671	36,146
Percent of Women Borrowers	93.8%	97.9%	96.8%	94.1%
Number of Loans Outstanding	16,483	25,478	30,719	35,644
Gross Loan Portfolio	3,677,827	4,162,354	6,417,099	7,354,688
Average Loan Balance per Borrower	166	133	162	167
Average Loan Balance per Borrower/ GNI per Capita	17.8%	16.9%	17.0%	17.1%
Average Outstanding Balance	164	132	161	166
Average Outstanding Balance / GNI per Capita	16.7%	16.8%	16.4%	16.7%
Number of Depositors	6,700	16,317	15,362	14,805
Number of Deposit Accounts	7,453	17,130	15,360	14,392
Deposits	529,766	558,852	800,798	1,077,763
Average Deposit Balance per Depositor	56	34	50	52
Average Deposit Balance per Depositor / GNI per capita	7.0%	5.0%	7.0%	7.0%
Average Deposit Account Balance	55	35	50	52
Average Deposit Account Balance / GNI per capita	6.0%	5.0%	6.0%	6.0%
MACROECONOMIC INDICATORS				

Source: Mix Market Report 2009

Historically, the microfinance sector in most countries has been resilient to external financial crises. The microfinance sector has emerged as an effective strategy in addressing poverty and empowering the poor. The capacity, quality and range of microfinance institutions and the infrastructure that supports them varies widely within countries and from country to country. Financially sustainable, commercially viable microfinance Institutions co-exist alongside donor subsidised entities and basic community revolving funds. In every country, a few large institutions account for the bulk of outreach, with Bangladesh being the most prominent example, with Grameen, BRAC, ASA and Proshika accounting for 86% of the microfinance market. The market in India, Indonesia and the Philippines is more vibrant, where banks and non-bank financial institutions are gaining greater importance. In Nepal, Sri Lanka and Vietnam, there continues to be significant government involvement in service delivery, with micro credit used at a policy level. In India, Bangladesh, Indonesia and the Philippines there was strong growth of the microfinance industry, in terms of outreach and operational and financial sustainability and efficiency, is gradually leading to the commercialization of the Microfinance Institutions. The pressure to maximise returns by the new private equity, commercial and social investors is likely to result in the scaling-up of operations, the dampening of downward pressure on interest rates, and the increase in loan sizes. The desire to reach a massive scale may augur well for financial inclusion, but can threaten the quality of growth. In addition, increases in interest rates and loan size would result in limiting the access to microfinance.

Technological innovation in microfinance can promote reaching the unbanked. Most countries in Asia are operating in challenging and non conducive regulatory framework on availability of financial services increases poor people's dependence on local sources of capital at exorbitant rates. However, the global financial crisis did not deter the microfinance sector in Asia from attracting investment from global players. Most countries are looking at better use of technology for financial inclusion as it will enable reduction in transaction costs. A major bottleneck faced by microfinance providers in Asia is the lack of financial resources which is a major constraint in their ability to invest in developing systems and human resources to manage the unprecedented growth in client numbers.

In Asia, the sheer numbers pose a challenge. The phenomenal growth in outreach of 58.6 million still leaves many, in countries like Bangladesh, India, Pakistan and the Philippines the industry faces two dilemmas, the first being sustainability versus expansion in client base, and second being small versus larger loan sizes. To work towards sustainability, Microfinance Institutions need to professionalise and upgrade staff skills (especially in finance), increase the use of technology, streamline operations with management information systems and achieve cost efficiency. Microfinance

Institutions would have to expand horizontally to service an expanded client base, as well as implementing the vertical professionalisation of all functions within the institution. Sustainability, as well as interest caps (especially in India) on small loans, has prompted Microfinance Institutions to provide larger loans and hence all together forgo the target population of the very poor. In such instances 'mission drift' becomes a default option, leaving the Microfinance Institution little room to maneuver.

Microfinance Models and Players

Microfinance services are provided through a variety of delivery methodologies ranging from the very popular Self Help Group methodology to Grameen joint liability groups and the individual banking arrangements of the savings and credit cooperative societies.

Bank –Self Help Group Linkage

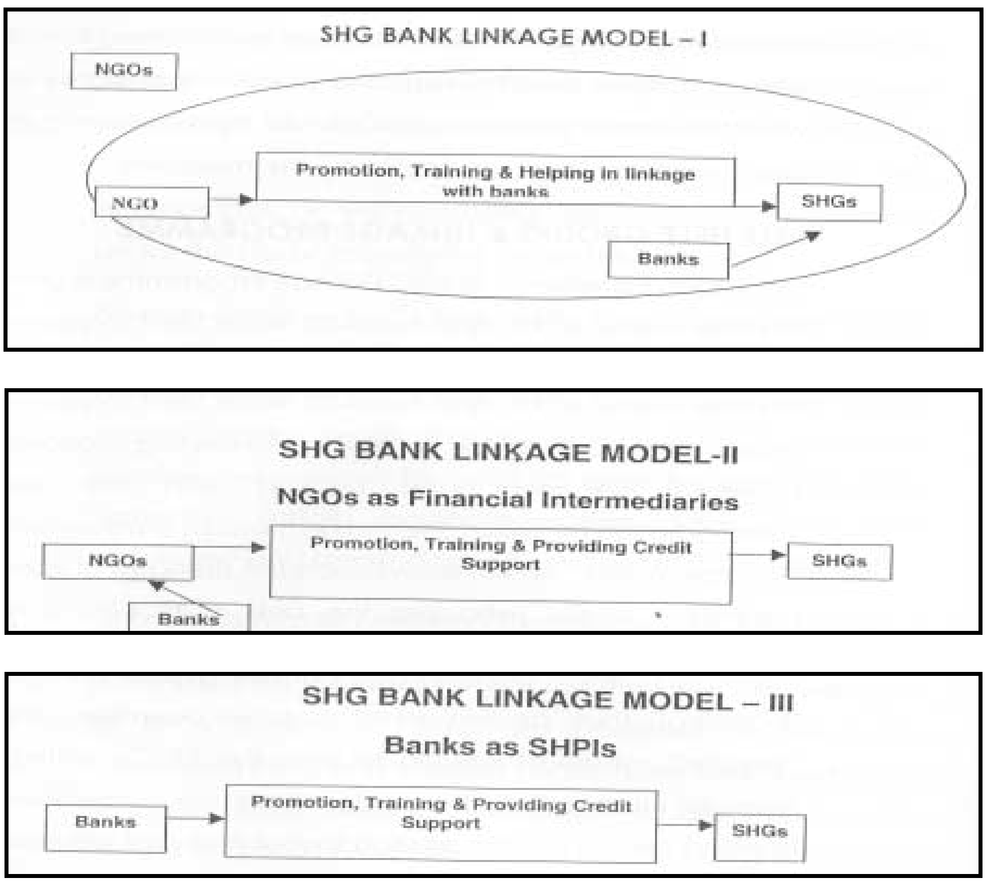
Micro financing through Self Help Groups is a reliable mechanism as the beneficiary group members are encouraged to make voluntary savings on a regular basis. They use the savings to make interest-bearing loans to their members. The process of saving, lending and recovering it back imbibes the essentials of financial intermediation including prioritization of needs and thus builds financial discipline.

The major advantage of the Self Help Group model is the empowerment and participation it has engendered in millions of rural women, most of whom are below the poverty line. It also has the advantage that it can spread much faster, taking advantage of India's huge network of bank branches and the potential of Primary Agricultural Cooperative Societies (PACS's). Three distinct Bank-Self Help Group linkage models are currently in existence.

Table 4: Models of Micro credit and the Role of Banks

Models of Micro-credit	Role of banks
Model 1	Banks take up the work of forming and nurturing the groups, opening their saving accounts and providing them bank loans.
Model 2	Self Help Groups are formed by NGO's and formal agencies but are directly financed by banks.
Model 3	Self Help Groups are financed by banks using NGO's and other agencies as financial Intermediaries.

Fig 2: SHG Bank Linkage Model



Source: Nanda, Y.C. (1995)

Bank – Microfinance Institution Linkage

The emerging role of Microfinance Institutions as institutions other than banks engaged in providing financial services to the poor is being recognized and the banking sector has been extending loans to the Microfinance Institutions for on lending to the Self Help Groups.

The more recent model adopted by Indian microfinance is that of the Joint Liability Group (JLG), which is an adaptation from the Grameen model. It is emerging as an alternative to the home grown Self Help Group model. The JLG is not linked with a bank but is intermediated by the loan officer of a Microfinance Institution who is responsible for formation and management of the group. Unlike the Self Help Group model wherein the loan is given to the group and the bank does not track individuals credit history, in the Grameen-inspired JLG model the loan is given to the individual (usually by the Microfinance Institution), backed by the group guarantee. This enables creation of an individual credit history.

Individual Banking Programmes (IBPs)

IBPs entail the provision by Microfinance Institutions of financial services to individual clients by organizing them into joint liability groups, credit and savings cooperatives or even Self Help Groups. The model is increasingly popular for microfinance particularly through cooperatives. In the case of cooperatives, all borrowers are members of the organisation either directly or indirectly by being members of primary cooperatives or associations which are members of the apex society. Creditworthiness and loan security are a function of cooperative membership within which member savings and peer pressure are assumed to be a key factor. Though the magnitude and timing of savings and loans are largely unrelated, a special effort is made to mobilise savings from members. There are now a large number of mutually aided cooperative societies which provide credit to the poor.

Grameen Model

This model was initially promoted by the well known Grameen Bank of Bangladesh. These undertake individual lending but all borrowers are members of 5-member joint liability groups which, in turn, get together with 7-10 other such groups from the same village or neighbourhood to form a centre. Within each group and centre peer pressure ensures prompt repayment. Each borrower's creditworthiness is determined by the overall creditworthiness of the group. Savings are a compulsory component of the loan repayment schedule but do not determine the magnitude or timing of the loan.

Table 5: Characteristics of Microfinance Delivery Models

Characteristics of Microfinance Delivery Models in India		
Financial Service	Characteristic	Description
Credit	Loan amount	Determined by the longevity of the client's association with the MFI. Not often directly related to the credit needs of the borrower.
	Loan term	Usually 12 months, occasionally less, sometimes greater
	Repayment instalments	Monthly or weekly – usually fixed, equal amounts
	Interest charges	Range: 24-36%, usually levied as a flat charge, partly to simplify calculations for both the MFI and the client. Some MFIs charge lower rates but suffer from poor sustainability as a result.
	Collateral	No physical collateral but often linked to some compulsory savings component which acts as financial collateral. Reinforced by joint liability (Grameen) with other clients or peer pressure arising from membership of a community group revolving its own as well as borrowed funds (SHGs, cooperatives). Some MFIs also create reserve funds to cover the risk of default.
Savings	Amount deposited	Grameen: Compulsory – usually a fixed proportion of the repayment instalment SHG: Compulsory – fixed amounts per (weekly or monthly) meeting to be deposited as part of the group fund; occasionally also voluntary Some MFIs now offer long term fixed deposits.
	Withdrawals	Compulsory savings cannot be withdrawn except when the client leaves the group. Voluntary savings often require some notice of withdrawal.
	Interest paid	Most programmes pay 4-6% interest (not consistent)
Insurance	Life	Some MFIs are starting to offer life insurance covering client loan repayments plus a small payment to the family in case of the death of the client. A reserve fund is created for the purpose or insurance is bought from the organised sector on behalf of the client.
	Animal	Usually linked with a formal insurance company which obtains bulk business from the MFI while the latter provides the service of premium collection; assists in the verification of claims

Source: Microfinance: An introduction N.Srinivasan and M.S. Sriram IIMB Management Review, June 2003

Microfinance Credit delivery Models are often characterized by the

- Attendance of regular weekly fortnightly or monthly group meetings by their clients
- Training of clients in usage of loan or participation in discussions socially relevant issues such as discrimination, gender awareness, health, sanitation and education
- Contribution of fixed amounts, termed 'savings', to a fund managed either by the group or by the Microfinance Institution with direct access of the member limited or even barred
- Repayment of fixed amounts as installments on any loan she obtains from the Microfinance Institution or from the group.

The clients are provided loans of small amounts which include loans for consumption and of late include an insurance component for the client.

Microfinance in India

Since Independence, the Government of India and the Reserve Bank of India (RBI) have made concerted efforts to provide the poor with access to credit. Recognizing the potential of micro finance to positively influence the development of the poor, the Reserve Bank, NABARD and SIDBI have taken several initiatives over the years to give a further fillip to the microfinance movement in India.

The micro credit programme formally heralded in 1992 with a modest pilot project of linking around 500 self help groups (SHG) has made rapid strides. NABARD which has spearheaded the microfinance programme in India is playing a major role in the provision of ensuring access to banking services to all by the year 2011. The Self Help Group-bank linkage programme (SBLP) initiated by NABARD has grown rapidly and the savings component, in particular has been a success with an increasing number of groups having reached loan absorption limit.

Following the RBI guidelines issued vide its circular dated 18 February, 2000 to all scheduled commercial banks including RRBs, Microfinance Institutions are availing bulk loans from banks for on lending to Self Help Groups and other small borrowers. Besides, development financial institutions such as National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development of India (SIDBI) and many microfinance promotion organizations have started providing bulk loans to Microfinance institutions. As a result Microfinance Institutions have started playing the role of intermediaries between development financial institutions and poor individual retail borrowers living in rural and urban areas. In another model of credit delivery NABARD provides refinance to commercial bank which provide loans to Self Help Groups in order to facilitate relationship between banks and poor borrowers.

For the year 2010-11, 22 Public Sector Commercial Banks, 15 private sector Commercial Banks, 2 foreign Commercial Banks, 10 Regional Rural Banks (RRBs) had reportedly financed Microfinance Institutions for on-lending. The Self Help Group-Bank Linkage Programme is considered as an important tool for inclusive growth and delivering financial services to poor households. The following is the geographical distribution of the Self Help Group-Bank Linkage Programme in India for the year ended March 2010-11.

The outreach of microfinance services has substantially increased in India in recent years. This has been due partly to the phenomenal growth of the Self Help Group-Bank Linkage Programme and the growth of Microfinance Institution – Non-Bank financial institutions which offer small value financial services to low income families. India has the fastest growing microfinance sector in the world. It presents the single largest Microfinance market in the world with over 600 million people living below USD1.50 a day while the combined Microfinance Institution and Self Help Group market serves only an estimated 67 million borrowers (Srinivasan, 2009). India's unmet demand for microfinance is still the highest in the world.

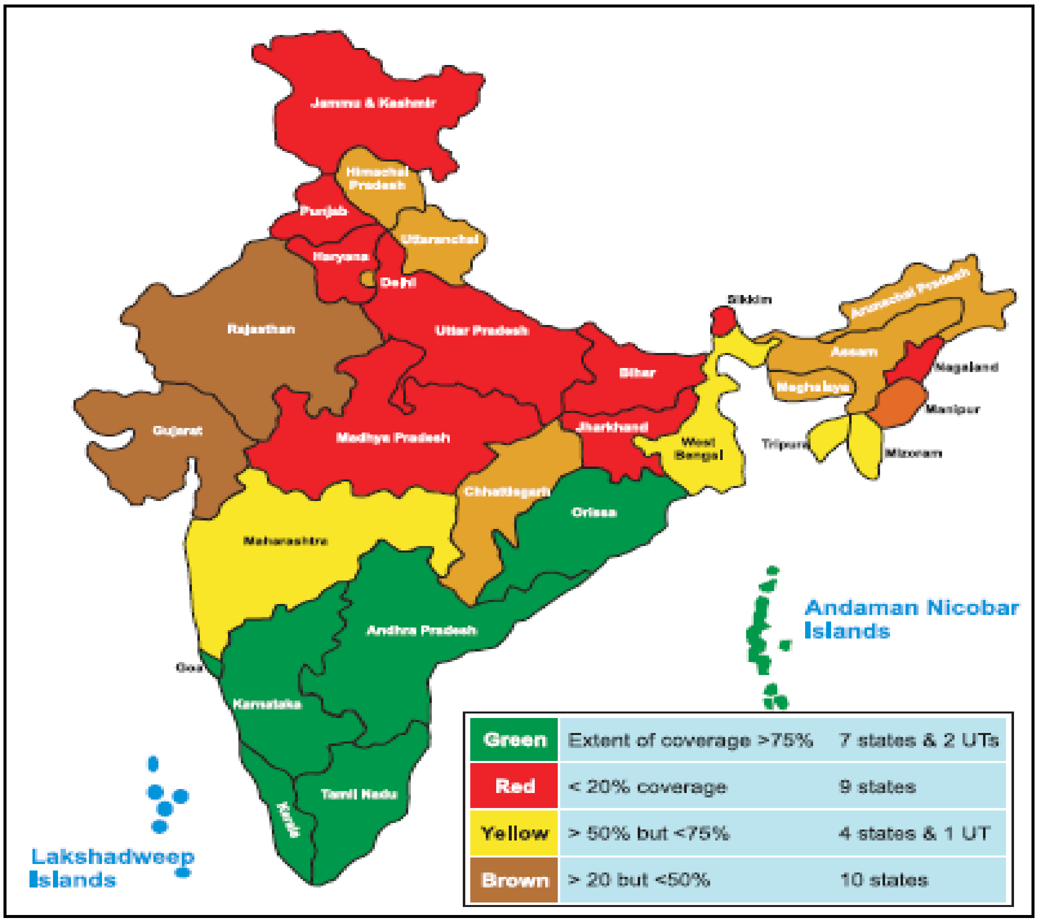
Regionally, microfinance is concentrated in South India, where in Microfinance Institutions had most of their outreach and loan volumes in Andhra Pradesh, Tamil Nadu and Karnataka (52 % of clients and 59 % of outstanding loans). There are six major states and all the north-eastern states in which Microfinance Institutions have very few clients, constituting less than 1% of total clients.

Key reasons for the higher microfinance outreach in South India include

- The origination of the bank Self Help Group linkage program in Karnataka largely through the initiatives of the non-government organization (NGO) MYRADA and the consequent greater participation of Karnataka-based banks, such as the Syndicate Bank and Canara Bank in the programme;

- Better governance that has enabled the development of a larger number of good quality NGOs that, in turn, have spawned Microfinance Institutions; more vibrant local economies in the southern states compared to the less developed states in the north and east; and
- Higher literacy and participation rates of women in the local economy making them more suitable clients for Microfinance Institutions.

Fig 3: Geographical spread of Self Help Group –Bank linkage Programme as on 31.3.2011



Source: NABARD report on status of microfinance 2010-11

The credit delivery model of banks providing funds to microfinance institutions has also been fairly successful in India.

The Microfinance Institutions in India are characterized by diverse institutional and legal forms namely

1. NGO Microfinance Institutions – Registered under Societies Registration Act, 1860 and / or Indian Trust Act, 1880
2. Cooperative Microfinance Institutions – Registered under State Cooperative Societies Act or Mutually Aided Cooperative Societies Act (MACS) or Multi- State Coop. Societies Act, 2002
3. NBFC Microfinance Institutions under Section 25 of Companies Act, 1956 (Not for profit)
4. NBFC Microfinance Institutions incorporated under Companies Act, 1956 & registered with RBI

Indian microfinance has reached out to 3.17 crore clients with loan outstanding of ₹13730.62 Crores for the year ending March, 2011. During the year 2010-11, the microfinance through Microfinance Institution channel grew by 18.75% in 2011 in terms of client outreach and 13.5% in terms of credit portfolio. Microfinance Institutions collectively disbursed ₹33730 crores as loans to clients during 2010-11.

Table 6: Progress under Bank-Microfinance Institution Linkage Model

(Amount ₹ Crore)

Particulars	2008-09		2009-10		2010-11	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by banks to MFIs	581 (12.2 %)	3732.33 (89.4%)	691 (18.9%)	8062.74 (116.0%)	471 (-31.8%)	8448.96 (4.8%)
Loans outstanding against MFIs as on 31 March	1915 (72.7%)	5009.09 (82.2%)	1513 (-21.0%)	10147.54 (102.6%)	2315 (53%)	13730.62 (35.3%)
Loan Outstanding as % of fresh loans	329.6	134.2	219.0	125.8	491.5	162.5

Source: NABARD report on status of microfinance 2010-11

The outreach of microfinance services has substantially increased in India in recent years partly because of the phenomenal growth of the Self Help Group-bank linkage programme and on account of the substantial growth of Microfinance Institution – non-bank financial institutions offering small value financial services to low income families. India has the fastest growing microfinance sector in the world. It presents the single largest Microfinance market in the world with over 600 million people living below USD 1.50 a day while the combined Microfinance Institution and Self Help Group market serves only an estimated 67 million borrowers (Srinivasan, 2009). India's unmet demand for microfinance is still highest in the world.

Objectives of Microfinance

The objective of microfinance is to provide financial services to those who have incomes which are small and unstable. Their credit needs are often small and arise suddenly. Most of their credit needs are for consumption and the formal banking system is unable to cater to their requirement without a demand for collateral. Microfinance is able to reach the poor as it is able to provide them with financial services at a scale appropriate to them.

Micro-Credit to the poor often works on the assumption that availability of finance will enable them to come out of the vicious circle of poverty. However, when micro credit results in bringing about the habit of savings for future needs, it will augur a sense of social and economic security in the borrowers. Micro- credit as a tool for development can be successful when it is able to combine the advantages of access to credit and financial sustainability.

Micro-credit has emerged as an important tool for development and poverty alleviation as it promises delivery of higher incomes and growth in assets for the poor by promoting micro enterprises. This promise can become a reality if the poor develop the potential to make use of market opportunities in running their micro-enterprises which will help them to increase the control they exercise over their economic environment. Ownership of assets can reduce risk arising due to rising expenditure on consumption and fluctuation in incomes of the borrowers. Micro-credit providers can bring about a change in the lives of borrowers when they focus on poverty alleviation by including livelihood promotion, women empowerment, development of people's organizations and conducive institutional environment as their core values.

Mahajan and Ramola (1996) proposed a matrix to explain the interplay between access and sustainability of the micro credit industry. While the formal financial sector may achieve financial sustainability, it may not have outreach to poor clients (quadrant 2 in fig.4). Nongovernmental organizations have impressive outreach but are often unsustainable (quadrant 4 in fig. 4). Good micro-credit practice needs to combine both outreach and sustainability (quadrant 1 in fig. 4). Providers of Micro-credit work towards achieving this position.

Fig 4: Combining Outreach and Sustainability (Source: Mahajan and Ramola 1996)

High sustainability

Low Access | | **High Access**

2. Sustainable financial services with low access by target clients	1. Sustainable financial services reach target clients
3. Highly subsidized financial services with low access by target clients	4. Highly subsidized financial services reach target clients

Low sustainability

Microfinance is viewed as a poverty alleviation tool and attempts have been made by countries to examine the social and economic impact of microfinance. In countries such as Nepal, Bangladesh, India, Vietnam, China and Philippines, where impact studies were carried out, Microfinance can be considered to be a value addition to the total economy as it resulted in the following benefits to its clients:

- better food security and nutrition,
- better housing and health,
- better school enrolments for children,
- women's empowerment and mobility,
- higher average household income and/or a

- more secure and consistent cash flow over the year,
- higher levels of literacy,
- building of human capital and assets and
- community participation, self-employment and employment of family member,
- Employment creation- employment of non family labour.
- Facilitate financial inclusion and promote inclusive growth.

Micro-enterprises that are promoted by individuals often face difficulties due to their inability to spread the risk of borrowings. On the other hand, collective ownership of micro-enterprises mitigates the borrowing risk as it gets distributed over the members of the group. This lead to the emergence and popularity of Self help groups in our country.

Part-B: Emerging Issues and Challenges in Microfinance

Over the past decade, the microfinance sector in India has grown in size, prominence, stature, and visibility through the increasing participation of international and domestic banks, private equity investors, donors, and the private sector. Their key objective is to provide small-ticket financing on a sustainable basis while enhancing the economic status of less-advantaged sections of society. Development institutions, such as NABARD and SIDBI, have also played an important role in paving the way for funding and institutional strengthening of Indian Microfinance Institutions. The Indian microfinance model falls in between state involvement and private commercial initiatives is a program in India started by the National Bank of Agriculture and Rural Development (NABARD), under which a number of private banks in India have become involved in microfinance. ICICI Bank in particular has experimented with some innovative approaches to microfinance involvement under the NABARD program. These trends place microfinance in India squarely within the conventional financial sector and raise important issues of governance and regulation in connection with the new institutions.

Institutional structures and governance practices among Indian Microfinance Institutions are quite varied and differ significantly from mainstream financial intermediaries because many of them are incorporated under a wide range of legal structures. And a lack of clarity in regulations and low transparency compound the problem. Moreover, many Microfinance Institutions, particularly those that have evolved from nongovernmental organizations (NGOs) into "NGO-Microfinance Institutions," are still struggling to strike the right balance between their social and business goals, two seemingly conflicting objectives.

Double counting of clients, multiple loans accounts of individuals clients inflating the overall number of clients, counting of accounts rather than clients and reckoning of non-borrowing clients in the absence of full information are some of the concerns raised by skeptics on the data reported. These numbers are more indicative of the growing trends and also indicate a significant need for sprucing up the Management Information Systems of Banks and integrating them with the databases of Microfinance Institutions and Self Help Groups. This can considerably reduce ambiguity and provide more accurate estimates of the state of the sector.

Governance-related issues constitute the biggest challenge to the sustainability of India's Microfinance sector. The most progressive Microfinance Institutions, and a few newly established players with strong private investor support and sound governance practices, are setting industry standards and benchmarks. But they're still the minority. CRISIL reports that the majority of Microfinance Institutions need to reorient and strengthen their governance architecture-from legal structures, to board composition, to internal controls - if they are to survive and continue to grow.

The microfinance sector has continued to grow rapidly and with it the need for better regulation. The proposed Microfinance Bill has been pending in Parliament since 2007, although it is expected to pass in 2010. However, the bill does not cover non-bank financial companies (NBFCs) and microfinance institutions (Microfinance Institutions) registered as not-for-profit companies, thereby ignoring over 80% of the microfinance sector.

The Reserve Bank of India (RBI, the central bank) regulates two types of institutions that engage in microfinance activities: banks and NBFCs. There are also Self Help

Groups (SHGs) that operate as informal credit and savings groupings of 5-30 poor individuals. Under the proposed bill, the National Bank for Agriculture and Rural Development (NABARD) would be responsible for regulating, registering and overseeing the microfinance activity of Self Help Groups and NGO-Microfinance Institutions. A real possibility is a regime with two regulators — RBI for NBFCs and banks and NABARD for Self Help Groups and NGO-Microfinance Institutions.

Although they are the largest, Microfinance Institutions, NBFCs are not allowed to accept fixed term deposits without special approval, which requires an investment grade rating from a credit rating agency. Both regulatory approval and credit ratings have become increasingly difficult, if not impossible, to obtain. NGO-Microfinance Institutions are currently prohibited from accepting deposits; however, the Micro Financial Sector Bill pending in parliament since 2007 could open up deposit-taking restrictions on NGO-Microfinance Institutions.

Some of the challenges faced by the sector include:

- Organizational capacity of Microfinance Institutions, outside of the few large and successful ones is lacking
- Limited existence and institutional capacity of institutions – networks, credit bureau, financial and social rating agencies, training and business development services
- Limited product range, current clientele needs– micro insurance, remittances and savings
- New products frontiers (agriculture and agri-based industries, housing, SME – historically credit for petty trade)
- Access to technology
- Mission drift
- Policy lending as against market discipline
- Legal and regulatory framework

Source: Microfinance in Asia, trends challenges and opportunities, 2009: Jamie Bedson

The greatest opportunity for the sector is the attention it has received in the last five years, and the general acknowledgement that microfinance is an effective poverty alleviation tool. Governments, Microfinance Institutions, the development community and private investors are all focused on creating a supportive policy environment, developing the financial infrastructure and viable institutions and supporting pro-poor product innovations to ensure permanent access to financial services for the majority, as compared to the exclusivity of financial systems in the developed world.

The Opportunities faced by the Microfinance Sector include the following

- Work towards bringing about regulatory reform
- Improving access to commercial funding – banks, private investors
- Number of successful Microfinance Institutions graduating to join the leaders
- Expanding outreach with the down-scaling of commercial banks.
- Savings / deposit mobilisation as a sustainable source of funding
- Development of new Products with the use of technology. Build Partnerships across sectors

Some positive developments that look encouraging to the microfinance sector are:

- Under two separate circulars issued in 2009, domestic banks are required to lend 10% of their adjusted net bank credit to weaker players, such as Self Help Groups, or to Microfinance Institutions that lend to Self Help Groups.
- A Microfinance credit information Bureau is being created; that will pool borrowers' details from 34 participating NBFC-Microfinance Institutions that are part of the Microfinance Institutions Network (Microfinance Institution, a regulatory organization). Moreover, existing credit bureaus are actively involved in a collective effort to standardise data collection from Microfinance Institutions, as well as to settle on a common data format.
- The central bank has allowed 29 banks to operate mobile-based payment services. Some pilots have involved Microfinance Institutions, but there has been no widespread roll-out of the service.
- As of 1st July 2010, RBI lifted interest rate restrictions on small loans provided by commercial banks in an effort to increase the level of competition in the microfinance sector. Previously, interest rates for all loans under ₹200,000 (around

USD 4,300) from commercial banks had to be set at a level equal to or below the bank's benchmark Prime Lending Rate.

Microfinance sector is at a stage where it has to prove that it can create value to its clients by providing appropriate financial services. Growth and sustainability over a long period of time will depend not just on the numbers of clients and volume of business, but the quality of service and relevance of the services to the lenders. The goal of responsible finance can be achieved through coordinated efforts of investors, government and the regulator.

CHAPTER - 2

Models of Microfinance

CHAPTER - 2

Chapter 2 has two parts. Part A discusses the Models of Microfinance and Self Help Groups as a medium of credit delivery. It also traces the origin of SHG movement and describes the emergence and growth of the concept in the states of Andhra Pradesh and Tamil Nadu. Part B describes SHG Movement as an approach to women empowerment.

Part A – Models of Microfinance: Self Help Groups as a Medium of Credit Delivery

The microfinance services in India are provided mainly through two different models viz. Self Help Group bank linkage model and Microfinance institutions bank linkage model. The Self Help Group bank linkage programme is the flagship microfinance intervention of NABARD in the year 1992 with the policy support of the Reserve Bank of India. The current chapter traces the emergence and growth of the Self Help Group movement in the States of Andhra Pradesh and Tamil Nadu. The role played by Self Help Groups in the credit delivery mechanism and their contribution to women empowerment is also discussed in detail.

Self Help Groups as a Medium of Credit Delivery

A Self help group is an unregistered 'affinity group' of about twenty poor people from a homogenous class, who come together for addressing their socio economic problems. They make voluntary thrift on a regular basis and use this pooled resource to make small interest bearing loans to their members on the terms decided by the group.

Homogeneity, Regular meetings, Savings, Internal lending and book keeping are the basic tenets in Self help groups. The importance of group dynamics is kept in mind when self help groups are formed and nurtured. The following basic requirements deserve special mention in the context of self help groups:

- Homogeneity: The Self help groups consist of members coming from a similar socio economic background with mutual affinity from the same locality.

Homogeneity ensures affinity and mutual support group cohesiveness. This would also prevent the possibility of domination by a few members.

- Regular meetings: The members of the group meet regularly at fixed date, time and place. All the members should attend the group meetings regularly. All the decisions of the Group should be taken collectively after discussions. All the group transactions, credit, repayment etc. should be transacted in the meetings in the presence of all members to ensure transparency and developing trust.
- Savings first credit later: Savings is a first step towards self- dependence. Savings is not merely at building internal resources but also to build the stakes of the members. The savings help in bringing in the sense of security and improve self image of the members. It also helps in meeting emergency needs such as health and social obligations. It helps them in managing seasonalities and serves as primary capital for lending operations. It increases the credit worthiness of the group.
- Internal lending: The savings may be used by the Self Help Group for lending to its own members. The purpose, terms and conditions, interest may be decided by the group through discussions during the meeting. The process helps group members to imbibe the essentials of financial intermediation such as prioritization of members, demands, setting terms and conditions and ensuring repayment of loans. This will be of help when they later borrow from the bank.
- Book keeping: A proper system of book keeping enhances the confidence and trust of members. It helps members to know their savings, outstanding loans and repayment obligations. A good book keeping also helps in earning the trust of the banks in the group process. The books may be written in the meeting by one of the members or a paid account keeper.

The Self Help Group bank linkage programme was started with the following objectives:

- Evolving supplementary credit strategies for meeting credit needs of the poor by combining flexibility, sensitivity and responsiveness of the informal credit system with the strengths of technical, administrative capabilities and financial resources of the formal credit institutions.

- Building mutual trust and confidence between bankers and rural poor.
- Encouraging banking activity, viz. thrift as well a credit, in a segment of the population that the formal financial institutions usually find it difficult to cover.
- Empowerment of rural poor through credit.

Origin of Self Help Groups Bank Linkage Programme

The Self Help Group–Bank Linkage Programme (SBLP) launched by NABARD in 1992, with policy thrust of Government of India and Reserve Bank of India, has proved that the poor are bankable and have high propensity to save if opportunity and motivation are provided to them. This programme is the largest non- directed micro savings and micro credit programme in the developing world. The Self Help Groups (SHG) consist of members who are poor, have low saving capacity and depend on informal sources for meeting consumption and production needs.

The uniqueness of the SBLP is that it is built upon the existing banking infrastructure obviating the need for creation of a new institutional set up. Self Help Groups in India obtain loan from the banks and lend to their members. The lending methodology under the programme is novel in contrast to the individual and activity based lending that the banks follow normally. Self Help Group lending is organization based, 'purpose neutral' and 'collateral free'. The operational guidelines under the programme have been kept simple and flexible to enable participating banks and field functionaries to innovate and contribute to building and strengthening the concept.

Self Help Groups had originated even without organized intervention by any external agency primarily due to the intrinsic propensity of human beings to form and work in groups. The use of Self Help Groups as a vehicle of delivering saving and credit services originated recently. The emergence of the co-operative movement in India at the turn of the last century was one of the earliest examples self help to bring together people for the purpose of thrift and economic betterment although members came from heterogeneous economic status.

Emergence of Self Help Group Bank Linkage Programme

A number of research studies conducted by NABARD during the early eighties showed that despite having a wide network of rural branches, a large number of the poor continued to remain outside the reach of formal banking system. The most vulnerable sections of the people in rural areas are agriculture labourers, tenant marginal, small farmers, rural artisans and women. Their income streams are seasonal and irregular. Wage labour and agriculture are the main sources of income. The credit needs of the rural poor are characterized by the absence of any clear distinction between production and consumption purposes. Their needs are small but often arise at unpredictable times and are usually for events such as marriage, celebration of festivals, funeral expenditure etc. They also need money to deal with personal emergencies such as illness, accidents, natural disasters like floods, drought etc. They also need money to take up income generating activities or expand existing business. Meeting these credit needs quickly as and when they arise is crucial to reduce their dependence on informal credit agents.

The poor can benefit from financial services such as savings, credit and insurance as such services help to smoothen consumption, taking up economic activities and manage risk and enable growth.

The existing banking systems and procedures, loan products were not well suited to meet the needs of the poor. It was also observed that banks found it difficult to associate their staff in identification of beneficiaries due to shortage of staff in rural branches which led to the poor quality of in lending procedures and monitoring end use of credit. Handling of large number of small accounts gives rise to transaction costs in dispensing credit. This heralded the beginning of the search for alternative policies, systems and procedures, savings and loan products .which would meet the requirements of the poor households, especially the women members.

The fifth General Assembly of the Asian and Pacific Regional Agricultural Credit Association (APRACA) held in Bangkok in December 1984 had exhorted the agricultural and rural development financial institutions in the Asia and Pacific region to mobilize savings from rural areas for providing loanable funds for agriculture and rural development. The experience of informal self help groups of some of the member countries, which promoted savings among members to meet their credit needs were considered to be useful innovations. This increased the scope of providing credit to poor people who have very little access to formal credit institutions.

Following this decision taken in the Sixth General Assembly of APRACA in December 1986, NABARD in association with other members institutions of APRACA, undertook field studies of 46 Self Help Groups formed by 20 Self Help Promoting Institutions (SHPI's) spread over 11 states to 'understand emergence of self help groups, their composition, methods of working and their linkages with financial institutions and also to explore possibilities for development of linkages between self help groups, self – help promoting institutions and financial institutions to support self help initiatives of rural development. The study felt the need for 'establishing linkages of self help groups with banks for savings as well as credit activities as a long term solution for strengthening their low resource base.'

NABARD initiated a few action research projects on Self Help Groups as a channel for delivery of microfinance in the late eighties. In the year 1987, NABARD provided grant support of ₹10 lakh to Mysore Resettlement and Development Agency (MYRADA) to promote Credit Management Groups. The linkage of formal and informal financial sectors sought to address the problems of access to finance in rural areas and measure the effectiveness of the effectiveness of the formal institutions in delivery of finance to these informal institutions without sacrificing viability and sustainability.

Pilot Project on Self Help Group Bank Linkage

The positive results of the above research studies prompted NABARD to initiate the pilot project of linking 500 Self Help Groups with banks in 1992 in consultation with the Reserve Bank of India. The objectives of this initiative were:

- Evolving supplementary credit strategies for meeting credit needs of the poor by combining flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical, administrative capabilities and financial resources of the formal credit institutions.

- Building mutual trust and confidence between bankers and rural poor.
- Encouraging the banking activity, viz. thrift as well as credit, in a segment of the population that the formal financial institutions usually find it difficult to recover.

Reserve Bank of India allowed the banks to open savings bank account in the name of Self Help Groups, registered or unregistered. From a modest beginning of financing 255 Self Help Groups in 1992-93, the programme has reached a level of 74,62,000 groups for the year ending March 2010-11.

Table 7: Highlights of the Self Help Group Bank Linkage Programme for the year ended Mar, 2011

S.No.	Particulars	Achievements	
		Physical (No. in lakh)	Financial (₹ in crore)
1	Total number of SHGs saving linked with banks	74.62	7016.30
2	Out of total [of which] exclusive Women SHGs	60.98	5298.64
3	Out of total [of which] SGSY SHGs	20.23	1817.12
4	Total number of SHGs credit linked during 2010-11	11.96	14547.73
5	Out of total [of which] exclusive Women SHGs credit linked	10.17	12622.33
6	Out of total [of which] SGSY SHGs credit linked	2.41	2480.37
7	Total number of SHGs having loans outstanding as on 31 March 2011	47.87	31221.16
8	Out of total [of which] exclusive Women SHGs	39.83	26123.75
9	Out of total [of which] SGSY SHGs	12.86	7829.38
10	Average loan amount outstanding/SHG as on March 2011 (In Rupees)		65223
11	Average loan amount outstanding/member as on 31 March 2011 (In Rupees)		5017
12	Average loan amount disbursed /SHG during 2010- 2011 (In Rupees)*		121637

Source: NABARD Status of microfinance report 2010-11

The working group on Non Governmental Organizations and Self Help Groups constituted by the Reserve Bank of India in 1994 reviewed the progress and performance of Self Help Groups as conduit of the rural credit delivery system under the Pilot phase. The working group recommended that the banks should consider lending through Self Help Groups as a business opportunity to improve their outreach to the rural poor in amore qualitative and effective manner and adopt Self Help Group-

Bank linkage as part of their corporate strategy. The Reserve Bank of India extended The Self Help Group bank linkage beyond the pilot phase as a normal business activity of the banks in the year 1996.

The banks have been advised by RBI/NABARD to adopt the following criteria for selecting Self Help Groups while providing a bank loan.

- The Self Help Group should be in existence for at least six months.
- The group should have undertaken savings and credit operations from its own resources.
- Democratic working of the group wherein all members feel that they have a say should be evident.
- The group has to maintain proper accounts and records.
- The Self Help Group members should preferably have homogenous background and interest.

As per the operational guidelines of NABARD banks may sanction savings linked loans to Self Help Groups varying from a saving to loan ratio of 1:1 to 1:4. However, the banks have the operational freedom to exceed the savings to credit ratio of 1:4 in deserving cases after taking into account such as quality of the Self Help Group based on Critical Rating Index, financial and managerial capability of the Self Help Group, credit absorption capacity, book keeping practices.

As per the instructions of Reserve Bank of India banks have to report their Self Help Group lending under the new segment ‘Advances to Self Help Groups’ irrespective of the purposes for which the members of the Self Help Groups have been disbursed loans. Lending to Self Help Groups should be included by the banks as part of their lending to weaker sections.

Promotion of Self Help Groups and Inculcation of Best Practices

The group approach has found to be an important component in channelising equitable, sustainable and cost effective developmental effort for the betterment of the livelihoods of the rural population

As the rural poor are not able to form groups by themselves to avail credit, many non governmental organizations and development agencies provide services to link them with formal credit agencies. These institutions promoting such groups are called Self Help Promoting Institutions (SHPI). Several regional rural banks and district central cooperative banks in different parts of the country are also involved in the process of formation of Self Help Groups.

The role of Self Help Promoting Institutions in the various stages of development of Self Help Groups are summarized in the following table.

Table 8: Stages of Self Help Group development and role of Non governmental Organisations/ Self Help Promoting Institutions

Stage of development	Time period	Role of NGO/SHPI	Focus of activities
Pre-formation	1-2 months	Initiator/promoter	Identification of rural poor through participatory rural appraisal methods in small villages and towns
Formation	2-6 months	Facilitator	Motivation to form groups, select group leaders, develop rules and norms, conduct meetings, inculcate saving habit, issue and collection of small loans, group cohesion, stabilizing system and accounts.
Stabilisation phase I	7-12 months	Advisory/Managerial	Leadership stabilization, training of leaders, members, regularize and increase savings, handling of group level transactions, informal interactions with other groups, addressing community interests. Stabilising the process of issuing and repaying loans, handling /helping defaulters to repay, sourcing loans for groups through formal credit system.
Stabilisation phase II	12-18 months	Advisory /Managerial	In addition to above activities initiation of income generating programmes, linkages with banks demonstrative effect on others to form groups
Growth and Expansion	18 months and above	Advisory/Managerial Consultative/Institutional building	Strengthen linkages with banks, creation of assets for the groups and members, spreading concept, building and promotion of new groups, attempt at cluster development and federation of Self Help Groups

Source: NABARD, 2009

Self Help Groups which have combined the best practices of good governance, development of leadership skills, maintenance of regularity in group meetings, inculcate thrift management among their members thereby facilitating internal lending with proper management of funds have made significant contribution to social and economic improvement of their members. Efficient Book keeping, group vigilance and maintaining regularity in repayment of loans availed from the banks by the Self Help Groups also will strengthen the credit delivery mechanism in which these Self Help Groups play a vital role.

Evolution of Self Help Group Movement in Andhra Pradesh

The evolution of group concept in Andhra Pradesh can be traced back to the year 1982-83 with the implementation of 'Development of Women and Children in Rural Areas' (DWCRA) in the country as a sub component of the Integrated Rural Development Programme (IRDP) launched by the Government of India. The programme was initially implemented in backward districts of Adilabad, Kadapa, and Srikakulam and thereafter was extended in a phased manner to other districts in the state. By the year 1994-95, all the districts of the state were covered under the programme.

The objective of the DWCRA programme was to empower the rural women living below the poverty line by organizing them into groups to create sustainable income generating activities through self-employment. The programme also focused on access to health, education, safe drinking water, sanitation and nutrition. Women living in neighbourhoods with similar socio economic background were formed into groups of 25 members each to take up an 'economic activity' suited to their skills and resources. The state Government provided the groups with a maximum matching grant of ₹15000 to undertake economic activities, which was later increased to ₹25000 in 1994-95. The groups were provided with bank loan for carrying out the economic activity. The DWCRA groups were formed by the District Rural Development Agencies (DRDA) in the state and were provided training and assistance to market their products.

The Self Help Group bank linkage programme was made a part of the main stream credit operations of the banks with effect from 2nd April, 1996 by the Reserve Bank of

India. In November 1996, the Government of Andhra Pradesh took the decision to reorganize the DWCRA groups on the lines of Self Help Groups by adopting the guidelines issued by NABARD and also encouraged banks to finance them.

During the first ten years of implementation of DWCRA only 4000 groups were formed. With support from government agencies this number increased to 79000 in the year 1998. With the launch of Swarna Jayanti Gram Swarozgar Yojana from 1 April 1999, the poverty alleviation programs such as IRDP, TRYSEM etc, including DWCRA were merged into this programme.

The groups promoted under the programme had focus on 'economic activity'. The thrift element was not part of the initial DWCRA design. DWCRA groups were required to have a minimum 25 persons to undertake the same activity and this was difficult in a village scenario. DWCRA groups were generically nearer to the Self Help Groups only in the 'group concept'. The basic concepts of Self Help Groups – Self help, Self Reliance, Homogeneity, thrift, Regular meetings, Internal lending, Book keeping, leadership rotation were not the key elements in functioning of these groups.

The element of thrift was introduced in DWCRA groups in the year 1993 in Andhra Pradesh, in an attempt to encourage bonding between the women. The concept of thrift came from the pilot project of Self Help Group-Bank linkage programme introduced on a pilot basis in 1992 in the country. The DWCRA groups adopted the slogan 'Save a Rupee a Day' and started depositing their savings in banks. This habit savings among women groups continued and spread to several other districts in the state of Andhra Pradesh.

South Asia Poverty Alleviation Programme

In pursuance of the Dhaka declaration of the SAARC summit in 1993, on eradication of poverty by 2002 in all the SAARC countries, the South Asia Poverty Alleviation Programme (SAPAP) was implemented during the years 1995-2000 in 20 mandals covering 695 habitations of three drought prone districts in Andhra Pradesh viz, Kurnool, Mahbubnagar and Anantpur with the help of United Nations Development Programme (UNDP).

The objective of the project was to use social mobilization to combat rural poverty through active participation of members in developing planning and implementation. The focus areas of the project included Social mobilization programme, capacity building and sustainable livelihoods. As a part of the social mobilization programme the poor were organized at three levels:

- Small homogenous Self Help Groups (Self Help Groups) especially women and the landless at hamlet/sub-hamlet level with thrift and credit as entry point.
- Village Organisations (VO) at the village level.
- Mahila Mandal Samakhyas (MMS) at the Mandal level.

During the UNDP project 2788 Self Help Groups were promoted covering 45,424 women from low income households in the project mandals. Development programmes like literacy, preventive health care, girl child education, elimination of child labour were incorporated into the Self Help Group concept.

Seed capital was provided to the Mandal Samakhyas (MS) to the tune of ₹40-60 lakhs over a period of two to three years for on lending to the Village organizations. Village Organization in turn lent the amount to Self Help Groups based on mutual terms and conditions and micro credit plans of Self Help Groups. The Self Help Groups in turn lent to their members. Rules were evolved on Self Help Group lending to members, VO lending to Self Help Groups and MMS lending to VOs. The Self Help Groups were encouraged to start their own small savings and lend this amount to members with interest. The groups at different levels were also encouraged to avail loans from other government programmes.

The programme placed strong emphasis on training and skill development. The members of Self Help Groups Village Organisations, Mandal Samakhya were trained on various aspects of group functioning. To support social mobilization and capacity building community volunteers (CVs) from amongst the villagers were identified whose responsibility was to cover 5-6 habitations. The Community Coordinators (CC), who had normally work experience in NGOs or non- formal education, supervised CVs in each mandal. Substantial investment was made for training of CVs and CCs on areas such as methodology of group formation, training book keepers and group leaders, project implementations, innovations happening elsewhere in social mobilization and gender and environmental concerns.

Promotion of Self Help Groups by NGOs

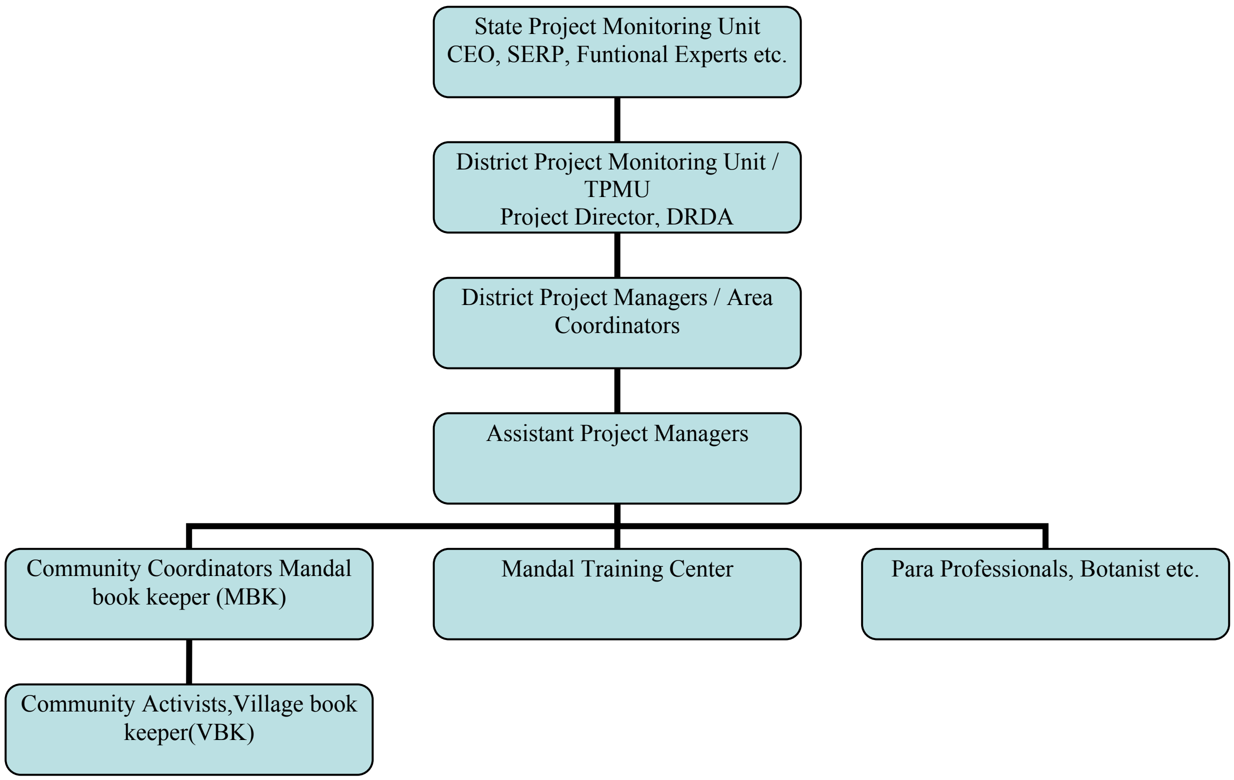
Non Governmental Organisations in Andhra Pradesh also played a significant role in promotion of Self Help Groups. In December 1999, CARE India initiated the seven year Credit and Savings for Household Enterprises (CASHE) project with the support of Department for International Development (DFID), UK in three states of Andhra Pradesh, Orissa and West Bengal. The project aimed at enhancing the income and economic security of poor through access to availability of micro finance services in seven drought prone Telangana districts of Andhra Pradesh with the help of partner NGOs. Under the project NGOs were provided operational and capacity building support, technical assistance and revolving fund loan to establish self help groups and to build and strengthen federations of Self Help Groups.

The Self Help Group movement took a great leap in the state with the launching of World Bank assisted poverty reduction project, Andhra Pradesh District Poverty Initiatives Project (APDPIP) on 14th June 2000 covering 316 mandals in 6 districts with an outlay of ₹654 crore. The development model adopted under South Asia Poverty Alleviation Programme (SAPAP) was a precursor to the programme. The second World Bank assisted Andhra Pradesh Rural Poverty Reduction Project (APRPRP) was initiated on 1st June 2002 in 548 backward mandals in the remaining 16 districts of the state with a total outlay of ₹1486 crore. Both the projects are now known by the name ‘Indira Kranti Patham’ (IKP) which is implemented by an autonomous society ‘Society for Elimination of Rural Poverty’ (SERP) established by the state government. The project was earlier known as ‘Velugu’.

The IKP focuses on livelihood promotion and uses the Self Help Group model to address the broader issue of rural poverty. The IKP project led to the creation of a separate implementing agency by the name SERP - Society for Elimination of Rural Poverty under the chairmanship of the chief minister of the state. The state project monitoring unit of SERP implements the project through District Project Monitoring

Unit under District rural Development Agencies at the District level. The project has followed a participatory method to identify the poor and ensure that the anti poverty programs cater to their needs.

Fig 5: Structure of IKP at the District Level



Source: NABARD, 2009

The project aims at developing and strengthening self managed grass root organizations Self Help Groups have been federated into Village organizations and in turn village organizations have been federated into Mandal Samakhyas (MS), Zilla Samakhyas (ZS) have been formed at the district level by federating all Mandal Samakhyas (MS).

The capacity building requirements of the Self Help Groups, village organizations and Mandal Samakhyas have been met by Mandal Training centres. To help in the maintenance of proper books of account, the Mandal Samakhyas are provided with master book keepers.

Andhra Pradesh Model of Self Help Group Approach

The focus of the Self Help Group approach in Andhra Pradesh is on the poorest and most marginalized communities where self selection by the poor and of the poor are based on economic and social criteria evolved by themselves. Techniques such as Participatory Rural Appraisal (PRA), Participatory Poverty Assessment (PPA), Social mapping, wealth ranking, well being grouping, gendered resource mapping and endorsement of the process by the village community through the Gram Sabha.

The process aims at developing and strengthening Self Help Groups for empowerment of rural poor through capacity building of Self Help Group members. Facilitation of networking of Self Help Groups into federations – village organizations (VO), Mandal Samakhyas (MS) and Zilla Samakhyas (ZS) and registering them under the Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995.

Self Help Groups are provided technical and financial resources in order to expand their asset base and livelihood opportunities in farm and nonfarm activities out of funds from the Community investment Fund. Landless poor are provided funds to purchase land, community based health packages are provided with the help of public and private insurance companies. The presence of trained grass root functionaries like book keepers, community resource persons helps in efficient functioning of the Self Help Groups.

The phenomenal growth of the Self Help Group movement is due to the proactive role played by the State government, NGO's, banks and the policy support given and capacity building inputs provided to various stakeholders by NABARD. Some other initiatives taken by the Government of Andhra Pradesh are

- **Revolving fund assistance** of ₹25000 is provided to Self Help Groups which have completed six months of thrift and have proved their group dynamism.
- **Stamp duty waiver**- The stamp duty on all loan documents executed by Self Help Groups under the Self Help Group –Bank linkage programme in favour of banks and other financial institutions have been waived by the government from July 2002.

- **Pavala vaddi-** The government introduced the Pavala vaddi scheme from July 2004 for prompt repayment of bank loans by the members of Self Help Groups directly from banks. The scheme shall be applicable to all loans extended to Self Help Groups by banks on or after 1/2/2004. The groups should repay loans as per the schedule negotiated with the banks. Interest incentive in respect of active loans shall be released to the groups once in six months and groups which have completed six months of regular repayment of bank loan shall be eligible for the interest incentive. The government will reimburse the interest burden of the groups over and above 3% per annum charged by the banks. The subsidy amount will be directed to the savings bank of the eligible groups.

- **Community based recovery mechanism-** To monitor the recovery performance of Self Help Groups a community based recovery mechanism was introduced in which a committee consisting of 2 members from each of the village organization under the service area of Bank –branch help bank branch in recovery of loans.

- **Abhaya Hastam-** The Government introduced a co-contributory pension scheme 'Abhaya Hastam' (IKP Pension and insurance scheme), a co-contributory pension scheme for the Self Help Group women in rural and urban areas to give them a monthly pension. The objective of the scheme is to provide income and social security to all women Self Help Group members to enable them to lead a secure life with dignity. All women members of Self Help Groups in urban and rural areas promoted by IKP above 18 years of age are eligible. A member can make a minimum contribution of ₹30 per month or in multiples of ₹30 and the state government will contribute ₹30 only per month per member and this contribution will be transferred to Life Insurance Corporation (LIC) for diligent investment to secure better returns on investment. The corpus thus generated till the age of 60 years will be used for giving monthly pension amount to each women, on crossing 60 years of age. Each member becomes eligible for a minimum monthly pension of ₹500. Members also get coverage under Janasree Bhima scheme without having to pay any premium separately. Besides the nominee of the members are entitled to ₹30000 or ₹75000 in case of accidental death of member. Compensation is also provided on disablement of member and financial assistance in the form of scholarships is provided to their children in such situations.

- **Deepam** scheme: LPG connections to Self Help Group women are provided under the Deepam scheme
- **'Gruhini' Scheme -** and housing requirements of rural Self Help Group women are met by the 'Gruhini' Scheme.

There are a good number of NGOs which have played a role in the linkage of Self Help Groups either through their own funds mobilized mostly from donor agencies and facilitated credit flow from banks by liasoning with them. They also function as financial intermediaries to provide loans to Self Help Groups by accessing funds from banks. The banks in the state have played a proactive role in financing Self Help Groups.

Table 9a: Details of Credit Linked Self Help Groups in Andhra Pradesh for the Year 2010-11

Coverage of Groups	3,89,444
Amount of Loan (₹Crores)	7092.71
No. of Branches	4286
Per Group Finance (₹)	1,82,123
Groups Per Branch	91

Source: Microfinance India State of the Sector Report, 2011

NABARD has taken the following initiatives in Andhra Pradesh for the growth of the Self Help Group bank linkage programme

- Critical Rating Index for the rating of Self Help Groups has been designed and accepted by the state government for the use of banks, DRDA and other partners.

- The Appraisal Format developed by NABARD has been operationalised by many banks in the state for appraising loans given by Self Help Groups properly.
- Micro credit plan for Self Help Groups suggested by NABARD forms the basis for credit assessment by financing Self Help Groups. It is felt that all the matured groups must be encouraged to prepare micro Credit plan, which in turn will form basis for estimating loan quantum.
- Standard Accounting Package (SAP) for Self Help Groups has been evolved with NABARDs initiative and the same is being operationalised in the State.
- NABARD provides grant assistance to NGOs / SHPIs/ Banks for short duration, location specific programmes on skill up gradation /development for sustainable livelihoods/venturing micro enterprises by matured Self Help Groups under the Micro Enterprise Development Programmes (MEDPs).
- Members of Self Help Groups are provided training under the Rural Entrepreneurship Development Programmes (REDPs).
- Refinance support is provided to the banks at concessional rates to enable them to enhance ground level credit to the Self Help Groups. The Banks are provided 100% refinance against the loans extended by them at concessional rates of interest.

Self Help Group Movement in Tamil Nadu

The Tamil Nadu experiment in Self Help Groups was pioneered by few non-governmental organisations (NGOs). Government of Tamil Nadu partnered this lab-scale experiment in the late 80's. This experiment proved to be a laboratory model, worthy of up scaling and replication in other parts of the State and country. The Self Help Group movement owes its beginning to The International Fund for Agricultural Development (IFAD), initiated Tamil Nadu Women's Development Project (TNWDP) which was approved in April 1989, and became effective in January 1990.

This project was taken up for implementation by the Government of Tamil Nadu through the Tamil Nadu Corporation for Development of Women Ltd., (DEW) in eight Districts (then five districts) of Tamil Nadu in 1989-90. The total cost of the project amounted to USD 17.0 million on highly concessional terms and the Borrower contributed the balance of USD 13.6 million.

The main objective of the project was to bring about the economic and social betterment of women to improve the welfare of their families and their status both within the family and in the community. The project was initially carried out in three contiguous districts of Dharmapuri, Salem and South Arcot and during implementation its coverage was extended to two additional districts of Madurai and Ramanathapuram. All the districts selected were either backward with respect to human development or had a high incidence of female infanticide. The blocks and villages selected had many reputed and capable NGOs. The project implementation was entrusted to Tamil Nadu Corporation for Development of Women Ltd., (DEW), a Government of Tamil Nadu (GOTN) undertaking. A project management unit (PMU) was established within DEW, the chairperson/managing director of which served as project manager. The executive director of DEW acted as project co-ordinator, supported by several officers, including a training officer and monitoring and evaluation (M&E) officer. Project implementation units were created in the five project districts, each headed by a project officer with specific areas of responsibility such as sericulture, credit, livestock, rural industries and banking. These officers were seconded to the PIUs.

From various Government of Tamil Nadu organizations line departments and the Indian bank, which through its numerous branch offices in the project area, was the main vehicle for providing institutional credit delivery. The project relied on NGO involvement in all five districts to support the project's overall activities. The NGOs played a central role in identification of beneficiaries, formation and supervision of groups, establishment of credit linkages and training of animators. A network of extension workers (village animators and supervisors) supported the project.

Objectives of the Project

The project was designed to achieve its objectives through the following components:

- Focus on income generating activities such as farm and crop development, animal husbandry and cottage and village industries.
- Provide Institutional credit to village women. The Indian bank was responsible for providing credit.
- To facilitate informal credit and savings mobilization by encouraging group based savings to meet financial requirements of group members.
- Promote group development and foster development of cohesive groups of women who will organizational catalyst for economic and social betterment of target group.
- To provide training to women on a variety of subjects including group organization and management, book keeping entrepreneurial development programmes and legal and social issues.
- To involve NGOs in beneficiary identification, group formation, training of animators, supervisors and project field staff, selection of activities and provision of bank loans and recovery thereof.

STRENGTHS OF IFAD PROJECT
• Thrift groups and not credit groups
• Group cohesiveness is the strength
• Joint efforts for better repayments
• Access to various sources of credit
• No intermediary
• Training and credit are key inputs
• Transparency and flexibility
• Team work towards sustainability
• Partnerships between Govt. and NGOs
Source: Tamil Nadu Women Development Corporation

The project resulted in the formation of dynamic and cohesive Self Help Groups which contributed to the growth and development of thrift and regular savings among the women. The project registered a striking success in associating the normally non bankable rural women with formal credit channels. By March 1998, a total of 5207 Self

Help Groups had been formed compared with the target of 2688, and 120960 women had enrolled as members.

Financial discipline inculcated through internal rotation of savings and introduction of best practices like double-entry book keeping helped in building capacity of the Self Help Group members. Training in Self Help Group management, skill development, etc., also played a very important role in empowering poor women. An interim evaluation report by ORG (1996) clearly points out how the standing of Self Help Group members in their families and their neighbourhoods and participation of women members in decision-making in their families and community have improved significantly, pointing to successful achievement of social empowerment of women.

Credit goes to Indian Bank in joining this massive effort and supporting credit-worthy groups with timely doses of credit, while subsidy was provided by DEW. Indian bank with its proven track record of involvement in rural credit was rightly identified for the monopoly financing and the bank had a team of dedicated officers to manage project lending.

The project resulted in the formation of dynamic and cohesive Self Help Groups which contributed to the growth and development of thrift and regular savings among the women. The project registered a striking success in associating the normally non bankable rural women with formal credit channels. By March 1998, a total of 5207 Self Help Groups had been formed compared with the target of 2688, and 120960 women had enrolled as members. In light of the project's achievements, Government of Tamil Nadu decided in 1996 to scale up operations with its own funds. It also announced the Mahalir Thittam, which would result in a phased extension of project activities to cover Tamil Nadu's 28 rural districts by the year 2000 together with continued maintenance of TNWDP groups.

IFAD funding came to a close on 31.12.98, with post-project activities, including continued credit support under progress.

Considering the meritorious features of this unique project, similar Projects with IFAD funding have been launched in other states. This project has also become the role-model for emergence of lot of Self Help Groups in both IFAD and non-IFAD districts of Tamil Nadu, on their own. Tamil Nadu Women Development project is the main source of inspiration for formation of thousands of groups by Arivoli Iyakkam, TANWA, SJSRY, Banks, TNINP, etc.

TNWDP has effected significant changes in living conditions of poor rural women with the launch of "Mahalir Thittam", with state funding covering all rural and urban areas of the entire state, except the six city corporation areas from 1.4.2000. The scheme was intended to promote economic development and social empowerment of the poorest women through a network of Self Help Groups formed with active support of NGOs. The scheme was to replicate the TNWDP experiment, adopting positive learning, while casting away many shortcomings seen in TNWDP. These groups would not only engage in productive economic activities, but also function as important sustainable rural organisations*,* for dissemination of knowledge about health, nutrition, literacy, education, adoption of new agricultural practices, farm and non-farm sector economic activities and help prepare women to take up leadership positions.

The vision of the project was to reach out and empower 10 lakh poorest and most disadvantaged women below the poverty line, through 60,000 self-reliant and sustainable Self Help Groups. The objectives of the project were

- Social empowerment
- Economic empowerment
- Capacity Building

of the poorest and most disadvantaged women in the State.

Empowerment of women would lead to benefits at two levels - one, direct benefits to the individual women and women's groups; and two, spillover development benefits for families and community as a whole.

Tamil Nadu Model of Self Help Group Approach

- Development of strong, cohesive, Self-help Women Groups, through inculcation of Self-help and team spirit.
- Inculcating habit of savings and principles of financial discipline, through training, providing relief from moneylenders and making poor women credit worthy.

- Helping build a financially sound and sustainable future by getting out of clutches of money lenders
- Improved access of Self Help Group members to various government, development schemes and bank credit, through strong partnership between banks, FIs, NGOs and DEW.
- Increased asset-base and income, through access to inexpensive and timely credit.
- Self-confidence building, through networking, exposure and handling of responsibility.
- Increasing Social Awareness, through intermingling & exposure.
- Improved Status of women in the family and society, through credit, improved skills/capability and exposure.
- Improvement in Health and Family Welfare, through awareness training and exposure.
- Functional Literacy through training programmes and making Self Help Group members handle their own affairs.
- Overall leadership development, through exposure to Self Help Group management by conscious rotation of responsibilities.
- Control over income and better income management, through opening up newer options and better capabilities.
- Change from worker status to worker-manager status, by putting control over their lives (income) in their own hands.
- Access to markets, through training, facilitation and exposure.
- Assisting and encouraging need-based tapping of Alternate credit delivery systems.
- Awareness of Legal rights and legal aid access, through networking & training.
- Encouraging networking through formation of Women's Federations at various levels

Participating Agencies - Roles and Inter-Linkages

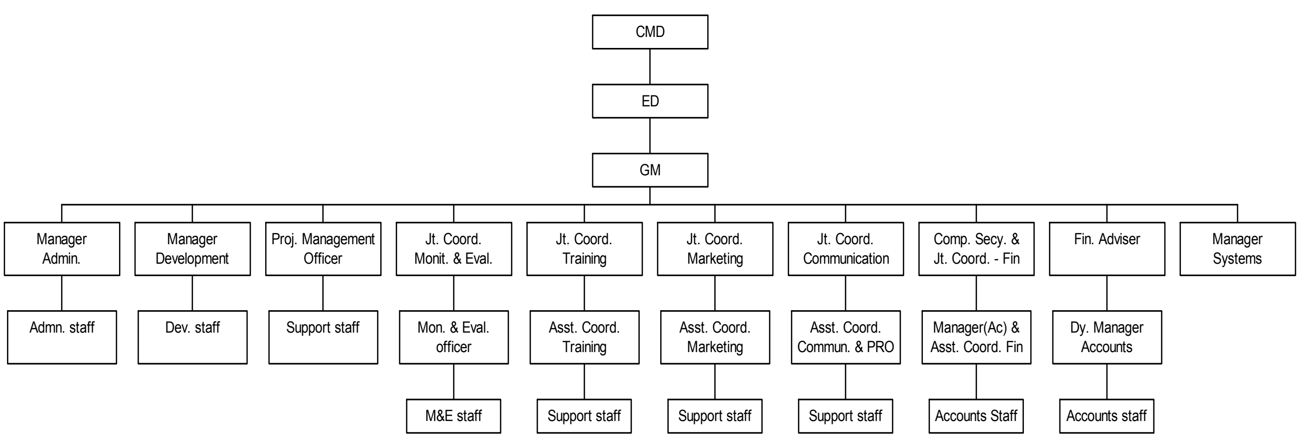
Organisation Structure:

Mahalir Thittam (MaThi) is an unusual long-term partnership between three agencies - the state government, non-governmental organisations and NABARD / other banks & financing institutions. The endeavour is to combine the wide reach and resources available to the state, with the grassroots presence, goodwill, commitment and innovative work of the NGO's, together with support from NABARD and credit from banks and other funding sources.

State level:

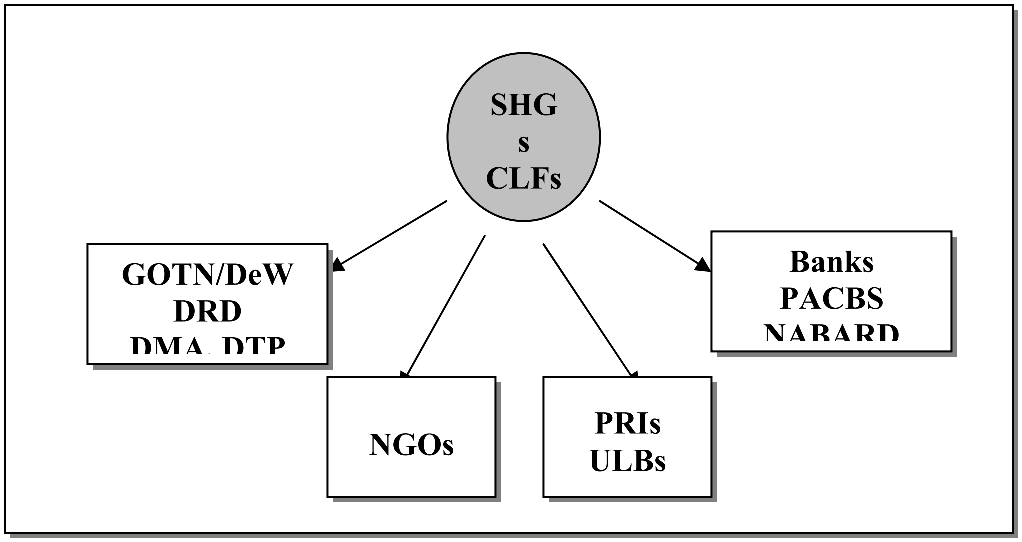
The Project Management Unit (PMU) at the Corporation head office is headed by the Chairperson-cum-Managing Director and Executive Director. At the State level, policy directions are given by "DEW review committee", chaired by Development Commissioner. Secretaries to Government of Rural Development and Municipal Administration are members to oversee convergence of MaThi with SGSY and SJSRY. There are also monthly reviews of Project Officers by the CMD of DeW, as well joint reviews of Project Officers of both DRDAs and PIU along with Director, Rural development.

Fig 6: Project Management Unit, Dew HQ



Source: Tamil Nadu Women Development Corporation

Fig 7: Project Stakeholders



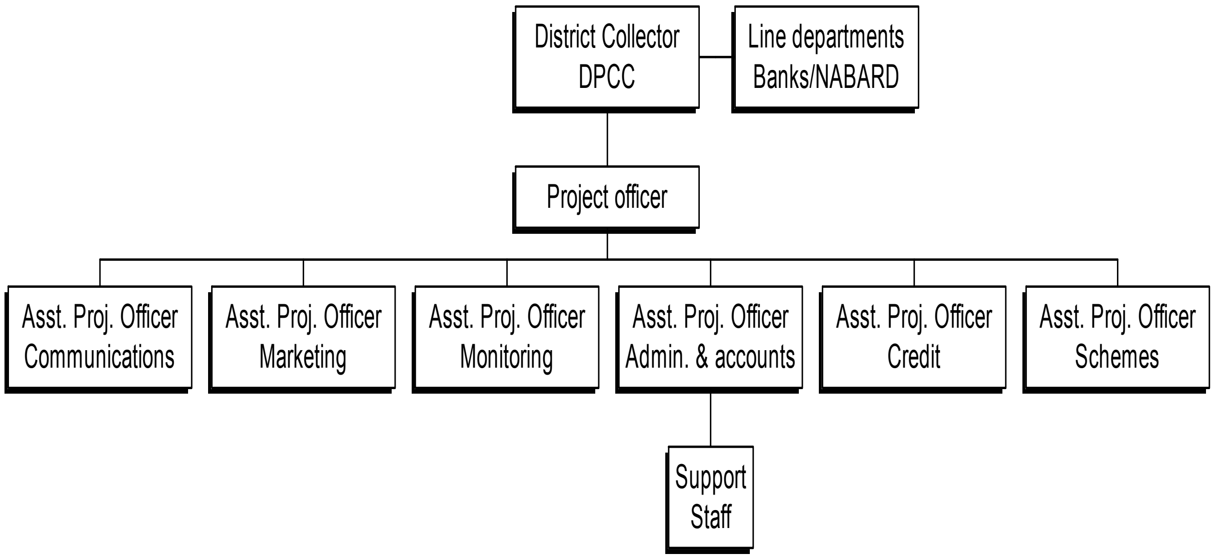
Source: Tamil Nadu Women Development Corporation

DRD-Rural Development, DMA-Municipalities, DTP-Town Panchayats,
PRI-Rural Elected bodies, ULBs - Urban Elected bodies

District level:

At district Level, Project Implementation Unit (PIU) is headed by a Project Officer, assisted by six Assistant Project Officers (APOs) in various functional areas of Training and Communication, Monitoring and Evaluation, Schemes, Marketing, Administration and Accounts and Credit. Further, at district level, the District Project Co-ordination Committee (DPCC) headed by the District Collector coordinates work of all partners in the project and different Government departments. Secretaries of Self Help Group Block Coordination Committees will also be members of DPCC. This experiment has been successful and has ensured that women participate in decisions concerning them.

Fig 8: Project Implementation Unit (PIU) – District Field Level:



Source: Tamil Nadu Women Development Corporation

NGOs will have a cluster coordinator for every five village panchayats, consisting of about 15 groups. For larger NGOs, there are block coordinators, while smaller NGOs have a Project Coordinator who may be often the Chief Executive.

At the block level, the Block Level Coordination Committee (BLCC) comprising of one/two representatives of each Self Help Group in the block, concerned NGO staff, bankers and PIU staff meet every month to review progress and solve operational and social problems, besides giving valuable training inputs. Bankers must attempt to use the BLCC as a forum to propagate good banking practices as well to give and get feedback on lending already done.

In course of time, BLCCs would give place to manageable Cluster or Panchayat level federations (CLFs/PLFs) of 20 to 25 Self Help Groups in close proximity. Bankers can cultivate good working relationship with CLFs, as and when they emerge, to ensure 100% repayment rates as also to identify new credit worthy Self Help Groups for lending.

