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Role of Micro Finance and Financial Inclusion in Inclusive Growth

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INTRODUCTION

"*Inclusive Growth*" is not a unique concept and it got importance in 11th five year plan. The architectures of planning have been giving due importance to *Growth with Social Justice and Equal Opportunities for All* in all five year plans. To achieve growth with social justice and equal opportunities for all, the respective governments have been allocating sufficient financial resources to priority sectors since first five year plan. At the very beginning of five year plans, the father of Indian industrial economy and the first prime minister of independent India Pundit Jawaharlal Nehru has given at most importance to agriculture in the first five year plan and allocated nearly 31% of total funds. The planners realized the importance of agriculture for the growth of the nation. Still nearly 63% of the population depends on agriculture for their survival and nearly 70% of the population lives in rural areas. Not only in the first five year plan, but in each five year plan the government has been giving due importance to agriculture by allocating adequate financial resources keeping in mind the importance. Though the government has been giving importance to various priority sectors like agricultural development, small and medium scale industrial development, development of infrastructure, poverty eradication programs and increased expenditure on social sectors like education, health, women development etc., we are unable to achieve the targets laid down in the each five year plan. Let us discuss in detail the areas for not achieving the targeted growth rate.

1. STATE WISE GROSS DOMESTIC PRODUCT:

Gross State Domestic Product is a measure of a state's overall economic output. It is the market value of all final goods and services made within the boundaries of a state in a year. The GSDP of different states from the year 2000 to 2009 is shown below; Growth Rate of Net State Domestic Product (NSDP) is an important indicator of regional disparity observed during the years. We can classify the states on the basis of per capita NSDP (Income) into forward and backward states.

Table – I discloses the Net State Domestic Product at Current Prices of different states in our country for the years 2002 – 03 to 2007 – 08. It is clearly evident that, some of the states are showing good performance and while others poor performance. For instance, Gujarath, Haryana, Karnataka, Kerala, Chattisghar, Maharashtra, Punjab, Tamil Nadu, Uttarakhand, West Bengal, Chandighar, Delhi, are showing good performance and their NSDP is more than 13% over the years. While other states like Arunachal Pradesh, Assam, Bihar, Himachal Pradesh, Orissa are showing weak performance. This is a cause of major concern. Reduction in regional inequalities is imperative not only from the point of view of improving living standards in backward states but also for faster economic development of the country at large. The importance of contribution of our vast man power, specially youth in the development of the country is well established. If anyone or more states of the country remain backward, it affects the development in education, health and other public utilities. In such states infrastructure development is also adversely affected. Per capital income in the backward states is very less due to backwardness of various sectors primarily agriculture and allied sectors. It is clearly shows that those states which are showing poor performance needs boost from the central government in terms of financial resources. The Central Government should take care of those states with special attention by providing more central funds to undertake various employment activities.

2. PER CAPITAL NET STATE DOMESTIC PRODUCTS AS THE INDICATOR OF REGIONAL DISPARITY:

Another important indicator of regional imbalances is Net State Domestic Product. It is obvious that in our country some of the states are showing good performance and others not due to various reasons.

Table Showing Average Annual Growth Rate of NSDP, Rural & Urban Poverty, Urban Population and Literacy Rate

