Delivering Microfinance Services by MFIs: A Study in the State of Assam

- Arup Roy*

Abstract

There are different types of microfinance institutions (MFIs) functioning in Assam and the operating mechanism of these MFIs differs from organisation to organisation. The players in the Microfinance sector can be classified under three main groups, viz., (a) the SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio, (b) Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio, and (c) others including trusts, societies, etc., accounting for the balance 8% of the outstanding loan portfolio. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters. The results of the study indicate that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study concludes that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop/home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. Finally, the study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam Committee recommendations.

Key Words: Microfinance, Financial Institutions, Micro-credit

JEL Classification: G-21, G-29
Introduction and Motivation

Microfinance today has become one of the most debated and documented but still remains a much confused buzzwords in banking and developmental policymaking fields. Actually, in some form or the other, the concept of "microfinance" always existed in almost every society. But, as a more formal process, the history can be traced back to portions of the Marshall Plan at the end of second world war in the middle of the 20th century and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans to the poor as a way to alleviate poverty (Khandelwal, 2007).

Microfinance has proven to financial institutions and banks that the services they provide to their "traditional" clients can also be offered to poor and low-income entrepreneurs and clients, in a sustainable and viable manner. Some global examples of microfinance initiatives are - FINCA and ACCION International of Latin America, Bank Rakyat of Indonesia (BRI), and Grameen Bank of Bangladesh, now acting in more than 50 countries. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microfinance Summit in the 2006-meeting in Halifax celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still reaches only a fraction of the world's poor (Robinson, 2001; Christen et al., 2004). Hence, there is a supply challenge in the industry (Helms, 2006; CGAP, 2004, 2006).

Microfinance is a financial service of small quantity provided by financial institutions (FI) to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc., that is, any type of financial service, provided to customers to meet their normal financial needs: life cycle, economic opportunity and emergency [Dasgupta and Rao 2003] with the only qualification that (i) transaction value is small and (ii) customers are 'poor'.

Microfinance institutions (MFIs) are special financial institutions having a social nature along with for profit motive. Delivering microfinance services is not easy. The challenges are real and the risks are many. Banks such as Equity Bank of Kenya, CRDB of Tanzania and NABARD in India have proved that microfinance can be profitable if local conditions are well understood and microfinance is applied to suit local traditions, cultures and weather cycles. There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients.

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practiced by some microfinance institutions in India. In the wake of rising troubles faced by the microfinance sector, some state governments like Orissa and Andhra Pradesh adopted some steps to regulate the activities of all MFIs. There is a huge demand for microfinance in India and over the last decade there is an exponential growth of MFIs. With this
exponential growth, microfinance has become one of the fastest growing industries worldwide. But, the lack of proper government interest and regulation resulted in heavy concentration of loans in one state, Andhra Pradesh; over borrowing by the poor; extortionate interest rates; and questionable recovery practices. The Reserve Bank of India (RBI), on Tuesday (3rd May, 2011) accepted the recommendations made by the Malegam Committee with some modifications and it has re-affirmed priority sector status for loans given to microfinance companies. This will have huge impact on the development of microfinance sector in India. Many big successful practitioners of the microfinance industry in India welcome this move of RBI which the microfinance industry required after waiting for more than two decades. Vijay Mahajan (Head of MFIN), Sunil Agarwal (Managing Director of SE Investments), Vikram Akula (CEO of SKS Microfinance) and many other MFI officials feel that this would bring highly positive outcomes for the development of the entire Microfinance Sector in India.

In India, mainstream banks have begun to look seriously at the microfinance market. In the past five years, Citigroup Foundation has made US $17 million in grants to 178 microfinance partners in 50 countries. Similarly, Deutsche Bank Foundation has recently launched the US $1.5 million microfinance Financial Development Fund. On a national scale, NABARD, as of 2003, had provided almost $200 million worth of capital to village microfinance groups through its SHG-bank linkage programme. ICICI Bank has been a pioneer in implementing new microfinance outreach channels, in partnering with MFIs and in providing low-cost sources of commercial funds. In the last year, ICICI has completed two portfolio securitisation deals with microfinance institutions, with a total value of almost US $10 million.

Parikh (2006) found three common and persistent technical challenges for institutions in reaching their outreach and sustainability goals regardless of size, location, lending methodology, philosophy, etc., of the MFIs - viz.,
(a) Collection of information from remote rural clients
(b) Management and information systems at the institutional level,
(c) Conducting financial transactions in remote rural areas.

According to Mohammad Yunus, founder of the Grameen Bank and one of the pioneers of microfinance, "the first principle of Grameen banking is that the clients should not go to the bank, it is the bank which should go to the people." Dr. Yunus perceived that to alleviate other potential imbalances, financial services should be provided to poor people on their terms, in a manner that was respectful of their needs, activities and livelihoods. At the Grameen Bank, this means that "12,000 staff serve 3.2 million clients in 45,000 villages spread out all over Bangladesh, every week".

There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients. This paper has sought to highlight some of the issues of microfinance service delivery by the MFIs of Assam.
2. Research Methodology

The primary objective of this study is to understand the microfinance service delivery practices by the MFIs of Assam. The microfinance service delivery mechanism is explained in terms of the following dimensions:-

(i) Assistance in loan application.
(ii) Time required for opening a deposit account.
(iii) Time required for loan disbursement.
(iv) Sanctioning authority of the loan.
(v) Size of loan amount.
(vi) Repayment period.
(vii) Guarantor's attendance.
(viii) Purpose of the loan.
(ix) Mode of loan delivery.
(x) Processing fees charged by MFIs.
(xi) Collection of processing fees.
(xii) Interest rate charged by MFIs.

To achieve the above objective, a sample survey was conducted during June - October, 2010 in various districts of Assam. Database of the Centre for Microfinance Livelihood (CML), 2010 was considered to select the samples. Final samples were selected based on the MFIs' outreach, i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs which have been offering microfinance services to their beneficiaries at least for the last three years were selected. The total sample size considered for the study is 40. Finally, with six rejections, 34 samples were considered for the study.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. The CML data base was published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

From this data base, we have selected only those MFIs that are continuing micro-credit operations at least for the last three years. After this first level screening, the number of available MFIs came down from 212 to 79 as shown in table 2.

Thus, we have finally selected 34 MFIs (43% of the sample population) based on the MFI's outreach, i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010, as the reference period.

<table>
<thead>
<tr>
<th>Table 1: MFIs in Assam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
</tr>
<tr>
<td>NGO-MFIs</td>
</tr>
<tr>
<td>MFIs</td>
</tr>
<tr>
<td>NGOs</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Table 2: MFIs in Assam doing Microcredit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
</tr>
<tr>
<td>MFI</td>
</tr>
<tr>
<td>NGO</td>
</tr>
<tr>
<td>NGO-MFI</td>
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<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Compiled by Author from CML.
3. Microfinance Services of MFIs

To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance delivery mechanism adopted by the different MFIs of Assam. The microfinance delivery system is explained in terms of twelve variables, viz., (i) assistance in loan application, (ii) average time required for opening a demand deposit, (iii) average time of loan disbursement, (iv) Sanctioning Authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

3.1. Assistance in Loan Application

The results of the survey indicate that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
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<td>17.6</td>
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<tr>
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<td>82.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
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</table>

Therefore, it may be concluded that the MFIs of Assam are providing required assistance to their clients as most of them live in remote areas and are not aware of the financial transactions.

3.2. Time Required for Opening a Deposit Account

The results of the survey indicate that the average time required by the MFIs to open a recurring deposit account is 1.11 days with standard deviation of 0.33 days. Moreover, out of 34 MFIs, only 9 MFIs offer recurring deposit account to their clients which represent 26.5% of the total sample MFIs.
The sample survey reveals that the average time required by the MFIs to open a fixed deposit account is 1.5 days with standard deviation of 0.71 days. Moreover, out of 34 MFIs, only 2 MFIs offer fixed deposit account to their client which represents only 5.9% of the total sample MFIs.

Further, it has been found that the average time required by the MFIs to open a savings deposit account is 4 days with standard deviation of 7.10 days. Moreover, out of 34 MFIs, only 7 MFIs offer savings deposit account to their clients which represent 20.6% of the total sample MFIs.

Thus, it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. So, it has been found that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. While discussing the issue with MFI officials during the primary survey, they opined that there is a huge demand and clients are demanding that the MFIs should not discontinue this service.

### 3.3. Time Required for Loan Disbursement

The time taken to disburse a loan basically depends on availability of the fund of the MFI and also the official formalities. The results of the survey indicate that the average time required by the MFIs to disburse a loan is 27.47 days with standard deviation of 42.50 days.

On further investigation, the data reveals that 47.1% of the sample MFIs provide emergency loan to their clients for medical, education or business purposes. The average time to disburse an emergency loan is 2.81 days with standard deviation of 2.48 days.
Table 7: Average Time of a Loan Disbursement

<table>
<thead>
<tr>
<th>Days</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tbody>
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<td>5.9</td>
<td>5.9</td>
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<td>5.9</td>
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</tr>
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<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>47.1</td>
</tr>
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<td>8</td>
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<td>70.6</td>
</tr>
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<td>11.8</td>
<td>11.8</td>
<td>82.4</td>
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<td>8.8</td>
<td>8.8</td>
<td>85.3</td>
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<td>97.1</td>
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<td>97.1</td>
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<td>100.0</td>
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</tr>
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</table>

Table 8: Average Time of an Emergency Loan Disbursement

<table>
<thead>
<tr>
<th>Days</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
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<td>1</td>
<td>9</td>
<td>26.5</td>
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<td>56.2</td>
</tr>
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<td>2</td>
<td>1</td>
<td>2.9</td>
<td>6.2</td>
<td>62.5</td>
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<td>2.9</td>
<td>6.2</td>
<td>68.8</td>
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<td>5</td>
<td>2</td>
<td>5.9</td>
<td>12.5</td>
<td>81.2</td>
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<td>7</td>
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<td>8.8</td>
<td>18.8</td>
<td>100.0</td>
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<tr>
<td>MFIs Providing Emergency Loan</td>
<td>16</td>
<td>47.1</td>
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<td>100.0</td>
</tr>
<tr>
<td>MFIs Not Providing Emergency Loan</td>
<td>18</td>
<td>52.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
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<td></td>
</tr>
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</table>

Therefore, it may be concluded that the MFIs of Assam are flexible in understanding the genuine requirements of their clients and disburse emergency loan within 2-3 days without much of official formalities.

3.4. Sanctioning Authority of the Loan

It has been observed that for 79.4% of the sample MFIs, the loan sanctioning authority is a committee. The committee names vary from MFI to MFI. The different
names of these committees are - Area Co-ordinators Committee, Credit Committee, Executive Committee, Governing Body, Loan Sanctioning/Disbursement Committee, Loan Processing Unit, or Microfinance Unit.

On the other hand, for 20.6% of the sample MFIs, the loan sanctioning authority is a single person viz., Area Manager, Branch manager, Junior Operation Manager, Chief Manager, or Secretary.

3.5. Size of Loan Amount

Size of the loan of any financial institution represents the depth of the loan outreach. It is important to restrict the size of individual loans as larger loans can lead to over-borrowing, diversion of funds and size of repayment installments which are beyond the repayment capacity of the borrower. Currently in India, most MFIs give individual loans which are between Rs 10,000 and Rs 15,000. However, some large NBFCs also give higher loans, even in excess of Rs 50,000 for special purposes like micro-enterprises, housing and education (Malegam Committee Report, 2011). The descriptive statistics of the three categories of loan, i.e., SHG, JLG and Individual loan given by the MFIs of Assam is given below.

The data reveals that the average minimum size of individual member SHG loan amount is Rs 2403 and maximum is Rs 16,225. Generally, SHGs (Self Help Groups) comprise of 10 to 20 members in the same locality. So one SHG of 15 members may get a minimum loan of Rs 36,045 and maximum up to Rs 2,43,375. The majority (25.8%) of the sample MFIs specified the average minimum individual loan at Rs 1000 and

<table>
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<th>Table 9: Sanctioning Authority of the Loan</th>
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<tbody>
<tr>
<td>Frequency</td>
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<tr>
<td>A Single Person</td>
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<td>A Committee</td>
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<tr>
<td>Total</td>
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<table>
<thead>
<tr>
<th>Table 10: Descriptive Statistics on Loan Size of SHG, JLG and Individual Loan</th>
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<tbody>
<tr>
<td>SHG Loan</td>
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<tr>
<td>Minimum</td>
</tr>
<tr>
<td>MFIs Providing Loans (Nos.)</td>
</tr>
<tr>
<td>MFIs Not Providing Loans (Nos.)</td>
</tr>
<tr>
<td>Mean (Rs)</td>
</tr>
<tr>
<td>Std. Error of Mean (Rs)</td>
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<tr>
<td>Median (Rs)</td>
</tr>
<tr>
<td>Mode (Rs)</td>
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<tr>
<td>Std. Deviation (Rs)</td>
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<tr>
<td>Skewness (Rs)</td>
</tr>
<tr>
<td>Kurtosis (Rs)</td>
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<tr>
<td>Range (Rs)</td>
</tr>
<tr>
<td>Minimum (Rs)</td>
</tr>
<tr>
<td>Maximum (Rs)</td>
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</tbody>
</table>

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29% of the MFIs specified the average maximum individual loan at Rs 10,000.

A JLG (Joint Liability Group) is smaller in size and generally consists of 2 to 5 members of the same locality. The average minimum size of individual JLG loan amount was found to be Rs 3180 and maximum is Rs 24,480. So one JLG having 5 members may get an average minimum loan amount of Rs 15,900 and maximum of Rs 1,22,400. The majority (32%) of the sample MFIs specified the average minimum individual JLG loan at Rs 5000 and the average maximum individual JLG loan at Rs 10,000.

### Table 11: Minimum Size of Individual SHG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
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<td>3.2</td>
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<td>2000</td>
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</tr>
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<td>2500</td>
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<td>2.9</td>
<td>3.2</td>
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<td>5000</td>
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<td>12.9</td>
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<tr>
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<tr>
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<tr>
<td>Total</td>
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</table>

### Table 12: Maximum Size of Individual SHG Loan

<table>
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<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
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### Table 13: Minimum Size of Individual JLG Loan

<table>
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<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
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<td>MFIs Not Providing</td>
<td>9</td>
<td>26.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Table 14: Maximum Size of Individual JLG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>8000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>10000</td>
<td>8</td>
<td>23.5</td>
<td>32.0</td>
</tr>
<tr>
<td>15000</td>
<td>2</td>
<td>5.9</td>
<td>8.0</td>
</tr>
<tr>
<td>20000</td>
<td>3</td>
<td>8.8</td>
<td>12.0</td>
</tr>
<tr>
<td>24000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>25000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>30000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>40000</td>
<td>2</td>
<td>5.9</td>
<td>8.0</td>
</tr>
<tr>
<td>50000</td>
<td>4</td>
<td>11.8</td>
<td>16.0</td>
</tr>
<tr>
<td>70000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>MFIs Providing</td>
<td>25</td>
<td>73.5</td>
<td>100.0</td>
</tr>
<tr>
<td>MFIs Not Providing</td>
<td>9</td>
<td>26.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Similarly, the average minimum size of individual loan amount is Rs 2,838 and maximum is Rs 53,333. The majority (38.1%) of the sample MFIs specified the average minimum individual loan at Rs 5000 and 23.8% of the MFIs specified the average maximum individual loan at Rs 50,000.