Role of NABARD

- Assisting in formulation of credit guidelines.
- Assisting in creation of Self Help Group-friendly banking environment in districts and State.
- Solving all field-level bank-related problems of Self Help Groups through prompt intervention.
- Providing refinance support to Self Help Group credit to banks.
- Ensuring inclusion of Self Help Group credit outlay under District Annual Credit Plan and disaggregation into branch-wise credit.
- Promotional assistance to NGOs/Self Help Groups for their capacity building.
- Providing training opportunities to banks, NGOs, and development agencies on Self Help Group related aspects.
- Assist through funding some of the training programmes

MaThi is designed in such a way that in the long run, even if supporting agencies withdraw from the project in a phased manner, groups should continue to function on their own, by establishing concrete linkages with bank and other local institutions. This ensures sustainability of Self Help Groups, which is one of the important objectives of the programme. Undue and extended dependence on PIU or NGO will not be encouraged nor is desirable.

Group formation is generally preceded by a village-level household survey, which provides the base-line data. This would be conducted by non-governmental organisations, for which techniques like Participatory Rural Approach (PRA), Wealth Ranking and Social Mapping should be used. The BPL list prepared by DRDAs would also be used. Really poor women omitted by chance from the BPL list will be included in Self Help Groups.

To facilitate sustainability and avoid contravention of certain regulations, the size of the groups should be in the range of 10. Adult women capable to earning and saving are eligible for membership. This program is meant only for the poor, with focus on categories like landless labourers, widows, divorcees, deserted and handicapped women; and women belonging to SC/ST and other socially backward communities. One of the methods used to identify the poorest among women is the type of dwelling;

hut dwellers are definitely the poorest and are our core target group. Landless labourers are another category of the poorest. Targeting of the poorest is most desirable as it results in immediate social impact.

"Mahalir Thittam" is implemented in partnership with NGOs and community- based organisations such as PLFs which are affiliated to TNCDW, and extend support in the formation of Self Help Groups, organising training, guide and monitor their activities. The future plans include, enhancing the sustainability of Self Help Group movement through intensifying the federation activities and grooming them into full fledged community based organizations and further expanding the Self Help Group coverage to habitations and ward/slums in urban areas hitherto uncovered. So far, 452 NGOs have been affiliated with TNCDW. The salient features of the NGO agreement include performance based incentive with greater emphasis on quality, apart from providing an enabling environment for the growth of PLFs into Community Based Organisations (CBOs). NGOs are paid formation cost, monitoring cost and also incentive for enabling Self Help Groups to access bank credit by TNCDW and are subjected to performance evaluation every year.

Activities of Mahalir Thittam

1. Group Formation
2. Capacity Building
3. Revolving Fund to Self Help Groups
4. Credit Linkage to Self Help Groups
5. Youth Skill Training
6. Enterprise Development Training
7. Restructuring of Panchayat Level Federation
8. Formation of Slum Level Federation
9. Marketing support and sales exhibition

Table 9b: Details of Self Help Groups in Tamil Nadu for the year ended Mar, 2011

No. of Self Help Groups	4,91,311
No. of Self Help Group Members	76.60 lakhs
No. of Rural Self Help Groups	3,32,092
No. of Members in Rural Self Help Groups	51,77,028
No. of Members in Urban Self Help Groups	1,59,219
No. of Self Help Groups credit Linked	24,82,654
Total Savings	₹2,973 crores
Total credit	*₹11,603.83 crores*

Source: Tamil Nadu Women Development Corporation

Some of the measures adopted by the Government of Tamil Nadu for growth and development of Self Help Groups are

- **Community Resource Persons (CRP)** -- As a measure of strengthening the Self Help Group movement and to make it community oriented, CRPs were developed from among the Self Help Group members. CRPs impart capacity building training to Self Help Groups including training of Social Audit Committee members of the MGNREGS and provide continuous hand holding support to the PLFs. They also act as messengers for creating awareness among Self Help Groups on various Government schemes.

Training for Self Help Group members and Animator & Representatives - Self Help Groups promoted by Mahlir Thittam and Office bearers of the Self Help Groups are provided with systematic training in order to function as a cohesive group. All the Self Help Group members are imparted training in 4 modules for 4 days. The office bearers of the Self Help Groups (Animator and Representatives) are given training in 3 modules for 6 days. The main objective of Self Help Group members and Animator & Representatives Training is to enhance the leadership qualities, team building spirit and to build their capacity to maintain books of account. A sum of ₹45/- is paid to each member as compensatory wage during the days of training.

- **Release of Revolving Fund to Self Help Groups** - Revolving Fund (RF) is provided to Self Help Groups who are in existence for at least six months and have passed the first credit rating. Revolving fund will augment the group corpus and is used by the Self Help Groups for internal lending for small income generation activities or as personal loans for health or education needs of Self Help Group members.
- **Formation of Transgender Self Help Groups** – The Government will concentrate on the welfare of the transgenders who were hitherto neglected in the society. For the first time, the transgenders Self Help Groups numbering 100 will be formed. The transgender Self Help Groups will be provided with training, revolving fund and economic assistance so as to improve their standard of living
- **Loan with subsidy to Transgender Self Help Groups** - As per the orders of the Hon'ble Chief Minister of Tamil Nadu, Government will provide loan upto ₹15 Lakhs with 25% subsidy to eligible transgender Self Help Groups to start viable economic activity and thereby enhance their income and lead a respectable life in the society.
- **Loans for Economic Activity through banks** - Self Help Groups fall into the clutches of moneylenders and become indebted over a period of time. Providing credit to Self Help Groups through banks at nominal interest rates for income generation activities has led to economic empowerment of Self Help Groups. Banks extend loan to Self Help Groups, a minimum of ₹50,000 is given as first linkage which is increased to ₹1 lakh to ₹1.50 lakhs during the subsequent linkages. Repeat loans in the form of second and subsequent doses of credit linkages from the banks are essential for expansion and sustainability of the economic activity taken up by Self Help Groups.
- **Enhanced Economic Assistance for Self Help Groups** - In the past, the Self Help Groups were provided with economic assistance under various schemes to a maximum of 5 lakhs with subsidy upto 50% of the project cost or a maximum of ₹1.25 lakhs. From the year 2011-12, the quantum of loan under economic assistance will be enhanced to the maximum of upto ₹10 lakhs with subsidy of 25%.

- **Job oriented Youth Skill Training with assured placement (YST)** –As there is huge demand for skilled manpower in the industrial sector particularly in manufacturing and service sectors, due to the industrial boom in the state. To exploit the opportunities offered by the growing economy and to make the unskilled and semi skilled youth employable, Youth Skill Training programme has been envisaged to impart specific job oriented skills to improve their employability and make them competitive in the job market to get gainful employment.
- **Enterprise Development Training Programme (EDT)** - Self Help Group members who are interested in taking up economic activities particularly in urban areas are trained through reputed institutions. Women will be given specific skill oriented training under EDT by this Government. Women in the age group of 18-60 years belonging to Self Help Groups in Urban Areas are eligible, but preference will be given to those above the age of 35years and below 50 years. Stipend including conveyance charges is fixed at ₹25/- per day per trainee. Selection of trade and institution are decided by the District Level Committee based on the choice of courses by women. EDT training is given through reputed /recognized institutions specialized in giving self employment training with sufficient faculty support – like procurement of raw materials, machinery, value addition, packaging, labeling, pricing, standards, certification etc. The trained women are provided with assistance to get loan from nationalized banks to establish production units. State and District level exhibitions are organized to popularise Self Help Group products and enhance their market share.
- **Panchayat Level Federation of Self Help Groups (PLFs)-** In order to strengthen the Self Help Group movement and make it sustainable federations of Self Help Groups at Village Panchayat, Block and District level are formed. PLF is a participatory platform for the Self Help Groups to share their experiences, voice their problems and find collective solutions. What individual Self Help Groups could not achieve, PLF can achieve by pooling their collective skills and resources and exploiting economies of scale both in production and marketing. PLF can also guide and monitor the functioning of Self Help Groups and also form and train new Self Help Groups in rural areas. Strong and cohesive PLFs representing the

common aspirations of its member Self Help Groups is the key for achieving sustainability in the long run. TNCDW will provide greater thrust towards capacity building of the PLF members and office bearers in areas like Social Audit, Identification of business opportunities, Value addition etc.

- **Awards to best PLFs and Self Help Groups** - In order to motivate and encourage the Self Help Groups and PLFs, the Government will give awards at State and District Level. Awards are presented to 5 best PLFs and 10 best Self Help Groups at the State Level. One best PLF and 3 best Self Help Groups at the District level are given awards and one best Self Help Group at the Block level is given a certificate. The awards have occupied a place of pride among the Self Help Groups and have been instrumental in motivating the Self Help Groups and PLFs to aim for better performance.
- **Awards to Bankers** - Banks are the most important partner of TNCDW for the economic empowerment of women, who are extending credit to the Self Help Group members for debt swapping, consumption needs and for productive purposes. A state level and district level award will be given to honour best performing banks and individual bank branches, which have shown outstanding performance in extending credit linkage to Self Help Groups. These awards will motivate the outstanding performers and also create a healthy competition among the Bankers. At State level, 3 best performing banks and 5 bank branches are given award. At District level, one bank and 3 bank branches will get the award.
- **Issuing Identity Cards to Self Help Groups** - Self Help Groups face a lot of problems and hardship during their interface with banks, government offices and other institutions. An Identity card will help Self Help Groups to gain recognition in society and also have easy access to Government offices and Banks. The Identity card will contain group details such as savings, credit rating status, loans as well as member details. The Identity cards also prevent duplication of members in more than one group.
- **Swarnajayanti Gram Swarozgar Yojana (SGSY)** - Swarnajayanthi Gram Swarozgar Yojana (SGSY), introduced in April 1999 by the Government of India and implemented by the State is a major anti-poverty programme with the main

objective of bringing the Poor families above the poverty line by ensuring reasonable and sustained level of income over a period of time. Self Help Group approach is adopted to reach poor women and aims to graduate them from micro credit stage to micro enterprises stage. This is planned to be achieved through skill development training, bank credit, infrastructure facilities including marketing support to the products produced by them. Government of India and the State Government are sharing the cost in the ratio of 75:25. The scheme aims at Providing Revolving Fund to Self Help Groups. Providing Economic Assistance to Self Help Groups, Qualitative Skill Development Training, through reputed institutions, Infrastructure Development and Training. To ensure greater convergence of activities taken up for the benefit of Self Help Groups in the State, supervision and monitoring of SGSY scheme has been entrusted to TNCDW.

- **Marketing of Self Help Group Products** – Self Help Groups do not have adequate capacity in understanding marketing issues and do not possess negotiation skills to promote their products. Therefore Government will take various initiatives to enhance the capacity of Self Help Groups and PLFs and ensure better convergence and greater co-ordination between different agencies in promotion of Self Help Group products. A State level permanent marketing complex for Self Help Group products is functioning in Annai Theresa Women Complex, Nungambakkam, Chennai for conducting exhibition cum sale of products produced by Self Help Groups. Similarly, to create better marketing facilities in rural areas, 86 Village Haats are under construction at the cost of ₹12.90 crores in 30 districts. To expand the market of Self Help Group products in urban and semi-urban areas, a calendar of exhibitions has been prepared to conduct exhibitions at State, District and Block levels.
- **Branding and Packaging of Self Help Group products** - Self Help Group products, though of good quality and priced reasonably are not able to capture a considerable market share due to not having a common brand and less attractive packing. TNCDW will rope in training institutions, who will enhance the capacity of Marketing skills of Self Help Groups, NGOs and officials at District level and also identify a state level nodal agency to develop a brand with attractive design for

packaging of Self Help Group products. A five year plan for state and district level business development for Self Help Group products will be prepared.

- **Tamil Nadu State Rural Livelihood Mission (TNSRLM)** - Government of India have announced a new scheme called National Rural Livelihood Mission by restructuring the existing SGSY scheme. This scheme will be implemented by this Government in the name of Tamil Nadu State Rural Livelihood Mission during 2011-12. TNSRLM aims at universal mobilization of BPL households into Self Help Groups, promotion of Self Help Group federations at Village, Block and District level, untied fund flow to federations of Self Help Groups for on-lending to member Self Help Groups as well as employment linked skill development training for rural youth. The programme, a major improvement upon SGSY lays greater emphasis on the livelihood and marketing aspects of the rural people. The programme follows a demand driven strategy based on participatory processes. TNSRLM seeks to mobilize the rural poor to build institutional platforms that are self managed. These institutional platforms in the form of groups, federations and producer collectives access a variety of financial and technical services including TNSRLM and also resources from the Government programmes and Banks.

Part –B: Self Help Group Movement: An Approach to Women Empowerment

The provision of credit to the poor and underprivileged sections of the society is an important aspect of the larger mandate of social banking today. In India, the institutional credit delivery system of banks has been aptly complemented by the growth of self-help savings and credit groups. This has resulted in bringing together the banking system and the poor for mutual benefit. Micro credit is thus emerging as a viable alternative to achieve the objective of growth and poverty reduction. The experiment of microfinance in India through the Self Help Group Bank linkage programme is an evidence of the effectiveness of group dynamism and credit recycling.

Availability of credit and membership in Self help groups often brings about a change in the socio economic status of the borrowers thereby contributing to their empowerment.

The term empowerment has different meanings in different contexts and often refers to terms which include self-strength, control, self-power, self-reliance, own choice, life of dignity in accordance with one's values, capable of fighting for one's rights, independence, own decision making, being free, awakening, and capability.

The term can be used to characterize relations within households or between poor people and other actors at the global level. As people exercise real choice, they gain increased control over their lives. Poor people's choices are extremely limited, both by their lack of assets and by their powerlessness to negotiate better terms for themselves with a range of institutions, both formal and informal.

Empowerment refers broadly to the expansion of freedom of choice and action to shape one's life. Empowerment is the control over resources and decisions.

Empowerment is defined as "the expansion of assets and capabilities of poor to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives" (World Bank)

Empowering the poor requires removal of all barriers which stops them from taking actions that will result in improving their welfare and limiting their choices. Any form of institutional reform that will result in empowerment of the poor will have to include access to information, informed participation, political and administrative accountability and improvement in ability of people to work together.

An empowering approach to poverty reduction and development should be one that is people centric and looks at them as the most valuable resource. It builds on the strength of poor people, their knowledge, skills values, initiative and motivation to solve problems, manage resources, and rise out of poverty. Empowerment has intrinsic as well as instrumental value. It is relevant both at the individual level and at the collective level and can be economic, social or political.

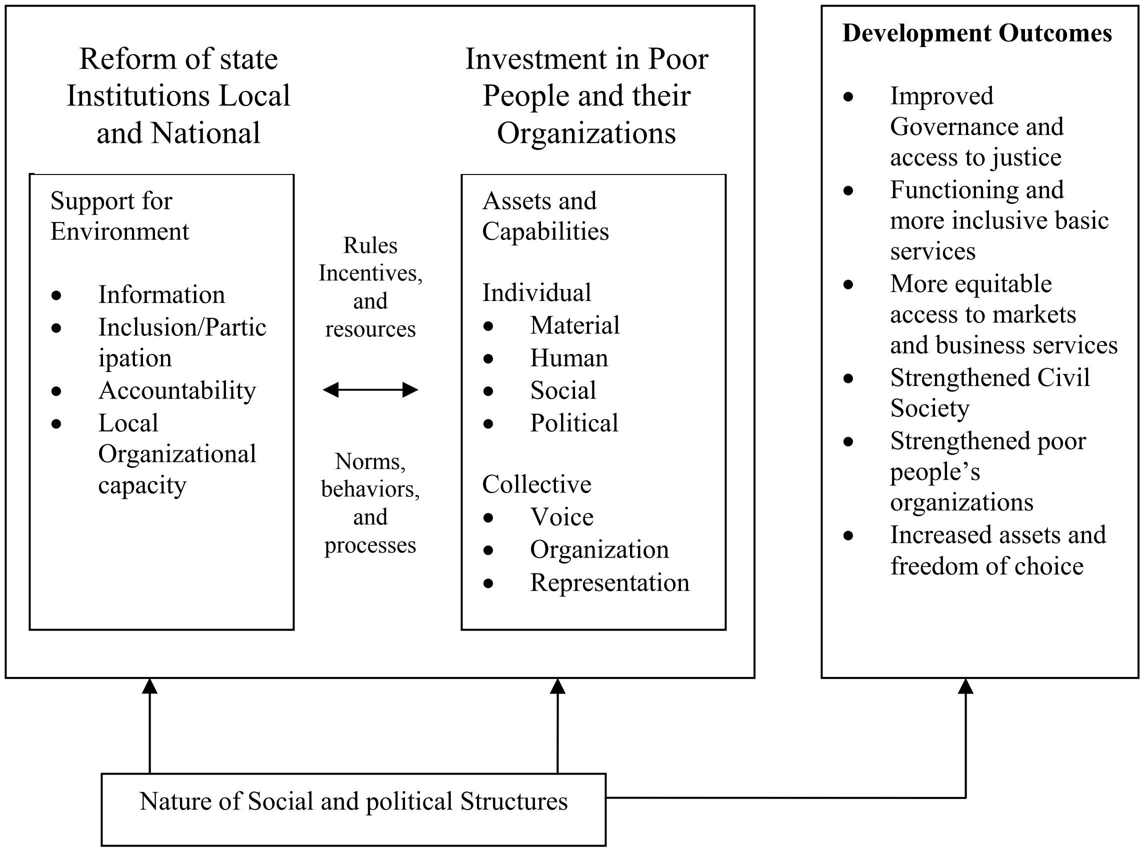
Empowerment for development effectiveness is a key component in the World Bank strategic framework of poverty alleviations.

An empowerment framework outlines relationship between institutions, empowerment, and improved development outcomes, particularly for poor people. State reform that supports investments in poor people and their organizations leads to improved development outcomes, including improved governance, better- functioning and more inclusive services, more equitable access to markets, strengthened civil society and poor people's organizations, and increased assets and freedom of choice.

Institutional reform to support empowerment of poor people means changing the relationship between the state and poor people and their organizations. It focuses on investing in poor people's assets and capabilities, both individual capabilities and the collective capacity to organize, to enable them to participate effectively in society and to interact with their governments, so as to strengthen the demand side of governance. State reform, whether at the national, state, or local government level, must focus on laws, rules, institutional mechanisms, values, and behavior that support the four elements of empowerment. Changes in formal rules and regulations must be connected to efforts to enable poor people and other citizens to interact effectively with their governments and monitor governance.

The focus of reform is thus on (a) designing mechanisms to support poor people's access to information, inclusion, and participation; (b) creating social accountability mechanisms; and (c) investing in poor people's organizational capacity to solve problems.

Fig 9: Empowerment Framework



Source: Empowerment and Poverty Reduction by Deepa Narayan, 1992

Economic empowerment is a necessary condition for enabling women to seek justice and equality. Without economic strength, women cannot be able to exercise their guaranteed rights. It is, necessary to encourage and seek participation of women as equal partners with men in all spheres of work. Economic empowerment of women should focus on measures that will increase their access and control over resources and enable them to carry on sustainable livelihoods. It necessitates supporting their existing livelihood, widening choices and building capacity to take advantage of new economic opportunities. Any strategy to empower women should include the following components - (i) special measures to increase the proportion of women involved in decision making (ii) training programmes, especially for women to improve their condition; (iii) creation of equal employment opportunities for women and avoiding discrimination (iv) encourage self reliance and develop spirit of entrepreneurship; (v) measures to improve working conditions of women and enable them to know their rights (vi) Provide a conducive environment of credit availability at concessional rates. The Self Help group movement began in India with the objective of achieving the development outcomes outlined in the empowerment framework.

With the objective of Empowering Women, the Self help group movement's focus was to give women greater access and control over resources, increase their income, develop linkages between Self Help Groups and lending institutions, providing greater access to health care and education thereby leading to their social empowerment. Investment in health, education and life skills are of intrinsic value and also increase economic returns to the individual. Access to wage employment increases economic security.

Self help groups have emerged as support groups to bring about women's solidarity in facing all kinds of problems in their domestic environment. They have emerged as a means of providing poor people with the credit that they need to emerge out of poverty. These groups were formed to help women meet their needs of friendly credit. As a model of credit delivery, these groups initially draw on their own savings at an interest rate fixed by them to lend within the group and then later get linked to the formal credit system.

The emergence and growth of Self Help Group programme in the states of Andhra Pradesh and Tamil Nadu as discussed in the preceding section have been able to draw women into the mainstream and help them participate in decision making.

Micro credit through Self help groups is today seen as a tool for poverty alleviation. Members of Self help groups are able to control capital at the community level and are able to design financial services in response to their needs as they are understood and experienced at the local level. Community pressure and the desire to see their group and village succeed generally has lead to higher repayment rates. The process of collectively managing funds at the community level builds capacities in ways that a formal credit delivery approach does not. The levels of participation among women also increase as they learn from their peers. Monitoring is more or less assured as these women want to see their ventures succeed and thereby are able motivate their peers not to default in repayments. This contributes to long term sustainability of their ventures. This programme has thus emerged as effective and sustainable model of credit delivery to the poorest by providing them capital ownership. However, it is not only the provision of credit which leads to empowerment of the members of the groups, but the sustained efforts that are needed to raise their level of awareness.

Benefits from Self Help group programme to Community and village:

- Inculcation of the spirit of self-help and team spirit.
- *Higher Social Capital* - Active participation networking and collective action for development.
- *Model effect*, wherein other poor women begin to form similar groups seeing the success of the older Self Help Groups.
- Improved health and family welfare, through better awareness.
- Better Education for children and Literacy due to increased awareness.
- Knowledge of various welfare programmes of Government and banks in villages through linkages facilitated with Govt. agencies.
- Voicing and acting against social injustices and violence against women and children.
- Women and gain confidence and their voices are heard.
- Economic development due to better economic status of families.
- Abolition of Bonded Labour and Child Labour through better economic status and increased awareness.
- Environment consciousness and conservation of natural resources.
- Communal harmony, caste harmony.
- Eradication of evils of alcohol and dowry.

The most important aspect of the Self Help Group bank linkage programme is that it has created a win-win situation for the banks and the Self Help Group members. It has helped women realize their potential and has brought about economic and social change in their lives. Prompt repayments of bank loans by Self Help Group members has resulted in increasing their self confidence and has facilitated credit rotation by banks. Studies in micro lending have proved that women are much better borrowers than men.

They plan their finances well and are very responsive to peer pressure and hence, default rates among women borrowers from groups is less. Membership of women in Self help groups engenders in them a sense of self confidence and raises their level of awareness. The solidarity and strength that they obtain from being together with other women facing similar circumstances serves as a powerful factor which empowers them. The availability of credit along with training and capacity building will promote setting up of successful ventures by these self help groups contributing to their development.

CHAPTER - 3

Role of Banks and Microfinance Institutions

CHAPTER - 3

Chapter 3 has two parts: Part A describes role of microfinance institutions in the credit delivery mechanism, the working and management of microfinance globally and the transition of this sector in India with special focus on the two states of Andhra Pradesh and Tamil Nadu. The current scenario faced by the sector following the crisis in Andhra Pradesh over the microfinance regulation ordinance is also discussed. Part B provides a view of the risk involved in microfinance.

Part A – Role of Banks and Microfinance Institutions in the credit delivery Mechanism.

Sustainable economic development in any country is facilitated by the availability of profitable and efficient financial services to the majority of the population. The credit delivery mechanism available in the country often holds the key to reach the unreached segment of the population. Microfinance through banks and Microfinance institutions aims at providing profitable banking to a new market that has not been served properly before. In the global context as well as in India, both banks and Microfinance institutions are playing an important role in the credit delivery mechanism. In India, banks provide credit directly to Self Help Groups as well as Microfinance Institutions for onlending to Self help Groups. Both the models of credit delivery are looking to make a significant impact in improving financial inclusion in the country in the years to come. Growth under the Microfinance Institutions Model has largely been facilitated by the sharp increase in bank credit to Microfinance Institutions. A wide range of banks are financing microfinance sector, the private sector lending mostly to Microfinance Institutions due to priority sector obligations and the public sector through their wide network of branches are reaching out to Self Help Groups in rural areas.

Role of Commercial Banks in Microfinance

Consultative Group to Assist the Poor (CGAP) estimates that there are up to 3 billion potential clients in the microfinance market. Some 500 million people are currently being served by socially-oriented financial institutions, ranging from cooperatives to postal savings banks that extend financial services beyond the traditional clients of commercial banks. Nonetheless, a significant number of potential clients remain unsaved.

In 1998, CGAP described commercial banks as “new actors in the microfinance world. Seven years later, the findings of research undertaken by CGAP (2005), the global resource centre for microfinance supported by a syndicate of 30 multilateral, bilateral, and private donors revealed that a vast potential market for retail financial services among low-income clients exists and a growing number of commercial banks have successfully entered this market. A CGAP survey identified over 225 commercial banks and other formal financial institutions that are engaged in microfinance. For some, microfinance has been highly profitable. Certain microfinance-specialized banks are now more profitable than the banking sector average in their country. According to CGAP, six discrete approaches banks use to enter the microfinance market.

Provide services directly through:

- an internal microfinance unit, or
- a specialized financial institution, or
- a microfinance service company.

Work through existing providers by:

- outsourcing retail operations, or
- providing commercial loans to Microfinance Institutions, or
- providing infrastructure and systems.

Commercial banks are playing an increasingly important role in many financial services markets across the world. Compared with many existing providers of microfinance, commercial banks have potential competitive advantages in a number of areas, such as recognizable consumer brand names, existing infrastructure and systems, and access to capital. The commercial opportunity in microfinance is catching the interest of mainstream banking. Lending by banks to the low-income groups will happen up to the point when the marginal revenue is more than the marginal cost of the loan.

“Bankers are only just realizing that the poor have needs just like anyone else and that giving them the opportunity to help themselves not only works, but can open up the global financial markets to an entirely new customer market and asset class. In a number of countries, banks have been compelled by their governments to provide financial services, especially credit, to sectors such as small or agricultural enterprises that are considered social priorities." (Banker, Feb 2005)

India is a classic example of microfinance spurred by a strong Government commitment. Bank loans to the microfinance market forms part of the priority sector lending as per the RBI guidelines. The microfinance market can provide profitable growth opportunities when banks are faced with increased competition in the traditional retail markets causing margin squeeze. The increasing presence of commercial banks in microfinance (Harper and Arora 2005) may also bring interest rates down. The main attraction of microfinance to bankers is the high quality of loan portfolios combined with relative insensitivity to interest rates.

As on 31 March 2011, the commercial banks had the maximum share of Self Help Groups' savings of 4323473 Self Help Groups (57.94%) with savings amount of ₹423006.42 lakhs (60.28%) followed by Regional Rural Banks having savings bank accounts of 1983397 Self Help Groups (26.58%) with savings amount of ₹143597.67 lakh (20.45%) and Cooperative Banks having savings bank accounts of 1155076 Self Help Groups (15.47%) with savings amount of ₹135084.19 crore (19.25%). The Self help group bank linkage programme is a home grown model. It differs from the Microfinance Institution (Microfinance Institutions model) found worldwide in which Microfinance Institutions acts as an intermediary, much as the Self Help Group does, but borrows in much larger amounts from the banks for a much larger number of members. These members are also organized into groups, whether the classic five member Grameen Bank type group or larger 'joint liability' groups (JLG), or even Self Help Groups.

The position of agency-wise savings of Self Help Groups with banks as on 31 March, 2011 was as follows:

Table 10: Bank Loans Disbursed to Self Help Groups – Agency-wise position

Progress under Microfinance – Savings of SHGs with Banks
Agency-wise position as on 31st March, 2011

(Amount ₹ lakh)

Sr. No.	Name of the Agency	Total Savings of SHGs with Banks as on 31st March, 2011		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
		No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
1	Commercial Bank	4323473	423006.42	1216395	131052.09	3655322	332560.07
2	Cooperative Bank	1155076	135084.19	188222	16884.92	793290	78059.57
3	Regional Rural Bank	1983397	143539.67	618032	33775.29	1649422	119244.83
	Total	**7461946**	**701630.28**	**2022649**	**181712.30**	**6098034**	**529864.47**

Progress under Microfinance – Bank Loans disbursed to SHGs
Agency-wise position during 2010-11

(Amount ₹ lakh)

Sr. No.	Name of the Agency	Loans disbursed to SHGs by Banks during the year		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
		No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed
1	Commercial Bank	669741	972455.27	124595	123782.14	606096	879829.07
2	Cooperative Bank	229620	162556.33	40371	40406.99	153864	95956.54
3	Regional Rural Bank	296773	319761.59	75922	83848.02	257258	286447.78
	Total	**1196134**	**1454773.19**	**240888**	**248037.15**	**1017218**	**1262233.39**

Progress under Microfinance – Bank Loans outstanding against SHGs
Agency-wise position as on 31st March, 2011

(Amount ₹ lakh)

Sr. No.	Name of the Agency	Total Outstanding Bank Loans against SHGs		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
		No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding
1	Commercial Bank	3053472	2188325.67	761781	490633.98	2560332	1848765.4
2	Cooperative Bank	451798	190785.65	98441	59761.08	307083	114678.62
3	Regional Rural Bank	1281493	743005.23	425492	232543.46	1116182	648931.55
	Total	**4786763**	**3122116.55**	**1285714**	**782938.52**	**3983597**	**2612375.57**

Source: NABARD report on status of microfinance 2010-11

Table 11: Overall progress under Self Help Group bank linkage

(Amount ₹ in crore/ Numbers in lakhs)

	Particulars	2008-09		2009-10		2010-11	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31 March	Total SHG Nos.	61.21 (22.2 %)	5545.62 (46.5%)	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)
	Of which SGSY Groups	15.06 (25.1%)	1563.38 (93.1%)	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)
	% of SGSY Groups to Total	24.6	28.1	24.4	20.9	27.1	25.9
	All women SHGs	48.64 (22.0%)	4434.03 (42.6%)	53.10 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)
	Percentage of Women Groups	79.5	80.0	76.4	72.6	81.7	75.5
Loans Disbursed to SHGs during the year	No. of SHG extending loans	16.10 (31.1%)	12253.51 (38.5%)	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01)
	Of which SGSY Groups	2.65 (7.3%)	2015.22 (8.5%)	2.67 (1.0%)	2198 (9.1%)	2.41 (-9.9%)	2480.37 (12.8%)
	% of SGSY Groups to Total	16.4	16.4	16.9	15.2	20.1	17.0
	All women SHGs	13.75 (32.0%)	10527.38 (40.8%)	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)
	Percentage of Women Groups	85.4	85.9	81.6	86	85	86.8
Loans Outstanding against SHGs as on 31 March	Total No. of SHGs linked	42.24 (16.5%)	22679.84 (33.4%)	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)
	Of which SGSY Groups	9.77 (6.5%)	5861.72 (21.7%)	12.45 (27.5%)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)
	% of SGSY Groups to Total	23.1	25.8	25.7	22.3	26.9	25.1
	No. of all Women SHGs linked	32.77 (12.3%)	18583.54 (39.4%)	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)
	Percentage of Women SHGs	77.6	81.9	80.3	82.1	83.2	83.7

Source: NABARD report on status of microfinance 2011

Commercial Banks had the maximum share of outstanding bank loans to Self Help Groups with a share of 70.09% followed by RRBs with a share of 23.79 % and Cooperative Banks with a share of 6.11%. The growth has been spectacular over the years as can be seen from the comparative table.

Table 12: Bank loans outstanding against Self Help Groups agency wise position for the period 2008-11

Progress under Microfinance - Bank Loans Outstanding against SHGs
Agency wise Position as on 31 March 2009

(Amount in Rs. Lakh)

Name of the Agency	Total Outstanding Loans of SHGs as on 31 March 2009		Out of Total - under SGSY & other sponsored schemes		Out of Total - Exclusive Women SHGs	
	No. of SHGs	Amount of O/S Loans	No. of SHGs	Amount of O/S Loans	No. of SHGs	Amount of O/S Loans
Commercial Banks	2831374	1614942.80	645145	396153.06	2245564	1350912.69
Regional Rural Banks	977834	522441.61	258890	150810.18	724179	414723.74
Cooperative Banks	415130	130599.84	72852	39209.31	307612	92717.14
Total	**4224338**	**2267984.25**	**976887**	**586172.55**	**3277355**	**1858353.57**

Progress under Microfinance – Bank loans outstanding against SHGs
Agency-wise position as on 31 March 2010

(Amount ₹ lakh)

Sr. No.	Name of the Agency	Total Outstanding Bank Loans against SHGs		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
		No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding
1	Commercial Banks	3237263	2016471.21	798304	407203.07	2706634	1730867.35
2	Regional Rural Bank	1103980	614458.24	368795	172593.66	843697	467992.52
3	Cooperative Bank	510113	172898.62	78295	45310.97	347466	104176.45
	Total	**4851356**	**2803828.07**	**1245394**	**625107.70**	**3897797**	**2303036.32**

Progress under Microfinance – Bank Loans outstanding against SHGs
Agency-wise position as on 31st March, 2011

(Amount ₹ lakh)

Sr. No.	Name of the Agency	Total Outstanding Bank Loans against SHGs		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
		No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding
1	Commercial Bank	3053472	2188325.67	761781	490633.98	2560332	1848765.4
2	Cooperative Bank	451798	190785.65	98441	59761.08	307083	114678.62
3	Regional Rural Bank	1281493	743005.23	425492	232543.46	1116182	648931.55
	Total	**4786763**	**3122116.55**	**1285714**	**782938.52**	**3983597**	**2612375.57**

Source: NABARD reports on status of microfinance 2008-2011

By being in the forefront of credit linkages, Banks in India are trying to achieve a semblance of growth at the grass root level without which sustainable development will not be possible. Banks play a vital role in this model of credit delivery. This model of credit delivery serves social and financial commitments. Banks consider this model as a good business proposition due to the following reasons.

Advantages of Self Help Group Loans over Individual Loans

- All loans to Self Help Groups are treated as priority sector lending
- Lower Transaction cost since the bank has to maintain only a single account for the Self Help Group instead many individual loan accounts
- High Repayment rate leads to lower non performing assets and provides speedy recycling of funds
- Easier Supervision & transparency
- Easy credit delivery to poor facilitates tapping of small savings at low cost

The growth trends in the self help group bank linkage programme reflects the success of this model of credit delivery in the country. The Southern region continued to show impressive growth due to the large base this programme has and the long term nature of the loans.

Table 13: Growth Trends in the Self Help Group Bank Linkage (SBLP)

	2008	**2009**	**2010**	**2011**
No. of Self Help Groups provided with bank loans	3625941	4224338	4587178	4813684
Self Help Groups provided with bank loans in the Southern region	1861373	2283992	2421440	2663569
Share of Southern region (% age)	51	55	53	55
Average Loan disbursed per group (₹)	46800	74000	115820	122744
O/S Loans (₹ billion)	169.99	226.76	272.66	306.27
Incremental Groups (million)	0.70	0.60	0.36	0.27
Incremental O/S Loans (₹ billion)	46.33	56.80	45.87	33.61

Source: Microfinance India State of Sector Report 2011

Regional Spread of the Self Help Group Programme

During the year ended 31st March, 2011 the Southern region increased its share in number of groups from 52.8% of groups linked with loans to 55.3%. The Eastern region increased its share in the number of groups from 21.5% to 24.4%. The North Eastern region increased its share to 3.1% from 1.9%. The Northern, Central and Western region registered a decline in their share with the steepest fall in the case of Central region which shrunk by 3.3% compared to 2010.

Table 14: Regional Share in Linkage

Region	Self Help Groups with O/S Loan 2008		Self Help Groups with O/S Loan 2009		Self Help Groups with O/S Loan 2010		Self Help Groups with O/S Loan 2011	
	Groups	% age Share	Groups	% age Share	Groups	% age Share	Groups	% age Share
Northern	134783	3.8	166511	3.9	158829	3.9	151260	3.1
North Eastern	103424	2.9	117812	2.8	85276	2.8	151280	3.1
Eastern	753048	20.8	933489	22.1	985094	22.1	1171840	24.3
Central	326763	9	332116	7.9	497340	7.9	361822	7.5
Western	446550	12.3	393499	9.3	439199	9.3	313913	6.5
Southern	1861373	51.3	2280911	54	2421440	54	2663569	55.3
All	3625941	100	4224338	100	2165738	100	4813684	100

Source: Microfinance India state of sector report 2011

In the Southern region, Andhra Pradesh and Tamil Nadu continued as the top states in terms of their progress under Microfinance for the year ended 31st Mar, 2011. Hence, the present study was executed in the states of Andhra Pradesh and Tamil Nadu.

Table 15: Progress under Microfinance - Bank Loans Outstanding against Self Help Groups Region-wise/Agency-wise Position as on 31 March 2011

Region / State	Commercial Bank		Regional Rural Bank		Cooperative Bank		Total	
	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
Southern Region								
Andhra Pradesh	1041184	101288.99	401730	27543.00	23311	1948.23	1466225	130780.22
Karnataka	219667	50674.09	164100	15607.23	180778	30221.55	564545	96502.87
Kerala	390242	33008.78	40851	1141.09	62254	7993.71	493347	42143.58
Lakshadweep	164	10.36	0	0.00	0	0.00	164	10.36
Tamil Nadu	704598	80353.24	88789	5697.09	149711	13673.54	943098	99723.87
Puducherry	19495	2297.07	2586	133.80	0	0.00	22081	2430.87
TOTAL	**2375350**	**267632.53**	**698056**	**50122.21**	**416054**	**53837.03**	**3489460**	**371591.77**

Source: NABARD Report on the status of Microfinance, 2011

The savings of Self Help Groups with commercial banks in states of Andhra Pradesh and Tamil Nadu for the year ended 31st march 2011 are summarized in the following tables.

Table 16: Savings of Self Help Groups with commercial banks in Andhra Pradesh as on 31st march 2011

Name of the Bank	Details of SHGs Saving linked with Banks			Out of Total SHGs – Under SGSY Scheme			Out of Total SHGs – Exclusive Women SHGs		
	No. of SHGs	No. of Members	Savings - Amount	No. of SHGs	No. of Members	Savings - Amount	No. of SHGs	No. of Members	Savings - Amount
Allahabad Bank	5744	63184	3683.95	14	162	1.26	5744	63184	3683.95
Andhra Bank	250762	3009144	22568.58	3311	36421	198.66	250762	3009144	22568.58
Bank of Baroda	12305	157292	752.41	612	7202	93.00	11913	153613	722.00
Bank of India	31793	317930	1978.26	201	1990	31.09	31750	317500	1961.28
Canara Bank	33217	333268	3095.76	2339	23207	85.82	33217	333268	3095.76
Central Bank of India	17457	241331	233.00	492	6655	12.32	17457	241331	233.00
Corporation Bank	13728	161112	618.28	2269	23508	192.46	13728	161112	618.28
Dena Bank	1523	14931	1705.00	36	219	15.70	30	210	21.54
IDBI Bank	20	0	50.11	0	0	0.00	6	0	1.09
Indian Bank	57007	855105	11510.48	2327	34905	33.65	56996	854934	11508.18
Indian Overseas Bank	44083	547572	3507.00	21054	260227	1667.00	41140	489566	2681.00
Oriental Bank of Commerce	368	3500	23.60	0	0	0.00	295	2810	16.19
Punjab National Bank	8137	85927	340.83	109	1148	32.45	8137	85927	340.83
State Bank of Hyderabad	107594	1352992	20039.41	135	2194	27.99	95728	1316491	18206.01
State Bank of India	295752	3254486	24080.00	8750	96258	720.00	295752	3254486	24080.00
State Bank of Mysore	685	11645	137.00	0	0	0.00	616	10480	123.30
State Bank of Travancore	534	9612	440.10	210	3780	171.27	495	8910	409.30
Syndicate Bank	77362	763875	3555.89	806	9149	34.13	77112	761020	3543.39
UCO Bank	4700	56300	281.40	340	4120	31.24	4654	55636	279.18
Union Bank of India	54584	546416	2264.60	7876	75097	294.16	53751	535476	2140.51
Vijaya Bank	14067	144471	255.38	614	6488	15.58	12713	130951	250.38
Total	**1031422**	**11930093**	**101121.04**	**51495**	**592730**	**3657.78**	**1011996**	**11786049**	**96483.75**

Source: NABARD report on status of microfinance 2011

Table 17: Savings of Self Help Groups with commercial banks in Tamil Nadu as on 31st march 2011

(Amount ₹ lakh)

Name of the Bank	Details of SHGs Saving linked with Banks			Out of Total SHGs – Under SGSY Scheme			Out of Total SHGs – Exclusive Women SHGs		
	No. of SHGs	No. of Members	Savings - Amount	No. of SHGs	No. of Members	Savings - Amount	No. of SHGs	No. of Members	Savings - Amount
Tamil Nadu									
Allahabad Bank	312	4015	45.55	305	3875	42.60	305	3875	42.60
Andhra Bank	1148	13776	103.32	64	704	3.84	1148	13776	103.32
Bank of Baroda	8183	117502	531.15	2539	36252	122.02	7579	108123	448.47
Bank of India	16775	241076	25321.30	13476	189934	25219.29	16451	231515	24836.25
Bank of Maharashtra	130	1300	0.65	50	500	0.25	130	1300	0.65
Canara Bank	118290	1956315	5202.23	86619	1014212	3150.98	112494	1249760	4637.82
Central Bank of India	12179	194861	876.87	365	6212	38.82	10957	186277	791.69
Corporation Bank	3133	42378	58.13	1041	15615	43.59	2750	38456	56.96
Dena Bank	1785	16065	1650.00	1063	9567	1519.00	1605	14445	1544.80
IDBI Bank	211	0	51.40	0	0	0.00	2	0	0.14
Indian Bank	155485	2332275	14962.87	5985	89775	293.62	155454	2331809	14959.88
Indian Overseas Bank	98946	1207141	4829.00	46910	563389	2254.00	95603	1137584	4154.00
Oriental Bank of Commerce	88	1320	5.80	21	315	1.71	52	780	2.71
Punjab National Bank	8355	120644	644.51	431	5172	26.43	8015	116180	630.65
State Bank of India	164596	2962728	15608.00	10398	187164	349.00	161310	2903579	15483.00
State Bank of Mysore	660	11220	132.00	132	2244	26.40	594	10098	118.80
State Bank of Travancore	9560	172080	735.35	3537	63666	228.00	8890	160020	683.80
Syndicate Bank	12839	168000	3857.46	2975	41667	1084.82	12247	151759	1803.81
UCO Bank	3388	54208	1625.15	1939	28881	1580.72	3348	29346	1538.28
Union Bank of India	18004	198496	1670.15	4913	54318	592.00	16500	179281	1351.73
Vijaya Bank	1305	19463	161.96	523	7845	53.26	1124	16748	136.01
Total	**635372**	**9834863**	**78072.85**	**183286**	**2321307**	**36630.35**	**616558**	**8884711**	**73325.37**

Source: NABARD report on status of microfinance 2011

Table 18: Savings of Self Help Groups with leading commercial banks in Andhra Pradesh and Tamil Nadu as on 31st March, 2011

Andhra Pradesh		
Name of the bank	**No of SHGs**	**Savings (₹ in lakhs)**
SBI	295752	3254486
Andhra Bank	250762	3009144
SBH	107594	1352992
Indian Bank	57007	855105
Union Bank Of India	54584	546416
Canara Bank	33217	333268

Tamil Nadu		
Name of the bank	**No of SHGs**	**Savings (₹ in lakhs)**
SBI	164596	2962728
Indian Bank	155485	2332275
Canara Bank	118290	1956315
Indian Overseas Bank	98946	1207141
Union Bank Of India	18004	198496
Bank Of India	16775	241076

Source: NABARD report on status of microfinance 2011

The growth in the amount of savings is an indicator of the popularity and success of this credit delivery model. Though savings performance look impressive, the rigidity of procedures in withdrawal of savings by members, excessive buildup of corpus in mature groups and the erosion of trust hinders the saving effort The success of this model of credit delivery hinges on the concept of promoting more savings among the members.

Interest Rates and Transaction Costs of banks

The interest rate charged on bank credit is also the most important instrument of building 'reserves' through higher profits. A minimum capitalization is considered necessary for building the equity base through retained earnings. The interest rates charged by banks or Microfinance Institutions are linked to the costs incurred in servicing such debts.

The average cost of funds for banks is between 5-5.5%. The banks charge an average interest rate of 11.5% on loans to Self Help Groups. The Self Help Groups in turn lend to their members at 18-24% depending on the purpose of the loan. The banks make a spread of 6% and incur only 1% on servicing Self Help Groups loans. The 1% includes all operating costs and banks can still make a margin of 5% on Self Help Group lending (Source: R. Srinivasan, Chapter 6, Small Customers Big Markets, Commercial Banks in Microfinance, 2005).

Concerns have also been expressed about the financial sustainability of Self Help Group Bank Linkage. The state-owned commercial banks and RRBs, which are the main players in Self Help Group banking, have been increasing their lending to Self Help Groups dramatically, but this has been done without much attention to the actual costs of doing business with Self Help Groups. Banks have been lending to Self Help Groups at interest rates of between 12% and 12.5%. Recently, two state-owned banks, the State Bank of India and Andhra Bank, have announced their intention to lend at 9% per annum, viewing Self Help Group lending as a highly profitable business.

Francis Sinha (2003) in his studies on inclusive cost of lending, indicates that the all inclusive costs of lending to Self Help Groups by private commercial banks are much higher than what state-owned banks seem to think, and could range anywhere between

15% (which is what private banks like ICICI Bank charge when they lend to Self Help Groups) to 28%. Sinha (2003), in his study of five RRB branches, found that the all inclusive costs of lending to Self Help Groups (taking into account the relatively high transaction costs of dealing with Self Help Groups as well the costs of group formation, which banks are increasingly beginning to bear) would translate into interest rates of anywhere between 22% and 28% per year, and in one case, where the RRB was located in a low density, forested district, the costs translated into interest rates as high as 48% per annum. The Self Help Group portfolio is a small part of the total bank lending, portfolio quality is good, and it may be possible to cross subsidize this, but unless banks charge interest rates to recover costs, the model's financial viability and longer term sustainability may be jeopardized.

The failure of Non-Banking Finance Companies which were accepting deposits from the public at attractive interest rates has resulted in banks being able to mobilize deposits at low interest rates. Refinance from NABARD for Self Help Group lending is available at 5.5%, but since the average cost of funds to the banks is around 5-5.25%, including cost of servicing deposits, most commercial banks do not take refinance. Transaction cost relating to Self Help Group lending is very low as compared to other loans as documentation and appraisal of Self Help Groups lending are undertaken by NGO's and federations. Even though Self Help Group loans are sanctioned for a period of 36 months, the loans are usually repaid with interest within 12-18 months as members want to take another larger loan. Prompt repayment by Self Help Groups has resulted in the increase of the total loan portfolio of banks. Banks have thus benefited from Self Help Group lending and found it to be the most effective, profitable and sustainable way of lending to the rural clientele and have started covering the cost of forming Self Help Groups themselves.

Role of Microfinance Institutions in the Credit Delivery Mechanism

Banks also lend to Microfinance Institutions (MFIs) which are considered as financial intermediaries for on-lending to the poor. Microfinance institutions, thus, act as conduit for extending finance to the microfinance sector by raising funds from banks and lending to Self Help Group members. In addition to their internal resources, Microfinance Institutions make use of bulk funds from banks for lending and have been aggressive and innovative in reaching out to rural poor .The total loans issued by all banks including SIDBI during 2010-11, was ₹8448.96 crore recording a decline of 21.25% from the previous year while the loan outstanding against Microfinance Institutions recorded a slight decline of 1.6% as on 31.3.2011. The phenomenal growth recorded by microfinance in India in recent years, 62% per annum in terms of numbers of unique clients and 88% per annum in terms of portfolio over the past five years, and around 27 million borrower accounts, India now has the largest microfinance industry in the world. The high growth rate of microfinance has been fuelled by commercial bank funding which inherently gravitates towards for-profit institutional structures. This has lead trend towards the transformation of Microfinance Institutions into for-profit non-bank finance companies (NBFCs).

Table 19: Loans to Microfinance Institutions by Banks/Financial institutions

Financing Agency	Period	Loans disbursed to MFIs during the year (₹ in crore)		Loan outstanding against MFIs as on 31 March (₹ in crore)		Percentage of Recovery from MFIs
		No. of MFIs	Amount	No. of MFIs	Amount	
All Commercial Banks	2008-09	522	3718.93	1762	4977.89	70-100
	2009-10	645	8038.61	1407	10095.32	80-100
	2010-11	469	7605.18	2176	10688.85	88-100
Regional Rural Banks	2008-09	59	13.40	153	31.20	87-100
	2009-10	46	24.14	103	52.22	100
	2010-11	9	4.16	23	42.01	98-100
Cooperative Banks	2008-09	NA	NA	NA	NA	NA
	2009-10	0	0	3	0.01	90
	2010-11	NA	NA	NA	NA	NA
SIDBI	2008-09	NA	NA	NA	NA	NA
	2009-10	88	2665.75	146	3808.20	NA
	2010-11	2	843.78	139	3041.77	NA
Total by all agencies	2008-09	581	3732.33	1915	5009.09	
	2009-10	779	10728.50	1656	13955.75	
	2010-11	471	8448.96	2315	13730.62	

Source: NABARD report on status of microfinance 2011

The number of Microfinance Institutions provided with loans by commercial banks declined from 522 in 2008 to 469 in 2011 due to alleged unethical practices and questionable recovery rates especially in states like Andhra Pradesh forcing the government to promulgate an ordinance restricting their lending operations and recovery mechanism.

Working and Management of Microfinance Globally: Operational Aspects of Credit Delivery by Microfinance Institutions

Microfinance Institutions around the world follow a variety of different methodologies in the provision of financial services to low-income families. These methodologies are overwhelmingly based on the principle of financial services being related to the cash flows of the low-income client and thus aim to facilitate relatively frequent and very small or micro-loan and savings transactions. Lending to groups entails the joint and several liability of all members and peer pressure ensures prompt repayment. In case of Self Help Groups the loan is a single loan to the group as a whole, which decides how to allocate it to its members while in the case of other groups, the Microfinance Institutions records and tracks loans in the name of individual lenders although the task of disbursement and collection is made easier and cheaper by the group mechanism. The loan cycles are much shorter in case of Microfinance Institutions and they borrow huge amounts from banks and increase loan size according to demand. However, the major disadvantage of the Microfinance Institutions model is that it does not provide for savings. The degree of participation and empowerment of members under the Microfinance Institutions model is less as compared to the Self Help Group model as the banking functions and procedures are taken care of entirely by the field staff, who are involved in the collection and disbursement of loans. Major challenges before the Microfinance Institutions model include the need to improve financial transparency through higher standards and better performance on disclosure and reporting and improve transparency in its dealings with its borrowers.

One of the primary objectives of Microfinance Institutions is to provide sustainable microfinance services to low income clients at reasonable costs. The sustainable delivery of microfinance services depends on and efficiency of operations. Microfinance Institutions of all legal forms have own funds or equity which usually consists of (i) donor grants in case of societies and trusts (ii) equity investments and promoters capital in case of companies (iii) shareholdings in the case of cooperatives and (iv) retained earnings in all forms of Microfinance Institutions. The main source of funds is debt borrowed from banks and apex financial institutions. Sustainability of a microfinance institution refers to the ability of the Microfinance Institutions to continue serving its clients over a long period of period of time even after donor grants and subsidies have ended. Microfinance institutions will be able to access debt from formal financial institutions only when they become professional, competitive and profitable. Operational and financial self sufficiency, therefore, become prerequisite for a Microfinance Institutions to continue serving its clients.

The costs for a microfinance institution are of three types namely financial cost, operating costs and cost of loan losses. The financial costs include cost of borrowing funds from banks and other financial institutions and also interest payable by the Microfinance Institutions on savings of members with them. The operational cost is the cost of doing business and includes personnel costs, administrative costs such as rent and travel. It measures the institutional cost to the Microfinance Institutions for delivering its services. The cost of loan losses includes loans amounts which the Microfinance Institutions are not able to collect back.

There are many factors that determine operating costs for a microfinance institution.

a) **The Delivery Model:** Microfinance is practiced through a variety of methodologies. Microfinance in Asia is mostly carried out by Grameen Microfinance Institutions, Self Help Group - Microfinance Institutions, rural banks cooperatives, village credit boards and so on. Each model is described below:

- **The Self Help Group (Self Help Group) Model**: It is used widely in India. It involves formation of groups and, savings are a pre-cursor to credit which is extended to needy members after a certain period of savings. Lending through the Self Help Group model can be very effective for a Microfinance Institutions as the transaction cost of lending to 15 to 20 members is lower than lending to individual members. However, the initial group formation costs are usually very high. These costs usually decline when the groups become independent. A Microfinance Institutions usually externalizes this cost to the groups or makes use of an NGO which acts a social intermediary. In this model of credit delivery, apart from monetary cost, a lot of time and effort has to be spent by the members in the formation and maintenance of groups.

- **The Grameen Model:** There are many Microfinance Institutions which follow the Grameen model. In the Grameen model, a group of five or so borrowers come together and mutually grant guarantee for each others' loans. This model suits low end clients who have few or no assets as collateral. It is a regimented form of lending where saving is compulsory and there is no internal circulation of savings. The repayment rates are very high in the Grameen model as peer pressure guarantees this. The operating costs of Grameen Microfinance Institutions are relatively higher as it involves a labour intensive approach to lending as a high level of client staff interaction is needed. Substantial costs are also involved in reaching remote villages. High level of credit monitoring also contributes to costs and cost optimization in this model is possible when the Microfinance Institutions can get a certain level of borrowers per branch to cover their costs.
- **The Individual Lending Model:** Microfinance Institutions also undertake individual lending in the form of cooperatives or mutually aided credit societies. Operating costs with respect to individual lending are generally higher for the Microfinance Institution. Individual lending involves fewer clients per credit officer and the Microfinance Institutions that deliver credit at the door step of the borrower often incur high operating costs. But the costs are relatively lesser than the Self Help Group and Grameen models but the risk level of the loan portfolio is very high. When incentives are given to loan officers to improve the quality of loan portfolios it further adds up to operating costs.

b) **Geographical Environment**: Another factor which influences operating costs of a Microfinance Institutions is the geographic environment in which it operates. Urban Microfinance Institutions tend to incur lower costs compared to their rural counterparts mainly due to high population density. Delivery of financial services to urban clients will not be the same as a rural Microfinance Institutions as the latter's staff have to travel more miles to reach the same number of clients. As prevalence of microfinance is more in rural areas than in urban areas, Microfinance Institutions usually price their products at a higher rate in urban areas.

c) **Target Clientele:** A Microfinance Institutions cost structure is also influenced by the section of the poor that they undertake to serve. Microfinance Institutions serving the poorest segment in the populations tend to incur higher costs than a Microfinance Institutions that serves moderately poor segment. The lower the economic level of the target clientele, the higher would be the cost of providing the service.

d) **Rate of Growth**: The annual rate of growth of the Microfinance Institutions is another factor that influences its operating costs. Expanding into new locations especially rural, setting up of new branches and entry into new markets often requires substantial investment. A lot of gestation period is also involved for these new branches to work to full capacity and achieve breakeven point.

Source: Sa-Dhan Newsletter Volume 5 Issue 1, 2004

Microfinance Institutions thus will have to design their own distinct cost structures which are dependent on a number of factors. They need to review their efficiency before making a decision on pricing their product and have to make all efforts to optimize their costs. Higher prices resulting from cost inefficiencies will affect long term sustainability of the Microfinance Institutions. Its pricing policy has to be coherent with its overall marketing strategy. The best way to manage the tradeoff between sustainability and cost to the customer is to increase efficiency and productivity.

Efficiency is a measure of how well an institution utilizes available resources to maximize results. In microfinance the two primary inputs are human resources and financial resources which are used to achieve specific outputs such as the number and value of loans, the number of depositors and income. Efficiency in the context of microfinance refers to use of financial resources and productivity refers to human resources.

Efficiency and productivity of microfinance institutions are measured using various ratios of outputs (numerator) per input (denominator). These ratios are summarized in the table below.

Table 20: Efficiency and Productivity Ratios

Measure	Ratio	Description	Significance
Operating expense ratio	Operating expense/ Average gross loan portfolio	It measures operating expenses as a percentage of average portfolio, revealing how much a Microfinance Institutions spends to maintain its outstanding loan portfolio.	The higher the figure, the less efficient the Microfinance Institutions
Cost per borrower or client	Operating expense/ Average number of active borrowers Operating expenses/ Average number of clients	It measures how much it costs a Microfinance Institutions to serve its average loan client.	The higher the figure, the less efficient the Microfinance Institutions
Staff productivity	Number of active borrowers/ Number of loan officers Number of active borrowers/ Number of personnel Number of active clients/ Number of personnel	Measures the average caseload of each loan officer. Measures productivity of the Microfinance Institutions total human resources in managing clients who have outstanding loan balances. It measures overall productivity of a Microfinance Institutions personnel in managing clients including borrowers, savers and other clients.	The higher the ratio the more efficient the Microfinance Institutions
Personnel allocation ratio	Number of loan officers/ Number of personnel	Measures what percentage of a Microfinance Institutions employees is focused on activity that generates most of the income of the Microfinance Institutions.	The higher the ratio the more efficient the Microfinance Institutions
Client retention ratio	Number of follow up loans issued (last 12 months)/ Number of loans paid off(last 12 months)	Measures the drop rate of clients. Repeat clients are less expensive to serve than new clients and generate more revenue through larger, longer term loans and the use of multiple services.	The higher the ratio the more efficient the Microfinance Institutions

Source: CGAP and SEEP Network, 2003

Profitability and sustainability are important for a Microfinance Institutions to continue its operations in the future. It makes no difference whether an institution is non–profit or for profit, all Microfinance Institutions strive to achieve sustainability and investors and donors look for those institutions with sustainability potential. The profitability/ sustainability ratios are presented in the following table.

Table 21: Profitability and Sustainability Ratios

Measure	Ratio	Description	Significance
Return on Assets	(Net Operating Income – Taxes) / Average total assets	It measures the net operating income as a percentage of average total assets, in other words, it measures for every ₹ of assets how many ₹ does the MFIs generate	The higher the figure, the more efficient the MFI
Return on Equity	(Net Income – Taxes) / Average Total Equity	It measures the net operating income as a percentage of average total equity or net assets	The higher the figure , the more efficient the MFI
Operational Self Sufficiency (OSS)	Operating Revenue/ (Operating Expenditure + Financial Expenditure + Loan Loss Provision Expense)	It measures the operating revenue as a percentage of operating and financial expenses including loan loss provision expense	If this ratio is greater than 100%, it means that the MFI is covering all of its fixed costs through its own operations and is not relying on contributions to survive.
Financial Self Sufficiency (FSS)	Adjusted Operating Revenue/ (Operating Expenditure + Financial Expenditure + Loan Loss Provision Expense + Expense Adjustments)	It measures the operating revenue as a percentage of operating and financial expenses including loan loss provision expense and inflation and subsidy adjustments	If this ratio is greater than 100% it means that the MFI is covering all of its fixed costs through its own operations and is not relying on contributions to survive.
Profit Margin	Net Operating Income / Operating Revenue	It measures the net operating income as a percentage of total revenue. It shows how much of revenue earned goes to the bottom line, i.e. for every ₹ received as revenue how many ₹ remain after all expenses are paid.	Higher the margin, the more profitable is the MFI.

Source: CGAP and SEEP, 2003

The quality of the loan portfolio is a very significant factor in microfinance and main indicator of portfolio quality is Portfolio at risk (PAR). The other indicators that are commonly used to gauge the health of a portfolio and the degree to which an institution is controlling the risk associated with it are the Risk coverage ratio and the Write off ratio.

Table 22: Portfolio Quality Ratios

MEASURE	RATIO	DESCRIPTION	SIGNIFICANCE
Portfolio at risk (PAR)	Value of outstanding balances of all loans in arrears for 30 days or more/value of loans outstanding	It measures the value of loans at risk against the value of the total loan portfolio. Loans at risk consist of outstanding balances of all loans that are either in arrears of more than 30 days or have been restructured.	Lower PAR indicates good quality of loan portfolio
Risk coverage ratio	Loan loss reserve/value of outstanding balances of all loans in arrears	It measures the capacity of a Microfinance Institutions to absorb losses on loans at risk.	Higher risk coverage ratio indicates good portfolio quality.
Write off ratio	Amount written off/ average gross loan portfolio	It measures actual loan write offs as a percentage of average gross loan portfolio	Lower write off ratio indicates good portfolio quality.

Source: CGAP and SEEP, 2003

The following ratios are used by Microfinance institutions worldwide to assess their ability assets (use of funds) and liabilities (the source of funds)

Table 23: Financial Management Ratios

Measure	Ratio	Description	Significance
Portfolio yield	Cash financial revenue from loan portfolio/ average gross loan portfolio	It measures gross loan portfolio's ability to generate financial revenue from interest, fees and commission	Higher ratio is indicative of efficient financial management
Leverage ratio	Total liabilities/total equity	It measures how much debt a Microfinance Institutions has relative to its equity. It shows how many additional ₹ have been mobilised from commercial sources for every ₹ worth of funds owned by the Microfinance Institutions	A lower ratio indicates efficient financial management
Capital Adequacy	Total Equity/Gross loan portfolio	It is the amount of equity (capital) that a Microfinance Institutions has to support its assets	This ratio determines the amount of borrowings the Microfinance Institutions can avail from banks
Asset Productivity	Gross Loan Portfolio/Total Assets	It measures the efficiency of Microfinance Institutions financial structure.	As loans generate a high rate of financial income, Microfinance Institutions normally maintain a high percentage of their assets in the loan portfolio.
Deposits to Loans	Deposits/Gross Loan Portfolio	It measures how much deposits the Microfinance Institutions have in relation to its gross loan portfolio	It determines the liquidity position of the Microfinance Institutions
Deposits to Total Assets	Deposits/Total Assets	It measures the proportion of deposits in the total assets	It indicates the proportion of total assets that is quickly convertible to cash

Source: CGAP and SEEP, 2003

The key performance indicators for Microfinance Institutions are summed up as follows:

Table 24: Key Performance Indicators

Dimension	**Indicator**
Outreach	• No. of Active Borrowers • Loan Portfolio outstanding • Average loan size/Average Loan Balance
Efficiency and Productivity	• Operating Expense Ratio • Cost per Borrower • Loan Officer Productivity • Personnel Allocation Ratio
Portfolio Quality	• Portfolio at risk (PAR) • Risk coverage ratio • Write-off ratio
Sustainability and Profitability	• Operational Self Sufficiency (OSS) • Financial Self Sufficiency (FSS) • Return on Assets • Return on Equity • Profit Margin
Capital Structure	• Capital Adequacy Ratio • Leverage ratio
Liquidity	• Liquidity Ratio

Source: Microbanking Bulletin and Microfinance information Exchange, 2008-11

These ratios help microfinance institutions in their decision making processes and bring microfinance institutions closer to achieving their mission and vision. These ratios allow comparison with other microfinance institutions and also against international benchmarks for good performance.

Microfinance in India

The Microfinance institutions in India achieved a client outreach of 31.4 million with a gross loan portfolio of ₹207 billion in 2011. During 2009-10, Microfinance Institutions had recorded 18% growth rate in case of client outreach and 56% in case of loan portfolio. In 2010-11, client outreach had grown at about the same rate of 17.6%. However, the growth rate in terms of loan outstanding had been a modest 13.1%. The reversal in growth rates has been the result of high risk perception of loans to Microfinance Institutions banks leading to the liquidity squeeze in the sector.

Table 25: Progress of Microfinance Institutions in India

	2009	2010	Growth rate %	2011	Growth rate %
Customer outreach(million)	22.6	26.7	18.1	31.4	17.6
Outstanding loans (₹ billion)	117.34	183.44	56.7	207.56	13.1

Source: Microfinance India state of sector report 2011

The regional share in client outreach revealed that the southern region in the country was the clear leader. The region had a higher average both in terms of per capita loans as well as share of loan portfolio when compared to client shares.

Table 26: Comparison of Market Share of Different Regions

Region	Share of clients 2009-10 (%)	Share of clients 2010-11 (%)	Share of loans 2009-10 (%)	Share of loans 2010-11 (%)
North	2.1	4.8	4.3	3.7
North East	1.9	3.2	1.8	3.6
East	21.3	17.9	22.5	18.1
Central	9.5	16.7	9.9	14.3
West	14.2	12.1	6.8	11.4
South	51.1	45.3	54.8	48.9

Source: Microfinance India state of sector report 2011

However, in the southern region especially in the State of Andhra Pradesh, the microfinance institutions faced a lot of problems. The problem of multiple lending to customers causing over indebtedness lead to promulgation of the ordinance by the government of Andhra Pradesh to regulate the sector. The microfinance institutions have not found much favour with the banking system of late and banks are reluctant to lend to them. This has hampered their expansion plans and has forced many Microfinance Institutions to rework their operational strategies.

The Table 27 below provides a general idea of the costs involved in servicing micro-credit, which eventually determines the lending rate of interest. A rate of interest between 22 to 26 per cent may perhaps be most reasonable to be accepted.

Table 27: Determinants of interest rate on micro-credit in India (on declining balance)

Description	Annual Percentage Rate (%)
(a) Average Financial Cost of Funds – assuming borrowing at 10-12% but around 70% of on-lending funds comes from borrowings while the rest is from grants or internal generation of surplus or a small amount from "compulsory savings" (or cash collateral)	6-9
(b) Operating Expenses	10-14
(c) Loan Losses	1-2
(d) Desired Capitalization Rate – assuming a 30% growth rate and a capital adequacy ratio of 15%, banks will lend to MFIs if they raise around 4.5% in the form of "own funds" – part internal resource generation (which is this amount) and part equity finance from SIDBI, NABARD and MF equity funds currently in existence and being established	3-4
Annual Effective Interest Rate	22-26

Source: The eleventh five year plan (2007-08 to 2011-12), development policy division, Planning commission, Jan 2007

The sustenance and economic viability of Microfinance Institutions depends on charging cost recovering rates of interest which would be around 21-24%.

Table 28: Interest Rate Schedule

Interest rate schedule for MFIs

Item of cost	Basis of cost	Percentage of
Cost of Funds	SBI Prime Lending Rate	9%
Cost of delivery of credit	Money order charges by government post office	5%
Cost of Collection of payment	Money order charges by government post office	5%
Cost of provisioning for bad debts	As per RBI norms, based on extent of bad debts	1-3%
Profit margins	Minimum required to maintain capital adequacy as per RBI norms	1-2%
Total		21- 24%

Source: The eleventh five year plan (2007-08 to 2011-12), development policy division, Planning commission, Jan 2007

Although micro credit constitutes a very small percentage of total lending, banks can consider cross subsidization through low cost lending to Microfinance Institutions and through lending to low income clients.

Crisis Faced by Microfinance Institutions in Andhra Pradesh

Andhra Pradesh was always considered the microfinance capital of India. The state accounted for more than thirty percent share in the case of all borrowers account and in terms of outstanding loan portfolio. The government sponsored Indira Kranthi Patham (IKP) has been successful in linking more than a million Self Help Groups by the end of the year 2011. Most of the NBFC-Microfinance Institutions have their head quarters in Andhra Pradesh. The rate of growth of Microfinance Institutions in Andhra Pradesh had always been impressive and was competing well with state sponsored Self Help Group bank linkage model. The desire of Microfinance Institutions to grow at all costs neglecting client centered consumer protection and the lack of transparency in operations lead to a crisis in the state in the year 2006. The state government raided and temporarily closed down nearly all the branches of Microfinance Institutions functioning in Krishna district. There were many reasons which caused the crisis. The borrower perception surveys conducted by APMAS a year after the crisis also known as the ‘Krishna survey’ identified the enabling and underlying causes for the crisis.

The key reason for the crisis was the saturation of coastal Andhra with microfinance. There was high coverage of both the government sponsored programme ‘Velugu’ and Microfinance institutions in coastal Andhra leading to multiple membership of borrowers. Besides, a high presence of informal moneylenders who were lending money to people in order to enable them to make payments to Microfinance institutions. The second most important reason was the rapid expansion of bank lending to Microfinance institutions after the year 2003, with the launch of the ICICI Bank’s ‘partnership’ model. According to this model, the Microfinance Institutions provided loan origination, disbursement and collection services for a fee while the bank took the loan directly on its books. This reduced equity requirements for Microfinance Institutions and gave them the freedom to grow and expand their operations. Thirdly, the government’s ‘Pavla Vaddi’ of literally ‘quarter interest rate’ scheme, which derives its name from the fact that the state government stands committed to subsidise whatever excess of interest over 3% the Self Help Groups have to pay to the banks for the linkage loans was cheaper than the scheme of Microfinance Institutions. The subsidy scheme of Pavla Vaddi was transparent with prompt repayment by the Self Help Groups as a precondition to avail the benefit under the scheme. The Microfinance Institutions were charging much higher interest rates and were lending to the same set of people belonging to the groups developed and nurtured under the government scheme. This led to clash of interest and the government felt that by promising doorstep disbursement and collection in weekly installments the poor people were being subject to usurious rates of interest leading to over indebtedness.

The Microfinance Institutions operating in the state were focusing on greater outreach and profitability and lost vision of the social cause and were pursuing a financial mission. The exorbitant interest coupled with coercive collection practices led to some of the borrowers committing suicide. Microfinance Institutions were dumping money on borrowers who were finding it difficult to repay and were borrowing from money lenders to repay the loans from the Microfinance Institutions. The Self Help Group model suffered from the problem of inadequate loan size leading to borrowers dependence on Microfinance Institutions. The aspiration of Microfinance Institutions to grow at any cost upset the political system in the state as these Microfinance Institutions were becoming stronger as they were able to distribute more funds to poor people than what the politicians themselves could in their respective constituencies. All these reasons led to the clampdown on Microfinance Institutions in 2006 as the state government stepped to protect its own model of microfinance.

The crisis of 2006 resulted in some positive development for the microfinance sector. It leads to reduction of rates of interest by Microfinance Institutions and also the development of the code of conduct for Microfinance Institutions by Sa-dhan

A similar crisis revisited the microfinance sector in the state in October 2010 leading to the promulgation of an ordinance by the state government. The microfinance sector was registering an impressive growth between 2008 and 2010. However, unhealthy competitions among the Microfinance Institutions lead to many Microfinance Institutions chasing the same set of customers several times. The overall numbers (number of members borrowing from Self Help Groups and Microfinance Institutions) in Andhra Pradesh as at the end of March 2010 revealed the number of loan accounts per poor household was more than 10. The average outstanding loans of Self Help Groups with banks and customers with Microfinance Institutions was more than ₹67000 in March 2010 and this increased to ₹71000 by March 2011. (Microfinance India state of sector report 2011). A study by the centre for microfinance in 2009 stated that in Andhra Pradesh 93% of the households had contracted debt from some source and 82% of households reported loans from the informal sector. The households in the state were slowly moving towards a saturation point in terms of borrowing due to competitive lending by Microfinance Institutions and high level of lending to Self Help Groups by banks.

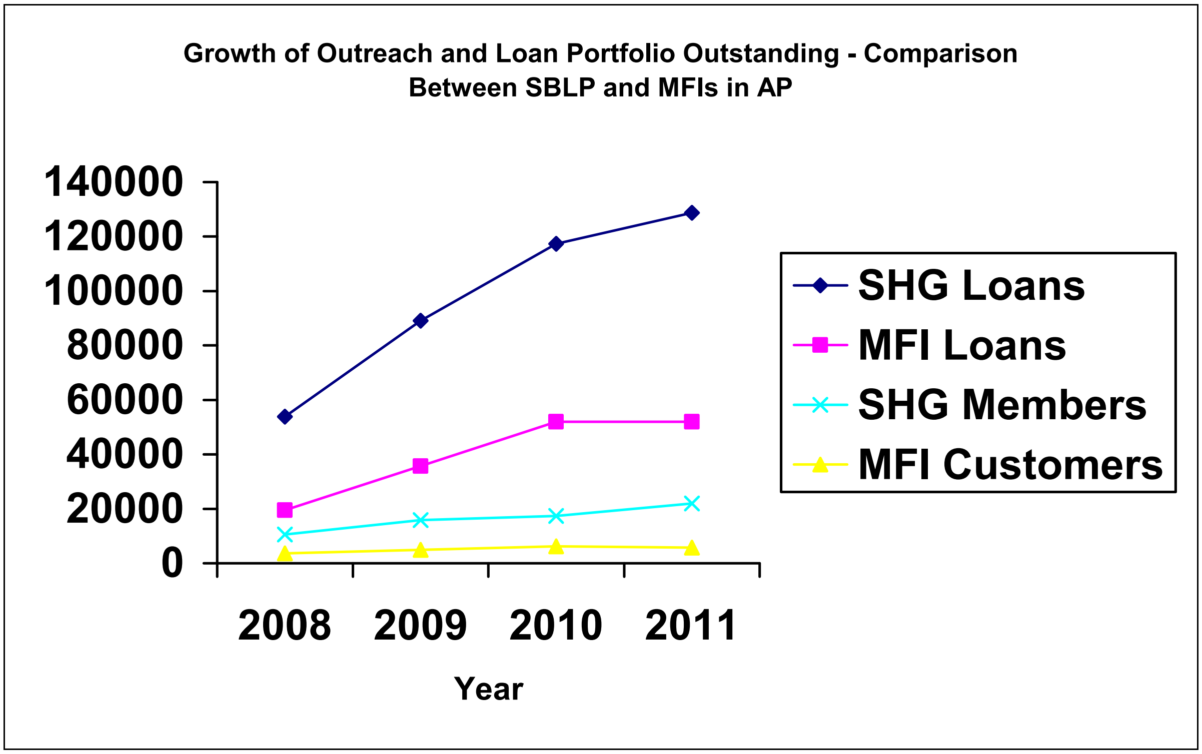
Table 29: Progress of Microfinance Sector in Andhra Pradesh from 2008-11

	2008	**2009**	**2010**	**2011**
Self Help Group loans (₹ million)	53,857	89,021	117,395	128,694
Microfinance Institutions loans (₹ million)	19,445	35,652	52,017	52,045
Self Help Group members	10,506,639	15,819,427	17,310,000	21,891,909
Microfinance Institutions customers	3,635,115	4,949,393	6,244,648	5,751,000
Total MF clients	14,141,754	20,768,810	23,554,648	27,642,909
Total number of poor households	2,52,0000	2,52,0000	2,52,0000	2,52,0000
Average loan (₹) per account	5183	6002	7193	7982
Average loan (₹) per poor household	29,088	49,473	67,226	71,721
No of loan accounts per poor household	5.6	8.2	9.3	10.9

Source: Microfinance India state of sector report 2011

From the table 29, it is quite evident that the overall growth in outstanding loans of Self Help Groups and Microfinance Institutions was increasing astronomically in the state.