	Name of the State	Average Annual Growth Rate of NSDP (1999 - 2009)	Poverty Rate (2004-05)			Urban Population 2001	Literacy Rate
			Rural Poverty	Urban Poverty	Poverty Rate		
	All India Level		28.3	25.7	27.5	27.8	64.8
1	Andhra Pradesh	6.33	11.2	28	15.8	27.3	60.5
2	Arunachal Pradesh	-5.47	22.3	3.3	17.6	20.8	54.3
3	Assam	3.36	22.3	3.3	19.7	12.9	63.3
4	Bihar	6.65	42.1	34.6	41.4	10.5	47
5	Jharkhand	4.19	46.3	20.2	40.3	22.2	53.6
6	Goa	4.70	5.4	21.3	13.8	49.8	82
7	Gujarat	6.97	19.1	13	16.8	37.4	69.1
8	Haryana	6.73	13.6	15.1	14	28.9	67.9
9	Himachal Pradesh	5.03	10.7	3.4	10	9.8	55.5
10	Jammu & Kashmir	3.08	4.6	7.9	5.4	24.8	55.5
11	Karnataka	5.20	20.8	32.6	25	34	66.6
12	Kerala	6.93	13.2	20.2	15	26	90.9
13	Madhya Pradesh	1.08	36.9	42.1	38.3	26.5	63.7
14	Maharashtra	4.81	29.6	32.2	30.7	42.4	76.9
15	Manipur	2.59	22.3	3.3	17.3	23.88	68.7
16	Meghalaya	2.34	22.3	3.3	18.5	19.6	62.6
17	Nagaland	2.90	22.3	3.3	19	17.2	66.6
18	Orissa	6.40	46.8	44.3	46.4	15	63.1
19	Punjab	3.17	9.1	7.1	8.4	33.9	69.7
20	Rajasthan	4.38	18.7	32.9	22.1	23.4	60.4
21	Sikkim	6.06	22.3	3.3	20.1	11.1	68.8
22	Tamil Nadu	5.30	22.8	22.2	22.5	44	73.5
23	Tripura	6.05	22.3	3.3	18.9	17.1	73.2
24	Uttar Pradesh	2.80	33.4	30.6	32.8	20.8	56.3
25	West Bengal	6.88	28.6	14.8	24.7	28	68.6

From the above table we can see Average Annual Growth Rate of Net State Domestic Product, Rural and Urban Poverty Rates and Urban Population and Rate of Literacy Rate in our country. It is clearly evident that some of the states showing good performance and remaining poor performance. Forward states have high growth rate of NSDP while backward states have low growth rate when we compare with the national level. If we study the growth rate of NSDP, it depends on the literacy rate and percentage of urban population. High rate of literacy and high percentage of urban population drives the growth rate of a state while low rate of literacy and urban population relegates the growth rate of a state.

Table Showing Average Annual Growth Rate of NSDP and per Capital Income of Different states in India

	Name of the State	Average Annual Growth Rate of NSDP (199 - 2009)	Per Capita Income 2003 - 04
	All India Level		11799
1	Andhra Pradesh	6.33	11333
2	Arunachal Pradesh	-5.47	9678
3	Assam	3.36	6520
4	Bihar	6.65	3557
5	Jharkhand	4.19	8247
6	Goa	4.70	
7	Gujarat	6.97	16779
8	Haryana	6.73	15721
9	Himachal Pradesh	5.03	12302
10	Jammu & Kashmir	3.08	
11	Karnataka	5.20	13141
12	Kerala	6.93	12109
13	Madhya Pradesh	1.08	8284
14	Maharashtra	4.81	16479
15	Manipur	2.59	8751
16	Meghalaya	2.34	
17	Nagaland	2.90	
18	Orissa	6.40	6487
19	Punjab	3.17	15800
20	Rajasthan	4.38	8571
21	Sikkim	6.06	
22	Tamil Nadu	5.30	12976
23	Tripura	6.05	
24	Uttar Pradesh	2.80	5702
25	West Bengal	6.88	11612

From the above table it is very clear that per capita income is higher when the average annual growth rate is high and vice versa. Human Development Index is very low in those poor states due to low rate of literacy and high poverty rate. Those backward states are facing numerous problems due to high rate of poverty. They are employment rate will be low due to low industrialization and most of the people depends on agriculture for their livelihood. Due to low industrialization, the industrial growth rate is low in some of the states and one of the important consequences is the flow of FDI is very low in backward states.

Origin of the Concept of Inclusive Growth:

"People's incomes are coming down, which is what we have to think about when we talk about innovation. We have to look at the numbers and quality of life of millions living on less than one – half a dollar per day. We do not have inclusive growth in India, which means we do not have sustainable growth".

- O.P. Bhatt, Chairman of the SBI at Economic Summit

The word "Inclusive Growth" is one of the key messages from the Fifth Plenary Session of the 17th Central Committee of the Communist Party of China. The word first used by Asian Development Bank economists in 2007. In view of the severe differences in the growth rates of different states in our country, the central government wanted to develop all the states equally and it has become the central concept in the 11th Five Year Plan. The National Development Council included the concept in the 11th Plan document titled *"Towards foster and more inclusive growth".* The "major weakness in the economy is that growth is not perceived as being sufficiently inclusive for many groups, especially SCs, STs and minorities.....the lack of inclusiveness is borne out by data on several dimensions of performance". Inclusiveness involves four attributes viz., Opportunity, Capability, Access and Security. By generating more and varied Opportunities to the people to earn sufficient income for their living, the Economy has to enhance the Capabilities of the people to exploit the available opportunities, the economy has to provide an Access to bring opportunities and capabilities together and Security is to be provided by the economy against temporary or permanent loss of livelihood. Inclusive growth is a process in which economic growth is measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of all four dimensions. Inclusive Growth is not possible without uprooting the social tumour of corruption.