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>15000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>20000</td>
<td>2</td>
<td>5.9</td>
<td>9.5</td>
</tr>
<tr>
<td>25000</td>
<td>3</td>
<td>8.8</td>
<td>14.3</td>
</tr>
<tr>
<td>30000</td>
<td>3</td>
<td>8.8</td>
<td>14.3</td>
</tr>
<tr>
<td>40000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>50000</td>
<td>5</td>
<td>14.7</td>
<td>23.8</td>
</tr>
<tr>
<td>100000</td>
<td>4</td>
<td>11.8</td>
<td>19.0</td>
</tr>
<tr>
<td>200000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
</tbody>
</table>

MFIs Providing: 21 (61.8%) 100.0%
MFIs Not Providing: 13 (38.2%)
Total: 34 (100.0%)

Thus, it is seen that the average size of the individual SHG loan ranges from Rs 2,403 to Rs 16,225; average size of the individual JLG loan ranges from Rs 3180 to Rs 24,480; and the average size of the individual loan ranges from Rs 2838 to Rs 53,333. The recent Malegam Committee (2011) recommends that the size of an individual loan should be restricted to Rs 25,000. Further, to prevent over-borrowing, the aggregate value of all outstanding loans of an individual borrower should also be restricted to Rs 25,000. The data reveals that for 28 MFIs, the individual SHG loan is less than Rs 25,000. Similarly for 17 MFIs, the individual JLG loan is less than Rs 25,000. On the other hand, only for 7 MFIs, the individual loan is less than Rs 25,000. Therefore, it may be concluded that the majority of the average SHG and JLG loan size of the MFIs of Assam conforms to the Malegam Committee recommendation, but, the majority of the individual loan size is higher than the benchmark set by this committee.

3.6. Repayment Period

MFIs normally give loans which are repayable within 12 months irrespective of the amount of the loan (Malegam Committee, 2011). However, the larger the loan, the larger the amount of the repayment installment, and a large installment may strain the repayment capacity of the borrower and result in multiple borrowing. At the same time, if the repayment installment is too small, it would leave surplus cash with the
borrower which could be diverted to other uses and not be available for repayment when repayment is due. The loan repayment period prescribed by the MFIs for their clients varies from MFI to MFI. The descriptive statistics of the loan repayment period offered by the MFIs of Assam is given below.

Analysing the data, it has been observed that the minimum average loan repayment period offered by the MFIs of Assam is nearly 10 months and maximum average repayment period is approximately 19 months. Further, it is seen that the minimum loan repayment period specified by the MFIs of Assam is 1 month and maximum is up to 48 months. The data reveals that the majority (44.1%) of the sample MFIs' minimum loan repayment period specified for their clients is 12 months. Some MFIs offer weekly repayment option to their clients also. On further investigation, it was found that 11.4% of the MFIs fixed their loan repayment period at 50 weeks for the clients. Only 2.9% of the sample MFIs fixed the loan repayment period as per the clients' convenience. Surprisingly, in some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalised and charged the entire loan period's interest. This violates the

<table>
<thead>
<tr>
<th>Table 17: Loan Repayment Period Specified by the MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Time</strong> in Months</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Total No. of MFIs</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Std. Error of Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
<tr>
<td>Standard Deviation</td>
</tr>
<tr>
<td>Skewness</td>
</tr>
<tr>
<td>Kurtosis</td>
</tr>
<tr>
<td>Range</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 18: Minimum Loan Repayment Time</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Months</strong></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>11.5</td>
</tr>
<tr>
<td>12</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 19: Maximum Loan Repayment Time</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Months</strong></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>11.5</td>
</tr>
<tr>
<td>12</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>16</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>24</td>
</tr>
<tr>
<td>25</td>
</tr>
<tr>
<td>36</td>
</tr>
<tr>
<td>48</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Malegam Committee recommendation [para 5.9 (b) iii]. The Committee suggested that for loans not exceeding Rs 15,000, the tenure of the loan should not be less than 12 months and for other loans the tenure should not be less than 24 months. The borrower should however have the right of prepayment in all cases without attracting penalty.

Thus, it may be concluded that majority of the MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some MFIs of Assam for loan prepayments.

### 3.7. Guarantor’s Attendance

The data reveals that majority (58.8%) of the sample MFIs do not require the guarantor’s presence at the office of the MFI prior to disbursement of the loan. On the other hand, in 41.2% of the sample MFIs, the guarantor needs to be present at the time of the loan disbursement.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>20</td>
<td>58.8</td>
<td>58.8</td>
</tr>
<tr>
<td>Yes</td>
<td>14</td>
<td>41.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### 3.8. Purpose of the Loan

It is often argued that loans should not be restricted to income generating activities alone, but should also be given for other purposes such as repayment of high-cost loans of moneylenders, education, medical expenses, consumption smoothing, acquisition of household assets, housing, emergencies, etc. A recent study by the Centre for Microfinance, Hyderabad indicates that Microfinance is useful in smoothening consumption and relieving seasonal liquidity crises that visit poor families and that it obviates the need for high-cost borrowing from informal sources. A balance has to be struck between the benefits of restricting loans only for income-generating purposes and recognition of the needs of low-income groups for loans for other purposes.

Malegam Committee has recommended that not more than 25% of the loans granted by MFIs should be for non-income generating purposes [para 5.6 (e)]. The results of the survey indicate that majority (94.1%) of the MFIs in Assam are giving loans to their clients for agricultural purposes. The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), diary (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes include - consumption, marriage, milk vendors, stationary/grocery, tea stall, freeing from moneylenders, tailoring, masala preparation, sugarcane cultivation, maternity, sericulture, terracotta, duckery, mastered cultivation, and pottery items.
Delivering Microfinance Services by MFIs: A Study in the State of Assam

Table 21: Different Purposes of the Loan

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>32</td>
<td>94.1</td>
</tr>
<tr>
<td>Open a Shop</td>
<td>29</td>
<td>85.3</td>
</tr>
<tr>
<td>Poultry</td>
<td>28</td>
<td>82.4</td>
</tr>
<tr>
<td>Handleam</td>
<td>26</td>
<td>76.5</td>
</tr>
<tr>
<td>Dairy</td>
<td>25</td>
<td>73.5</td>
</tr>
<tr>
<td>Piggery</td>
<td>24</td>
<td>70.6</td>
</tr>
<tr>
<td>Dairy</td>
<td>24</td>
<td>70.6</td>
</tr>
<tr>
<td>Handloom</td>
<td>20</td>
<td>58.8</td>
</tr>
<tr>
<td>Shop Renovation</td>
<td>20</td>
<td>58.8</td>
</tr>
<tr>
<td>Education</td>
<td>18</td>
<td>52.9</td>
</tr>
<tr>
<td>Health</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>Petty Trading</td>
<td>16</td>
<td>47.1</td>
</tr>
<tr>
<td>Transportation Service</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>Nursery/Plantation</td>
<td>6</td>
<td>17.6</td>
</tr>
<tr>
<td>Weaving</td>
<td>5</td>
<td>14.5</td>
</tr>
<tr>
<td>Guttery</td>
<td>4</td>
<td>11.6</td>
</tr>
<tr>
<td>Artisans</td>
<td>3</td>
<td>8.8</td>
</tr>
<tr>
<td>Consumption Loan</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Marriage</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Milk Vendors</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Station/Shop Vendors</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Tea stall</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Freeing from Money lenders</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Tailors</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Masala Preparation</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Maternity</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Sericulture</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Terracotta</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Duckery</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Mastered cultivation</td>
<td>1</td>
<td>2.9</td>
</tr>
<tr>
<td>Pottery Items</td>
<td>1</td>
<td>2.9</td>
</tr>
</tbody>
</table>

According to the study on "Access to Finance in Andhra Pradesh, 2010, CMF/IFMR, Chennai", the usage of loans given by JLGs and SHGs is as under:

Table 22: Usage of SHG & JLG Loans in India

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particular</th>
<th>JLG%</th>
<th>SHG%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income Generating</td>
<td>25.6</td>
<td>25.4</td>
</tr>
<tr>
<td>2</td>
<td>Repayment of old debt</td>
<td>25.4</td>
<td>20.4</td>
</tr>
<tr>
<td>3</td>
<td>Health</td>
<td>10.9</td>
<td>18.6</td>
</tr>
<tr>
<td>4</td>
<td>Shop/Home Improvement</td>
<td>22.1</td>
<td>13</td>
</tr>
<tr>
<td>5</td>
<td>Education</td>
<td>4.4</td>
<td>5.7</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>11.6</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Summarising the survey results under the above six categories, it is seen that majority (82%) of the MFIs of Assam are disbursing loan for income generating purposes. The other purposes of the loan are shown in the following table.

Table 23: Usage of Loans of the Sample MFIs in Assam

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particular</th>
<th>Frequency SHG/ JLG/Individual</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income Generating</td>
<td>265</td>
<td>82.0</td>
</tr>
<tr>
<td>2</td>
<td>Repayment of old debt</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>3</td>
<td>Health</td>
<td>17</td>
<td>5.3</td>
</tr>
<tr>
<td>4</td>
<td>Shop/Home Improvement</td>
<td>20</td>
<td>6.2</td>
</tr>
<tr>
<td>5</td>
<td>Education</td>
<td>18</td>
<td>5.6</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>2</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Therefore, it may be concluded that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences.
3.9. Mode of Loan Delivery

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Only 8.8% of the MFIs deliver the loan amount at the clients' place through the field co-ordinators or field officers. Moreover, 29.4% of the sample MFIs provides both the options of delivering the sanctioned loan amount at the client's place or at the MFI office.
On further investigation, it is seen that the mode of payment of the majority (50%) of the MFIs is through cheque. Only 29.4% of the samples MFIs disburse the loan by cash and 20.6% of the sample MFIs provide the loan either through cash or through cheque as per the convenience of the client. Further, it was found that for smaller loan amounts of less than Rs 3,000, the disbursement is done through cash and for higher loan amount, it is paid through cheques. The data also reveals that cash is disbursed to the JLGs and mode of payment to the SHGs is through cheque. Some MFIs issue bearer cheque and some others issue account payee cheques to their clients.

### Table 24: Mode of Loan Delivery

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Client's Place</td>
<td>3</td>
<td>8.8</td>
</tr>
<tr>
<td>At MFI Office</td>
<td>21</td>
<td>61.8</td>
</tr>
<tr>
<td>Both Options are available</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In some cases where MFIs are only assisting the SHGs in bank linkage, the loan amount is transferred to the SHG's group account by the bank. Few MFIs are also adopting the modern core banking facility of SBI and depositing the loan amount in the clients' SBI core banking account. Thus, it may be concluded that the majority of the MFIs of Assam are disbursing the loan amount through cheque and some MFIs are flexible as per the need of their clients' convenience and disburse the loan amount either by cash as well by giving both the option to their client.

3.10. Processing Fees Charged by the MFIs

The Malegam Committee suggested that MFIs should levy only two charges apart from the insurance premium. These two charges should consist of an upfront fee towards the processing of the loan which

### Table 25: Mode of Payment

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>Cheque</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>Cash or Cheque</td>
<td>7</td>
<td>20.6</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### Table 26: MFIs Charging Processing Fees

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>6</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Yes</td>
<td>28</td>
<td>82.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
should not exceed 1% of the gross loan amount, and an interest charge. The results of the survey indicate that majority (82.4%) of the MFIs in Assam charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. Generally, the MFIs which do not charge any processing fees are perceived to be more socially responsible than the others.

The data showed that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients with a standard deviation of 2.54%. Moreover, we find that the maximum processing fees charged is up to 12% of the total loan amount which is very high. Therefore it may be concluded that some MFIs of Assam are not charging any processing fees, but the majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011.

On further investigation it has been observed that some MFIs take fixed charges of Rs 10, Rs 15, Rs 50 or Rs 200 per loan, whereas some other MFIs charge 1% of the loan amount for a loan of more than Rs 25,000 or 0.5% of the loan amount for a loan of Rs 50,000. For some other MFIs who are involved in the bank linkage, the maximum processing charge is Rs 500 to Rs 3,000 depending on the work volume including documentation. Thus, it may be concluded that there is no unanimity in the processing fees charged by the MFIs of Assam and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

3.11. Collection of Processing Fees.

The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement. Some of the MFIs, on the other hand

| Table 27: Descriptive Statistics of Processing Fees |
|---------------------------------|-----------------|
| Any Processing Fees in % of Loan Amount |
| No. of MFIs Charging Processing Fees | 21 |
| No. of MFIs Charging No Processing Fees | 13 |
| Mean | 0.0195 |
| Median | 0.0100 |
| Mode | 0.0100 |
| Std. Deviation | 0.0254 |
| Skewness | 3.4540 |
| Kurtosis | 13.050 |
| Range | 0.1200 |
| Minimum | 0.0000 |
| Maximum | 0.1200 |
| Sum | 0.410 |

| Table 28: Collection of Processing Fees |
|---------------------------------|-----------------|
| Frequency | Percent | Valid Percent | Cumulative Percent |
| No Fees Charged | 6 | 17.6 | 17.6 | 17.6 |
| Collect Before the Loan Disbursal | 22 | 64.7 | 64.7 | 82.4 |
| Later on with Loan repayments | 6 | 17.6 | 17.6 | 100.0 |
| Total | 34 | 100.0 | 100.0 |
collect the processing fees later, along with the loan repayments.

3.12. Interest Rate Charged by the MFIs

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practised by some microfinance institutions in India. On 19th July 2010, the Governor, Reserve Bank of India also confirmed certain malpractices in MFI functioning for which banks have been asked to take corrective actions. It was also mentioned that and which also states "State Government is the best agency for regulation of the interest rates." The Malegam Committee (2011) appointed by the RBI reports that for the larger MFIs, the effective interest rate charged by the MFIs in India, calculated on the mean of the outstanding loan portfolio as at 31st March 2009 and 31st March 2010, ranged between 31.02% and 50.53% with an average of 36.79%; for the smaller MFIs the average is 28.73%.

The results of the survey reveal that 55.9% of the sample MFIs of Assam prefer charging flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.02% with a minimum of 5% and maximum of 30%.

Malegam Committee recommends that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio.
loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crore. There should also be a cap of 24% on individual loans (para, 7.11).

On analysing the data further, it is seen that of the MFIs who charge flat rate of interest, 31.6% of the MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. Thus, it may be concluded that the flat rate of interest charged by MFIs of Assam is falls in line with the Malegam Committee recommendations.
Further, the data reveals that out of the MFIs charging rate of interest on reducing balance, majority (23.6%) of the MFIs together charge between 18% and 24% reducing rate of interest per annum from their borrowers. This is also as per norms put forward by the Malegam Committee.