Fig 10: Comparison between Outreach and Loan Portfolio Outstanding



Source: Microfinance India state of sector report 2011

Another event that brought the sector under the media was the successful public issue by SKS Microfinance Limited. The public issue was made at a premium of 98 times the face value of the shares. The original investors in equity of SKS through private placement were able to cash out a part of their holdings. Changes in governance level of Key Microfinance Institutions, removal of a high profile CEO, aspiration of other Microfinance Institutions to overvalue their IPOs, unethical field practices, exposure of high interest rates and profiteering at the cost of the underprivileged sections of the society brought the sector under immense media scrutiny.

The state government sponsored IKP programme with a subsidized interest rate to Self Help Groups did not see much growth in loan portfolio when compared to loan portfolio of Microfinance Institutions which charged exorbitant interest rates ranging from 24-55% in the state. The default rates of Microfinance Institutions loans were much lower when compared to loans under the government scheme and the portfolio at risk (PAR) of Microfinance Institutions was less than 1%. The Self Help Group bank linkage programme started reporting higher default rates and this did not go well with the state government. Besides, the coercive recovery practices followed by the Microfinance Institutions in the state lead to some suicides by borrowers. This forced the state government to intervene by bringing about an ordinance in October 2010 to protect the members of Self Help Groups from being exploited by the private microfinance institutions. Within two months, the ordinance was duly passed as a law by the state legislature.

The Ordinance resulted in setting up of a regulatory framework for microfinance institutions in the state. The regulatory framework provided for

- Control over acquisition of clients
- The number and extent of loans that could be provided by Microfinance Institutions
- Rate of interest
- Terms of repayment
- The places where the customer could be met to transact business especially recovery.
- The Microfinance Institutions should seek prior permission from the state government official at the district level before lending to any member of a Self Help Group.

In February 2011, the state issued a clarification to its law by stating that any member of a household in which there is at least one person who is a Self Help Group member should not be provided loan by a Microfinance Institutions except in accordance with the law. The Microfinance Institutions in the state initially resisted the government's directive but later on turned compliant when they started facing dire consequences.

The Ordinance prevented Microfinance Institutions from holding cluster meetings of their borrowers and this resulted in their inability to recover their loans. The recovery rate fell from 99% to 10%. Despite requests to borrowers, Microfinance Institutions could not enforce payments from customers and this resulted in bringing operations of microfinance institutions in the state to a grinding halt. The state government indicated that it might allow Microfinance Institutions to recover their loans if they waived the interest due from the customers. However the success of this initiative seems a remote possibility.

The regulation resulted in increasing the amount of outstanding loans in the hands of ten large Microfinance Institutions to about ₹108.90 billion. Banks and Financial institutions which had lent to these Microfinance Institutions also started feeling the pressure as a result of the crisis. The state government on its part stated that its bank linkage programme with Self Help Groups will make up for the fall in credit flow. The stoppage of credit flow from Microfinance Institutions leads to borrowers seeking loans from money lenders.

Some Microfinance Institutions opted for debt restructuring scheme offered by banks. Those Microfinance Institutions with a high portfolio concentration in Andhra Pradesh started restructuring their expansion plans in the state, reduced their staff and as funding became problematic reduced their disbursements.

The Reserve Bank of India appointed the Malegam Committee in October 2010 to examine the regulatory issues arising from the Andhra Pradesh government's ordinance. The Malegam committee recommended the following initiatives in the microfinance sector:

- Creation of separate category of NBFC-Microfinance Institutions
- A margin cap and an interest cap on individual loans.
- Transparency in interest charges
- Lending by not more than two Microfinance Institutions to any individual borrower
- Creation of one more credit information bureaus
- Establishment of a proper system of grievance redressal procedure by Microfinance Institutions
- Creation of one or more 'social capital funds'
- Continuation of categorization of bank loans to Microfinance Institutions, complying with regulation laid down for NBFC-Microfinance Institutions under the priority sector.

Table 30: Comparison of Malegam Committee Recommendations and RBI Regulation

Aspects	Malegam Committee Recommendation	RBI regulation
Basis of regulation	Creation of a separate category of Microfinance Institutions and use priority sector lending norms	Accepted
Prudential requirements	Capital standards to be imposed	Not mentioned
Market conduct	Centralized place for transacting business	Not mentioned
Income limit for eligible borrowers from Microfinance Institutions	₹ 50,000 household income for all	Rural: ₹60000 Urban: ₹120,000
Loan amount(maximum)	₹25000	First cycle : ₹ 35000 ₹ 50000
Indebtedness of borrower	₹25000(max)	₹50000(max)
Tenure	Minimum 75% of Microfinance Institutions portfolio for income generation	Same
Repayment frequency	Weekly, fortnightly or monthly at the choice of the borrower	Same
Pricing cap	Interest cap 24%, margin cap 10% and 12% for large and small Microfinance Institutions + processing fees, 1%	Interest cap 26%, margin cap 12% + processing fee, 1%
Collateral and group mechanisms.	No collateral, group loans only	No collateral, individual as well as Self Help Groups and joint liability groups(JLGs)

Source: Microfinance India state of sector report 2011

The government of India is proposing new draft microfinance legislation in the current session of the parliament. The Andhra Pradesh statute was in some ways responsible for this action of the central government. The new bill has been drafted after taking into consideration the representation of all stakeholders and seeks to regulate the microfinance sector in customer's interest and also avoid a number of microfinance legislations in different states.

The new bill includes features such as

- Registration of every institution in microfinance with the regulator
- Transformation into a company when they grow in size
- Will be subjected to operational guidelines introduced by the regulator
- Provide periodical information to the regulator and face penal action in case of non compliance.
- Provides flexibility of RBI to apply different measures, vary the same and delegate powers of regulation to NABARD.
- Provide for grievance redressal procedures, mandatory enrolment to credit bureaus and code of conduct enforcement through industry associations leading to improved consumer protection
- Creation of state and national level councils leading to participation in policy making.
- Microfinance fund which will provide grants and bulk finance to Microfinance Institutions

Source: Microfinance India state of sector report 2011

The proposed bill hopes to address many problems faced by the sector and may help in averting another crisis from unfolding in the Microfinance sector.

Part B: Credit Risk in Microfinance

The business of microfinance is a risky proposition. A risk is the possibility of "suffering from harm or loss". Microfinance Institutions lend money to low income clients often without collateral and are exposed to the risk of the borrowers not repaying their loan.

The major categories of risk faced by microfinance institutions are

- Institutional risks
- Operational risks
- Financial management risks
- External risks

Institutional risks are

1. Social mission risk: Microfinance Institutions usually have a social mission and a commercial mission .Their social mission is to improve welfare of the poor by providing value added financial services. Microfinance Institutions are prone to social mission risk if they don't have clearly defined target market and monitoring mechanism which will ensure delivery of appropriate financial services to their clients.
2. Commercial mission risk: The commercial mission of Microfinance Institutions is sustainability in the long run .This is also called the risk of bankruptcy and they are exposed to this risk when they do not charge cost recovering interest rates and their capital is insufficient to cover losses arising from risk exposures. There is always a clash between social and commercial mission.
3. Dependency risk: Microfinance Institutions started and supported by international organizations are dependent on donor support and a drop in this will affect their long term existence.
4. Strategic risk: These stem from introduction of inappropriate products, poor leadership, ineffective governance practices.
5. Reputation risk: arises from the prospect of losing value due to negative public opinion

Operational Risks

1. Credit risk: this is the risk that Microfinance Institutions may not receive its money back from its borrowers.
2. Staff fraud: any organization that handles large volumes of money is extremely vulnerable to staff fraud.
3. Security risk: is faced by Microfinance Institutions which operate in environments where crime is prevalent.
4. Personnel risk: arises when staffs are demotivated and the turnover of staff is high.

Financial management risks

1. Asset and liability risk: The assets and liabilities of Microfinance Institutions determine its financial position. **Interest rate risk** arises when terms and interest rates of assets and liabilities are mismatched. **Liquidity risks** arise when Microfinance Institutions have to borrow short term funds at expensive rates to finance their loan disbursement requirements, bill payments or debt repayments. **Foreign exchange risk** arises for Microfinance Institutions when they have to repay loans in foreign currency for which they are earning revenue in the local currency.
2. System integrity risk: arises when a Microfinance Institutions has inefficient information system, accounting and portfolio management systems.
3. Inefficiency: Efficiency remains one of the greatest challenges for microfinance institutions .It reflects the ability of the Microfinance Institutions to manage cost per unit of output and is affected by cost control and level of outreach.

External risks: These are caused by the regulatory environment in which the Microfinance Institutions operate, the degree of competition, the macroeconomic environment of the country, changes in demographics, adverse political climate.

Among these risks the most significant is the credit risk. As micro loans are mostly unsecured, delinquency can spread from a few loans to a significant portion of the portfolio. Volatility in a micro loan portfolio quality increases the importance of controlling credit risk.

According to Microfinance Banana Skins 2011, report which summarizes the risks facing the microfinance industry as seen by an international sample of practitioners, investors, regulators and Observers, credit risk is the most important among the risks faced by the microfinance industry.

The risk perceptions of investors in microfinance have changed sharply over the years. Investors concerns were linked to the impact of the financial crisis: credit risk, funding, liquidity and the state of the global economy.

Concern with credit risk remains high, but most of the other risks are linked to microfinance's tarnished image and issues of institutional strength. There are major concerns about the reputation of the industry and allegations that the focus on social mission is fast declining, bad regulation political interference, about the strength of management and corporate governance, all of which are key factors that affect the quality of the business. Microfinance will not be able to create the desired economic value add to low income clients if it lead to over indebtedness amongst them.

An industry which once had an enviable loan repayment record, as its strength is now faced with Credit risk as a key concern. This is mainly due to competitive pressures, recklessness among Microfinance Institutions and their borrowers and of interference in the credit process by political forces. The Banana skin survey of 2011 reported that concern about credit risk was present among all types of respondents except regulators who ranked as the next most important risk. Geographically it was a high level risk in all regions, suggesting that similar forces are endangering microfinance loan portfolios in many different markets. The problem of over indebtedness among borrowers is worrying and poor people are accumulating more debts than what they can repay.

Microfinance Institutions which have focused only on aggressive growth to generate profits have neglected client ability to repay and this is a major cause for the present crisis in states like Andhra Pradesh.

Credit Risk Management

Credit risk management can be divided into preventive steps the lender takes before issuing a loan and the use of incentives and disincentives after loans have been disbursed to extract timely repayment. Before issuing a loan a lender reduces credit risk through controls that reduce potential for delinquency or loss, such as loan product design or screening. After the loan issued, a lenders risk management expands from controls that reduce the potential for loss to controls that reduce actual losses.

Prevention of credit risk involves

- Loan product design
- Client screening
- Role of credit committees

Loan product design – In order to mitigate risk of default, Microfinance Institutions need to design loan products that meet client needs. Loan products should be designed to address the specific purpose for which the loan is intended. To minimize credit risk loan products need include the following features.

1. Eligibility: Microfinance Institutions can decide on which lenders are eligible to borrow. Some Microfinance Institutions prefer lending only to women as they perceive the risk of default to be lower.
2. Interest rate and fees: Riskier borrowers are usually charged higher fees and interest
3. Term: Shorter loans are generally less riskier than loans over long periods of time.
4. Repayment frequency: More frequent repayments are considered to be less risky as continuous monitoring is possible.
5. Installment amount: Designing repayment amount keeping mind borrowers expected cash flows will reduce risk of default.
6. Collateral and collateral substitutes: Microfinance Institutions use a wide variety of means for securing loans such as group guarantees, co signers, non-traditional collateral such as business equipment, household appliances and livestock. Loans secured by collaterals generally reduce the risk.
7. When new clients borrow loans, Microfinance Institutions usually advance loans which are small in size, for short terms and with frequent repayment periods. When the client establishes a good credit history, the Microfinance Institutions increases the flexibility in loan terms. They try to bring a balance between risk and control.

Client screening: Limiting credit risk involves screening of clients in order to ensure that they have the willingness and ability to pay. While analyzing client credit worthiness, Microfinance Institutions typically use the five C's summarized in the following table.

Table 31: The Five C's of Client Screening

Character	An indication of the applicants willingness to repay and ability to run the enterprise
Capacity	Whether the cash flow of the business or household can service loan repayments
Capital	More assets than liabilities in the business or household
Collateral	Access to an asset that the applicant is ready to cede in case of nonpayment or a guarantee by a respected person to repay incase of default
Condition	A business plan that considers the level of competition and the market for the product or service and legal or economic environment

Source: Making Microfinance Work: Managing for Improved Performance – Craig Churchill and Cheryl Frankienwicz

The five C's are important to all lending institutions. The relative importance of each depends on the lending methodology, the loan size and whether it is a new customer or a repeat customer.

Credit committees: Microfinance Institutions need to have credit committees which are responsible for approving loans and monitoring their progress. They need to have written policies about the loans and responsibilities of credit committees that clearly identify their loan approval authority. This reduces the risk of loans being inappropriately approved.

Control of Credit Risk

Loan product design, client screening, and credit committees prevent credit risk to a certain extent. However, to minimize losses Microfinance Institutions needs to develop appropriate delinquency management systems and monitor portfolio quality.

Delinquency Management: This involves designing the following strategies

- Institutional culture: A critical delinquency management technique involves cultivating an institutional culture that embraces zero tolerance of arrears and prompt follow up of all late payments.
- Client orientation: The institutional culture has to be communicated to clients and they have to be oriented to understand the loan products and services of the Microfinance Institutions.
- Staff incentives: financial and non-financial incentives do motivate staff of Microfinance Institutions in ensuring prompt repayment from clients.
- Client incentives: The primary reason clients repay their loans is to access another loan Client incentives include lower rates of interest, faster loan approvals, and access to parallel credit products such as seasonal loans.
- Delinquency penalties: include refusal of repeat loans to defaulting clients, penal rates of interest.
- Enforcing contracts: Microfinance Institutions need to enforce their contracts with clients so that they do not lose control of their loan portfolios. This becomes possible when clients are oriented to penalties and delinquency procedures.

Credit Risk Monitoring

This involves monitoring of loan portfolios at frequent intervals. The following portfolio quality ratios help in monitoring credit risk

- Portfolio at risk (PAR) : helps to monitor portfolio quality

  PAR = Value of outstanding balances of all loans in arrears/ value of loans outstanding

- Loan loss rate: indicates the extent of loans unrecoverable over the last period.

  Loan loss rate = (Write-offs – Value of loans recovered)/ average Gross Loan Portfolio

- Risk Coverage Ratio: indicates capacity of the Microfinance Institution to absorb losses

  Risk Coverage Ratio = impairment loss allowance/ PAR>30 days

- Average Outstanding Balance: indicates the ratio of gross loan portfolio to number of loans outstanding

  Average Outstanding Balance = Gross Loan Portfolio/ Number of loans outstanding (in USD)

Source: Microfinance Information Exchange (MIX) Market Data

Although credit risk management and control are extremely important for the successful practice of microfinance, the degree to which they are practiced by Microfinance Institutions assumes a great deal of significance especially when the sector is faced with the situation of a clamp down in the state of Andhra Pradesh. If Delinquency management strategies were implemented with an appropriate scale in mind in terms of client welfare, it would not have led to borrower suicides in Andhra Pradesh. The greed of profiteering and growth by Microfinance Institutions at the cost of the poor and lack of vision in the design and delivery of credit products based on the clients ability to pay coupled with political interference has lead to the sorry state of affairs faced by the sector. The time has come when Microfinance Institutions have to do a rethink on their credit risk management practices by striking a balance between their social mission and their commercial goals in order to be successful providers of credit to low income clients.

CHAPTER - 4

Review of Literature

CHAPTER - 4

Review of Literature

Chapter 4 focuses on review of literature which presents findings of the various researchers under sub-headings. Keeping in line the objectives of the present study, the review of current literature in microfinance is presented in three parts – (a) SHG outreach and impact (b) commercial banks in microfinance – their role and competing landscape (c) micro credit as a means of socio economic empowerment.

(a) Self Help Groups (SHGs) Outreach and Impact

Various studies have been conducted highlighting the importance and use of credit particularly in rural areas. These studies look into the problems of over dues and the causes for poor recovery. Interestingly, several studies have been conducted by social scientists, financial institutions and agencies, which highlight the positive trends and impact of Self Help Groups on empowerment, credit accessibility and the social change.

Andersen and Nina (1998) identified that there are several advantages of the group lending setup. It was found that borrowers themselves undertook the task of credit evaluation which created a peer screening effect and reduces the transaction costs as community members had much better information than banks and the peer monitoring effect induces group members to use their loans in productive ways.

Stiglitz (1990), Varain (1990), and Banerjee and Newman (1994) have developed models that illustrate the working of the peer monitoring effect and the desire to preserve valuable social ties that induces borrowers to spend extra effort if necessary to secure timely payments. Nanda (2000) identified that state intervention considerably improved the outreach of the banking system and expanded rural credit.

Nagayya (2000) maintains that an informal arrangement for credit supply to the poor through Self Help Groups is fast emerging as a promising tool for promoting income-generating enterprises. He has reviewed the initiatives taken at the national level with a view of institutional arrangements to support this programme for alleviation of poverty among the poor, with focus on women. He called for an imperative need to enlarge the coverage of Self Help Groups in advance portfolio of banks as part of their corporate strategy, to recognize perceived benefits of Self Help Groups financing in terms of reduced default risk and transaction costs.

Ahmad (1999) through a case study on Thrift Groups in Assam highlighted that women are coming to the administration directly for their just rights and to address their grievances boldly. It proved that Self Help Groups are successful in North East India even in the midst of insurgency. Similarly Gurumoorthy (2000) maintained that Self Help Group is a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes.

Self Help Group is a viable organizational setup to disburse micro credit to the rural women for the purpose of making them entrepreneur and encouraging them to enter into entrepreneurial activities. Credit needs of the rural women can be fulfilled wholesomely through the Self Help Groups.

The women led Self Help Groups have successfully demonstrated how to mobilize and manage thrift, appraise credit needs, maintain linkages with the banks and enforce financial self discipline. Self Help Groups enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic and social and cultural spheres of life. They encourage women to take active part in the socio-economic progress of the society.

Bhatia and Bhatia (2000) through few case studies highlighted that recovery of Self Help Groups is higher than other credit extended to borrowers. Moreover, involvement of Self Help Groups had helped the bank branches in recovery of old dues. They observed that there have been perceptible changes in the living standards of the Self Help Groups members, in terms of ownership of assets, increase in savings and borrowing capacity, income generating activities and income levels as well.

V.M. Rao (2002) maintain that a review of the genesis and development of Self Help Groups in India reveals that the existing formal financial institutions have failed to provide finances to landless, marginalized and disadvantaged groups. The origin of Self Help Groups could be treated to mutual aid in Indian village community. Self Help Groups encourage savings and promote income generating activities through small loans. The experience available in the country and elsewhere suggests that Self Help

Groups are sustainable to have replicability, stimulate savings, and in the process help borrower to come out of vicious circle of poverty.

Rakesh Malhotra (2000) in his study of 174 women beneficiaries, in Rae Bareilly of the state of Uttar Pradesh, drawn and covered randomly from four formal agencies of credit i.e. Commercial Banks, Regional Rural Banks, Primary Agriculture Credit Societies, and Agricultural Rural Development Banks revealed that less than half a per cent of female population against 3.5% of male population in the study area were clients of the banks. Furthermore, only 7.64% of the total number of cases financed and only 6.96% of the total quantum of credit extended by RFI's have gone to women. It was observed that 83% of loan cases availed by women; male members were primarily responsible for the end use of credit.

Puhazhendhi (1999) analyzed the functioning of Self Help Groups, in performance, sustainability, empowerment of women, economic impact on the members, future potentials etc. He observed that Self Help Groups in Tamil Nadu are performing well towards social change and transformation. The emerging trends are leading to positive direction of empowerment of members and promotion of micro finance.

Putnam (2000) in his studies found that Self-help groups have facilitated the formation of social capital, where people learn to work together for a common purpose in a group or organization.

From a village level investigation of Bangladesh's Grameen Bank Larence, (2001) that centre meeting norms enable women to establish individual identities and the group interaction at regular center meetings facilitate collective identity.

Dasgupta (2000) in his paper on informal journey through Self Help Groups observed that micro-financing through informal group approach has effected quite a few benefits viz.: (i) savings mobilized by the poor; (ii) access to the required amount of appropriate credit by the poor; (iii) matching the demand and supply of credit structure and opening new market for Financial Institutions; (iv) reduction in transaction cost for both lenders and borrowers; (v) tremendous improvement in recovery; (vi) heralding a new realization of subsidyless and corruptionless credit, and (vii) remarkable empowerment of poor women. He stressed that Self Help Groups should be considered as one of the best means to counter social and financial citizenship not as an end in itself.

Datta and Raman (2000) highlighted that Self Help Groups are characterized by heterogeneity in terms of social and economic indicators. The success of Self Help Groups in terms of high repayment is mostly related to the exploitation of prevailing social ties and cohesion found among women members. Social cohesiveness among members spring not only from their diverse background of knowledge base, skills occupations and income levels, but also due to the dynamic incentive system of progressive lending to the groups on the successful completion of loan repayment. However, Self Help Groups are heavily dependent on external financial agencies for their lending operations.

Satish (2001) in his paper raised certain issues related to the functioning of Self Help Groups. He suggested that adequate care should be taken to ensure homogeneity of socio-economic status of the members, while forming Self Help Groups. The process of Self Help Group formation has to be systematic whether a Bank or an NGO forms it. He emphasized that Self Help Groups experiment has to be spread throughout rural India rather than being concentrated in a few pockets of the country. NGO's are more suited for forming and nurturing of the Self Help Groups, and therefore, it is essential to strengthen them and their resources so that they should increasingly undertake this work.

Barbara and Mahanta (2001) in their paper maintained that the Self Help Groups have helped to set up a number of micro-enterprises for income generation. Rastriya Gramin Vikas Nidhi's credit and saving programme in Assam has been found successful as its focus is exclusively on the rural poor. It adopted a credit delivery system designed specially for them with the support of a specially trained staff and a supportive policy with no political intervention at any stage in the implementation of the programme.

Puhazhendhi and Satyasai (2001) in their paper attempted to evaluate the performance of Self Help Groups with special reference to social and economic empowerment. The findings of the study revealed that the Self Help Groups as institutional arrangement could positively contribute to the economic and social empowerment of rural poor and the impact on the later was more pronounced than on the former.

Adam Ross and Paula Savanti (2005) examine how joint liability works in practice by directly interviewing clients of microfinance institutions throughout two states of India.

Through these interviews, they examined how groups screen their members, monitor behaviors and investments, and enforce repayment. The findings were analyzed in reference to the predictions from the extensive literature written on the subject of joint liability.

Savita Sankhar (2006) conducted a research on transaction costs of group micro credit in India and their affect on lending interest rates. During this analysis, focus was on the three key types of costs that a lending institution incurs when it provides a loan namely the cost of the money that it lends the cost of prudent financial practices such as provisioning for loan defaults; and the cost of transaction.

Manimekalai and Rajeshwari (2001) in their paper highlighted that the provision of micro-finance by the NGO's to women Self Help Groups has helped the groups to achieve a measure of economic and social empowerment. It has developed a sense of leadership, organizational skill, management of various activities of a business, right from acquiring finance, identifying raw material, market and suitable diversification and modernization.

Similarly, Sharma (2001) maintained that through Self Help Groups women empowerment is taking place. Their participation in the economic activities and decision-making at the household and society level is increasing and making the process of rural development participatory, democratic, sustainable and independent of subsidy, thus, macro-financing through Self Help Groups is contributing to the development of rural people in a meaningful manner.

Singh (2001) in his study in Uttar Pradesh highlighted that the Self Help Groups is now functioning in the place of moneylenders because loan could be taken at any time as and when needed for any purpose. There are no formalities involved and the transaction cost is low.

Mishra (2001) have attempted to study the size, composition, characteristics of rural self help groups, to examine their functions and the impact on generation of income and employment, to identify the major constrains and problems of the group and suggest measures for overcoming these problems. They suggested that the banks and other financial institutions and state government should come forward to help the rural poor through the Self Help Groups and provide liberalized credit facilities at cheaper rates of interest.

The above studies simply demonstrate that Self Help Groups are playing a vital role in extending micro-finance to the rural poor. The functioning of Self Help Groups has been based on participatory mechanism and therefore the impacts of Self Help Groups on its members in terms of empowerment, accessibility to credit, socio-economic change etc. has been found positive.

Several studies have also been undertaken relating to the working of Self Help Groups in India. The Self Help Group movement has witnessed tremendous growth that brought about one of the world's largest and fastest-growing networks for micro-finance. In 2007, some 40 million households were organized in more than 2.8 million Self Help Groups that borrowed more than US$1 billion of credit from banks in 2006/7 alone (Reserve Bank of India 2008).

Cumulative credit disbursed to Self Help Groups amounted to some USD 4.5 billion (or about 10% of total rural credit) in India (Garikipati, 2008). Ahlin and Jiang (2008) identified that India's Self Help Group movement has many of the elements, such as "saver graduation" and a built-in tendency towards membership expansion, that have been identified as key to make micro-finance sustainable. Indeed, a large and growing literature discusses Self Help Groups' evolution, their role in the broader financial system (Basu and Srivastava 2005, Sinha 2006, Shah (2007) and recent innovative practices (Nair, 2005). Despite considerable interest in promoting Self Help Groups that spawned many tools to help with implementation, evidence on economic impacts has been very limited.

Lucie Gadenne and Veena Vasudevan (2007) studied the credit behaviour of Self-help group (Self Help Group) members over time. The authors find that surveyed Self Help Group members use their loans for consumption purposes, indicating Self Help Group livelihood may not be effective in inducing members to spend more of their loans on productive assets. They found that members value the saving component of Self Help Group membership, but at the same time, continue to use alternative savings options such as banks and chit funds.

A survey in one of the first Self Help Group-districts finds that, at a qualitative level, Self Help Groups helped reduce vulnerability to drought, encouraged entrepreneurial behavior and livelihood diversification, and improved social capital (Garikipati, 2008). Positive empowerment impacts on Self Help Group participants are also found from a larger five-state sample (Swain and Wallentin, 2008). Studies of the Andhra Pradesh project considered here support the general conclusion of a significant and positive impact on social empowerment but are less clear on economic impacts. One study concludes that, while the project had a positive impact on risk coping, some aspects of female empowerment, and non-food expenditure, a lasting impact on livelihood activities is unlikely (Lastarria-Cornhiel and Shimamura 2008). Similarly, after three years of implementation, Self Help Group participants had improved their nutrition and social empowerment but there were no significant impact on economic outcomes such as income or asset accumulation (Deininger and Liu 2009).

Studies by Feigenberg, Field and Pande (2011) with regard to the experimental variation in the frequency of repayment meetings across first time micro-finance borrower groups show that more frequent interaction among group members builds social capital and improves their financial outcomes. They measured social capital using a lottery which they designed to elicit social preferences in a field setting. They found that Lottery participants who belonged to groups which met more frequently exhibited greater cooperation when offered the choice of adding other group members to the lottery. It was found that microfinance clients who met more frequently were less likely to default in subsequent loan cycles.

Jeremy Shapiro (2010) in his study of members of a microfinance cooperative in Ahmedabad established that individuals are more patient when making savings choices for others or in groups. Also consistent with this model, he finds that the effect is pronounced in larger groups.

Commercial Banks and the Competitive Landscape

Studies on the role of commercial banks in microfinance by Baydas, Douglas, Liza Valenzuela (1997) were supported by U.S. Agency for International Development. The studies were concerned about the means banks need to expand services to micro enterprises on a sustainable basis. These studies revealed that banks had to find a cost–effective organizational form to serve the microfinance clientele and also develop appropriate governance structure for former financial NGOs evolving into banks. Rhyne and Christen (1999) proved that commercial banks have competitive advantages as compared to other players in microfinance Bolivia, Chile, Paraguay, Bangladesh and Uganda.

Bell, Harper and Mandivenga (2002) undertook a study of two commercial banks in Zimbabwe and Kenya that made a decision to start microfinance operations. They were able to establish that these banks relied heavily on donor funded technical assistance to overcome resistance and obstacles in their microfinance operations. Bindu Ananth (2005) in her study on financing Microfinance established that capital constraint is an issue impeding scaling up of microfinance in India. Based on an analysis of traditional financing models and ICICI Bank's experience in India, she analysed the 'partnership model' of financing microfinance institutions (Microfinance Institutions). This model is unique in that it combines both debt as well as mezzanine finance to the Microfinance Institution in a manner that lets it increase outreach rapidly, while unlocking large amounts of wholesale funds available in the Indian commercial banking sector.

Economists have written extensively on the tradeoffs that result from the combination of (i) customers' lack of assets which can serve as collateral (ii) banks' lack of cost-effective monitoring and information gathering mechanisms. The combination has spawned much interesting work on the theory of contracts (Armendáriz and Morduch, 2010), particularly in the context of lending. While important, the focus ignores a broader set of challenges given by high transactions costs. These costs are of limited theoretical interest, but they can make all the difference to how the banks function and who they serve - and whether banks are even viable. Bauchet and Morduch (2010) analyze differences between the MIX dataset and the larger database of the Micro credit Summit Campaign, a microfinance advocacy organization that promotes social change.

Cull (2009) observed that commercial banks initially were deterred from entering the microfinance niche by the small scale of the transactions that define it, but that the commercialization of microfinance has started to change that mindset. A growing number of commercial banks are downscaling their operations, opening up services to poorer segments of the population, and competition is emerging as a result. Increased competition could change the industry in a number of ways, some for the better and others less favorably. There are plausible explanations for both a positive and negative relationship. If microfinance institutions facing greater competition from commercial banks attempt to compensate by shifting their loan portfolios away from segments of the population that are perceived as being more costly to serve – i.e. the relatively poor and women–competition may hinder outreach. However, competition could support the financial self-sufficiency of micro banks if the benefits of agglomeration effects and a stronger regulatory environment outweigh negative spillovers, and could lead to deeper outreach. Greater competition, as indicated by greater bank penetration in the overall economy, is associated with deeper outreach by the microfinance institutions, suggesting that competition pushes micro banks toward poorer markets, as reflected by smaller average loans sizes and greater outreach to women

Sudipto Basu's (2005) study on securitization and the challenges faced in microfinance discusses a key shift in commercial banks' lending approach, from lending to an entire organisation to lending against specific assets. In addition, this paper details the benefits of this new approach and explains key concepts involved in the lending paradigm shift.

Erica Field and Rohini Pande (2007) in their study found that in stark contrast to bank debt contracts, most microfinance contracts require that repayments start nearly immediately after loan disbursement and occur weekly thereafter. Even though economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity, microfinance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default. They evidence used from Microfinance Institution client behavior in West Bengal, shows that changing repayment schedules from weekly to monthly does not affect default or client retention rates.

Karuna (2007) in her study on competition in microfinance found that increased microfinance competition has brought with it a number of positives. It has also led to concerns about unethical competitive practices, reckless lending by Microfinance Institutions without suitable assessment of clients' credit absorption capacities and multiple memberships leading to over-indebtedness and defaults. The analysis, estimated the extent of multiple borrowing between Microfinance Institution clients in a competitive state in India, and found that multiple borrowers equal or better repayment records than their single borrowing peers in the same villages.

When analyzing competition between microfinance institutions, Armendariz and Morduch (2010) argue that competition can undermine the "dynamic incentives" that are so critical to achieving high loan repayment rates – i.e. customers may be less willing to repay loans if they know that other reliable loan sources are available.

Studies by Xavier Gine and Dean Karlan (2011) showed that change from group liability to individual liability did not affect the loan repayment and in fact banks saw an increase in outreach as more customers attracted by the individual liability option sought loans from the banks.

In an ongoing research study (2011-12) in Ghana, Dean Karlan, Edward Kutsoati, Margaret Mcconnell, Margaret Mcmillan and Christopher Udri found that when clients of a rural bank in Eastern Ghana were asked about their saving goals, and some were given the opportunity to open separate parallel savings account labeled education, business, housing, they found that accounts labeled education had a higher percentage of savings than others proving that banks are playing a vital role in promotion of micro savings thereby leading to borrower welfare.

Apart from Banks financing Microfinance institutions, many Microfinance institutions have started obtaining equity financing. Michael Chasnow and Doug Johnson (2010) have researched the recent rise in equity investment in Indian microfinance and describe the process of obtaining equity financing and working with investors in detail. They also describe two new alternative methods of financing for Microfinance Institutions – portfolio buyouts and securitisation.

Micro Credit and Socio Economic Empowerment

The review of literature on micro-credit provides an understanding on how it has enabled delivery of financial services at a scale through appropriate mechanisms thereby reaching out to the poor. According to Yunus, Muhammad (1999) "Microcredit views each person as a potential entrepreneur and turns on the tiny economic engines of a rejected portion of society."

Fisher and Sriram, (2002) in their research suggested that micro-credit can be successful when it combines outreach and sustainability. The micro credit movement has brought about women's empowerment in India has brought about social change Kamdar (2005) Basak & Kamdar (2005). High repayment rates have proved that poor are bankable. Experiences from countries such as Bolivia and Zimbabwe proved that incomes of micro-credit clients increased after joining the programme and they were able to maintain consumption levels despite rising food costs Hashemi (2004). Some studies in Bangladesh of the clients of BRAC (Bangladesh Rural Advancement Committee) showed that clients who were part of the micro credit programme for more than four years had witnessed significant rise in their household incomes and assets. Clients of SHARE (Society for Helping Awakening Rural poor through Education) in India who were associated with the micro credit programme saw remarkable improvement in their economic well being. Morduch (1999) argues that micro credit is based on principles of peer selection, peer review and dynamic incentives

Barnes, Carolyn. Gayle Morris and Gary Gaile (1998) in a study in Uganda, found that although no findings were reported on the level of poverty between client and non-client households, total expenditures on education, business and household assets, remittances to rural households, and agricultural inputs were used a *proxy indicator* of the relative poverty or wealth level of client and non-client households. Client households on average spent 35% more than non-client households. Borrower households spend 38% more on education than non-client households and have an average an extra year of education.

Ghatak (1999) found that group lending provides a distinct advantage over individual lending as it improves repayment rates, allowing lower interest rates and raising social welfare.

Namboodiri & Shiyani (2001:408) observed strengths of Self Help Group lending. Siebel & Dave (2001) found that the effectiveness of group lending in Self Help Groups resulted in lesser number of non performing loans.

Puhazhendhi & Satya Sai (2001) in their research study found that Self Help Groups have been instrumental in economic and social empowerment of the rural poor. A study on productive loans in urban slums in Mumbai by Kamdar (2005) proved that credit was the initial constraint in starting self employment business. When the availability of credit was complemented by specialized services of technical assistance, business training and peer support it resulted in expansion in the scale of business and made repayment of loans easier. This provided the incentive to take successive loans. The World Bank –NCAER Rural Financial Access Survey (2003) in twelve districts of Andhra Pradesh highlighted a positive relationship between poor households and Self Help Group membership. Kamdar (2005) established in her study that loans for productive purposes helps in stabilizing and augmenting incomes of beneficiaries.

Akhand Tiwari et.al (2008) conducted a research on how small borrowers understand their loans and the financial liability implicated therein. They provide an explanation of how Microfinance Institution clients understand their loan contract and the implications for policy. The authors find that small borrowers are able to identify the size and duration of the loan and their weekly installment on their loan.

Daniel Radcliffe (2008) in his study found that despite recent rapid growth of the microfinance sector in India, there still exists a large transparency deficit due to ad hoc accounting and reporting procedures by Microfinance Institutions and the regulatory environment that permits these practices. It attempts to identify areas where regulatory interventions most effectively narrow the transparency gap, which would entail small administrative cost to the Microfinance Institutions while minimising supervisory cost to the regulator.

However, Rutherford (2000) contended that Micro credit did little to reduce poverty and supported low paying (self-paid) jobs that trapped individuals into poverty.

Micro credit as observed by Hulme (2003) did not produce desired results when borrowers suffer from lack of skill and knowledge, poor decision making abilities and inability to repay loans. The role of Micro credit as a tool to foster economic and social empowerment among women has been a subject of research over the years.

Successful efforts to empower poor people will mean increasing their freedom of choice and action in different contexts which include access to information, inclusion and participation, Deepa (2002).

There is no single definition of women‘s empowerment in the literature. Empowerment is variously conceptualized as a process, an end-state, and a capacity Kabeer, (2001); Malhotra (2002) Alsop et al., (2005); Martinez (2006). It is generally accepted however that efforts to measure women‘s empowerment need to consider micro/macro, individual/collective, different spheres economic, political, social, different temporal scales and must be sensitive to social context.

The majority of efforts to measure women's economic empowerment programmes focus primarily on quantitative outcomes - such as increased access to credit or increased business revenue.

Mayoux, (2000) in his study found that access to savings and credit lead to empowerment. Another group of evaluations have tried to establish that economic contribution may increase their role in economic decision making in the household, leading to greater well being for women and children as well as men (Mayoux, 2000). Mayoux defines empowerment as a process of change in power relations that is both multidimensional and interlinked. She has laid out a framework that is useful for developing strategies for women's empowerment. It emphasises on enabling women to articulate their own aspirations and strategies for Change, enabling women to develop the necessary skills and access the necessary resources to achieve their aspirations, enabling women to examine and articulate their collective interests, to organize to achieve them and to link with other women's and men's organizations for change, changing the underlying inequalities in power and resources that constrain women's aspirations and their ability to achieve them.

Hainard and Verschuur (2001) emphasize that empowerment should be "a process of developing negotiating skills from the bottom up … to redress unequal power relations and produce new development paradigms." To successfully empower women, both gender and empowerment concerns should be integrated into every service provision area. Moreover, they should be incorporated in the economic, political and social spheres as well as at the individual, household and community levels in order to overcome gender inequality (Mayoux, 2000). Jejeebhoy (2000) identifies social institutions as highly influential in shaping a woman's autonomy. He believes that these institutions should provide comprehensive, direct and context-specific strategies to empower women. These strategies include creating gender consciousness, enabling women to mobilize community resources and public services, providing support to the challenges of traditional norms and providing access to vocational and life skills to increase women's access to and control over economic resources. Santillain et al. (2004) stress the need to go beyond standardized indicators; they are proponents of context specific indicators that refer to social relations. These indicators might include factors such as the distinction between individual and collective awareness, increased self-esteem and an analysis of grass-roots organizations (Hainard and Verschuur, 2001). In addition, Hashemi et al. (1996) point out that the methods used to measure women's empowerment in one society can be deemed completely irrelevant in another. Therefore, cultural factors in each society also need to be taken into account.

Many studies have recognized the importance of economic empowerment in improving the status of impoverished women. Buvinic (1996) states that "the most straightforward vehicle to 'empower' poor women is to increase their productivity in home and market production and the income they obtain from work." The ILO (2002, Kessides, 2005) has proposed various strategies to combat this problem, such as increasing women's access to land and other assets.

Mahmud (2003) contends that providing security of tenure will encourage more women to use their domestic space for income-generating activities. Other recommendations include investing in human capital such as training for productive employment, providing financial resources with a focus on credit, expanding wage employment opportunities, improving social protection for female workers and empowering women through greater organization. Income-generating activities are seen as "entry points for channels of communication and vehicles by which women can meet their needs" (Rogers and Youssef, 1988). They provide effective ways to address inequalities in the areas of health, education and poverty alleviation. Many researchers have recognized that improvements in health care, nutrition and education can only be sustained with an increase in household income and greater control by women over financial resources (Hashemi, 2004).

Economic empowerment projects usually focus on income-generating activities, which allow women to independently acquire their income. Income-generating activities encompass a wide range of areas, such as small business promotion, cooperatives, job creation schemes, sewing circles and credit and savings groups (Albee, 1994).

The United Nations Development Programme's (UNDP) 1995 Human Development Report introduced the gender-related development index (GDI), which reflects gender disparities in basic human capabilities, and the gender empowerment measure (GEM), which measures progress towards gender equity in economic and political power.

The GEM measures empowerment through three factors: (1) economic participation and decision-making power, (2) political decision making and power, and (3) power over economic resources (UNDP, 1995).

Pillarisetti and McGillivray (1998) highlight several key shortcomings in the GEM: (1) lack of consideration for different cultural and social norms across nations, (2) insufficient analysis of empirical realities, such as the size of the manufacturing sector and the reliability of national databases, and (3) disregard for other important variables of empowerment and the dualistic nature of many societies.

One of the most popular forms of economic empowerment for women is microfinance, which provides credit for impoverished women who are usually excluded from formal credit institutions. Mayoux (2000) highlights the three recognized models of microfinance programmes:

- Financial self-sustainability: This is the most popular model and used by donor agencies such as the United States Agency for International Development (USAID), the World Bank and the United Nations. It provides microfinance services to a large number of poor women, specifically targeting small entrepreneurs by setting interest rates to cover costs, enabling separate accounting from other interventions, expanding programmes to obtain economies of scale and decreasing costs of delivery through the use of groups.
- Poverty alleviation: This model focuses on small savings and loan provisions to aid in consumption and production.
- Feminist empowerment: This model is based on examples of some of the earliest microfinance programmes in Bangladesh and India, focusing on gender equality and women's human rights through microfinance, and empowering women economically

> and socially. Offering women a source of credit has been found to be a very successful strategy for alleviating poverty because it enhances the productivity of their own small enterprises and the income-generating activities in which they invest. Results include an increase in women's self-confidence and status within their families as well as income that can be used to improve their families' well-being through improved health and nutrition (Goetz and Gupta, 1996). Hashemi et al. (1996) also argue that credit programmes have been successful in providing "… a cost-effective means of transferring scarce resources to the poor through women." The most successful of these schemes – the Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC) and the Self-Employed Women's Association (SEWA) in India – have served as models for other programmes worldwide.

Nanda's (1999) study of rural microfinance projects in Bangladesh revealed that "…improving women's access and control over resources can potentially alleviate their health problems and enhance their decision-making within the household." Her study indicates that participation in economic activities is more valuable for empowering a woman than household income or socio-economic status. Rogers and Youssef (1988) also recognize the importance of group savings programmes and cooperatives as a catalyst for empowering women. These programmes not only allow impoverished women to interact with one another; they also create an exchange of ideas and information, increasing women's ability to earn a greater income and allowing for a more flexible work environment where they can rely on other women for support on matters such as childcare. Hulme and Mosley (1996, in Morduch, 2000) felt that the current state of microfinance programming has "…abandoned innovation, and is leading to a growing uniformity in financial interventions." Many academics also argue that these programmes are not effective in truly empowering women (Cheston and Kuhn, 2002; Goetz and Gupta, 1996; Mayoux, 2000). They believe that there is a lack of substantial training and support services and a need to provide women with greater ownership and control in the programmes. There is also recognition that employment and education are necessary but insufficient conditions for women's empowerment (Dunford, undated; Malhotra, 2002; Mayoux, 2000). Critics contend that microfinance programmes only marginally increase access to income and that they have a limited impact on household decision-making. They argue that many of these programmes have not been able to move women into profitable non-traditional forms of entrepreneurship (Goetz and Gupta, 1996) and that most of the women involved in credit savings programmes remain in low-value traditional work in the informal sector. Thus, they have limited involvement in more profitable commercial markets. White (1991, in Goetz and Gupta, 1996) suggests that microfinance projects tend to equate women's poverty with income, not sufficiently emphasizing the inequality in relationships and institutions. This is underscored in the study conducted by Malhotra et al. (2002), which highlights the historical and developmental context of a woman's place in society and the importance of "fundamental structural matters involving family, social and economic organization." Thus, critics have drawn attention to the need to focus on the structural factors that perpetuate the economic marginalization of the poor (Goetz and Gupta, 1996).

Khan (1999) stresses the importance of wage employment over credit for women. His findings show that wage employment helps in promoting economic and social empowerment, providing women with more stability, a collective workplace and more control over their income. He also emphasizes its ability to assist in expanding a woman's mobility by providing her with different life experiences beyond her home environment so that she is able to gain bargaining power, meet her practical needs, improve the quality of her life and address her long-term goals.

There are other important elements, complementary to income-generating activities that are considered essential for women's economic empowerment (Cheston and Kuhn, 2002; Albee, 1994):

- Business training
- Investments in women's general education, including literacy
- Guidance to women on balancing family and work responsibilities
- A forum for dialogue on social and political issues, such as women's rights and Community problems
- Providing experience in decision-making
- Promoting women's ownership, control and participatory governance.

Hunt and Kasynathan, (2001) established in their research that no one factor alone can lead to gender equality or empowerment. The need is a combination of activities in various spheres of a woman's life that address the dynamic and relational nature of poverty

Studies have shown that an increase in a woman's income has a positive impact on the educational and nutritional status of her children, among other things (Rogers and Youssef, 1988; Consultative Group to Assist the Poor – CGAP, 2004).

Economic empowerment provides incentives to change the patterns of traditional behaviour to which a woman is bound as a dependent member of the household. More and more programming has taken an integrated approach, involving other aspects of development into microfinance projects in order to increase a women's income and create positive change in her perception of health and education. Various microfinance projects and studies have demonstrated that with increased income there is an increase in women's role in reproductive decision-making, a delay in the age of marriage, an increase in contraceptive prevalence rates, smaller desired family size and decreased total fertility rates (Buvinic, 1996; Drolet, 2000).

Drolet (2000) conducted a study of a UNFPA microfinance project in Cameroon, concluding that the project had positively affected the women involved, especially in improving their knowledge and behaviour in the area of reproductive health. However, these improvements in reproductive health can only be sustained with an increase in women's household income and access to financial resources (Hashemi, 2004).

Kabeer (2001) established that was a positive impact of credit programs on women's lives. Women can use savings and credit for economic activity, thus increasing incomes and assets and control over these incomes and assets.

Mayoux (2000), Rahman (1986) established that "active" women borrowers had higher consumption standards and a role in household decision-making, either on their own or jointly with their husbands, than 'passive' female borrowers. Both in turn had significantly higher consumption standards and were more likely to partake in household decision-making than women from male loanee households or from households who had not received credit.

Zaman (2001) found that, Self-help groups through micro credit have an important role in lessening the vulnerability of poor by creating assets, income and consumption smoothing, providing emergency assistance, and empowering and making women confident by giving them control over assets and increased self-esteem and knowledge

A World Bank study in 1998 found that a 10% increase in borrowing had led to an increase in women's non-land assets by 2% for loans from the Grameen Bank and 1.2% for loans from the Bangladesh Rural Advancement Committee (BRAC) (World Bank 1998).

In India, Lalitha and Nagarajan (2002) conducted micro credit studies done on groups dealing with dairy farming have noted positive profit levels and short payback periods for loans.

During the South East Asian economic crisis, self-help groups proved to be important cushions and safety nets; a high proportion of the funds made available for self-help micro credit schemes were utilized by women, facilitating them to meet the subsistence requirements of their families during those hard economic times (ESCAP 2002).

A study by Pitt and Khandker (1995) in exploring the impact of female membership of credit programs found that women's preferences carried greater weight (compared to households where either men received the loans or in households where no loans had been received) in determining decision-making outcomes including the value of women's no land assets, the total hours worked per month for cash income by men and women within the household, fertility levels, the education of children as well as total consumption expenditure.

It has also been studied that women’s increased economic role may lead to change in gender roles and increased status within households and communities Mayoux (2000), Hashemi, Schuler, and Riley (1996) explored the impact of credit on a number of indicators of empowerment: (i) the reported magnitude of women's economic contribution; (ii) their mobility in the public domain; (iii) their ability to make large and small purchases; (iv) their ownership of productive assets, including house or homestead land and cash savings; (v) involvement in major decision making, such as purchasing land, rickshaw or livestock for income earning purposes; (vi) freedom from family domination, including the ability to make choices concerning how their money was used, the ability to visit their natal home when desired and a say in decisions relating to the sale of their jewellery or land or to taking up outside work; (vii) political awareness such as knowledge of key national and political figures and the law on inheritance and participation in political action of various kinds; and finally, (viii) a composite of all these indicators. They found that women's access to credit was a significant determinant of the magnitude of economic contributions reported by women; an increase in asset holdings in their own names; an increase in their purchasing power; their political and legal awareness and their composite empowerment index.

BRAC loanees reported significantly higher levels of mobility and political participation. Grameen members reported higher involvement in “major decision-making”. The study also found that access to credit was associated with an overall reduction of the incidence of violence against women; women's participation in the expanded set of social relationships as a result of membership of credit organizations, rather than increase in their individual productivity were responsible for reductions in domestic violence.

Other studies on empowerment aspects are cognitive in nature. The IFAD mainstreaming review has reported gains in self-confidence and self-esteem amongst the women, enhanced capacity to articulate their needs and an increased respect in the household (FAO, 2002). A study by Krishnaraj and Kay (2002) established that Women's groups have emerged as a dynamic, articulate constituency enabling women to work together in collective agency. An UNDP study in 1999 found that there can be a synergistic convergence of inputs, micro insurance, health services, non formal education and inputs on nutrition in "Micro credit plus" programs

A few attempts to link micro credit with HIV/AIDS programmes have been reasonably successful (UNDP 1999). The newly set up pension fund of the Grameen Bank II has been apparently quite successful (Yunus 2002).

Mayoux (2000) concluded that improved well being and change in women's position may further increase their ability to increase incomes.

This process of empowerment may be further reinforced by group formation focusing on savings and credit delivery as women can access wider information and support networks for economic activity. Groups can support women in disputes within the household and community and groups can link to wider movements for change in women's position.

A review of the literature also raises questions about some negative aspects of micro credit. Goetz and Sen Gupta (1996); Mayoux (1998) shows that only a minority of women receiving credit from poverty-oriented microfinance programmes are controlling their loans; many women often pass on the full amount of their loans directly to their husbands, sons or sons-in-law, with little or no access to the income generated and receiving back only enough money to make weekly loan repayments.

Goetz and Sen Gupta (1996) found that, on average, only 37% of loans provided by four different Bangladeshi credit organizations were either fully or significantly controlled by women, where significant control does not include control over marketing, and may thus imply little control over the income generated.

The figures for BRAC were even lower, with only 28% of loans controlled by women. Kabeer (1998) distinguishes between women as marginal, joint or primary decision makers, using a matrix, which considers women's role in decision-making regarding the use of the loan, participation in running the business, and the use of profits. She writes that it is important to acknowledge this complexity in household gender relations, and to reflect on the mix of structural, individual and programme factors which influence the degree of control women are able to take over their loan.

Rahman's (1999) research is a study of Grameen Bank lending to women in Bangladesh as well. Rahman questions the degree to which microfinance benefits women and explains that women in Bangladesh are often unable to use loans by themselves in the structure of patriarchy and the rural market economy. The absence of investment opportunities for rural women and the lack of control by the lending institution as to how loans are used and by whom lead women to pass on their loans to others (generally men) and lose control of their loans altogether. "The figure shows that men are users (persons who control and use the loan and arrange for installments) of more than 60% of women's loans. The study also shows that approximately 78% of total loans approved in the village are actually used for different purposes than sanctioned by the project". "In all five loan centres in the study village, I discovered that one or two influential members had real control over the decision making process of the centre. Perpetuation of such power relations in the loan centres is contradictory to Grameen Bank ideology".

Gibbons (1999) also specifically addresses the work of Rahman: "There is of course a flip side to this miracle story. Rahman (1999) who suggests, from his village level observations in Bangladesh that the Grameen Bank prefers women more for strategic reasons in relation to investment and recovery of loans than for the benefit of the women themselves has described it most fully, because they are more compliant and easier to discipline than the men. Moreover as the honour of their wives (and themselves) is at stake in repayment the husbands also pressure their wives to repay as required. Thus poor women are pressured from both sides, and some describe this as intolerable."

Ackerly (1995) noted that underpinning most credit interventions in Bangladesh was an implicit model of the empowered woman and concluded that women's access to the market was the primary route for their empowerment knowledge which comes through market access and warned against the likelihood of overwork, fatigue and malnutrition were loans used to promote women's labour involvement without also promoting their market access.

Montgomery and Hulme (1996) found that only 9% of first-time female borrowers were primary managers of loan-funded activities while 87% described their role in terms of "family partnerships." By contrast, 33% of first-time male borrowers had sole authority over the loan-assisted activity while 56% described it as a family partnership. They also found that access to loans did little to change the management of cash within the household for either female or male loanees. Interpreting reports of “joint” management as disguised male dominance in decision-making, the authors concluded that access to loans had done little to empower women.

Kabeer found that many women continue to register land and productive assets in their husband’s name, because of inheritance laws: assets will be inherited by sons if registered in the husband’s name, and by daughters if registered in the wife’s name (Kabeer, 1998).

Research by Matin and Rab (1997) shows that, in most cases, the husband’s income and other livelihood activities are essential if members are to meet their weekly instalment payments. These findings also raise serious questions about the impact of microfinance on poverty alleviation.

Using Khandker’s data, Morduch (1998) found that the income effect was due to mistargeting of the microfinance programme and that the perceived increase in incomes was due solely to those already above the poverty line who had managed to access the programme.

Kabeer (1998) finds that microfinance has been effective in increasing incomes and assets, although certainly not in the poorest households.

While the exclusion of the poorest is acknowledged in some research (Hulme 2000), it is rarely admitted by NGO staff and donors. The overriding concern with repayment rates puts further pressures on groups to exclude those likely to experience greatest problems i.e. the poorest (Hulme and Mosley 1996; Montgomery 1996; Noponan (1990). As micro credit is made available to groups, based on collective collateral, the process of group formation often precludes the very poor, who are perceived as being poor credit risks (Krishnaraj and Kay 2002 and FAO 2002). In some cases increased funding for large organizations has led to the squeezing out of smaller organizations in the same area who may have been challenging gender subordination on a wider basis (Arn and Lily 1992; Ebdon 1994).

Rahman (1999) points out that the empowering influence of microfinance is not always associated with improvements in women’s lives, and credit as a debt for the household constitutes a risky strategy.

Rahman points out a number of issues with relationships in the single village he studied which had Grameen Bank operations. Only a small percentage of the women agreed that there was a decrease in domestic violence in their household after their involvement with the bank. Goetz and Sen Gupta (1996) also report increases in household tensions and domestic violence where women need to ask their husbands for loan installments. However, Schuler et al, (1996) suggests that group-based credit programs can reduce men's violence against women by making women's lives more public.

Studies by Rahman (1986), Pitt and Khander (1995) and another by Hashemi, Schuler and Riley (1996) have found positive results for women empowerment in a micro credit program in Bangladesh. The study by Hashemi explored the impact of credit on women's economic contribution, their mobility, ownership of assets, political awareness ability to make decisions on usage of money.

Abhijit Banerjee, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2010) evaluated the impact of access to credit by randomizing the placement of new microfinance institution branches in Hyderabad, India. They found no discernible impact on measures of health, education, and female empowerment. More businesses were created. Some households increased nondurable consumption; others reduced expenditure on temptation goods such as alcohol, tea, and snacks and instead invested in their businesses or bough more durable goods. In another randomized evaluation study conducted in Morocco to evaluate access to credit through Microfinance Institutions branches in a rural setting, Bruno Crepon, Florencia Devoto, Esther Duflo and William Pariente (2011) found that micro credit had no impact on non agricultural businesses. For individuals with existing farming activities, access to credit increased the volume of their activity. Those with existing businesses reduced their consumption and increased their savings while those without prior business activities consumption increased and no discernible impact was felt on health, education and female empowerment.

Erica Field, Rohini Pande, John Papp, and Natalie Rigol (2010) investigated how the term structure of debt influences entrepreneurship among the poor in India. Borrowers were randomly assigned either a classic Microfinance contract with repayment beginning immediately after loan disbursement or a contract which provided a two month grace period prior to repayment. The study found that those members who were given grace period for repayment of loans invested 6% more of their loans in their businesses than borrowers who did not get any grace period and had 30% higher profits. However, the default rate in this category was 19% as compared to 2% default rate of individuals with a standard repayment structure.

Savitha & Jyothi (2011), in a study conducted among rural and urban women in Andhra Pradesh's Nalgonda and Hyderabad districts established that improved access to finance led to their empowerment. Women's access to finance was greatly influenced by their awareness levels to banking services. Access to finance and financial services resulted in better decision making among women leading to their empowerment.

Savitha & Jyothi (2012) studied the role of Self help groups in bringing about social empowerment in a district of Andhra Pradesh through a pilot survey. The study focussed on determining the factors which contributed to the socio economic status of these members.

Savitha & Jyothi (2012) compared the role of Self help groups in the states of Andhra Pradesh and Tamil Nadu in bringing about social empowerment. The factors which contribute to social empowerment and the socio economic status of these members were found to be different in both the states.

Abhijit Banerjee et.al (2007), in this study have evaluated the targeting efficiency of various assistance programs operated by the government of India and a program operated by Bandhan, a Kolkata-based micro finance institution. They found methods used by government programs fail to identify the poorest of the poor. On the other hand, Bandhan's process, including a Participatory Rural Appraisal (PRA), generates a reasonably good indicator of economic well-being and can serve as the basis for targeting.

Xavier Gine and Dean Karlan (2011) undertook a research study in Philippines to investigate whether group liability is in fact necessary for managing default risk. In one treatment existing group lending clients were randomly converted to an individual liability model. In a second treatment, new borrowers started out with individual liability loans. The research study found that shift to individual liability did not negatively affect loan repayment for either group.

Another study which proved the positive impact of micro credit by Dean Karlan and Jo Zinman (2010) in South Africa found that expanding access to credit increased borrower well being, increased incomes, better food consumption, improved decision making within household leading to enhancement of status in community and overall optimism.

Dean Karlan and Zinman (2011) established through their study in Philippines that microloans improved client's ability to cope with risk strengthened community ties and increased access to informal credit.

Dupas and Robinson (2011) investigated the importance of savings constraint for Microenterprise development by randomly providing small business owners in Kenya with access to savings. They found that savings account made women less vulnerable to health shocks and lead to increased business investment and personal income growth.

Empowerment

Approaches to measuring women's empowerment generally involve defining what is meant by empowerment and identifying the different elements which make up this definition. The elements of empowerment are: resources, agency and achievements (Kabeer 2001); control over resources and agency, (Malhotra, 2002); agency and opportunity structure (Alsop et al, 2005); agency, structures and relations (CARE, 2006); assets, knowledge, will and capacity (Charlier and Caubergs, 2007). In most cases, these elements are then broken down into sub-dimensions with associated indicators and sources of measurement.

A review of theories and strategies to foster women's empowerment in the development context was undertaken by Malhotra, Anju, et al., (2002); they defined empowerment as the ability of people to make strategic choices in areas that affect their lives. They identified elements of economic empowerment at three levels namely household which includes women‘s control over income; community, which includes access to credit and broader access including representation of women‘s economic interests. Kabeer N., (2005), finds that while access to financial services can and does make vital contributions to the economic productivity and social well-being of poor women and their households, it does not automatically empower women. Pitt, Khandker. And Cartwright (2006), found that the view that women's participation in micro credit programmes helps to increase women‘s empowerment by establishing a baseline of women's assets, knowledge, will and capacity. Katz (2008) reviews existing policies and programmes designed to promote labour force participation of young women in developing countries.

Mayoux, and Hartl, (2009) emphasized the importance of studying the differential impacts of various types of financial products and service delivery, and their influence on women empowerment. Jupp and Barahona, (2010), developed a participatory approach to measuring empowerment at the project level, in Bangladesh, by recognizing and quantifying all positive changes on different aspects of women empowerment. The growth of Self help groups in India and provision of micro credit to them by banks and microfinance institutions has resulted in improving their participation in society and in governance.

Microfinance plays an important in influencing social and economic empowerment of its clients. According to the Governance and Social Development Resource centre, United Kingdom Social empowerment is understood as the process of developing a sense of autonomy and self-confidence, and acting individually and collectively to change social relationships and the institutions and discourses that exclude poor people and keep them in poverty. Poor people's empowerment, and their ability to hold others to account, is strongly influenced by their individual assets (such as land, housing, livestock, savings) and capabilities of all types: human (such as good health and education), social (such as social belonging, a sense of identity, leadership relations) and psychological (self-esteem, self-confidence, the ability to imagine and aspire to a better future). Also important are people's collective assets and capabilities, such as voice, □rganization, representation and identity. Women's empowerment is not only in financial terms but also has socialization-attitudinal and motivational connotations. Society must take initiatives to create a climate in which there is no gender discrimination and women have full opportunities of self decision- making and participating in the social, political and economic life of the country with a sense of equality (Anonymous 2012).

In order to empower Women, 'what is needed – reorientation, mobilization and realization of women friendly environment in rural areas by involving them from grass root level up to policy- making decisions' (Devasia 2001; Mehta et al. 2010). Social empowerment aims at social equality which includes equality of treatment, equality of respect, equality of opportunity, equality of recognition and above all equality of status. The empowering strategies need to encompass sectors like education, health and nutrition, water and sanitation, women friendly appropriate technologies, legislative reforms to make them effective and result oriented. The components of Social empowerment outlined by The Women's Empowerment Policy 2001, include health, education, nutrition, housing and shelter, Violence against women, Mass media, women in difficult circumstances, Science and technology, Rights of the girl child, Environment, Drinking water and sanitation.

"Economic empowerment is thought to allow poor people to think beyond immediate daily survival and to exercise greater control over both their resources and life choices. For example, it enables households to make their own decisions around making investments in health and education, and taking risks in order to increase their income. There is also some evidence that economic empowerment can strengthen vulnerable groups' participation in the decision-making. Microfinance programmes have been shown to bolster women's influence within the household and marketplace. The evidence also suggests that economic power is often easily 'converted' into increased social status or decision-making power." *(Source: Governance and Social Development Resource centre, United Kingdom)*. Strategies will be designed to enhance the capacity of women and empower them to meet the negative social and economic impacts, which may flow from the globalization process. Role of women in agriculture and industry and the provision of support services to women at workplaces in order to provide an enabling environment received special mention as important components of economic empowerment in the Women empowerment policy, 2001.

The literature on economic empowerment is vast, and a large part of this focuses on the economic empowerment of women - a key strategy in addressing gender inequality. More generally, economic empowerment centres around four broad areas: (a) the promotion of the assets of poor people; (b) transformative forms of social protection; (c) microfinance; and (d) skills training.

Eyben, Kabeer, Cornwall, (2008) proposed a framework to enable the empowerment of the poor to be conceptually understood and operationally explored. It examines the different facets of 'social', 'economic' and 'political' empowerment.

Broadbent (2010) in his research found that the impacts of interventions aimed at increasing access to economic opportunities mostly exists in relation to women's empowerment, and even then the impacts are rarely expressed in terms of 'power relations'.

McDevitt (2010), in his study found that facilitating the participation of women in economic life is seen to provide financial gain at both household and national level, as well as having long-term impacts upon poverty reduction through creating changes in the intergenerational transmission of poverty processes. Providing women with access to jobs, access to credit and financial services; land and property rights and; agricultural inputs and technology and removal of institutional barriers faced by them can enable women to add value to the economy.

Duvendack (2011), found that there is a growing concern that the impact of microcredit and microloans on poor people's empowerment may not be straightforward, and the emphasis on reaching the 'poorest of the poor' may be flawed due to weak methodologies and inadequate data, reducing the reliability of impact estimates.

Stewart (2010), in his report found that some people are made poorer, and not richer, by microfinance, particularly by micro-credit. This seems to be because they consume more instead of investing in their futures; their businesses fail to produce enough profit to pay high interest rates; their investment in other longer-term aspects of their futures is not sufficient to give a return on their investment; and because the context in which microfinance clients live is by definition fragile.

Golla, Malhotra.et al. (2011), in their research provide a framework to guide the design, implementation and evaluation of economic advancement programmes. They developed a matrix for measuring women's economic empowerment, which uses sample indicators to show different stages at which results can be measured

Kabeer et al. (2011), used a combination of survey data and qualitative interviews to explore the impact of paid work on various indicators of women's empowerment, ranging from shifts in intra-household decision-making processes to women's participation in public life. They established that forms of work that offer regular and relatively independent incomes hold the greatest transformative potential.

The review of literature revealed the following research gaps.

Research Gap

- Irrespective of the model of credit delivery, the availability of loans often brings about a change in the household welfare of the borrowers and makes a significant impact on their empowerment and socio economic status. Prior research focused on the welfare of Self Help Group members before and after they have joined a Self Help Group. There is a need to provide an insight into how the availability of credit and membership in Self help groups brings about a change in the socio economic status of the borrowers thereby contributing to their empowerment.
- Focus has been on the impact aspects on the end users of the existing models. Estimate of quantitative benefits experienced by Microfinance Institution clients has been made. Impact studies are contextually specific and vary by country. Lending adds very little incremental costs over fixed cost of maintaining rural branches – but enhances reach and viability. There is a need to study banks point of view - understanding the benefits and problems to banks associated with the models of credit linkages in India
- Among the southern states in India, Andhra Pradesh and Tamil Nadu continue to be leading states as far as microfinance is concerned. Commercial banks, especially the Public Sector banks have had a lot of success in microfinance. Commercial banks have been found to be more suitable for microfinance – regulated; networked and well governed. Study conducted in 2003 (Bansal) does not capture the role of Microfinance Institution as part of the Bank–Self Help Group linkage. Understand which is a more successful model for Banks? Bank–Self Help Group or Bank–Microfinance Institution-Self Help Group especially with the respect to these two states.
- Studies exist on competition between Microfinance Institutions, competition among banks and the importance of the crucial role they play in alleviating

poverty has been under-studied. Banks and Microfinance Institution are competitors. Indian Scenario is unique; Banks work hand in hand with Microfinance Institutions. A comparative study to assess the success rates of public sector and private sector banks as facilitators of micro finance. To study the Microfinance Institutions point of view - understanding the factors contributing to their efficiency and productivity and problems associated with their model of credit delivery.

Research Questions

- Provide an insight into how the availability of credit and membership in Self help groups brings about a change in the socio economic status of the borrowers thereby contributing to their empowerment
- To compare and understand the credit delivery mechanism in the two southern states of Andhra Pradesh and Tamil Nadu.
- What are the benefits and problems to banks associated with the models of credit linkages in India?
- Understand which is a more successful model for Banks -
  Bank –Self Help Group or Bank –Microfinance Institution- Self Help Group
- A comparative study to assess the success rates of public sector and private sector banks as facilitators of micro finance.
- Understanding the factors contributing to their Microfinance Institutions efficiency and productivity and problems associated with their model of credit delivery.

CHAPTER - 5

Research Methodology

CHAPTER - 5

Research Methodology

Need and Significance of the Study

From the review of literature it is obvious that certain areas and issues in the delivery of microfinance by banks and Microfinance institution need to be addressed. Some of these issues are:

- To assess the success rates of public sector and private sector banks as facilitators of micro finance in Andhra Pradesh and Tamil Nadu.
- A comparative study to assess the working of the models of credit delivery in the states of Andhra Pradesh and Tamil Nadu, i.e., to examine whether the Bank–Self Help Group or Bank–microfinance institution–Self Help Group model is more successful.
- There is also a need to study the banks' perspective in both the states – examining the benefits and problems associated with the models of credit linkages practiced by banks in India.
- To examine Microfinance institution point of view - examining the factors contributing to their efficiency and productivity and problems associated with their model of credit delivery.
- Examining the impact of the availability of micro credit on the socioeconomic status of borrowers who are members of self help groups and its contribution to their empowerment.

Pilot Study

As the primary focus of research is on delivery of micro credit, and its impact on financial and socioeconomic empowerment of the recipients, a pilot study was considered appropriate before embarking on the main area of study.

The Pilot study was conducted with an objective to provide an insight into how the availability of micro credit and membership in Self help groups brought about a change in the socio economic status of the borrowers thereby contributing to their empowerment. Besides, it would also help in validating the instruments to be used in the study. Data was collected from 200 women Self Help Group members from Ranga Reddy district in Andhra Pradesh. A questionnaire was developed and administered to the self help group members in order to collect information related to microcredit and its impact on their financial, social and economic empowerment. The data collected was subjected to SPSS (Ver. 17.0) and the results are presented.

Results and Interpretation of Pilot Study

Table 32: Showing Demographic Profile of Sample N=200

		Frequency	Percent			Frequency	Percent
Age (In Years)	<25	9	4.5	**Husband's Education**	Illiterate	64	32.0
	26 -35	117	58.5		Literate	136	68.0
	36 -45	49	24.5				
	>46	25	12.5				
Level Of Education	Illiterate	73	36.5	**Husband's Education Level**	Illiterate	64	32.0
	Primary	15	7.5		Primary	5	2.5
	Middle School	16	8.0		Middle School	8	4.0
	High School	63	31.5		High School	32	16.0
	Intermediate	26	13.0	**Husband's Employment Status**	Intermediate	50	25.0
	Graduation	7	3.5		Graduation	41	20.5
Marital Status	Married	199	99.5		Employed	65	32.5
	Widow	1	0.5	**Annual Income**	Unemployed	15	7.5
Children	No	9	4.5		Self Employed	120	60.0
	Yes	191	95.5		<50000	138	69.0
Type Of Family	Joint	13	6.5	**Subsidiary Employment**	50001-100000	61	30.5
	Nuclear	187	93.5		>100000	1	0.5
No Of Members	>3	110	55.0		Agriculture	73	36.5
	<3	90	45.0	**Land Ownership**	Animal Husbandry	11	5.5
Head Of Family	Others	182	91.0		Labour	116	58.0
	Self	18	9.0	**Employment Status Of Respondent**	No	113	56.5
Activity Status Of Children	No Children	9	4.5		Yes	87	43.5
	Small Children	3	1.5	**Monthly Income**	Employed	84	42.0
	School Going	165	82.5		Self Employed	116	58.0
	Working Children	18	9.0		<4000Rs	160	80.0
	Married Children	5	2.5		>4000Rs	40	20.0

Table 32 reveals the demographic profile of women employees whose age ranged from 23 to 60 years. 58.5% of the women belonged o the age group of 26-35 years. 36.5% of the respondents were illiterate. 99% of the women were married and more than 82.5% have school going children. 93.5% women belong to nuclear families and 6.5% came from joint families.

Objectives

The pilot study was undertaken with the following objectives:

a) To examine the relationship between the availability of micro credit and measure its influence on financial empowerment.
b) To examine the impact of Micro credit on economic and social empowerment of the borrowers. The survey sought to measure the influence of membership in self help groups on their socio economic status.

Hypothesis was developed to judge the relationship between loan use and its impact on income and financial independence of the borrowers.

Hypotheses

1. There is no significant relationship between receipt of loan and change in overall household income.
2. There is no significant relationship between loan use for income generating activity and financial independence of the borrowers.
3. There is no significant relationship between training and its impact on way of life of the borrowers.

Findings:

The effect of the loan on the household income of the Self Help Group members has been studied by developing suitable hypothesis.

Table 33: Loan and Change in Household Income

		Annual income		
		< ₹ 50000	₹ 50001 - ₹ 100000	> ₹ 100000
		Count	Count	Count
Loan and change in overall household income	Major increase	0	0	0
	small increase	89	19	0
	no change	49	42	1
	small decrease	0	0	0
	Major decrease	0	0	0

Table 34: Chi-Square Test for Relationship between Receipt of Loan and Change in Overall Household Income (Pearson Chi-Square Tests)

		Annual income
Loan and change in overall household income	Chi-square	20.115
	Df	2
	P value	.000*

Null Hypothesis H1: There is no significant relationship between receipt of loan and change in overall household income.

The P value is less than 0.05. The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance. There is significant relationship between receipt of loan and change in overall household income.

Table 35: Loan Use for Income Generating Activity and Financial Independence

		Loan use for IGA	
		No	**Yes**
		Count	**Count**
Since receiving loan are you financially independent	No	44	84
	Yes	6	66

Table 36: Chi-Square Test for Relationship between Use of Loan for Income Generating Activity and Financial Independence (Pearson Chi-Square Tests)

		Loan use for IGA
Since receiving loan are you financially independent	Chi-square	16.667
	Df	1
	P value	.000*

Null Hypothesis H2: There is no significant relationship between use of loan for income generating activity and financial independence of borrowers.

The P value is less than 0.05. The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance. The use of loan for income generating activity has a positive impact on financial independence. Borrowers feel that when loans are used for income generating activities rather than for consumption, it makes them feel financially independent. The borrowers used the loan for income generating activities such as agriculture (43%), setting up small business such as grocery stores (12%), tea stalls (10%), animal husbandry (9%) tailoring shop (7%), flower (8%) and fruit shops (11%). The study indicates that when loans are used for Income generating activities, it helps in earning profits which becomes the main source of income for the borrowers. Borrowers took decisions relating to the use of loans for income generating activities, spending on food, clothing and payment of school fees for children's education. Ability to contribute to decisions relating to household with control over financial resources made them feel financially independent.

Table 37: Training and Its Impact on Life

		Attended Training Programme	
		No	Yes
		Count	Count
Training and Impact on Life	No training	187	0
	Large Impact	0	0
	Small Impact	0	13
	No Change	0	0
	Don't Know	0	0

Table 38: Chi-Square Test Showing Relationship between Training and Its Impact on the Life of Beneficiaries (Pearson Chi-Square Tests)

		Attended Training Programme
Training and Impact on Life	Chi-square	200.000
	Df	1
	P value	.000*

Null Hypothesis 3: There is no significant relationship between training and its impact of life of respondents.

The P value is less than 0.05. The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance. Those respondents who attended the training programs felt a positive impact on their life which gave them the confidence to set up their own small business units. Training programmes attended included those on tailoring, hand and machine embroidery. These training programmes were conducted by the NGOs and the District Rural Development Agencies.