Why Inclusive Growth?

"Inclusive Growth" is a little more than just the benefits of growth being distributed equitably and evenly; it is the participation of all sections and regions of society in the growth story and their reaping the benefits of growth". Inclusive growth is imperative for achieving the equity objective. But Why Inclusive growth is now considered essential even to sustain the growth momentum.

A. In many of the emerging market economies, the major chunk of population is based in rural areas. Significant increase in demand for manufacturing and services sectors has to come from the rural population. In average monthly per capita consumption expenditure (MPCE) in urban areas in india is almost double that of rural areas. In some states, the disparities are even more glaring. Therefore, it is important to ensure that growth takes place in agriculture, allied sectors as also in secondary and services sectors in rural areas, and amongst urban poor to provide a growing market for the goods and services products by the expanding sectors.

B. From supply side management, growth in agriculture is necessary in order to keep manufacturing prices under check, provide food security and keep inflation under control. Price stability is not merely as an anti poverty measure but also as an instrument to ensure stable and sustained growth.

C. Higher growth in agriculture and rural areas coupled with demographic dividend will lead to a rise in the savings level for financing the increasing level of investments necessary to sustain the overall growth momentum.

D. The limitations on creasing production and productivity in agriculture are driving migration to urban areas leading to population pressure in urban areas and increase in urban poor. Hence urban development policies have to focus on inclusive investment to deal with the huge armies of low – income population likely to move into these areas.

E. Since in many countries such as India, the growth process is knowledge – based and services – led, the requirement of skilled labour is quite substantial in comparison to the present availability in order to ensure adequate supply of skilled labour force, huge social sector investment is required covering the vast majority of people who may not be able to afford such education and skilled development.

F. In our country, most of the labour force depends on agriculture for their livelihood and this sector has plenty of potential for growth and it lacked sufficient investment.

Thus, there are several factors to be considered for inclusive growth. Upper most among these is the need for raising the allocative efficiency of investment and resource use across different sectors of economy – this can be met by addressing two basic supplies – side issues viz., (A) effective credit delivery system to facilitate productive investment productive investment in employment impacting sectors especially agriculture, micro, small and medium enterprises and (B) Large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, urban/ rural reconstruction and in social infrastructure such as health care, education and sanitation.

Financial Inclusion for Inclusive Growth:

The challenges of achieving more inclusive growth can be met by policies that encourage easier affordable access to financial services. Both theoretical and empirical researches highlight the role of financial development in facilitating economic development. In developed countries, the formal financial sector comprises mainly the banking system serves most of the population, while in developing or backward countries a large segment of the society, mainly the low and poor income groups have little access to financial services, either formal or semi formal. As a result, many people have to necessarily depend either on their own sources or informal sources of finance, which are generally at high cost. Most of the population in developed countries (99% in Denmark, 96% in Germany, 91% in the USA and 96% in France) have bank accounts. However, formal financial sectors in most developing countries serve relatively a small segment, often no more than 20 – 30% of the population, the vast majority of who are low income households in rural areas. Owing to several factors such as sharp increase in urbanization, rural to urban migration as also the increase in urban poverty, the share of poor and the low – income households not having any access to finance in the urban areas is also increasing in several countries.

Financial Inclusion

Country	Composite Index of Financial Inclusion (% of Population with access to financial services)
Denmark	99
Germany	96
USA	91
France	99
India	48
Bangladesh	32
Brazil	43
China	42
Indonesia	40
Korean Republic	63
Malaysia	60
Philippines	26
Sri Lanka	59
Thailand	59

Financial Inclusion – A Major Paradigm Shift:

"Financial Inclusion means delivery of banking services at an affordable cost to the vast sections of disadvantaged and low – income groups who tend to be excluded from the formal financial system"
:- Reserve Bank of India

From an annual average growth rate of 3.5% during 1950 to 1980, the growth rate of the Indian economy accelerated to around 60% in the 1980s and 1990s. In the last four years (2003 – 04 to 2006 – 07), the Indian economy grew by 8.8%. in 2005 – 06 and 2006 – 07, the Indian economy grew at a higher rate of 9.4% and 9.6% respectively. Reflecting the high economic growth and a moderation in population growth rate, the per capital income of the country also increased sustainability in the recent years. An important characteristic of the high growth phase in recent years is its resilience to shocks.