There is universal agreement that the interest charges and other terms and conditions should be affordable to clients and at the same time sustainable for MFIs. MFIs need to find the right balance between the pursuit of the social objective of microfinance and the interests of their shareholders. Responsible finance has meaning only in that context. While several MFIs have published vision statements, not many have demonstrated their commitment to that vision.

3. Conclusions

The United Nations Year of Micro-Credit in 2005, the award of Nobel Peace Prize to Muhammad Yunus in 2006, and the performance of Grameen Bank till 2008 gave considerable public recognition to microfinance as a development tool and attracted global attention. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters, viz., (i) assistance in loan application, (ii) average time required for opening deposit accounts, (iii) average time for loan disbursement, (iv) sanctioning authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor’s presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

The results of the study indicate that MFIs of Assam are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. The study also finds that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study also concludes that the majority of the average SHG and JLG loan size of the MFIs of Assam conform to the Malegam Committee recommendation but the majority of the individual loan size of the MFIs is higher than the benchmark set by this committee. The study also finds that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop/home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. The study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam committee recommendations.
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Special Focus on Microfinance in North East Region of India

BANKERS INSTITUTE OF RURAL DEVELOPMENT
LUCKNOW, INDIA
Delivering Microfinance Services by MFI's: A Study in the State of Assam

- Arup Roy*

Abstract

There are different types of microfinance institutions (MFI's) functioning in Assam and the operating mechanism of these MFI's differs from organisation to organisation. The players in the Microfinance sector can be classified under three main groups, viz., (a) the SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio, (b) Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio, and (c) others including trusts, societies, etc., accounting for the balance 8% of the outstanding loan portfolio. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFI's operating in Assam in terms of twelve parameters. The results of the study indicate that some of the MFI's in Assam are violating the government regulations by collecting deposits from the public. The study concludes that the MFI's of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop/home improvement are having lower preferences. The study shows that the average processing fees charged by the MFI's of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. Finally, the study concludes that MFI's in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam Committee recommendations.

Key Words: Microfinance, Financial Institutions, Micro-credit

JEL Classification: G-21, G-29
Introduction and Motivation

Microfinance today has become one of the most debated and documented but still remains a much confused buzzwords in banking and developmental policymaking fields. Actually, in some form or the other, the concept of "microfinance" always existed in almost every society. But, as a more formal process, the history can be traced back to portions of the Marshall Plan at the end of second world war in the middle of the 20th century and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans to the poor as a way to alleviate poverty (Khandelwal, 2007).

Microfinance has proven to financial institutions and banks that the services they provide to their "traditional" clients can also be offered to poor and low-income entrepreneurs and clients, in a sustainable and viable manner. Some global examples of microfinance initiatives are - FINCA and ACCION International of Latin America, Bank Rakyat of Indonesia (BRI), and Grameen Bank of Bangladesh, now acting in more than 50 countries. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microfinance Summit in the 2006 meeting in Halifax celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still reaches only a fraction of the world's poor (Robinson, 2001; Christen et al., 2004). Hence, there is a supply challenge in the industry (Helms, 2006; CGAP, 2004, 2006).

Microfinance is a financial service of small quantity provided by financial institutions (FI) to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc., that is, any type of financial service, provided to customers to meet their normal financial needs: life cycle, economic opportunity and emergency [Dasgupta and Rao 2003] with the only qualification that (i) transaction value is small and (ii) customers are 'poor'.

Microfinance institutions (MFIs) are special financial institutions having a social nature along with for profit motive. Delivering microfinance services is not easy. The challenges are real and the risks are many. Banks such as Equity Bank of Kenya, CRDB of Tanzania and NABARD in India have proved that microfinance can be profitable if local conditions are well understood and microfinance is applied to suit local traditions, cultures and weather cycles. There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients.

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practiced by some microfinance institutions in India. In the wake of rising troubles faced by the microfinance sector, some state governments like Orissa and Andhra Pradesh adopted some steps to regulate the activities of all MFIs. There is a huge demand for microfinance in India and over the last decade there is an exponential growth of MFIs. With this
Delivering Microfinance Services by MFIs: A Study in the State of Assam

exponential growth, microfinance has become one of the fastest growing industries worldwide. But, the lack of proper government interest and regulation resulted in heavy concentration of loans in one state, Andhra Pradesh; over borrowing by the poor; extortionate interest rates; and questionable recovery practices. The Reserve Bank of India (RBI), on Tuesday (3rd May, 2011) accepted the recommendations made by the Malegam Committee with some modifications and it has re-affirmed priority sector status for loans given to microfinance companies. This will have huge impact on the development of microfinance sector in India. Many big successful practitioners of the microfinance industry in India welcome this move of RBI which the microfinance industry required after waiting for more than two decades. Vijay Mahajan (Head of MFIN), Sunil Agarwal (Managing Director of SE Investments), Vikram Akula (CEO of SKS Microfinance) and many other MFI officials feel that this would bring highly positive outcomes for the development of the entire Microfinance Sector in India.

In India, mainstream banks have begun to look seriously at the microfinance market. In the past five years, Citigroup Foundation has made US $17 million in grants to 178 microfinance partners in 50 countries. Similarly, Deutsche Bank Foundation has recently launched the US $1.5 million microfinance Financial Development Fund. On a national scale, NABARD, as of 2003, had provided almost $200 million worth of capital to village microfinance groups through its SHG-bank linkage programme. ICICI Bank has been a pioneer in implementing new microfinance outreach channels, in partnering with MFIs and in providing low-cost sources of commercial funds. In the last year, ICICI has completed two portfolio securitisation deals with microfinance institutions, with a total value of almost US $10 million.

Parikh (2006) found three common and persistent technical challenges for institutions in reaching their outreach and sustainability goals regardless of size, location, lending methodology, philosophy, etc., of the MFIs - viz.,
(a) Collection of information from remote rural clients
(b) Management and information systems at the institutional level,
(c) Conducting financial transactions in remote rural areas.

According to Mohammad Yunus, founder of the Grameen Bank and one of the pioneers of microfinance, "the first principle of Grameen banking is that the clients should not go to the bank, it is the bank which should go to the people." Dr. Yunus perceived that to alleviate other potential imbalances, financial services should be provided to poor people on their terms, in a manner that was respectful of their needs, activities and livelihoods. At the Grameen Bank, this means that "12,000 staff serve 3.2 million clients in 45,000 villages spread out all over Bangladesh, every week".

There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients. This paper has sought to highlight some of the issues of microfinance service delivery by the MFIs of Assam.
2. Research Methodology

The primary objective of this study is to understand the microfinance service delivery practices by the MFIs of Assam. The microfinance service delivery mechanism is explained in terms of the following dimensions:-

(i) Assistance in loan application.
(ii) Time required for opening a deposit account.
(iii) Time required for loan disbursement.
(iv) Sanctioning authority of the loan.
(v) Size of loan amount.
(vi) Repayment period.
(vii) Guarantor's attendance.
(viii) Purpose of the loan.
(ix) Mode of loan delivery.
(x) Processing fees charged by MFIs.
(xi) Collection of processing fees.
(xii) Interest rate charged by MFIs.

To achieve the above objective, a sample survey was conducted during June - October, 2010 in various districts of Assam. Database of the Centre for Microfinance Livelihood (CML), 2010 was considered to select the samples. Final samples were selected based on the MFIs' outreach, i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs which have been offering microfinance services to their beneficiaries at least for the last three years were selected. The total sample size considered for the study is 40. Finally, with six rejections, 34 samples were considered for the study.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. The CML data base was published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

From this data base, we have selected only those MFIs that are continuing micro-credit operations at least for the last three years. After this first level screening, the number of available MFIs came down from 212 to 79 as shown in table 2.

Thus, we have finally selected 34 MFIs (43% of the sample population) based on the MFI's outreach, i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010, as the reference period.

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO-MFIs</td>
<td>84</td>
</tr>
<tr>
<td>MFIs</td>
<td>7</td>
</tr>
<tr>
<td>NGOs</td>
<td>121</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Institutions</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI</td>
<td>6</td>
</tr>
<tr>
<td>NGO</td>
<td>8</td>
</tr>
<tr>
<td>NGO-MFI</td>
<td>65</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: Compiled by Author from CML.
3. Microfinance Services of MFIs

To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance delivery mechanism adopted by the different MFIs of Assam. The microfinance delivery system is explained in terms of twelve variables, viz., (i) assistance in loan application, (ii) average time required for opening a demand deposit, (iii) average time of loan disbursement, (iv) Sanctioning Authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

3.1. Assistance in Loan Application

The results of the survey indicate that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form.

<table>
<thead>
<tr>
<th>Table 3: Assistance in Loan Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Therefore, it may be concluded that the MFIs of Assam are providing required assistance to their clients as most of them live in remote areas and are not aware of the financial transactions.

3.2. Time Required for Opening a Deposit Account

<table>
<thead>
<tr>
<th>Table 4: Average Time Required for Opening a RD Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>MFIs With RD</td>
</tr>
<tr>
<td>MFIs without RD</td>
</tr>
<tr>
<td>Total No. of MFIs</td>
</tr>
</tbody>
</table>

The results of the survey indicate that the average time required by the MFIs to open a recurring deposit account is 1.11 days with standard deviation of 0.33 days. Moreover, out of 34 MFIs, only 9 MFIs offer recurring deposit account to their clients which represent 26.5% of the total sample MFIs.
The sample survey reveals that the average time required by the MFIs to open a fixed deposit account is 1.5 days with standard deviation of 0.71 days. Moreover, out of 34 MFIs, only 2 MFIs offer fixed deposit account to their clients which represents only 5.9% of the total sample MFIs.

Further, it has been found that the average time required by the MFIs to open a savings deposit account is 4 days with standard deviation of 7.10 days. Moreover, out of 34 MFIs, only 7 MFIs offer savings deposit account to their clients which represent 20.6% of the total sample MFIs.

<table>
<thead>
<tr>
<th>Days</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>2.9</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>2.9</td>
<td>50.0</td>
<td>100.0</td>
</tr>
<tr>
<td>MFIs With FD</td>
<td>2</td>
<td>5.9</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>MFIs without FD</td>
<td>32</td>
<td>94.1</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thus, it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. So, it has been found that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. While discussing the issue with MFI officials during the primary survey, they opined that there is a huge demand and clients are demanding that the MFIs should not discontinue this service.

### 3.3. Time Required for Loan Disbursement

The time taken to disburse a loan basically depends on availability of the fund of the MFI and also the official formalities. The results of the survey indicate that the average time required by the MFIs to disburse a loan is 27.47 days with standard deviation of 42.50 days.

On further investigation, the data reveals that 47.1% of the sample MFIs provide emergency loan to their clients for medical, education or business purposes. The average time to disburse an emergency loan is 2.81 days with standard deviation of 2.48 days.
Table 7: Average Time of a Loan Disbursement

<table>
<thead>
<tr>
<th>Days</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
<td>14.7</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>20.6</td>
<td>20.6</td>
<td>35.3</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>38.2</td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
<td>44.1</td>
</tr>
<tr>
<td>12</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>47.1</td>
</tr>
<tr>
<td>15</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>70.6</td>
</tr>
<tr>
<td>20</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
<td>76.5</td>
</tr>
<tr>
<td>30</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
<td>85.3</td>
</tr>
<tr>
<td>42</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>88.2</td>
</tr>
<tr>
<td>90</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>91.2</td>
</tr>
<tr>
<td>120</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>94.1</td>
</tr>
<tr>
<td>150</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>97.3</td>
</tr>
<tr>
<td>180</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 8: Average Time of an Emergency Loan Disbursement

<table>
<thead>
<tr>
<th>Days</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9</td>
<td>26.5</td>
<td>56.2</td>
<td>56.2</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>2.9</td>
<td>6.2</td>
<td>62.5</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>2.9</td>
<td>6.2</td>
<td>68.8</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>5.9</td>
<td>12.5</td>
<td>81.2</td>
</tr>
<tr>
<td>7</td>
<td>3</td>
<td>8.8</td>
<td>18.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

MFIs Providing Emergency Loan: 16 (47.1%)
MFIs Not Providing Emergency Loan: 18 (52.9%)
Total: 34 (100.0%)

Therefore, it may be concluded that the MFIs of Assam are flexible in understanding the genuine requirements of their clients and disburse emergency loan within 2-3 days without much of official formalities.

3.4. Sanctioning Authority of the Loan

It has been observed that for 79.4% of the sample MFIs, the loan sanctioning authority is a committee. The committee names vary from MFI to MFI. The different
names of these committees are - Area Co-ordinators Committee, Credit Committee, Executive Committee, Governing Body, Loan Sanctioning/Disbursement Committee, Loan Processing Unit, or Microfinance Unit. On the other hand, for 20.6% of the sample MFIs, the loan sanctioning authority is a single person viz., Area Manager, Branch manager, Junior Operation Manager, Chief Manager, or Secretary.

3.5. Size of Loan Amount

Size of the loan of any financial institution represents the depth of the loan outreach. It is important to restrict the size of individual loans as larger loans can lead to over-borrowing, diversion of funds and size of repayment installments which are beyond the repayment capacity of the borrower. Currently in India, most MFIs give individual loans which are between Rs 10,000 and Rs 15,000. However, some large NBFCs also give higher loans, even in excess of Rs 50,000 for special purposes like micro-enterprises, housing and education (Malegam Committee Report, 2011). The descriptive statistics of the three categories of loan, i.e., SHG, JLG and Individual loan given by the MFIs of Assam is given below.