Factors Influencing Economic and Social Empowerment

Self Help Group members often make use of loan facilities from their groups, banks and microfinance institution's. These loans affect various aspects of social empowerment of these members. It has been thought that it is apt to explore these factors that affect their social empowerment. A structured questionnaire has been randomly distributed to the Self Help Group members. The sample is 200 Self Help Group members of Rangareddy district. The questionnaire contained 7 variables influencing the social empowerment. The variables were measured using a five-point Likert Scale. The opinion of respondents is taken on a scale of 1-5 with '1' being the least important and '5' being most important. The variables affecting the social empowerment mentioned in the questionnaire are as follows:

Table 39: Variables Affecting the Economic and Social Empowerment

l. No	Variables
	Comparison with others
	Change in food
	Effect on person
	Effect on welfare on household
	Dependency on husband
	Contribution to family budget decisions
	Ability to prepare for emergencies

Source: Primary data

Factor analysis is a data reduction statistical technique that allows simplifying the correlational relationships between a number of continuous variables. The study is intended to explore the important factors affecting social empowerment of Self Help Group members. Principal Component Analysis is used, since it is an exploratory factor analysis. To test the acceptability of data, the following steps were taken:

- The correlation matrices were computed. It revealed that there is enough correlation to go ahead for factor analysis.
- Kaiser-Meyer-Olkin Measure of Sampling Adequacy for individual variance is studied.

Factor analysis was used to determine the factors that influence economic and social empowerment of SHG members. The Kaiser-Meyer-Olkin (KMO) measure of sample adequacy was 0.817. A total of two factors were extracted with a total variance explained being 85.356%. The two factors which influence economic and social empowerment of SHG members were Household welfare and Social status.

On the same lines a factor analysis was conducted to establish the factors that impact the socio economic status of members after they have joined Self help groups. A list of nineteen variables was considered for the factor analysis.

Table 40: Variables Affecting the Socio-Economic Status

Mobility	Recognition in Family
Recognition in community	Interaction with outsiders
Literacy	Access to health services
Access to immunisation	Access to sanitation
Access to credit sources	Asset building
Family income	Skills
Voicing concern	Nutrition awareness
Family planning awareness	Girl child development awareness
Health awareness	Decision making related to child
Individual income	

Source: Primary Data

The Cronbach's alpha, which determines the internal consistency of the scale is 0.686. Kaiser-Meyer-Olkin Measure of Sampling Adequacy for individual variance is 0.732. The value is considered to be a "middling" value and indicates that the sample is considered good. A total of six factors were extracted with the total variance explained being 67.589%. The factor analysis established six factors, namely, Access to credit and health services, Social recognition Development awareness, Individual growth, Individual Income, Mobility as influencers of socioeconomic status.

Findings

1. There is significant relationship between receipt of loan and change in overall household income.
2. There is significant relationship between use of loan for income generating activity and financial independence of borrowers.
3. There is significant relationship between training and its impact of life of respondents.
4. The factor analysis established two factors namely household welfare and social status as key influencers of economic and social empowerment

5. The factor analysis established 6 factors namely Access to credit and health services, Social recognition Development awareness, Individual growth, Individual Income, Mobility as influencers of socioeconomic status.

The results of the pilot study were considered to be significant enough to proceed for the final study.

Scope of the Study

The present research work has been conducted in the States of Andhra Pradesh and Tamil Nadu by considering the various stakeholders in the credit delivery mechanism namely the perception of Self Help Group members and group leaders, perception of bankers in both states, performance of banks (public and private sector) and Microfinance Institutions included in the sample. In Andhra Pradesh, the districts covered are Hyderabad, Rangareddy, Nalgonda, Krishna, Ananthpur and Chitoor. In Tamil Nadu, the districts covered included Chennai, Kanchipuram, Coimbatore, Tiruppur, Madurai and Trichy. The study is focused on the following dimensions:

- A comparison of the credit delivery mechanism by commercial banks (public and private sector) and microfinance institutions in the states of Andhra Pradesh and Tamil Nadu.
- Interviewing bank managers for identifying the organizational initiative taken in the credit delivery mechanism and the problems associated with it.
- Assessing the efficiency of Microfinance Institution included in the sample from the two states.
- Measuring the factors determining financial, economic and social empowerment among members of Self help groups in the two states of Andhra Pradesh and Tamil Nadu.
- Measuring the factors that affect the socioeconomic status of members of Self help groups in the two states of Andhra Pradesh and Tamil Nadu.

Objectives of the Study

The broad objective of the study is "To compare the credit delivery mechanism in the two states of Andhra Pradesh and Tamil Nadu."

To investigate the above broad objective, the following specific objectives were formulated:

- To compare the consistency of performance of public and private sector banks in providing Micro credit in the form of loans to Self help groups in the states of Andhra Pradesh and Tamil Nadu.
- To compare performance of public and private sector banks in providing loans to Microfinance institutions.
- To measure and analyse the factors of efficiency of Microfinance Institutions in the states of Andhra Pradesh and Tamil Nadu.
- To examine the impact of the availability of credit on the financial independence of the borrowers of micro credit who are members of Self Help Groups in both the states.
- To study and analyse factors which contribute to social empowerment of Self Help Group members in the states of Tamil Nadu and Andhra Pradesh.
- To study and analyse factors which contribute to socio economic status of Self Help Group members in the states of Tamil Nadu and Andhra Pradesh.
- To suggest measures to enhance the efficiency in the credit delivery mechanism.

Hypotheses of the study

The Hypotheses framed for the study consists of two parts

Part A- (a): Hypotheses relating to performance of public sector banks and private sector bank loans to self help groups in the states of Andhra Pradesh and Tamil Nadu.

(b) Hypotheses relating to performance of public sector banks and private sector bank loans to Microfinance institutions across the country.

Part B– (a): Hypotheses relating to the perception of borrowers of micro credit who are members of Self Help Groups in the states of Andhra Pradesh and Tamil Nadu.

(b) – Factor Analysis has been used to determine factors that determine social empowerment and socioeconomic status of borrowers of micro credit who are members of Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

Part A- (a): Hypotheses relating to performance of public sector banks and private sector bank loans to self help groups in the states of Andhra Pradesh and Tamil Nadu.

H1: There is no significant difference between the amount of loans given by public sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

H2: There is no significant difference in the amount of the loans outstanding of public sector banks to Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

H3: There is no significant difference in the amount of the non performing assets of Public sector banks in terms of loans to Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

H4: There is no significant difference between the amount of loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

H5: There is no significant difference between the amount of outstanding loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

H6: There is no significant difference between the NPA's in the loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

Part A- (b): Hypotheses relating to performance of public sector banks and private sector bank loans to Microfinance institutions across the country.

H7: There is no significant difference in the amount of the loans given by public sector banks to microfinance institutions

H8: There is no significant difference in the amount of the loans outstanding of public sector banks to microfinance institutions

H9: There is no significant difference in the amount of non performing assets of public sector banks in terms of loans to Microfinance Institutions.

H10: There is no significant difference in the amount of the loans given by private sector banks to microfinance institutions

H11: There is no significant difference in the amount of the loans outstanding of private sector banks to microfinance institutions.

H12: There is no significant difference in the amount of non performing assets of private sector banks in terms of loans to Microfinance Institutions.

Part B – Hypotheses relating to the perception of borrowers of micro credit who are members of self help groups in the states of Andhra Pradesh and Tamil Nadu

H13: There is no significant relationship between receipt of loan and change in overall household income of borrowers

H14: There is no significant relationship between loan use for income generating activity and financial independence of the borrowers.

H15: There is no significant relationship between training and its impact on way of life of the borrowers.

H16: There is no significant relationship between training and its usefulness.

H17: There is no significant relationship between annual income of borrowers and use of loan with specific reference to expenditure on clothing, giving part loan to spouse, repay other debt and purchase assets in the state of Andhra Pradesh

H18: There is no significant relationship between annual income of borrowers and use of loan with specific reference to providing part loan to spouse, repay other debt, and meet other expenses and savings in the state of Tamil Nadu

Sources of Primary Data:

Comparison of the credit delivery mechanism in the two states of Andhra Pradesh and Tamil Nadu, will involve comparison of performance of commercial banks (public and private) as they are leaders in the credit delivery, microfinance institutions, and the factors influencing empowerment aspects of the recipients of credit in both the states.

The primary data to determine factors of empowerment was collected from the Self Help Group members of both the states and also by interviewing the bank managers of various commercial banks. Data required for the research was collected by distribution of questionnaires personally to the sample respondents in self help groups in the two states. The questionnaire was designed with the following research questions:

- What is the relationship between loan use and financial empowerment?
- What is the relationship between loan use and social empowerment?
- The impact of self help group membership on the socio economic empowerment of members
- The impact of training on the life of Self Help Group members.

Description of the Sample:

The sampling method used in the study was random purposeful sampling. This method is adapted when cases are chosen in random from the sampling frame consisting of a purposefully selected sample. Random purposeful sampling "adds credibilty to sample when potential purposeful sample is too large (Miles and Huberman, 1994). As the number of Self Help Group members exceeds 10 lakhs in both the states, the ideal number for the sample considering 5% margin of error at 95% confidence level with a 50% response rate is estimated at 385 (Krejcie & Morgan method of determining sample size)[1]. Considering the vast number of Self Help Group members in both the states a higher number was considered appropriate to render credibility and reliability of the analysis. The method of research study adopted is descriptive and empirical in nature

Sample for the study

The Sample chosen in the present study consisted of 1250 women Self Help Group members who are borrowers of micro credit. The sample was chosen from women Self Help Group members in the two states of Andhra Pradesh and Tamil Nadu. The details of the number of Self Help Group members from whom data has been collected is presented in Table 41.

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[1] **Krejcie & Morgan method**

$$\text{Sample Size (n)} = \frac{X^2 * N * P *(1-P)}{(ME^2 * (N-1)) + (X^2 * P * (1-P))}$$

Where n = sample size, X^2 = Chi-squared for specified confidence level @ 5degree of freedom
N = Poulation Size, P = Population proportion (0.5), ME = Desired Margin of error

The questionnaires were distributed and were collected from the Self Help Group members and leaders from the two states. Data was collected from the two states of Andhra Pradesh Tamil Nadu. In A.P, the districts from which data was collected include Hyderabad, Rangareddy, Nalgonda, Medak, Krishna, Ananthapur and Chitoor. In Tamil Nadu, the districts covered include Chennai, Kanchipuram, Coimbatore, Tiruppur, Madurai and Trichy.

Table 41: Distribution of Sample

S.No	State	District	No of questionnaires distributed to Self Help Group members	No of questionnaires collected from Self Help Group members
1	**Andhra Pradesh**			
		Rangareddy	222	212
		Nalgonda	123	98
		Hyderabad	130	123
		Ananthapur	110	77
		Chitoor	110	83
		Krishna	105	92
		TOTAL	**800**	**665**
2	**Tamil Nadu**			
		Chennai	200	180
		Kanchipuram	126	96
		Coimbatore	140	130
		Tiruppur	105	86
		Tiruchi	110	88
		Madurai	119	93
		TOTAL	**800**	**673**

Profile of Districts in Andhra Pradesh from which the Sample has been Selected

1) Rangareddy

Created on the same date of India's independence (15^{th} August), Rangareddy has always been the meeting land for the synthesis of different civilizations, religions, races, cultures, languages and tradition with the twin cities of Hyderabad and Secunderabad as its heart. It was formed by carving out some portion of Hyderabad

Urban Taluk & the merger of the entire Rural and Urban Areas of the remaining Taluks of Previous Hyderabad District.

In India, it is located in the Central Part of the Deccan Plateau and it is bounded on the North by Medak District, East by Nalgonda District, South by Mahaboobnagar District, and West by Gulbarga District & North West of Bidar District of Karnataka State. It covers an area of 7564.88 Sq. Kms.

At present the District has 982 inhabited villages and 73 un-inhabited villages forming into 705 gram Panchayats. The principal crops of the District are Jowar, Paddy, Ragi, pulses and Castor. The state's agriculture owes much to the grape cultivation of the District. Though, two good rivers flow through the District there are no proper irrigation projects. There are 50 mandals in Rangareddy district. The district of Rangareddy presents a comparatively better picture in road network than the other districts of Andhra Pradesh. The District Headquarters, i.e., Hyderabad is connected by road with all mandals while 11 mandals are connected by rail also.

2) Hyderabad :

Hyderabad District is a district in the state of Andhra Pradesh in India that contains a part of the metropolitan area of Hyderabad. Hyderabad district was formed in 1948 after Police Action by merging Atraf-a-Balda District and Baghat District. In 1978 Hyderabad district was later split into Hyderabad Urban District and Hyderabad Rural District. Hyderabad rural district was later renamed as Rangareddy District. Hyderbad Urban district is presently simply known as Hyderabad district. Hyderabad district occupies an area of approximately 200 square kilometres (77 sq mi).

According to the 2011 census Hyderabad district, India has a population of 4,010,238. The district has a population density of 18,480 inhabitants per square kilometre (47,900 /sq mi). Its population growth rate over the decade 2001-2011 was 4.71 %. Hyderabad has a sex ratio of 943 females for every 1000 males, and a literacy rate of 80.96 %. Hyderabad district is divided into sixteen mandals. The major industries in Hyderabad include Pharmaceuticals, Manufacturing and Information Technology (IT).

3) Anantpur :

Anantapur District is at the southwest of Andhra Pradesh. It is bounded by Karnataka to the west, Kadapa district to the east, the district of Chittoor to the South, and Kurnool district to its North. In 1882 the district was constituted separating it from the district of Bellary. The District comprises of 3 revenue divisions which consists of 63 Revenue Mandals (Anantapur Division 20, Dharmavaram Division 17 and Penukonda Division 26). According to the 2001 census the population of the district is 3639304. It covers an area of 19130 sq kms. The important cities of the district are Anantapur, Tadipatri, Kadiri, Dharmavaram, Uravakonda, Rayadurg, Hindupur, Guntakal, Kalyandurg. Other major places include Alur, Gooty, Chitrachedu, Enumaladoddi, Lepakshi, yalagalavanka and Puttaparthi. The economy of Anantpur is principally based on agriculture. The farmers grow groundnut, rice, cotton, maize, chillies, sesame, and sugarcane. The district is one of the most backward provinces of Andhra Pradesh as it receives very little rainfall which adversely affects the agriculture sector based on monsoons. Few industries of the region are silk trade, limestone quarrying, iron and diamond mining. The Government of Andhra Pradesh had taken up various steps to revive the poor rural economy.

4) Chitoor:

Chittoor district is located in the extreme south of Andhra Pradesh. It is surrounded by Anantapur and Cuddapah districts on the north, by Nellore and Chengai-Anna districts of Tamil Nadu on the east, by North Arcot Ambedkar and Dharmapuri district of Tamil Nadu on the south and by Kolar District of Karnataka on the west. The district is spread over 15152 Sq. Kms. As per 2001 census the population of Chittoor district is 37.35 lakhs.

It is divided into 66 Mandals. The various Industries of Chittoor district generating employment for the people are sugar, ceramics, textile, railway wagon workshop, alcohol, moped, brass and copper. The popular handicrafts of the region are wooden crafts, kalamkari and bell metal and stone crafts. The forests of the region help the nation to earn foreign currency by exporting teak and red sandalwood. The other by-products of the forest are honey, tamarind, and many Ayurvedic plants, which earn revenues for the state.

5) Krishna:

The Krishna District is situated in the east of Andhra Pradesh, India. The borders of this district are West Godavari district in the East, Bay of Bengal in the South, Guntur and Nalgonda districts in the West and Khammam district in the North directions. The total area is 8,727 square kilometers and its Head Quarters is at Machilipatnam. The population in Krishna District is 4,181,071 persons. The district is named after the River Krishna and the Barrage built on the river at Vijayawada is the Chief Irrigation Source to the District. Three tributaries of the River Krishna are the Bhima, the Tungabhadra and the Musi during its course in Andhra Pradesh. The district of Krishna is endowed with a rich variety of soils and it occupies an important place in agriculture, which is the most important occupation, and Paddy is the main food crop produced. Krishna district has recorded a literacy rate of 70.03%. So it is evident that the district is well advanced in field of education.

Vijayawada, the major city in Krishna district has an important railway junction which is connected to Delhi, Calcutta, Madras, Hubli, Gudivada and Machilipatnam. The second largest Bus Station complex in the state is also located in Vijayawada. There are 50 mandals in the Krishna district.

6) Nalgonda:

Formerly known as Neelagiri, the district of Nalgonda is situated in the Southern part of the Telangana Region covering an area of 14,217 Sq. Kms. The District is bordered by Medak and Warangal districts in the North, Guntur and Mahabubnagar districts in the South, Khammam and Krishna districts in the East while the districts of Mahabubnagar and Rangareddy lie in the West. The total population of Nalgonda is 34.5 lakhs and The density of population is 227 per Sq. Km (2001 census).

Agriculture is one of the main occupations in Nalgonda. People mainly grow paddy, pulses, millets and oilseeds. It is supported by a well-planned irrigation system which includes 26 lift irrigation and 116007 irrigation wells. Also, there are six rivers flowing through the district. These are Krishna, Pegga Vadu, Kanagal, Musi, Dindi, Alair and Halia. The economic development in Nalgonda is fast progressing. The number of Large Scale Industries is 492, while that of the Small Scale Industries is 10069. The major industries are on Silk, Leather, Cotton, Sugar, Jaggery and Cement.

Profile of Districts in Tamil Nadu from which the Sample has been Selected for the Study

1) Chennai:

Chennai is the capital city of the State of Tamil Nadu and constitutes the south-eastern extremity of the Indian peninsula, besides being an important district. The district city is one of the metropolises of India and serves as the gateway of the culture of South India. In spite of being the capital of a Tamil speaking State, it has emerged as a cosmopolitan city playing an important role in the historical, cultural and intellectual development of India, representing still the distinct components of the highest form of Dravidian civilisation. In addition, it holds out an interesting fare of South Indian architecture, music, dance, drama, sculpture and other arts and crafts.

Chennai is situated on the north-east end of Tamil Nadu on the coast of Bay of Bengal. It is bounded on the east by the Bay of Bengal and on the remaining three sides by Chengalpattu and Thiruvallur Districts. It has a population of Population 4216268 as per 2001 census. Chennai's economy has a broad industrial base in the automobile, computer, technology, hardware manufacturing and healthcare industries. The city is India's second largest exporter of information technology (IT) and business process outsourcing (BPO) services. A major chunk of India's automobile manufacturing industry is based in and around the city.

2) **Kanchipuram:**

Kancheepuram district is situated on the northern East Coast of Tamil Nadu and is adjacent by Bay of Bengal and Chennai city and is bounded in the west by Vellore and Thiruvannamalai district, in the north by Thiruvallur district and Chennai district, in the south by Villuppuram district in the east by Bay of Bangal. The district has a total geographical area of 4393.37 Sq.Kms and coastline of 57 Kms. According to 2001 census, the population of the district is 30.38 lakh. Kancheepuram, the temple town is the district headquarters. For administrative reasons, the district has been divided into 4 revenue divisions comprising of 10 taluks with 1137 revenue villages. For development reasons, it is divided into 13 development blocks with 648 Village Panchayats. The main occupation of the people is agriculture. One of the major crops of Kanchipuram district is Paddy. The other main crops are groundnut, sugarcane, cereals and millets and pulses are the other major crops. Kanchipuram is one of the largest industrial district of Tamil Nadu, where international industrial groups like: Ford, Hyundai, and Sant Gobain have established their industries. The silk sarees of Kanchipuram are very popular.

3) **Madurai**:

Madurai District is situated in the South of Tamil Nadu state. It is bounded on the North by the districts of Dindigul, Thiruchirapalli and on the East by Sivagangai and on the West by Theni and South by Virudhunagar .Madurai is one of the major districts of Tamil Nadu State. In 1984, the Vast Madurai district was bifurcated into two districts namely Madurai and Dindugul Districts. Subsequently in 1997, Madurai district was bifurcated into two districts namely Madurai and Theni Districts. In Madurai District, there are 10 State Assembly constituencies and two parliament constituencies. The city is the home to many IT and ITES companies apart from textile and granite industries. It has an area of 3741.73 sq km and a population of 25, 62,279 as per 2001 census.

Madurai is surrounded by several mountains. The Madurai city has 3 hills as its city boundary. Yanaimalai, Nagamalai, Pasumalai named after Elephant, Snake and Cow respectively. It is famous for Jasmine Flowers. Jasmine flowers are transported to other cities of India from Madurai.

4) Coimbatore

The district of Coimbatore is one of the largest districts of the state of Tamil Nadu, covering the geographical area of 7469 Sq. km. The total population of Coimbatore district is 42, 71,856. Out of the three Revenue Divisions, the economy of Coimbatore Division is dependent on industries, agriculture hosiery manufacturing industries.

The third largest city of the state, Coimbatore, is one of the most industrialized cities in Tamil Nadu, known as the textile capital of South India or the Manchester of the South, the city is situated on the banks of the river Noyyal. In the rain shadow region of the Western ghats, Coimbatore enjoys a very pleasant climate all the year round, has been a strong economy and a reputation as one of the greatest industrial cities in South India. There are more than 25,000 small, medium, large sale industries and textile mill. Coimbatore is also famous for the manufacture of motor pump sets and varied engineering goods. The development of Hydro electricity from the Pykara Falls in the 1930 led to a cotton boom in Coimbatore.

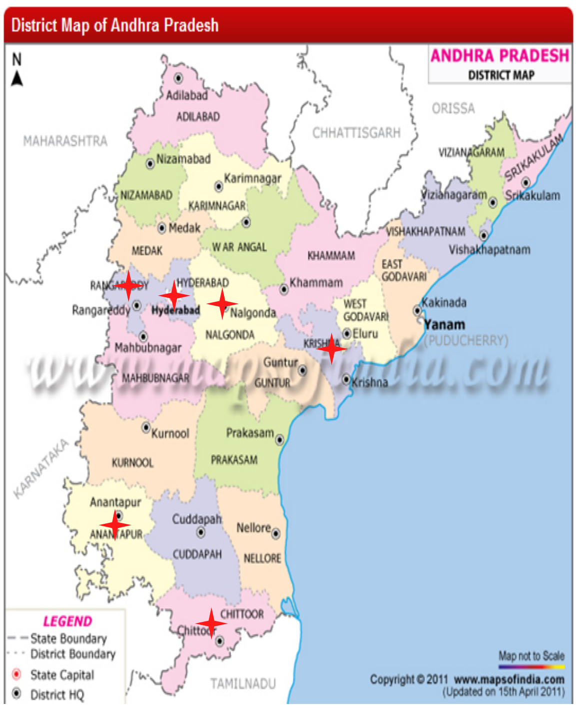
5) Tiruppur:

Tiruppur district has an area of 5186.34 sq. km. and a population of 24,71,222 as per 2011 census. It is composed of three revenue divisions namely, Tiruppur, Dharapuram, and Udumalpet and seven taluks. It is a textile city and agriculture and hosiery are major sources of livelihood in this district. Although Tirupur is a small city compared to Coimbatore, it is the centre of Tamil Nadu's cotton knitwear industry and successfully markets its products in India and overseas. It is one of the fastest growing city in India in terms of Industry. It is called the Knits Capital of India as it caters to famous brands and retailers from all over the world. Nearly every international knitwear brand in the world has a strong production share from Tirupur.

6) Tiruchirapalli:

Tiruchirapalli district has an area of 4403.83 sq km and a population 0f 2418366 as per 2001 census. Tiruchirapalli district lies at the heart of Tamil Nadu. The district has an area of 4,404 square kilometers. It is bounded in the northwest by Namakkal district, in the northeast by Perambalur district, in the east by Thanjavur District, in the southeast by Pudukkottai district in the south by Madurai district and Sivagangai district in the southwest by Dindigul district and, in the west by Karur district. Kaveri River flows through the length of the district and is the principal source of irrigation and water supply. Major industries include boiler Manufacturing Industries, Cement Factories, Light and heavy engineering, Leather Tanneries, Food processing Industries, Sugar Mills, Cigar Making Industries, Hosiery and garments.

Fig 11: Map of AP and TN representing the Districts from where Sample is selected



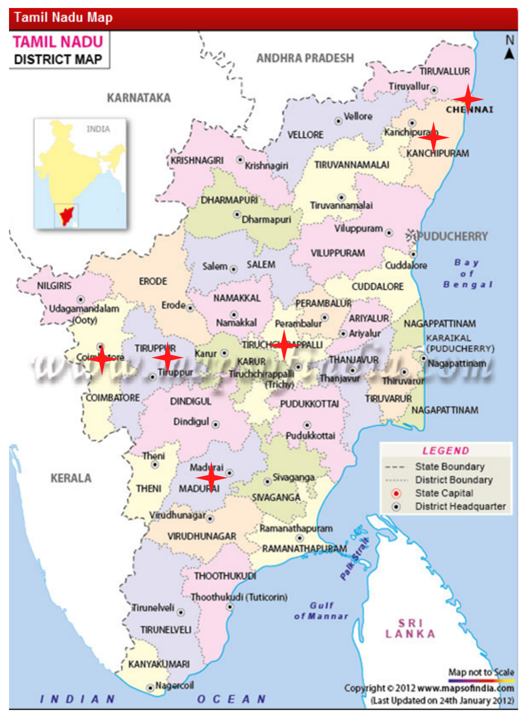


Table 42: Final Sample for the Study

State	Questionnaires Received	Questionnaires eliminated after analysis for insufficiency of information	Questionnaires eliminated after analysis for insufficiency of information
Andhra Pradesh	665	36	629
Tamil Nadu	673	52	621
TOTAL			**1250**

Primary data thus was collected and analyzed for 1250 women Self Help Group members who are borrowers of micro credit. Besides, information was also collected from 32 Self Help Group leaders from Andhra Pradesh and 29 Self Help Group leaders from Tamil Nadu. The primary data collected was subjected to SPSS analysis (Ver. 17.0)

The data relating to public and private sector banks performance in the two states of Tamil Nadu and Andhra Pradesh was collected from NABARD report on status of microfinance for the years 2008-11. The overall performance of public sector and private sector banks in the states of Andhra Pradesh and Tamil Nadu in the credit delivery mechanism has been analysed. The public sector and private sector banks included in the sample from the states of Andhra Pradesh and Tamil Nadu are those banks which have provided loans to self help groups and Microfinance institutions for at least a minimum period of two years out of the three year period considered for the study from 2008-11.

Table 43: Public Sector Banks in Andhra Pradesh and Tamil Nadu considered for the study

Andhra Pradesh		Tamil Nadu	
S. No.	Name of the Bank	S. No.	Name of the Bank
1	Allahabad Bank	1	Allahabad Bank
2	Andhra Bank	2	Andhra Bank
3	Bank of Baroda	3	Bank of Baroda
4	Bank of India	4	Bank of India
5	Bank of Maharashtra	5	Bank of Maharashtra
6	Canara Bank	6	Canara Bank
7	Central Bank of India	7	Central Bank of India
8	Corporation Bank	8	Corporation Bank
9	Dena Bank	9	Dena Bank
10	Indian Bank	10	Indian Bank
11	Indian Overseas Bank	11	Indian Overseas Bank
12	al Bank of Commerce	12	al Bank of Commerce
13	Punjab National Bank	13	Punjab National Bank
14	te Bank of Hyderabad	14	te Bank of Hyderabad
15	State Bank of India	15	State Bank of India
16	State Bank of Mysore	16	State Bank of Mysore
17	Syndicate Bank	17	Syndicate Bank
18	UCO Bank	18	UCO Bank
19	Union Bank of India	19	Union Bank of India
20	Vijaya Bank	20	Vijaya Bank

Table 44: Private Sector Banks in Andhra Pradesh and Tamil Nadu considered for the study

Andhra Pradesh		Tamil Nadu	
S. No.	Name of Bank	S. No.	Name of Bank
1	City Union	1	Federal Bank
2	HDFC Bank	2	City Union Bank
3	Karnataka Bank	3	HDFC Bank
4	KBS Local Area Bank	4	Karnataka Bank
5	AXIS Bank	5	Karur Vysya Bank
		6	Tamilnad Mercantile Bank
		7	Tamilnad Merchant Bank
		8	The Catholic Syrian bank Ltd.

Besides the following public and private sector banks which are stellar performers in financing of Self help groups and microfinance institutions in the states of Andhra

Pradesh and Tamil Nadu during the period 2008-11 are presented. The Microfinance institutions selected for the purpose of study in both the states are those which have been consistent in reporting the results of their operations to the Microfinance Information Exchange (MIX) over the last three years. The role of NGO's/MFO's in the credit delivery mechanism in the two states is also discussed. Interviews and discussions were held with managers of banks in both the states and their inputs on the working of the credit delivery mechanism are also presented.

Table 45: Sample of Stellar Performers among Public Sector, Private Sector Banks, Microfinance Institutions in the States of Andhra Pradesh and Tamil Nadu

	States	
Type of Institution	**Andhra Pradesh**	**Tamil Nadu**
Public Sector Banks	SBI, Andhra Bank, SBH	Indian Bank, Indian Overseas Bank, Canara Bank
Private Sector Banks	HDFC bank, Karnataka Bank	HDFC, Tamil Nad Mercantile Bank
Micro Financial Institutions	SKS Microfinance Ltd., Spandana Sphoorty Financial Ltd.	Grama Vidiyal Microfinance Pvt. Ltd. (GVMFL), Madura Micro Finance Pvt. Ltd. (MMFL)

Sources of Secondary Data:

- Review of books on relevant areas for the research such as microfinance, evolution, concepts, credit delivery mechanism in India, organizational perspectives of microfinance globally and in India, concept of risk in microfinance.
- Digital libraries, journals, online database and other web resources.
- Proceedings of Seminars/Conferences reports on microfinance
- NABARD report on status of microfinance
- MIX market reports for the period 2008-11

During research period, data was also accessed from libraries of University of Hyderabad, Osmania University, National institute of Rural development, Administrative Staff College of India and Indian School of Business.

Tools used for the Data Collection:

The following tools were used for data collection:

- Questionnaire to elicit information from Women Self Help Group members and Self Help Group leaders.
- Bank managers Interview Schedule
- Ratios to evaluate performance of Microfinance Institutions included in the sample.

Description of the tools used in the study:

- **Questionnaire to Self Help Group members –** The questionnaire also includes aspects of loan usage and financial empowerment, economic and social empowerment, household welfare, usefulness of training, organizational aspects of groups, knowledge and awareness of Self Help Group activities, saving pattern, changes on socio economic status after joining Self help groups. Information was also collected from Self Help Group leaders regarding organization and management of self-help groups, utilization of savings, benefits of self help groups to community and society. The questionnaire was used to elicit information relating to the demographic profile of the respondents.
- **Bank Managers interview schedule –** The interview schedule for bank managers elicited information on details of the banks role in the credit delivery mechanism, the problems associated with it, facilities provided by the banks to Self Help Groups.

CHAPTER - 6

Results and Discussion

CHAPTER - 6

Results & Discussion

The research study was undertaken with the objective of examining and comparing the delivery of micro credit by banks and Microfinance institutions in the states of Andhra Pradesh and Tamil Nadu. It also involved the study of the factors influencing the economic and social empowerment of the self help group members in these states. The results emerging from this study are presented as follows:

1. Part A - Demographic profile of the sample in the states of Andhra Pradesh and Tamil Nadu
2. Part B - Results from the analysis of performance of banks in the states of Andhra Pradesh and Tamil Nadu in relation to the models of credit delivery in operation.
3. Part C - The performance of selected microfinance institutions in the states of Andhra Pradesh and Tamil Nadu in terms of efficiency is also presented.
4. Part D - The perception of managers of banks and role of Non-governmental organizations/MFOs from both the states is also presented.
5. Part E - Results from the responses from the members of Self help groups and Self help group leaders in the states of Andhra Pradesh and Tamil Nadu

Part A - Demographic Profile of the Sample in the States of Andhra Pradesh and Tamil Nadu

Table 46: Demographic Profile of the Sample

		State			
		Andhra Pradesh		Tamil Nadu	
		Frequency	Percent	Frequency	Percent
age in years	<25	58	9.22	36	5.80
	26 -35	280	44.52	219	35.27
	36 -45	174	27.66	228	36.71
	>46	117	18.60	138	22.22
Total		**629**		**621**	
Education	Illiterate	327	51.99	349	56.20
	Literate	302	48.01	272	43.80
Total		**629**		**621**	
level of education	Illiterate	327	51.99	349	56.20
	Primary	50	7.95	18	2.90
	middle school	39	6.20	50	8.05
	high school	116	18.44	138	22.22
	Intermediate	86	13.67	42	6.76
	Graduation	11	1.75	24	3.86
Total		**629**		**621**	
Marital status	Married	624	99.21	615	99.03
	Unmarried	3	0.48	0	0.00
	Widow	2	0.32	6	0.97
Total		**629**		**621**	
Children	No	28	4.45	31	4.99
	Yes	601	95.55	590	95.01
Total		**629**		**621**	
Type of family	Joint	251	39.90	42	6.76
	Nuclear	378	60.10	579	93.24
Total		**629**		**621**	
No of members	>3	469	74.56	430	69.24
	<3	160	25.44	191	30.76
Total		**629**		**621**	
Head of family	Others	593	94.28	512	82.45
	Self	36	5.72	109	17.55
Total		**629**		**621**	
Activity status of children	no children	29	4.61	31	4.99
	small children	13	2.07	6	0.97
	school going	472	75.04	453	72.95
	working children	104	16.53	103	16.59
	married children	11	1.75	28	4.51
Total		**629**		**621**	

		State			
		Andhra Pradesh		Tamil Nadu	
		Frequency	Percent	Frequency	Percent
Husband's Education	Illiterate	302	48.01	332	53.46
	Literate	327	51.99	289	46.54
Total		**629**		**621**	
Husband's education level	Illiterate	302	48.01	332	53.46
	Primary	31	4.93	6	0.97
	middle school	26	4.13	36	5.80
	high school	73	11.61	55	8.86
	Intermediate	140	22.26	108	17.39
	Graduation	57	9.06	84	13.53
Total		**629**		**621**	
Husband's employment status	None	3	0.48	0	0.00
	Employed	254	40.38	240	38.65
	Unemployed	30	4.77	71	11.43
	self employed	342	54.37	310	49.92
Total		**629**		**621**	
Annual income(`)	<50000	349	55.48	393	63.29
	50001-100000	259	41.18	222	35.75
	>100000	21	3.34	6	0.97
Total		**629**		**621**	

The sample consisted of 1250 women Self Help Group members from the states of Andhra Pradesh and Tamil Nadu. In Andhra Pradesh, 44.52% of the women were in the age group of 26 to 35 years and in Tamil Nadu 35.27% of the sample belonged to this age group. As far as literacy levels are concerned 48.01% of the sample was literate in Andhra Pradesh and 43.80% of the sample were literate in Tamil Nadu. In Andhra Pradesh, 18.44% of the respondents were educated upto high school whereas in Tamil Nadu it was 22.22% of the respondents. In Andhra Pradesh, 60.10 % of the women belonged to nuclear families while in Tamil Nadu almost 94% of the sample came from nuclear families. More than 70% of the women in both the states had school going children. With regard to the education level of the spouses of the respondents 48.01% were illiterate in Andhra Pradesh whereas in Tamil Nadu 53.46 were illiterate. 54.37% of the spouses of the respondents were self employed in Andhra Pradesh while 49.92% were self employed in Tamil Nadu. 55.48% of the women in Andhra Pradesh belonged to families with an annual income of less than ₹50000 p.a. while in Tamil Nadu 63.29% belonged to families with an annual income of ₹50000 p.a.

Objectives of the study

The broad objective of the study is to compare the credit delivery mechanism in the two states of Andhra Pradesh and Tamil Nadu.

To investigate the above, objective the following specific objectives were formulated.

- To compare the consistency of performance of public and private sector banks in providing Microcredit in the form of loans to Self help groups in the states of Andhra Pradesh and Tamil Nadu.
- To compare performance of public and private sector banks in providing loans to Microfinance institutions.
- To measure and analyse the factors of efficiency of Microfinance Institutions in the states of Andhra Pradesh and Tamil Nadu.
- To examine the impact of the availability of credit on the financial independence of the borrowers of micro credit who are members of Self Help Groups in both the states.
- To study and analyse factors which contribute to social empowerment of Self Help Group members in the states of Tamil Nadu and Andhra Pradesh.
- To study and analyse factors which contribute to socio economic status of Self Help Group members in the states of Tamil Nadu and Andhra Pradesh.
- To suggest measures to enhance the efficiency in the credit delivery mechanism.

Part B – Results from the analysis of performance banks in the states of Andhra Pradesh and Tamil Nadu in relation to the models of credit delivery in operation. The opinion of managers of banks and leaders of Non Governmental Organizations from both the states are also presented

The success in the model of credit delivery of banks in the states of Andhra Pradesh and Tamil Nadu can be better understood by comparing the two models of credit delivery namely – Bank loans to self help groups and bank loans to Microfinance institutions. The amount of loans provided by public sector and private sector banks to self help groups and Microfinance institutions can be compared. The success of the model of credit delivery also depends on the amount of loans outstanding and the non performing assets under both the models of credit delivery. The data relating to loan disbursement of private sector banks to microfinance institutions, loans outstanding of Private sector banks to Microfinance institutions and the Non performing assets of Private sector banks in relation to this are available only on All India basis and are not state specific.

The performance of public and private sector banks in the credit delivery mechanism is compared and analysed by developing suitable hypothesis and testing with one way ANOVA with the objective of determining the more successful mode of credit delivery. The following Hypotheses was developed and tested.

Hypotheses of the study

The Hypotheses framed for the study consists of two parts

Part A- (a): Hypotheses relating to performance of public sector banks and private sector bank loans to self help groups in the states of Andhra Pradesh and Tamil Nadu

H1: There is no significant difference between the amount of loans given by public sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

H2: There is no significant difference in the amount of the loans outstanding of public sector banks to Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

H3: There is no significant difference in the amount of the non performing assets of Public sector banks in terms of loans to Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

H4: There is no significant difference between the amount of loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

H5: There is no significant difference between the amount of outstanding loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu.

H6: There is no significant difference between the NPA's in the loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu

Part A- (b): Hypotheses relating to performance of public sector banks and private sector bank loans to Microfinance institutions across the country

H7: There is no significant difference in the amount of the loans given by public sector banks to microfinance institutions

H8: There is no significant difference in the amount of the loans outstanding of public sector banks to microfinance institutions

H9: There is no significant difference in the amount of non performing assets of public sector banks in terms of loans to Microfinance Institutions.

H10: There is no significant difference in the amount of the loans given by private sector banks to microfinance institutions

H11: There is no significant difference in the amount of the loans outstanding of private sector banks to microfinance institutions.

H12: There is no significant difference in the amount of non performing assets of private sector banks in terms of loans to Microfinance Institutions.

Loans to Self Help Groups Given By Public Sector Banks in Andhra Pradesh during the Period 2008-2011

The following table summarizes the loans provided to self help groups by public sector banks in Andhra Pradesh during the period 2008-2011. The mean, standard deviation and coefficient of variation have been computed. Banks with lower coefficient of variation have found to be more consistent in disbursement of loans to self help groups. State Bank of India, State Bank of Hyderabad, State Bank of Mysore & Indian Bank continue to be consistent in loan disbursal to self help groups.

Table 47: Public Sector Bank Loans to Self Help Groups from 2008-11 in Andhra Pradesh

S. No.	Name of the Bank	Total Loans disbursed during the year 2008-09	Total Loans disbursed during the year 2009-10	Total Loans disbursed during the year 2010-11	Mean	Std Deviation	Coefficient of Variation
Andhra Pradesh							
1	Allahabad Bank	2099.73	2050.36	942.80	1697.63	654.1678652	38.53%
2	Andhra Bank	1003.11	121654	118999.54	80552.22	68904.33091	85.54%
3	Bank of Baroda	4194.67	4194.67	5646.35	4678.563	838.1278388	17.91%
4	Bank of India	3031.13	7010.08	4471.65	4837.62	2014.562311	41.64%
5	Bank of Maharashtra	548.25	335.09		441.67	150.7268815	34.13%
6	Canara Bank	13380.88	14182.9	19294.34	15619.37	3207.778674	20.54%
7	Central Bank of India	1521	3299	4598.00	3139.333	1544.701374	49.20%
8	Corporation Bank	3831.08	7116.67	4947.03	5298.26	1670.717599	31.53%
9	Dena Bank	125	123.78	14.59	87.79	63.39599435	72.21%
10	Indian Bank	38616.58	42894	49246.00	43585.53	5348.345467	12.27%
11	Indian Overseas Bank	34751	25719	16359.00	25609.67	9196.487445	35.91%
12	Oriental Bank of Commerce	6	6	151.08	54.36	83.76197705	154.09%
13	Punjab National Bank	1585.7	1993.18	2208.86	1929.247	316.4612136	16.40%
14	State Bank of Hyderabad	54181	59846	51504.42	55177.14	4259.07389	7.72%
15	State Bank of India	142700	166224	153838.00	154254	11767.51614	7.63%
16	State Bank of Mysore		331	304.09	317.545	19.02824348	5.99%
17	Syndicate Bank	18309.74	18941.54	26132.32	21127.87	4345.481295	20.57%
18	UCO Bank	376.58	347.77	212.36	312.2367	87.68703116	28.08%
19	Union Bank of India	49142.69	8472.49	5173.15	20929.44	24489.01543	117.01%
20	Vijaya Bank	2964.49	2913.61	4446.34	3441.48	870.606058	25.30%

A One way ANOVA Test has been applied to find whether there is any significant difference among public sector banks in terms of the loans provided to self help groups in Andhra Pradesh during the period 2008-11

Null Hypothesis H1a - There is no significant difference in the amount of the loans given by public sector banks to Self help groups in the states of Andhra Pradesh.

Table 48: Public Sector Bank Loans to Self Help Groups from 2008-11 in Andhra Pradesh

Groups	Count	Sum	Average	Variance
Allahabad Bank	3	5092.89	1697.63	427935.5959
Andhra Bank	3	241656.7	80552.21667	4747806818
Bank of Baroda	3	14035.69	4678.563333	702458.2741
Bank of India	3	14512.86	4837.62	4058461.306
Bank of Maharashtra	2	883.34	441.67	22718.5928
Canara Bank	3	46858.12	15619.37333	10289844.02
Central Bank of India	3	9418	3139.333333	2386102.333
Corporation Bank	3	15894.78	5298.26	2791297.297
Dena Bank	3	263.37	87.79	4019.0521
Indian Bank	3	130756.6	43585.52667	28604799.23
Indian Overseas Bank	3	76829	25609.66667	84575381.33
Oriental Bank of Commerce	3	163.08	54.36	7016.0688
Punjab National Bank	3	5787.74	1929.246667	100147.6997
State Bank of Hyderabad	3	165531.4	55177.14	18139710.4
State Bank of India	3	462762	154254	138474436
State Bank of Mysore	2	635.09	317.545	362.07405
Syndicate Bank	3	63383.6	21127.86667	18883207.68
UCO Bank	3	936.71	312.2366667	7689.015433
Union Bank of India	3	62788.33	20929.44333	599711876.7
Vijaya Bank	3	10324.44	3441.48	757954.9083

Table 49: ANOVA for the Public Sector Bank Loans to Self Help Groups from 2008-11 in Andhra Pradesh

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	80910023949	19	4258422313	14.30076568	6.72453E-12	1.867332
Within Groups	11315481391	38	297775826.1			
Total	92225505340	57				

The ANOVA result shows that the calculated F value is 14.30076568 which is greater than the table value of 1.867332 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference among the commercial banks in the amount of loans disbursed to self help groups in Andhra Pradesh. The null hypothesis is, therefore, rejected.

Similarly, the loans provided to self help groups by public sector banks in Tamil Nadu are presented in the following table. The mean, standard deviation and coefficient of variation has been calculated. Oriental Bank of Commerce, Indian Overseas Bank, Syndicate Bank, State Bank of Mysore have been consistent in their loans to self help groups and their coefficient of variation is low in comparison with other banks operating in the state.

Table 50: Public Sector Bank Loans to Self Help Groups from 2008-11 in Tamil Nadu

(amount in ₹Lakhs)

S. No.	Name of the Bank	Total Loans disbursed during the year 2008-09	Total Loans disbursed during the year 2009-10	Total Loans disbursed during the year 2010-11	Mean	Std Deviation	Coefficient of Variation
Tamil Nadu							
1	Allahabad Bank	2.88	36.25	36.25	25.12667	19.26617848	76.68%
2	Andhra Bank	10.5	752	522.02	428.1733	379.5536327	88.64%
3	Bank of Baroda	766.01	1035.06	1928.27	1243.113	608.4214978	48.94%
4	Bank of India	4513.8	5047.4	1293.70	3618.3	2030.764908	56.12%
5	Bank of Maharashtra	28.2	50.25		39.225	15.59170453	39.75%
6	Canara Bank	13313.6	17241.34	18998.67	16517.87	2910.766541	17.62%
7	Central Bank of India	635.1	2359	2624.79	1872.963	1080.226969	57.67%
8	Corporation Bank	347.64	718.44	237.00	434.36	252.1634137	58.05%
9	Dena Bank	31	92.73	144.00	89.24333	56.58062949	63.40%
10	Indian Bank	57747.43	83363	99660.00	80256.81	21128.23214	26.33%
11	Indian Overseas Bank	36104	33180	35128.00	34804	1488.682639	4.28%
12	Oriental Bank of Commerce	42.4	42.4		42.4	0	0.00%
13	Punjab National Bank	174.77	1857.38	771.60	934.5833	853.0631736	91.28%
14	State Bank of Hyderabad	4	8		6	2.828427125	47.14%
15	State Bank of India	19513	37494	29577.00	28861.33	9011.838011	31.22%
16	State Bank of Mysore		375	416.68	395.84	29.47221064	7.45%
17	Syndicate Bank	3299.15	3152.54	3537.24	3329.643	194.154333	5.83%
18	UCO Bank	1076.14	1213.55	1259.58	1183.09	95.43802754	8.07%
19	Union Bank of India	6321.5	1288.11	514.38	2707.997	3153.207777	116.44%
20	Vijaya Bank	136.77	85.5	1074.56	432.2767	556.8240866	128.81%

ANOVA Test has been applied to find whether there is any significant difference among public sector banks in terms of the loans provided to self help groups in Tamil Nadu during the period 2008-11

Null Hypothesis H1b - There is no significant difference in the amount the loans given public sector banks to Self help groups in the states of Tamil Nadu.

Table 51: Public Sector Bank Loans to Self Help Groups from 2008-11 in Tamil Nadu

Groups	Count	Sum	Average	Variance
Allahabad Bank	3	75.38	25.12666667	371.1856
Andhra Bank	3	1284.52	428.1733333	144061
Bank of Baroda	3	3729.34	1243.113333	370176.7
Bank of India	3	10854.9	3618.3	4124006
Bank of Maharashtra	2	78.45	39.225	243.1013
Canara Bank	3	49553.61	16517.87	8472562
Central Bank of India	3	5618.89	1872.963333	1166890
Corporation Bank	3	1303.08	434.36	63586.39
Dena Bank	3	267.73	89.24333333	3201.368
Indian Bank	3	240770.4	80256.81	4.46E+08
Indian Overseas Bank	3	104412	34804	2216176
Oriental Bank of Commerce	2	84.8	42.4	0
Punjab National Bank	3	2803.75	934.5833333	727716.8
State Bank of Hyderabad	2	12	6	8
State Bank of India	3	86584	28861.33333	81213224
State Bank of Mysore	2	791.68	395.84	868.6112
Syndicate Bank	3	9988.93	3329.643333	37695.91
UCO Bank	3	3549.27	1183.09	9108.417
Union Bank of India	3	8123.99	2707.996667	9942719
Vijaya Bank	3	1296.83	432.2766667	310053.1

Table 52: ANOVA for Public Sector Bank Loans to Self Help Groups from 2008-11 in Tamil Nadu

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	21354909264	19	1123942593	36.43878	5.63452E-18	1.883436
Within Groups	1110408604	36	30844683.43			
Total	22465317867	55				

The ANOVA result shows that the calculated F value is 36.43878 which is greater than the table value of 1.883436 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans disbursed to self help groups by Public sector banks in Tamil Nadu. The null hypothesis is, therefore, rejected.

The loans outstanding of Public sectors banks to Self Help Groups during the period 2008-11 are presented in the table below.

Table 53: Andhra Pradesh: Loans Outstanding of Public Sectors Banks to Self Help Groups during the Period 2008-11

(amount in ₹Lakhs)

S. No.	Name of the Bank	Amount of O/S Loans - 2008-09	Amount of O/S Loans - 2009-10	Amount of O/S Loans - 2010-11	Mean	Std Deviation	Coeff of Variation
Andhra Pradesh							
1	Allahabad Bank	2378.49	4578.56	3115.31	3357.453	1119.845	33.35%
2	Andhra Bank	165115	206887.6	243194.99	205065.9	39071.86	19.05%
3	Bank of Baroda	7386.34	9987.56	16232.65	11202.18	4546.513	40.59%
4	Bank of India	6283.32	13728.27	15873.61	11961.73	5033.28	42.08%
5	Bank of Maharashtra	583.71	602.82		593.265	13.51281	2.28%
6	Canara Bank	18120.21	24760.84	32140.12	25007.06	7013.197	28.04%
7	Central Bank of India	5296.41	6749	8808.00	6951.137	1764.5	25.38%
8	Corporation Bank	5035.03	10778.29	12551.40	9454.907	3929.054	41.56%
9	Dena Bank		594.83	992.31	793.57	281.0608	35.42%
10	Indian Bank	46164.04	61143.19	69844.00	59050.41	11977.89	20.28%
11	Indian Overseas Bank	34358	55929	63565.00	51284	15147.42	29.54%
12	Oriental Bank of Commerce	5.94	5.94	108.56	40.14667	59.24768	147.58%
13	Punjab National Bank	2310.89	3939.19	6136.28	4128.787	1919.73	46.50%
14	State Bank of Hyderabad	80369	117323	80306.75	92666.25	21353.39	23.04%
15	State Bank of India	199734	258822	287922.00	248826	44935.74	18.06%
16	State Bank of Mysore		637.4	687.29	662.345	35.27756	5.33%
17	Syndicate Bank	49319.21	61367.04	72691.50	61125.92	11688.01	19.12%
18	UCO Bank		2762.1	3844.00	3303.05	765.0188	23.16%
19	Union Bank of India		21672.16	43321.52	32496.84	15308.41	47.11%
20	Vijaya Bank	4534.7	4518.35	8518.77	5857.273	2304.938	39.35%

From the above table, it can be seen that State Bank of Mysore, Bank of Maharashtra, State Bank of India, Syndicate Bank , State Bank of Hyderabad & UCO Bank have been consistent in terms of outstanding loans to self help groups and have a low coefficient of variation. A one way ANOVA test was applied by developing the following hypothesis.

Null Hypothesis H2a: There is no significant difference in the amount of outstanding loans of Public sector banks in Andhra Pradesh to self help groups.

Table 54: Andhra Pradesh: Loans Outstanding of Public Sectors Banks to Self Help Groups during the Period 2008-11

Groups	Count	Sum	Average	Variance
Allahabad Bank	3	10072.36	3357.453333	1254052
Andhra Bank	3	615197.6	205065.8667	1.53E+09
Bank of Baroda	3	33606.55	11202.18333	20670783
Bank of India	3	35885.2	11961.73333	25333904
Bank of Maharashtra	2	1186.53	593.265	182.596
Canara Bank	3	75021.17	25007.05667	49184936
Central Bank of India	3	20853.41	6951.136667	3113461
Corporation Bank	3	28364.72	9454.906667	15437462
Dena Bank	2	1587.14	793.57	78995.18
Indian Bank	3	177151.2	59050.41	1.43E+08
Indian Overseas Bank	3	153852	51284	2.29E+08
Oriental Bank of Commerce	3	120.44	40.14666667	3510.288
Punjab National Bank	3	12386.36	4128.786667	3685362
State Bank of Hyderabad	3	277998.8	92666.25	4.56E+08
State Bank of India	3	746478	248826	2.02E+09
State Bank of Mysore	2	1324.69	662.345	1244.506
Syndicate Bank	3	183377.8	61125.91667	1.37E+08
UCO Bank	2	6606.1	3303.05	585253.8
Union Bank of India	2	64993.68	32496.84	2.34E+08
Vijaya Bank	3	17571.82	5857.273333	5312740

Table 55: Andhra Pradesh: Loans Outstanding of Public sectors banks to Self Help Groups during the period 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	2.62285E+11	19	13804495031	50.82844	5.55568E-20	1.892206
Within Groups	9505650136	35	271590003.9			
Total	2.71791E+11	54				

The ANOVA result shows that the calculated F value is 50.828444 which is greater than the table value of 1.892206 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of outstanding loans of Public sector banks in to self help groups in Andhra Pradesh. The null hypothesis is therefore rejected.

The outstanding loans of Public sector banks in Tamil Nadu to self help groups was analysed on the same lines. The loans outstanding of Public sectors banks to Self Help Groups during the period 2008-11 are presented in the table below.

Table 56: Tamil Nadu: Loans Outstanding of Public Sectors Banks to Self Help Groups during the period 2008-11

(amount in ₹Lakhs)

S. No.	Name of the Bank	Amount of O/S Loans - 2008-09	Amount of O/S Loans - 2009-10	Amount of O/S Loans - 2010-11	Mean	Std Deviation	Coeff of Variation
Tamil Nadu							
1	Allahabad Bank	106.56	97.36	97.36	100.4267	5.311622	5.29%
2	Andhra Bank	307.05	768	739.00	604.6833	258.1655	42.69%
3	Bank of Baroda	2953.03	3519.64	8052.08	4841.583	2794.768	57.72%
4	Bank of India	6499.83	5059.54	3527.82	5029.063	1486.239	29.55%
5	Bank of Maharashtra	22.03	50.36	105.16	59.18333	42.26154	71.41%
6	Canara Bank	26466.65	33702.58	36944.24	32371.16	5364.186	16.57%
7	Central Bank of India	6210	6793	20423.97	11142.32	8043.426	72.19%
8	Corporation Bank	599.5	1340.47	1986.21	1308.727	693.8998	53.02%
9	Dena Bank		279.84	586.05	432.945	216.5232	50.01%
10	Indian Bank	75558.58	102152.2	119508.00	99072.94	22135.93	22.34%
11	Indian Overseas Bank	44300	52376	58989.00	51888.33	7356.633	14.18%
12	Oriental Bank of Commerce	50.71	50.71	44.00	48.47333	3.87402	7.99%
13	Punjab National Bank	2147.11	3406.08	3327.88	2960.357	705.3768	23.83%
14	State Bank of India	80154.44	90453	82652.00	84419.81	5372.053	6.36%
	State Bank of Mysore		735.51	947.51	841.51	149.9066	17.81%
15	Syndicate Bank	6897.86	8794.98	11207.86	8966.9	2160.137	24.09%
16	UCO Bank	1663.99	2317.73	938.90	1640.207	689.7226	42.05%
17	Union Bank of India		4186.88	5023.78	4605.33	591.7777	12.85%
18	Vijaya Bank	715.82	887.45	2259.91	1287.727	846.2975	65.72%

The mean, standard deviation and coefficient of variation have been computed. Allahabad Bank, State Bank of India, Oriental Bank of Commerce have been consistent in terms of loans outstanding to self help groups and have a low coefficient of variation. A one way ANOVA was applied by developing the following hypothesis.

Table 57: Tamil Nadu: Loans Outstanding of Public Sectors Banks to Self Help Groups during the period 2008-11

Groups	Count	Sum	Average	Variance
Allahabad Bank	3	301.28	100.4266667	28.21333
Andhra Bank	3	1814.05	604.6833333	66649.45
Bank of Baroda	3	14524.75	4841.583333	7810728
Bank of India	3	15087.19	5029.063333	2208907
Bank of Maharashtra	3	177.55	59.18333333	1786.038
Canara Bank	3	97113.47	32371.15667	28774489
Central Bank of India	3	33426.97	11142.32333	64696696
Corporation Bank	3	3926.18	1308.726667	481496.9
Dena Bank	2	865.89	432.945	46882.28
Indian Bank	3	297218.8	99072.93667	4.9E+08
Indian Overseas Bank	3	155665	51888.33333	54120044
Oriental Bank of Commerce	3	145.42	48.47333333	15.00803
Punjab National Bank	3	8881.07	2960.356667	497556.4
State Bank of India	3	253259.4	84419.81333	28858958
State Bank of Mysore	2	1683.02	841.51	22472
Syndicate Bank	3	26900.7	8966.9	4666192
UCO Bank	3	4920.62	1640.206667	475717.3
Union Bank of India	2	9210.66	4605.33	350200.8
Vijaya Bank	3	3863.18	1287.726667	716219.5

Null Hypothesis H2b: There is no significant difference in the amount of outstanding loans of Public sector banks in Tamil Nadu to self help groups.

Table 58: ANOVA for Loans Outstanding of Public Sectors Banks to Self Help Groups during the period 2008-11 in Tamil Nadu

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	46915290744	18	2606405041	66.72485	8.5331E-22	1.907346
Within Groups	1367169353	35	39061981.52			
Total	48282460097	53				

The ANOVA result shows that the calculated F value is 66.72485 which is greater than the table value of 1.907346 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of outstanding loans of Public sector banks in to self help groups in Tamil Nadu. The null hypothesis is, therefore, rejected.

Table 59: NPA's of Public Sector Bank Loans (amount in ₹ Lakhs) in Andhra Pradesh to Self Help Groups

S. No.	Name of the Bank	Amount of NPAs - 2008-09	Amount of NPAs - 2009-10	Amount of NPAs - 2010-11	Mean	Std Deviation	Coeff of Variation
Andhra Pradesh							
1	Allahabad Bank	21.09	18.6	30.13	23.27333	6.0671602	26%
2	Andhra Bank	263.16	453	3342.22	1352.793	1725.5068	128%
3	Bank of Baroda	85.2	218.65	223.67	175.84	78.536662	45%
4	Bank of India	8.36	13.33	0.00	7.23	6.7364605	93%
5	Canara Bank	47.73	48.46	129.06	75.08333	46.74659	62%
6	Central Bank of India	84.25	4457.64	569.64	1703.843	2397.175	141%
7	Corporation Bank	121.87	159.33	143.03	141.41	18.782471	13%
8	Dena Bank	0	53.48	6.01	19.83	29.296278	148%
9	Indian Bank	138.02	3.54	1013.00	384.8533	548.13082	142%
10	Indian Overseas Bank	4	4	115.91	41.30333	64.611269	156%
11	Punjab National Bank	30.78	29.12	86.62	48.84	32.728966	67%
12	State Bank of Hyderabad	162	162	1136.71	486.9033	562.74908	116%
13	State Bank of India	929	2735	8957.00	4207	4211.5655	100%
14	State Bank of Mysore	0	19	15.58	11.52667	10.12779	88%
15	Syndicate Bank	529.46	543.42	1499.18	857.3533	555.88202	65%
16	UCO Bank	0	404.9	84.94	163.28	213.5155	131%
17	Union Bank of India	0	195.07	3608.10	1267.723	2029.1711	160%
18	Vijaya Bank	148.49	194.25	362.49	235.0767	112.69034	48%

The Non performing assets in loans of public sector banks In Andhra Pradesh to Self help groups in during the period 2008-11 are presented in the above table. The mean, standard deviation and coefficient of variation have been computed. Corporation bank, Allahabad Bank, Bank of Baroda, Vijaya Bank, have lesser coefficient of variation in terms of non performing assets.

One way ANOVA test was applied to test whether there is any significant difference in the NPA's of Public sector banks loans to Self Help Groups in Andhra Pradesh

Null Hypothesis H3a: There is no significant difference in the NPA's of public sector bank loans to Self Help Groups in Andhra Pradesh

Table 60: NPA's of Public Sector Bank Loans in Andhra Pradesh to Self Help Groups

Groups	*Count*	*Sum*	*Average*	*Variance*
Allahabad Bank	3	69.82	23.27333	36.81043
Andhra Bank	3	4058.38	1352.793	2977374
Bank of Baroda	3	527.52	175.84	6168.007
Bank of India	3	21.69	7.23	45.3799
Canara Bank	3	225.25	75.08333	2185.244
Central Bank of India	3	5111.53	1703.843	5746448
Corporation Bank	3	424.23	141.41	352.7812
Dena Bank	3	59.49	19.83	858.2719
Indian Bank	3	1154.56	384.8533	300447.4
Indian Overseas Bank	3	123.91	41.30333	4174.616
Oriental Bank of Commerce	3	0	0	0
Punjab National Bank	3	146.52	48.84	1071.185
State Bank of Hyderabad	3	1460.71	486.9033	316686.5
State Bank of India	3	12621	4207	17737284
State Bank of Mysore	3	34.58	11.52667	102.5721
State Bank of Travancore	3	0	0	0
Syndicate Bank	3	2572.06	857.3533	309004.8
UCO Bank	3	489.84	163.28	45588.87
Union Bank of India	3	3803.17	1267.723	4117535
Vijaya Bank	3	705.23	235.0767	12699.11

Table 61: ANOVA for NPA's of Public Sector Bank Loans in Andhra Pradesh to Self Help Groups

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	57082464.99	19	3004340	1.902802	0.043145	1.852892
Within Groups	63156124.91	40	1578903			
Total	120238589.9	59				

The ANOVA result shows that the calculated F value is 1.902802 which is greater than the table value of 1.652892 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the Non performing assets of public sector bank loans to Self Help Groups. The null hypothesis is, therefore, rejected.

The non performing assets in loans of Public sector banks in Tamil Nadu to Self help groups was analyzed in a similar manner with mean, standard deviation and coefficient of variation. A one way ANOVA test was also applied.

Table 62: Amount of NPA's in loans (amount in ₹ Lakhs) of public sector bank in Tamil Nadu to Self Help Groups

S. No.	Name of the Bank	Amount of NPAs - 2008-09	Amount of NPAs - 2009-10	Amount of NPAs – 2010-11	Mean	Std Deviation	Coeff of Variation
Tamil Nadu							
1	Allahabad Bank	0	2.05	2.05	1.366667	1.1835681	87%
2	Andhra Bank	0.82	6	30.40	12.40667	15.79646	127%
3	Bank of Baroda	171.72	223	271.00	221.9067	49.64903	22%
4	Bank of India	79	108	238.04	141.68	84.700574	60%
5	Bank of Maharashtra	0.29	0.56	2.37	1.073333	1.131032	105%
6	Canara Bank	760.46	1026.9	771.23	852.8633	150.81634	18%
7	Central Bank of India	61	200	6199.00	2153.333	3504.3394	163%
8	Corporation Bank	67.63	112.06	85.15	88.28	22.379765	25%
9	Dena Bank	0	50.21	24.00	24.73667	25.113105	102%
10	Indian Bank	680.68	16.42	4425.00	1707.367	2376.859	139%
11	Indian Overseas Bank	651	682	3755.00	1696	1783.2137	105%
12	Oriental Bank of Commerce	3.35	3.35	2.25	2.983333	0.6350853	21%
13	Punjab National Bank	67.17	224.84	0.00	97.33667	115.41567	119%
14	State Bank of India	4413.58	6385	8544.00	6447.527	2065.9198	32%
15	State Bank of Mysore	0	36.77	181.09	72.62	95.719976	132%
16	State Bank of Travancore	0	0	31.31	10.43667	18.076837	173%
17	Syndicate Bank	23.49	358.89	460.25	280.8767	228.59218	81%
18	UCO Bank	5.78	5.04	65.10	25.30667	34.464024	136%
19	Union Bank of India	0	155.92	184.70	113.54	99.375907	88%
20	Vijaya Bank	8.97	8.99	298.89	105.6167	167.37962	158%

Canara Bank, Corporation Bank, Oriental Bank of Commerce, State Bank of India, Bank of Baroda had a low coefficient of variation when compared to other banks operating in the state.

Null Hypothesis H3b: There is no significant difference in the amount of NPAs in loans of public sector bank to Self Help Groups in Tamil Nadu.

Table 63: Amount of NPA's in Loans of Public Sector Bank in Tamil Nadu to Self Help Groups

Groups	*Count*	*Sum*	*Average*	*Variance*
Allahabad Bank	3	4.1	1.366667	1.400833
Andhra Bank	3	37.22	12.40667	249.5281
Bank of Baroda	3	665.72	221.9067	2465.026
Bank of India	3	425.04	141.68	7174.187
Bank of Maharashtra	3	3.22	1.073333	1.279233
Canara Bank	3	2558.59	852.8633	22745.57
Central Bank of India	3	6460	2153.333	12280394
Corporation Bank	3	264.84	88.28	500.8539
Dena Bank	3	74.21	24.73667	630.668
Indian Bank	3	5122.1	1707.367	5649459
Indian Overseas Bank	3	5088	1696	3179851
Oriental Bank of Commerce	3	8.95	2.983333	0.403333
Punjab National Bank	3	292.01	97.33667	13320.78
State Bank of India	3	19342.58	6447.527	4268025
State Bank of Mysore	3	217.86	72.62	9162.314
State Bank of Travancore	3	31.31	10.43667	326.772
Syndicate Bank	3	842.63	280.8767	52254.38
UCO Bank	3	75.92	25.30667	1187.769
Union Bank of India	3	340.62	113.54	9875.571
Vijaya Bank	3	316.85	105.6167	28015.94

Table 64: ANOVA for Amount of NPA's in loans of public sector bank in Tamil Nadu to Self Help Groups

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.29E+08	19	6796158	5.324966	4.36946E-06	1.852892
Within Groups	51051282	40	1276282			
Total	1.8E+08	59				

The ANOVA result shows that the calculated F value is 5.324966 which is greater than the table value of 1.852892 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the Non performing assets of the loans of public sector banks in Tamil Nadu to Self Help Groups. The null hypothesis is, therefore, rejected.

The loans of private sector banks to self help groups in the states of Andhra Pradesh and Tamil Nadu has been analysed by developing suitable hypothesis and testing the same was done using one way ANOVA.

Table 65: Loans Disbursed by Private sector banks (amount in ₹ Lakhs) to Self Help Groups in Andhra Pradesh

	Name of Bank	Amount of loans Disbursed to Self Help Groups in 2008-09	Amount of loans to Self Help Groups Disbursed in 2009-10	Amount of Loans Disbursed to Self Help Groups in 2010-11	Mean	Std Deviation	Coeff of Variation
Andhra Pradesh							
1	City Union Bank		123.00	145.52	134.26	15.924045	11.86%
2	HDFC Bank	2853.76	866.45	709.04	1476.4167	1195.4081	80.97%
3	Karnataka Bank	78.18	16.72	118.84	71.246667	51.411837	72.16%

The above table shows the loans disbursed by private sector banks to self help groups in Andhra Pradesh during the period 2008-11. The mean, standard deviation and coefficient of variation have been computed. Among the three banks, City Union Bank has been more consistent in disbursement of loans while HDFC Bank's loans to Self Help Groups have declined from ₹2853.76 lakh since 2008-09 to ₹709.04 lakhs in 2010-11. Karnataka Bank's loan to Self Help Groups declined from ₹78.18 lakhs in 2008-09 to ₹16.72 lakhs in 2009-10. However, the bank increased its loans to Self Help Groups to ₹118.84 lakhs in 2010-11 and has recorded 100% recovery rate in respect of its loans to Self Help Groups as can be seen from the table below.

Table 66: Recovery Percentage of Private Sector Bank Loans to Self Help Groups in Andhra Pradesh

S. No.	Name of the Bank	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2008-09)	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2009-10)	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2010-11)
Andhra Pradesh				
1	HDFC Bank	97.35	98	98
2	Karnataka Bank		95	99
3	City Union Bank		100	100

Null Hypothesis H4a: There is no significant difference in amount of loans provided by private sector banks to Self help groups in Andhra Pradesh.

Table 67: Loans Disbursed by Private Sector Banks to Self Help Groups in Andhra Pradesh

Groups	*Count*	*Sum*	*Average*	*Variance*
City Union Bank	2	268.52	134.26	253.5752
HDFC Bank	3	4429.25	1476.417	1429000
Karnataka Bank	3	213.74	71.24667	2643.177

Table 68: Loans Disbursed by Private Sector Banks to Self Help Groups in Andhra Pradesh

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	3575332	2	1787666	3.121426	0.131897	5.786135
Within Groups	2863541	5	572708.2			
Total	6438873	7				

The ANOVA result shows that the calculated F value is 3.121426 which is lesser than the table value of 5.786135 at 5% level of significance. As the calculated value is less than the table value, it can be inferred that there is no significant difference in the amount of the loans of private sector banks in Andhra Pradesh to Self Help Groups. The null hypothesis is, therefore, accepted.

Table 69: Loans of Private Sector Banks (amount in ₹ Lakhs) to Self Help Groups in Tamil Nadu

	Name of Bank	Amount Disbursed in 2008-09	Amount Disbursed in 2009-10	Amount Disbursed in 2010-11	Mean	Std Deviation	Coeff of Variation
Tamil Nadu							
1	City Union Bank		419.00	666.05	542.525	174.69073	32.20%
3	HDFC Bank	6328.00	5037.49	8228.35	6531.28	1605.1134	24.58%
4	Tamilnad Mercantile Bank	2093.00	2606.87	626.74	1775.5367	1027.529	57.87%

The above table shows the loans disbursed by private sector banks to self help groups in Tamil Nadu during the period 2008-11. The mean, standard deviation and coefficient of variation have been computed. Among the three banks, HDFC bank & City Union Bank have been more consistent in disbursement of loans while Tamilnad Merchant bank's loans to Self Help Groups have declined from ₹ 2093 lakhs in 2008-09 to ₹626.74 lakhs in 2010-11. HDFC Bank's Loans to Self Help Groups have shown an increasing trend and the bank has the lowest coefficient of variation. It also has a high recovery rate in terms of its loans to Self Help Groups when compared to other banks advancing loans to Self Help Groups in the state

Table 70: Recovery %age of Loans of Private Sector Banks to Self Help Groups in Tamil Nadu

S. No.	Name of the Bank	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2008-09)	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2009-10)	%age of recovery to Demand of Pvt Bank Loans to Self Help Groups (2010-11)
Tamil Nadu				
1	Tamilnad Merchant Bank	NA	NA	77
2	HDFC Bank	99	97	98
3	City Union Bank		93	95

Null Hypothesis H4b: There is no significant difference in amount of loans provided by private sector banks to Self help groups in Tamil Nadu.

Table 71: Loans of Private Sector Banks to Self Help Groups in Tamil Nadu

Groups	*Count*	*Sum*	*Average*	*Variance*
City Union Bank	2	1085.05	542.525	30516.85
HDFC Bank	3	19593.84	6531.28	2576389
Tamilnad Mercantile Bank	3	5326.61	1775.537	1055816

Table 72: ANOVA for Loans of Private Sector Banks to Self Help Groups in Tamil Nadu

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	53483360	2	26741680	18.32896	0.004991	5.786135
Within Groups	7294927	5	1458985			
Total	60778286	7				

The ANOVA result shows that the calculated F value is 18.32896 which is greater than the table value of 5.786135 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans of private sector banks in Tamil Nadu to Self Help groups. The null hypothesis is, therefore, rejected.

The outstanding loans of private sector banks to self help groups in Andhra Pradesh and Tamil Nadu have been analysed using mean, standard deviation and by developing suitable hypothesis and testing it with one way ANOVA.

Table 73: Outstanding loans of Private Sector Banks (amount in ₹ Lakhs) in Andhra Pradesh to Self Help Groups

S. No.	**Name of Bank**	**Amount Outstanding as on 31st Mar, 2009**	**Amount Outstanding as on 31st Mar, 2010**	**Amount Outstanding as on 31st Mar, 2011**	**Mean**	**Std Deviation**	**Coeff of Variation**
Andhra Pradesh							
1	AXIS Bank	19.24	7.12	5.32	10.56	7.570786	71.69%
2	City Union Bank		560.84	210.5	385.67	247.7278	64.23%
3	HDFC Bank	3670.12	1129.08	561.28	1786.827	1655.504	92.65%
4	Karnataka Bank	85.72	144.33	209.83	146.6267	62.08687	42.34%

The amount of outstanding loans to Self Help Groups witnessed a declining trend in Andhra Pradesh. HDFC Bank has shown a high degree of variation while Karnataka Bank has been consistent in comparison with other banks.

Null Hypothesis H5a: There is no significant difference in the amount of loans outstanding of private sector banks in Andhra Pradesh to Self Help Groups.

Table 74: Outstanding Loans of Private Sector Banks in Andhra Pradesh to Self Help Groups

Groups	*Count*	*Sum*	*Average*	*Variance*
AXIS Bank	3	31.68	10.56	57.3168
City Union Bank	2	771.34	385.67	61369.06
HDFC Bank	3	5360.48	1786.827	2740695
Karnataka Bank	3	439.88	146.6267	3854.779

Table 75: ANOVA for Outstanding Loans of Private Sector Banks in Andhra Pradesh to Self Help Groups

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	5976507	3	1992169	2.512382	0.142342	4.346831
Within Groups	5550582	7	792940.3			
Total	11527089	10				

The ANOVA result shows that the calculated F value is 2.512382 which is lesser than the table value of 4.346831 at 5% level of significance. As the calculated value is less than the table value, it can be inferred that there is no significant difference in the amount of outstanding loans of private sector banks in Andhra Pradesh to Self Help groups. The null hypothesis is, therefore, accepted.

Table 76: Outstanding Loans of Private sector banks (amount in ₹ Lakhs) in Tamil Nadu to Self Help Groups

S. No	Name of Bank	Amount Outstanding as on 31st Mar, 2009	Amount Outstanding as on 31st Mar, 2010	Amount Outstanding as on 31st Mar, 2011	Mean	Std Deviation	Coeff of Variation
Tamil Nadu							
1	City Union Bank		1150	1125.97	1137.985	16.99178	1.49%
2	HDFC Bank	12755.89	6689.53	7140.69	8862.037	3379.713	38.14%
3	ICICI Bank		743.57	3579.6	2161.585	2005.376	92.77%
4	Tamilnad Merchant Bank	3667.06	3723.4	2902.12	3430.86	458.768	13.37%

Among the banks in Tamil Nadu, City union bank and Tamilnad Merchant Bank have low coefficient of variation. The outstanding loans have shown an increasing trend in the case of private sector banks in Tamil Nadu.

Null Hypothesis H5b: There is no significant difference among loans outstanding of private sector banks in Tamil Nadu to Self Help Groups.