FINANCIAL SECTOR POLICY AND REGULATORY FRAMEWORK IN INDIA FOR INCLUSIVE GROWTH:

After the post – nationalization era of banking sector in our country, we can see a lot of changes occurred in the banking policies giving a robust thrust to branch expansion in the rural and semi urban areas and stepping up of lending to the so called priority sectors viz., agriculture, small scale industry, self employment and small business sectors and weaker sections within these sectors. As a result, the branches of scheduled commercial banks increased from 8, 262 in June, and 1969 to 69, 472 in march, 2006. The average population per branch office decreased significantly from 64,000 to 16,000 during the above period, with the share of rural branches increasing from 22.2% in June, 1969 to a little over 51% in march, 1998. Lending to priority sectors was increased to the mandated target of 40%. Specialized Regional Rural Banks were set up in 1975, especially in backward and tribal districts to cater to the needs of the weaker sections amongst farmers and non – farm small business entrepreneurs.

The financial sector in India has been primarily dominated by the banking system. Scheduled Commercial Banks (SCBs) occupy a predominant position in the financial system. As on march, 2007, the public sector banks (PSBs) accounted for 70% of the total assets of SCBs. Foreign Banks operating in India accounted for about 8% of the assets of SCBs. The RRBs and the Co-operative Banks also form an integral part of the Indian financial system.

Financial inclusion's main target is essentially the poor people who have not yet brought into the mainstream of formal banking culture. How do people get into a formal banking culture? It is the result of a process characterised by knowledge (K) Attitude (A) and Practice (P). The poor people often do not have the right knowledge of the advantages of formal financial practices in the long run, or they are incapable of thinking of the "long run" as such. This gets translated into negative or imperfect attitudes towards formal financial behaviour. As a result, they often keep away from the formal financial system. The term "Financial Inclusion" marks a major paradigm shift from the now well – known concept of micro finance. Basically, micro fiancé is retail banking services for customers excluded by banks that serve the wealthier sections of the market. Recently, it has been seen as an important element in financial inclusion.

State and Population Group - wise distribution of offices opened by Commercial Banks as on 31st, March 2009

	Name of the State	Rural	semi urban	urban	metro politan	Total No of Benches in Urban Areas	Total
1	Andhra Pradesh	2388	1537	1696	1077	4310	6698
2	Arunachal Pradesh	50	27			27	77
3	Assam	788	334	307		641	1429
4	Bihar	2356	846	433	281	1560	3916
5	Chandigarh	24	1	287		288	312
6	Chhattisgarh	654	254	346		600	1254
7	Gujarat	1486	989	649	1357	2995	4481
8	Haryana	691	468	924	118	1510	2201
9	Himachal Pradesh	729	160	72		232	961
10	Jammu & Kashmir	547	192	268		460	1007
11	Jharkhand	974	366	410	0	776	1750
12	Karnataka	2166	1208	1343	1274	3825	5991
13	Kerala	332	2712	1142		3854	4186
14	Madhya Pradesh	1756	977	787	569	2333	4089
15	Maharashtra	2143	1415	1171	3147	5733	7876
16	Manipur	35	21	25		46	81
17	Meghalaya	124	30	51	0	81	205
18	Mizoram	55	14	26	0	40	95
19	Nagaland	35	51			51	86
20	Orissa	1654	514	588		1102	2756
21	Pondicherry	28	33	67		100	128
22	Punjab	1123	965	743	526	2234	3357
23	Rajasthan	1756	993	861	431	2285	4041
24	Sikkim	46	25	0	0	25	71
25	Tamil Nadu	1709	1839	1445	1140	4424	6133
26	Tripura	110	58	51	0	109	219
27	Uttara Pradesh	4806	1776	1731	1568	5075	9881
28	Uttara Khand	570	290	246	0	536	1106
29	West Bengal	2319	626	245	1306	2177	5196
30	Total	31699	19082	16614	15013	50709	82408