The data reveals that the average minimum size of individual member SHG loan amount is Rs 2403 and maximum is Rs 16,225. Generally, SHGs (Self Help Groups) comprise of 10 to 20 members in the same locality. So one SHG of 15 members may get a minimum loan of Rs 36,045 and maximum up to Rs 2,43,375. The majority (25.8%) of the sample MFIs specified the average minimum individual loan at Rs 1000 and

<table>
<thead>
<tr>
<th>Table 9: Sanctioning Authority of the Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>A Single Person</td>
</tr>
<tr>
<td>A Committee</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

| Table 10: Descriptive Statistics on Loan Size of SHG, JLG and Individual Loan |
|-----------------|-----------------|-----------------|-----------------|
|                  |
|                  | SHG Loan         | JLG Loan         | Individual Loan |
| MFIs Providing Loans (Nos.) | Minimum | Maximum | Minimum | Maximum | Minimum | Maximum |
| MFIs Not Providing Loans (Nos.) | 3       | 3       | 9       | 9       | 13      | 13      |
| Mean (Rs)        | 2403             | 16225            | 3180             | 24480            | 2838     | 53333   |
| Std. Error of Mean (Rs) | 279                | 2102             | 334               | 3595             | 420      | 9767    |
| Median (Rs)      | 2000             | 10000            | 3000              | 20000            | 3000     | 40000   |
| Mode (Rs)        | 1000             | 10000            | 5000              | 10000            | 5000     | 50000   |
| Std. Deviation (Rs) | 1556             | 11703            | 1670              | 17979            | 1924     | 447589  |
| Skewness (Rs)    | 398              | 1.533            | -2.47             | 1.015            | .032     | 1.997   |
| Kurtosis (Rs)    | -1.206           | 2.742            | -1.637            | -.014            | -1.833   | 4.783   |
| Range (Rs)       | 4500             | 47000            | 40000             | 65000            | 4900     | 190000  |
| Minimum (Rs)     | 5000             | 5000             | 10000             | 50000            | 100      | 10000   |
| Maximum (Rs)     | 5000             | 50000            | 50000             | 70000            | 5000     | 200000  |
Table 11: Minimum Size of Individual SHG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>4</td>
<td>11.8</td>
<td>12.9</td>
</tr>
<tr>
<td>1000</td>
<td>8</td>
<td>23.5</td>
<td>25.8</td>
</tr>
<tr>
<td>1500</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>2000</td>
<td>3</td>
<td>8.8</td>
<td>9.7</td>
</tr>
<tr>
<td>2500</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>3000</td>
<td>6</td>
<td>17.6</td>
<td>19.4</td>
</tr>
<tr>
<td>4000</td>
<td>3</td>
<td>8.8</td>
<td>9.7</td>
</tr>
<tr>
<td>4500</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>5000</td>
<td>4</td>
<td>11.8</td>
<td>12.9</td>
</tr>
</tbody>
</table>

MFs Providing 31 91.2 100.0
MFs Not Providing 3 8.8
Total 34 100.0

Table 12: Maximum Size of Individual SHG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3000</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>5000</td>
<td>5</td>
<td>14.7</td>
<td>16.1</td>
</tr>
<tr>
<td>6000</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>10000</td>
<td>9</td>
<td>26.5</td>
<td>29.0</td>
</tr>
<tr>
<td>15000</td>
<td>2</td>
<td>5.9</td>
<td>6.5</td>
</tr>
<tr>
<td>20000</td>
<td>6</td>
<td>17.6</td>
<td>19.4</td>
</tr>
<tr>
<td>24000</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>25000</td>
<td>3</td>
<td>8.8</td>
<td>9.7</td>
</tr>
<tr>
<td>30000</td>
<td>1</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>50000</td>
<td>2</td>
<td>5.9</td>
<td>6.5</td>
</tr>
</tbody>
</table>

MFs Providing 31 91.2 100.0
MFs Not Providing 3 8.8
Total 34 100.0

MFs Providing 31 91.2 100.0
MFs Not Providing 3 8.8
Total 34 100.0

Table 13: Minimum Size of Individual JLG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>7</td>
<td>20.6</td>
<td>28.0</td>
</tr>
<tr>
<td>1500</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>2500</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>3000</td>
<td>4</td>
<td>11.8</td>
<td>16.0</td>
</tr>
<tr>
<td>4000</td>
<td>3</td>
<td>8.8</td>
<td>12.0</td>
</tr>
<tr>
<td>4500</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>5000</td>
<td>8</td>
<td>23.5</td>
<td>32.0</td>
</tr>
</tbody>
</table>

MFs Providing 25 73.5 100.0
MFs Not Providing 9 26.5
Total 34 100.0

Table 14: Maximum Size of Individual JLG Loan

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>8000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>10000</td>
<td>8</td>
<td>23.5</td>
<td>32.0</td>
</tr>
<tr>
<td>15000</td>
<td>2</td>
<td>5.9</td>
<td>8.0</td>
</tr>
<tr>
<td>20000</td>
<td>3</td>
<td>8.8</td>
<td>12.0</td>
</tr>
<tr>
<td>24000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>25000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>30000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
<tr>
<td>40000</td>
<td>2</td>
<td>5.9</td>
<td>8.0</td>
</tr>
<tr>
<td>50000</td>
<td>4</td>
<td>11.8</td>
<td>16.0</td>
</tr>
<tr>
<td>70000</td>
<td>1</td>
<td>2.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>

MFs Providing 25 73.5 100.0
MFs Not Providing 9 26.5
Total 34 100.0

29% of the MFIs specified the average maximum individual loan at Rs 10,000.

A JLG (Joint Liability Group) is smaller in size and generally consists of 2 to 5 members of the same locality. The average minimum size of individual member JLG loan amount was found to be Rs 3180 and maximum is Rs 24,480. So one JLG having 5 members may get an average minimum loan amount of Rs 15,900 and maximum of Rs 1,22,400. The majority (32%) of the sample MFIs specified the average minimum individual JLG loan at Rs 5000 and the average maximum individual JLG loan at Rs 10,000.
Similarly, the average minimum size of individual loan amount is Rs 2,838 and maximum is Rs 53,333. The majority (38.1%) of the sample MFIs specified the average minimum individual loan at Rs 5000 and 23.8% of the MFIs specified the average maximum individual loan at Rs 50,000.

<table>
<thead>
<tr>
<th>Loan Size (Rs)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>15000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>20000</td>
<td>2</td>
<td>5.9</td>
<td>9.5</td>
</tr>
<tr>
<td>25000</td>
<td>3</td>
<td>8.8</td>
<td>14.3</td>
</tr>
<tr>
<td>30000</td>
<td>3</td>
<td>8.8</td>
<td>14.3</td>
</tr>
<tr>
<td>40000</td>
<td>1</td>
<td>2.9</td>
<td>4.6</td>
</tr>
<tr>
<td>50000</td>
<td>5</td>
<td>14.7</td>
<td>23.8</td>
</tr>
<tr>
<td>100000</td>
<td>4</td>
<td>11.8</td>
<td>19.0</td>
</tr>
<tr>
<td>200000</td>
<td>1</td>
<td>2.9</td>
<td>4.8</td>
</tr>
</tbody>
</table>

MFIs Providing | 21 | 61.8 | 100.0 |
MFIs Not Providing | 13 | 38.2 |       |
Total | 34 | 100.0 |       |

Thus, it is seen that the average size of the individual SHG loan ranges from Rs 2,403 to Rs 16,225; average size of the individual JLG loan ranges from Rs3180 to Rs 24,480; and the average size of the individual loan ranges from Rs 2838 to Rs 53,333. The recent Malegam Committee (2011) recommends that the size of an individual loan should be restricted to Rs 25,000. Further, to prevent over-borrowing, the aggregate value of all outstanding loans of an individual borrower should also be restricted to Rs 25,000. The data reveals that for 28 MFIs, the individual SHG loan is less than Rs 25,000. Similarly for 17 MFIs, the individual JLG loan is less than Rs 25,000. On the other hand, only for 7 MFIs, the individual loan is less than Rs 25,000. Therefore, it may be concluded that the majority of the average SHG and JLG loan size of the MFIs of Assam conforms to the Malegam Committee recommendation, but, the majority of the individual loan size is higher than the benchmark set by this committee.

3.6. Repayment Period

MFIs normally give loans which are repayable within 12 months irrespective of the amount of the loan (Malegam Committee, 2011). However, the larger the loan, the larger the amount of the repayment installment, and a large installment may strain the repayment capacity of the borrower and result in multiple borrowing. At the same time, if the repayment installment is too small, it would leave surplus cash with the
borrower which could be diverted to other uses and not be available for repayment when repayment is due. The loan repayment period prescribed by the MFIs for their clients varies from MFI to MFI. The descriptive statistics of the loan repayment period offered by the MFIs of Assam is given below.

Analysing the data, it has been observed that the minimum average loan repayment period offered by the MFIs of Assam is nearly 10 months and maximum average repayment period is approximately 19 months. Further, it is seen that the minimum loan repayment period specified by the MFIs of Assam is 1 month and maximum is up to 48 months.

The data reveals that the majority (44.1%) of the sample MFIs' minimum loan repayment period specified for their clients is 12 months. 38.2% of the sample MFIs revealed that the maximum loan repayment period specified by them is 12 months. Some MFIs offer weekly repayment option to their clients also.

On further investigation, it was found that 11.4% of the MFIs fixed their loan repayment period at 50 weeks for the clients. Only 2.9% of the sample MFIs fixed the loan repayment period as per the clients' convenience. Surprisingly, in some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalised and charged the entire loan period's interest. This violates the

---

### Table 17: Loan Repayment Period Specified by the MFIs

<table>
<thead>
<tr>
<th>Minimum Time in Months</th>
<th>Maximum Time in Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No. of MFIs</td>
<td>34</td>
</tr>
<tr>
<td>Mean</td>
<td>9.71</td>
</tr>
<tr>
<td>Std. Error of Mean</td>
<td>0.82</td>
</tr>
<tr>
<td>Median</td>
<td>12.00</td>
</tr>
<tr>
<td>Mode</td>
<td>12.00</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>4.78</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.74</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.24</td>
</tr>
<tr>
<td>Range</td>
<td>17.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>18.00</td>
</tr>
</tbody>
</table>

### Table 18: Minimum Loan Repayment Time

<table>
<thead>
<tr>
<th>Months</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>14.7</td>
<td>14.7</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>10</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>11.5</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>12</td>
<td>15</td>
<td>44.1</td>
<td>44.1</td>
</tr>
<tr>
<td>15</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>18</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### Table 19: Maximum Loan Repayment Time

<table>
<thead>
<tr>
<th>Months</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>11.5</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>12</td>
<td>13</td>
<td>38.2</td>
<td>38.2</td>
</tr>
<tr>
<td>15</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>16</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>18</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>24</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>25</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>36</td>
<td>5</td>
<td>14.7</td>
<td>14.7</td>
</tr>
<tr>
<td>48</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Malegam Committee recommendation [para 5.9 (b) iii]. The Committee suggested that for loans not exceeding Rs 15,000, the tenure of the loan should not be less than 12 months and for other loans the tenure should not be less than 24 months. The borrower should however have the right of prepayment in all cases without attracting penalty.

Thus, it may be concluded that majority of the MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some MFIs of Assam for loan prepayments.

3.7. Guarantor’s Attendance

The data reveals that majority (58.8%) of the sample MFIs do not require the guarantor’s presence at the office of the MFI prior to disbursement of the loan. On the other hand, in 41.2% of the sample MFIs, the guarantor needs to be present at the time of the loan disbursement.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>20</td>
<td>58.8</td>
<td>58.8</td>
<td>58.8</td>
</tr>
<tr>
<td>Yes</td>
<td>14</td>
<td>41.2</td>
<td>41.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

3.8. Purpose of the Loan

It is often argued that loans should not be restricted to income generating activities alone, but should also be given for other purposes such as repayment of high-cost loans of moneylenders, education, medical expenses, consumption smoothing, acquisition of household assets, housing, emergencies, etc. A recent study by the Centre for Microfinance, Hyderabad indicates that Microfinance is useful in smoothing consumption and relieving seasonal liquidity crises that visit poor families and that it obviates the need for high-cost borrowing from informal sources. A balance has to be struck between the benefits of restricting loans only for income-generating purposes and recognition of the needs of low-income groups for loans for other purposes.

Malegam Committee has recommended that not more than 25% of the loans granted by MFIs should be for non-income generating purposes [para 5.6 (e)]. The results of the survey indicate that majority (94.1%) of the MFIs in Assam are giving loan to their clients for agricultural purposes. The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), dairy (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes include - consumption, marriage, milk vendors, stationary/grocery, tea stall, freeing from moneylenders, tailoring, masala preparation, sugarcane cultivation, maternity, sericulture, terracotta, duckery, mastered cultivation, and pottery items.
According to the study on "Access to Finance in Andhra Pradesh, 2010, CMF/IFMR, Chennai", the usage of loans given by JLGs and SHGs is as under:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particular</th>
<th>JLG%</th>
<th>SHG%</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>Income Generating</td>
<td>25.6</td>
<td>25.4</td>
</tr>
<tr>
<td>ii)</td>
<td>Repayment of old debt</td>
<td>25.4</td>
<td>20.4</td>
</tr>
<tr>
<td>iii)</td>
<td>Health</td>
<td>10.9</td>
<td>18.6</td>
</tr>
<tr>
<td>iv)</td>
<td>Shop/Home Improvement</td>
<td>22.1</td>
<td>13.5</td>
</tr>
<tr>
<td>v)</td>
<td>Education</td>
<td>4.4</td>
<td>5.7</td>
</tr>
<tr>
<td>vi)</td>
<td>Others</td>
<td>11.6</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Source: CMF/IFMR, 2010

Summarising the survey results under the above six categories, it is seen that majority (82%) of the MFIs of Assam are disbursing loan for income generating purposes. The other purposes of the loan are shown in the following table.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particular</th>
<th>Frequency SHG/ JLG/Individual</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>Income Generating</td>
<td>265</td>
<td>82.0</td>
</tr>
<tr>
<td>ii)</td>
<td>Repayment of old debt</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>iii)</td>
<td>Health</td>
<td>17</td>
<td>5.3</td>
</tr>
<tr>
<td>iv)</td>
<td>Shop/Home Improvement</td>
<td>20</td>
<td>6.2</td>
</tr>
<tr>
<td>v)</td>
<td>Education</td>
<td>18</td>
<td>5.6</td>
</tr>
<tr>
<td>vi)</td>
<td>Others</td>
<td>2</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Therefore, it may be concluded that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences.
3.9. Mode of Loan Delivery

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Only 8.8% of the MFIs deliver the loan amount at the clients' place through the field co-ordinators or field officers. Moreover, 29.4% of the sample MFIs provides both the options of delivering the sanctioned loan amount at the client's place or at the MFI office.
Table 24: Mode of Loan Delivery

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Client's Place</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>At MFI Office</td>
<td>21</td>
<td>61.8</td>
<td>61.8</td>
</tr>
<tr>
<td>Both Options are available</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

On further investigation, it is seen that the mode of payment of the majority (50%) of the MFIs is through cheque. Only 29.4% of the samples MFIs disburse the loan by cash and 20.6% of the sample MFIs provide the loan either through cash or through cheque as per the convenience of the client. Further, it was found that for smaller loan amounts of less than Rs 3,000, the disbursement is done through cash and for higher loan amount, it is paid through cheques. The data also reveals that cash is disbursed to the JLGs and mode of payment to the SHGs is through cheque. Some MFIs issue bearer cheque and some others issue account payee cheques to their clients.

Table 25: Mode of Payment

<table>
<thead>
<tr>
<th>Mode of Payment</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>Cheque</td>
<td>17</td>
<td>50.0</td>
<td>50.0</td>
<td>79.4</td>
</tr>
<tr>
<td>Cash or Cheque</td>
<td>7</td>
<td>20.6</td>
<td>20.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

In some cases where MFIs are only assisting the SHGs in bank linkage, the loan amount is transferred to the SHG's group account by the bank. Few MFIs are also adopting the modern core banking facility of SBI and depositing the loan amount in the clients' SBI core banking account. Thus, it may be concluded that the majority of the MFIs of Assam are disbursing the loan amount through cheque and some MFIs are flexible as per the need of their clients' convenience and disburse the loan amount either by cash as well by giving both the option to their client.