Table 77: Outstanding Loans of Private Sector Banks in Tamil Nadu to Self Help Groups

Groups	*Count*	*Sum*	*Average*	*Variance*
City Union Bank	2	2275.97	1137.985	288.7204
HDFC Bank	3	26586.11	8862.037	11422457
ICICI Bank	2	4323.17	2161.585	4021533
Tamilnad Merchant Bank	3	10292.58	3430.86	210468

Table 78: Outstanding Loans of Private Sector Banks in Tamil Nadu to Self Help Groups

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	93822231.66	3	31274077	6.876529	0.022802	4.757063
Within Groups	27287671.23	6	4547945			
Total	121109902.9	9				

The ANOVA result shows that the calculated F value is 6.876529 which is greater than the table value of 4.757063 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of outstanding loans of private sector banks in Andhra Pradesh to Self Help groups. The null hypothesis is, therefore, rejected.

The Non performing assets in loans of private sector bank to self help groups in Andhra Pradesh and Tamil Nadu have been analysed.

Table 79: NPA's of loans of Private sector bank loans (amount in ₹ Lakhs) to Self Help Groups in Andhra Pradesh

S. No.	Name of Bank	Amount of NPAs as on 31st Mar, 2009	Amount of NPAs as on 31st Mar, 2010	Amount NPAs as on 31st Mar, 2011	Mean	Std Deviation	Coeff of Variation
Andhra Pradesh							
1	HDFC Bank	7.02	121.19	23.79	50.66667	61.6479	121.67%
2	AXIS Bank	0.13	5.73	0	1.953333	3.271335	167.47%
3	Karnataka Bank		5.61	8.05	6.83	1.725341	25.26%

The mean, standard deviation and coefficient of variation have been computed. The NPA's of HDFC bank's loans to Self Help Groups have shown an increasing trend, while AXIS Bank's NPAs have become zero in the year 2011. The coefficient of variation of HDFC bank and AXIS bank are very high indicating the high degree of fluctuation in NPAs.

Null Hypothesis H6a: There is no significant difference in the NPA's of loans of Private sector Banks to Self Help Groups in Andhra Pradesh.

Table 80: NPA's of Loans of Private Sector Bank Loans to Self Help Groups in Andhra Pradesh

Groups	*Count*	*Sum*	*Average*	*Variance*
HDFC Bank	3	152	50.66667	3800.464
AXIS Bank	3	5.86	1.953333	10.70163
Karnataka Bank	2	13.66	6.83	2.9768

Table 81: ANOVA for NPA's of Loans of Private Sector Bank loans to Self Help Groups in Andhra Pradesh

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	4128.689	2	2064.344	1.353614	0.338984	5.786135
Within Groups	7625.307	5	1525.061			
Total	11754	7				

The ANOVA result shows that the calculated F value is 1.353614 which is lesser than the table value of 5.786135 at 5% level of significance. As the calculated value is less than the table value, it can be inferred that there is no significant difference in the amount of NPA's in loans of private sector banks in Andhra Pradesh to Self Help groups. The null hypothesis is, therefore, accepted.

Table 82: NPA's of loans of Private Sector Bank Loans (amount in ₹ Lakhs) to Self Help Groups in Tamil Nadu

S. No.	Name of Bank	Amount of NPAs as on 31st Mar, 2009	Amount of NPAs as on 31st Mar, 2010	Amount NPAs as on 31st Mar, 2011	Mean	Std Deviation	Coeff of Variation
Tamil Nadu							
1	Tamilnad Merchant Bank	82.92		600	341.46	365.6308	107.08%
2	HDFC Bank	26.55	444.23	123.38	198.0533	218.6235	110.39%
4	City Union Bank		78	59.1	68.55	13.36432	19.50%
5	ICICI Bank		68.81	2334.72	1201.765	1602.24	133.32%

The mean, standard deviation and coefficient of variation have been computed. The NPA's of ICICI Bank and Tamilnad Merchant Bank's loans to Self Help Groups have shown an increasing trend, and City Union Bank's NPA's have declined in the year 2011. HDFC's NPAs have shown a fluctuating trend. The coefficient of variation of ICICI, HDFC Bank and Tamilnad Merchant bank are very high indicating the high degree of fluctuation in NPA's.

Null Hypothesis H6b: There is no significant difference in the NPA's of loans of Private Sector Banks to Self Help Groups in Tamil Nadu

Table 83: NPA's of loans of Private sector bank loans to Self Help Groups in Tamil Nadu

Groups	*Count*	*Sum*	*Average*	*Variance*
Tamilnad Merchant Bank	2	682.92	341.46	133685.9
HDFC Bank	3	594.16	198.0533	47796.23
City Union Bank	2	137.1	68.55	178.605
ICICI Bank	2	2403.53	1201.765	2567174

Table 84: ANOVA for NPA's of Loans of Private Sector Bank Loans to Self Help Groups in Andhra Pradesh

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1629307	3	543102.4	0.970994	0.475484	5.409451
Within Groups	2796631	5	559326.2			
Total	4425938	8				

The ANOVA result shows that the calculated F value is 0.970994 which is less than the table value of 5.409451 at 5% level of significance. As the calculated value is less than the table value, it can be inferred that there is no significant difference in the amount of NPA's in the loans of private sector banks in Tamil Nadu to Self Help groups. The null hypothesis is, therefore, accepted.

Table 85: Amount of Loans to Microfinance Institutions Public Sector Banks (amount in ₹ Lakhs) for the period 2008-11

S. No	Name of the Bank	Loans Disbursed to Microfinance Institutions by Banks in 2008-09	Loans Disbursed to Microfinance Institutions by Banks in 2009-10	Loans Disbursed to Microfinance Institutions by Banks in 2010-11	Mean	Std. Deviation	Coefficient of Variation %
Commercial Banks - Public Sector							
1	Allahabad Bank	1149	2312.2	13724.1	5728.433	6948.832466	121.30%
2	Andhra Bank		15333	5000	10166.5	7306.53437	71.87%
3	Bank of India	6988.15	12862	24499.67	14783.27	8912.452053	60.29%
4	Bank of Maharashtra		100	100	100	0	0.00%
5	Canara Bank	3382.57	8853.1	9289.67	7175.113	3291.68453	45.88%
6	Central Bank of India		100	2428.45	1264.225	1646.462785	130.23%
7	Corporation Bank		78335.85	78230.01	78282.93	74.84018174	0.10%
8	IDBI Bank		45700.3	89643.91	67672.11	31072.82462	45.92%
9	Indian Bank		8390.5	2323	5356.75	4290.370395	80.09%
10	Indian Overseas Bank	24445	44397	15459	28100.33	14811.24766	52.71%
11	Oriental Bank of Commerce		1700	2300	2000	424.2640687	21.21%
12	Punjab & Sind Bank	5000	5000	10000	6666.667	2886.751346	43.30%
13	Punjab National Bank		63750	1733.04	32741.52	43852.61296	133.94%
14	State Bank of India	14435	39677	43292	32468	15721.28726	48.42%
15	State Bank of Mysore	110	17184.51	3750	7014.837	8993.280368	128.20%
16	State Bank of Patiala	20	348	4822.89	1730.297	2683.280854	155.08%
17	State Bank of Travancore	525.72		20393.79	10459.76	14048.84703	134.31%
18	Syndicate Bank	138.5	51011	7902	19683.83	27406.41369	139.23%
19	UCO Bank		73.68	10.28	41.98	44.83056993	106.79%
20	Union Bank of India		16095	10615	13355	3874.945161	29.01%
21	United Bank of India		169	14000	7084.5	9779.993891	138.05%
22	Vijaya Bank		16268	14750	15509	1073.388094	6.92%

The mean, standard deviation and coefficient of variation have been computed. Among public sector banks, Vijaya Bank, Oriental Bank of Commerce, Punjab & Sind bank, Union bank of India and State Bank of India have been consistent in terms of loans disbursed to Microfinance Institutions.

ANOVA Test has been applied to find whether there is any significant difference among public sector banks in terms of the loans provided to Microfinance institutions in during the period 2008-11

Null Hypothesis H7 - There is no significant difference between the amount of loans given by public sector banks to Microfinance institutions.

Table 86: Amount of Loans to Microfinance Institutions Public Sector Banks for the period 2008-11

Groups	*Count*	*Sum*	*Average*	*Variance*
Allahabad Bank	3	17185.3	5728.433333	48286272.64
Andhra Bank	2	20333	10166.5	53385444.5
Bank of India	3	44349.82	14783.27333	79431801.59
Bank of Maharashtra	2	200	100	0
Canara Bank	3	21525.34	7175.113333	10835187.04
Central Bank of India	2	2528.45	1264.225	2710839.701
Corporation Bank	2	156565.9	78282.93	5601.052803
IDBI Bank	2	135344.2	67672.105	965520429.9
Indian Bank	2	10713.5	5356.75	18407278.13
Indian Overseas Bank	3	84301	28100.33333	219373057.3
Oriental Bank of Commerce	2	4000	2000	180000
Punjab & Sind Bank	3	20000	6666.666667	8333333.333
Punjab National Bank	2	65483.04	32741.52	1923051664
State Bank of India	3	97404	32468	247158873
State Bank of Mysore	3	21044.51	7014.836667	80879091.78
State Bank of Patiala	3	5190.89	1730.296667	7199996.144
State Bank of Travancore	2	20919.51	10459.755	197370102.8
Syndicate Bank	3	59051.5	19683.83333	751111511.6
UCO Bank	2	83.96	41.98	2009.78
Union Bank of India	2	26710	13355	15015200
United Bank of India	2	14169	7084.5	95648280.5
Vijaya Bank	2	31018	15509	1152162

Table 87: ANOVA for Amount of Loans to Microfinance Institutions Public Sector Banks for the period 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	18990188608	21	904294695.6	4.53781895	7.77324E-05	1.907059
Within Groups	6177667261	31	199279589.1			
Total	25167855869	52				

The ANOVA result shows that the calculated F value is 4.53781895 which is greater than the table value of 1.907059 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans disbursed by public sector banks to microfinance institutions. The null hypothesis is, therefore, rejected.

The details on loans outstanding of public sector banks against Microfinance institutions for the period 2008-11 is presented in the following table.

Table 88: Amount of Outstanding Loans (amount in ₹ Lakhs) to Microfinance Institutions by Public Sector Banks for the period 2008-11

S. No	Name of the Bank	O/S Loans against MFIs as in 2008-09	O/S Loans against MFIs in 2009-10	O/S Loans against MFIs in 2010-11	Mean	Std. Deviation	Coefficient of variation
		Amount	Amount	Amount			
Commercial Banks - Public Sector							
1	Allahabad Bank	1331.83	2252.53	13142.35	5575.57	6569.1736	117.82%
2	Andhra Bank		11225	32134	21679.5	14784.8957	68.20%
3	Bank of India	8420.06	16925.69	27097.72	17481.16	9351.21132	53.49%
4	Bank of Maharashtra		70	70	70	0	0.00%
5	Canara Bank	11543.7	14118.98	17585.62	14416.1	3031.89867	21.03%
6	Central Bank of India		90		90		0.00%
7	Corporation Bank		37087.33	70115.56	53601.45	23354.4854	43.57%
8	IDBI Bank		60360.4	70621.68	65491.04	7255.82067	11.08%
9	Indian Bank		9140.32	5989	7564.66	2228.31974	29.46%
10	Indian Overseas Bank	35609	35686	60096	43797	14115.4006	32.23%
11	Oriental Bank of Commerce		1483.23	12368.12	6925.675	7696.77953	111.13%
12	Punjab & Sind Bank	3055.77	11386.14	15068	9836.637	6154.19677	62.56%
13	Punjab National Bank		106934	16710.43	61822.22	63797.6982	103.20%
14	State Bank of India	24948	87619	94603	69056.67	38358.5052	55.55%
15	State Bank of Mysore	102.34	25967.22	26576.72	17548.76	15112.116	86.12%
16	State Bank of Patiala	15.26	288.44	6855.14	2386.28	3872.55589	162.28%
17	State Bank of Travancore	882.64		15499.56	8191.1	10335.7233	126.18%
18	Syndicate Bank	1701.91	52792.12	24455.91	26316.65	25595.8814	97.26%
19	UCO Bank		474.46	299.35	386.905	123.821468	32.00%
20	Union Bank of India		20914.11	20609.26	20761.69	215.561502	1.04%
21	United Bank of India		768.24	16414.56	8591.4	11063.619	128.78%
22	Vijaya Bank		23991.27	29114.2	26552.74	3622.45854	13.64%

The mean, standard deviation and the coefficient of variation have been computed. Union Bank of India, Vijaya Bank, IDBI Bank, Indian Bank, UCO Bank and Indian Overseas Bank have been consistent over the three years in terms of loan outstanding to Microfinance Institutions.

ANOVA Test has been applied to find whether there is any significant difference among public sector banks in terms of the loans Outstanding to Microfinance institutions in during the period 2008-11

Null Hypothesis H8 - There is no significant difference between loans outstanding of public sector banks to Microfinance institutions.

Table 89: Amount of Outstanding Loans to Microfinance Institutions by Public Sector Banks for the period 2008-11

Groups	*Count*	*Sum*	*Average*	*Variance*
Allahabad Bank	3	16726.71	5575.57	43154041.8
Andhra Bank	2	43359	21679.5	218593140.5
Bank of India	3	52443.47	17481.15667	87445153.18
Bank of Maharashtra	2	140	70	0
Canara Bank	3	43248.3	14416.1	9192409.542
Central Bank of India	1	90	90	#DIV/0!
Corporation Bank	2	107202.9	53601.445	545431988.5
IDBI Bank	2	130982.1	65491.04	52646933.62
Indian Bank	2	15129.32	7564.66	4965408.871
Indian Overseas Bank	3	131391	43797	199244533
Oriental Bank of Commerce	2	13851.35	6925.675	59240415.16
Punjab & Sind Bank	3	29509.91	9836.636667	37874137.83
Punjab National Bank	2	123644.4	61822.215	4070146292
State Bank of India	3	207170	69056.66667	1471374920
State Bank of Mysore	3	52646.28	17548.76	228376050.7
State Bank of Patiala	3	7158.84	2386.28	14996689.1
State Bank of Travancore	2	16382.2	8191.1	106827175.1
Syndicate Bank	3	78949.94	26316.64667	655149145.2
UCO Bank	2	773.81	386.905	15331.75605
Union Bank of India	2	41523.37	20761.685	46466.76125
United Bank of India	2	17182.8	8591.4	122403664.8
Vijaya Bank	2	53105.47	26552.735	13122205.89

Table 90: ANOVA for Amount of Outstanding Loans to Microfinance Institutions by Public Sector Banks for the period 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	23780936236	21	1132425535	3.178871244	0.001932	1.919203
Within Groups	10687053184	30	356235106.1			
Total	34467989420	51				

The ANOVA result shows that the calculated F value is 3.178871244 which is greater than the table value of 1.919203 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans outstanding of commercial banks to microfinance institutions. The null hypothesis is, therefore, rejected.

The NPAs in loans of Public sector banks to Microfinance Institutions was analysed using mean, standard deviation, coefficient of variation and a one-way ANOVA test. The findings were as follows

Table 91: Amount of NPAs in Loans of Public Sector Banks (amount in ₹ Lakhs) to Microfinance Institutions during 2008-11

S. No.	Name of the Bank	NPAs of loans by Public Sector Banks to MFIs in 2008-09	NPAs of loans by Public Sector Banks to MFIs in 2009-10	NPAs of loans by Public Sector Banks to MFIs in 2010-11	Mean	Std Deviation	Coeff of Variation
		Amount	Amount	Amount			
Commercial Banks - Public Sector							
1	Bank of India	192.45	192.45	192.45	192.45	0.00	0.00%
2	Canara Bank	NA	12.55	50.94	31.745	27.15	85.51%
3	Corporation Bank	0	84	162.75	82.25	81.39	98.95%
4	Indian Bank	0	0	92.01	30.67	53.12	173.21%
5	Indian Overseas Bank	0	0.06	406.71	135.59	234.80	173.17%
6	Oriental Bank of Commerce	0	0	0	0	0.00	
7	Punjab & Sind Bank	0	0	0	0	0.00	
8	State Bank of India	241	974	405	540	384.70	71.24%
9	State Bank of Mysore	0	0	0	0	0.00	
10	State Bank of Patiala	0	0	0	0	0.00	
11	State Bank of Travancore	0	0	0	0	0.00	
12	Syndicate Bank	3.04	0	0	1.013333	1.76	173.21%

Oriental bank of Commerce, Bank of Baroda, Corporation Bank and State Bank of India had lower coefficient of variation in comparison with other banks.

Null Hypothesis H9: There is no significant difference in the amount of non performing assets in the loans of public sector banks to Microfinance institutions.

Table 92: Amount of NPAs in Loans of Public Sector Banks to Microfinance Institutions during 2008-11

Groups	Count	Sum	Average	Variance
Bank of India	3	577.35	192.45	1.21169E-27
Canara Bank	3	63.49	21.16333	704.3630333
Corporation Bank	3	246.75	82.25	6624.1875
Indian Bank	3	92.01	30.67	2821.9467
Indian Overseas Bank	3	406.77	135.59	55129.5417
Oriental Bank of Commerce	3	0	0	0
Punjab & Sind Bank	3	0	0	0
State Bank of India	3	1620	540	147991
State Bank of Mysore	3	0	0	0
State Bank of Patiala	3	0	0	0
State Bank of Travancore	3	0	0	0
Syndicate Bank	3	3.04	1.013333	3.080533333

Table 93: ANOVA for Amount of NPAs in Loans of Public Sector Banks to Microfinance Institutions during 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	813958	11	73996.18	4.163441024	0.001691	2.216309
Within Groups	426548.2	24	17772.84			
Total	1240506	35				

The ANOVA result shows that the calculated F value is 4.163441024 which is greater than the table value of 2.216309 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of non performing assets in the loans of public sector banks to Microfinance Institutions. The null hypothesis is, therefore, rejected.

The loans of private sector bank to Microfinance Institutions during the period 2008-2011 has been analysed using the mean, standard deviation and coefficient of variation. Suitable hypothesis has been developed and tested using one-way ANOVA.

Table 94: Loans disbursed by Private Sector Banks to Microfinance Institutions (amount in ₹ Lakhs) for the period 2008-11

S. No.	Name of the Bank	Loans Disbursed to MFIs by Banks in 2008-09	Loans Disbursed to MFIs by Banks in 2009-10	Loans Disbursed to MFIs by Banks in 2010-11	Mean	Std Deviation	Coeff of Variation
		Amount	**Amount**	**Amount**			
1	AXIS Bank	62623.99	64564.52	57392.86	61527.12	3709.517	6.03%
2	Dhanalakshmi Bank	4544	6382.26	3618.74	4848.333	1406.672	29.01%
3	HDFC Bank	78671.01	146346.51	76434.11	100483.9	39733.95	39.54%
4	ICICI Bank	82516.7	12000	132000	75505.57	60306.44	79.87%
5	Karnataka Bank	5178.87	2000	16463	7880.623	7600.605	96.45%
6	Kotak Mahindra Bank	10534	12583	41447.01	21521.34	17286.52	80.32%

From the above table it can be seen that Axis bank has been consistent in disbursing loans to Microfinance Institutions and hence has a low coefficient of variation. Karnataka Bank has the highest coefficient of variation among all the banks indicating that their loan disbursement to Microfinance Institutions is fluctuating.

Null Hypothesis H10: There is no significant difference in the loans of private sector banks to Microfinance Institutions.

Table 95: Loans Disbursed by Private Sector Banks to Microfinance Institutions for the Period 2008-11

Groups	Count	Sum	Average	Variance
AXIS Bank	3	184581.4	61527.12333	13760514.15
Dhanalakshmi Bank	3	14545	4848.333333	1978724.781
HDFC Bank	3	301451.6	100483.8767	1578786783
ICICI Bank	3	226516.7	75505.56667	3636866993
Karnataka Bank	3	23641.87	7880.623333	57769195.56
Kotak Mahindra Bank	3	64564.01	21521.33667	298823943.6

Table 96: ANOVA for Loans Disbursed by Private Sector Banks to Microfinance Institutions for the period 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	23468783299	5	4693756660	5.039837105	0.01018	3.105875
Within Groups	11175972307	12	931331025.6			
Total	34644755606	17				

The ANOVA result shows that the calculated F value is 5.039837105 which is greater than the table value of 3.105875 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans disbursed by private sector banks to Microfinance institutions. The null hypothesis is, therefore, rejected.

The outstanding loans of private sector banks to Microfinance Institutions during 2008-11 have been analysed using the mean, standard deviation and coefficient of variation. Suitable hypothesis has been developed and tested using one-way ANOVA.

Table 97: Loans Outstanding of Private Sector Banks to Microfinance Institutions (amount in ₹ Lakhs) for the period 2008-11

S. No.	Name of the Bank	O/S Loans against MFIs as on 31st Sept 2008	O/S Loans against MFIs as on 31st Mar 2010	O/S Loans against MFIs as on 31st Mar 2011	Mean	Std. Deviation	Coeff of Variation
		Amount	Amount	Amount			
1	AXIS Bank	75822.49	120776.7	103554.65	100051.3	22680.949	22.67%
2	Dhanalakshmi Bank	9533	9328.12	7868.14	8909.753	907.86161	10.19%
3	HDFC Bank	94417.25	132400.38	59355.85	95391.16	36532.003	38.30%
4	ICICI Bank	80219.58	37145.88	102427.74	73264.4	33192.035	45.30%
5	ING Vysya Bank	47406	474.07	29563.32	25814.46	23689.49	91.77%
6	Karnataka Bank	11007.83	2018.68	45821.62	19616.04	23135.479	117.94%
7	Kotak Mahindra Bank	10534	12583	41914.12	21677.04	17555.744	80.99%

From the above table it can be seen that the outstanding loans to Microfinance Institutions by Dhanalaksmi Bank has been consistent and hence has a low coefficient of variation. Karnataka Bank has the highest coefficient of variation among all the banks indicating that its loan outstanding to Microfinance Institutions is fluctuating.

Null Hypothesis H11: There is no significant difference in the outstanding loans of private sector banks to Microfinance Institutions.

Table 98: Loans outstanding of private Sector banks to Microfinance Institutions for the period 2008-11

Groups	Count	Sum	Average	Variance
AXIS Bank	3	300153.8	100051.28	514425450.2
Dhanalakshmi Bank	3	26729.26	8909.753333	824212.7057
HDFC Bank	3	286173.5	95391.16	1334587216
ICICI Bank	3	219793.2	73264.4	1101711208
ING Vysya Bank	3	77443.39	25814.46333	561191958.1
Karnataka Bank	3	58848.13	19616.04333	535250390.8
Kotak Mahindra Bank	3	65031.12	21677.04	308204155.4

Table 99: ANOVA for Loans outstanding of private Sector banks to Microfinance Institutions for the period 2008-11

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	27304402195	6	4550733699	7.312606273	0.001086	2.847726
Within Groups	8712389183	14	622313513.1			
Total	36016791378	20				

The ANOVA result shows that the calculated F value is 7.312606273 which is greater than the table value of 2.847726 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the amount of loans outstanding by private sector banks to Microfinance institutions. The null hypothesis is therefore rejected.

The NPAs of private sector bank loans to Microfinance Institutions during 2008-11 have been analysed using the mean, standard deviation and coefficient of variation. Suitable hypothesis has been developed and tested using one-way ANOVA.

Table 100: NPAs of Private Sector Bank Loans to Microfinance Institutions (amount in ₹ Lakhs) for the period 2008-11

S. No	Name of the Bank	NPAs of loans by Public Sector Banks to MFIs in 2008-09	NPAs of loans by Public Sector Banks to MFIs in 2009-10	NPAs of loans by Public Sector Banks to MFIs in 2010-11	Mean	Std Deviation	Coeff of Variation
		Amount	Amount	Amount			
1	AXIS Bank	0	1430.42	3073.32	1501.247	1537.8837	102.44%
2	Dhanalakshmi Bank	172.44	105.64	178.97	152.35	40.583596	26.64%
3	HDFC Bank	110.4	666.03	676.35	484.26	323.81337	66.87%
4	ICICI Bank	5782.09	5202.76	5465.64	5483.497	290.0775	5.29%

From the above table, it can be seen that the NPAs of ICICI Bank has been consistent and hence has a low coefficient of variation. AXIS Bank has the highest coefficient of variation among all the banks indicating that its NPAs to Microfinance Institutions are showing an increasing trend.

Null Hypothesis H12: There is no significant difference in the NPAs of private sector banks to Microfinance Institutions.

Table 101: NPAs of Private Sector Bank Loans to Microfinance Institutions for the period 2008-11

Groups	Count	Sum	Average	Variance
AXIS Bank	3	4503.74	1501.247	2365086
Dhanalakshmi Bank	3	457.05	152.35	1647.028
HDFC Bank	3	1452.78	484.26	104855.1
ICICI Bank	3	16450.49	5483.497	84144.96

Table 102: NPAs of private Sector bank loans to Microfinance Institutions for the period 2008-11

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	54176817	3	18058939	28.2642	0.000131	4.066181
Within Groups	5111467	8	638933.3			
Total	59288283	11				

The ANOVA result shows that the calculated F value is 28.2642 which is greater than the table value of 4.066181 at 5% level of significance. As the calculated value is more than the table value, it can be inferred that there is significant difference in the NPAs of private sector banks to Microfinance institutions. The null hypothesis is therefore rejected.

The success of a credit delivery model can be judged by comparing the growth in numbers of recipients of microcredit (Self Help Groups and Microfinance Institutions), the volume of credit in terms of loans disbursed, the decline in loans outstanding and the decline in the non performing assets in the loans disbursed to them. To evaluate the success each of these criteria is considered in detail to conclude on which model of credit delivery has been successful.

The bank self help group linkage model seems to be more successful when compared to bank Microfinance Institution model. The percentage of growth in both these models is presented in the following tables. In terms of number of Self Help Groups savings with banks under the bank linkage model, there has been an increase from 61, 21,000 groups in 2008 to 74, 62,000 groups in 2011 and the amount of saving has increased from ₹5545.62 crores in 2008 to ₹7016.32 crores in 2011. The number of Self Help groups availing fresh loans from banks declined by about 25% during the year 2010-11 although the quantum of loan remained almost the same. The loan extended to self help groups increased from ₹91000 in 2009-10 to ₹121600 during 2010-11 registering a growth of 34%. Banks have adopted a selective approach in lending to Self Help Groups with good track record especially due to the crisis faced by microfinance industry. The loans outstanding with banks of self help groups also declined in 2010-11 although the growth was positive. With regard to the linkage under the Microfinance Institution bank linkage programme, the number of Microfinance Institutions to which loans are disbursed came down from 691 in 2009-10 to 471 in 2010-11.Bank loans outstanding with Microfinance Institutions increased from ₹10147.54 crores in 2009 - 10 to ₹13730.62 in 2010-11. The number of Microfinance Institutions with outstanding loans stood at 2315 in 2010-11 as compared to 1513 in 2009-10 due to the increase in the number of Microfinance Institution s not being able to pay off their bank loans as a result of falling recovery rates from their clients.

Table 103: Overall Progress under Self Help Group Bank Linkage Programme 2008-11

(Amount ₹ in crore/ Numbers in lakhs)

	Particulars	2008-09		2009-10		2010-11	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31 March	Total SHG Nos.	61.21 (22.2 %)	5545.62 (46.5%)	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)
	Of which SGSY Groups	15.06 (25.1%)	1563.38 (93.1%)	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)
	% of SGSY Groups to Total	24.6	28.1	24.4	20.9	27.1	25.9
	All women SHGs	48.64 (22.0%)	4434.03 (42.6%)	53.10 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)
	Percentage of Women Groups	79.5	80.0	76.4	72.6	81.7	75.5
Loans Disbursed to SHGs during the year	No. of SHG extending loans	16.10 (31.1%)	12253.51 (38.5%)	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01)
	Of which SGSY Groups	2.65 (7.3%)	2015.22 (8.5%)	2.67 (1.0%)	2198 (9.1%)	2.41 (-9.9%)	2480.37 (12.8%)
	% of SGSY Groups to Total	16.4	16.4	16.9	15.2	20.1	17.0
	All women SHGs	13.75 (32.0%)	10527.38 (40.8%)	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)
	Percentage of Women Groups	85.4	85.9	81.6	86	85	86.8
Loans Outstanding against SHGs as on 31 March	Total No. of SHGs linked	42.24 (16.5%)	22679.84 (33.4%)	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)
	Of which SGSY Groups	9.77 (6.5%)	5861.72 (21.7%)	12.45 (27.5%)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)
	% of SGSY Groups to Total	23.1	25.8	25.7	22.3	26.9	25.1
	No. of all Women SHGs linked	32.77 (12.3%)	18583.54 (39.4%)	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)
	Percentage of Women SHGs	77.6	81.9	80.3	82.1	83.2	83.7

Source: NABARD Report on the status of Microfinance 2010-11

Table 104: Progress under Microfinance Institution Bank Linkage Programme during 2008-11

(Amount ₹ Crore

Particulars	2008-09		2009-10		2010-11	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by banks to MFIs	581 (12.2 %)	3732.33 (89.4%)	691 (18.9%)	8062.74 (116.0%)	471 (-31.8%)	8448.96 (4.8%)
Loans outstanding against MFIs as on 31 March	1915 (72.7%)	5009.09 (82.2%)	1513 (-21.0%)	10147.54 (102.6%)	2315 (53%)	13730.62 (35.3%)
Loan Outstanding as % of fresh loans	329.6	134.2	219.0	125.8	491.5	162.5

Source: NABARD Report on the status of Microfinance 2010-11

The recovery performance of bank loans to Self help groups during the period 2008-10 is presented in the following tables.

Table 105: Recovery Performance of Bank Loans to Self Help Groups Agency Wise 2008-09

Agency	Total no. of Banks reported recovery data	No. of banks, based on percentage distribution of recovery performance of bank loans to SHGs as on 31 March 2009			
		=/> 95%	80-94%	50-79%	< 50%
Commercial Banks (Public Sector)	22	2	11	9	0
Commercial Banks (Private Sector)	5	2	1	2	0
Regional Rural Banks	55	8	22	17	8
Cooperative Banks	103	34	29	24	16
TOTAL	**185**	**46**	**63**	**52**	**24**
Percentage of Banks		24.9	34.1	28.1	13.0

Source: NABARD Report on the status of Microfinance 2008-09

Table 106: Recovery Performance of Bank Loans To Self Help Groups - Agency Wise (all Self Help Groups) 2009-10

Agency	No. of Banks reported recovery data	No. of banks based on percentage distribution of recovery performance of bank loans to SHGs as on 31 March 2010			
		=/> 95%	80-94%	50-79%	< 50%
Commercial Banks (Public Sector)	24	8	10	6	0
Commercial Banks (Private Sector)	9	6	3	0	0
Regional Rural Banks	70	17	28	21	4
Cooperative Banks	199	72	59	43	25
TOTAL	302	103	100	70	29
Percentage of Banks		34.1	33.1	23.2	9.6

Source: NABARD Report on the status of Microfinance 2009-10

Table 107: Recovery Performance Of Bank Loans To Self Help Groups Agency Wise (Exclusive SGSY Self Help Group'S) 2009-10

Agency	Total no. of Banks reported recovery data	No. of banks, based on percentage distribution of recovery performance of bank loans to SHGs as on 31 March 2010			
		=/> 95%	80-94%	50-79%	< 50%
Commercial Banks (Public Sector)	24	4	10	10	0
Commercial Banks (Private Sector)	8	5	1	2	0
Regional Rural Banks	56	4	19	23	10
Cooperative Banks	77	26	17	20	14
TOTAL	**165**	**39**	**47**	**55**	**24**
Percentage of Banks		**23.6**	**28.6**	**33.3**	**14.5**

Source: NABARD Report on the status of Microfinance 2009-10

The Non performing assets (NPAs) of banks against loans to Self Help Groups have gone up from ₹823.04 crore during 2009-10 to (2.90%) to ₹1474.11 (4.72%). The microfinance crisis in Andhra Pradesh had an adverse impact on the recovery performance of the Self Help Group bank linkage programme. The southern region however reported 3.79% in the case of NPA's of bank loans to Self Help Groups.

Table 108: NPA's of Bank Loans to Self Help Groups for the year ended 2010-11

Table 5: Agency wise NPAs of Bank Loans to SHGs

(₹ in crore)

Agency	Loans Outstanding against SHGs		Amount of NPAs		Percentage of NPAs to Loan Outstanding	
	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11
CBs (Public Sector)	19724.42	21412.75	513.53	1019.90	2.60	4.76
CBs (Pvt. Sector)	440.29	470.51	23.93	47.09	5.44	10.10
RRBs	6144.58	7430.05	218.53	272.82	3.56	3.67
Coop. Banks	1728.99	1907.86	67.04	134.30	3.88	7.04
Total	**28038.28**	**31221.17**	**823.04**	**1474.11**	**2.94**	**4.72**

Table 6 : Region wise NPAs of Bank Loans to SHGs

Region	Loans Outstanding against SHGs		Amount of NPAs reported		Percentage of NPAs to Loan Outstanding	
	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11
Northern Region	815.13	903.14	53.91	63.66	6.61	7.05%
North Eastern Region	673.48	695.25	37.13	58.56	5.51	8.42%
Eastern Region	3694.91	4202.55	118.74	181.07	3.21	4.31%
Central Region	2462.40	2365.40	198.65	254.04	8.07	10.74%
Western Region	1369.49	1246.23	61.06	90.42	4.46	7.26%
Southern Region	19022.88	21808.59	356.53	826.36	1.87	3.79%
All India Total	**28038.28**	**31221.17**	**823.04**	**1474.11**	**2.94**	**4.72%**

Source: NABARD Report on the status of Microfinance 2010-11

Table 109: NPAs for Bank Loans to Self Help Groups and Recovery Performance as on 31.3.2009

Progress under Microfinance - Non Performing Assiets (NPAS) for Bank Loans to SHGs and Recovery Performance
Region-wise/State-wise/Agency-wise Position as on 31 March 2009

(Amount Rs. Lakh)

Sl. No.	Region/State	Commercial Banks						Regional Rural Banks			Cooperative Banks			TOTAL		
		Public Sector CBs			Private Sector CBs											
		Amount of Out-standing loans to SHGs	Amount of Gross NPAs	%age NPAs of outstand-ing bank loans to SHGs	Amount of Out-standing loans to SHGs	Amount of Gross NPAs	%age NPAs of outstand-ing bank loans to SHGs	Amount of Out-standing loans to SHGs	Amount of Gross NPAs	%age NPAs of outstand-ing bank loans to SHGs	Amount of Out-standing loans to SHGs	Amount of Gross NPAs	%age NPAs of outstand-ing bank loans to SHGs	Amount of Out-standing loans to SHGs	Amount of Gross NPAs	%age NPAs of outstand-ing bank loans to SHGs
A	Northern Region															
1	Haryana	7862.00	446.95	5.7	89.18	0.00	0.0	3626.22	25.82	0.7	419.68	13.28	3.2	11997.08	486.05	4.1
2	Himachal Pradesh	3357.67	143.20	4.3	238.17	89.01	37.4	2434.46	86.58	3.6	2855.37	206.96	7.2	8885.67	525.75	5.9
3	Punjab	5553.73	132.48	2.4	0.38	0.00	0.0	1025.74	1.85	0.2	604.68	52.89	8.7	7184.53	187.22	2.6
4	Jammu & Kash-mir	93.93	4.19	4.5				182.44	2.69	1.5	50.98	6.12	12.0	327.35	13.00	4.0
5	Rajasthan	19750.95	555.69	2.8	683.22	2.89	0.4	6207.87	1791.95	28.9	8157.32	644.80	7.9	34799.36	2995.33	8.6
6	New Delhi	1232.09	48.88	4.0										1232.09	48.88	4.0
	SUBTOTAL	37850.37	1331.39	3.5	1010.95	91.90	9.1	13476.73	1908.89	14.2	12088.03	924.05	7.6	64426.08	4256.23	6.6
B	North Eastern Region															
7	Assam	17202.11	2271.16	13.2	0.00	0.00		11015.32	622.80	5.7	3543.82	213.97	6.0	31761.25	3107.93	9.8
8	Manipur	2159.54	143.12	6.6	NA	NA	NA	312.00	145.31	46.6				2471.54	288.43	11.7
9	Meghalaya	369.65	12.51	3.4	NA	NA	NA	225.48	105.73	46.9	97.04	7.24	7.5	692.17	125.48	18.1
10	Sikkim	NA	NA	NA	0.19	0.00	0.0							0.19	0.00	0.0
11	Tripura	3638.55	97.28	2.7	NA	NA	NA	2588.40	9.76	0.4	432.90	4.50	1.0	6659.85	111.54	1.7
12	Nagaland	814.81	81.25	10.0	NA	NA	NA	30.00	18.22	60.7	70.07	3.69	5.3	914.88	103.16	11.3
13	Arunachal Pradesh	683.91	28.64	4.2	NA	NA	NA	41.04	8.25	20.1	1.79	1.61	89.9	726.74	38.50	5.3
14	Mizoram							1025.53	0.00	0.0	94.00	0.00	0.0	1119.53	0.00	0.0
	SUBTOTAL	24868.57	2633.96	10.6	0.19	0.00	0.0	15237.77	910.07	6.0	4239.62	231.01	5.4	44346.15	3775.04	8.5
C	Eastern Region															
15	Bihar	27605.60	1547.55	5.6	0.82	0.00	0.0	17476.16	1720.82	9.8				45082.58	3268.37	7.2
16	Jharkhand	18127.68	988.26	5.5	0.00	0.00								18127.68	988.26	5.5
17	Orissa	67378.55	1094.03	1.6	2939.00	574.95	19.6	46001.71	1112.99	2.4	3505.75	374.30	10.7	119825.01	5037.27	4.2
18	West Bengal	55814.37	1485.42	2.7				36616.06	392.65	1.1				92430.43	1878.07	2.0
19	A & N Islands (UT)	3.25	0.00	0.0										3.25	0.00	0.0
	SUBTOTAL	168929.45	5115.26	3.0	2939.82	574.95	19.6	100093.93	3226.46	3.2	3505.75	374.30	10.7	275468.95	9290.97	3.4
D	Central Region															
20	Madhya Pradesh	23079.82	1967.72	8.5	15.47	0.32	2.1	2365.46	194.88	8.2	466.16	64.12	13.8	25926.91	2227.05	8.6
21	Chhattisgarh	8630.77	745.90	8.6	4.86	0.00	0.0							8635.63	745.90	8.6
22	Uttar Pradesh	84394.28	7305.34	8.7	74.13	4.09	5.5	54935.16	5806.34	10.6	828.59	73.18	8.8	140232.16	13188.95	9.4
23	Uttarakhand	8429.87	345.05	4.1	223.20	0.07	0.0	2573.67	138.48	5.4	1826.69	124.84	6.8	13053.43	608.44	4.7
	SUBTOTAL	124534.74	10364.01	8.3	317.66	4.48	1.4	59874.29	6139.70	10.3	3121.44	262.14	8.4	187848.13	16770.34	8.9
E	Western Region															
24	Goa	1659.58	51.70	3.1										1659.58	51.70	3.1
25	Gujarat	7190.34	147.04	2.0				1054.63	40.75	3.9	186.30	23.23	12.5	8431.27	211.02	2.5
26	Maharashtra	105724.70	4823.39	4.6	7419.60	1382.34	18.6	13104.93	788.96	6.0	9621.53	883.82	9.2	135870.76	7878.51	5.8
	SUBTOTAL	114574.62	5022.13	4.4	7419.60	1382.34	18.6	14159.56	829.71	5.9	9807.83	907.05	9.2	145961.61	8141.23	5.6
F	Southern Region															
27	Andhra Pradesh	626994.29	2591.33	0.4	3689.36	7.15	0.2	138116.11	983.61	0.7	7973.00	190.79	2.4	776772.77	3772.88	0.5
28	Karnataka	85086.92	611.75	0.7	104001.38	100.50	0.1	43460.86	961.50	2.2	14973.54	302.80	2.0	247522.70	1976.55	0.8
29	Kerala	67597.93	1607.83	2.4	1612.66	112.17	7.0	5955.77	239.61	4.0	14348.81	1211.52	8.4	89515.17	3171.13	3.5
30	Tamil Nadu & UTP	258228.21	7049.01	2.7	16700.90	109.94	0.7	29971.50	2579.65	8.6	19342.18	1693.81	8.8	324242.79	11432.41	3.5
	SUBTOTAL	1037907.35	11859.91	1.1	126004.30	329.76	0.3	217504.24	4764.37	2.2	56637.53	3398.93	6.0	1438053.43	20352.97	1.4

Source: NABARD report on status of microfinance 2008-09

The Southern region recorded a low percentage of 1.4% with respect to NPA's in bank loans to Self Help Groups in comparison to other regions of the country. Among the southern states, Andhra Pradesh was a standout performer with a 0.5% while Tamil Nadu recorded 3.5% as on 31.3 2009.

Table 110: NPAs for Bank Loans to Self Help Groups and Recovery Performance as on 31.3.2010

Progress under Microfinance – Non Performing Assets (NPAs) against Bank loans to SHGs – Region-wise / State-wise / Agency-wise position of NPAs as on 31 March 2010

(Amount ₹ lakh)

Sr. No.	Region / State	Private Sector Commercial Banks			Public Sector Commercial Banks			Regional Rural Bank			Cooperative Banks			Total of all Agencies		
		Loan Amount Outstanding against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan outstanding against SHGs	Loan Amount Outstanding against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan outstanding against SHGs	Loan Amount Outstanding against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan outstanding against SHGs	Loan Amount Outstanding against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan outstanding against SHGs	Loan Amount Outstanding- against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan out standing against SHGs
A	Northern Region															
1	Haryana	58.43	34.52	59.08	10441.40	573.81	5.50	4461.74	64.33	1.44	545.87	111.39	20.41	15507.44	784.05	5.06
2	Himachal Pradesh	195.79	20.67	10.56	5359.74	187.66	3.50	1767.10	121.06	6.85	3274.43	212.86	6.50	10597.06	542.25	5.12
3	Punjab	3.88	0.17	NA	4756.43	202.10	4.25	1252.73	8.32	0.66	695.34	40.32	5.80	6708.38	250.91	3.74
4	Jammu & Kashmir	211.98	0.01	NA	442.98	48.41	10.93	223.62	3.29	1.47	153.98	5.53	3.59	1032.56	57.24	5.54
5	Rajasthan	908.01	6.20	0.68	26030.36	921.09	3.54	10146.99	527.34	5.20	9243.29	2296.00	24.84	46328.65	3750.63	8.10
6	New Delhi	NA	NA	NA	1339.24	5.98	0.45	NA	NA	NA	NA	NA	NA	1339.24	5.98	0.45
	Total	**1378.09**	**61.57**	**4.47**	**48370.15**	**1939.05**	**4.01**	**17852.18**	**724.34**	**4.06**	**13912.91**	**2666.10**	**19.16**	**81513.33**	**5391.06**	**6.61**
B	North Eastern Region															
1	Assam	NA	NA	NA	30216.34	1742.60	5.77	14534.45	558.89	3.85	4372.58	295.73	6.76	49123.37	2597.22	5.29
2	Meghalaya	NA	NA	NA	845.98	57.76	6.83	347.12	78.31	22.56	146.73	NA	NA	1339.83	136.07	10.16
3	Nagaland	NA	NA	NA	1450.16	181.14	12.49	NA	NA	NA	NA	NA	NA	1450.16	181.14	12.49
4	Tripura	NA	NA	NA	2755.37	97.71	3.55	6008.50	NA	NA	923.42	NA	NA	9687.29	97.71	1.01
5	Arunachal Pradesh	NA	NA	NA	797.99	26.40	3.31	91.50	14.64	16.00	179.00	1.61	0.90	1068.49	42.65	3.99
6	Mizoram	NA	NA	NA	799.33	264.00	33.03	1522.17	110.34	7.25	4.40	NA	NA	2325.90	374.34	16.09
7	Manipur	NA	NA	NA	1528.35	65.57	4.29	350.23	178.48	50.96	NA	NA	NA	1878.58	244.05	12.99
8	Sikkim	2.25	NA	NA	430.33	23.00	5.34	NA	NA	NA	41.59	17.15	41.24	474.17	40.15	8.47
	Total	**2.25**	**NA**	**NA**	**38823.85**	**2458.18**	**6.33**	**22853.97**	**940.66**	**4.12**	**5667.72**	**314.49**	**5.55**	**67347.79**	**3713.33**	**5.51**
C	Eastern Region															
1	Bihar	NA	NA	NA	37642.10	2020.39	5.37	18135.20	918.29	5.06	NA	NA	NA	55777.30	2938.68	5.27
2	Jharkhand	NA	NA	NA	24554.39	1277.17	5.20	4520.77	192.08	4.25	NA	NA	NA	29075.16	1469.25	5.05
3	Orissa	2955.77	589.61	19.95	98397.81	2309.08	2.35	40675.26	1317.48	3.24	9579.65	337.19	3.52	151608.49	4553.36	3.00
4	West Bengal	NA	NA	NA	72897.47	1805.07	2.48	45314.40	1107.16	2.44	14480.90	NA	NA	132692.77	2912.23	2.19
5	A & N Islands (UT)	NA	NA	NA	108.75	NA	NA	NA	NA	NA	228.41	0.76	0.33	337.16	0.76	0.23
	Total	**2955.77**	**589.61**	**19.95**	**233600.52**	**7411.71**	**3.17**	**108645.63**	**3535.01**	**3.25**	**24288.96**	**337.95**	**1.39**	**369490.88**	**11874.28**	**3.21**
D	Central Region															
1	Chattisgarh	13.10	NA	NA	13103.59	959.75	7.32	6463.22	265.44	4.11	326.22	20.00	6.13	19906.13	1245.19	6.26
2	Madhya Pradesh	13.22	8.32	62.93	31826.60	2778.55	8.73	7665.33	606.52	7.91	5008.24	257.45	5.14	44513.39	3650.84	8.20
3	Uttarakhand	203.61	8.00	3.93	12061.23	213.38	1.77	3086.66	150.92	4.89	2881.08	221.87	7.70	18232.58	594.17	3.26
4	Uttar Pradesh	72.74	15.64	21.50	100431.76	4798.02	4.78	60061.26	9508.84	15.83	3021.74	53.18	1.76	163587.50	14375.68	8.79
	Total	**302.67**	**31.96**	**10.56**	**157423.18**	**8749.70**	**5.56**	**77276.47**	**10531.72**	**13.63**	**11237.28**	**552.50**	**4.92**	**246239.60**	**19865.88**	**8.07**
E	Western Region															
1	Goa	NA	NA	NA	1331.47	20.70	1.55	NA	NA	NA	1124.19	NA	NA	2455.66	20.70	0.84
2	Gujarat	NA	NA	NA	10699.48	318.67	2.98	2036.24	26.84	1.32	1426.11	106.74	7.48	14161.83	452.25	3.19
3	Maharashtra	382.53	47.71	12.47	92178.30	3347.90	3.63	11329.74	1315.77	11.61	16440.42	921.21	5.60	120330.99	5632.59	4.68
	Total	**382.53**	**47.71**	**12.47**	**104209.25**	**3687.27**	**3.54**	**13365.98**	**1342.61**	**10.04**	**18990.72**	**1027.95**	**5.41**	**136948.48**	**6105.54**	**4.46**
F	Southern Region															
1	Andhra Pradesh	1841.37	132.53	7.20	866804.88	13391.09	1.54	290009.69	1161.25	0.40	15297.68	457.05	2.99	1173953.62	15141.92	1.29
2	Karnataka	9121.58	241.64	2.65	128495.23	2783.62	2.17	50527.29	820.06	1.62	17386.23	289.59	1.67	205530.33	4134.91	2.01
3	Kerala	15691.08	366.00	2.33	64900.49	1244.12	1.92	8675.00	371.21	4.28	12264.09	575.73	4.69	101530.66	2557.06	2.52
4	Tamil Nadu	12307.12	916.78	7.45	316985.36	9606.00	3.03	24911.20	2426.88	9.74	51738.52	781.95	1.51	405942.20	13731.61	3.38
5	Puducherry	46.86	5.46	11.65	12828.98	82.41	0.64	340.83	NA	NA	2114.51	NA	NA	15331.18	87.87	0.57
	Total	**39008.01**	**1662.41**	**4.26**	**1390014.94**	**27107.24**	**1.95**	**374464.01**	**4779.40**	**1.28**	**98801.03**	**2104.32**	**2.13**	**1902287.99**	**35653.37**	**1.87**

Source: NABARD report on status of microfinance 2009-10

The Southern region recorded a low percentage of 1.87 % with respect to NPA's in bank loans to Self Help Groups in comparison to other regions of the country. Among the southern states, in Andhra Pradesh the percentage of NPA's to outstanding loans increased from 0.5% in 2008-09 to 1.295 as a result of falling recovery rates, while Tamil Nadu recorded 3.38% which is lesser than 3.5% for the year ended 31.3.09 indicating a marginal improvement in recoveries of loans to Self Help Groups in the state.

Table 111: NPAs for Bank Loans to Self Help Groups and Recovery Performance as on 31.3.2011

Sr. No.	Region / State	Private Sector Commercial Banks			Public Sector Commercial Banks			Cooperative Banks			Regional Rural Banks			Total		
		Loan Amount O/S against SHGs	Amount of Gross NPAs against SHGs	NPA as % age to loan O/S	Loan Amount O/S against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to loan O/S	Loan Amount O/S against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to Loan O/S	Loan Amount O/S against SHGs	Amount of Gross NPAs against SHGs	NPA as as %age to Loan O/S	Loan Amount O/S against SHGs	Amount of Gross NPAs against SHGs	NPA as %age to Loan O/S
	Northern Region															
1	Haryana	3.75	3.72	99.20%	11187.66	779.72	6.97%	738.87	0.00	0.00%	7896.52	0.00	0.00%	19826.80	783.44	3.95%
2	Himachal Pradesh	NA	NA	NA	5651.36	342.19	6.06%	7010.97	736.98	10.51%	3332.31	89.81	2.70%	15994.64	1168.98	7.31%
3	Punjab	2.10	0.00	0.00%	5455.38	310.95	5.70%	981.88	107.35	10.93%	1498.15	2.64	0.18%	7937.51	420.94	5.30%
4	Jammu & Kashmir	248.31	0.00	0.00%	409.05	31.00	7.58%	216.75	18.48	8.53%	285.18	0.00	0.00%	1159.29	49.48	4.27%
5	Rajasthan	5.04	0.23	4.56%	22157.41	1169.54	5.28%	11006.26	1719.98	15.63%	11371.33	891.12	7.84%	44540.04	3780.87	8.49%
6	New Delhi	5.75	0.20	3.48%	612.83	35.46	5.79%	0.00	0.00	NA	NA	NA	NA	618.58	35.66	5.76%
7	Chandigarh	NA	NA	NA	237.56	126.73	53.35%	0.00	0.00	NA	NA	NA	NA	237.56	126.73	53.35%
	Total	**264.95**	**4.15**	**1.57%**	**45711.25**	**2795.59**	**6.12%**	**19954.73**	**2582.79**	**12.94%**	**24383.49**	**983.57**	**4.03%**	**90314.42**	**6366.10**	**7.05%**
	North Eastern Region															
1	Assam	NA	NA	NA	29207.48	2221.53	7.61%	5479.36	232.64	4.25%	16783.43	1821.51	10.85%	51470.27	4275.68	8.31%
2	Meghalaya	NA	NA	NA	938.55	39.05	4.16%	0.00	0.00	NA	545.99	86.32	15.81%	1484.54	125.37	8.45%
3	Nagaland	NA	NA	NA	1551.99	250.77	16.16%	260.83	18.58	7.12%	82.76	1.00	1.21%	1895.58	270.35	14.26%
4	Tripura	NA	NA	NA	4061.67	163.52	4.03%	2453.14	59.10	2.41%	3790.17	0.00	0.00%	10304.98	222.62	2.16%
5	Arunachal Pradesh	NA	NA	NA	741.56	49.59	6.69%	179.00	1.61	0.90%	91.50	14.64	16.00%	1012.06	65.84	6.51%
6	Mizoram	NA	NA	NA	616.17	323.00	52.42%	4.32	0.00	0.00%	0.00	0.00	NA	620.49	323.00	52.06%
7	Manipur	NA	NA	NA	1585.16	164.55	10.38%	0.00	0.00	NA	451.57	189.92	42.06%	2036.73	354.47	17.40%
8	Sikkim	1.65	1.55	93.94%	656.84	200.00	30.45%	41.95	17.16	40.91%	NA	NA	NA	700.44	218.71	31.22%
	Total	**1.65**	**1.55**	**93.94%**	**38359.42**	**3412.01**	**8.67%**	**8418.60**	**329.09**	**3.91%**	**21745.42**	**2113.39**	**9.72%**	**69525.09**	**5856.04**	**8.42%**
	Eastern Region															
1	Bihar	NA	NA	NA	41338.29	1360.52	3.29%	0.00	0.00	NA	38265.12	1879.11	4.91%	79603.41	3239.63	4.07%
2	Jharkhand	NA	NA	NA	25453.43	1109.03	4.36%	0.00	0.00	NA	6743.85	482.37	7.15%	32197.28	1591.40	4.94%
3	Orissa	14.78	10.87	73.55%	96156.35	6272.78	6.52%	10877.41	925.95	8.51%	50899.56	2645.91	5.20%	157948.10	9855.51	6.24%
4	West Bengal	NA	NA	NA	87361.73	2021.75	2.31%	13528.65	367.43	2.72%	49034.27	1031.00	2.10%	149924.65	3420.18	2.28%
5	A & N Islands (UT)	NA	NA	NA	311.22	0	0.00%	270.54	0.00	0.00%	NA	NA	NA	581.76	0.00	0.00%
	Total	**14.78**	**10.87**	**73.55%**	**250621.02**	**10764.08**	**4.29%**	**24676.60**	**1293.38**	**5.24%**	**144942.80**	**6038.39**	**4.17%**	**420255.20**	**18106.72**	**4.31%**
	Central Region															
1	Chhattisgarh	25.68	7.41	28.86%	11349.50	1123.43	9.90%	359.69	72.51	20.16%	7058.30	587.81	8.33%	18793.17	1791.16	9.53%
2	Madhya Pradesh	3.20	0.00	0.00%	28086.03	2917.99	10.39%	2893.72	502.38	17.36%	6970.12	861.85	12.36%	37953.07	4282.22	11.28%
3	Uttarakhand	278.82	6.14	2.20%	5691.75	335.77	5.90%	2301.91	157.08	6.82%	2420.65	101.40	4.19%	10693.13	600.39	5.61%
4	Uttar Pradesh	1.06	1.05	99.06%	102241.18	12707.47	12.43%	829.67	170.26	20.52%	66028.24	5851.28	8.86%	169100.15	18730.06	11.08%
	Total	**308.76**	**14.60**	**4.73%**	**147368.46**	**17084.66**	**11.59%**	**6384.99**	**902.23**	**14.13%**	**82477.31**	**7402.34**	**8.98%**	**236539.52**	**25403.83**	**10.74%**
	Western Region															
1	Goa	NA	NA	NA	3025.09	156.30	5.17%	1572.04	8.84	0.56%	NA	NA	NA	4597.13	165.14	3.59%
2	Gujarat	2.81	0.00	0.00%	12315.08	460.63	3.74%	1110.62	139.63	12.57%	2115.58	114.67	5.42%	15544.09	714.93	4.60%
3	Maharashtra	1445.48	25.04	1.73%	69695.63	5348.09	7.67%	17093.52	2052.78	12.01%	16247.18	736.44	4.53%	104481.81	8162.35	7.81%
	Total	**1448.29**	**25.04**	**1.73%**	**85035.80**	**5965.02**	**7.01%**	**19776.18**	**2201.25**	**11.13%**	**18362.76**	**851.11**	**4.63%**	**124623.03**	**9042.42**	**7.26%**
	Southern Region															
1	Andhra Pradesh	1039.14	32.54	3.13%	969873.16	21323.29	2.20%	13767.28	428.78	3.11%	352232.71	5264.43	1.49%	1336912.29	27049.04	2.02%
2	Karnataka	12025.76	906.09	7.53%	126588.11	3494.88	2.76%	26776.26	1136.20	4.24%	59221.89	1148.60	1.94%	224612.02	6685.77	2.98%
3	Kerala	17193.69	596.97	3.47%	107368.59	11182.86	10.42%	22631.00	1350.78	5.97%	10081.70	416.70	4.13%	157274.98	13547.31	8.61%
4	Lakshadweep	NA	NA	NA	5.53	0	0.00%	NA	NA	NA	NA	NA	NA	5.53	0.00	0.00%
5	Tamil Nadu	14752.33	3117.20	21.13%	361009.79	25570.73	7.08%	48400.01	3205.65	6.62%	28462.08	3063.20	10.76%	452624.21	34956.78	7.72%
6	Puducherry	1.61	0.00	0.00%	8333.58	396.79	4.76%	0.00	0.00	NA	1095.07	0.00	0.00%	9430.26	396.79	4.21%
	Total	**45012.53**	**4652.80**	**10.34%**	**1573178.76**	**61968.55**	**3.94%**	**111574.55**	**6121.41**	**5.49%**	**451093.45**	**9892.93**	**2.19%**	**2180859.29**	**82635.69**	**3.79%**
	Grand Total	**47050.96**	**4709.01**	**10.01%**	**2141274.71**	**101989.91**	**4.76%**	**190785.65**	**13430.15**	**7.04%**	**743005.23**	**27281.73**	**3.67%**	**3122116.55**	**147410.80**	**4.72%**

Source: NABARD report on status of microfinance 2010-11

The Southern region recorded a percentage of 4.72 % with respect to NPA's in bank loans to Self Help Groups in comparison to other regions of the country as on 31.3.2011. Among the southern states, in Andhra Pradesh the percentage of NPA's to outstanding loans increased from to 1.295 % in 2009-10 to 2.02% as a result of falling recovery rates, while Tamil Nadu recorded 7.72% in the year ended 31.3.11 which is more than 3.5% for the year ended 31.3.10 reflecting a steep fall in recoveries of loans to Self Help Groups by banks in the state

Table 112: Loans to Microfinance Institutions by Banks and % of Recovery from Microfinance Institutions 2008-11

Financing Agency	Period	Loans disbursed to MFIs during the year (₹ in crore)		Loan outstanding against MFIs as on 31 March (₹ in crore)		Percentage of Recovery from MFIs
		No. of MFIs	Amount	No. of MFIs	Amount	
All Commercial Banks	2008-09	522	3718.93	1762	4977.89	70-100
	2009-10	645	8038.61	1407	10095.32	80-100
	2010-11	469	7605.18	2176	10688.85	88-100
Regional Rural Banks	2008-09	59	13.40	153	31.20	87-100
	2009-10	46	24.14	103	52.22	100
	2010-11	9	4.16	23	42.01	98-100
Cooperative Banks	2008-09	NA	NA	NA	NA	NA
	2009-10	0	0	3	0.01	90
	2010-11	NA	NA	NA	NA	NA
SIDBI	2008-09	NA	NA	NA	NA	NA
	2009-10	88	2665.75	146	3808.20	NA
	2010-11	2	843.78	139	3041.77	NA
Total by all agencies	2008-09	581	3732.33	1915	5009.09	
	2009-10	779	10728.50	1656	13955.75	
	2010-11	471	8448.96	2315	13730.62	

Source: NABARD Report on the status of Microfinance 2010-11

The commercial bank loans to Microfinance Institutions declined from ₹8038.61 crores in 2009-10 to ₹7605.18 indicative of the cautious and selective approach of banks in financing of loans to Microfinance Institutions. The recovery rates which ranged from 70-100% in 2008-09 improved to 87-100% in 2010-11. Banks are keen on recovery of existing loans to Microfinance Institutions and are wary about advancing new loans to them especially after the crisis in Andhra Pradesh. The number of Microfinance Institutions with outstanding loans increased from 1407 in 2009-10 to 2176 in 2010-11 thereby reflecting the poor ability of the Microfinance Institutions in paying back the loans.

In the two states of Andhra Pradesh and Tamil Nadu, some public and private sector banks have been stellar performers in the delivery of micro credit. In Andhra Pradesh, the stellar performers among the public sector banks are State Bank of India, State Bank of Hyderabad, and Andhra Bank. In Tamil Nadu, the stellar performers among the public sector banks are Indian Bank, Indian Overseas Bank, Canara Bank. The following table illustrates this. Among the private sector banks, HDFC and Karnataka

Bank are good performers in Andhra Pradesh and HDFC and Tamilnad Mercantile Bank are the stellar performers.

Table 113: Stellar Performers among Banks in Andhra Pradesh and Tamil Nadu – Loans Disbursed

Loans Disbursed by Banks to Self Help Groups in Andhra Pradesh and Tamil Nadu						
Name Of Bank	**2008-09**	**2009-10**	**2010-11**	**Mean**	**Std Deviation**	**Coeff of Variation**
Banks in Andhra Pradesh						
Public Sector banks						
State Bank of Hyderabad	54181	59846	51504.42	55177.14	4259.07	7.72%
State Bank of India	142700	166224	153838.00	154254.00	11767.52	7.63%
Andhra Bank	1003.11	121654	118999.54	80552.22	68904.33	85.54%
Private Sector Banks						
HDFC Bank	2853.76	866.45	709.04	1476.42	1195.41	80.97%
Karnataka Bank	78.18	16.72	118.84	71.25	51.41	72.16%
Banks in Tamil Nadu						
Public Sector banks						
Indian Bank	57747.43	83363	99660.00	80256.81	21128.23	26.33%
Indian Overseas Bank	36104	33180	35128.00	34804.00	1488.68	4.28%
Canara Bank	13313.6	17241.34	18998.67	16517.87	2910.77	17.62%
Private Sector Banks						
HDFC Bank	6328	5037.49	8228.35	6531.28	1605.113	24.58%
Tamilnad Mercantile Bank	2093	2606.87	626.74	1775.537	1027.529	57.87%

In terms of loan disbursed to self help groups, among public sector banks State bank of India and state bank of Hyderabad have been consistent in the state of Andhra Pradesh. In Tamil Nadu, Indian overseas bank and Canara bank have been consistent in disbursing loans to self help groups as seen from their low coefficients of variation.

Among private sector banks, Karnataka Bank and HDFC Bank have been consistent in their loans to self help groups in the state of Andhra Pradesh. HDFC Bank and Tamilnad Mercantile bank have been consistent in their loans to self help groups in the state of Tamil Nadu.

Table 114: Stellar Performers among Banks in Andhra Pradesh and Tamil Nadu – Outstanding Loans

	Outstanding Loans of Banks in AP and TN to Self Help Groups					
Name Of Bank	**2008-09**	**2009-10**	**2010-11**	**Mean**	**Std Deviation**	**Coeff of Variation**
Banks in Andhra Pradesh						
Public Sector banks						
State Bank of Hyderabad	80369	117323	80306.75	92666.25	21353.39	23.04%
State Bank of India	199734	258822	287922	248826	44935.74	18.06%
Andhra Bank	165115	206887.6	243195	205065.9	39071.86	19.05%
Private Sector Banks						
HDFC Bank	3670.12	1129.08	561.28	1786.827	1655.504	92.65%
Karnataka Bank	85.72	144.33	209.83	146.6267	62.08687	42.34%
Banks in Tamil Nadu						
Public Sector banks						
Indian Bank	75558.58	102152.2	119508	99072.94	22135.93	22.34%
Indian Overseas Bank	44300	52376	58989	51888.33	7356.633	14.18%
Canara Bank	26466.65	33702.58	36944.24	32371.16	5364.186	16.57%
Private Sector Banks						
HDFC Bank	12755.89	6689.53	7140.69	8862.037	3379.713	38.14%
Tamilnad Mercantile Bank	3667.06	3723.4	2902.12	3430.86	458.768	13.37%

As regards outstanding loans of public sector banks to self help groups in the state of Andhra Pradesh, State Bank of India had the lowest coefficient of variation indicating consistency of performance. In Tamil Nadu, Indian Overseas Bank had the lowest coefficient of variation followed by Canara Bank.

Among private sector banks, Karnataka Bank in state of Andhra Pradesh and Tamilnad Mercantile Bank were consistent in their performance and had low coefficients of variation.

As regards non-performing assets in loans of public and private sector banks to Self help groups in Andhra Pradesh and Tamil Nadu, State Bank of India had the lowest coefficient of variation in Andhra Pradesh and in Tamil Nadu Canara Bank had the lowest coefficient of variation. Among private sector banks, Karnataka Bank was consistent in the state of Andhra Pradesh and had the lowest coefficient of variation. In

Tamil Nadu, Tamilnad Mercantile Bank had a low coefficient of variation in comparison to HDFC Bank as far as NPAs are concerned.

Table 115: Stellar Performers among Banks in Andhra Pradesh and Tamil Nadu – NPAs

NPAs in Loans of Bank in Andhra Pradesh and Tamil Nadu to Self Help Groups						
Name Of Bank	**2008-09**	**2009-10**	**2010-11**	**Mean**	**Std Deviation**	**Coeff of Variation**
Banks in Andhra Pradesh						
Public Sector banks						
State Bank of Hyderabad	162	162	1136.71	486.9033	562.7491	115.58%
State Bank of India	929	2735	8957.00	4207	4211.566	100.11%
Andhra Bank	263.16	453	3342.22	1352.793	1725.507	127.55%
Private Sector Banks						
HDFC Bank	7.02	121.19	23.79	50.66667	61.6479	121.67%
Karnataka Bank		5.61	8.05	6.83	1.725341	25.26%
Banks in Tamil Nadu						
Public Sector banks						
Indian Bank	680.68	16.42	4425.00	1707.367	2376.859	139.21%
Indian Overseas Bank	4	4	115.91	41.30333	64.61127	156.43%
Canara Bank	47.73	48.46	129.06	75.08333	46.74659	62.26%
Private Sector Banks						
HDFC Bank	26.55	444.23	123.38	198.0533	218.6235	110.39%
Tamilnad Mercantile Bank	82.92		600	341.46	365.6308	107.08%

The following table illustrates a comparison of the two states namely Andhra Pradesh and Tamil Nadu reflecting the concentration of microfinance.

Table 116: Concentration of Microfinance in Andhra Pradesh and Tamil Nadu

Aspects	Andhra Pradesh	Tamil Nadu
Number of Households 2011(Million)	16.92	14.42
Number of Poor Households	2.52	2.91
Number of Credit Self Help Group Members (Million)	21.89	6.96
Number of Microfinance Institution clients (in millions)	5.75	4.25
Total Microfinance clients (in millions)	27.64	11.21
Microfinance clients as proportion to poor households (multiples)	10.96	3.85
Microfinance clients as proportion of total households (multiples)	1.63	0.77
Self Help Group Loans (` Billion)	128.69	43.17
Microfinance Institution Loans (` Billion)	52.05	21.17
Total microfinance loans (` Billion)	180.74	64.34
Loans outstanding per poor household (` Billion)	71722	22109
Microfinance Penetration Index (MPI)	4.2	2.0

Source: Microfinance India –state of sector report 2011

From the above table it can be seen that the state of Andhra Pradesh has more number of Self Help Group members and Microfinance Institution clients in comparison with the state of Tamil Nadu. The volume of Self Help Group and Microfinance Institution loans are higher in the case of Andhra Pradesh. The volume of loans outstanding per poor household in Andhra Pradesh stands at ₹71722 in comparison to ₹22109 of Tamil Nadu. The Microfinance penetration index of Andhra Pradesh is 4.2 when compared to Tamil Nadu whose Microfinance Index stands at 2.

The analysis has brought to light the fact that the state of Andhra Pradesh is ahead of Tamil Nadu in terms of microfinance penetration. The Self Help Group movement in the state of Andhra Pradesh has been supported by the proactive role of the state government. The interest subsidy scheme of "Pavala Vaddi" to Self Help Groups has been well received and has ensured prompt repayment of loans. The once vibrant microfinance institutions, of course, have suffered a setback due to the Andhra Pradesh MFI Ordinance. The new microfinance Bill hopes to address most of the problems faced by the sector. In the state of Tamil Nadu, the Self Help Group model has received an impetus with the "Mahalir Thittam" project. Microfinance institutions are also slowly spreading their wings in the state. Although self help groups in Tamil Nadu are not in receipt of interest subsidy, the repayment rates have been encouraging. This is the proof of the financial discipline that this model of credit delivery has inculcated in its clients. In both the states the credit delivery mechanism has contributed to the socio-economic empowerment of women.

Part C – The performance of microfinance institutions in the states of Andhra Pradesh and Tamil Nadu in terms of efficiency is also presented. The performance of these institutions is analyzed on the basis of efficiency and productivity ratios, productivity and sustainability ratios, portfolio quality ratios; financial management ratios. The key performance indicators and credit risk monitoring ratios are also presented.

Table 117: Microfinance Institutions from the States of Andhra Pradesh and Tamil Nadu

State	**Name of the microfinance institution**
Andhra Pradesh	SKS, SPANDANA SPOORTHY
Tamil Nadu	Grama Vidiyal MicroFinance Limited (GVMFL) Madura Microfinance Limited (MMFL)

Profile of the microfinance institutions included in the sample is presented below:

1) SKS Microfinance Limited (SKS) is a non-banking finance company (NBFC), regulated by the Reserve Bank of India. SKS claims its mission is to eradicate poverty by providing financial services to the poor. The company operates across these 19 states of India: Andhra Pradesh, Karnataka, Maharashtra, Orissa, Madhya Pradesh, Bihar, Uttar Pradesh, Rajasthan, Uttaranchal, Himachal Pradesh, Haryana, West Bengal, Jharkhand, Chhattisgarh, Gujarat, Kerala, Tamil Nadu, Punjab and Delhi.SKS was founded in 1997 by Vikram Akula, who also served as its executive chairperson until November 2011. As of December 31, 2010, SKS had 7.7 million clients in 2,403 branches in the 19 states across India. SKS charges an annual effective interest rate between 26.7% and 31.4% for core loan products. At the end of 2010's financial year on 31 March 2011, the company listed a gross loan portfolio of USD 925,844,433 with 6,242,266 female active borrowers.

According to a CRISIL Report in 2009 on Top 50 Indian Microfinance Institutions (MFIs), SKS Microfinance is the largest MFI in India in terms of number of borrowers, number of branches and total loans as of September 30, 2008 SKS Microfinance follows the Joint Liability Group (JLG) model. The methodology involves lending to individual women, utilising five member groups where groups serve as the ultimate guarantor for each member. SKS Microfinance offers 8 financial products and services to its clients - Income Generation Loans, Mid-Term Loans, Mobile Loans, Sangam Store Loans Housing Loans, Funeral Assistance, Gold Loan, and Life Insurance. The company lists some of the social benefits of its financial product and service offerings as "providing self-employed women financial assistance to support their business enterprises, such as raising livestock, running local retail shops called *kirana* stores, providing tailoring and other assorted trade and services.

SKS has had to raise money from several different companies and individual sponsors in order to help these women. In July 2009, Bajaj Allianz made an investment of USD 10 million (₹50 crore) in SKS Microfinance which was the first-ever investment by an insurance company in an Indian microfinance institution. In November 2008, SKS raised equity worth $75 million (₹366 crore), the largest equity raised by an MFI in the world. The third round of equity worth ₹147 crore was raised in January 2008. In March 2006, SKS closed its first round of equity investment; the largest microfinance investment in India to date – USD 3.2 million from some of the world's leading microfinance investors, and then eclipsed this accomplishment with a second round equity investment of $11.5 million in March 2007.

It leveraged equity to raise debt from public sector, private sector and multinational banks operating in India. This capital has helped the organisation scale up operations and reach out to millions of poor households across the length and breadth of India.

SKS was ranked as the number 1 MFI in India and number 2 in the world by MIX Market. *Business Week* had rated SKS as one of the most influential companies. SKS has received numerous awards including the CGAP Pro-Poor Innovation Award, the ABN-Amro/Planet Finance Process Excellence Award, Citibank Information Integrity Award, the Digital Partners SEL Award, SHG Foundation funding and the Grameen Foundation USA Excellence Award. SKS is the only MFI in India to receive the MIX Transparency Certification. SKS was selected by Unitus as the most promising microfinance organization in India. On July 28, 2010, SKS Microfinance, India's biggest Microfinance Institution (MFI), made its debut on the Bombay Stock Exchange, offering its shares to the general public. Initial Public Offering (IPO) has been made to raise more funds so that SKS could reach out to a larger number of poor people.

2) Spandana Sphoorty Financial Limited is one of the largest Microfinance Institution (MFI) in India. Spandana provides micro-credit and credit-plus services to low-income households and individuals to improve their quality of life. Initially, the startup team of Spandana worked for a Non-Government Organisation (NGO) in planning, implementation and monitoring of development projects that were funded predominantly by Grants. These activities had reasonably good impact; however, the team was keen to develop a sustainable community development model focused at low-income community – which is financially viable, non-grant based and scalable. Spandana team gathered some money, a few like minded friends and family members who also bought their idea and loads and loads of courage. Spandana team started operating under their own NGO in 1998 and called it Spandana. Spandana stands for Responsiveness, and in this context, responsiveness to the needs of low-income clients. In the initial roll out, getting funding from banks was challenging as the model had to be tested and validated locally. Spandana continued alternative developmental programmes like Healthcare, Nutrition, Sanitation etc. As the operations picked up, Spandana questioned the logic of every conventional method, therefore addressing the bottlenecks and building efficiencies – which at that time all seemed like common sense. As the financials of the first formal year of operations were compiled, Spandana team was surprised that they had achieved break-even. This was not by design but by default since the efficiencies was becoming a culture for Spandana to build on.

In the first two years (1998-2000), around the turn of the century, Spandana crossed its first milestone of ₹1 crore (10 million) disbursement and about 2,000 clients. Funds were difficult to raise. Bankers were wary of this client segment since the state directed credit given by Bankers had dismal repayment rates. It took months of demonstrated repayment performance and conviction of Spandana team, initial support of FWWB and support of friends to lead to trickling-in of loan funds.

By the year 2002, Spandana reached out to about 15,000 clients. Around the same time, Bankers started looking at MFIs as a reliable and Bankable entity. Rating agencies like

M-CRIL and CRISIL and many sector resource organizations also played a critical role in critiquing and therefore helping in institutionalization of the whole microfinance sector.