Recent strategies for Inclusive Banking:

As the economy began to grow at higher rates, the regional and social disparities called for new strategies to ensure that the banking system met the requirements of inclusive growth. Such strategies needed to be fashioned in a manner that they did not undermine the stability and efficienty of the financial system. Accordingly, over the last four years or so, several measures have been taken by the Reserve bank of India and Government of India to ensure better banking penetration and outreach, particularly that the credit needs of agriculture and small enterprises are met while allowing sufficient flexibility to each bank to evolve its own policies and strategies for the purpose. In January, 2006, the RBI permitted banks to utilise the services of non – governmental organization (NGOs/ SHGs), micro finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of Business Facilitators (BF) or Business Correspondents (BC) models. The BC model allows banks to do "Cash in – Cash out" transactions at a location much closer to the rural population, thus addressing the last mile problem. Banks are also entering into agreements with India Postal Authorities for using the enormous network of post offices as business correspondents for increasing their outreach and leveraging the postman's intimate knowledge of the local population and trust reposed in them.

Gross Credit by Public Sector Commercial Banks in Rural and Urban Areas as on 31st March, 2007 (Amount in Crores)

Name of the State	Gross bank Credit of Scheduled Commercial Banks (As on 31st march, 2007) (Rs In crores)			Average Annual Growth Rate of NSDP (199 - 2009)
Name of the State	Rural	Urban	Total	
Andhra Pradesh	16702	28572	45274	6.33
Arunachal Pradesh			0	-5.47
Assam	4836	2712	7548	3.36
Bihar	3496	5970	9466	6.65
Jharkhand	7187	2510	9697	4.19
Goa			0	4.70
Gujarat	6870	9695	16565	6.97
Haryana	4866	21086	25952	6.73
Himachal Pradesh	2302	3283	5585	5.03
Jammu & Kashmir	6836	1920	8756	3.08
Karnataka	13436	22439	35875	5.20
Kerala	3088	28580	31668	6.93
Madhya Pradesh	7214	9182	16396	1.08
Maharashtra	11290	16042	27332	4.81
Manipur	450	163	613	2.59
Meghalaya	881	334	1215	2.34
Nagaland			0	2.90
Orissa	7300	14176	21476	6.40
Punjab	10022	13548	23570	3.17
Rajasthan	8395	13453	21848	4.38
Sikkim			0	6.06
Tamil Nadu	13164	46574	59738	5.30
Tripura	576	414	990	6.05
Uttar Pradesh	18964	23754	42718	2.80
West Bengal	7405	10106	17511	6.88
Other states		3872	3872	
All India Level	155280	278385	433665	

Financial Inclusion – The Greatest Strength of Low and Middle Income Groups:

Now it is the time to implement Financial Inclusion in our nation. By bringing lakhs of middle and low income sections of the society in the mainstream of the economic activities, their living standards can be augmented. Both RBI and Central Governments are adamant in the implementation of Financial Inclusion. Nearly fifty crores of the population has been denied banking services so far and there is a strong correlation between financial exclusion and poverty. To expand banking operations in the nook and corner of the country, the RBI started to take some reformative measures like the establishment of Business Correspondents and expanding the branches of RRBs etc., though the concept of Financial Inclusion is basically related to RBI and the Gov of India but enormous opportunities are there for the private sector. There are so many ways are there to achieve total Financial Inclusion; they are

1. ***Branch Expansion:*** PSUs are advised to expand the branches in the unbanked areas.
2. ***Business Correspondents:*** It is the time to expedite the scheme of Business Correspondents.
3. ***Financial Literacy:*** To motivate the low and middle income groups about the advantages of financial inclusion, the government should propagate in the schools and colleges about the advantages.
4. ***Telecom Companies:*** For transferring money and for payments and receipts, telecom companies will be allowed to reduce the transaction cost.
5. ***Chit Fund Companies:*** Chit fund companies are growing in our country and they increase the savings and credit habits in our country.
6. ***Post Offices:*** Postal employees will be given training to sell saving, investment and pension products in the unbanked areas.
7. ***Micro Finance Institutions;*** For the last five years, MFIs business reached to 20,000 crores in our country.