3.10. Processing Fees Charged by the MFIs

The Malegam Committee suggested that MFIs should levy only two charges apart from the insurance premium. These two charges should consist of an upfront fee towards the processing of the loan which

Table 26: MFIs Charging Processing Fees

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>6</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Yes</td>
<td>28</td>
<td>82.4</td>
<td>82.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
should not exceed 1% of the gross loan amount, and an interest charge. The results of the survey indicate that majority (82.4%) of the MFIs in Assam charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. Generally, the MFIs which do not charge any processing fees are perceived to be more socially responsible than the others.

The data showed that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients with a standard deviation of 2.54%. Moreover, we find that the maximum processing fees charged is up to 12% of the total loan amount which is very high. Therefore it may be concluded that some MFIs of Assam are not charging any processing fees, but the majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011.

On further investigation it has been observed that some MFIs take fixed charges of Rs 10, Rs 15, Rs 50 or Rs 200 per loan, whereas some other MFIs charge 1% of the loan amount for a loan of more than Rs 25,000 or 0.5% of the loan amount for a loan of Rs 50,000. For some other MFIs who are involved in the bank linkage, the maximum processing charge is Rs 500 to Rs 3,000 depending on the work volume including documentation. Thus, it may be concluded that there is no unanimity in the processing fees charged by the MFIs of Assam and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

3.11. Collection of Processing Fees.

The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement. Some of the MFIs, on the other hand

<table>
<thead>
<tr>
<th>Table 27: Descriptive Statistics of Processing Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Processing Fees in % of Loan Amount</td>
</tr>
<tr>
<td>No. of MFIs Charging Processing Fees</td>
</tr>
<tr>
<td>No. of MFIs Charging No Processing Fees</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
<tr>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Skewness</td>
</tr>
<tr>
<td>Kurtosis</td>
</tr>
<tr>
<td>Range</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Sum</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 28: Collection of Processing Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>----------------------------------------</td>
</tr>
<tr>
<td>No Fees Charged</td>
</tr>
<tr>
<td>Collect Before the Loan Disbursal</td>
</tr>
<tr>
<td>Later on with Loan repayments</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
collect the processing fees later, along with the loan repayments.

3.12. Interest Rate Charged by the MFIs

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practised by some microfinance institutions in India. On 19th July 2010, the Governor, Reserve Bank of India also confirmed certain malpractices in MFI functioning for which banks have been asked to take corrective actions. It was also mentioned that and which also states "State Government is the best agency for regulation of the interest rates." The Malegam Committee (2011) appointed by the RBI reports that for the larger MFIs, the effective interest rate charged by the MFIs in India, calculated on the mean of the outstanding loan portfolio as at 31st March 2009 and 31st March 2010, ranged between 31.02% and 50.53% with an average of 36.79%; for the smaller MFIs the average is 28.73%.

The results of the survey reveal that 55.9% of the sample MFIs of Assam prefer charging flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.02% with a minimum of 5% and maximum of 30%.

Malegam Committee recommends that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 200 crore. The Malegam Committee recommends that a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 200 crore.

Table 29: Descriptive Statistics of the Interest Rate Charged by MFIs of Assam

<table>
<thead>
<tr>
<th>Lending Annual Interest Rate</th>
<th>Flat Interest Rate</th>
<th>Reducing Rate of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of MFIs Charging</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Mean</td>
<td>16.63</td>
<td>18.20</td>
</tr>
<tr>
<td>Std. Error of Mean</td>
<td>1.22</td>
<td>1.58</td>
</tr>
<tr>
<td>Median</td>
<td>15.00</td>
<td>18.00</td>
</tr>
<tr>
<td>Mode</td>
<td>15.00</td>
<td>18.00</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>5.30</td>
<td>6.12</td>
</tr>
<tr>
<td>Variance</td>
<td>28.05</td>
<td>37.46</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.22</td>
<td>0.10</td>
</tr>
<tr>
<td>Std. Error of Skewness</td>
<td>0.52</td>
<td>0.58</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.99</td>
<td>-0.31</td>
</tr>
<tr>
<td>Std. Error of Kurtosis</td>
<td>1.01</td>
<td>1.12</td>
</tr>
<tr>
<td>Range</td>
<td>16.00</td>
<td>23.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>8.00</td>
<td>7.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>24.00</td>
<td>30.00</td>
</tr>
<tr>
<td>Sum</td>
<td>316.00</td>
<td>273.00</td>
</tr>
</tbody>
</table>

Table 30: Lending Annual Interest Rate (Flat)

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>8.5</td>
<td>1</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>8.8</td>
<td>15.8</td>
</tr>
<tr>
<td>15</td>
<td>6</td>
<td>17.6</td>
<td>31.6</td>
</tr>
<tr>
<td>16</td>
<td>1</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>17.5</td>
<td>1</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>24</td>
<td>5</td>
<td>14.7</td>
<td>26.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MFIs With Flat</th>
<th>19</th>
<th>55.9</th>
<th>100.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No. of MFIs</td>
<td>34</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crore. There should also be a cap of 24% on individual loans (para, 7.11).

On analysing the data further, it is seen that of the MFIs who charge flat rate of interest, 31.6% of the MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. Thus, it may be concluded that the flat rate of interest charged by MFIs of Assam is falls in line with the Malegam Committee recommendations.

![Figure 2: Lending Annual Interest Rate-Flat](image)

![Figure 3: Lending Annual Interest Rate-Reducing](image)

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>7</td>
<td>2.9</td>
<td>6.7</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>8.8</td>
<td>20.0</td>
</tr>
<tr>
<td>16</td>
<td>2</td>
<td>5.9</td>
<td>13.3</td>
</tr>
<tr>
<td>18</td>
<td>4</td>
<td>11.8</td>
<td>26.7</td>
</tr>
<tr>
<td>24</td>
<td>4</td>
<td>11.8</td>
<td>26.7</td>
</tr>
<tr>
<td>30</td>
<td>1</td>
<td>2.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>44.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

| Missing System | 19 | 55.9  |
| Total          | 34 | 100.0 |
Further, the data reveals that out of the MFIs charging rate of interest on reducing balance, majority (23.6%) of the MFIs together charge between 18% and 24% reducing rate of interest per annum from their borrowers. This is also as per norms put forward by the Malegam Committee.

There is universal agreement that the interest charges and other terms and conditions should be affordable to clients and at the same time sustainable for MFIs. MFIs need to find the right balance between the pursuit of the social objective of microfinance and the interests of their shareholders. Responsible finance has meaning only in that context. While several MFIs have published vision statements, not many have demonstrated their commitment to that vision.

3. Conclusions

The United Nations Year of Micro-Credit in 2005, the award of Nobel Peace Prize to Muhammed Yunus in 2006, and the performance of Grameen Bank till 2008 gave considerable public recognition to microfinance as a development tool and attracted global attention. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters, viz., (i) assistance in loan application, (ii) average time required for opening deposit accounts, (iii) average time for loan disbursement, (iv) sanctioning authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

The results of the study indicate that MFIs of Assam are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. The study also finds that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study also concludes that the majority of the average SHG and JLG loan size of the MFIs of Assam conform to the Malegam Committee recommendation but the majority of the individual loan size of the MFIs is higher than the benchmark set by this committee. The study also finds that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. The study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam committee recommendations.


Citigroup homepage, April (2004): Available at: http://www.citigroup.com/citigroup/citizen/community/


ICICI social initiatives homepage, December (2005): Available at: http://www.icicisocialinitiatives.org/


NABARD, December (2005): Available at: http://www.nabad.org/oper/oper.htm


The Economist (2005): Whether Rich or Poor, Technology is Key to Financial Services Micro No more, November 4.


Notes

Malegam Committee (2011) recommended that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crores. There should also be a cap of 24% on individual loans.
## Appendix I

List of the MFIs surveyed in Assam

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Acronyms of MFIs</th>
<th>Full Name of MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PRDS</td>
<td>Pragati Rural Development Society</td>
</tr>
<tr>
<td>2</td>
<td>MZGPS</td>
<td>Morigaon Zila Gramya Puthibharal Sangha</td>
</tr>
<tr>
<td>3</td>
<td>NCS</td>
<td>Nightingale Charitable Society</td>
</tr>
<tr>
<td>4</td>
<td>PROCHESTA</td>
<td>Frochesta</td>
</tr>
<tr>
<td>5</td>
<td>ASOMI</td>
<td>Asomi</td>
</tr>
<tr>
<td>6</td>
<td>GS</td>
<td>Grameen Sahara</td>
</tr>
<tr>
<td>7</td>
<td>RGVN</td>
<td>Rastrya Gramin Vikash Nidhi</td>
</tr>
<tr>
<td>8</td>
<td>RGVN NE</td>
<td>RGVN North East Microfinance Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>CRD</td>
<td>Centre for Rural Development</td>
</tr>
<tr>
<td>10</td>
<td>AAMIVA</td>
<td>Association for Advancement of Micro Institution and Voluntary Action</td>
</tr>
<tr>
<td>11</td>
<td>ASC</td>
<td>Ajagar Social Circle</td>
</tr>
<tr>
<td>12</td>
<td>GSEDC</td>
<td>Gandhinagar Socio Economic Development</td>
</tr>
<tr>
<td>13</td>
<td>AGUP</td>
<td>Anchalik Gram Unnayan Parishad</td>
</tr>
<tr>
<td>14</td>
<td>Pancharatna</td>
<td>Pancharatna Gramya Vikash Kendra</td>
</tr>
<tr>
<td>15</td>
<td>GM</td>
<td>Gwudan Muga</td>
</tr>
<tr>
<td>16</td>
<td>WDS</td>
<td>Weavers Development Society</td>
</tr>
<tr>
<td>17</td>
<td>BJS</td>
<td>Bishnujyoti Janakalyan Samiti</td>
</tr>
<tr>
<td>18</td>
<td>GVM</td>
<td>Gramya Vikash Mancha</td>
</tr>
<tr>
<td>19</td>
<td>LSS</td>
<td>Lok Seva Samiti</td>
</tr>
<tr>
<td>20</td>
<td>AD</td>
<td>Asha Darshan</td>
</tr>
<tr>
<td>21</td>
<td>SATRA</td>
<td>Social Action for Appropriate Transformation and Advancement in Rural Areas</td>
</tr>
<tr>
<td>22</td>
<td>SDC</td>
<td>Sipajhar Diamond Club Community Centre</td>
</tr>
<tr>
<td>23</td>
<td>AGUS</td>
<td>Associated Gramya Unnayan Society</td>
</tr>
<tr>
<td>24</td>
<td>Renaissance</td>
<td>Renaissance</td>
</tr>
<tr>
<td>25</td>
<td>MASK</td>
<td>Mahila Sakti Kendra</td>
</tr>
<tr>
<td>26</td>
<td>DASK</td>
<td>Doulung Ajon Samajik Kendra</td>
</tr>
<tr>
<td>27</td>
<td>JPYS</td>
<td>Jyoti Puthibharal &amp; Yubak Sangha</td>
</tr>
<tr>
<td>28</td>
<td>DPYS</td>
<td>Donyi Polo Youth Society</td>
</tr>
<tr>
<td>29</td>
<td>ROAD</td>
<td>ROAD</td>
</tr>
<tr>
<td>30</td>
<td>RMI</td>
<td>Rainbow Microfinance Institution</td>
</tr>
<tr>
<td>31</td>
<td>MACC</td>
<td>Monacherra Athletic &amp; Cultural Club</td>
</tr>
<tr>
<td>32</td>
<td>DC</td>
<td>Deshbandhu Club</td>
</tr>
<tr>
<td>33</td>
<td>Sonali</td>
<td>Sonali SHG Unnayan Samiti</td>
</tr>
<tr>
<td>34</td>
<td>Mandal</td>
<td>Mandal</td>
</tr>
</tbody>
</table>
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  Swarni P. Saxena and Sonam Bhadauriya

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Book Reviews

Asia-Pacific Institute of Management, New Delhi
Inclusive Growth through MFIs’ Outreach in Assam

Arup Roy

Inclusive growth refers to ensuring that all the phases of development (designing, implementation, monitoring, evaluation) include the whole population of economy. The primary objective of this research is to illustrate and assess the role of microfinance outreach by MFIs towards bringing inclusive growth in Assam. Top 34 MFIs are selected based on their number of active clients. Primary data is collected from MFIs during June - October, 2010. The study concludes that the microfinance outreach by MFIs of Assam is growing at a faster pace of 38.31% in the last three years and also playing an important role in providing financial services to the poorer section of the society - not reached by the formal banking and other financial systems. The results of this study indicate that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Finally, the study concludes that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

Keywords: Inclusive Growth, Microfinance, MFIs, Outreach, Assam

Introduction

Inclusive growth is an important means for correcting regional imbalances and inequitable distribution (The India Development Policy Report, 2006, World Bank). Hence, reducing inequality has become a major concern of development policy, a concern that has generated interest in inclusive growth. Very recently, the report of the Eminent Persons Group that was initiated by the Asian Development Bank (ADB 2007c) made reference to the term “inclusive growth”, which emphasizes ensuring that the economic opportunities created by growth are available to all—particularly the poor—to the maximum possible extent (see also Ali and Zhuang 2007). By inclusive growth, we mean that growth process which benefits all sections and all regions of the economy, though not in uniform manner. In other words, the growth of a country would be considered to be an inclusive growth if along with the increase in the GDP (Gross Domestic Product) of a country, the HDI (Human Development Index) also increases. Faster growth and human development in poor countries like India are essential to reduce global inequality and to reach the Millennium development Goals (MDGs). In the Indian context, inclusiveness in economic growth has to be accompanied by socio-political process, which simultaneously dismantles the socio-economic barriers of discrimination based on caste, gender, religion and ethnicity without which economic growth will not percolate downwards to the masses. The XI plan (2007-12) of India is aimed at achieving a new vision of growth—“Towards Faster and More Inclusive Growth”. Inclusive growth or development refers to ensuring that all the phases of development (designing, implementation, monitoring, evaluation) include the whole population of economy. The unorganized sector, which provides employment to nearly 90% of the working force and contributes nearly 68% to the GDP of India, consisting of the weaker sections, lower middle class, backward classes like - SC, ST, OBC and minorities have been, by and large, excluded from the process of inclusive growth (Pallarya, 2010). Microfinance can be an extremely useful tool to tap this economically excluded section of our society by encouraging them into productive activities. So, microfinance can be a crucial instrument of inclusive growth.

Over the last two decades, microfinance has evolved into a thriving global industry and also one of the fastest growing industries in the world. Microfinance is not a panacea which removes poverty in one go, nor is it a new form of money lending to exploit the poor. Microfinance helps a poor borrower who can use a tiny loan to start a sustainable business, generate more income and over a period of time, come out of poverty. This kind of outreached work could not be done by traditional banks, and hence required a new set of dedicated institutions — the MFIs. Microfinance emerged as a noble substitute for informal credit.
and an effective and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries (Japonica Intersectoral, 2003; Morduch & Haley, 2002). Microfinance is a business oriented way to help the poor. It covers a broad range of financial services including loans, deposits and payment services, and insurance to the poor and low-income households and their micro-enterprises. Microfinance Institutions (MFIs) are special financial institutions. They have both a social nature and a for-profit nature. For the developing countries like India it has come as a breakthrough in the philosophy and practices of poverty eradication, economic empowerment and inclusive growth.