The performance of Spandana gave confidence to Bankers to increase their exposure levels. FWWB with its loans and capacity building support, SIDBI through its IFAD supported Foundation for Microcredit and ICICI Bank with its partnership model helped Spandana grow rapidly. Between 2001 to 2004, Spandana grew by over 250% compounded annual growth rate. By end of 2004, Spandana had reached out to over 1 lakh (0.1 mn) clients and a Gross Loan Portfolio of over ₹5.5 mn. With scale, it became increasingly clear that it is prudent to transform into a regulated entity and the most suitable model available under the Indian regulatory environment is Non-Banking Finance Company (NBFC). Spandana transformed itself into an NBFC and started originated new loans under the NBFC structure.

After transformation into an NBFC, Spandana added the following phrases to its name – Sphoorty Financial Services. Sphoorty stands for '**inspiration**' – this exemplifies the growth of Spandana in provision of larger bouquet of financial services to larger client base. It is one of the most significant microfinance service provider which offers a range of financial and non financial products and services to low income households and individuals to improve the quality of life. It constantly endeavours to deliver quality services to its clients and remunerative returns to their Investors by maintaining highest levels of transparency and integrity. **T**ransparency, **R**esponsiveness, **I**ntegrity, **C**ommitment, Team **S**pirit are the core values of Spandana. As of 31st March 2011, the Number of Clients of Spandana stood at 5.15 mn, number of Branches at 1,731, Portfolio Outstanding of ₹34,359 mn. The total Disbursements (FY 2011) stood ₹52,934 mn and they were active in 172 Districts.

Spandana has steadfastly worked on improving processes for credit delivery and client servicing. This has helped in establishing benchmarks in operational efficiencies, cost management and customer support. Thus the viability and scalability of microfinance model has been re-enforced.

3) Grama Vidiyal is a microfinance institution, operating in the Tamil Nadu area of South India. Since 1993, Grama Vidiyal, in partnership with Activists for Social

Alternatives (ASA), has provided small loans to women without access to formal credit and who typically have daily incomes of less than ₹80 (USD 2) per day. Grama Vidiyal's loans outstanding currently exceed ₹1.157 billion (USD 28.93 million) among its 263,002 women members. Grama Vidiyal is ranked the #4 Microfinance institution in the world and the leading microfinance institution in India in the "2007 MIX global 100: Ranking of Microfinance Institutions - Composite Ranking."

Grama Vidiyal was originally established in 1993 as the microfinance branch of ASA Activists for Social Alternatives (ASA). In April 1997, Grama Vidiyal officially came into existence when it registered as a separate charitable trust distinct from ASA.

In 2007, Grama Vidiyal transformed from a charitable trust to a regulated Non-Bank Financial Company (NBFC). Its status as an NBFC brings Grama Vidiyal under the purview of government regulation but will permit the firm to take on larger amounts of equity capital. Grama Vidiyal expects continued rapid growth, reaching more than two million clients by expanding to other states of India with an excess of ₹15 billion (USD 400,000,000) in loans outstanding by 2012. GVMFL offers general loans, business loans, seasonal loans and housing loans to its clients. Grama Vidiyal is among the largest microinsurance providers in India and received the Finalist Award in Shimmer Category Insurance from ING and PlaNet Finance. It was also studied by ILO for a case study – "Micro insurance and Microfinance Institutions". Grama Vidiyal has been implementing microinsurance since 1993. In conjunction with the Activists for Social Alternatives (ASA), Grama Vidiyal takes on a variety of initiatives, including: lobbying and advocacy, women empowerment, poor and Dalit empowerment, and education for poor children. Grama Vidiyal also pursues equity investments from a variety of institutions and organizations. Unitus Equity Fund, a $23.6 million fund which invests in emerging microfinance institutions has also invested in GVMFL.

4) Madura Micro Finance was established as a non-banking finance company (NBFC) in 2005 and received its license from the RBI in early 2006. At the Bank of Madura, beginning in 1995, the late Dr. K.M. Thiagarajan, the then Chairman and CEO, experimented with a new model of SHG training and lending as a means to create a sustainable profit based model of rural lending. The goal was to develop a system that would be appropriate for mainstream banking and therefore bring infusions of low-interest capital into rural areas on a scale that would be untenable for non-profit organizations. As part of this effort, 95 rural branches of the bank were developed and equipped for this operation.

By the year 2000 Bank of Madura had developed 1500 SHGs, the largest SHG project undertaken directly by a commercial bank. A study of this program conducted by the National Bank for Agriculture and Rural Development (NABARD), one of the nodal agencies in India for SHGs and microcredit, concluded that the "Bank of Madura - SHG project "was" a success. It was an integrated rural development project without subsidy but with cent percent repayment, resulting in effective use of credit and creation of productive assets. Bank of Madura also received special mention in NABARD's report 'NABARD and Microfinance' as the No.1 SHG model in India. This led to the recognition that the microcredit segment can become part of mainstream banking if appropriate institutional and market mechanisms are created.
In 2000, the Bank of Madura was merged with ICICI Bank where the SHG lending operations were rapidly scaled over five fold. During this time the late Dr. K.M. Thiagarajan retired from mainstream banking and founded Microcredit Foundation of India, a not-for-profit section 25 company where he intended to pilot the development of sustainable models for delivery of banking and other services to the rural poor. In 2003, however, Microcredit Foundation of India (MFI) took over the management of these SHGs in Tamil Nadu in a partnership model with ICICI Bank, which had by then been expanded to 10,000 and continued to grow. However as a not-for-profit company, MFI had limitations in its ability to grow and establish scalable mechanisms for lending. Madura Micro Finance was thus established as a more sustainable and scalable business model. Over the next few years SHG members managed by Microcredit Foundation joined Madura as borrowers after they had successfully repaid their microloans from ICICI Bank. As Madura grew, many of the field staff and management that had pioneered the SHG model at Bank of Madura returned to take positions of responsibility and carry on its mission through this new vehicle.

Madura is, fundamentally, a social enterprise that has taken on the challenge of not just creating a scalable, profit-making enterprise but of creating a scalable, profit-making enterprise that creates unique social value in every aspect of its core operations. They envision a more informed rural community that is more tightly integrated with the mainstream economy in multiple ways. They provide microfinance coupled with knowledge and information services that raise human capacity and organizational capability and create open access to markets resulting in more productive loans.

As a microfinance lender, they have the highest cost efficiency worldwide, which allows them to deliver a range of financial products profitably at the lowest rates on the market. In 2007, Forbes recognized their predecessor organization, Microcredit Foundation of India, as the most cost efficient microfinance institution worldwide. Today, it carries on that distinction. They provide

- Pre-linkage Loan of a maximum of ₹5000 ($100) per member to a self help group within 30 days of formation that serves as a tester loan to gauge repayment capacity and establish credit history.
- Activity Term Loan This is a loan of initially ₹15,000 ($300) per member provided to a self help group largely for the purpose of income generating activities based on their repayment history for the pre-linkage loan and their attendance and participation in meetings. This limit is increased with successive cycles up to ₹25,000 per member based on similar grading criteria.

Table 118: Ratios of SKS Microfinance

Efficiency and Productivity Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Operating expense ratio	12.32%	13.31%	10.14%	10.62%
Cost per borrower or client	$19	$19	$16	$18
Staff Productivity - Number of active borrowers/ Number of loan officers	254	263	274	275
Staff Productivity - Number of active borrowers/ Number of personnel	436	443	488	407
Personnel allocation ratio	58.21%	59.28%	56.15%	67.44%

Profitability and Sustainability Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Return on Assets	1.99%	3.68%	4.96%	2.40%
Return on Equity	11.94%	18.72%	21.56%	7.93%
Operational Self Sufficiency (OSS)	119.75%	128.53%	138.88%	115.80%
Profit Margin	16.50%	22.20%	28.00%	13.64%

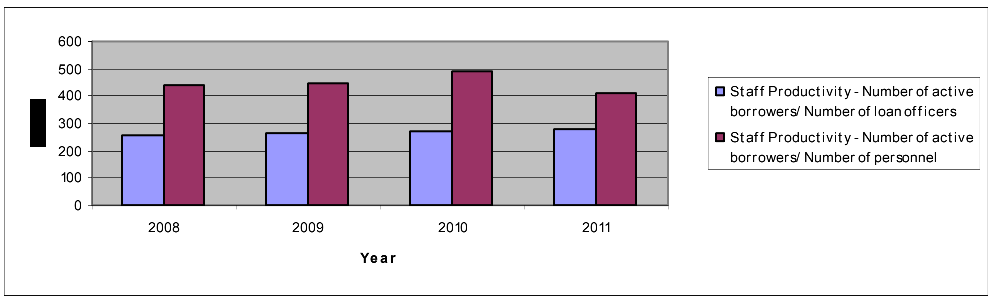
Portfolio Quality Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Portfolio at risk (PAR) > 30 Days	0.15%	0.19%	0.22%	—
Portfolio at risk (PAR) > 90 Days	0.03%	0.19%	0.22%	—
Risk coverage ratio	398.37%	142.96%	182.03%	—
Write off ratio	0.29%	0.60%	0.86%	1.67%
Loan loss rate ((Write-offs - Value of Loans Recovered) / Average Gross Loan Portfolio)	0.29%	0.60%	0.86%	1.55%

Financial Management Ratios

Ratios	Year Ended			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Yield on gross portfolio (nominal)	25.28%	26.33%	25.64%	24.48%
Yield on gross portfolio (real)	17.78%	16.59%	15.63%	11.15%
Leverage ratio	5.36	3.57	3.21	1.38
Capital Asset Ratio	15.72%	21.86%	23.73%	42.09%
Asset Productivity	77.69%	81.01%	107.01%	97.16%
Deposits to Loans	0.00%	0.00%	0.00%	0.00%
Deposits to Total Assets	0.00%	0.00%	0.00%	0.00%

Fig. 12: Efficiency and Productivity Ratios – SKS Microfinance



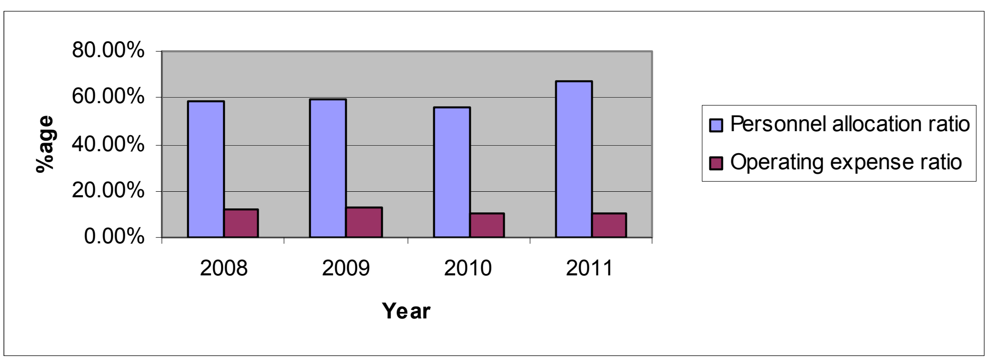


Fig. 13: Profitability and Sustainability Ratios – SKS Microfinance

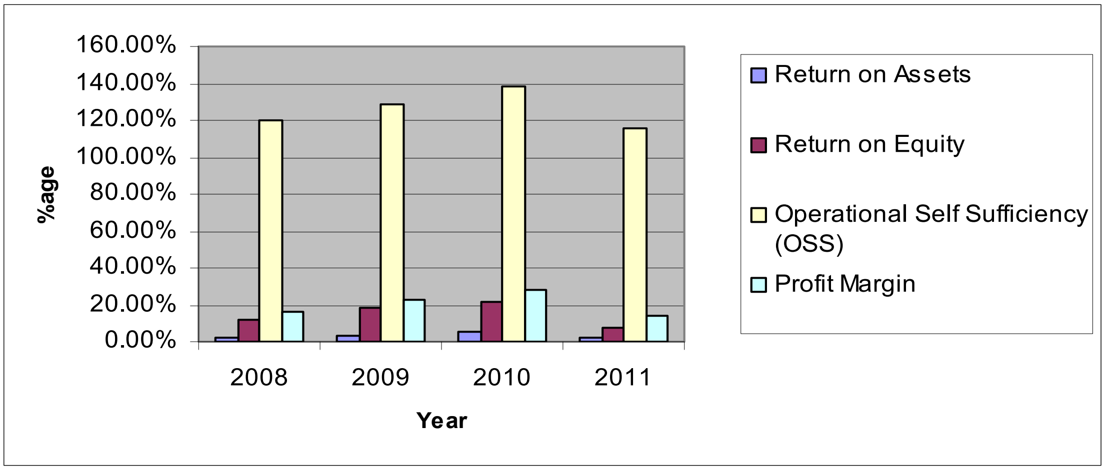


Fig. 14 : Portfolio Quality Ratios – SKS Microfinance

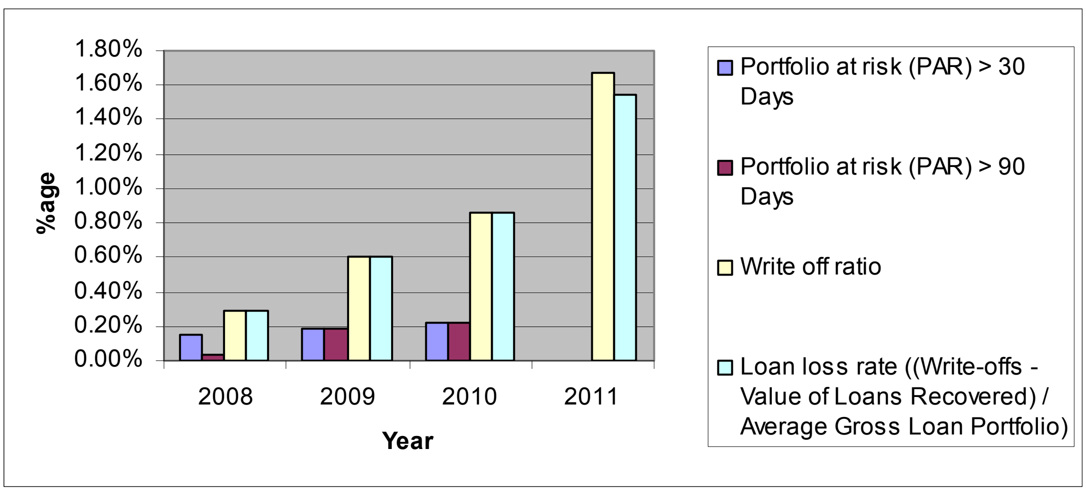


Fig. 15: Financial Management Ratios – SKS Microfinance

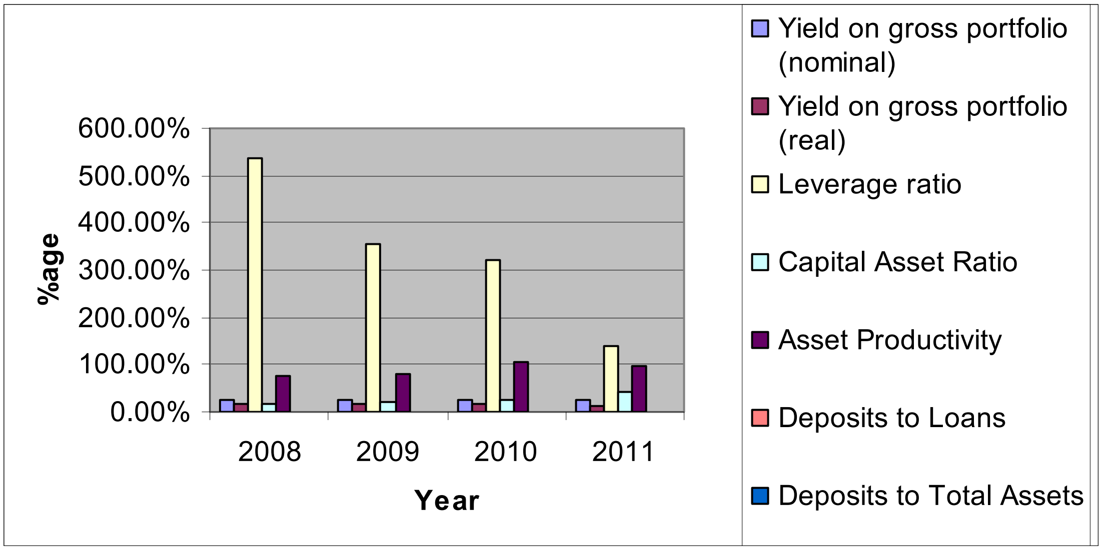


Table 119: Key Performance Indicators of SKS

Key Performance Indicators Of SKS					
Dimension	**Indicator**	**2008**	**2009**	**2010**	**2011**
Outreach	No. of Active Borrowers	1,629,474	3,520,826	5,795,028	6,242,266
	Loan Portfolio outstanding (GLP in USD)	261,686,364	482,975,269	960,793,988	925,844,433
	Average loan size/Average Loan Balance	130	137	166	148
Efficiency and Productivity	Operating Expense Ratio	12.32%	13.31%	10.14%	10.62%
	Cost per Borrower	$19	$19	$16	$18
	Loan Officer Productivity	254	263	274	275
	Loan Officer Productivity	436	443	488	407
	Personnel Allocation Ratio	58.21%	59.28%	56.15%	67.44%
Portfolio Quality	Portfolio at risk (PAR)>30	0.15%	0.19%	0.22%	—
	Portfolio at risk (PAR)>90	0.03%	0.19%	0.22%	—
	Risk coverage ratio	398.37%	142.96%	182.03%	—
	Write-off ratio	0.29%	0.60%	0.86%	1.67%
Sustainability and Profitability	Operational Self Sufficiency (OSS)	119.75%	128.53%	138.88%	115.80%
	Return on Assets	1.99%	3.68%	4.96%	2.40%
	Return on Equity	11.94%	18.72%	21.56%	7.93%
	Profit Margin	16.50%	22.20%	28.00%	13.64%
Capital Structure	Capital Adequacy Ratio	15.72%	21.86%	23.73%	42.09%
	Leverage ratio	5.36	3.57	3.21	1.38
Liquidity	Liquidity Ratio	20.35%	51.21%	24.11%	13.19%

- Among the Efficiency and productivity ratios, operating efficiency and cost per borrower have shown a declining trend. The operating expense ratio declined from 12.32% in 2008 to 10.62% of SKS has shown a declining trend indicating efficiency of operations. The staff productivity and loan officer productivity are showing an increasing trend which is an indicator of improving efficiency. Personnel allocation ratio has increased from 58.21% to 67.44% indicating high degree of efficiency of operations.
- Return on Assets showed an increase from 1.99% in 2008 to 4.96% in 2010 especially after the IPO. This is an evidence of the high percentage of return SKS was able to generate at that time. However, after the Andhra Pradesh crisis, the ROA came down to 2.4% indicating the drop in their profitability caused by the uncertainty that prevailed over the majority of their loan portfolios in the state of Andhra Pradesh.
- The Return on Equity also registered an impressive increase from 11.94% in 2008 to 21.56% in 2010. The increase was a proof of the profits of SKS in terms of net operating income after their IPO. The ROE dropped to 7.93% in 2011 especially due to the fall in revenues caused by the crisis in Andhra Pradesh.
- The OSS of SKS continued to be greater than 100% during the period 2008-2011 indicating that they have been able to cover their fixed cost through their own operations. The OSS was the highest in 2010 at 138.88% which is attributable to the excellent performance of their scrip post the IPO. The Andhra Pradesh crisis brought down the OSS to 115.80%.
- The Profit Margin registered an impressive growth from 2008 to 2010 when it increased from 16.5% to 28% indicating the increase in the revenue generation of the company. However, the profit margin fell to 13.64% in the year 2011 when the company's recovery of loans came down drastically after the Microfinance Institution ordinance in Andhra Pradesh.
- The Portfolio quality ratios, especially the PAR showed an increasing trend from 2008 to 2010 indicating the declining quality of their loan portfolios which were affected by the falling recovery rates in the microfinance sector.

- The risk coverage ratio which indicates the capacity of a Microfinance Institution to absorb losses has been on a declining trend as far as SKS is concerned. The risk coverage ratio declined from 398.37% in 2008 to 182.03% in 2010 indicating a poor quality of SKS loan portfolio.
- The write-off ratio which measures the actual loan write-off as a percentage of average gross loan portfolio has shown an increasing trend from 0.29% in 2008 to 1.67% in 2011 reflecting the declining quality of the loan portfolio.
- The Yield on gross portfolio (real) has registered a steep fall from 17.78% in 2008 to 11.15% in 2011 indicating the decline in the ability of the company to generate revenue from its gross loan portfolio. The leverage ratio has declined from 5.36% in 2008 to 1.38% in 2011 indicating that despite the microfinance crisis, SKS' debts are much lesser when compared to their equity.
- The Asset Productivity ratio of SKS registered an impressive growth during 2008-2010 when it increased from 77.69% to 107.01% indicating the efficiency of their financing structure as they raised funds through their IPO. However, the asset productivity declined to 97.16% in 2011as their loans stopped generating the required financial income as uncertainty crept into loan recoveries.
- The capital adequacy ratio of SKS has shown an increasing trend from 2008-2011 when it increased from 15.72% to 42.09%. The reason was the sharp increase in the amount of equity due to the IPO.
- The liquidity ratio of SKS went up from 20.35% in 2008 to 51.21% in 2009 as the company added fresh clients to its loan portfolio as part of its growth strategy just before the IPO. The liquidity ratio fell to 13.19% in 2011 due to most of their loan portfolios in Andhra Pradesh becoming irrecoverable or bad after the Microfinance Institution ordinance was passed.
- In terms of outreach, the number of active borrowers showed an increasing trend. SKS kept adding new clients and the number of active borrowers registered a phenomenal growth from 16,29,474 in 2008 to 57,95,028 in 2010 especially before the company went in for the IPO. However, with the introduction of the Andhra Pradesh microfinance Ordinance in 2011, the client addition slowed down as restrictions on client acquisition by microfinance institutions came into force.

Similarly, the Gross Loan Portfolio which showed an increasing trend upto 2010 when it stood at USD 96,07,93,988 declined in 2011 to USD 92,58,44,433 as a result of poor recoveries.

Table 120: Ratios of Spandana Sphoorthy Microfinance

Efficiency and Productivity Ratios

Ratios	Year Ended			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Operating expense ratio	5.79%	6.17%	5.36%	6.08%
Cost per borrower or client	$7	$9	$10	$12
Staff Productivity - Number of active borrowers/ Number of loan officers	535	534	503	514
Staff Productivity - Number of active borrowers/ Number of personnel	393	382	351	356
Personnel allocation ratio	73.51%	71.49%	69.77%	69.39%

Profitability and Sustainability Ratios

Ratios	Year Ended			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Return on Assets	4.34%	6.89%	8.99%	-0.30%
Return on Equity	53.56%	51.16%	55.67%	-1.89%
Operational Self Sufficiency (OSS)	159.07%	166.29%	180.04%	100.05%
Profit Margin	37.14%	40.12%	44.46%	0.05%

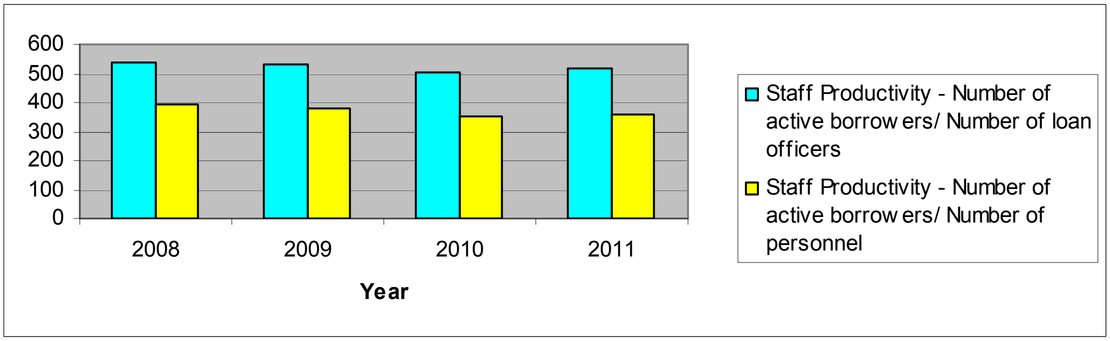
Portfolio Quality Ratios

Ratios	Year Ended			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Portfolio at risk (PAR) > 30 Days	4.43%	0.07%	0.13%	47.75%
Portfolio at risk (PAR) > 90 Days	4.43%	0.01%	0.00%	44.74%
Risk coverage ratio	21.52%	835.72%	772.15%	0.68%
Write off ratio	0.09%	0.59%	0.66%	3.66%
Loan loss rate ((Write-offs - Value of Loans Recovered) / Average Gross Loan Portfolio)	-0.65%	0.39%	0.63%	3.65%

Financial Management Ratios

Ratios	Year Ended			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Yield on gross portfolio (nominal)	20.74%	23.75%	25.71%	20.66%
Yield on gross portfolio (real)	13.51%	14.21%	15.69%	7.74%
Leverage ratio	8.56	5.58	5	5.54
Capital Asset Ratio	10.46%	15.21%	16.67%	15.29%
Asset Productivity	87.22%	102.17%	121.64%	111.46%
Deposits to Loans	0.00%	0.00%	0.00%	0.00%
Deposits to Total Assets	0.00%	0.00%	0.00%	0.00%

Fig 16: Efficiency and Productivity Ratios – Spandana Sphoorthy Microfinance Limited



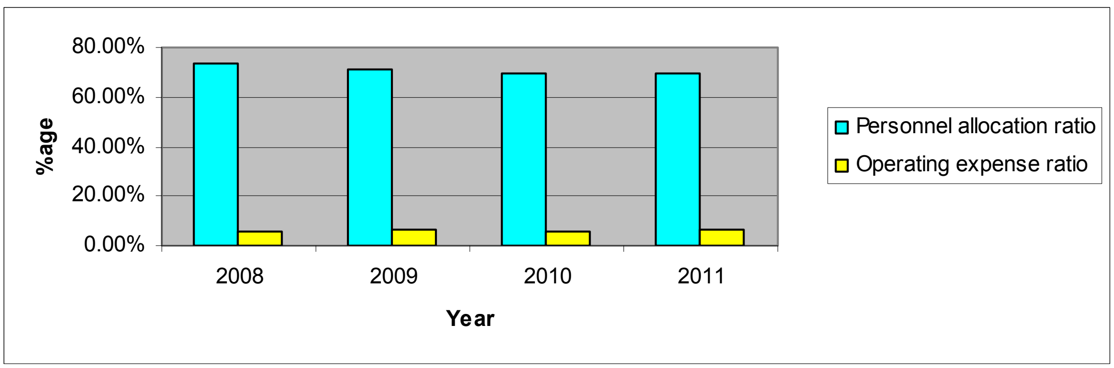


Fig 17: Profitability and Sustainability Ratios – Spandana Sphoorthy Microfinance Limited

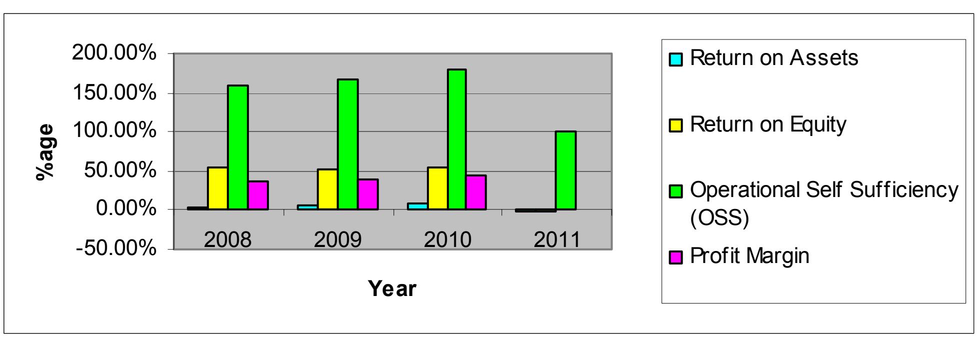


Fig 18: Portfolio Quality Ratios – Spandana Sphoorthy Microfinance Limited

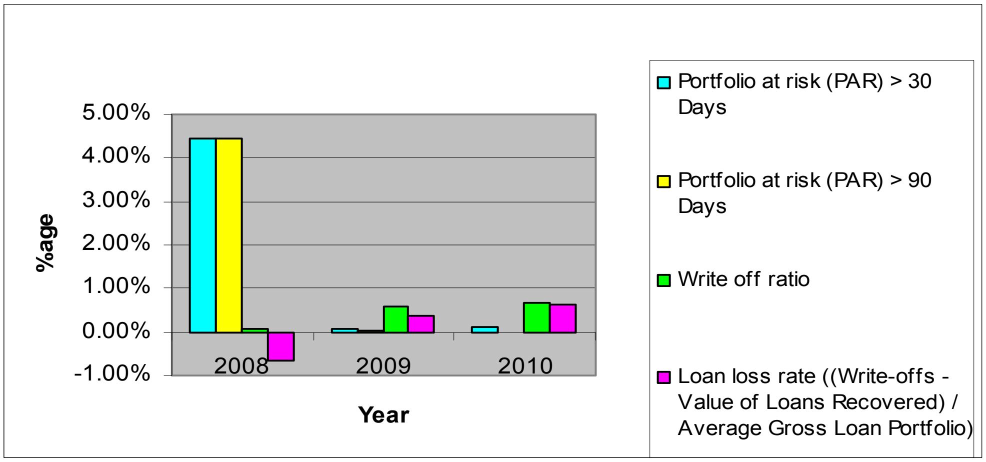


Fig 19: Financial Management Ratios – Spandana Sphoorthy Microfinance Limited

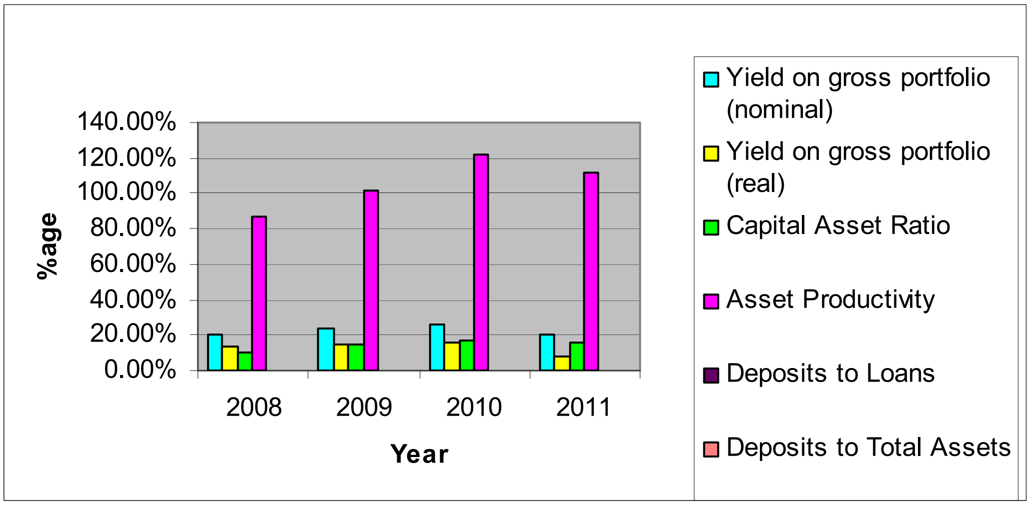


Table 121: Key Performance Indicators for Spandana Sphoorthy Microfinance

Key Performance Indicators of Spandana					
Dimension	**Indicator**	**2008**	**2009**	**2010**	**2011**
Outreach	No. of Active Borrowers	1,188,861	2,432,000	3,662,846	4,188,655
	Loan Portfolio outstanding (GLP in USD)	182,150,739	367,344,547	787,304,262	778,869,436
	Average loan size/Average Loan Balance	142	123	156	144
Efficiency and Productivity	Operating Expense Ratio	5.79%	6.17%	5.36%	6.08%
	Cost per Borrower	$7	$9	$10	$12
	Loan Officer Productivity	535	534	503	514
	Loan Officer Productivity	393	382	351	356
	Personnel Allocation Ratio	73.51%	71.49%	69.77%	69.39%
Portfolio Quality	Portfolio at risk (PAR)>30	4.43%	0.07%	0.13%	47.75%
	Portfolio at risk (PAR)>90	4.43%	0.01%	0.00%	44.74%
	Risk coverage ratio	21.52%	835.72%	772.15%	0.68%
	Write-off ratio	0.09%	0.59%	0.66%	3.66%
Sustainability and Profitability	Operational Self Sufficiency (OSS)	159.07%	166.29%	180.04%	100.05%
	Return on Assets	4.34%	6.89%	8.99%	-0.30%
	Return on Equity	53.56%	51.16%	55.67%	-1.89%
	Profit Margin	37.14%	40.12%	44.46%	0.05%
Capital Structure	Capital Adequacy Ratio	10.46%	15.21%	16.67%	15.29%
	Leverage ratio	8.56	5.58	5	5.54
Liquidity	Liquidity Ratio	12.08%	14.89%	26.68%	6.29%

- Among the Efficiency and productivity ratios, operating efficiency and cost per borrower have shown an increasing trend. The operating expense ratio increased from 5.79% in 2008 to 6.08% of Spandana has shown an increasing trend indicating declining efficiency of operations. The staff productivity and loan officer productivity have shown a decreasing trend which is an indicator of declining efficiency. Personnel allocation ratio has decreased from 73.51% to 69.39% indicating decline of efficiency of operations.
- Return on Assets shown an increase from 4.34% in 2008 to 8.99% in 2010. However, after the Andhra Pradesh crisis, the ROA became negative dropping to -0.30% indicating the extent to which their profitability has been affected.
- The Return on Equity has been around 50-55% till 2010 after which it steeply declined to – 1.89%. The fall is attributable to the decline in revenues caused by the poor recoveries of loans.
- The OSS of Spandana continued to be greater than 100% during the period 2008-2010 indicating that they have been able to cover their fixed cost through their own operations. The OSS was the highest in 2010 at 180.04%. Spandana's OSS declined to 100.05% in 2011 reflecting the sustainability crisis faced by the company.
- The Profit Margin registered an impressive growth from 2008 to 2010 when it increased from 37.14% to 44.46% indicating the increase in the revenue generation of the company. However, the profit margin fell to 0.05% in the year 2011 when the company's recovery of loans came down drastically after the Microfinance Institution ordinance in Andhra Pradesh.
- The Portfolio quality ratios, especially the PAR showed a declining trend from 2008 to 2010. In fact PAR > 90 days stood at 0.00% in 2010 indicating the good quality of their loan portfolios. However, the fall in the recovery rates of the loans resulted in PAR>90 days increasing to 44.74% in 2011.
- The risk coverage ratio which indicates the capacity of a Microfinance Institution to absorb losses was on a increasing trend as far as Spandana is concerned upto the year 2010 indicating good quality of loan portfolios. The risk coverage ratio declined from 772.15% in 2010 to 0.68% in 2011 indicating a poor quality of the loan portfolio.

- The write-off ratio which measures the actual loan write-off as a percentage of average gross loan portfolio has shown an increasing trend from 0.09% in 2008 to 3..66% in 2011 reflecting the declining quality of the loan portfolio.
- The Yield on gross portfolio (real) has registered a steep fall from 13.51% in 2008 to 7.74% in 2011 indicating the decline in the ability of the company to generate revenue from its gross loan portfolio.
- The leverage ratio has declined from 8.56% in 2008 to 5.54% in 2011 indicating that microfinance debts are much lesser when compared to their capital.
- The Asset Productivity ratio of Spandana registered an impressive growth during 2008-2010 when it increased from 87.22% to 121.64% indicating the efficiency of their financing structure. However, the asset productivity declined to 111.46% in 2011as their loans stopped generating the required financial income due to poor recoveries.
- The capital adequacy ratio of Spandana has shown an increasing trend from 2008-2010 when it increased from 10.46% in 2008 to 16.67% in 2010. It fell marginally to 15.29% in 2011 due to the fall in the Gross Loan Portfolio.
- The liquidity ratio of Spandana increased from 12.08% in 2008 to 26.68% in 2010 as the company added fresh clients to its loan portfolio. The liquidity ratio fell to 6.29% in 2011 due to most of their loan portfolios becoming irrecoverable or bad after the ordinance was passed.
- In terms of outreach, the number of active borrowers showed an increasing trend. Spandana added new clients and the number of active borrowers registered a growth from 11,88,261 in 2008 to 36, and 62,846 in 2010. However with the introduction of the Andhra Pradesh microfinance Ordinance in 2011, the client addition slowed down as restrictions on client acquisition by microfinance institutions came into force. Similarly, the Gross Loan Portfolio which showed an increasing trend up to 2010 when it stood at USD 787,304,262 declined in 2011 to USD 778,869,436 as a result of poor recoveries.

Table 122: Ratios of GVMFL

Efficiency and Productivity Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Operating expense ratio	-	13.95%	11.06%	15.60%
Cost per borrower or client	-	$18	$17	$23
Staff Productivity – Number of active borrowers/ Number of loan officers	246	401	576	429
Staff Productivity – Number of active borrowers/ Number of personnel	218	224	319	263
Personnel allocation ratio	88.61%	55.97%	55.39%	61.25%

Profitability and Sustainability Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Return on Assets	—	4.13%	3.65%	3.04%
Return on Equity	—	21.62%	25.47%	20.95%
Operational Self Sufficiency (OSS)	138.82%	125.61%	125.36%	114.85%
Profit Margin	27.97%	20.39%	20.23%	12.93%

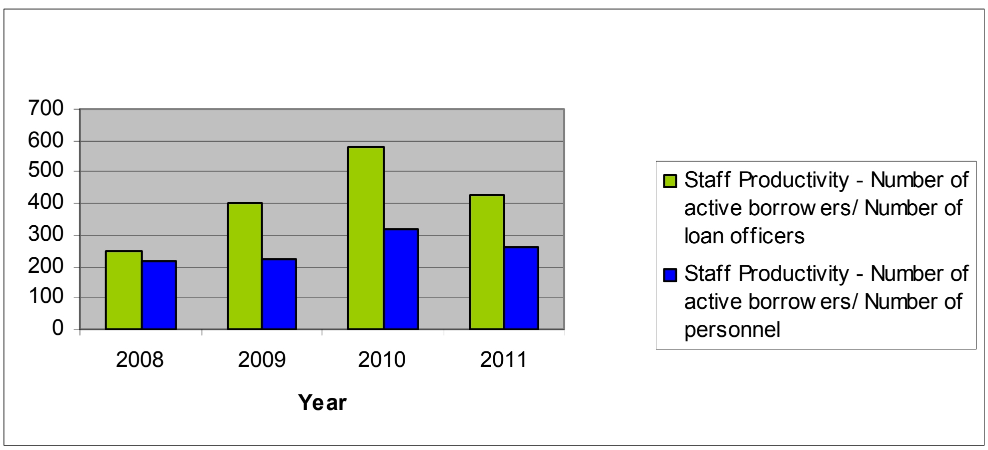
Portfolio Quality Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Portfolio at risk (PAR) > 30 Days	0.08%	0.01%	0.00%	0.31%
Portfolio at risk (PAR) > 90 Days	0.01%	0.00%	0.00%	0.16%
Risk coverage ratio	1817.26%	13361.51%	196015.69%	411.96%
Write off ratio	—	0.40%	0.01%	0.04%
Loan loss rate ((Write-offs - Value of Loans Recovered) / Average Gross Loan Portfolio)	—	0.40%	0.01%	0.04%

Financial Management Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Yield on gross portfolio (nominal)	—	35.47%	28.36%	34.41%
Yield on gross portfolio (real)	—	25.03%	15.76%	20.02%
Leverage ratio	5.45	3.62	7.35	4.71
Capital Asset Ratio	15.51%	21.65%	11.97%	17.50%
Asset Productivity	93.01%	73.55%	100.29%	101.43%
Deposits to Loans	10.43%	0.00%	0.00%	0.00%
Deposits to Total Assets	9.70%	0.00%	0.00%	0.00%

Fig 20: Efficiency and Productivity Ratios – GVMFL



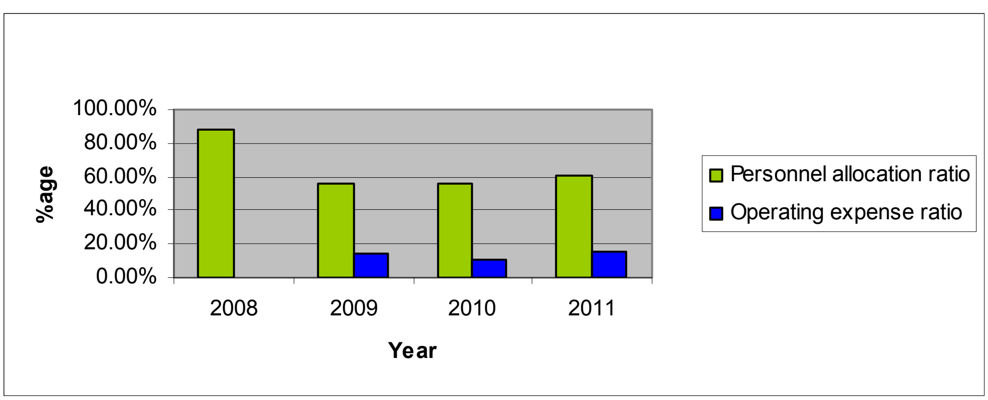


Fig 21: Profitability and Sustainability Ratios – GVMFL

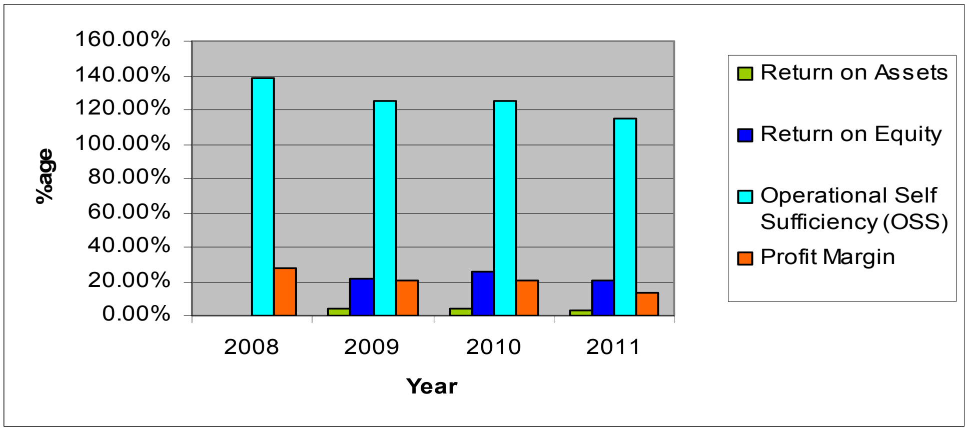


Fig 22: Portfolio Quality Ratios – GVMFL

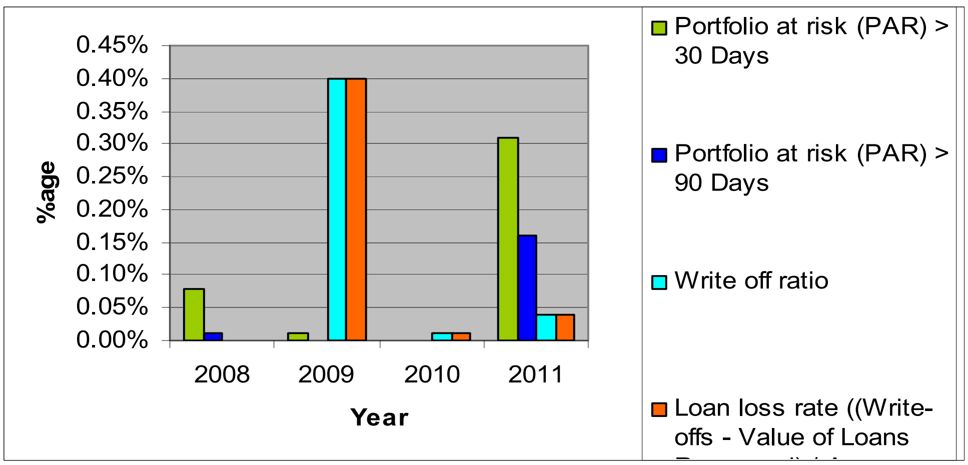


Fig 23: Financial Management Ratios – GVMFL

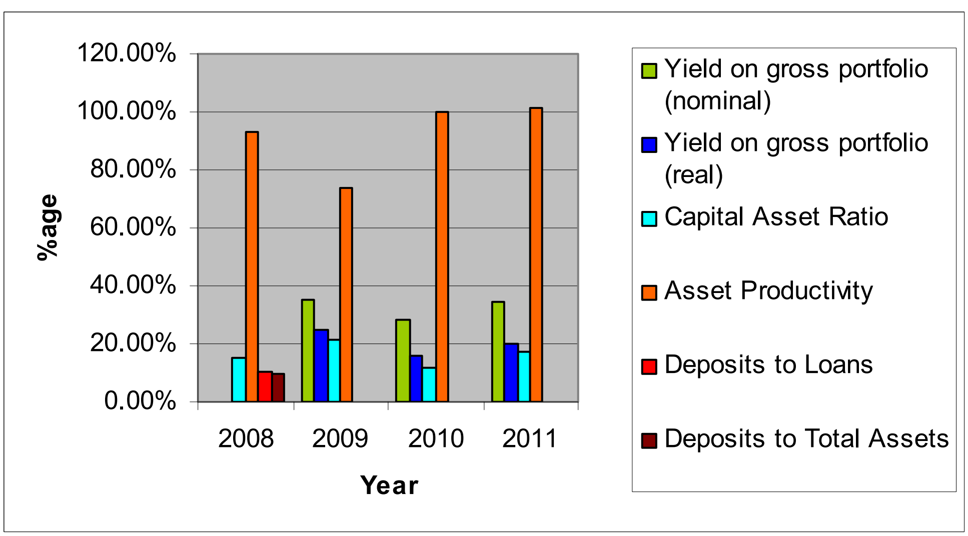


Table 123: Key Performance Indicators of GVMFL

Key Performance Indicators Of GVMFL					
Dimension	**Indicator**	**2008**	**2009**	**2010**	**2011**
Outreach	No. of Active Borrowers	222,148	360,466	772,050	932,286
	Loan Portfolio outstanding (Gross Loan Portfolio in USD)	28,681,182	31,917,238	134,568,751	117,119,851
	Average loan size/Average Loan Balance	103	65	116	118
Efficiency and Productivity	Operating Expense Ratio	-	13.95%	11.06%	15.60%
	Cost per Borrower	-	$18	$17	$23
	Loan Officer Productivity	246	401	576	429
	Loan Officer Productivity	218	224	319	263
	Personnel Allocation Ratio	88.61%	55.97%	55.39%	61.25%
Portfolio Quality	Portfolio at risk (PAR)>30	0.08%	0.01%	0.00%	0.31%
	Portfolio at risk (PAR)>90	0.01%	0.00%	0.00%	0.16%
	Risk coverage ratio	1817.26%	13361.51%	196015.69%	411.96%
	Write-off ratio	—	0.40%	0.01%	0.04%
Sustainability and Profitability	Operational Self Sufficiency (OSS)	138.82%	125.61%	125.36%	114.85%
	Return on Assets	—	4.13%	3.65%	3.04%
	Return on Equity	—	21.62%	25.47%	20.95%
	Profit Margin	27.97%	20.39%	20.23%	12.93%
Capital Structure	Capital Adequacy Ratio	15.51%	21.65%	11.97%	17.50%
	Leverage ratio	5.45	3.62	7.35	4.71
Liquidity	Liquidity Ratio	0.65%	16.30%	28.11%	38.62%

- Among the Efficiency and productivity ratios, operating efficiency and cost per borrower have shown an increasing trend .The operating expense ratio increased from 13.95% in 2009 to 15.6% in 2011 of GVMFL indicating declining efficiency of operations. The staff productivity and loan officer productivity increased during the period 2008-2010 but eventually fell in 2011 showing that overall productivity of GVMFL in managing clients was not very satisfactory. Personnel allocation ratio has declined from 88.61% in 2008 to 61.25% in 2011 indicating decline in efficiency of operations.
- Return on Assets has decreased from 4.13% in 2009 to 3.04% in 2011 which shows a decline in their profitability.
- The Return on Equity has increased from 21.62% in 2009 to 25.47% in 2010. However, it declined to 20.95% in 2011.
- The OSS of GVMFL continued to be greater than 100% during the period 2008-2011 indicating that they have been able to cover their fixed cost through their own operations. The OSS was the highest in 2008 at 138.82%. GVMFL's OSS declined to 114.85% in 2011 reflecting the difficulty the GVMFL is having in covering its fixed costs.
- The Profit Margin registered a declining trend during the period 2008 to 2011 from 27.97% to 12.93% indicating the decrease in the net operating income of the company.
- The Portfolio quality ratios, especially the PAR showed a declining trend from 2008 to 2010. In fact PAR > 90 days stood at 0.00% in 2010 indicating the good quality of their loan portfolios. However, the fall in the recovery rates of the loans resulted in PAR>90 days increasing to 0.16% in 2011.
- The risk coverage ratio which indicates the capacity of a Microfinance Institution to absorb losses was on an increasing trend as far as GVMFL is concerned upto the year 2010 indicating good quality of loan portfolios. The risk coverage ratio declined to 411.96% in 2011 indicating a poor quality of the loan portfolio.
- The write-off ratio which measures the actual loan write-off as a percentage of average gross loan portfolio has declined from 0.40 in 2009 to 0.01% in 2010. However, this increased to 0.04% in 2011.

- The Yield on gross portfolio (real) has declined from 25.03% in 2009 to 15.76% in 2010 indicating the decline in financial revenues generated by the Gross Loan Portfolio. However, it has increased to 20.02% in 2011 indicating an improvement in the revenue generation from the loan portfolio.
- The leverage ratio has declined from 5.45% in 2008 to 4.71% in 2011 indicating efficient financial management by GVMFL. However, in the year 2010 leverage ratio touched 7.35 indicating the increase in debt component in GVMFL's capital.
- The Asset Productivity ratio of GVMFL registered an impressive growth during 2008, 2010 and 2011 indicating the increased productivity of their assets. However, the asset productivity declined in 2009 indicating the drop in the efficiency of GVMFL's financial structure.
- The capital adequacy ratio of GVMFL has increased from 15.51% to 21.65% in 2009. It declined to 11.97% in 2010 and again increased to 17.5% in 2011 indicating the increase in the amount of capital that is required to support its capital.
- The liquidity ratio of GVMFL increased from 0.65% in 2008 to 38.62% in 2011 as the company added fresh clients to its loan portfolio.
- In terms of outreach, the number of active borrowers increased from 2008 to 2011. The loan portfolio outstanding increased from USD 28,681,182 in 2008 to USD 134,568,751 in 2010. It declined to USD 117,119,851 in 2011 due to decline in recoveries.

Table 124: Ratios of MMFL

Efficiency and Productivity Ratios

Ratios	**Year Ended**			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Operating expense ratio	0.85%	5.04%	2.53%	4.17%
Cost per borrower or client	$1	$6	$3	$6
Staff Productivity - Number of active borrowers/ Number of loan officers	146	1,195	1,940	1,806
Staff Productivity - Number of active borrowers/ Number of personnel	112	129	200	242
Personnel allocation ratio	76.95%	10.81%	10.30%	13.41%

Profitability and Sustainability Ratios

Ratios	**Year Ended**			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Return on Assets	1.47%	5.42%	4.41%	4.29%
Return on Equity	17.93%	26.50%	15.89%	15.72%
Operational Self Sufficiency (OSS)	132.39%	132.57%	162.20%	138.57%
Profit Margin	30.71%	24.57%	38.35%	27.83%

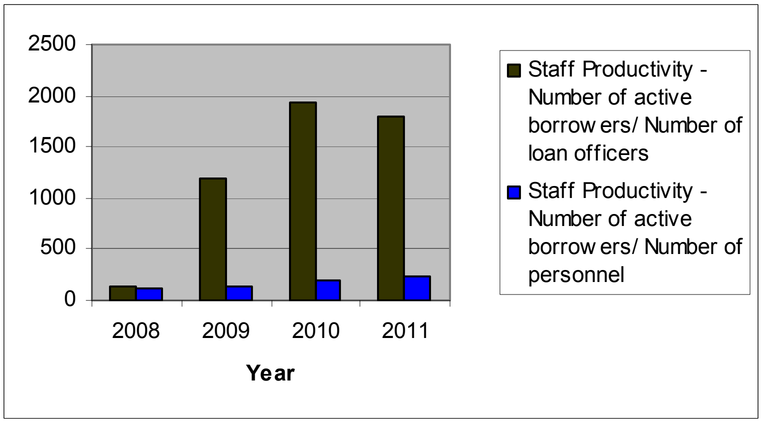
Portfolio Quality Ratios

Ratios	**Year Ended**			
	March 31, 2008	**March 31, 2009**	**March 31, 2010**	**March 31, 2011**
Portfolio at risk (PAR) > 30 Days	0.29%	0.49%	0.88%	2.09%
Portfolio at risk (PAR) > 90 Days	0.10%	0.17%	0.48%	0.78%
Risk coverage ratio	344.25%	205.35%	117.40%	50.42%
Write off ratio	0.00%	0.30%	1.08%	1.30%
Loan loss rate ((Write-offs - Value of Loans Recovered) / Average Gross Loan Portfolio)	0.00%	0.30%	1.03%	1.22%

Financial Management Ratios

Ratios	Year Ended			
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011
Yield on gross portfolio (nominal)	8.15%	23.28%	21.02%	22.99%
Yield on gross portfolio (real)	1.68%	13.78%	9.15%	9.82%
Leverage ratio	7.98	2.53	2.66	2.67
Capital Asset Ratio	11.14%	28.36%	27.31%	27.28%
Asset Productivity	91.73%	79.54%	90.34%	92.01%
Deposits to Loans	0.00%	0.00%	0.00%	0.00%
Deposits to Total Assets	0.00%	0.00%	0.00%	0.00%

Fig 24: Efficiency and Productivity Ratios – MMFL



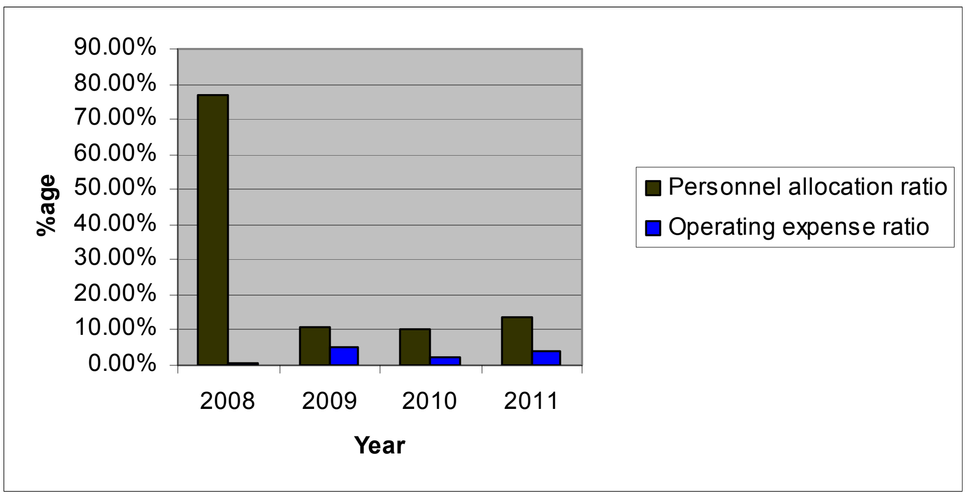


Fig 25: Profitability and Sustainability Ratios – MMFL

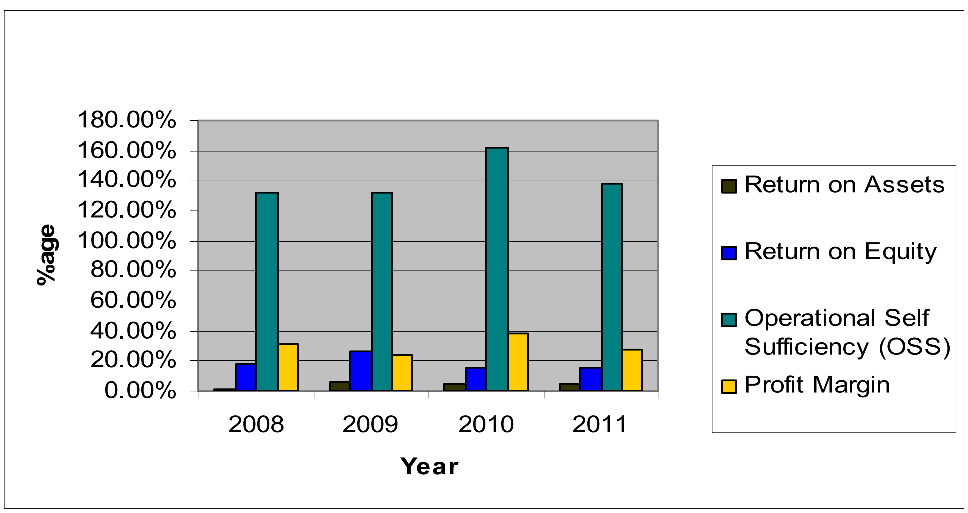


Fig 26: Portfolio Quality Ratios – MMFL

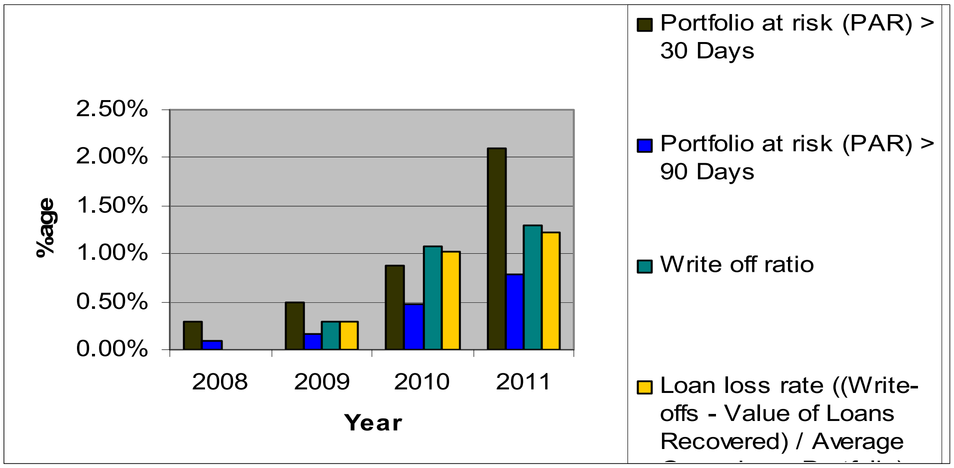


Fig 27: Financial Management Ratios – MMFL

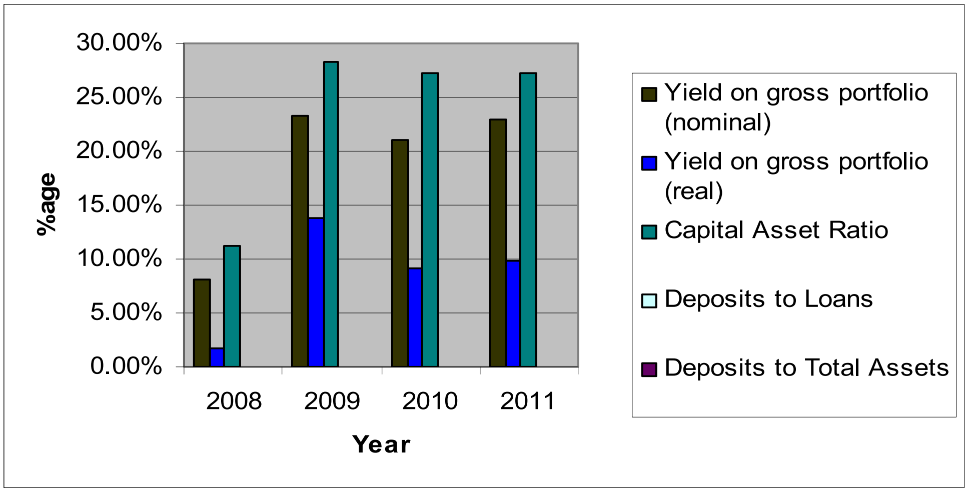


Table 125: Key Performance Indicators of MMFL

Key Performance Indicators Of MMFL					
Dimension	**Indicator**	**2008**	**2009**	**2010**	**2011**
Outreach	No. of Active Borrowers	187,473	169,700	250,208	292,634
	Loan Portfolio outstanding	20,658,539	21,049,318	33,140,461	40,177,245
	Average loan size/Average Loan Balance	110	124	132	137
Efficiency and Productivity	Operating Expense Ratio	0.85%	5.04%	2.53%	4.17%
	Cost per Borrower	$1	$6	$3	$6
	Loan Officer Productivity	146	1,195	1,940	1,806
	Loan Officer Productivity	112	129	200	242
	Personnel Allocation Ratio	76.95%	10.81%	10.30%	13.41%
Portfolio Quality	Portfolio at risk (PAR)>30	0.29%	0.49%	0.88%	2.09%
	Portfolio at risk (PAR)>90	0.10%	0.17%	0.48%	0.78%
	Risk coverage ratio	344.25%	205.35%	117.40%	50.42%
	Write-off ratio	0.00%	0.30%	1.08%	1.30%
Sustainability and Profitability	Operational Self Sufficiency (OSS)	132.39%	132.57%	162.20%	138.57%
	Return on Assets	1.47%	5.42%	4.41%	4.29%
	Return on Equity	17.93%	26.50%	15.89%	15.72%
	Profit Margin	30.71%	24.57%	38.35%	27.83%
Capital Structure	Capital Adequacy Ratio	11.14%	28.36%	27.31%	27.28%
	Leverage ratio	7.98	2.53	2.66	2.67
Liquidity	Liquidity Ratio	8.22%	8.34%	9.17%	6.17%

- Among the Efficiency and productivity ratios, operating efficiency and cost per borrower have shown an increasing trend. The operating expense ratio increased from 0.85% in 2008 to 4.17% in 2011. This increasing trend indicates declining efficiency of operations. The staff productivity and loan officer productivity have shown an increasing trend which is an indicator of improving efficiency. Personnel allocation ratio has decreased from 76.95% in 2008 to 13.41% indicating decline in efficiency of operations.
- Return on Assets has increased from 1.47% in 2008 to 4.29% in 2011 indicating a increase in their profitability.
- The Return on Equity has increased from 17.93% in 2008 to 26.5% in 2009. However, it declined to 15.72% in 2011 indicating a drop in efficiency due to declining profits.
- The OSS of MMFL continued to be greater than 100% during the period 2008-2011 indicating that they have been able to cover their fixed cost through their own operations. The OSS was the highest in 2010 at 162.20%. OSS declined to 138.57% in 2011 reflecting the difficulty of the company in covering their costs.
- The Profit Margin declined from 30.71% in 2008 to 24.57% in 2009. It again rose to 38.35% in 2010 indicating a high growth in profits. However, the profit margin declined to 27.83% in 2011 indicating fall in profits.
- The Portfolio quality ratios, especially the PAR showed an increase in the period from 2008 to 2011. In fact PAR > 90 days increased from 0.10% in 2008 to 0.78% in 2011 indicating the poor quality of the portfolio.
- The risk coverage ratio which indicates the capacity of a Microfinance Institution to absorb losses has declined from 344.25% to 50.42% indicating the poor portfolio quality and a large number of loans at risk in terms of recovery.
- The write-off ratio which measures the actual loan write-off as a percentage of average gross loan portfolios has increased from 0% in 2008 to 1.30% in 2011 reflecting the poor portfolio quality.
- The Yield on gross portfolio (real) has registered a steep increase from 1.68% in 2008 to 13.78% in 2009 indicating efficient financial management. It declined to

9.15% in 2010 and again increased to 9.82% indicating that the company is able to generate revenue from interest fees and commission on loans.

- The leverage ratio has declined from 7.98% in 2008 to 2.67% in 2011 indicating that microfinance debts are much lesser when compared to their capital.
- The Asset Productivity ratio of MMFL has been steady at above 90% during 2008, 2010 and 2011. However, in the year 2009it dropped to 79.54% because the increase in Gross Loan Portfolio was not proportionate to the increase in assets.
- The capital adequacy ratio of MMFL has shown an increasing trend from 2008-2011 when it increased from 11.14% in 2008 to 27.28% in 2011 indicating that it has sufficient capital to support its assets.
- In terms of outreach, the number of active borrowers showed an increasing trend. MMFL added new clients and the number of active borrowers registered a growth from 1,87,473 in 2008 to 2,92,634 in 2011. Similarly, the Gross Loan Portfolio which showed an increasing trend when it increased from USD 2,06,58,539 in 2008 to USD 4,01,77,245 in 2011 indicating profitable operations.

Credit Risk Monitoring

Microfinance institutions need to monitor their loan portfolio composition and quality, loan numbers and loan size to reduce the institutions' vulnerability to external threat. The credit monitoring ratios which assume significance for a microfinance institution are Portfolio at risk, loan loss ratio, risk coverage ratio and average outstanding balance. The Portfolio at risk can be used as an indicator for monitoring portfolio quality. Loan loss ratio indicates the extent of unrecoverable loans over the last period. Risk Coverage ratio indicates the preparedness of the Microfinance Institution to deal with risk arising from loans which may go bad. The average outstanding balance will help the microfinance institution to plan and secure itself against potential risk that can be caused by loans when recovery rates are falling.

- In the case of SKS, PAR>30 days and PAR>90 days has been on the increase. PAR>90 days rose from 0.03% in 2008 to 0.22% in 2011 indicating declining portfolio quality. The loan loss rate which stood at 0.29% in 2008 rose to 1.55% in 2011 indicating that the extent of unrecoverable loans of SKS have been increasing.

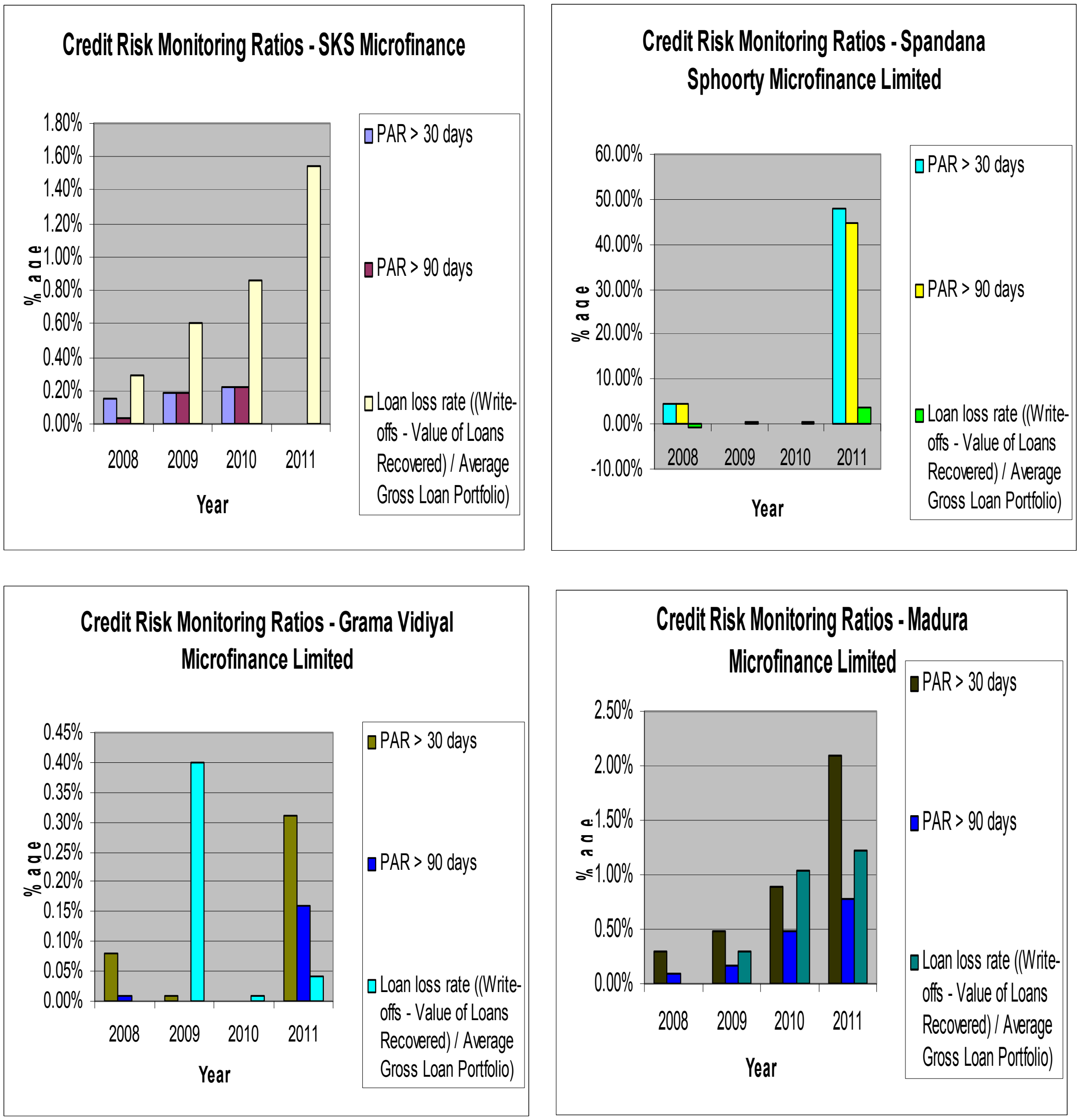
The risk Coverage ratio fell from 398.37% in 2008 to 182.03% in 2010 which is indicative of the high degree of credit risk and vulnerability of loans of SKS especially due to the crisis in Andhra Pradesh. The average outstanding balance rose from USD 130 in 2008 to USD 166 in 2010 during the Andhra Pradesh crisis and finally touched USD 148 in 2011 indicating that the number of loans have become irrecoverable.

- In the case of Spandana, PAR > 30 days and PAR > 90 days have registered a high degree of increase. PAR>90 days rose from 4.43% in 2008 to 47.75% in 2011 indicating poor portfolio quality. The loan loss rate which stood at -0.65% in 2008 rose to 3.65% in 2011indicating that the extent of unrecoverable loans of Spandana are on the rise. The risk coverage ratio which was very high in 2009 and 2010 (over 750%) declined to 0.68% in 2011 which is indicative of the high degree of vulnerability of their loans. The average outstanding balance which stood at USD 142 in 2008 rose to USD 156 in 2010 during the Andhra Pradesh crisis and finally settled at USD 144 in 2011 reflecting the problem of falling recovery.
- For GVMFL, PAR > 30 days and PAR > 90 days have registered increases. PAR>90 days rose from 0.01% in 2008 to 0.16% in 2011 indicating a slight decline in the portfolio quality. The loan loss rate has declined from 0.40% in 2009 to 0.04% in 2011 indicating that the extent of unrecoverable loans of GVMFL are on the decline. The risk Coverage ratio has declined from 1817.26% in 2008 to 411.96% in 2011 indicating the high degree of exposure to risk of irrecoverable loans. The average outstanding balance which stood at USD 103 in 2008 rose to USD 118 in 2011 reflecting slow recovery of loans.
- For MMFL, PAR > 30 days and PAR > 90 days have registered increases. PAR > 90 days rose from 0.10% in 2008 to 0.78% in 2011 indicating a gradual decline in the portfolio quality. The loan loss rate has increased from 0% in 2008 to 1.22% in 2011 indicating that the extent of unrecoverable loans of MMFL are increasing. The risk Coverage ratio has declined from 344.25% in 2008 to 50.42% in 2011 indicating the high degree of exposure to risk of irrecoverable loans. The average outstanding balance which stood at USD 110 in 2008 rose to USD 137 in 2011 reflecting slow recovery of loans.

Table 126: Credit Risk Monitoring Ratios

Microfinance Institution	Credit Risk Monitoring Ratios	Year			
		2008	2009	2010	2011
SKS	PAR > 30 days	0.15%	0.19%	0.22%	—
	PAR > 90 days	0.03%	0.19%	0.22%	—
	Loan loss rate ((Write-offs – Value of Loans Recovered) / Average Gross Loan Portfolio)	0.29%	0.60%	0.86%	1.55%
	Risk coverage (Impairment Loss Allowance / PAR > 30 Days)	398.37 %	142.96 %	182.03 %	—
	Average outstanding balance (Gross Loan Portfolio / Number of Loans Outstanding) in USD	130	137	166	148
Spandana	PAR > 30 days	4.43%	0.07%	0.13%	47.75%
	PAR > 90 days	4.43%	0.01%	0.00%	44.74%
	Loan loss rate ((Write-offs – Value of Loans Recovered) / Average Gross Loan Portfolio)	-0.65%	0.39%	0.63%	3.65%
	Risk coverage (Impairment Loss Allowance / PAR > 30 Days)	21.52%	835.72 %	772.15 %	0.68%
	Average outstanding balance (Gross Loan Portfolio / Number of Loans Outstanding) in USD	142	123	156	144
GVMFL	PAR > 30 days	0.08%	0.01%	0.00%	0.31%
	PAR > 90 days	0.01%	0.00%	0.00%	0.16%
	Loan loss rate ((Write-offs – Value of Loans Recovered) / Average Gross Loan Portfolio)	—	0.40%	0.01%	0.04%
	Risk coverage (Impairment Loss Allowance / PAR > 30 Days)	1817.26 %	13361.5 1%	196015. 69%	411.96 %
	Average outstanding balance (Gross Loan Portfolio / Number of Loans Outstanding) in USD	103	65	116	118
MMFL	PAR > 30 days	0.29%	0.49%	0.88%	2.09%
	PAR > 90 days	0.10%	0.17%	0.48%	0.78%
	Loan loss rate ((Write-offs – Value of Loans Recovered) / Average Gross Loan Portfolio)	0.00%	0.30%	1.03%	1.22%
	Risk coverage (Impairment Loss Allowance / PAR > 30 Days)	344.25 %	205.35 %	117.40 %	50.42%
	Average outstanding balance (Gross Loan Portfolio / Number of Loans Outstanding) in USD	110	124	132	137

Fig 28: Credit Risk Monitoring Ratios



Part C – Hypotheses relating to the perception of borrowers of micro credit who are members of self help groups in the states of Andhra Pradesh and Tamil Nadu

H13: There is no significant relationship between receipt of loan and change in overall household income of borrowers

H14: There is no significant relationship between loan use for income generating activity and financial independence of the borrowers.