Micro Finance – A Way to accomplish the goal of Financial Inclusion:

Realities of Micro Finance:

The concept of micro finance has been emerged from the mind of Dr. Md Younus, a notable person in Bangladesh. He proved that by lending money to women, they can utilize the money for productive purpose and it helps to women economic empowerment. He started a Rural Bank for this purpose and lend money to women of Bangladesh for the last 10 to 15 years. Now he achieved his ambition of women empowerment and he got noble prize also for serving to the rural women. The success story spread all over the world and got acclaim.

Bangladesh’s Grameena (Rural) Bank is the base for DWACRA and SHGs in our country.

Over the last decade and a half, micro finance sector India has grown incrementally to reach out to over 50 million clients through home – grown Self – Help Groups Bank Linkage Programs as well as through the alternate channel represented by NGO – MFIs. The growth story is heart – warming, but the expanded outreach and increased loan disbursement needed to be better understood from the client’s perspective. Are the poor getting enough and why they need it? How diverse the products and services? Are these services help the poor in acquiring new assets, upscale their livelihood, reduce their vulnerability and help them emerge out of their current state of affairs? How protected the clients from malpractices? How strong is the social resolve of practioners? What is the policy environment in which the sector operates? These are some of the issues to be addressed. The micro finance sector in India in last few years, has witnessed unprecedented growth. India is perhaps the fastest growing market in Microfinance – the efforts of the various stakeholders have facilitated the sector in breaching the 50 million client mark this year. Even though the SHG-Bank Linkage model maintains its dominance in the industry, the 'alternative' MFI channel too has been growing at a fair pace. However, the sector still only covers 20% of the poor and caters to merely 10% of the demand for credit. The key issues that require further attention from the sector include: deeper poverty penetration, dealing with mission drift, looking at the shortage of quality human resources and increasing operational efficiency. There is also a need to work on the accessibility of loan funds, particularly to Tier-2 and Tier-3

Institutions, up scaling microfinance operations using technology and providing livelihood options to the poor.

The state of Micro Finance Institutions in India

Micro finance sector seems to grow and with no full stop in sight. The sector performed creditably in a

year that experienced a widespread liquidity crunch. The Self Help Group (SHG)–bank linkage programe made remarkable progress during the year; provisional data2 indicates that credit to more than 1.716 million SHGs would have been made available during the year3. The outstanding SHG loan accounts were 4.14 million representing an estimated membership of 54 million. The MFIs too have recorded an impressive increase of about 8.5 million clients during the year registering a growth of 60 per cent over the previous year. The data collected from 230 MFIs by Sa-Dhan reveals that despite liquidity constraints faced by some MFIs, expansion in client outreach and loan portfolio was vigorous. The MFIs reported a total client base of 22.6 million as at the end of March 2009. The overall coverage of the sector as narrowly defined (outstanding accounts of members of SHGs and clients of MFIs) is estimated to have reached 76.6 million against 59 million last year. After adjusting for overlaps the net client base of the micro finance sector is estimated at 70 million. The adjusted growth in outreach is estimated to be 14 million clients which is about 50 per cent more than the 9.9 million new clients added during the previous year. This growth story has several positive and some not so positive elements. In terms of sheer numbers, more than 50 percent of low income households of about 130 million are covered by one or the other form of micro finance6. Outstanding loans of MFIs increased from Rs.59.50 billion to Rs.117.34 billion in 2008–09. In the case of loans outstanding loans in the books of banks against SHGs, the provisional information is that it has reached Rs.241.96 billion by March 2009 compared to Rs.170 billion in the previous year. The total outstanding microfinance loans amounted to Rs 359.39 billion posting a growth rate of 30% over the last year's level of Rs 229.54 billion. At the current level, microfinance constituted 1.29% of gross bank credit of Scheduled Commercial Banks; an increase of 0.27% over the last year which is no mean achievement in a year of general economic slowdown. The growth in the size of loans has been significant in the case of MFIs compared to the size of loans given by banks to SHGs. The growth in terms of number of clients with outstanding loans in absolute terms reveal that while MFIs added 8.5 million clients, they also added Rs.57.80 billion to outstanding loans. In the case of banks, the SHG loan outstanding has increased by Rs.71.5 billion with an addition of 6.9 million clients through 0.52 million more SHGs. The vigorous growth of MFIs and that too on a narrower organizational base highlights the potential at the bottom of the pyramid. Possibly the current year is a watershed year in the micro finance sector as the client growth in the MFIs exceeded that of the banking sector in terms of SHG members8. At the current growth rates and higher per capita loans, MFIs might outstrip the SBLP in portfolio volumes in the next few years. The emerging new reality is that the MFI channel is not the poor cousin anymore. There are initial signs that MFIs are crowding out the banks from the sector in southern states. Is this necessarily a good development for the clients will need serious examination in the coming years? The broadly defined microfinance sector including small accounts of commercial banks, small and vulnerable borrowing members of the Primary Agricultural Societies, SHG members and MFI customers had more than 135 million clients by end March 2008, an increase of about 15 million over the previous year. The number of accounts is more than double the number of poor households at 61.4 million. But still many excluded poor households exist on account of multiple accounts being held by some poor households and many non-poor households having greater access to multiple loans.