On the other hand, the concept of inclusive growth has become popular worldwide. The new policy statement of Asian Development Bank (ADB) promotes environmentally sustainable and inclusive economic growth, consolidate and build upon current ADB policies on environment, indigenous people and involuntary resettlement that are already applied to all bank-supported projects in developing member countries. Inclusive growth requires a major shift in our planning strategy and much higher allocations for development in plans. The poor deserve to participate in the opportunities that the overall growth of the country offers and microfinance is an essential step towards that. Stories about high interest rates, over-lending, defaults and coercive recoveries make sensational headlines. But independent studies by NCAER, CRISIL and others show that most MFIs are credible and committed to providing affordable financial services to India’s 150 million financially-excluded households. MFIs have been growing at 100% per annum, and without any government subsidies (Mahajan, 2010).

The Government of India has emphasized inclusive growth in the XI plan considering the marginalized and poor people, who are deprived of financial facilities. Microfinance appears to be a vital tool to achieve inclusive growth, through income, employment and self employment generation. Microfinance is a step towards inclusive growth via inclusive finance, which serves the financial and non-financial needs of needy people, so as to improve the living standard of rural and urban poor people. Exclusive growth could not provide financial inclusion to rural worthy class for microfinance. The financially excluded sections largely comprise of marginal farmers, landless laborers, unorganized sector, self-employed people,
senior citizens and women. Despite nationalization of commercial banks and launching a number of schemes for expanding institutional credit, India could not move much in the direction of inclusive growth through microfinance. The recent All India Debt-investment Survey has revealed that only 13.4% of rural households have access to institutional credit. In this context microfinance really be a useful instrument for inclusive growth. The typical microfinance clients are low-income persons who do not have access to formal financial institutions. MFIs have the advantage of combining the good features of both formal and informal credit, even improving productivity and credit-worthiness through the ethics of repayment. MFIs have the capacity and responsibility of empowering the most vulnerable, such as women, rural artisans etc; to allow the not-yet economically-active to become so; and to create community-based structures that build mutual support and trust. The argument in this paper is that MFIs by releasing the true potential of its members through social intermediation can ensure building an inclusive society.

In this paper, an attempt is made to assess the role of microfinance outreach of the MFIs in Assam towards inclusive growth. The paper is divided into five sections. Section 1 gives an introduction to the topic. Section 2 and 3 illustrates literature review and research methodology of the study. Section 4 attempts to measure the role of MFIs' outreach that may bring inclusive growth in Assam. Section 5 presents conclusion of the study.

**Literature Review**

There has been unprecedented growth in most part of the globe especially in the emerging economies during last few decades. Unfortunately, the fruit of such growth has not improved the life for all. More than half of total workforce of 2.6 billion in the developing economies is employed in the “informal sector” with unfavourable working conditions. Unemployment, especially of youths, is in the range of 40 to 70%. With close to 1 billion people suffering from malnourishment, 2.7 billion people living without proper sanitation and clean water, around 125 million children not going to school and around 30 million children dying of preventable diseases in last 10 years before reaching the age of five; do clearly indicate that a large part of the population have been deprived of the opportunities in sharing the fruits of the growth.

Financial development, broadly defined to include not just financial sector deepening but also improvements in the efficiency of the financial sector, is vital for pro-poor growth (Mavrotas 2009). It has been widely recognised that a well-functioning financial system is crucial to economic growth (McKinnon 1973, Shaw 1973). Financial development can lead to economic growth in the following five ways: (i) by facilitating the trading, hedging, diversifying, and pooling of risk, (ii) by allocating resources to the most productive uses; (iii) by monitoring managers and exerting corporate; (iv) by mobilising savings, and (v) by facilitating the exchange of goods and services (Levine 1997). Levine (1997) identifies two channels through which each financial function may affect growth: Capital accumulation and technological innovation (Barro and Sala-i-Martin 1995, Barro 1997). Therefore, the degree of financial development can have a positive effect on economic growth both by increasing the volume of investment and its efficiency (Khan & Senhadji 2000). Financial development can increase the volume of investment by the greater mobilisation of investible resources in the economy (Bandiera, Honohan, & Schianarelli 2000). A high level of inequality may not only reduce the poverty reducing impact of economic growth, it may itself contribute to reducing the impact of financial development on economic growth (Clarke 1995, Partridge 1997, Aghion, Caroli, & Garcia-Penalosa. 1999, Banerjee & Duflo 2001). Financial development only in the organised sector brings more inequality whereas developing financial products and services would facilitate inclusive growth in India. MFIs are special financial institutions dedicated to work especially for the unorganized sector.

Now-a-days, MFIs have recognised the need to be socially relevant and active in order to be financially sustainable and useful. Inclusive growth requires not only physical, natural and human capital, but also social capital. Client-specific and role-specific MFIs can do a lot in enabling people; reach the realm of inclusive growth. Such tasks should be taken up with a knowledge that social exclusion is something that cannot be solved through reservations, subsidies and grants only. A balance between physical growth, social growth and cultural growth should be maintained, always (Hans, 2009). While MFIs continue to be the core institutions offering financial
services to low income populations, they have been proactive in the process of inclusive growth in India by their innovative approaches (Hans, 2009). The potential and real impact of microfinance on poverty reduction has been well established (Snodgrass & Sebstad, 2002). Despite several methodological and computational limitations of research studies, it has been established *prima facie* that microfinance has the potential to address poverty through enhanced business and economic opportunities, enhanced income, smoothing of consumption and preparing the poor for shocks or addressing the vulnerability in the aftermath of shocks (Weiss & Montgomery, 2004). Similarly improvements in economic and social empowerment are reported in a study of IMEC, PK (1995). Rahaman, (1996) indicates an increase in household consumption expenditure and human capital investment as a result of the microcredit. An increase in household expenditure, increased participation of girls in education and positive change in women's non-land assets as the impact of microcredit programmes is also reported by Pitt & Khandkar (1996). Khandkar (2003) also reports that microcredit not only affects the welfare of participants and non-participant but also aggregate welfare at the village level.

*Source: Author*

Both credit and capital markets may ration credit to small and micro enterprises or to poor households who may not have the history of past borrowing to obtain credit ratings necessary to borrow from capital markets, cannot meet the costs of underwriters necessary to issue shares and are seen as risky customers by commercial banks and other financial intermediaries. This implies that only a financial sector that is inclusive in its ability to bring in previously underbanked households or to lend to small and micro enterprises can be a potent positive force for achieving MDGs (UNCTAD 2001). Figure 2 illustrates inter-relationship of Inclusive Growth, Microfinance and Inequality. If finance is channelled only in the organised sector, this may facilitate growth but at the same time it may increase inequality. If finance is channelled to the unorganised sector, this may not only increase the GDP of our country by way of financial inclusion, but also bring an inclusive growth by reducing inequality.

Let us now find out how outreach is calculated. The past literatures reveal that different researchers estimated outreach in different ways. Llanto, Garcia

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Figure 2: Inter-relationship of Inclusive Growth, Microfinance and Inequality
Callanta (1997) measured outreach by (i) amount of loans outstanding, (ii) amount of savings outstanding, (iii) total financial services, (iv) poor borrowers below poverty line, (v) poor savers below poverty line, and (vi) individual background investigation to effectively target clientele. Conning (1999) made a comparative study of 72 MFIs of the different parts of the world. He measured outreach by average loan balance (in US$ as a % of GNP per capita). Congo (2002) measured outreach of 6 Burkina Faso MFIs by applying ratio analysis. He found outreach performance remains very low. High costs of micro-financial services are not viable and sustainable. Their interest rates are kept on subsidies. In addition, the results indicate that MFIs are dependent on subsidies. In this study outreach was measured by (i) clientele, (ii) percent of short-term savings, (iii) savings interest rate, (iv) percent of short-term loan, (iv) lending interest rate, (v) average loan duration (month), and (vi) value of annual savings and loans.

Lapenu and Zeller (2002) examined 100 African, Asian and Latin American MFIs to measure distribution, growth, and performance. They measured outreach by (i) area targeted (rural, urban, mixed), and (ii) average size of the loans. Sustainability was measured by (i) number of staff, (ii) number of clients (members, borrowers, and savers), (iii) outstanding loans, (iv) volume of savings, (v) repayment rate, and (vi) complementary service provided. To measure performances of MFIs, Luzzi and Weber (2006) applied factor analyses to a sample of 45 MFIs of Geneva over the 1999-2003 periods. They considered five outreach indicators and one financial indicator. Outreach was measured by (i) female, (ii) group loan, (iii) poverty criteria, (iv) collateral, and (v) loan size. Kereta (2007) applied econometric analysis to look at MFIs performance of 26 Ethiopian MFIs from outreach and financial sustainability angles using data obtained from primary and secondary sources. Kereta identified that while MFIs reach the very poor, their reach to the disadvantages particularly to women is limited (38.4 Percent). From financial sustainability angle, it finds that MFIs are operational sustainable measured by return on asset and return on equity and the industry’s profit performance is improving over time. Similarly, using dependency ratio and Non-performing Loan (NPLs) to loan outstanding ratio proxies the study also finds that MFIs are financial sustainable. Finally, it finds no evidence of trade-off between outreach and financial sustainability. In this study, Kereta measured outreach by women credit access share. While examining the impact of capital structure on the performance of 52 Ghana microfinance institutions, Kyereboah-Coleman (2007) measured outreach by the rate of change in clientele base on yearly basis. Makame (2008) undertook an empirical assessment of microfinance commercialization factors to probe the cognitive dissonance surrounding microfinance outreach and sustainability of 33 MFIs of four East African countries. Makame observed that the commercialization factors do not significantly explain the depth or breadth of outreach and age having a positive relationship with outreach depth. It has also been seen that efficient MFIs are the ones that have greater potential of reaching the poorest. In that study, outreach was measured by (i) Average loan presented as a proportion of the GDP, (ii) Average loan, (iii) Number of active borrowers, (iv) Dollar years of borrowed resources (average annual dollars held by clients divided by number of loans disbursed during the period).

Sebstad (1998) analysed two African, four Asian and one Latin American MFIs and measured outreach in terms of (i) number of borrowers reached by program, (ii) number of borrowers currently active, (iii) average outstanding loan size, (iv) percent women borrowers, (v) number of savings accounts, and (vi) average amount of savings. Zeller, Lapenu and Greeley (2005) report a more comprehensive definition of outreach estimating 15 variables under 5 sub-dimensions. Thus it has been seen that there are various opinions regarding the measurement of outreach. In this study, the definition of outreach as given by Zeller, Lapenu and Greeley (2005) is considered.

Research Methodology

The primary objective of this research was to illustrate and assess the role of microfinance outreach by MFIs towards bringing inclusive growth in Assam. To assess the role of microfinance outreach by MFIs, a sample survey was conducted during June – October, 2010 in the various districts of Assam. MFIs’ outreach was measured by five parameters viz., (i) Mission of the MFI, (ii) Geographic & Socio-economic focus on Client Group, (iii) Tools for Targeting, (iv) Size of Transaction and (v) Collateral. A questionnaire was
prepared and primary data was collected from 34 top MFIs of Assam in terms of number of clients served. Database of the Centre for Microfinance Livelihood (CML), 2010 has been considered to select the samples. Final samples were selected based on the MFIs' outreach i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs were selected that have been offering micro finance services to their beneficiaries for the last three years. The total sample size considered for the study is 40. Finally with six rejections, 34 samples were considered for the study.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) has been considered. The CML data base has been published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

Table 1: MFIs in Assam

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO-MFIs</td>
<td>84</td>
</tr>
<tr>
<td>MFIs</td>
<td>7</td>
</tr>
<tr>
<td>NGOs</td>
<td>121</td>
</tr>
<tr>
<td>TOTAL</td>
<td>212</td>
</tr>
</tbody>
</table>

*Source: CML, Sector Overview, 2010*

From this data base, only those MFIs that are continuing microcredit operations for the last three years were selected. After this first level screening, the number of available MFIs came down from 212 to 79 as shown below.

Finally, 34 MFIs (43% of the sample population) were selected based on the MFIs' outreach i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010.

Outreach determines social performance of MFIs. The social performance of an MFI comprises the relations of the organization with its clients and with other stakeholder groups. Social performance is not equal to social impact, i.e. the change in welfare and quality of life among clients and non-clients due to the activities of an organization. However, the social performance exceeds the focus on the poor persons to analyse the way the MFIs develop its social mission, integration of the excluded ones, improvement of the conditions of life of the clients, integration of the institution in the community, etc. The Consultive Group to Assist the Poor (CGAP), rates the social performance of MFIs, from the main 5 dimensions of the Millennium Development Goals viz., (i) proportion of clients below the line of the poverty, (ii) improvement of the savings of the clients, (iii) improvement of the presence in the school of the children and reduction of the illiteracy, (iv) improvement on the access to the services of health, and (v) progress in terms of women empowerment.