H15: There is no significant relationship between training and its impact on way of life of the borrowers.

H16: There is no significant relationship between training and its usefulness.

H17: There is no significant relationship between annual income of borrowers and use of loan with specific reference to expenditure on clothing, giving part loan to spouse, repay other debt and purchase assets in the state of Andhra Pradesh

H18: There is no significant relationship between annual income of borrowers and use of loan with specific reference to providing part loan to spouse, repay other debt, and meet other expenses and savings in the state of Tamil Nadu

Null Hypothesis H13: There is no significant relationship between receipt of loan and change in overall household income of borrowers.

Table 127: Loan and Change in Household Income

				Annual income (in `)		
				<50000	50001-100000	>100000
				Count	Count	Count
State	Andhra Pradesh	loan and change in overall household income	big increase	0	0	0
			small increase	204	118	13
			no change	145	141	8
			small decrease	0	0	0
			big decrease	0	0	0
	Tamil Nadu	loan and change in overall household income	big increase	0	0	0
			small increase	278	174	6
			no change	115	48	0
			small decrease	0	0	0
			big decrease	0	0	0

Table 128: Chi-Square Test for Relationship between Receipt of Loan and Change in Overall Household Income (Pearson Chi-Square Tests)

Pearson Chi-Square Tests

				Annual income (in `)
State	Andhra Pradesh	loan and change in overall household income	Chi-square	10.580
			df	2
			P Value	.005(*,a)
	Tamil Nadu	loan and change in overall household income	Chi-square	6.434
			df	2
			P Value	.040(*,a)

*. The Chi-square statistic is significant at the 0.05 level.

The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance. Hence, there is significant relationship between receipt of loan and change in overall household income.

Null Hypothesis H14: There is no significant relationship between use of loan for income generating activity and financial independence of borrowers.

Table 129: Loan Use for Income Generating Activity and Financial Independence

				loan use for IGA	
				no	Yes
				Count	Count
State	Andhra Pradesh	since receiving loan are you financially independent	No	124	296
			Yes	14	195
	Tamil Nadu	since receiving loan are you financially independent	No	121	284
			Yes	13	203

Table 130: Chi-Square Test for Relationship between Use of Loan for Income Generating Activity and Financial Independence (Pearson Chi-Square Tests)

Pearson Chi-Square Tests

				loan use for IGA
State	Andhra Pradesh	since receiving loan are you financially independent	Chi-square	42.454
			Df	1
			P Value	.000(*)
	Tamil Nadu	since receiving loan are you financially independent	Chi-square	47.384
			Df	1
			P Value	.000(*)

*. The Chi-square statistic is significant at the 0.05 level.

The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance. The use of loan for income generating activity has a positive impact on financial independence. Borrowers feel that when loans are used for income generating activities rather than for consumption, it makes them feel financially independent. In Andhra Pradesh the borrowers used the loan for income generating activities such as agriculture (37%), setting up small business such as grocery stores (11%), tea stalls (15%), animal husbandry (13%) tailoring shop (12%), flower (8%) and fruit shops (9%). In Tamil Nadu, borrowers used the loan for setting up small business such as grocery stores (16%), bangle stores (7%), small Tiffin bandis (16%), agriculture (27%), tailoring shop (13%), flower shops (12%), fruit shops (9%). The study indicates that when loans are used for Income generating activities, it helps in earning profits which becomes the main source of income for the borrowers. Borrowers took decisions relating to the use of loans for income generating activities, spending on food, clothing and payment of school fees for children's education. Ability to contribute to decisions relating to household with control over financial resources made them feel financially independent.

Null Hypothesis H15: There is no significant relationship between training and its impact of life of respondents.

Table 131: Training and Its Impact on Life

<table>
<tr><td colspan="4" rowspan="3"></td><td colspan="2">Attended Training Programme</td></tr>
<tr><td>No</td><td>Yes</td></tr>
<tr><td>Count</td><td>Count</td></tr>
<tr><td rowspan="10">State</td><td rowspan="5">Andhra Pradesh</td><td rowspan="5">Training and Impact on Life</td><td>no training</td><td>328</td><td>0</td></tr>
<tr><td>Large Impact</td><td>0</td><td>224</td></tr>
<tr><td>Small Impact</td><td>0</td><td>67</td></tr>
<tr><td>No Change</td><td>0</td><td>10</td></tr>
<tr><td>Don't Know</td><td>0</td><td>0</td></tr>
<tr><td rowspan="5">Tamil Nadu</td><td rowspan="5">Training and Impact on Life</td><td>no training</td><td>321</td><td>0</td></tr>
<tr><td>Large Impact</td><td>0</td><td>219</td></tr>
<tr><td>Small Impact</td><td>0</td><td>61</td></tr>
<tr><td>No Change</td><td>0</td><td>20</td></tr>
<tr><td>Don't Know</td><td>0</td><td>0</td></tr>
</table>

Table 132: Chi-Square Test Showing Relationship between Training and Its Impact on the Life of Beneficiaries (Pearson Chi-Square Tests)

Pearson Chi-Square Tests				
			Attended Training Programme	
State	Andhra Pradesh	Training and Impact on Life	Chi-square	629
			Df	3
			P Value	0
	Tamil Nadu	Training and Impact on Life	Chi-square	621
			Df	3
			P Value	0

* The Chi-square statistic is significant at the 0.05 level.

The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance in both the states. In Andhra Pradesh 224 respondents agreed that training had made a significant impact on their lives while in Tamil Nadu 219 respondents agreed that training contributed significantly to their livelihoods. In both the states training thus has contributed in making significant difference in the lives of the respondents and has given them the confidence to take up economic activity such as tailoring, handicrafts, embroidery, which can contribute to their economic betterment.

Null Hypothesis H16: There is no significant relationship between training and its impact of life of respondents.

Table 133: Training and Its Usefulness of Training

				Attended Training Programme	
				No	Yes
				Count	Count
State	Andhra Pradesh	Usefulness of Training attended	No	328	4
			Yes	0	297
	Tamil Nadu	Usefulness of Training attended	No	321	0
			Yes	0	300

Table 134: Chi-Square Test Showing Relationship between Training and its Usefulness

Pearson Chi-Square Tests

				Attended Training Programme
State	Andhra Pradesh	Usefulness of Training attended	Chi-square	613.164
			Df	1
			P Value	.000(*)
	Tamil Nadu	Usefulness of Training attended	Chi-square	621.000
			Df	1
			P Value	.000(*)

*. The Chi-square statistic is significant at the 0.05 level.

The Chi-square statistic is significant at the 0.05 level and hence the null hypothesis is rejected at 5% level of significance in both the states. Those respondents who attended the training programs felt a positive impact on their life which gave them the confidence to set up their own small business units. Training programmes attended included those on tailoring, hand and machine embroidery, agarbathi and shampoo making, making of bamboo and jute products, wooden handicrafts readymade garments production and sale, greeting card making, mushroom cultivation, preparation of phenyl and cleaning powder, gem cutting and polishing, making of decorative items, preparation of food items and masala powders, painting and lamination. In both the states the District Rural Development Agency (DRDA) and Non governmental organisations have been instrumental in conducting training programmes.

Null Hypothesis H17: There is no significant relationship between annual income of borrower and use of loan for (a) expenditure on clothing (b) giving part loan to spouse (c) repay other debt (d) purchase assets in the state of Andhra Pradesh

Table 135: Annual Income and the Use of Loan

Use of Loan				Annual income (in `)		
				<50000	50001-100000	>100000
				Count	Count	Count
State	Andhra Pradesh	Food	No	28	10	2
			Yes	321	249	19
		Clothing	No	75	31	4
			Yes	274	228	17
		school fees	No	81	42	5
			Yes	268	217	16
		Healthcare	No	282	196	17
			Yes	67	63	4
		part loan to spouse	No	170	150	8
			Yes	179	109	13
		repay other debt	No	331	218	21
			Yes	18	41	0
		Meet other expenses	No	248	195	14
			Yes	101	64	7
		purchase assets	No	308	205	18
			Yes	41	54	3
		Savings	No	265	211	19
			Yes	84	48	2
	Tamil Nadu	Food	No	31	29	0
			Yes	362	193	6
		Clothing	No	79	53	0
			Yes	314	169	6
		school fees	No	104	61	0
			Yes	289	161	6
		Healthcare	No	368	196	6
			Yes	25	26	0
		part loan to spouse	No	155	120	0
			Yes	238	102	6
		repay other debt	No	356	214	6
			Yes	37	8	0
		Meet other expenses	No	273	137	0
			Yes	120	85	6
		purchase assets	No	351	210	6
			Yes	42	12	0
		Savings	No	323	137	6
			Yes	70	85	0

Null Hypothesis H18: There is no significant relationship between annual income of borrower and use of loan for (a) giving part loan to spouse (b) repay other debt (c) meet other expenses (d) savings in the state of Tamil Nadu.

Table 136: Chi square Test for Relationship between Annual Income and Use of Loan

Pearson Chi-Square Tests				
				Annual income
State	Andhra Pradesh	Clothing	Chi-square	9.376
			Df	2
			P Value	.009(*)
		part loan to spouse	Chi-square	6.766
			Df	2
			Sig.	.034(*)
		repay other debt	Chi-square	22.171
			Df	2
			P Value	.000(*)
		purchase assets	Chi-square	9.391
			Df	2
			P Value	.009(*)
	Tamil Nadu	part loan to spouse	Chi-square	17.095
			Df	2
			P Value	.000(*)
		repay other debt	Chi-square	7.601
			Df	2
			P Value	.022(*)
		meet other expenses	Chi-square	15.575
			Df	2
			P Value	.000(*)
		Savings	Chi-square	33.773
			Df	2
			P Value	.000(*)

*. The Chi-square statistic is significant at the 0.05 level.

The chi-square statistic is significant at the 5% level. Therefore the null hypothesis is rejected in both the states leading to the conclusion that in Andhra Pradesh there is significant relationship between annual income of borrowers and the use of loan for (a) expenditure on clothing (b) giving part loan to spouse (c) repay other debt and (d) purchase assets. Similarly, in the state of Tamil Nadu, there is significant relationship between the annual income of the borrower and the use of loan for (a) giving part loan to spouse (b) repay other debt (c) meet other expenses and (d) savings. The interesting coincidence that emerges from both the states is that borrowers of micro credit use their loans to repay other debts and also give a part of it to their spouse. They use it for expenses. In Andhra Pradesh most of them use their loans to purchase assets while in Tamil Nadu they use a part of it for savings.

The hypotheses that was developed and tested using chi-square established a significant relationship between the availability of loan and the financial independence of borrowers in both the states of Andhra Pradesh and Tamil Nadu. Besides, the impact of training on the economic life of the borrower provided an insight into the positive effect training had and how it helped them to earn their livelihood. Respondents from two states who had attended training programmes found it useful. The relationship between annual income of the respondents and the use of loan for specific purposes was tested using a chi square test. The results established the fact that there is significant relationship between the annual income and the use to which the loan is put to. In both the states borrowers used the loans to repay other debts, used if for expenses and gave apart of it to their spouse. In Andhra Pradesh, borrowers made use of micro credit to purchase assets while in Tamil Nadu, borrowers saved a part of the borrowing.

Part C– (b) – Factor Analysis has been used to determine factors that determine social empowerment and socioeconomic status of borrowers of micro credit who are members of Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

Microfinance plays an important role in influencing social and economic empowerment of its clients. Social empowerment of women is a process which helps them develop a sense of self confidence and enables them to act individually and collectively and thus bring about a change in their social relationships. Social empowerment aims at social equality and therefore, factors influencing social empowerment will include those that affect the person and the welfare of their household. Economic empowerment of women refers to the ability of women to exercise greater control over their resources and life's choices. Factors influencing economic empowerment will measure the ability of women to make decisions relating to their households and their preparedness to deal with emergencies.

Factors Influencing Economic and Social Empowerment

As Self Help Group members often make use of loan facilities from their groups, banks and Microfinance Institutions which affect various aspects of social and economic empowerment of these members. It has been considered appropriate to explore these factors that affect their social and economic empowerment as was done in the case of the pilot study with a sample of 200 members. A structured questionnaire has been randomly distributed to the Self Help Group members in the two states of Andhra Pradesh and Tamil Nadu. The sample consists of 1250 Self Help Group members, 629 from Andhra Pradesh and 621 from Tamil Nadu. The questionnaire contained 7 variables influencing the social and economic empowerment. The variables were measured using a five-point Likert Scale. The opinion of respondents is taken on a scale of 1-5 with '1' being the least important and '5' being most important. The variables affecting the social empowerment mentioned in the questionnaire for the final sample are as follows:

Table 137: Variables Affecting the Economic and Social Empowerment

S. No.	Variables
1	Comparison with others
2	Change in food
3	Effect on person
4	Effect on welfare on household
5	Dependency on husband
6	Contribution to family budget decisions
7	Ability to prepare for emergencies

Source: Primary data

Factor analysis, a data reduction statistical technique that allows simplifying the correlational relationships between a number of continuous variables was employed to explore the important factors affecting social empowerment of Self Help Group members in both the states. Principal Component Analysis was used, as it is an exploratory factor analysis. To test the acceptability of data, the following steps were taken:

- The correlation matrices were computed. It revealed that there is enough correlation to go ahead for factor analysis. The cronbach Alpha for the entire sample was 0.810
- Kaiser-Meyer-Olkin Measure of Sampling Adequacy for individual variance was studied. The test result for sample of 629 members from Andhra Pradesh is as follows:

Table 138: Reliability Statistics

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.810	.759	7

Table 139: KMO and Bartlett's Test (a)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.820
Bartlett's Test of Sphericity	Approx. Chi-Square	4334.696
	Df	21
	Sig.	.000

a: Only cases for which State = Andhra Pradesh are used in the analysis phase.

It found sufficient correlation for all the variables/attributes. A measure which is more than 0.8 is considered "meritorious" and is acceptable. The measure of sampling adequacy is found to be 0.820. It indicates that the sample is good enough for sampling.

- The overall significance of correlation matrices is tested with Bartlett's Test of Sphericity providing support for the validity of the factor analysis of the data set (as shown in Table). It also tests whether the correlation matrix is an identity matrix (factor analysis would be meaningless with an identity matrix). A significance value < 0.05 indicates that these data do not produce an identity matrix (or "differ significantly from identity") and are thus approximately multivariate normal and acceptable for factor analysis.

After the standards indicated that the data are suitable for factor analysis, Principal Component Analysis is employed for extracting the data, which allowed determining the factor underlying the relationships between a number of variables.

Table 140: Total Variance Explained

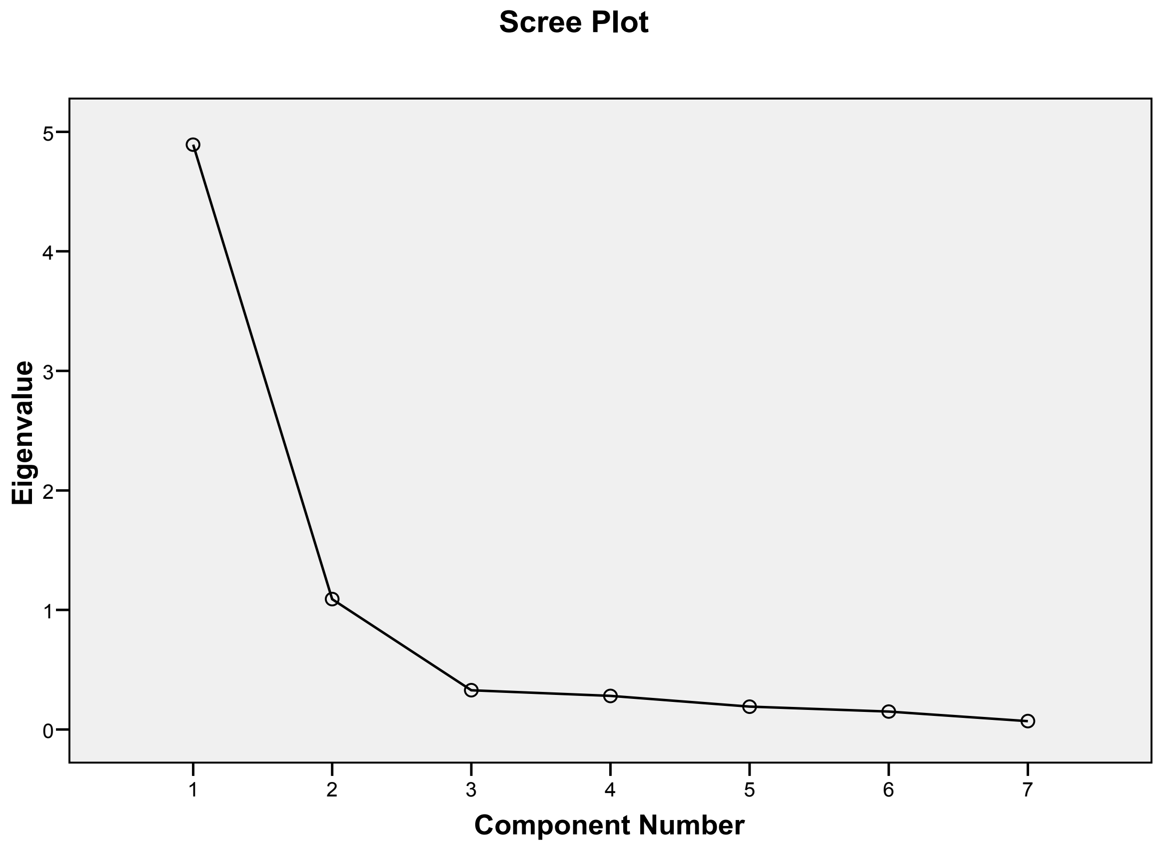
Total Variance Explained[a]

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.892	69.890	69.890	4.892	69.890	69.890	3.155	45.075	45.075
2	1.090	15.574	85.463	1.090	15.574	85.463	2.827	40.388	85.463
3	.328	4.684	90.147						
4	.280	4.005	94.152						
5	.191	2.722	96.874						
6	.149	2.130	99.004						
7	.070	.996	100.000						

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Andhra Pradesh are used in the analysis phase.

Fig 29: Scree Plot



The scree plot is useful in determining the number of factors to be retained. The point of interest is where the curve begins to flatten. In the figure it can be seen that the curve begins to flatten between factors 3 and 4. The factor 3 has an Eigen value of less than 1, so only two factors are to be retained and this is consistent with Kaisers rule that only factors having Eigen values (latent roots) greater than 1 are considered as common factors.

The Total Variance Explained suggests that it extracts one factor which accounts for 85.463% of the variance of the relationship between variables/attributes. The criteria for extracting initial factors are Eigen value of over 1. A total of two factors are extracted with a total variance explained being 85.463%.

The proportion of variance in any one of the original variables, which is being captured by extracted factor, is known as communality.

Table 141: Communalities

Communalities [a]

	Initial	Extraction
comparison with others in your area	1.000	.870
change in food since receipt of loan	1.000	.915
Effect on person	1.000	.913
Effect on Welfare of household after the loan	1.000	.795
Dependency on Husband	1.000	.798
Ability to Contribute to Family Budget Decisions	1.000	.848
Ability to prepare for Sudden Expenses/Emergencies	1.000	.842

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Andhra Pradesh are used in the analysis phase.

The above table indicates that two factors are extracted and retained; the communality is 0.870 for variable 1, 0.915 for variable 2 and 0.913 for attribute 3, 0.795 for attribute 4, 0.798 for attribute 5, 0.848 for attribute 6 and 0.842 for attribute 7. It means that 86% of the variance of the variable 1 is being captured by the two extracted factors together.

The higher the loading, the more important is the factor. However, anything above 0.44 could be considered salient, with increased loading becoming more vital in determining the factor.

Rotation is necessary when extraction technique suggests that there are two or more factors. The rotation of factors is designed to give an idea of how the factors initially extracted differ from each other and to provide a clear picture of which item loads on which factor. There are only 2 factors, each having Eigen value exceeding 1 (details as shown in Table 141)

Varimax rotation is applied for the selected 7 variables. The numbers in each column are the factor loadings for each factor, roughly the equivalent of the correlation between a particular item and the factor.

Table 142: Rotated Component Matrix

Rotated Component Matrix(a,b)

	Component	
	1	2
comparison with others in your area	0.342	0.868
change in food since receipt of loan	0.273	0.917
Effect on person	0.320	0.901
Effect on Welfare of household after the loan	0.798	0.397
Dependency on Husband	-0.874	-0.185
Ability to Contribute to Family Budget Decisions	0.847	0.362
Ability to prepare for Sudden Expenses/Emergencies	0.862	0.316

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

b. Only cases for which State = Andhra Pradesh are used in the analysis phase.

Varimax rotated factor analytic results for factors affecting the social empowerment of Self Help Group members. The factor loadings of the 7 variables are observed and clubbed into 2 factors.

The major factors influencing social empowerment of Self Help Group members in Andhra Pradesh are depicted with the help of figure below:

Fig 30: Factors Influencing the Economic and Social Empowerment of Self Help Group Members in Andhra Pradesh

From the above chart, it is clear that Household Welfare and Social Status together influence Social Empowerment. The detailed explanation on the factors affecting the Economic and Social Empowerment as identified by the factor analysis is given below:

1) Factor 1: Household Welfare

It is the most vital factor, which explains 69.89% of variation. The household welfare is the most important factor and it has three loads to this factor. 'Ability to prepare for Sudden Expenses/Emergencies' (0.862), Ability to Contribute to Family Budget Decisions (0.847) and Effect on Welfare of household after the loan (0.798)

2) Factor 2: Social status

This factor has three variables which have 15.574% of variation. The factors - 'Change in food since receipt of loan' (0.917), 'Effect on person' (0.901) and 'comparison with others in your area' (0.868) are the important concerns for the Self Help Group members which increase their social empowerment.

Thus the factor analysis proves that the most important factors that contribute to social empowerment in Andhra Pradesh are variables that directly impact household welfare of borrowers and their social status.

On the same lines a factor analysis was conducted to establish the factors that impact economic and social empowerment of borrowers belonging to Self help groups in Tamil Nadu. The results were as follows

Table 143: KMO and Bartlett's Test

KMO and Bartlett's Test[a]

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.850
Bartlett's Test of Sphericity	Approx. Chi-Square	5020.574
	df	21
	Sig.	.000

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

Table 144: Total Variance Explained

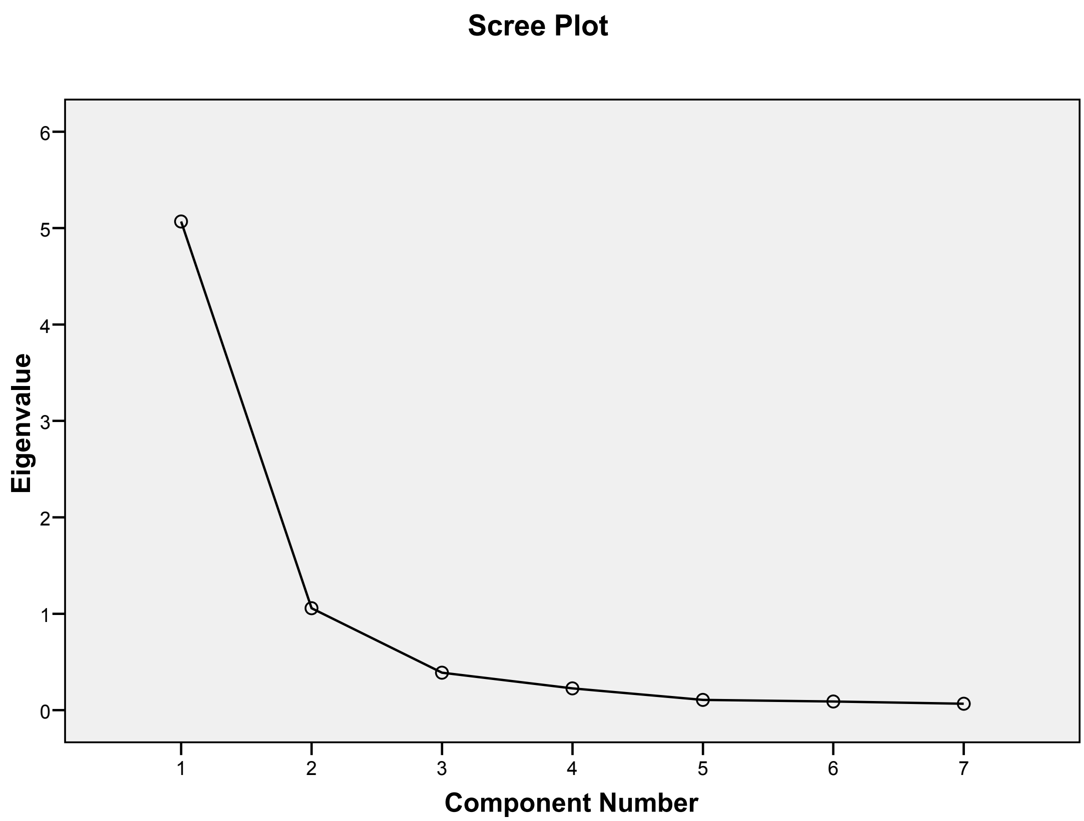
Total Variance Explained[a]

Compone	Initial Eigenvalues			traction Sums of Squared Loadin			otation Sums of Squared Loading		
	Total	% of Varianc	Cumulative %	Total	% of Varianc	Cumulative %	Total	% of Varianc	Cumulative %
1	5.069	72.409	72.409	5.069	72.409	72.409	3.103	44.325	44.325
2	1.057	15.093	87.502	1.057	15.093	87.502	3.022	43.178	87.502
3	.388	5.547	93.049						
4	.226	3.225	96.275						
5	.106	1.511	97.786						
6	.089	1.269	99.055						
7	.066	.945	100.000						

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

Fig 31: Scree Plot



The scree plot in case of responses in Tamil Nadu shows that the curve begins to flatten between factors 3 and 4. The factor 3 has an Eigen value of less than 1, so only two factors are to be retained and this is consistent with Kaiser's rule.

Table 145: Communalities

Communalities [a]

	Initial	Extraction
comparison with others in your area	1.000	.901
change in food since receipt of loan	1.000	.906
Effect on person	1.000	.833
Effect on Welfare of household after the loan	1.000	.912
Dependency on Husband	1.000	.835
Ability to Contribute to Family Budget Decisions	1.000	.828
Ability to prepare for Sudden Expenses/Emergencies	1.000	.910

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

The above table indicates that two factors are extracted and retained; the communality is 0.901 for variable 1, 0.906 for variable 2 and 0.833 for attribute 3, 0.912 for attribute 4, 0.835for attribute 5, 0.828 for attribute 6 and 0.910 for attribute 7. It means that 87% of the variance of the variable 1 is being captured by the two extracted factors together.

Table 146: Rotated Component Matrix

Rotated Component Matrix(a,b)

	Component	
	1	2
Comparison with others in your area	0.656	0.686
change in food since receipt of loan	0.453	0.837
Effect on person	0.170	0.897
Effect on Welfare of household after the loan	0.897	0.328
Dependency on Husband	-0.275	-0.871
Ability to Contribute to Family Budget Decisions	0.894	0.168
Ability to prepare for Sudden Expenses/Emergencies	0.871	0.389

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

b. Only cases for which State = Tamil Nadu are used in the analysis phase.

Varimax rotated factor analytic results for factors affecting the social empowerment of Self Help Group members. The factor loadings of the 7 variables are observed and clubbed into 2 factors.

The major factors influencing social empowerment of Self Help Group members in Tamil Nadu are depicted with the help of chart below:

Fig 32: Factors Influencing the Economic and Social Empowerment of Self Help Group Members in Tamil Nadu

From the above chart, it is clear that Socioeconomic and Household Welfare and Social Status together influence Social Empowerment. The detailed explanation on the factors affecting the Social Empowerment as identified by the factor analysis is given below:

- **Factor 1: Socioeconomic & Household Welfare**

It is the most vital factor, which explains 72.409% of variation. The Socioeconomic and household welfare is the most important factor and it has five loads to it. They are Effect on Welfare of household after the loan (0.897) , Ability to Contribute to Family Budget Decisions (0.894), 'Ability to prepare for Sudden Expenses/Emergencies' (0.871) , 'comparison with others in your area' (0.656), change in food since receipt of loan (0.453).

- **Factor 2: Social status**

This factor has three variables which have 15.093% of variation. The factors - 'Effect on person' (0.897), 'Change in food since receipt of loan' (0.837) and 'Comparison with others in your area' (0.686) are the important concerns for the Self Help Group members which increase their economic and social empowerment.

Thus, the factor analysis proves that the most important factors that contribute to economic and social empowerment in Andhra Pradesh are variables that directly impact household welfare of borrowers and their social status. In Tamil Nadu, socioeconomic and household welfare together with social status influence economic and social empowerment of borrowers of micro credit.

On the same lines, a factor analysis was conducted to establish the factors that impact the socio economic status of members after they have joined Self help groups. The Cronbach's alpha, (Table 147) which determines the internal consistency of the scale is 0.901. Kaiser-Meyer-Olkin Measure of Sampling Adequacy (Table: 148) for individual variance is 0.713. The value is considered to be a "middling" value and indicates that the sample is considered good.

Table 147: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.901	.902	19

Table 148: KMO and Bartlett's Test

KMO and Bartlett's Test[a]

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.713
Bartlett's Test of Sphericity	Approx. Chi-Square	5394.649
	df	171
	Sig.	.000

a. Only cases for which State = Andhra Pradesh are used in the analysis phase.

Table 149: Total Variance Explained[a]

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.454	23.443	23.443	4.454	23.443	23.443	3.669	19.311	19.311
2	3.215	16.921	40.365	3.215	16.921	40.365	2.549	13.415	32.727
3	1.510	7.950	48.314	1.510	7.950	48.314	2.186	11.506	44.232
4	1.387	7.298	55.612	1.387	7.298	55.612	1.985	10.446	54.678
5	1.129	5.943	61.555	1.129	5.943	61.555	1.197	6.301	60.978
6	1.082	5.696	67.251	1.082	5.696	67.251	1.192	6.273	67.251
7	.964	5.071	72.322						
8	.912	4.800	77.122						
9	.746	3.928	81.050						
10	.631	3.323	84.373						
11	.573	3.017	87.390						
12	.503	2.647	90.037						
13	.469	2.470	92.507						
14	.366	1.928	94.435						
15	.343	1.808	96.243						
16	.281	1.479	97.722						
17	.211	1.110	98.832						
18	.147	.775	99.607						
19	.075	.393	100.000						

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Andhra Pradesh are used in the analysis phase.

The total variance explained (Table 149) suggests that it extracts one factor which accounts for 67.251% of the variance of the relationship between the variables. The criteria for extraction of initial factors are Eigen value of over one. A total of six factors were extracted with the total variance explained being 67.251%. The communality table (Table 150) indicates that after six factors are extracted and retained communality for variable 1 is 0.628, 0.758 for variable 2, and 0.851 for variable 3, 0.662 for variable 4 and so on. This means that 67.251% of the variance of Variable 1 is captured by the six extracted factors.

Table 150: Communalities

Communalities [a]

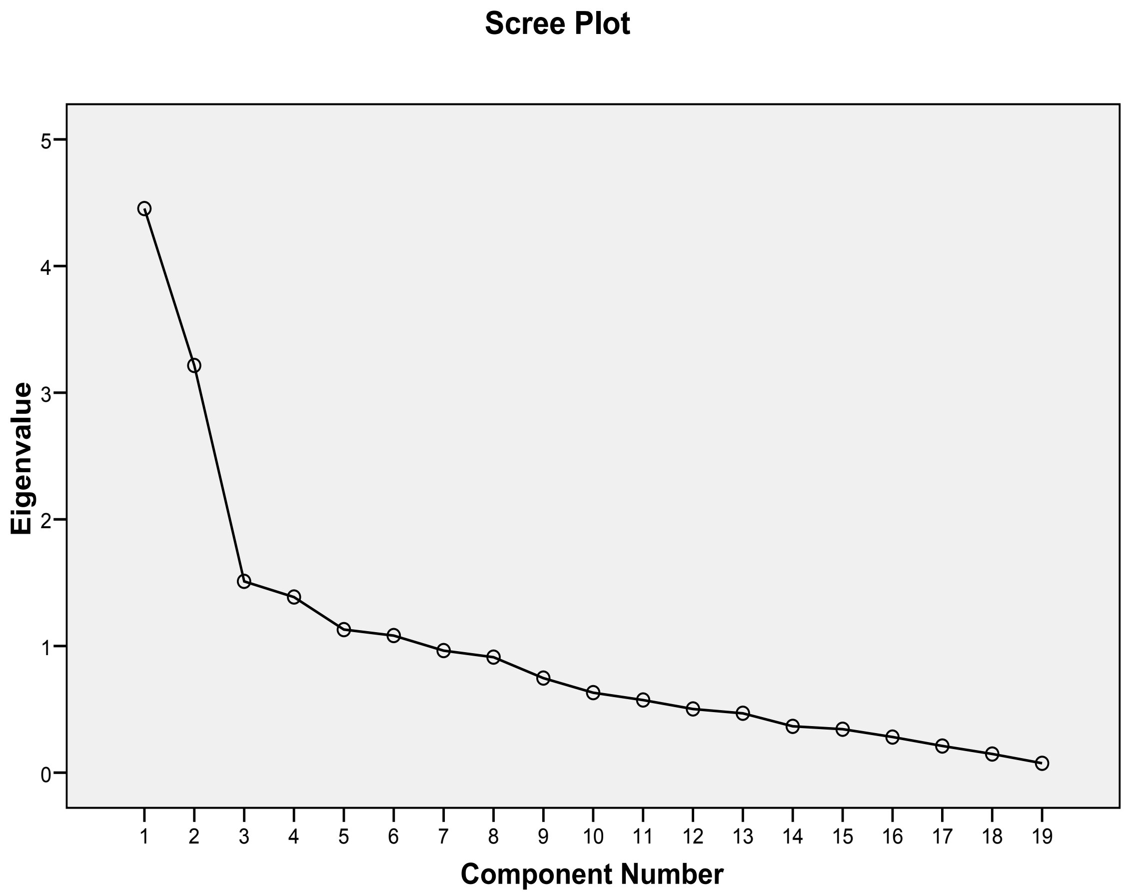
	Initial	Extraction
Mobility	1.000	.628
Recognition in family	1.000	.758
Recognition in community	1.000	.851
Interaction with outsiders	1.000	.662
literacy	1.000	.581
Access to health services	1.000	.763
Access to immunisation	1.000	.846
Access to sanitation	1.000	.881
Access to credit sources	1.000	.681
Asset building	1.000	.651
Family income	1.000	.524
Skills	1.000	.645
voicing concern	1.000	.505
Nutrition awareness	1.000	.625
Family planning awareness	1.000	.577
Girl child devt awareness	1.000	.665
Health awareness	1.000	.666
Decision making related to child	1.000	.518
Individual income	1.000	.752

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Andhra Pradesh are used in the analysis phase.

The scree plot is useful in determining the number of factors to be retained. The point of interest is where the curve begins to flatten. In the figure it can be seen that the curve begins to flatten between factors 6 and 7. The factor 7 has an Eigen value of less than 1, so only six factors are to be retained and this is consistent with Kaisers rule that only factors having Eigen values (latent roots) greater than 1 are considered as common factors.

Fig 33: Scree Plot



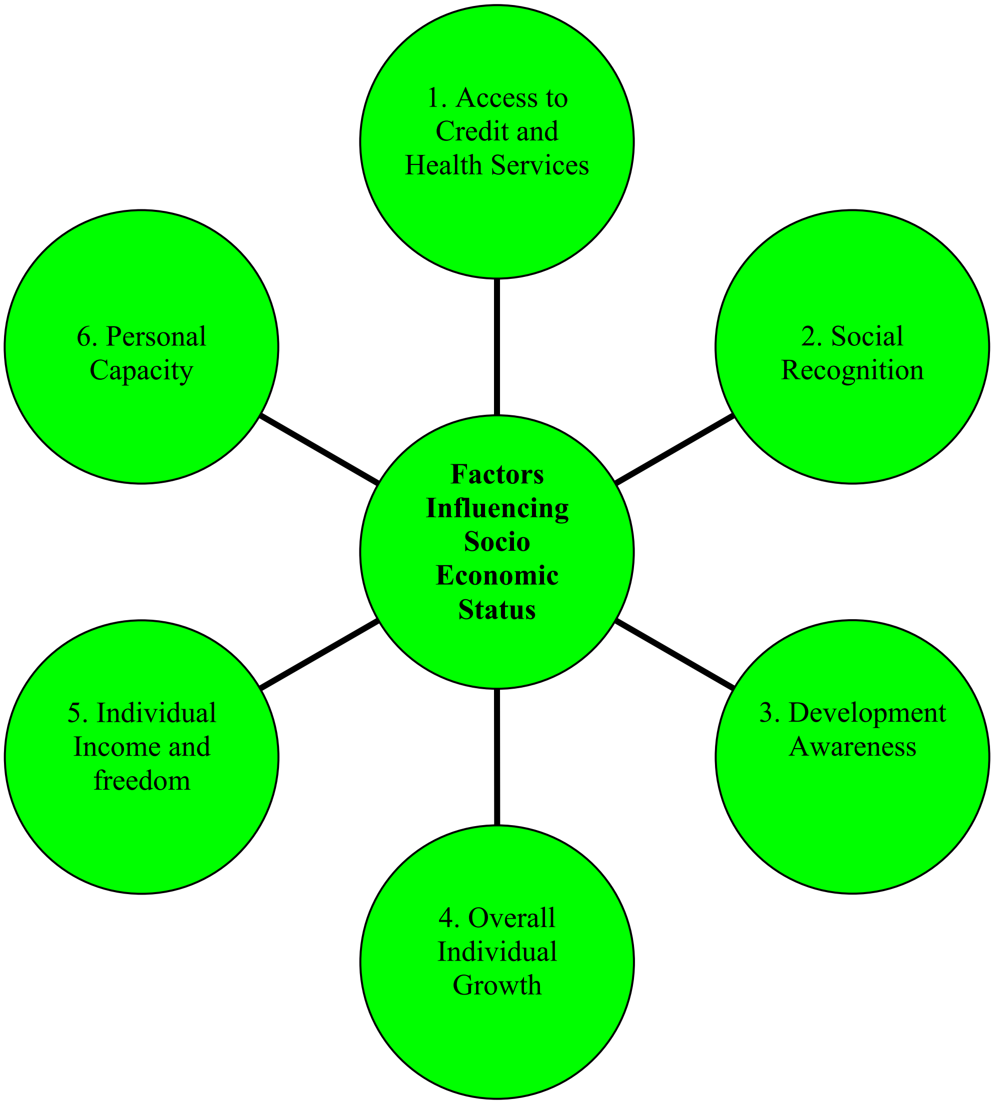
Varimax rotation has been applied as there are more than two factors for the selected nineteen variables (Table 151). The numbers in each column are the factor loadings for each factor, roughly the equivalent of correlation between a particular item and the factor.

Table 151: Rotated Component Matrix

Rotated Component Matrix(a,b)						
	Component					
	1	2	3	4	5	6
Mobility	0.159	-0.133	-0.369	-0.136	0.651	-0.085
Recognition in family	-0.127	0.837	0.008	0.069	-0.169	-0.083
Recognition in community	-0.037	0.910	-0.121	0.028	-0.074	0.017
Interaction with outsiders	0.046	0.731	0.038	0.323	0.137	-0.007
Literacy	0.147	0.490	0.012	0.474	0.198	0.233
Access to health services	0.831	0.055	0.166	-0.140	0.107	0.103
Access to immunization	0.913	0.052	0.090	-0.033	0.028	0.009
Access to sanitation	0.927	-0.001	0.125	0.069	-0.020	0.030
Access to credit sources	0.765	-0.212	0.180	0.075	-0.105	0.022
Asset building	-0.013	0.079	-0.123	0.786	0.069	-0.082
Family income	0.099	0.250	0.003	0.566	-0.267	0.245
Skills	0.430	0.116	0.386	0.189	-0.171	-0.482
Voicing concern	0.164	-0.165	0.411	-0.384	0.275	0.244
Nutrition awareness	0.388	-0.153	0.648	-0.061	0.106	-0.128
Family planning awareness	-0.111	0.178	0.482	0.477	0.219	0.158
Girl child development awareness	0.230	0.005	0.775	-0.073	-0.072	0.032
Health awareness	0.401	-0.093	0.534	-0.448	-0.076	-0.064
Decision making related to child	-0.127	0.050	0.274	0.152	0.633	0.013
Individual income	0.137	0.009	0.057	0.132	-0.082	0.840
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 17 iterations.						
b. Only cases for which State = Andhra Pradesh are used in the analysis phase.						

The factor loadings of the nineteen variables are observed and grouped into six factors.

Fig 34: Factors Influencing the Socio Economic Status of Self Help Group Members in Andhra Pradesh



The above figure explains that Access to credit and health services, social recognition, development awareness, overall individual growth, individual income and freedom, personal capacity are the factors which influence the socio economic status of the Self Help Group members in Andhra Pradesh. The various factors have been explained as follows:

1) **Access to credit and health services:** It is the most important factor which explains 23.443% of the variation. Access to Credit and Health Services is the most

important factor and has 4 loadings, namely, access to sanitation (0.927), access to immunization (0.913), access to health services (0.831), access to credit sources (0.765), signifying that they are key influencers of the socio economic status.

2) **Social recognition:** This factor has four variables which account for 16.921% of the variation. Recognition in community (0.910), recognition in family (0.837), ability to interact with outsiders (0.731) and literacy (0.490) are considered to be the variables which impact the social status of the members.
3) **Development awareness:** This factor has four variables and accounts for 7.950% of the variation. Girl child development awareness (0.775) Nutrition awareness (0.648), health awareness (0.534) and family planning awareness (0.482) are the key variables which contribute to betterment of health and well being of individual and families.
4) **Overall Individual growth:** It has five variables which account for 7.298% of the variation. Asset building (0.786), family income (0.566), literacy (0.474) are some of the key variables which contribute to individual growth. Health awareness (-0.448) seems to have an inverse relationship with the other factors.
5) **Individual Income and freedom:** This factor accounts for 5.943% of the variation. Growth in individual income (0.633) and mobility (0.651) will definitely improve the socio economic status.
6) **Personal capacity:** This factor accounts for 5.696% of the variation. Individual income (0.840) and skills (-0.482) are the two variables in this factors. Skills seem to have an inverse relationship with the other factor.

The responses of the 621 Self help group members from Tamil Nadu were subjected to a factor analysis to determine factors that affect their socio economic status. The Kaiser- Meyer Olkin measure of sampling adequacy was 0.774. The value is considered to be “middling value” and the sample is adequate to undertake factor analysis.

Table 152: KMO and Barttlett's Test

KMO and Bartlett's Test[a]

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.774
Bartlett's Test of Sphericity	Approx. Chi-Square	9122.404
	df	171
	Sig.	.000

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

Table 153: Total Variance

Total Variance Explained[a]

Compon	Initial Eigenvalues			ction Sums of Squared Loa			tion Sums of Squared Loadi		
	Total	of Varian	umulative	Total	of Varian	umulative	Total	of Varian	umulative
1	5.388	28.357	28.357	5.388	28.357	28.357	3.861	20.321	20.321
2	3.091	16.268	44.625	3.091	16.268	44.625	3.458	18.200	38.521
3	1.933	10.175	54.800	1.933	10.175	54.800	2.344	12.335	50.855
4	1.459	7.681	62.480	1.459	7.681	62.480	2.066	10.875	61.730
5	1.139	5.994	68.474	1.139	5.994	68.474	1.152	6.065	67.796
6	1.007	5.300	73.774	1.007	5.300	73.774	1.136	5.979	73.774
7	.923	4.857	78.632						
8	.710	3.738	82.370						
9	.656	3.454	85.824						
10	.590	3.105	88.929						
11	.535	2.816	91.745						
12	.472	2.486	94.231						
13	.363	1.911	96.141						
14	.340	1.791	97.932						
15	.192	1.012	98.944						
16	.080	.421	99.365						
17	.061	.321	99.686						
18	.036	.188	99.873						
19	.024	.127	100.000						

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

The total variance explained (Table 153) suggests that it extracts one factor which accounts for 73.774% of the variance of the relationship between the variables. The criteria for extraction of initial factors are Eigen value of over one. A total of six factors were extracted with the total variance explained being 73.774%. The communality table (Table 154) indicates that after six factors are extracted and retained communality for variable 1 is 0.966, 0.976 for variable 2, and 0.956 for variable 3, 0.0.967 for variable 4 and so on. This means that 73.774% of the variance of Variable 1 is captured by the six extracted factors.

Table 154: Communalities

Communalities [a]

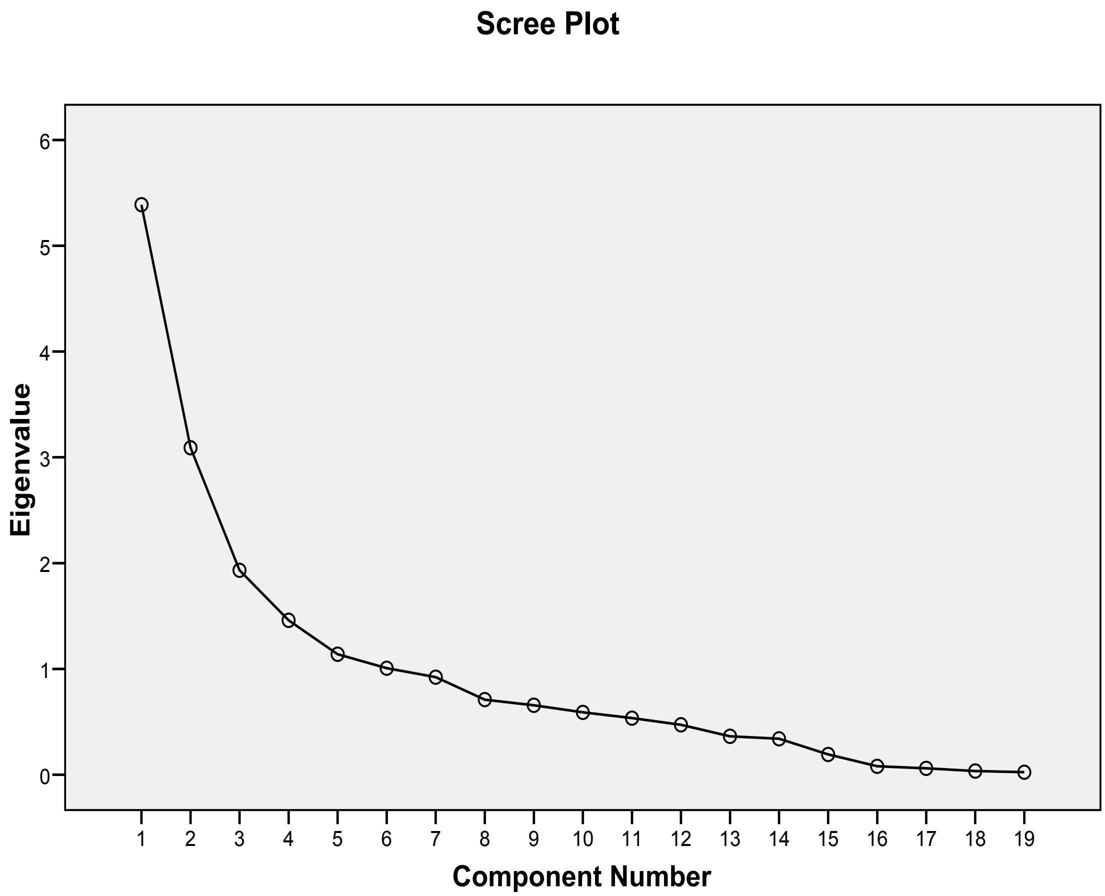
	Initial	Extraction
Mobility	1.000	.966
Recognition in family	1.000	.976
Recognition in community	1.000	.956
Interaction with outsiders	1.000	.967
literacy	1.000	.536
Access to health services	1.000	.731
Access to immunisation	1.000	.874
Access to sanitation	1.000	.892
Access to credit sources	1.000	.647
Asset building	1.000	.534
Family income	1.000	.656
Skills	1.000	.630
voicing concern	1.000	.484
Nutrition awareness	1.000	.677
Family planning awareness	1.000	.629
Girl child devt awareness	1.000	.621
Health awareness	1.000	.702
Decision making related to child	1.000	.804
Individual income	1.000	.735

Extraction Method: Principal Component Analysis.

a. Only cases for which State = Tamil Nadu are used in the analysis phase.

The scree plot is useful in determining the number of factors to be retained. The point of interest is where the curve begins to flatten. In the figure it can be seen that the curve begins to flatten between factors 6 and 7. The factor 7 has an Eigen value of less than 1, so only six factors are to be retained and this is consistent with Kaisers rule that only factors having Eigen values (latent roots) greater than 1 are considered as common factors.

Fig 35: Scree Plot



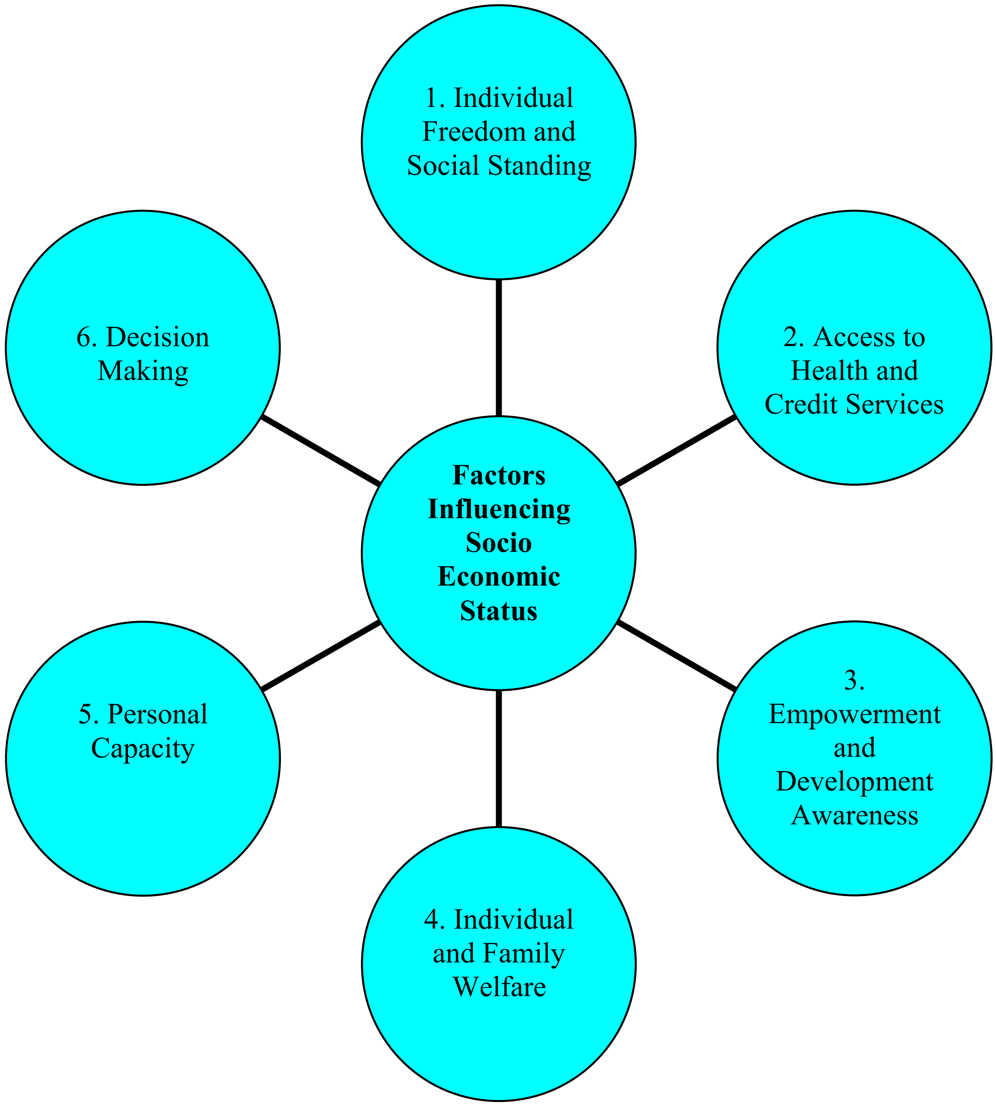
Varimax rotation has been applied as there are more than two factors for the selected nineteen variables (Table: 155). The number in each column is the factor loadings for each factor, roughly the equivalent of correlation between a particular item and the factor.

Table 155: Rotated Component Matrix

Rotated Component Matrix(a,b)						
	Component					
	1	2	3	4	5	6
Mobility	0.954	-0.158	-0.125	0.111	0.018	0.041
Recognition in family	0.973	-0.110	-0.092	0.071	0.048	0.036
Recognition in community	0.972	-0.050	-0.073	0.030	-0.047	-0.024
Interaction with outsiders	0.965	-0.122	-0.087	0.091	0.048	0.040
Literacy	0.091	0.158	-0.089	0.652	0.133	0.227
Access to health services	-0.104	0.800	0.263	-0.029	0.100	-0.013
Access to immunization	-0.093	0.922	0.123	-0.009	-0.003	0.029
Access to sanitation	-0.095	0.921	0.165	0.077	0.005	-0.039
Access to credit sources	-0.123	0.773	0.185	0.012	-0.027	0.001
Asset building	0.083	-0.030	-0.221	0.674	-0.151	-0.011
Family income	0.045	0.044	-0.002	0.717	0.155	-0.338
Skills	-0.054	0.408	0.323	0.216	-0.556	-0.032
voicing concern	-0.086	0.117	0.520	-0.274	0.282	0.196
Nutrition awareness	-0.134	0.286	0.748	0.021	-0.130	-0.030
Family planning awareness	0.072	-0.127	0.377	0.605	0.052	0.311
Girl child devt awareness	-0.071	0.196	0.754	0.064	-0.022	0.068
Health awareness	-0.154	0.320	0.674	-0.311	-0.037	-0.153
Decision making related to child	0.054	-0.010	0.038	0.056	-0.008	0.892
Individual income	0.031	0.149	0.065	0.216	0.812	-0.036
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 7 iterations.						
b. Only cases for which State = Tamil Nadu are used in the analysis phase.						

The factor loadings of the nineteen variables are grouped into 6 factors.

Fig 36: Factors Influencing the Socio Economic Status of Self Help Group Members in Tamil Nadu



The above figure explains that Individual freedom and Social standing, Access to Health and credit services, Empowerment and development awareness, Individual and family welfare, personal capacity, Decision making are the factors which influence the socio economic status of the Self Help Group members in Tamil Nadu. The various factors have been explained as follows:

1. **Individual freedom and Social standing:** It is the most important factor which explains 28.357% of the variation. It has 4 loadings, namely, Recognition in

Family (0.973), Recognition in community (0.972), Interaction with outsiders (0.965), and Mobility (0.954)

2. **Access to Health and credit services:** This factor has four variables which account for 16.268% of the variation. The loadings to this factor include Access to immunization (0.922) access to sanitation (0.921), Access to health services (0.800), and Access to credit sources (0.773)
3. **Empowerment and development awareness:** This factor has four variables and accounts for 10.175% of the variation. Girl child development awareness (0.754) Nutrition awareness (0.748), health awareness (0.674) and voicing concern (0.520) are the key variables which contribute to their development and give them the courage to voice their concern.
4. **Individual growth & Family welfare:** It has 4 variables which account for 7.685% of the variation. Family income (0.717), Asset building (0.674), literacy (0.652) and Family planning awareness (0.605) are some of the key variables which contribute to individual growth.
5. **Personal capacity:** This factor accounts for 5.994% of the variation. Individual income (0.812) and skills (-0.556) are the two variables in this factors. Skills seem to have an inverse relationship with the other factors in Tamil Nadu also.
6. **Decision Making:** This accounts for 5.300% of the variation and includes one variable namely decision making relating to child (0.892) which loads on to it.

Micro credit when invested in an income generating activity or productive assets leads to improvement in income levels of the Self Help Group members. Profits from the enterprise provide increased income and a general strengthening of income sources. Micro credit is a vital input as it can help in alleviating poverty in a holistic way by constructively contributing to client livelihoods and fostering a sense of social and economic empowerment in them. The factor analysis conducted helped in establishing the determinants of social empowerment in the two states of Andhra Pradesh and Tamil Nadu. In Andhra Pradesh, household welfare and social status influence social empowerment while in Tamil Nadu, socioeconomic and household welfare along with social status influence social empowerment. The factors which influence the socioeconomic status of Self Help Group members in the two states have also been determined. The study proves that Self Help Groups have facilitated better interaction of its members with the external environment and has promoted a larger consciousness and awareness of the world. Self Help Group members keep their own accounts are able to engender in themselves a sense of financial discipline as peer pressure ensures timely repayment and end use of micro credit. They are able understand and appreciate the needs of others and are able to prioritize their requirements leading to a social recognition. Micro credit to members of self help groups thus contributes development of self esteem and social empowerment of its members. The results of the present study complement the already existing literature and further prove that members of self help groups which utilize micro credit for productive purposes are able to build on their sense of self worth and self-confidence thereby leading to their socio economic empowerment.

Table 156: Perception of Self Help Group Members in Andhra Pradesh and Tamil Nadu

	No. of Members in the Group						
State	<= 9	%age	11-15	%age	15-18	%age	Total
Andhra Pradesh	82	13.04%	519	82.51%	28	4.45%	629
Tamil Nadu	73	11.76%	492	79.23%	56	9.02%	621
Total	**155**		**1,011**		**84**		1,250

	Stability of Group Size						
State	Stable	%age	Increased	%age	Decreased	%age	Total
Andhra Pradesh	524	83.31%	45	7.15%	60	9.54%	629
Tamil Nadu	517	83.25%	40	6.44%	64	10.31%	621
Total	**1,041**		**85**		**124**		1,250

	Suggestion to Join Group										
State	Self	%age	Family Members	%age	Friends/Relatives	%age	NGO Workers	%age	Other Members of Group	%age	Total
Andhra Pradesh	189	30.05%	11	1.75%	18	2.86%	77	12.24%	334	53.10%	629
Tamil Nadu	102	16.43%	15	2.42%	55	8.86%	270	43.48%	179	28.82%	621
Total	**291**		**26**		**73**		**347**		**513**		1,250

State	Position in Group						
State	Ordinary Member	%age	Active Member	%age	President	%age	Total
Andhra Pradesh	480	76.31%	115	18.28%	34	5.41%	629
Tamil Nadu	467	75.20%	121	19.48%	33	5.31%	621
Total	**947**		**236**		**67**		**1,250**

	Frequency of Meetings				
State	**Weekly**	**%age**	**Monthly**	**%age**	**Total**
Andhra Pradesh	140	22.26%	489	77.74%	629
Tamil Nadu	129	20.77%	492	79.23%	621
Total	269		981		1,250

	No. of Members Attending Meeting				
State	**All Members**	**%age**	**Few Members**	**%age**	**Total**
Andhra Pradesh	623	99.05%	6	0.95%	629
Tamil Nadu	598	96.30%	23	3.70%	621
Total	1,221		29		1,250

	Who Calls Meetings?						
State	**Group Members**	**%age**	**NGO**	**%age**	**Project Staff**	**%age**	**Total**
Andhra Pradesh	220	34.98%	7	1.11%	402	63.91%	629
Tamil Nadu	195	31.40%	99	15.94%	327	52.66%	621
Total	415		106		729		1,250

	Who Decides the agenda?								
State	**Majority**	**%age**	**Some Members**	**%age**	**Group Members**	**%age**	**Link Worker**	**%age**	**Total**
Andhra Pradesh	221	35.14%	6	0.95%	252	40.06%	150	23.85%	629
Tamil Nadu	246	39.61%	10	1.61%	220	35.43%	145	23.35%	621
Total	467		16		472		295		1,250

	Who Takes Meeting Decisions?										
State	All		President	%age	Link Worker	%age	NGO/Facilitator	%age	Mixed	%age	Total
Andhra Pradesh	262		67	10.65%	14	2.23%	4	0.64%	282	44.83%	629
Tamil Nadu	251		83	13.37%	12	1.93%	59	9.50%	216	34.78%	621
Total	513		150		26		63		498		1,250

	How is the decision taken?										
State	Consensus	%age	Voting	%age	Group Members	%age	Link Worker/Representative/Facilitator	%age	Mixed	%age	Total
Andhra Pradesh	52	8.27%	2	0.32%	429	68.20%	28	4.45%	118	18.76%	629
Tamil Nadu	48	7.73%	0	0.00%	446	71.82%	36	5.80%	91	14.65%	621
Total	100		2		875		64		209		1,250

	Meeting Calendar				
State	No	%age	yes	%age	Total
Andhra Pradesh	5	0.79%	624	99.21%	629
Tamil Nadu	6	0.97%	615	99.03%	621
Total	11		1,239		1,250

	Rules and regulation		
State	Yes	%age	Total
Andhra Pradesh	629	100.00%	629
Tamil Nadu	621	100.00%	621
Total	1,250		1,250

	Information in group records				
State	No	%age	yes	%age	Total
Andhra Pradesh	23	3.66%	606	96.34%	629
Tamil Nadu	23	3.70%	598	96.30%	621
Total	46		1,204		1,250

	cash in hand				
State	**No**	**%age**	**Yes**	**%age**	**Total**
Andhra Pradesh	256	40.70%	373	59.30%	629
Tamil Nadu	229	36.88%	392	63.12%	621
Total	485		765		1,250
	Balance in bank				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	184	29.25%	445	70.75%	629
Tamil Nadu	158	25.44%	463	74.56%	621
Total	342		908		1,250
	outstanding loan				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	292	46.42%	337	53.58%	629
Tamil Nadu	229	36.88%	392	63.12%	621
Total	521		729		1,250
	Total capital of the group				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	295	46.90%	334	53.10%	629
Tamil Nadu	259	41.71%	362	58.29%	621
Total	554		696		1,250
	Savings of group				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	182	28.93%	447	71.07%	629
Tamil Nadu	169	27.21%	452	72.79%	621
Total	351		899		1,250
	Total loaning of group				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	218	34.66%	411	65.34%	629
Tamil Nadu	198	31.88%	423	68.12%	621
Total	416		834		1,250
	No of members who have taken loan				
State	**No**	**%age**	**yes**	**%age**	**Total**
Andhra Pradesh	189	30.05%	440	69.95%	629
Tamil Nadu	148	23.83%	473	76.17%	621
Total	337		913		1,250

	No of members who have repaid loans				
State	No	%age	yes	%age	Total
Andhra Pradesh	194	30.84%	435	69.16%	629
Tamil Nadu	178	28.66%	443	71.34%	621
Total	372		878		1,250
	Name of bank				
State	No	%age	yes	%age	Total
Andhra Pradesh	2	0.32%	627	99.68%	629
Tamil Nadu	0	0.00%	621	100.00%	621
Total	2		1,248		1,250
	Income of group				
State	No	%age	yes	%age	Total
Andhra Pradesh	515	81.88%	114	18.12%	629
Tamil Nadu	485	78.10%	136	21.90%	621
Total	1,000		250		1,250
	Objectives of group				
State	No	%age	yes	%age	Total
Andhra Pradesh	548	87.12%	81	12.88%	629
Tamil Nadu	495	79.71%	126	20.29%	621
Total	1,043		207		1,250
	Achievement of group				
State	No	%age	yes	%age	Total
Andhra Pradesh	552	87.76%	77	12.24%	629
Tamil Nadu	508	81.80%	113	18.20%	621
Total	1,060		190		1,250
	Constraints of group				
State	No	%age	yes	%age	Total
Andhra Pradesh	617	98.09%	12	1.91%	629
Tamil Nadu	575	92.59%	46	7.41%	621
Total	**1,192**		**58**		**1,250**

Perception of Self Help Group Members in Andhra Pradesh and Tamil Nadu

In both the states, a high percentage of the self help groups had membership ranging from 11 to 15. 83.31% of the self help groups in Andhra Pradesh and 83.25% of the self help groups in Tamil Nadu were stable in terms of organization size. In Andhra Pradesh 53% of respondents joined self help groups on the basis of suggestions from other members of the group while in Tamil Nadu, 43.4% of the respondents joined self help groups due to the influence of Non governmental organizations. Almost 80% of the self help groups in both the states had monthly meetings in which the attendance of members was very high. In both the project staff played a key role in calling for group meetings, 63.91% in Andhra Pradesh and 52.66% in Tamil Nadu.

As a proof of democratic governance and participation in of women in self help groups, almost 35 to 40% of the respondents from both the states agreed that they had a say in deciding on the agenda of the meetings. 68.20% of the respondents from Andhra Pradesh and 71.82% of the respondents from Tamil Nadu agreed that they played an active part in the decision making process. The awareness levels of self help group relating to the various organizational aspects of their groups in the states of Andhra Pradesh and Tamil Nadu is presented in the following figures.

Figure 37: Awareness Levels of Members of Self Help Groups in AP

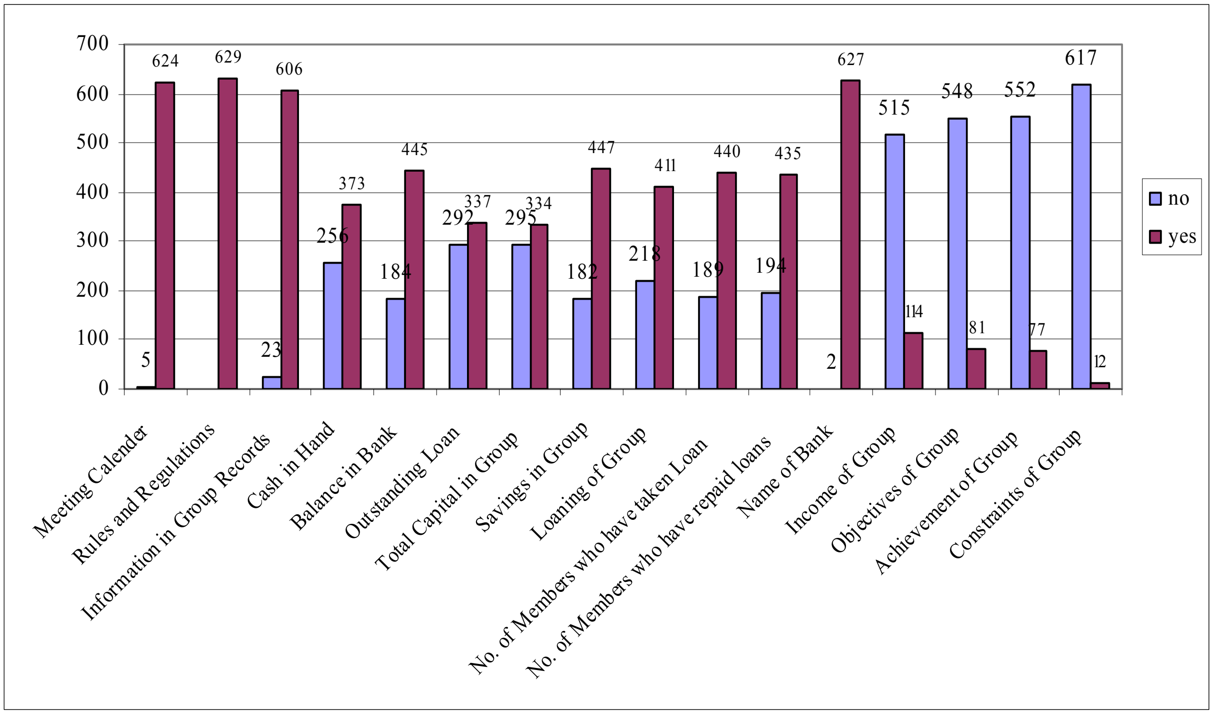


Figure 38: Awareness Levels of Members of Self Help Groups in TN

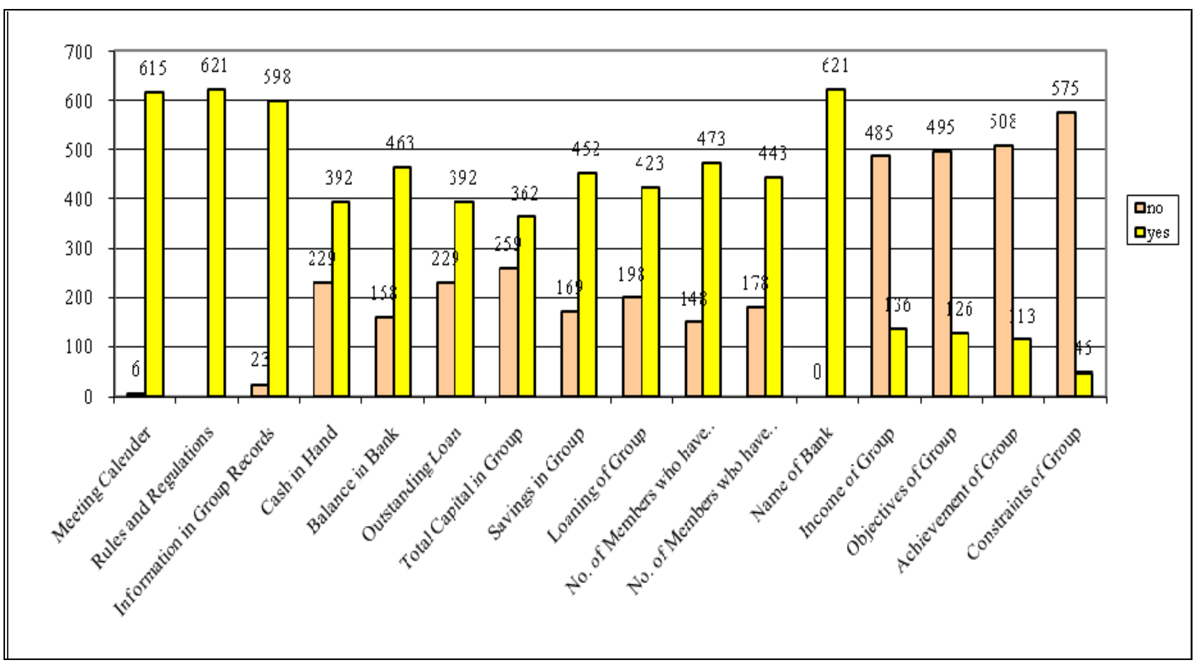


Table 157: Perception of Self Help Group leaders in Andhra Pradesh and Tamil Nadu

State * Group Size

			Group Size			Total
			Stable	Increased	Decreased	
State	AP	Count	25	4	3	32
		% within State	78.1%	12.5%	9.4%	100.0%
	TN	Count	22	5	2	29
		% within State	75.9%	17.2%	6.9%	100.0%
Total		Count	47	9	5	61
		% within State	77.0%	14.8%	8.2%	100.0%

State * Frequency of Meeting

			Frequency of Meeting			Total
			Weekly	Fortnightly	Monthly	
State	AP	Count	1	3	28	32
		% within State	3.1%	9.4%	87.5%	100.0%
	TN	Count	0	0	29	29
		% within State	0.0%	0.0%	100.0%	100.0%
Total		Count	1	3	57	61
		% within State	1.6%	4.9%	93.4%	100.0%

State * Collection of Saving

			Collection of Saving		Total
			Deposited by Members in Group Meting	Collected by Representatives from Members outside meeting	
State	AP	Count	29	3	32
		% within State	90.6%	9.4%	100.0%
	TN	Count	25	4	29
		% within State	86.2%	13.8%	100.0%
Total		Count	54	7	61
		% within State	88.5%	11.5%	100.0%

State * Money Management

			Money Management	Total
			Deposit in the Bank	
State	AP	Count	32	32
		% within State	100.0%	100.0%
	TN	Count	29	29
		% within State	100.0%	100.0%
Total		Count	61	61
		% within State	100.0%	100.0%

State * Who operates the Bank Account						
			Who operates the Bank Account?			
			President, Treasurer, Secretary	President and Treasurer	Total	
State	AP	Count	3	29	32	
		% within State	9.4%	90.6%	100.0%	
	TN	Count	3	26	29	
		% within State	10.3%	89.7%	100.0%	
Total		Count	6	55	61	
		% within State	9.8%	90.2%	100.0%	
State * Frequency of visit to the bank						
			Frequency of visit to the bank?			
			Once a Month	More than Once a Month	Total	
State	AP	Count	22	10	32	
		% within State	68.8%	31.3%	100.0%	
	TN	Count	24	5	29	
		% within State	82.8%	17.2%	100.0%	
Total		Count	46	15	61	
		% within State	75.4%	24.6%	100.0%	
State * Saving Mobilization by Members						
			Saving Mobilization by Members			
			Curtailing Expenses	Saving from Income	Total	
State	AP	Count	13	19	32	
		% within State	40.6%	59.4%	100.0%	
	TN	Count	10	19	29	
		% within State	34.5%	65.5%	100.0%	
Total		Count	23	38	61	
		% within State	37.7%	62.3%	100.0%	
State * Utilization of Money through Interest						
			Utilization of Money through Interest			
			Added to Group Capital	Utilized for Group Activities	Total	
State	AP	Count	28	4	32	
		% within State	87.5%	12.5%	100.0%	
	TN	Count	25	4	29	
		% within State	86.2%	13.8%	100.0%	
Total		Count	53	8	61	
		% within State	86.9%	13.1%	100.0%	

State * Auditing of Groups-Frequency

			Auditing of Groups-Frequency	Total
			Monthly	
State	AP	Count	32	32
		% within State	100.0%	100.0%
	TN	Count	29	29
		% within State	100.0%	100.0%
Total		Count	61	61
		% within State	100.0%	100.0%

State * Social Security

			Social Security		Total
			No	Yes	
State	AP	Count	8	24	32
		% within State	25.0%	75.0%	100.0%
	TN	Count	4	25	29
		% within State	13.8%	86.2%	100.0%
Total		Count	12	49	61
		% within State	19.7%	80.3%	100.0%

State * Food Security

			Food Security		Total
			No	Yes	
State	AP	Count	10	22	32
		% within State	31.3%	68.8%	100.0%
	TN	Count	11	18	29
		% within State	37.9%	62.1%	100.0%
Total		Count	21	40	61
		% within State	34.4%	65.6%	100.0%

State * Education

			Education		Total
			No	Yes	
State	AP	Count	4	28	32
		% within State	12.5%	87.5%	100.0%
	TN	Count	2	27	29
		% within State	6.9%	93.1%	100.0%
Total		Count	6	55	61
		% within State	9.8%	90.2%	100.0%

State * Medical

			Medical	Total
			Yes	
State	AP	Count	32	32
		% within State	100.0%	100.0%
	TN	Count	29	29
		% within State	100.0%	100.0%
Total		Count	61	61
		% within State	100.0%	100.0%

State * Marriage/Festivals

			Marriage/Festivals	Total
			Yes	
State	AP	Count	32	32
		% within State	100.0%	100.0%
	TN	Count	29	29
		% within State	100.0%	100.0%
Total		Count	61	61
		% within State	100.0%	100.0%

State * Emergency

			Emergency	Total
			Yes	
State	AP	Count	32	32
		% within State	100.0%	100.0%
	TN	Count	29	29
		% within State	100.0%	100.0%
Total		Count	61	61
		% within State	100.0%	100.0%

State * Agriculture

			Agriculture		Total
			No	Yes	
State	AP	Count	10	22	32
		% within State	31.3%	68.8%	100.0%
	TN	Count	10	19	29
		% within State	34.5%	65.5%	100.0%
Total		Count	20	41	61
		% within State	32.8%	67.2%	100.0%

State * Asset Building

			Asset Building		
			No	Yes	Total
State	AP	Count	13	19	32
		% within State	40.6%	59.4%	100.0%
	TN	Count	15	14	29
		% within State	51.7%	48.3%	100.0%
Total		Count	28	33	61
		% within State	45.9%	54.1%	100.0%

State * Self Respect

			Self Respect		
			No	Yes	Total
State	AP	Count	14	18	32
		% within State	43.8%	56.3%	100.0%
	TN	Count	11	18	29
		% within State	37.9%	62.1%	100.0%
Total		Count	25	36	61
		% within State	41.0%	59.0%	100.0%

State * Income Generating Activities

			Income Generating Activities		
			No	Yes	Total
State	AP	Count	14	18	32
		% within State	43.8%	56.3%	100.0%
	TN	Count	11	18	29
		% within State	37.9%	62.1%	100.0%
Total		Count	25	36	61
		% within State	41.0%	59.0%	100.0%

State * Member Interaction

			Member Interaction		
			No	Yes	Total
State	AP	Count	4	28	32
		% within State	12.5%	87.5%	100.0%
	TN	Count	2	27	29
		% within State	6.9%	93.1%	100.0%
Total		Count	6	55	61
		% within State	9.8%	90.2%	100.0%

State * Well Organized Family						
			Well Organized Family		Total	
			No	Yes		
State	AP	Count	6	26	32	
		% within State	18.8%	81.3%	100.0%	
	TN	Count	2	27	29	
		% within State	6.9%	93.1%	100.0%	
Total		Count	8	53	61	
		% within State	13.1%	86.9%	100.0%	

State * Good Relationship with Husband						
			Good Relationship with Husband		Total	
			No	Yes		
State	AP	Count	12	20	32	
		% within State	37.5%	62.5%	100.0%	
	TN	Count	13	16	29	
		% within State	44.8%	55.2%	100.0%	
Total		Count	25	36	61	
		% within State	41.0%	59.0%	100.0%	

State * Check on Alcoholism						
			Check on Alcoholism		Total	
			No	Yes		
State	AP	Count	23	9	32	
		% within State	71.9%	28.1%	100.0%	
	TN	Count	20	9	29	
		% within State	69.0%	31.0%	100.0%	
Total		Count	43	18	61	
		% within State	70.5%	29.5%	100.0%	

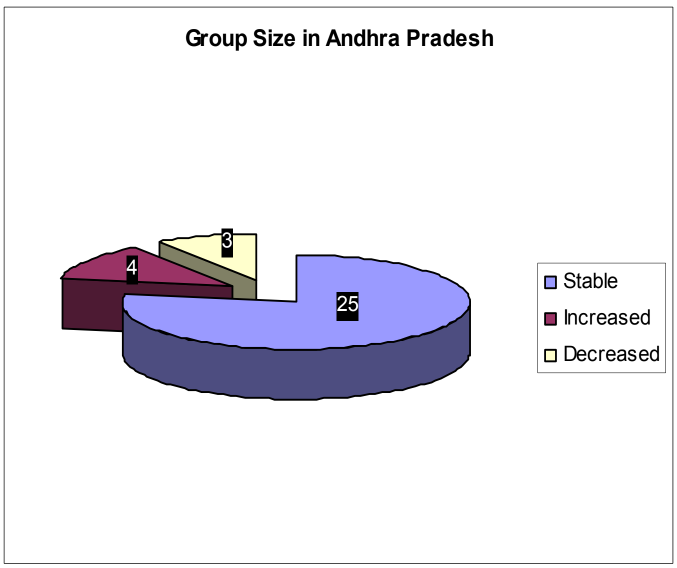
State * Say in Family Affairs						
			Say in Family Affairs		Total	
			No	Yes		
State	AP	Count	5	27	32	
		% within State	15.6%	84.4%	100.0%	
	TN	Count	3	26	29	
		% within State	10.3%	89.7%	100.0%	
Total		Count	8	53	61	
		% within State	13.1%	86.9%	100.0%	

State * Control over Savings						
			Control over Savings			
			No	Yes	Total	
State	AP	Count	15	17	32	
		% within State	46.9%	53.1%	100.0%	
	TN	Count	7	22	29	
		% within State	24.1%	75.9%	100.0%	
Total		Count	22	39	61	
		% within State	36.1%	63.9%	100.0%	
State * Self Confidence						
			Self Confidence			
			No	Yes	Total	
State	AP	Count	4	28	32	
		% within State	12.5%	87.5%	100.0%	
	TN	Count	2	27	29	
		% within State	6.9%	93.1%	100.0%	
Total		Count	6	55	61	
		% within State	9.8%	90.2%	100.0%	
State * Awareness						
			Awareness			
			No	Yes	Total	
State	AP	Count	3	29	32	
		% within State	9.4%	90.6%	100.0%	
	TN	Count	3	26	29	
		% within State	10.3%	89.7%	100.0%	
Total		Count	6	55	61	
		% within State	9.8%	90.2%	100.0%	

Perception of Self Help Group Leaders

In both the states the group leaders were of the opinion that the group size was stable and only about 10% of the respondents said that size of groups decreased. In Andhra Pradesh, 90.6% and in Tamil Nadu 88.5% of the group leaders said that savings were deposited by the members in the group meeting. Almost 90% of the group leaders disclosed that the president and treasurer operated the bank account and mostly made monthly visits to the bank.