Micro Finance Institutions in India 2009:

Micro Finance Institutions in the MIX top 50 list		
Name of the MFI	Ranking in 2008	Ranking in 2007
SKS	2	1
Cash Poor	4	Not Ranked
Sarvodaya Nano Finance	12	14
ESAF	14	13
Spandana Spoorty	22	6
Adarsha Welfare Society	46	185
CRESA	48	11

The Top 10 MFIs by Outreach (Rs in Billions)				
Name of the MFI	Outreach (In No)	Loans (Outstanding)	Own Funds	Borrowings
SKS Micro Finance	35,20,826	24.6	6.6	19.9
Spandana Spoorthy	24,32,189	18.7	3.1	14.8
Share Microfin Limited	15,02,418	12.2	1.7	9.7
Bandan	14,54,834	5.3	0.5	6.9
Asmitha Microfin Limited	8,78,455	7.1	0.8	7.1
SKDRDP	8,07,170	4.9	0.2	5.4
Bharatiya Samruddi	5,74,293	2.6	0.6	4.0
(ASA)Grama Vidyalaya3	3,62,624	2.0	0.5	1.6
BISWA	3,52,352	1.7	0.5	1.8
Equitas Micro Finance	3,39,158	2.9	1.1	1.8
Total	1,22,24,319	82.0	15.6	73.0

Final data on microfinance sector – to be read with the provisional data provided in the State of the Sector Report – Microfinance India 2010.

SHG-Bank linkage program (as per final data released by NABARD) 31 March 2010 position.

Number of SHGs that had savings with banks 6.95 million

Number of SHGs that had loans from banks 4.85 million

Amount of SHG savings outstanding with banks Rs 61.98 billion

Amount of loans to SHGs outstanding Rs 280.38 billion

Average loan outstanding per group Rs 57795

Average loan outstanding Rs 4445

Growth in clients over the previous year 8.4 million

Growth in loans outstanding over previous year Rs 58 billion

Scope of Micro Finance in India

The sector has witnessed impressive growth in terms of both client outreach as well as lending

- SHG members are growing at a steady pace of 18% and constitute the largest part of the microfinance clientele
- MFI outreach has increased by 40% and crossed the 14 million mark during the last year
- More NGOs are also beginning to function as MFIs and aspire to transform into NBFCs
- Microfinance service providers are focusing more on widening their client base and increasing outreach
- Social performance of MFIs still remains an area of concern that requires greater attention
- One of the key challenges is to mainstream the savings agenda in microfinance
- Flow of funds, including equity, to medium and small MFIs is critical to ensuring growth
- Financial inclusion is 'the flavour-of the month' and is now attracting more attention from all stakeholders

Regulations for the Control of Micro Finance Institutions:

1. It should be redefined the Concept of Micro Finance and Micro Finance Institutions in the name of Non – Banking Financial Companies through the permission of RBI
2. The rates of interest charged by MFIs are to be examined.
3. The government should study the method of giving loans, collecting the instalment amount and the way they collect the amount from the beneficiaries.
4. It should be suggested that the legislative acts of money lending and other acts of different states to be applicable to MFIs.
5. Increase the Transparency and study the role of micro finance institutions in the growth of the nation.
6. Grievance Redressal Cell has to be established to receive complaints on MFIs in view of the recommendations of the RBI.