In this paper, outreach is measured based on five basic parameters comprising of 15 variables as suggested by Zeller, Lapenu and Greeley in 2005. The following table describes in detail the 5 parameters that measure MFIs' outreach with 15 variables:

Table 2: MFIs in Assam doing Microcredit

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI</td>
<td>6</td>
</tr>
<tr>
<td>NGO</td>
<td>8</td>
</tr>
<tr>
<td>NGO-MFI</td>
<td>65</td>
</tr>
<tr>
<td>TOTAL</td>
<td>79</td>
</tr>
</tbody>
</table>

*Source: Compiled by Author from CML*
Table 3: Variables for Measuring Outreach of MFIs

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission of the MFI</td>
<td>$V_1$: Financial sustainability,</td>
</tr>
<tr>
<td></td>
<td>$V_2$: Outreach to the poor,</td>
</tr>
<tr>
<td></td>
<td>$V_3$: Outreach to the excluded (women, illiterate, unsecured workers),</td>
</tr>
<tr>
<td></td>
<td>$V_4$: Positive impact on income,</td>
</tr>
<tr>
<td></td>
<td>$V_5$: Positive impact on Education &amp; Social status</td>
</tr>
<tr>
<td></td>
<td>$V_6$: Strategic management to keep the social mission</td>
</tr>
<tr>
<td>Geographic &amp; Socio-economic Focus</td>
<td>$V_7$: Urban areas</td>
</tr>
<tr>
<td>Group</td>
<td>$V_8$: Rural areas</td>
</tr>
<tr>
<td></td>
<td>$V_9$: Workers with insecure status (casual labours, landless tenants)</td>
</tr>
<tr>
<td></td>
<td>$V_{10}$: Women</td>
</tr>
<tr>
<td></td>
<td>$V_{11}$: Illiterate individuals</td>
</tr>
<tr>
<td>Tools for Targeting</td>
<td>$V_{12}$: Objective client conditions (illiteracy; firm size, land, assets,</td>
</tr>
<tr>
<td></td>
<td>gender)</td>
</tr>
<tr>
<td>Size of Transaction</td>
<td>$V_{13}$: Last 12 months loan distribution (no of loans below % of GDP/Cap)</td>
</tr>
<tr>
<td></td>
<td>$V_{14}$: Minimum size of savings account in last 12 months</td>
</tr>
<tr>
<td>Collateral</td>
<td>$V_{15}$: Loans only secured by social collateral (group solidarity, on trusted</td>
</tr>
<tr>
<td></td>
<td>third party recommendation, physical guarantees</td>
</tr>
</tbody>
</table>

Measuring MFIs' Outreach in Assam

MFIs face the challenge of sustainability and outreach (Robinson, 2001). Sustainability of MFIs depends on financial performance whereas social performance depends on the outreach. In this section, an attempt is made to measure the outreach to the poor and excluded. Such an assessment contributes first to the empirical foundations of the microfinance movement and second to the development of appropriate management benchmarks and recommendations. The main focus of "social performance" is clearly on reaching the poor but not necessarily the poorest. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population. Here outreach to the poor and excluded is measured in terms of five sub-dimensions viz., (i) mission of the MFI, (ii) geographic & socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. A questionnaire was prepared incorporating these 15 variables mentioned in Table 3 and against each variables three scores viz., $0, 1, 2$ are assigned. Total score so computed for 15 variables is 25.
Fig. 3: MFIs’ Outreach to the Poor and Excluded in Assam

Analysing the data at an individual MFI level, it is found that RENAISSANCE has attained the maximum outreach score of 20 (80%) out of 25, while PROCHESTA obtained a minimum score of 11. The possible reason of this high and low outreach performance may be attributed to the inclusion and exclusion of the following factors in the MFIs’ mission and objectives:

A. Financial sustainability
B. Outreach to the poor
C. Positive impact on income of clients
D. Exclusion of women, illiterate individuals, unsecured workers
E. Positive impact on education and social status of clients and their family members
F. Strategic planning of the social mission
G. Inclusion of urban area
H. Inclusion of rural area
I. Workers with insecure status
J. Percentage of women

Mission of the MFI

This is the first sub-dimension which is used to measure the social performance of the MFIs by assessing the outreach in terms of (i) financial sustainability, (ii) outreach to the poor and excluded, (iii) positive impact on income of clients, (iv) exclusion of women, illiterate individuals, unsecured workers, (v) positive impact on education and social status of clients and their family members, and (vi) strategic planning of the social mission. The following table highlights the performance of the MFIs on the above parameters.

Table 4: Mission of the MFIs in Assam

<table>
<thead>
<tr>
<th>Mission of the MFI</th>
<th>Important Objective</th>
<th>Minor Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Financial sustainability</td>
<td>22</td>
<td>64.7</td>
</tr>
<tr>
<td>Outreach to the poor</td>
<td>28</td>
<td>82.4</td>
</tr>
<tr>
<td>Positive impact on income of clients</td>
<td>28</td>
<td>82.4</td>
</tr>
</tbody>
</table>
Inclusion of women, illiterate individuals, unsecured workers

| Positive impact on education and social status of clients and their family members |
|------------------|----------------|----------------|----------------|
|                  | 26             | 76.5           | 8              | 23.5           |
|                  | 11             | 32.4           | 23             | 67.6           |

Thus the data reveals that according to 64.7% of the sample MFIs, financial sustainability is an important objective of their organization. Similarly, to 82.4% of the sample MFIs, outreach to the poor and excluded as well as positive impact on income of clients is considered to be an important MFI objective. Also 76.45% of the sample MFIs consider positive impact on education and social status of clients and their family members to be an important MFI objective. Moreover, it has been found that 88% of the sample MFIs' management keeps to the social mission by stating it clearly in the internal rules and regulations. Thus it may be concluded that except the objective of positive impact on education and social status of clients and their family members, majority of the MFIs in Assam considers the objective of attaining – financial sustainability, outreach to the poor, positive impact on income of clients and inclusion of women, illiterate individuals, unsecured workers are considered to be an important objective for the MFIs. This clearly indicates the inclusion of social objective in the mission of the MFIs.

Geographic and Socio-economic Focus on Client Group

This is the second sub-dimension which is used to measure the social performance of the MFIs by assessing the outreach of the MFIs. Here outreach is measured by geographic and socio-economic focus on MFIs' client groups in terms of (i) inclusion of urban area, (ii) inclusion of rural area, (iii) inclusion of workers with insecure status, (iv) loan to women, and (v) loan to illiterate individuals. Thus it is found that majority (47.1%) of the MFIs do not provide loans to urban area. All the sample MFIs (100%) in Assam are providing loan to rural areas. 41.2% of the sample MFIs provide loan to workers with insecure status like casual labours, landless tenants etc. which accounts for more than 30% of their loan portfolio. An important finding of this study is that 88.2% of the sample MFIs provide loan to women which accounts for more than 30% of their loan portfolio. Again majority (64.7%) of the sample MFIs provide loans to illiterate individuals which accounts for less than 30% of the MFI's loan portfolio.

Table 5: Geographic and Socio-economic Focus on Client Group

<table>
<thead>
<tr>
<th>MFI provides loans to Urban Area</th>
<th>MFI provides loans to Rural Area</th>
<th>MFI provides loans to Casual labors, Landless tenants</th>
<th>MFI provides loans to Women</th>
<th>MFI provides loans to Illiterate individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
</tr>
<tr>
<td>Never</td>
<td>16</td>
<td>47.1</td>
<td>0</td>
<td>11.8</td>
</tr>
<tr>
<td>Less than 30% of the Loan</td>
<td>12</td>
<td>35.3</td>
<td>4</td>
<td>88.2</td>
</tr>
<tr>
<td>More than 30% of the Loan</td>
<td>6</td>
<td>17.6</td>
<td>30</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Moreover, it has been found that all (100%) of the sample MFIs provide loans to rural areas and the average percentage of the MFI's loan portfolio particularly to the rural areas is 83%. Whereas all (100%) of the sample MFIs provide loans to women and the average percentage of the MFI's loan portfolio particularly disbursed to women is 69%. Similarly it has been observed that 82% of the sample MFIs provide loans to workers with insecure status and illiterate individuals and average percentage of the MFI's loan portfolio particularly disbursed to these them are 32% and 20% respectively. Lastly, the study finds the inclusion of urban outreach as 53% of the sample MFIs provide loans to the urban areas and average percentage of the MFI's loan portfolio particularly disbursed to the urban area is 24%. Thus it may be concluded that the MFIs of Assam are socially responsible as these MFIs have well diversified loan portfolio in terms of different geographic and socio-economic focus on client groups.

Table 6: Average Percentage of Loan Portfolio of MFIs

<table>
<thead>
<tr>
<th></th>
<th>No. of MFIs</th>
<th>Percent</th>
<th>Average % of Loan Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inclusion of urban area</td>
<td>18</td>
<td>53</td>
<td>24%</td>
</tr>
<tr>
<td>Inclusion of rural area</td>
<td>34</td>
<td>100</td>
<td>83%</td>
</tr>
<tr>
<td>Workers with insecure status</td>
<td>28</td>
<td>82</td>
<td>32%</td>
</tr>
<tr>
<td>Loan to Women</td>
<td>34</td>
<td>100</td>
<td>69%</td>
</tr>
<tr>
<td>Loan to Illiterate individuals</td>
<td>28</td>
<td>82</td>
<td>20%</td>
</tr>
</tbody>
</table>

Tools for Targeting

The sample also reveals that majority (82%) of the MFIs use different targeting devices for improving the depth of poverty outreach. The following table highlights the tools targeting device used by the MFIs for improving depth of poverty outreach. It has been found that majority of the sample MFIs uses 'participatory wealth ranking' as a targeting devices for improving the depth of poverty outreach. 11% of the sample MFIs targets its loan clients based on economic activity as well as on illiteracy. Again, 7% of the sample MFIs targets its loan clients based on below poverty line, small farming, small business, housing index and firm size. Only 4% of the MFIs targets casual labours, those have annual household income of less than Rs.50,000 per month, local residents, those who are deprived from banking services, tribal belts, common activity & women. Thus we may conclude that the MFIs in Assam are targeting clients totally different from that of the traditional banks and other formal financial institutions and adopting different tools of targeting device for improving the depth of poverty outreach.

Table 7: Tools of targeting Device by MFIs of Assam

<table>
<thead>
<tr>
<th>Tools of targeting Device for improving depth of poverty outreach</th>
<th>No. of MFIs</th>
<th>In %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below poverty Line</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Casual laborers</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Economic Activity</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Farmers, Small Business</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Household income must be less than 50,000</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>
Size of Loan Transactions

The sample data reveals that majority (70%) of the total number of loans disbursed in the financial year 2009-2010 are below 50% of GDP per capita (Rs.18745). 20% of the total number of loans disbursed by the MFIs of Assam in the financial year 2009-2010 is between 50 – 100% of GDP per capita (Rs.18745 to Rs.37490). Only 12% of the total number of loans disbursed in the financial year 2009-2010 is above 100% of the GDP per capita (Rs.37490). Lower the size or amount of the loan transactions, greater is the outreach (Mark Schreiner, 2002; Ted Baumann, 2004). Thus analysing the results, it may be concluded that the MFIs of Assam are having greater and deeper outreach as majority of the loans are less than 50% of the GDP per capita of Rs. 18,745.

Table 8: Size of MFIs’ Loan Transaction

<table>
<thead>
<tr>
<th></th>
<th>Below 50% of GDP/Cap</th>
<th>Between 50-100% of GDP/Cap</th>
<th>Above 100% of GDP/Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>amount of the Loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in 2010</td>
<td>3745</td>
<td>1902</td>
<td>1130</td>
</tr>
<tr>
<td>in % of the total</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>No. of Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in % of the total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Size of Savings Transactions

The data reveal that only 35% of the sample MFIs of Assam is maintaining savings transactions with their clients. The average number of the savings accounts per MFI in Assam is found to be 2340 in the last financial year 2009-2010. Out of the 34 MFIs selected for the study, 32 MFIs are registered under Societies Act 1860 and not allowed to collect deposits from their clients. Thus it has been observed that some MFIs of Assam are collecting demand deposits from their clients in spite of government restriction.

Table 9: Average Number of Savings Account of MFIs

<table>
<thead>
<tr>
<th>Distribution of amount of Savings Account in 2010</th>
<th>No. of MFIs</th>
<th>Avg. No of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 (35%)</td>
<td>2340</td>
<td></td>
</tr>
</tbody>
</table>

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On further investigation it has been found that majority (83%) of the total number of demand deposits in the financial year 2009-2010 are below 50% of GDP per capita (Rs.18745). 13% of the total number of demand deposits collected by the MFIs of Assam in the financial year 2009-2010 is between 50 – 100% of GDP per capita (Rs.18745 to Rs.37490). Only 5% of the total number of demand deposits in the financial year 2009-2010 is above 100% of the GDP per capita (Rs.37490). Lower the deposit account balance per client, greater is the outreach (Jennefer Sebstad, 1998; Matthew Gehrke & Renso Martinez, 2007). Thus analysing the results, it may be concluded that the MFIs of Assam are having greater and deeper outreach as majority of the demand deposits are less than 50% of the GDP per capita of Rs. 18,745.

Table 10: Size of MFIs' Demand Deposits

<table>
<thead>
<tr>
<th>Distribution of amount of Savings Account in 2010</th>
<th>Below 50% of GDP/Cap</th>
<th>Between 50-100% of GDP/Cap</th>
<th>Above 100% of GDP/Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Loans</td>
<td>in % of the total No. of Loans</td>
<td>No. of Loans in % of the total No. of loans</td>
<td>No. of Loans in % of the total No. of loans</td>
</tr>
<tr>
<td>Distribution of amount of Savings Account in 2010</td>
<td>1874 83%</td>
<td>348 12%</td>
<td>161 5%</td>
</tr>
</tbody>
</table>

We also find that the minimum size of savings account per annum is Rs. 3262 which is 8% of the GDP per capita in 2010.

Collateral

The data reveals that 70.5% of the sample MFIs in Assam does not require any collateral whereas 29.5% of the MFIs need some sort of collateral from their clients before disbursing any loan.

Fig. 4: Requirement of Collateral by MFIs

Among the samples, 86% of the MFIs agree to provide loans only secured by social collateral i.e., solidarity among groups, recommendation by trusted third party. On further investigation, we find that majority (97.1%) of the sample MFIs provide more than 30% of their loan portfolio only secured by social collateral. Only 2.9% of the sample MFIs does not provide loans only secured by social collateral. Thus we may conclude that majority of the MFIs in Assam agree to provide loans only secured by social collateral.
Microfinance Outreach by MFIs – Assam

Finally, the study finds out total outreach by the MFIs of Assam as given in the table below. It has been observed that there are 3,45,579 number of active borrowers served by the top 34 MFIs in Assam in the financial year 2009-2010. Moreover, there is a tremendous increase in the year to year outreach growth rate of 32.43% in 2008-2009 and 44.59% in 2009-2010. The number of active borrowers per MFI is found to be 7,029 in 2008-2009 and 10,164 in 2009-2010. The average number of active borrowers of the top 34 MFIs is found to be 2,55,016 for the last three financial years. Aggregate outreach growth in two years is 38.51%.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Active Borrowers</td>
<td>180470</td>
<td>239000</td>
<td>345579</td>
</tr>
<tr>
<td>Growth Rate of Outreach (%)</td>
<td>--</td>
<td>32.43</td>
<td>44.59</td>
</tr>
<tr>
<td>Active Borrowers per MFI</td>
<td>--</td>
<td>7029</td>
<td>10164</td>
</tr>
</tbody>
</table>
Thus the study finds that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Therefore it may be concluded that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

Conclusion

For inclusive growth which has become the mantra these days, India needs not just globalisation as traditionally understood but actually globalization which ensures that economic growth is more broad-based, equitable and sustainable than it has been so far. MFIs are informal institutions of representation and participation. Although informal system still remains dominant, microfinance sector has expanded remarkably in Assam over the second half decade. In this study, the outreach of the top 34 MFIs of Assam under 5 basic geographic variables are used to measure the outreach of the top 34 MFIs of Assam under 5 basic geographic parameters viz., (i) mission of the MFI, (ii) geographic & socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. Top 34 MFIs are selected based on their number of active clients. Primary data is collected from MFIs during June – October, 2010. The results of this study indicate that presently the top 34 MFIs provide services to 3,45,579 rural poor mostly women across 14 districts of Assam as on 31st March, 2010. On an average, 69% of the total loan portfolio of the MFIs of Assam is disbursed only to women. The incremental growth rate of active number of borrowers has also increased over the last three years due to huge demand microcredit among the poorer section of the society in Assam. Available data does not disaggregate to see the outreach of MFIs towards inclusiveness in terms of social, ethnic, and economic perspective. The results of this study reveal that the microfinance outreach by MFIs in Assam is growing at a faster pace of 38.51% in the last three years and also playing an important role in providing financial services to the poorer section of the society – not reached by the formal banking and other financial systems. The results of this study indicate that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Therefore the study concludes that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

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Available: (http://www.adbi.org/workingpaper/2009/08/12/3265.patterns.inclusive.growth.dev.asia/)


MICROFINANCE REVOLUTION in INDIA
Success and Sustainability

Ahmed • Bhagat • Singaiah
Microfinance Institutions (MFIs):
A Study on its Dynamics in a District of Assam

Arup Roy, Chandana Goswami and Sujit Sikidar

**ABSTRACT:** Microfinance has raised the standard of living of the poor and brought significant increased productivity among the rural poor. The MFIs have reached out to over 33 million clients whereas the potential is around 100 million. Looking at the number of poor yet to be served by microfinance, the growth potential is huge. The process of growth of MFIs must capture the hope and aspirations of the poor. Microfinance sector can manage its business but addressing poverty is a major challenge. With the changes of microfinance phenomenon, regulation, performance management and inbuilt accountability has become critical because MFIs operate in diverse forms in different places with entirely different operational mechanisms. It should be reflected in terms of transparency, governance, operational norms, disclosure norms and social audits. In this paper we try to understand the micro-credit delivery system of the Microfinancial Institutions (MFIs) in a District of Assam which will help to understand the operational mechanism and tries to find out the micro-credit assessment and micro-credit monitoring system that is practiced in Assam.