Figure 39: Opinion on Group Size by Self Help Group Leaders in the two states



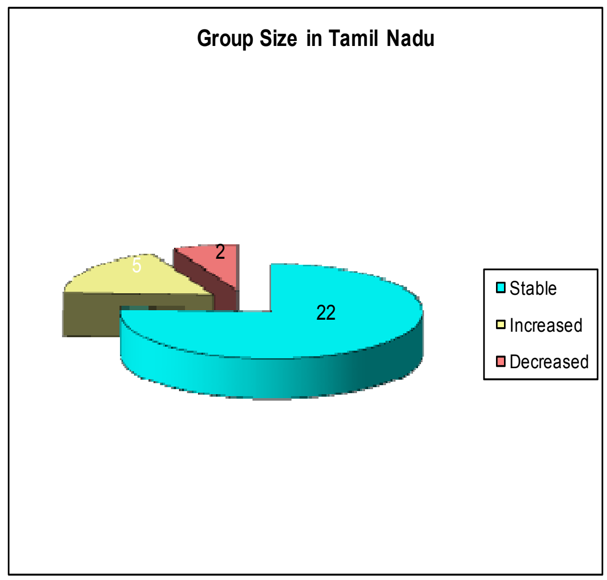
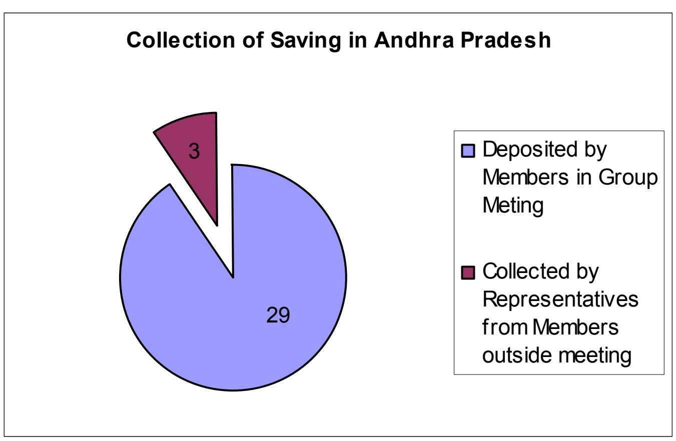


Figure 40: Opinion on Collection of Saving by Self Help Group Leaders in the two states



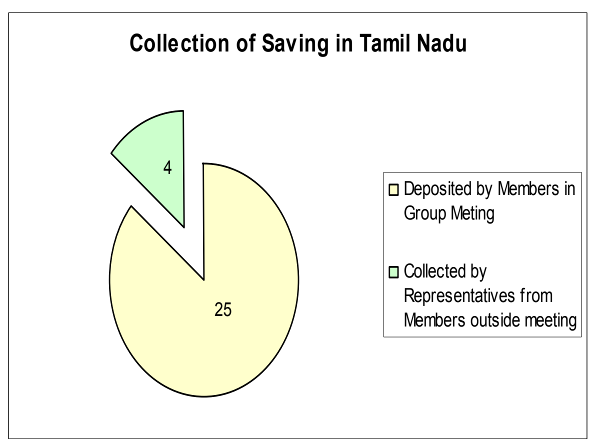
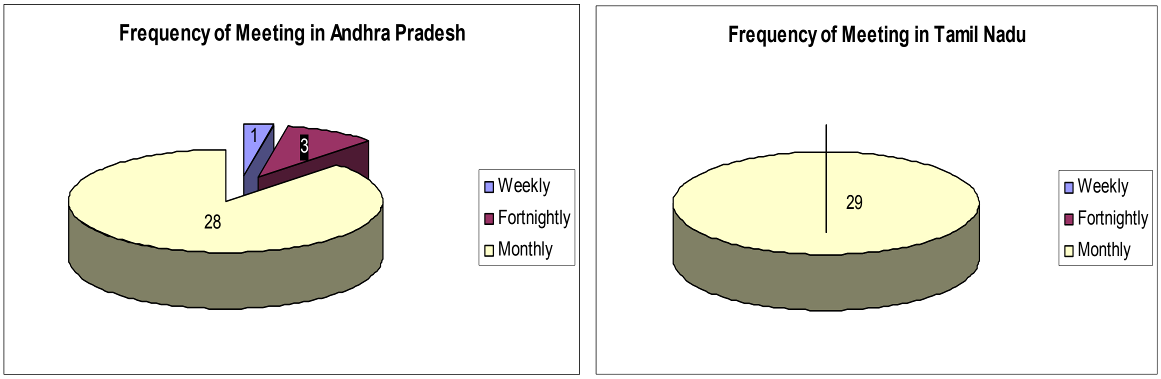


Figure 41: Opinion on Frequency of Meetings by Self Help Group Leaders in the two states



In Andhra Pradesh, 59.4% of the group leaders interviewed said that members mobilized savings from their income and in Tamil Nadu 65.5% of the sample respondents among group leaders agreed on the same lines. More than 80% of Self Help Group leaders interviewed agreed that the money collected through interest was added to group capital in both the states. The various avenues where Self Help Group members utilize their savings and the influence on the village and community as a result of self help groups as perceived by Self Help Group leaders in the states of Andhra Pradesh and Tamil Nadu is presented in the following figures.

Figure 42: Self Help Group Leader Perception on Utilization of Savings by Members in AP

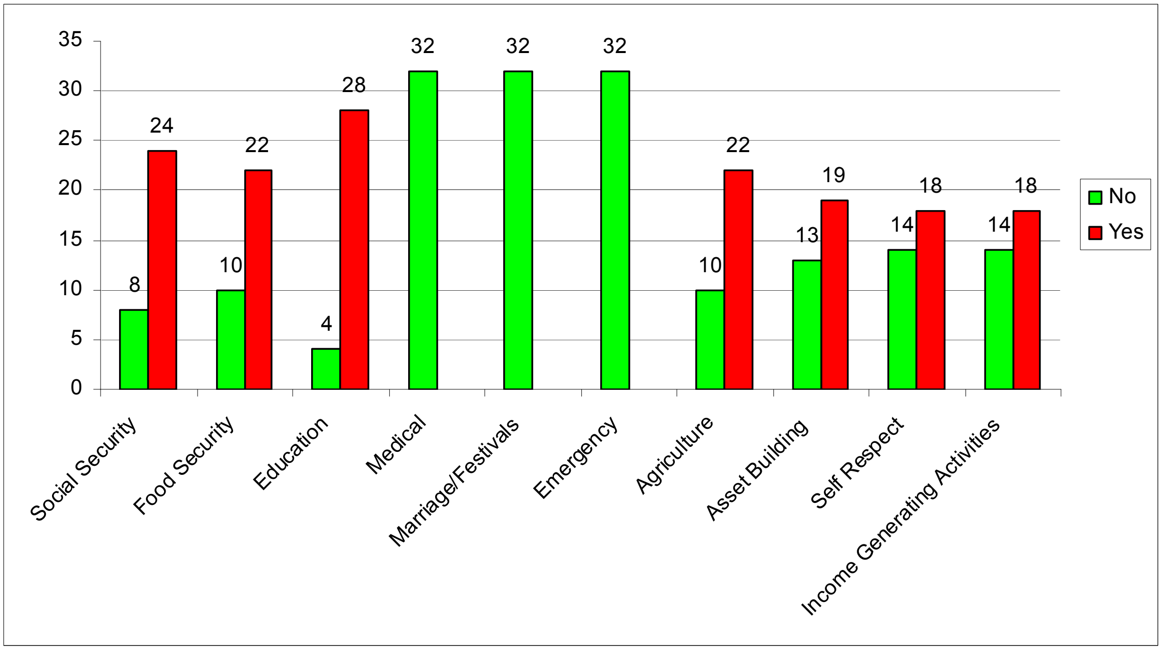


Figure 43: Self Help Group Leader Perception on Utilization of Savings by Members in TN

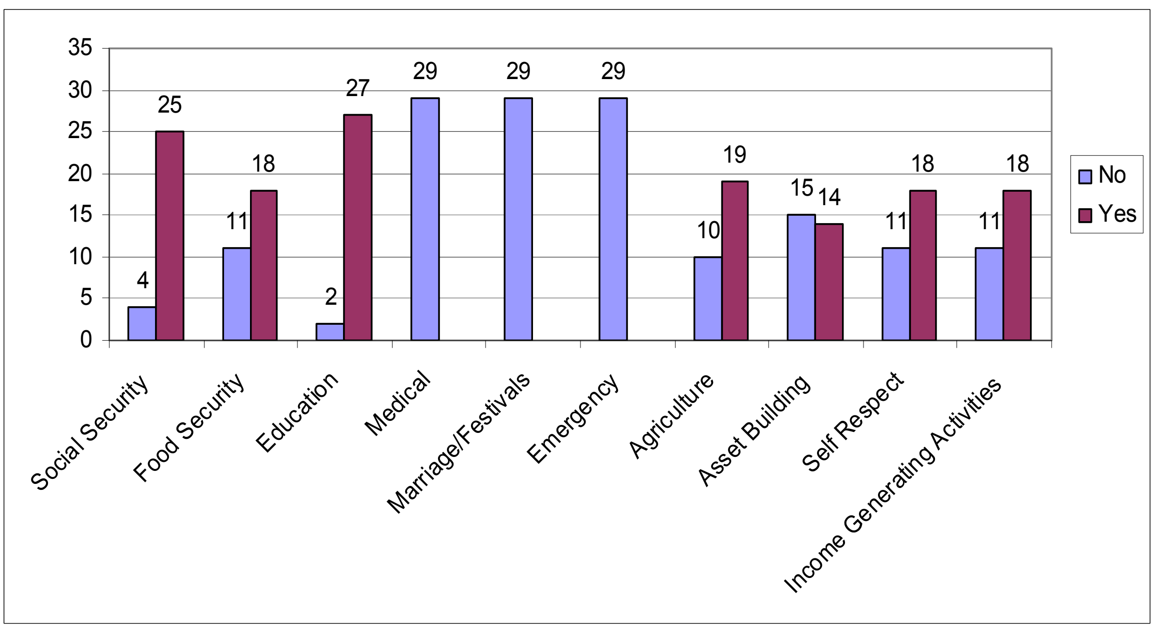


Figure 44: Perception of Self Help Group Leaders on the Influence of Self Help Groups on Village and Community in AP

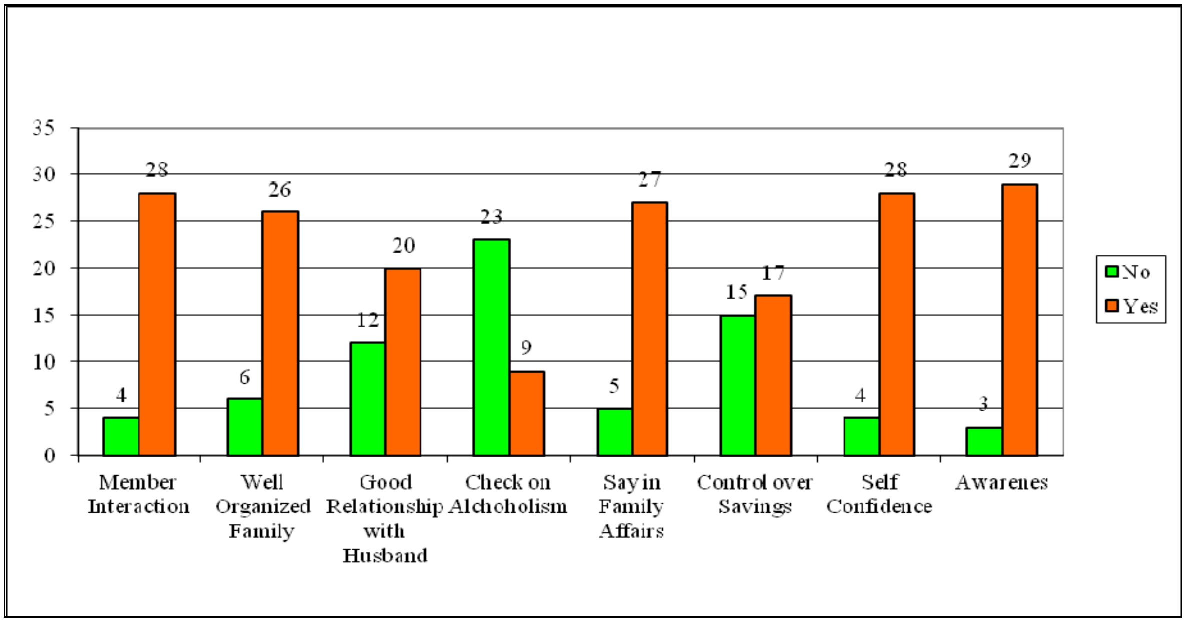
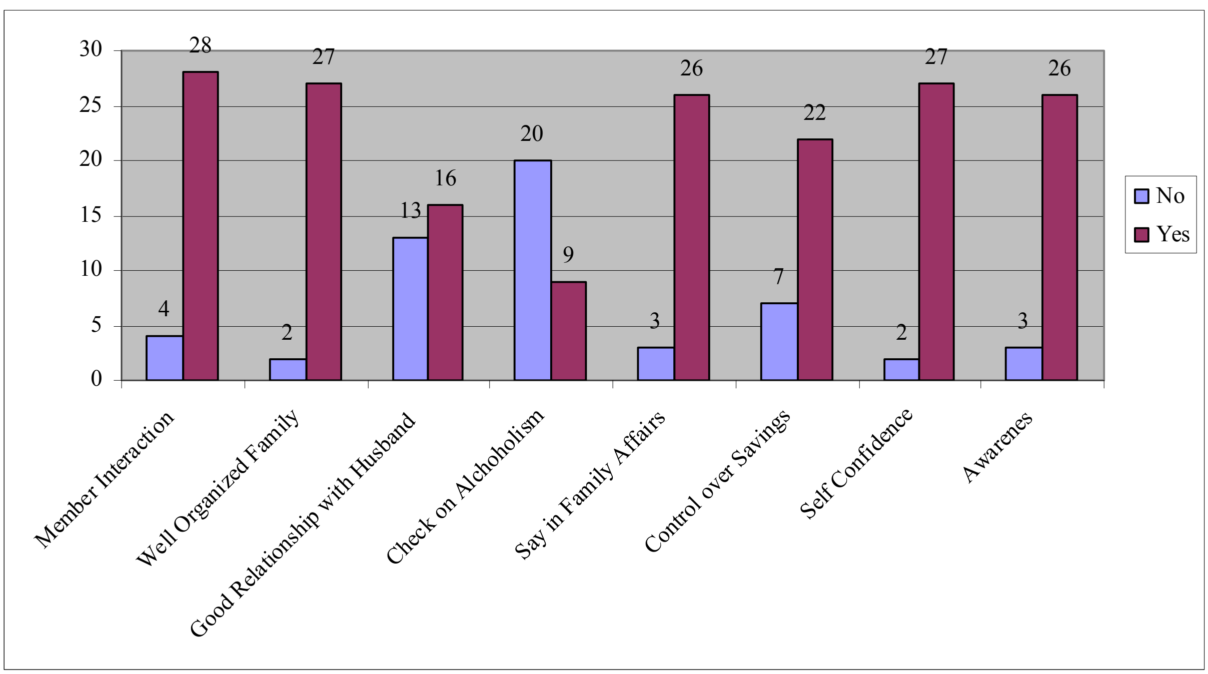


Figure 45: Perception of Self Help Group Leaders on the Influence of Self Help Groups on Village and Community in Tamil Nadu



Part D- Perception of Managers of Banks, and Role of NABARD, Non Governmental Organizations/MFOs from both the States is Presented

The perception of lead district managers, managers of banks which specialize in the delivery of micro credit, managers from the apex bank involved in the credit delivery model from both the states of Andhra Pradesh and Tamil Nadu were obtained. As managers sought anonymity while reflecting their opinions, their names are not disclosed and a summary of the organizational perspective of credit delivery is presented in this section. The role of NABARD and two leading non governmental organizations /MFOs in the delivery of micro credit in the state of Andhra Pradesh and Tamil Nadu is also discussed.

Banks play a vital role in the delivery of micro credit under both the models namely the Self Help Group Bank linkage programme and also in the Microfinance Institution Bank linkage programme. Banks are in the forefront of linkages achieving a semblance of growth at the grassroots level. Self help groups are important tools to take forward growth and sustainable development .The self help group concept is a credible alternative for available to ensure sustainable growth and development in the lower strata of society.

Bankers consider Self Help Group financing as a valuable business proposition for them especially in rural and semi urban areas. The erosion in loan portfolios is very less when compared to agriculture and crop loans. The state of Andhra Pradesh has been a pioneer in the microfinance movement which has now taken roots and is spreading wings. The growth in the numbers of groups which have received loans under the bank linkage programme is an evidence of the success of this model of credit delivery. Along with the growth of number of self help groups, another development which came alongside was the growth of microfinance institutions which started using the already established Self help groups as clientele for their loans. The most important feature of the self help group concept was pooling of member savings before they approached the banks for a loan. The prompt repayment of the loans they took from the banks encouraged them to approach the banks for further doses of loans. But of late this model of credit delivery is faced with some challenges which have been outlined by the managers of public and private sector banks. They are:

- The fall in recovery rates of bank loans to self help groups is a serious threat to the success of this model. Recovery rates which hovered between 98-100% at one point of time have now dropped to around 85%.
- Over dues and non performing assets are also serious issues faced by banks .Fund recycling by banks gets affected due to this.
- The emphasis on the existence of income generating activity on the part of the members is slowly waning off after the fourth dose.
- Misappropriation of funds by group leaders is also a serious concern.
- Illiteracy is a major problem. Group leaders and a few individuals drive decisions in some groups.
- Banks face shortage of manpower. Branch personnel number is inadequate to handle the existing and increasing number of self help groups.
- Self help groups are not able to make use of micro credit effectively to transform their economic activity into micro enterprises as funds often get used up for consumption. There are of course a few success stories .As higher amounts are given after the fourth dose, group members and leaders sometimes end up spending for personal needs rather than being invested in income generating activities.
- Bankers had problems in dealing with groups that did not have a promoting agency to support as these groups did not have regular meetings, savings or book keeping.
- In certain cases, the self groups were functioning in a manner where there distributed savings and the capital among their members every year vitiating the very focus with which this model of credit delivery was started
- Some Self help groups are not very keen on leadership rotation. As a result in these groups, the functioning and decision making process is in the hands of the same individual year after year and as the groups mature and higher loan sizes are sought by them, friction arises among the members in the management of the credit.
- Self help groups have different norms on repayment of their internal borrowings and the loans that they take from banks. Bank loans are mostly divided equally among the members without realistic estimation of the credit needs of each

member. Bank loans are available at low rates of interest and self help group members want to make the best of these loans and demand equal share in it.

- Self help group members started making use of bank loans to repay their loans from Microfinance Institutions as they followed coercive practices when compared to banks and this lead to an unprecedented fall in the repayment rates of Self Help Group loans to banks.

Due to the above mentioned problems bank managers in the states of Andhra Pradesh and Tamil Nadu take precautions while financing Self Help Groups at the branch

1. Bank managers assess the command area by making field visit and interact with Self Help Group members, attend group meetings, training programmes by NGO's /government/ visiting stalls of Self Help Group in exhibition
2. Assessment of the NGOs and SHPIs by visiting their office, getting information about their staff strength and conducting field level enquiry. Developing a working relationship with them as they bring the groups for grading and for availing the loans and help in recovery.
3. Grading of groups is done by branch managers at the branch level
4. Insisting on all Self Help Group members to come to the branch at the time of disbursement reduces the possibility of duplication of Self Help Group members in more than one group.
5. A list of Self Help Groups that do not repay the loans is prepared and follow up procedure is initiated. The help of the NGO's and SHPI's that have helped in the formation and nurturing of groups is sought.
6. In Tamil Nadu, banks follow the following procedure when there are loan defaults by self help groups –
    - A notice is issued in Tamil regarding the default by the Self Help Group.
    - A legal notice is issued in Tamil which is then followed by a joint notice /summon which is signed by the NGO/ PO Mathi/bank.
    - Follow up procedures are taken up with the recovery agent
    - Follow up procedures include coordination with other NGO's operating in the area along with Branch Managers/Assistant Branch Managers/loan office/ clerks.

(a) In Andhra Pradesh, the government is playing a proactive role in the linkage process through the IKP programme. The Pavalla Vaddi scheme serves as an incentive and has ensured prompt payment by Self Help Groups. After the fall in recovery rates the introduction of the community based recovery mechanism once a month. (CRBM) has reduced the hardships associated with the recovery of loans to Self Help Groups

Bankers consider that the key strength of the Self Help Group lending model is the fact that the risk involved is less as the loan is shared by 12-20 members. The recovery is relatively easy as the members pay their dues due to peer pressure. The bankers have good knowledge about the groups to which they are lending as they are introduced to them by the NGO's and SHPI's which have nurtured them. Since the numbers of self help groups is very high, the untapped market provides an excellent opportunity to the banks for lending at reasonable rates.

The major weakness of this model of credit delivery is that these loans are not backed by collaterals and there is possibility of duplication of members in groups. Besides, Microfinance institutions are also into financing of Self Help Group members and due to their coercive recovery practices, repayments to banks have been affected. In states like Andhra Pradesh, it has led to the promulgation of the Microfinance ordinance. Self help groups were an already established concept in Andhra Pradesh. The Microfinance Institutions simply tapped the existing base. The entry and duplicity of Microfinance Institutions into Self Help Group lending has resulted in a lot of problems. While banks charge monthly interest on loans to self help groups, Microfinance Institutions insist on weekly payments. An example of Microfinance Institution lending to Self Help Groups as outlined by a bank manager is described below.

"If a loan of ₹10000 is given by a Microfinance Institution, the processing charges and other expenses amount to ₹1500, and the net amount disbursed is only ₹8500. The Self Help Group members who avail this loan are required to pay this loan over 25 weeks at the rate of ₹250 per week. The net outflow amounts to ₹12500. The Self Help Group members are unaware of this profiteering and still borrowed from Microfinance

Institutions as they offered the convenience of door-step collection by the Microfinance Institutions."

There was no restriction on the number of institutions from which the members could borrow and this led multiple borrowings. In terms of loan recovery, some Microfinance Institutions followed coercive practices which lead to difficulties among the borrowers. Borrowers from self help groups made use of money borrowed from Banks under the government supported programme and made use of it to repay Microfinance Institution loans. The repayment rates of Bank loans to Self Help Groups started declining as the borrowers were hoping for loan waivers. Microfinance Institutions forced other group members to contribute for the defaulting members. All these unhealthy practices lead to few suicides among the borrowers. The government of Andhra Pradesh stepped in to protect the borrowers and promulgated, the Andhra Pradesh Microfinance Ordinance in October 2010 with a view to check the unscrupulous lending practices of the Microfinance Institutions operating in the state. The ordinance restricted borrowing from more than two Microfinance Institutions. The Microfinance Institutions could sanction loans only after prior approval from the DRDA. A ceiling on interest rates was fixed for Microfinance Institutions, and they could charge only monthly interest rates. There was streamlining of the Microfinance Institution Collection procedure. They could collect their loans from borrowers only at the Gram Panchayat and no more door step collection was possible.

The Bank Microfinance Institution linkage model also faces a number of problems in the recent years.

1) Banks lend to microfinance institutions too as it forms part of priority sector lending. But the crisis in the microfinance sector made banks look at lending to Microfinance Institutions with caution.
2) The loans outstanding of Banks to Microfinance Institutions have increased indicating the delays in the recovery of these loans. The Microfinance Institutions are unable to pay their loans as the recoveries from their clients have hit an all-time low after the microfinance crisis in Andhra Pradesh.
3) Both public and private sector banks are faced with the problem of increasing non performing assets in terms of loans to microfinance

institutions and if this trend continues banks operating margins will get affected.

Banks thus had to face the brunt of the fallout caused by the crisis in the microfinance sector. They were forced to deal with declining repayment rates from Self Help Groups on one hand and also the default by the Microfinance Institutions on the other hand. In Andhra Pradesh, the loan loss provision in respect of Microfinance Institutions touched ₹75 billion in terms of loans to Microfinance Institutions and the banks had to work out a corporate debt structuring package in respect of large exposure they had with respect to loans given to Microfinance Institutions. Public sector banks are more into financing of groups. Lending to Microfinance Institutions amount only to 5-10% in order to make up for the gap in priority sector lending. As a result exposure to Microfinance Institution lending is less when compared to private sector banks which actively lend to Microfinance Institutions to make up for the priority sector lending. However, the repayment rates of groups to banks and Microfinance Institutions to banks has come down drastically after the crisis in Andhra Pradesh. Most of the Microfinance Institutions stopped getting funding from banks and other sources after October 2010. The Microfinance industry and the bank Microfinance Institution model faced a lot of problems after the Andhra Pradesh crisis. Many Microfinance Institutions which were not connected to Andhra Pradesh also found that banks were not willing to lend to them as they perceived these loans to be highly risky. The risk managers and credit departments of banks put on hold many loan sanction proposals and loan disbursements to the microfinance sector came to a standstill across the country.

Role of NABARD - The role of NABARD as policy maker and as a development bank assumes a great of significance in the credit delivery mechanism. It is felt that the banking system as a whole is looking at enforcing credit discipline .The access to credit is a major hurdle in many parts of the country. The Self Help Group concept has definitely contributed to creation of social capital. Understanding the Psyche of the Self help group members remains a key challenge. Most of the banks are target driven and in Andhra Pradesh government's Proactive role and support is a standout example in this model of credit delivery. Though the numbers in Self Help Group bank linkage model look very impressive there is a need to understand the need of the borrower and providing credit on that basis will help in transformation of micro credit to microenterprise. Bankers approach to Self Help Group financing needs to be in line with understanding the requirement of members. With this mind NABARD is in the process of rejuvenating the Self Help Group movement. Self Help Group 2 is on the cards where the focus would be on developing new strong groups and improving existing ones. The new elements of Self Help Group 2 as outlined by Dr. Prakash Bakshi, Chairman NABARD in his interview published in Microfinance India –state of sector report 2011 include the following-

- Voluntary savings apart from compulsory savings
- Widening livelihood opportunities including those in the service sector
- Graduating select members of the groups that have entrepreneurship potential into joint liability groups for borrowing larger amounts.

NABARD's plan is to link a million groups each year –Self Help Groups and JLGs in the next five years apart from improving the quality and efficiency of existing Self Help Groups. Self Help Groups should focus on income generating activities and livelihood financing. The new version Self Help Group 2 would provide an opportunity for introduction of voluntary withdrawable savings, use of Banking Correspondents of banks as self help promoting institutions, focusing cooperatives on Self Help Groups, greater use and integration of technology especially for accounting and record keeping. NABARD is aiming to promote capacity building of Self Help Groups and the new version Self Help Group 2 is expected to be a positive step in this regard helping Self Help Groups transform into sustainable, autonomous bodies in their decisions and when this effort of NABARD combines with National Rural Livelihoods Mission (NRLM) and The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), it is expected to result in the much needed fillip to this movement of promoting rural growth and welfare.

Role of Microfinance Organizations and Non Governmental Organizations

Micro Finance Organizations and Non governmental Organizations which a played a vital role in strengthening the credit delivery mechanism in the two states of Andhra Pradesh and Tamil Nadu. Their initiatives include motivating and mobilizing women from economically disadvantaged background to form Self help groups. This makes them confident to apply for micro loans and set up small businesses. Their focus is on alleviation of rural poverty and empowerment women by organizing them into self help groups, providing for training and skill development and capacity building thereby contributing to development of sustainable livelihoods among the poor. In Andhra Pradesh non governmental organizations have been instrumental in offiring different training programmes to set up micro enterprises, undertake income generating activities, formation of mutually aided cooperative societies, federation of self help groups and legal structures. A unique feature in Andhra Pradesh is that NGOs build up network with other agencies to conduct training programmes. They work in collaborative projects with district rural development agencies for strengthening self help groups. NGOs have also acted as facilitators in establishing linkages for self help groups with banks. In Andhra Pradesh, the state agencies are involved from the stage of group formation to marketing of goods and services produced by Self Help Groups. In Andhra Pradesh, majority of the Self Help Groups are formed by IKP-DRDA and other government agencies. The IKP project is managed by SERP, an autonomous society registered under the societies act along with DRDA. The project staff helps in the formation of self help groups and in the bank linkage process. They also help banks in the recovery of loans. Under the OKP project Self Help Group federations exist at the village level and the block levels. This has enabled maintenance of quality of self help groups, as well as providing resources to self help groups. Training centres have been set up at district headquarters to meet capacity building requirements of Self Help Groups. Some micro finance organizations combine micro credit and livelihood promotion bringing about a change in the lives of many poor people. The role of two such organizations namely BASIX in Andhra Pradesh and Hand in Hand in Tamil Nadu is presented in this section to provide an insight into how these organizations complement the credit delivery mechanism.

BASIX is a leading microfinance organization which has encouraged livelihood promotion in the State of Andhra Pradesh. BASIX's mission is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX strategy is to provide a comprehensive set of livelihood promotion services which include Financial Inclusion Services (FINS), Agricultural / Business Development Services (Ag/BDS) and Institutional Development Services (IDS) to rural poor households under one umbrella.

The BASIX Livelihood Triad includes the following services.

Table 158: BASIX Livelihood Triad

Financial Inclusion Services (FINS)	**Agricultural/Business Development Services (Ag/BDS)**	**Institutional Development Services (IDS)**
Savings: (Direct and as Business Correspondent	Productivity enhancement through increase in yields or reduction in costs.	Individual level awareness, skill and entrepreneurship development, building solidarity and trust.
Credit: agricultural, allied and non-farm activities; loans for housing, water & sanitation, vocational training	Risk mitigation (other than insurance) – such as livestock vaccination	Formation of groups, federations, co-operatives, mutual benefits, etc., of producers.
Insurance for lives and livelihoods – health, crop, livestock, micro-enterprise assets	Local value addition through processing – such as cotton ginning or milk chilling.	Accounting and management information systems, using IT
Money transfer, for migrant workers and Micro-pensions	Alternate Market linkages - Input supply, output sales	Building collaborations to deliver a wide range of services
Warehouse receipts	Diversification from farm to allied and non-farm activity	Sector and Policy work – analysis and advocacy for changes/reforms.

Source: BASIX

BASIX extends a significant portion of credit to women through Self Help Groups and their federations. They provide training to Self Help Groups in accounting, loan appraisal, managing funds, setting interest rates and repayment schedules and linking up with livelihood opportunities. Their financial inclusion services and institutional development services have helped in transforming the lives of many Self Help Group members in the state of Andhra Pradesh and also in other parts of the country. BASIX adopted the livelihood strategy as it was felt that microcredit can be effective only among poor people who are enterprising in economically dynamic areas. For poor households who are not so enterprising and risk averse, savings and insurance are a higher priority than the benefits that accrue from microcredit. People in backward regions need productivity enhancement techniques in agriculture, risk mitigation techniques and market linkages for the success of their micro ventures. These services can be provided in a cost effective manner by organizing these underprivileged people into groups, informal associations, cooperatives or producer companies. For these groups to function effectively institutional development services are required and BASIX has developed the Livelihood Triad Strategy to facilitate this.

In the state of Tamil Nadu, NGO's play a key role in the formation and nurturing of self helps groups and act as a facilitator in the credit delivery mechanism. In Tamil Nadu the role of NGOs assumes a lot of significance in the credit delivery mechanism.

"Mahalir Thittam" is implemented in partnership with NGOs and community- based organisations such as PLFs which are affiliated to TNCDW, and extend support in the formation of Self Help Groups, organising training, guide and monitor their activities. The play an important role in enhancing the sustainability of Self Help Group movement through intensifying the federation activities and grooming them into full fledged community based organizations and further expanding the Self Help Group coverage to habitations and ward/slums in urban areas hitherto uncovered.

Upto the year ended March 2011, 452 NGOs have been affiliated with TNCDW. The salient features of the NGO agreement include performance based incentive with greater emphasis on quality, apart from providing an enabling environment for the growth of PLFs into Community Based Organisations (CBOs). NGOs are paid formation cost, monitoring cost and also incentive for enabling Self Help Groups to access bank credit by TNCDW and are subjected to performance evaluation every year.

Hand in Hand is one such organization which has contributed to growth of Self Help Group concept among disadvantaged women in Tamil Nadu. Hand in hand has presence in Tiruppur, Thiruvallur, Kancheepuram, Vellore, Thiruvannamalai, Villupuram, Cuddalore, Salem, Namakkal, Coimbatore, Karur, Pudukottai, Thiruvarur, Sivaganga,Tiruchirappali, Virudhunagar & Tuticorin districts of Tamil Nadu. Hand in Hand's helps in formation and nurturing of self help groups and their core principles include the following

- Target women below the poverty line, and, among them, give preference to women heading households, widows, and deserted women. Poor, rural women account for 70-80% of all group members.
- Form active and cohesive Self Help Groups of women from similar socio-economic backgrounds.
- Train the Self Help Groups members in habit of thrift, savings, internal rotation, leadership skills, group dynamics, capacity building, basic arithmetic and literacy skills.
- Give the Self Help Group members access to credit through the groups from rural banking services as well as through Hand in Hand.
- Provide skill training and entrepreneurial development training in the specific area of skill and interest.
- Promote the establishment of family- and group-based enterprises and facilitate forward, backward, and marketing linkages.
- Arrange insurance cover for the micro enterprises.
- Create solid community structures by empowering rural poor women in forming federations

Hand in hand contributes to formation, training and capacity building, and promotion of microenterprises among the socially and economically disadvantaged communities of people.

Self help groups are formed and supported using a systematic approach and the groups consist of members of the same economic class. Training needs are assessed and training manuals and curriculum are developed after due consultation with project partners such as government departments, banks and other non governmental organizations. Members are given training in book keeping, accounting and are taught the principles of the Self Help Group concept. Hand in Hand combines the Grameen Bank model and self help group approach and provides small loans without collateral to groups after two to three months of their formation to one third of the members. Credit is provided in a phased manner to the other members of the group in a phased manner. More than eighty of the groups set up their own microenterprises within eighteen months of their formation. The peer pressure ensures prompt repayment of loans and ensures that the loans are not wasted in consumption.

The Self Help Group members are given literacy training, vocational training in tailoring embroidery and weaving. Entrepreneurial training programmes provide members with inputs on the cost calculation, pricing, plant and machinery manufacturing processes, investment raw material, labour and market overview that is required to start a business venture. Women are also given gender training to create awareness among them and help them in voicing their concern against any form of discrimination and provide for holistic empowerment. They have helped many women in setting up enterprises which are agriculture family based enterprises such as organic vegetable cultivation, animal husbandry, and diary production. Members also run non-agricultural enterprises such as embroidery, weaving, sewing, petty shops, vermicompost, rabbit rearing, cottage industries, bakery, paper cup production. Technical support and training in product maintenance, quality control, pricing, marketing, market assessments is provided by Hand in Hand. Thus these MFO's and NGO' are playing an indispensable role in the success of the credit delivery mechanism by ensuring that micro loans are used for asset creation and income generation. This will improve livelihood of the borrowers, improve their social status. Women feel empowered and move from poorly paid household work to self employment and entrepreneurship.

CHAPTER - 7

Conclusions and Recommendations

CHAPTER - 7

Conclusions

The broad objective of the study is to compare the credit delivery mechanism in the two states of Andhra Pradesh and Tamil Nadu.

To investigate the above objective, the following specific objectives were formulated.

- To compare the consistency of performance of public and private sector banks in providing Micro credit in the form of loans to Self help groups in the states of Andhra Pradesh and Tamil Nadu.
- To compare performance of public and private sector banks in providing loans to Microfinance institutions.
- To measure and analyse the factors of efficiency of MFI's in the states of Andhra Pradesh and Tamil Nadu.
- To examine the impact of the availability of credit on the financial independence of the borrowers of micro credit who are members of SHG's in both the states.
- To study and analyse factors which contribute to social empowerment of SHG members in the states of Tamil Nadu and Andhra Pradesh.
- To study and analyse factors which contribute to socio economic status of SHG members in the states of Tamil Nadu and Andhra Pradesh.
- To suggest measures to enhance the efficiency in the credit delivery mechanism.

Hypotheses of the study

The Hypotheses framed for the study and the results of the final study are summarized as under:

Table 159: Results from the analysis of performance banks in the states of Andhra Pradesh and Tamil Nadu in relation to the models of credit delivery in operation

S. No.	Hypotheses	Andhra Pradesh	Tamil Nadu
1	H1: There is no significant difference between the amount of loans given by public sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu	Rejected	Rejected
2	H2: There is no significant difference in the amount of the loans outstanding of public sector banks to SHG's in the states of Andhra Pradesh and Tamil Nadu	Rejected	Rejected
3	H3: There is no significant difference in the amount of the non performing assets of Public sector banks in terms of loans to SHGs in the states of Andhra Pradesh and Tamil Nadu	Rejected	Rejected
4	H4: There is no significant difference between the amount of loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu	Accepted	Rejected
5	H5: There is no significant difference between the amount of outstanding loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu	Accepted	Rejected
6	H6: There is no significant difference between the NPAs in the loans given by private sector banks to Self help groups in the states of Andhra Pradesh and Tamil Nadu	Accepted	Accepted

Table 160: Hypotheses relating to performance of public sector banks and private sector bank loans to Microfinance institutions across the country

S. No.	Hypotheses	All India
1	H7: There is no significant difference in the amount of the loans given by public sector banks to microfinance institutions	Rejected
2	H8: There is no significant difference in the amount of the loans outstanding of public sector banks to microfinance institutions	Rejected
3	H9: There is no significant difference in the amount of non performing assets of public sector banks in terms of loans to MFI's.	Rejected
4	H10: There is no significant difference in the amount of the loans given by private sector banks to microfinance institutions	Rejected
5	H11: There is no significant difference in the amount of the loans outstanding of private sector banks to microfinance institutions	Rejected
6	H12: There is no significant difference in the amount of non performing assets of private sector banks in terms of loans to MFI's.	Rejected

In the two states of Andhra Pradesh and Tamil Nadu, some public and private sector banks have been stellar performers in the delivery of micro credit. In Andhra Pradesh, the stellar performers among the public sector banks are State Bank of India, State Bank of Hyderabad, and Andhra Bank. In Tamil Nadu, the stellar performers among the public sector banks are Indian Bank, Indian Overseas Bank, Canara Bank. Among the private sector banks, HDFC and Karnataka Bank are good performers in Andhra Pradesh and HDFC and Tamilnad Mercantile Bank are the stellar performers.

In terms of loan disbursed to self help groups, among public sector banks State Bank of India and State Bank of Hyderabad have been consistent in the state of Andhra Pradesh. In Tamil Nadu, Indian Overseas Bank and Canara Bank have been consistent in disbursing loans to self help groups as seen from their low coefficients of variation.

Among private sector banks, Karnataka Bank and HDFC Bank have been consistent in their loans to self help groups in the state of Andhra Pradesh. HDFC Bank and Tamilnad Mercantile Bank have been consistent in their loans to self help groups in the state of Tamil Nadu.

Among private sector banks, Karnataka Bank and HDFC Bank have been consistent in their loans to self help groups in the state of Andhra Pradesh. HDFC Bank and Tamilnad Mercantile Bank have been consistent in their loans to self help groups in the state of Tamil Nadu.

As regards outstanding loans of public sector banks to self help groups in the state of Andhra Pradesh, State Bank of India had the lowest coefficient of variation indicating consistency of performance. In Tamil Nadu, Indian Overseas Bank had the lowest coefficient of variation followed by Canara Bank.

Among private sector banks, Karnataka Bank in state of Andhra Pradesh and Tamilnad Mercantile Bank were consistent in their performance and had low coefficients of variation.

As regards nonperforming assets in loans of public and private sector banks to Self help groups in Andhra Pradesh and Tamil Nadu, State Bank of India had the lowest coefficient of variation in Andhra Pradesh and in Tamil Nadu, Canara Bank had the lowest coefficient of variation. Among private sector banks, Karnataka Bank was consistent in the state of Andhra Pradesh and had the lowest coefficient of variation. In Tamil Nadu, Tamilnad Mercantile Bank had a low coefficient of variation in comparison to HDFC Bank as far as NPA's are concerned.

Table 161: Hypotheses relating to the perception of borrowers of micro credit who are members of SHG's in the states of Andhra Pradesh and Tamil Nadu

S. No.	Hypotheses	Andhra Pradesh	Tamil Nadu
1	H13: There is no significant relationship between receipt of loan and change in overall household income of borrowers	Rejected	Rejected
2	H14: There is no significant relationship between loan use for income generating activity and financial independence of the borrowers.	Rejected	Rejected
3	H15: There is no significant relationship between training and its impact on way of life of the borrowers.	Rejected	Rejected
4	H16: There is no significant relationship between training and its usefulness.	Rejected	Rejected
5	H17: There is no significant relationship between annual income of borrowers and use of loan with specific reference to expenditure on clothing, giving part loan to spouse, repay other debt and purchase assets in the state of Andhra Pradesh	Rejected	Rejected
6	H18: There is no significant relationship between annual income of borrowers and use of loan with specific reference to providing part loan to spouse, repay other debt, meet other expenses and savings in the state of Tamil Nadu	Rejected	Rejected

In both states it was found that receipt of loan brought about a change in overall income of the borrowers. It was found that whenever the loan was used for income generating activity it resulted in financial independence of the borrowers. Training impacted the life of borrowers in both the states. The end use of loans varied in both the states in relation to the annual income. In Andhra Pradesh, apart from being spent on income generating activities loans were also used for expenditure on clothing, giving part loan to spouse, repay other debt and purchase assets. In Tamil Nadu loans were used for providing part loan to spouse, repay other debt, and meet other expenses and savings apart being used on income generating activities.

Findings of factors contributing to Economic and Social empowerment of members of Self Help Groups in the states of Andhra Pradesh and Tamil Nadu

Factor Analysis has been used to determine factors that determine economic and social empowerment and socioeconomic status of borrowers of micro credit who are members of SHG's in the states of Andhra Pradesh and Tamil Nadu. The variables affecting the economic and social empowerment of SHG members are:

- Comparison with others
- Change in food habits
- Effect on personality aspects
- Effect on welfare of household
- Dependency on husband
- Contribution to family budget decisions
- Ability to prepare for emergencies

The Factor analysis that was used to determine the factors that influence social empowerment of SHG members had cronbach alpha of 0.810 and Kaiser-Meyer-Olkin (KMO) measure of sample adequacy for Andhra Pradesh was 0.820 and for Tamil Nadu it was 0.850

In Andhra Pradesh the two factors which contribute to economic and social empowerment were found to be

1. Household Welfare
2. Social status

Household welfare is the most vital factor, which explains 69.89% percent of variation and Social status explained 15.574 % of variation.

In Tamil Nadu the two factors which contribute to economic and social empowerment were found to be

- Socio economic and household welfare
- Social status

Socio economic and household welfare explained 72.409% of the variation and social status explained 15.093% of the variation.

A factor analysis was conducted to determine the factors which impact the socio economic status of Self help group members. The Factor analysis that was used to determine the factors that influence social empowerment of SHG members had cronbach alpha of 0.901 and Kaiser-Meyer-Olkin (KMO) measure of sample adequacy for Andhra Pradesh was 0.713 and for Tamil Nadu it was 0.774.

A list of nineteen variables was considered for the factor analysis.

Table 162: List of Variables Influencing Socio Economic Status

Mobility	Recognition in Family
Recognition in community	Interaction with outsiders
Literacy	Access to health services
Access to immunization	Access to sanitation
Access to credit sources	Asset building
Family income	Skills
Voicing concern	Nutrition awareness
Family planning awareness	Girl child development awareness
Health awareness	Decision making related to child
Individual income	

These nineteen variables were grouped into six factors. The factors that impact socio economic status of SHG members in the states of Andhra Pradesh and Tamil Nadu were as follows:

Table 163: Factors that Influence Socioeconomic Status of SHG Members

S. No	Andhra Pradesh	% Of Variation Explained	S. No	Tamil Nadu	% Of Variation Explained
1	Access to services	23.443	1	Individual freedom and social standing	28.357
2	Social recognition	16.921	2	Access to services	16.268
3	Development Awareness	7.950	3	Empowerment and development awareness	10.175
4	Overall individual growth	7.298	4	Individual and family welfare	7.681
5	Individual growth	5.943	5	Personal capacity	5.994
6	Personal capacity	5.696	6	Decision making	5.300

In Andhra Pradesh Access to services was the most important factor influencing socio economic status of SHG members with 23.443% of the variation explained while in Tamil Nadu, Individual freedom and social standing was the most important factor with 28.357% of the variation explained. The remaining factors with the respective percentage of variation are presented in the above table.

Perception of SHG Members and Group Leaders

Both SHG members and leaders agreed that self help groups have played a key role in promoting participation of women in the decision making process and this has led to democratic governance in the groups. It has resulted in promoting the habit of savings among members and has improved their self confidence thereby contributing to their empowerment.

Performance of Microfinance Institutions

The key performance indicators of microfinance institutions reflected decline in portfolio quality, profit margins, return on assets, risk coverage. The operating efficiency and cost per borrower showed declining a trend. The microfinance crisis brought down operating self sufficiency ratios of the MFI's. The asset productivity and liquidity ratios also witnessed a declining trend indicative of the crisis faced by the sector.

The credit risk monitoring ratios of all the four Microfinance institutions have shown declining portfolio quality. The loan loss rate has been very high in year 2011 in the case of SKS, Spandana, and MMFL in comparison to the figures in 2008. The risk coverage ratio has declined over the years reflecting the vulnerability of the loan portfolios. All this is evidence of the crisis faced by the microfinance sector.

The NGOs have played a vital role in the formation and nurturing of self help groups and continue to serve in the training and development of the members in these groups.

Observations from Interactions with Bankers

Andhra Pradesh has been the pioneer and leader in the microfinance movement. It has the largest SHG programme and the highest proportion of bank lending to the SHG's.

The bankers in the states of Andhra Pradesh and Tamil Nadu are of the opinion that lending to self help groups through bank linkage process continues to be a valuable business proposition. The repayment rates in this model of credit delivery are higher when compared to the agricultural and other loans. The major advantage of bank linkage is that the interest component is highly affordable for the group members. Incidentally, the non-banking players in micro finance in these states charge nearly twice compared to the public sector banks. Bankers consider that the key strength of the SHG lending model is the fact that the risk involved is less as the loan is shared by 12-20 members. The recovery is relatively easy as the members pay their dues due to peer pressure. The bankers have good knowledge about the groups to which they are lending as they are introduced to them by the NGO's and SHPI's which have nurtured them. Since the number of self help groups is very high, the untapped market provides an excellent opportunity to the banks for lending at reasonable rates.

The major weakness of this model of credit delivery is that these loans are not backed by collaterals and there is possibility of duplication of members in groups which is happening in reality. Besides Microfinance institutions are also into financing of SHG members and due to their coercive recovery practices, repayments to banks have been affected.

The Andhra Pradesh crisis has taught the bankers that rapid growth and profits alone are not good enough reasons to leave the promoters unquestioned. The regulation in Andhra Pradesh is going to cost very heavily on the bankers amounting to ₹60 to ₹70 million in loan defaults and writeoffs.

Conclusion

The study established that SHG bank linkage model is by far more successful model in comparison to the bank MFI model. The sheer number of groups that have been financed and the volume of credit that has been delivered to the groups in both the states are a proof of the phenomenal success of the model. The non performing assets of banks under both the models of credit delivery have been significantly high due to the falling recovery rates of loans to self help groups and microfinance institutions. The performance of microfinance institutions in both the states has reflected declining quality of loan portfolios, increase in operating costs, decline in profit margins, increased credit risk and a high loan loss rate all of them attributable to the crisis undergone by the microfinance sector. The findings complement existing literature with regard to impact of microcredit on social empowerment, financial independence, and improvement in socio economic status, women's control over income and savings and participatory decision making.

The role of banks in the credit delivery mechanism and the results of their performance in terms of consistency in disbursement of loans to self help groups and microfinance institutions and the management of Non performing assets in these loans are indicators of the scale at which banks are involved in the credit delivery process. As far microfinance institutions are concerned, the ratios computed provide ample evidence of the hard times these institutions are undergoing due to the crisis faced by the sector. It also provides them with an opportunity to safeguard themselves against such credit risks in the future.

Suggestions:

To Self Help Groups

The SHG movement has demonstrated that it has had a positive impact on poverty in the last twenty years. The model offers great opportunity for member participation, management and decision making among the women from economically disadvantaged back grounds.

The key challenge in the model is the difficulty in promoting sustainable Self help groups. Trained group members often become agents of microfinance institutions. The problem of overindebtedness creeps in when they borrow from Microfinance institutions leading to a crisis situation like the one witnessed in Andhra Pradesh. This unhealthy competition has come under strict monitoring after the microfinance ordinance but has drastically affected the healthy repayment rates for loans given to these groups.

Self help groups were initially started with objective of promoting voluntary savings among members. But of late, this vision has been lost and the emphasis has shifted to credit management than on savings. SHGs have become excessively dependent on banks. SHGs need to improve their bookkeeping practices systems and audits of their books must be regular.

The governance and management related challenges have to be overcome and then those institutions which work for the formation and nurturing of these groups must give due importance to the development and transfer of skills to these members rather than on exercising control.

The policy makers need to introspect on the fact as to whether bank lending to microfinance sector can be part of priority sector loans as these microfinance institutions are lending at high rates of interest. The SHG movement requires much more funding if development and empowerment in the real sense is expected in the future as funds are now primarily provided only by the apex development bank. More donor funds are required to take this movement to the next level.

The self reliance that the savings can bring will protect them from the profiteering practices of microfinance institutions. They should have their own apex level financial institutions at the district or state level which will provide them with the required financial services.

To the Government & Apex Banks

The Government needs to play a proactive and protective role in the development of these self help groups and in the long run make them a part of the social infrastructure leading to overall societal development. The government has to develop a policy framework by working with SHG federations to improve the marketing linkages that these groups require to make their products and services saleable. The government needs to invest in improving financial literacy and capacity building of these groups. Banks should understand the benefits of SHG banking and invest in the development of SHG institutions and increase their business with SHGs.

With this mind NABARD is in the process of rejuvenating the SHG movement. SHG 2 is on the cards where the focus would be on developing new strong groups and improving existing ones. The new elements of SHG 2 are

I. Voluntary savings apart from compulsory savings
II. Widening livelihood opportunities including those in the service sector
III. Graduating select members of the groups that have entrepreneurship potential into joint liability groups for borrowing larger amounts.

The insurance companies also can utilize SHG as medium for their insurance activities so that all the poor SHG members' life and livelihood are well protected against risk. Micro insurance need to be given importance along with micro saving and micro credit and Microfinance services need to be provided holistically

To Microfinance Institutions

- Microfinance institutions have to establish the fact they are capable of dealing with the problems of the poor. Their working and financing must focus on the customer and their commercial consideration cannot take precedence over the requirement of the poor. Their mission and vision has to be well thought about and unless they give up their objective of profiteering at the expense of the poor they will continue to be unpopular.
- Comprehensive regulation and supervision by a regulatory authority is needed to make Microfinance institutions act in a responsible manner. The Andhra Pradesh crisis brought out a number of significant learnings for different stake holders in this sector.
- The microfinance institutions were made to realise that customer interest cannot be compromised and they need to have good products and transparent practices which can be clearly communicated to the stakeholders.
- The governance practices followed by the microfinance institutions should be reflective of their mission and vision and they cannot function effectively if they ignore the political establishment. Microfinance institutions need to have ethically correct financial practices which become a precondition when doing business with the underprivileged, economically backward sections of society.

To the Bankers and Policy Makers

- Bankers need to act more responsibly and not just work with a target driven approach. They have to introspect and monitor the activities of the onlending institutions that borrow from them. They have to ensure that customers benefit from appropriate products and business practices of onlending institutions.
- Besides, the role of the Policy makers and the state assume paramount significance for the healthy growth and sustenance of the microfinance sector especially after a crisis of this magnitude. The Policy makers need to realise that normal financial sector reforms alone cannot work in a sector catering to the

needs of millions of disadvantaged people. Policy and prudence need to go hand in hand if mission of microfinance is to be achieved in earnest.

- The State Governments have to realise that an inappropriate regulation has brought more hardships than any good. It has resulted in financial indiscipline among the borrowers and a ninety eight to hundred percent repayment track record which existed in these models of credit delivery has been impaired for ever in this sector.
- MFIs and SHGs can co-operate, not compete, and become partners in the wider mission of poverty eradication. MFIs could transform into full fledged banks and provide full range of micro-financial services. MFIs could lend to SHGs and SHG federations after necessary assessments/ratings. Commodity Cooperatives and Producer Companies owned by SHGs could also be financed by the MFIs based on their business plans.
- Cooperation should not confine to money lending service alone but must go beyond micro credit in terms of other MF services and non financial supporting services individually or jointly or severally with other development partners to result in poverty reduction. Community owned financial institutions and privately owned microfinance institutions can develop a co-production model where they will work together. This would mean looking at scale, speed of expansion, business models, sharing of information and investing in a system which will create a win-win situation for both parties

Suggestions for further research

- The present study was conducted with a sample of 1250 women who are members of self help groups from the two states of Andhra Pradesh and Tamil Nadu. A sample from other states particularly from North India may be considered for future study.
- With the concept of SHG 2 being initiated by NABARD, there is ample scope to compare the performance of the old SHG model with the new one in the years to come.

- The impact on the performance of the microfinance institutions after the microfinance bill is passed by the parliament will provide an opportunity to map the changes this sector will undergo as a result of this new legislation.
- The strategies that banks need to develop to reduce NPA’s in the event of unpleasant developments in this sector in the future can be considered for future research

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2. Savitha B. and P. Jyothi 2012, Microcredit as a means of Socio economic Empowerment- A survey in Andhra Pradesh, Advances in Management, Vol 5 (9) , September 2012

Microcredit Delivery By Banks And Microfinance Institutions – A Comparitive Study In Andhra Pradesh And Tamil Nadu

ANNEXURE – I

QUESTIONNAIRE FOR BENEFICIARY

1.0 GENERAL INFORMATION:-

I A PERSONAL DATA:

1.1 Name

1.2 Address

1.3 Age – (1) < 25□ (2) 26-35□ (3) 36-45 □ (4) >46 □

1.4 Education – (1) Illiterate □ (2) Literate□ (3) Primary□
(4) Middle Class □ (5) High School□ (6) Intermediate□
(7) Graduation□ (8) Post Graduation and above□
(9) Any Professional Course & Technical□

1.5 Marital Status (1) Married□ (2) Unmarried□ (3) Widow□
(4) Divorcee □ (5) Separated □

1.6 No. of children -
Girls _______ Boys _______

2.0 FAMILY DATA:

2.1 Type of Family : (1) Nuclear□ (2) Joint □ (3) Extended

2.2 Total members of Family ------------------
2.3 Do your in-laws live with you - (1) Yes □ (2) No □

2.4 Who is the head of your family- (1) Husband □ (2) Self □
(3) Housewife □ (4) Father □
(5) Mother □ (6) In-laws □

2.5 Age group of children (1) 0-5 yr. □ (2) 6-10 yr. □ (3) 11-15 yr. □
(4) 16-20 yr. □ (5) 21-25 yr □ (6) > 25 yr. □
2.6 Activity Status of children (1) Small Children□ (2) School going □
(3) Working Children □

3.0 HUSBAND'S EMPLOYMENT DATA:

3.1 Husband's Education – (1) Illiterate □ (2) Literate □
(3) Primary □ (4) Middle Class □
(5) High School□ (6) Intermediate □
(7) Graduation□ (8) Post Graduation and above□
(9) Any Professional Course & Technical□

3.2 Employment - (1) Employed □ (2) Unemployed □
(3) Self employed □ (4) Professional □
3.3 Approx. Annual Income (Rs.) -----------------------
3.4 Subsidiary employment - (1) Agriculture □ (2) Animal Husbandry □
(3) Labour □

3.5 Landholding - (1) Yes □ (2) No □

4.0 ABOUT YOURSELF:

4.1 Employment - (1) Employed □ (2) Self employed □
(3) Professional □ (4) Labour □

4.2 Approx. Income Monthly (Rs.) -------------------

4.3 How do you feel with your family (1) Fully Satisfied □ (2) Satisfied □
(3) Indifferent □ (4) Burdened □
(5) Very happy □ (6) Not happy □

4.4 Who takes the decision in your family (1) Yourself □ (2) Husband □
(3) Both □

5.0 HOUSING FACILITIES:

5.1 Type of House (1) Own □ (2) Rented □ (3) Others □

5.2 Electricity (1) Yes □ (2) No □

5.3 Toilet Facility (1) Dry Latrine□ (2) Flush Toilet □ (3) Manual □

5.4 Cooking Device (1) Gas □ (2) Kerosene Oil □ (3) Wood □ Others □

5.5 Drinking Water (1) Piped Water □ (2) Hand Pump □
(3) Combined Facility □ (4) Others □

5.6 Who spends generally family income- (1) Self □ (2) Husband □ (3) Others □

B. LOAN USE AND FINANCIAL EMPOWERMENT

1.a Whom do you borrow from?

Bank ☐ Micro finance Institution ☐ Others ☐

1.b Did you use the loan for an income generating activity? Yes ☐ No ☐

Which activity?

---

2. Did you also use the loan to … ?

Buy food for the household	☐
Buy clothing for children	☐
Pay school fees for children	☐
Pay health care expenses for the household	☐
Give part of the loan to spouse	☐
Repay other debt	☐
Pay other expenses (e.g. weddings, death, graduation)	☐
Purchase assets	☐
Keep a portion of the loan for savings	☐

3. Since receiving the loan, have you experienced a change in your individual income?

Big increase	Small increase	No change	Small decrease	Big decrease

4. Since receiving the loan, have you experienced a change in your overall household income?

Big increase	Small increase	No change	Small decrease	Big decrease

5. Since receiving the loan, have you experienced a change in your overall household expenses?

Big increase	Small increase	No change	Small decrease	Big decrease

6. How does the amount your house spent on school and school expenses for this current school year compare to what you spent last school year?

Increased	No change	Decreased	Don't know	Not applicable

7. Rank your personal current, main sources of income? *(rank from 1 to 5)*

Your business profits	Spouse	Someone else	Loans	Savings	Other: _______

8. Overall, are you more financially independent since receiving the loan?

Yes ☐ No ☐

C. SOCIO-ECONOMIC EMPOWERMENT

1. How does this compare with other people living in your area?

Much Better	Little Better	No Change	Little Worse	Much Worse

2. How has your household's food changed since you received the loan?

Much Better	Little Better	No Change	Little Worse	Much Worse

3. Overall, how has borrowing affected you as a person?

Much better	A little better	No change	A little worse	Much worse

4. How has the welfare of your household been affected by you joining the loan program?

Much better	A little better	No change	A little worse	Much worse

5. Since receiving the loan, have you noticed a change in your dependency on your husband?

Much more dependent	A little more dependent	No change	A little less dependent	Much less dependent

6. Since receiving the loan, have you noticed a change in your ability to contribute to family budget decisions?

Much more contribution	A little more contribution	No change	A little less contribution	Much less contribution

7. Since receiving the loan, have you noticed a change in your ability to prepare for sudden expenses or emergencies?

Much more prepared	A little more prepared	No change	A little less prepared	Much less prepared

D. TRAINING PROGRAM

1. Have you attended any training program on any income generating activity

(i)Yes □ (ii) No □

2. Was it useful to you? (i) Yes □ (ii) No □

3. **Since the training program, has the education on leadership skills had an impact on your life, your activities, or your relationship to others?**

No Training	Large impact	Small Impact	No Change	Don't Know

E. ABOUT THE ORGANIZATION:-

1.0 Group Size:-

1.1. How many members are in your group? (1) < – 9□ (2) 11 – 15 □
(3) 15 – 18 □ (4) 18 + □

1.2 Group size is (1) Stable□ (2) Increased □ (3) Decreased □

1.3 Who suggested to join the group? (1) Self □ (2) Family Members □
(3) Friends/ Relatives □ (4) NGO's workers □ (5) Other members of the Group □

1.4 What is your position in Group? (1) Ordinary Member □ (2) Active Member □
(3) Cashier/ Secretary □ (4) President □ (5) Other (Specifiy) □

2.0 Meetings:-

2.1 Frequency of meeting- (1) Weekly □ (2) Fortnightly □ (3) Monthly □

2.2 How many members attend the meeting? (1) All □ (2) Few □
(3) Some members□

2.3 Who calls the meeting? (1) Group Members NGO □
(2) Projects Staff □
(3) Mixed □

2.4 Who decides agenda of the meeting? (1) Majority of members □
(2) Some members□
(3) Group members and link worker jointly □
(4) Link worker □

2.5 Who take the decision in the meeting? (1) All members □
(2) President □
(3)Linkworker □
(4) NGO Facilitator□
(5) Mixed □

2.6 How is the decision taken?

i.) By consensus □
ii.) By voting □
iii.) Group representatives □
iv.) Link worker/ facilitator in consultation with members □
v.) Link Worker/ Facilitator/ Representatives (Mixed) □

3.0 Knowledge and Awareness of SHG's Activities:-

1	Meeting Calendar	Yes	□	No	□
2	Rules and Regulations	Yes	□	No	□
3	Information in Group Records	Yes	□	No	□
4	Cash in hand	Yes	□	No	□
5	Balance in Bank	Yes	□	No	□
6	Outstanding Loan	Yes	□	No	□
7	Total Capital of the Group	Yes	□	No	□
8	Savings of Group	Yes	□	No	□
9	Total loaning of Group	Yes	□	No	□
10	No. of Members taken loan	Yes	□	No	□
11	No. of Members repaid loans	Yes	□	No	□
12	Name of Bank	Yes	□	No	□
13	Income of Group	Yes	□	No	□
14	Objectives of Group	Yes	□	No	□
15	Achievements of Group	Yes	□	No	□
16	Constraints of Group	Yes	□	No	□
17	Others (Specify)	Yes	□	No	□

4.0 Training and Experience

4.1 Whether you received training/ orientation/ exposure related to SHG's, activities?

(1) Yes □ (2) □ No

If Yes,

Type of Training	No. of Participations	Usefulness
On site training		□ yes □ No
Off site training		□ yes □ No
Orientation		□ yes □ No
Exposure tour		□ yes □ No
Confidence building		□ yes □ No
Work shop		□ yes □ No
Rallies		□ yes □ No
Skill Development		□ yes □ No
Marketing Linkages		□ yes □ No
Micro Enterprises Development		□ yes □ No
Others (Spe.)		□ yes □ No

4.2 Who provided training?

(1) NGO's activists and representatives □ (2) Resource persons □ (3) Govt. Officials □
(4) Others □

4.3 Impact of such training and exposure visits (Please give your order of preference)

1	Confidence Building	
2	Skill Development	
3	Marketing Linkage	
4	Bank Linkages	
5	Linkages with Govt. Officials	
6	Knowledge on rights, entitlements and development programmes	
7	Managerial efficiency for Micro enterprise development	
8	Enhanced Income and earnings	
9	Active Participation in decision making in family	
10	Active Participation in Development Programmes	
11	Active Participation in Decision making outside the family	
12.	Others (Spe.)	

4.4 Whether you got benefits from government schemes?

(i) Yes □ (ii) No □

If yes,
1. Name of Scheme ------------------------------
2. Amount/ Subsidies -----------------------------
3. Employment (i) Yes □ (ii) No □

5.0 Impact of SHG's

5.1 Changes on socio-economic status after joining SHG

1) Has increased Mobility

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

2) Has increased Recognition in family

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

3) Has increased Recognition in Community

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

4) Has increased Interaction with Outsiders

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

5) Has increased Literacy/ education

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

6) Has increased Access to Health services

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

7) Has increased Access to Immunization

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

8) Has increased Access to sanitation facility

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

9) Has increased Access to credit sources

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

10) Has increased Asset Building

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

11) Has increased Family Income

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

12) Has increased Skills

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

13) Has increased Voicing your concern

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

14) Has increased Nutrition awareness

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

15) Has increased Family Planning awareness

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

16) Has increased Girl Child development awareness

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

17) Has increased Health awareness

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

18) Has increased Decision making related to child

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

19) Has increased Individual Income

Strongly Agree	Agree	No change	Disagree	Strongly Disagree

Questionnaire for Self Help Group Leaders

ANNEXURE – II

1.0 General Information
(i) Name of Village:………………..……… Panchayat:…………………………………

(ii) Block : ………………………………………...
District: ……………………………………
State:………………………………………

(iii) Name of NGO :
……………………………………………………………………………
(iv) Name of the sample group: (SHG) ……………………………………………
(v) Formation Date……………………… A/C opening Date ………………………
(vi) Group Size (Members)
(a) Initial: ………………. (b) Present: …………………

(vii) Name of Bank: …………………………………… Account No.:…………………

2.0 Organizational Management:

Group Size:
Stable ☐ Increased ☐ Decreased ☐

Meeting
(i) Frequency of Meeting:- Weekly ☐ Fortnightly ☐ Monthly ☐

3.0 Financial Management:
Thrift and Saving Mangement:

(i) How is the saving collected?

(a) Deposited by members in group meeting on fixed date ☐
(b) Collected by representatives from members individually out side meetings ☐

(ii) How is the group money kept?

(a)	Deposited in the bank account	☐
(b)	Distributed as a loan among the members	☐
(c)	Remains with group representatives	☐
(d)	Kept in cash box of the group	☐

(iii) Who operates Bank accounts on behalf of group?

(a)	President, Treasurer & Secretary	☐
(b)	President & Treasurer	☐
(c)	President & Secretary	☐
(d)	Any two of above three	☐
(e)	Others if any	☐

(iv) Frequency to visit the bank to deposit and withdrawal

(a)	Once in a month	☐
(b)	More than once in a month	☐
(c)	Occasionally	☐

(v) How do members save the money to deposit with the group?

(a)	Curtailing their expenditure	☐
(b)	Saving from the income	☐
(c)	Provided by their family members	☐
(d)	Others (specify)	☐

(vi) How the money generated through interest, fine and others source is utilized by the group?

(a)	Added to group capital	☐
(b)	Utilized for group activities	☐
(c)	Shared as dividend among members	☐
(d)	Others (specify)	☐

4.0 ***Auditing of groups***

(i) Frequency of group auditing?

(a) Monthly □
(b) Quarterly □
(c) Six monthly □
(d) Annual □
(e) Not Done □

5.0 Purpose of saving stated by members

S.No.	**Purpose of saving**	
1	Social security	Yes □ No □
2	Food security	Yes □ No □
3	Education	Yes □ No □
4	Medical	Yes □ No □
5	Marriage/ festivals	Yes □ No □
6	Emergencies	Yes □ No □
7	Agriculture	Yes □ No □
8	Assets building	Yes □ No □
9	Self respect	Yes □ No □
10	Income generating activity	Yes □ No □

6.0 Have the members undertaken Income generating activities

Yes □ No □

7.0 Networking & Convergence:

7.1 Do the members want to meet and interact with other groups located in vicinity of their village?

Yes □ No □

8.0 Influence power of SHG on village and community affairs:

8.1 What are the perceptions of community towards women organized into Self Help Group?

(a)	Well organised family	Yes □ No □
(b)	Good relationship with their husband	Yes □ No □
(c)	Check on alcoholism	Yes □ No □
(d)	Say in family affairs	Yes □ No □
(e)	Control over saving	Yes □ No □
(f)	Self confidence	Yes □ No □
(g)	Awareness	Yes □ No □

QUESTIONNAIRE FOR BANK OFFICIALS

1.0 General Information

1.1 Name of Bank

1.2 Place

1.3 District

1.4 State

2.1 What are the main problems related to access of poor to micro finance

2.2 What are the main problems in bank linkages?

2.3 What are the main problems in functioning of SHG's?

2.4 What are the main problems in capacity building of SHG's?

2.5 What are the main problems in promotion of micro enterprises?

3.0 Your valuable suggestions for effective functioning of SHG's