**Introduction**

Microfinance—since the works of McKinnon (1973) and Shaw (1973)—gained importance, especially as a tool for socio-economic development. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practiced in varying forms in different countries and has come to be regarded as an important tool for poverty alleviation. The process of growth of Microfinancial Institutions (MFIs) must capture the hope and aspirations of the poor. Microfinance sector can manage its business but addressing poverty is a major challenge. The microfinance revolution, particularly the success stories of institutions like Grameen Bank in Bangladesh, Banco Sol in Bolivia, and Bank Rakyat in Indonesia, attracted several economists to study microfinance in the latter half...
of the 1990s. Some studies argue that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997).

Among Asian countries, the root of microfinance originates in ancient India as indigenous finance in the form of moneylenders, Chit Funds and Rotating Savings and Credit Associations (ROSCA). Money-lending became an organized and subsequently regulated profession in India around 1,700-2,200 years ago. In 1975, the government introduced a new network of government-owned Regional Rural Banks (RRBs), regulated and supervised banking institutions with a low capital base of around $250,000, each covering with its branches a designated service area of 1-3 districts. In 1982, NABARD started its operation for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts, and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas. NABARD has changed the philosophy of rural finance from credit-driven to savings-oriented. A need for more innovative financial instrument was felt which could incorporate some amount of flexibility for the poor. In 1991, NABARD entered into a policy dialogue with RBI to make preparations for a pilot project linking informal groups (SHGs) to banks. In comparison to the Grameen Bank model, NABARD found that “the SHG linkage model appears more sustainable and appropriate in the Indian conditions where (India has) in place a vast network of rural bank branches... (and) SHGs which are functioning on their own and waiting to be linked to the banking system” (Nanda, 1995).

The past two years have seen a series of critical developments in the Indian MFI sector. These are both positive and negative. On the positive side, MFIs have started to leverage their new fund management expertise to achieve scale and to spread their operations well beyond their traditional operational areas. Thus, rating data from a large sample of the leading MFIs shows that these have recorded high growth rates of the order of 80% per annum in terms of numbers of borrowers and around 40% per annum in terms of portfolio reaching from 300,000 to one million clients each. Also positive is that a significant part of that expansion has been either to less developed areas of the country — Orissa, Jharkhand, Rajasthan, Madhya Pradesh, Tripura, Assam—or to areas such as Maharashtra that also have substantial numbers of low income families in some regions even if their overall development indicators are not as low as those for the other states (Sector Report on Microfinance in India, 2007).

On the negative side, MFIs have been under attack from politicians and bureaucrats in some of their traditional operational areas in Andhra Pradesh and Karnataka (with questions even being asked in Orissa). Their loan recovery practices have been questioned and their interest rates described as exorbitant. The related publicity has vitiated the credit culture in the traditional microfinance
states forcing a lowering of interest rates and increasing the necessary level of loan loss reserves and provisioning. Operationally, the increase in costs has been compounded by the spread of the operations of individual MFIs simultaneously (and inorganically) to a number of non-traditional states. This has put pressure on operating efficiency and resulted in slowing the trend to lowering unit costs.

Microfinance is one of the many intervention strategies for socio-economic development, poverty alleviation, income generation, employment promotion and entrepreneurial development among the poor. MFIs not only provide risk capital and financial services to the rural poor but also act as a launching pad for social development livelihood intervention. The poor require a range of financial services, such as opportunities to safeguard earned income and credit to enable them to maintain minimum levels of consumption throughout the year. The rural economy is entirely different from urban economics and the majority of poor people live and work by numerous small transactions. The magnitude of the financial transactions is quite small but the frequency is high. These small transactions are essential components of rural livelihood. MFIs are such type of organizations which offer financial solutions to the very small needs of the poor.

Microfinance, over the years, has raised the standard of living of the poor and brought significant increased productivity among the rural poor. The MFIs have reached out to over 33 million clients whereas the potential is around 100 million. Looking at the number of poor yet to be served by microfinance, the growth potential is huge. The major strength of an MFI is its ability to unite growth and help poor people to move out of their poverty. Poor people are defined in monetary terms by the World Bank according to two poverty thresholds: 1$ or 2$ a day per capita (CGAP, 2003). According to the 1997 World Micro-credit Summit, the poorest are those who belong to the lower half of the group of people who live beneath the 1$ a day per capita poverty threshold. The best manner to help the poor accessing financial services causes debates between welfarists and institutionalists. Although they share the objective of poverty alleviation, the former emphasizes impact on the borrower as the core mission of MFIs whereas the latter aims at integrating microfinance in the financial markets (Cornée, 2007). This “microfinance schism” (Morduch, 1998) stands as a trade-off between targeting the poor and ensuring the profitability of MFIs. There are many options that have the potential to reduce poverty and increase economic growth and profit making capacities. Microfinance is one of the options which can reduce poverty and increase economic growth in a sustainable manner in a people-centered approach.

Need for the Study

Microfinance industry is an emerging industry and growing at a fast rate, spreading its benefits mostly to the poor people. With the changes of
Microfinance phenomenon, regulation, performance management and inbuilt accountability has become critical because MFI's operate in diverge forms in different places with entirely different operational mechanism. It should be reflected in terms of transparency, governance, operational norms, disclosure norms and social Audits. In India, NABARD has been involved since 1990s for the development of microfinance industry. India as a whole is performing well in this industry. The average outreach rate in India is 5%. But for the state of Assam, it is less than 2%. Thus we see there is lot of potential for the growth of microfinance industry in Assam. In case of Assam, it is only in 1997-98 that, microfinance movement had really begun and has been rapidly picking up since then. Over the years, the growth in the number of members of the SHG linked banks and the amount of credit disbursement of MFI's has been quite impressive. Nobel Laureate Professor Muhammed Yunus has agreed to extend his help to Government of Assam for introducing a microcredit scheme for upliftment of the standard of living of the people of the rural areas of the State. In this context, the present study tries to understand the micro-credit delivery system of the Micro Financial Institutions (MFI's) in Sonitpur District of the State of Assam. The study also helps to understand the operational mechanism and tries to find out the micro-credit assessment and micro-credit monitoring system that is practiced in Assam.

Research Methodology

The entire study is conducted in Sonitpur district of Assam. The district that has been selected to launch the study is Sonitpur District. Sonitpur District is considered because, according to a study by the RBI in 2008, this district has the largest population outside the ambit of the formal banking system in Assam. Recently, Government of Assam has drafted a micro-credit project to be implemented in Sonitpur District in a period of three years in two phases with an amount of Rs 835 lakh. So it is important to understand the mechanism and performance of MFI's in this place as very few studies have been conducted in this area. The objective of the present study is to find out the latest microfinance practices in Sonitpur District in Assam. The study tries to evaluate the micro-credit delivery systems of the various MFI's in reaching the dual objectives of outreach and profitability in the state of Assam. The present study is conducted during the period January 2009 and June 2009, using qualitative research tools – principally the case study methodology. This was supplemented by quantitatives research tools through collection of both primary and secondary data. Various social research tools like interviews and focus group discussion were used for the study. Rapid assessment was done to understand the depth of the underlying issues. The method involves direct observation, informal conversation, key-informant interviews and participant observation concerned with employment scenario, entrepreneurship scenario, potential areas which would involve large labour forces, entrepreneurship related behaviours, knowledge, attitudes and
practices (KAP), crucial entry points for intervention and local responses to entrepreneurship development. Conceptual issues included the structure of incentives, the complex relationship between cognition and behaviour, and how people respond to the components and factors of labour and entrepreneurship issues. Cases were analyzed through financial ratios and simple statistical tools. The sampling was done by Judgment Sampling Technique. Since only few NGOs/MFIs are working in Sonitpur District, and not all are involved in micro-credit, only three MFIs are selected viz., Sonali SHG Unnayan Samiti, Mahila Sakti Kendra (MASK) and GRAMIN (Microfinance) in Sonitpur District which have been involved in micro-credit operations from 2005 onwards.

**Organization Philosophy, Equity Shareholders and Structure of MFIs**

In this study, we have surveyed three organizations: (i) Sonali SHG Unnayan Samiti, (ii) Mahila Sakti Kendra (MASK), and (iii) GRAMIN (Microfinance).

Each of these has its own organisational philosophy and operational structure:

Sonali SHG Unnayan Samiti (MFI) is a federation of Self-Help Groups (SHGs) and was established on 1st April 2000. Subsequently it was registered as an NGO on 8th February 2005 under Societies Registration Act, 1960. The SHGs that formed the federation in April 2005 were originally promoted by 122 SHGs with 1,830 SHG members. The aim of Sonali MFI is organizing dedicational service in the field of vocational, productive, financial programmes and activities through self-support system and means along with the target of inculcating congenial socio-economic, ecological atmosphere in the society. At present, 122 SHGs are the shareholders of Sonali MFI. Minimum and maximum number of members in a SHG according to Swarnajayanti Gram Swarojgar Yojna (SGSY) is 10 and 20, respectively. Hence, total number of equity shareholders is 1,830. The General Body Members are 244 from 122 SHGs. The members are the Presidents and Secretaries from each of the 122 SHGs. Executive Committee members is 31. There is a Financial Advisory board which distributes duties and responsibilities of members/staffs/office bearers and has the sole authority to prepare any other financial programmes.

MASK, a federation of Self-Help Groups (SHGs), was established on 1st April 2002 and was registered on 8th February 2006 under Societies Registration Act, 1960. The SHGs that formed the federation in April 2002 were originally promoted by Gana Chetana Samaj (GCS), Balipara. The vision of MASK is to empower the poor and marginalized, especially women, to bring about social change in their status, and transformation in society. At present there are 86 SHGs comprising approximately 1,500 members in MASK. All the members contribute Rs.20 each per month to their respective SHG and the total amount so collected forms a source of finance for the SHG to their individual members.
All these SHG members are the equity shareholders of MASK. The seed money of MASK was Rs.10,00,000. This money was collected from numerous donors from Mumbai and some amount from the local donors. The present President and the Secretary Mr. Eliza Boro and Mr. Sushila Orang, respectively, went to Mumbai for a seminar and requested for some seed money to help the poor people through microfinance in some seminars and conferences. They received a positive response and formed a corpus of ten lakhs. This money is used to help the various SHG members through microfinance if the applicant’s respective SHG is having insufficient fund. The Governing Body has the authority to take principal key decisions and it consists of 7 members. Moreover, there is a General Body comprising of 26 members. The Area Co-ordinators Committee of MASK is the loan sanctioning authority. Two Governing Body members of MASK, along with the Area Coordinators representing clusters of SHGs, form the Area Co-ordinators Committee. The President or the Vice-President or the Secretary of MASK will be in the Committee along with any other Governing Body members of MASK.

GRAMIN was founded in 1995 with the aim of organizing the rural people into SHG, motivating them to develop their socio-economic conditions by engaging in income generating schemes, organizing skill development training for them, linking them with banks for their microfinance requirements and arranging links for marketing their products. However, over the years, it was found that the pace of development was rather sluggish and in most cases it was because of non-availability of bank loans for investment and, in some cases, because of lack of proper training for the chosen activity. It was for these reasons that GRAMIN decided to open its microfinance operations in 2005 and, by the end of the year, GRAMIN Microfin had a outstanding of INR 4.6 million. GRAMIN is for rural income generation, for socio-economic development of the rural people, for betterment of the society; and thus GRAMIN Microfin has decided to be the most sought after microfinance Institute in the region. The aim of GRAMIN is to be growth oriented and client friendly microfinance product and service provider to the poor and prospective entrepreneurs in a transparent and equitable manner with respect to its client.

The Vision of GRAMIN (Microfin) is to emerge as the most sought after and trusted MFI in Assam by 2020. There are 12 members in the Governing Body of GRAMIN. The Governing Body comprises of Chairman-cum-CEO and General Manager at the top hierarchy. Below them are the Operational Manager, HR Manager and Finance and Accounts Manager. Next level is Zonal Managers followed by Branch Managers. The Branch Managers work with the Credit Officers (also called Field Officers). GRAMIN has borrowed the seed money from APEX Bank, ICICI Bank, and SIDBI.

Thus we see that each of these three MFIs has uniqueness in their philosophy, fund raising style, and organisational structure.
Microfinance Products and Services

Sonali MFI has three range of products—Fixed Deposit, Recurring Deposit, and Micro-credit. The recurring deposits amount starts from Rs.5 to Rs.200 daily. The Loan Officer collects the recurring deposits instalments visiting the place of the beneficiaries either daily or weekly. The Micro-credit scheme is again divided into two forms—Demand Loan (DL) and Advanced Term Loan (ATL). The quantum of Demand Loan is generally 80% of the total deposit in the form of Recurring Deposit or Fixed Deposit and is disbursed within an hour. This Demand Loan largely helps the beneficiaries for their urgent medical and educational requirements. The other form of loan given by Sonali Microfinance is the Advanced Term Loan (ATL).

The Advanced Term Loan (ATL) amount ranges from minimum Rs.5,000 to maximum Rs.20,000. In some special cases, if the loan demand by the beneficiary is more than Rs.20,000, say Rs.40,000, then the loan is sanctioned in the name of two members of the same family. Duration of the loan is very much flexible in nature. The loan officers ask the beneficiaries about how much they can afford to repay from the loan amount per month and, accordingly, the duration of the loan is fixed. Minimum period of the loan is 3 months. Any beneficiary can repay the loan even after a single day, but an interest of at least 3 months has to be paid.

MASK offers only micro-credit to the members of its member SHGs. The quantum of loan given to the tune of 1:4 of the group's total capital. For the first time loan is given up to a limit of Rs.10,000, for the second time, the loan is in the ratio of 1:3 and the third time it is in the ratio of 1:4 of the groups capital. The maximum limit is 1:4 of the group's capital. Loans are given for a maximum period of three years. The Area Coordinators Committee has the authority to sanction loans up to Rs.1,00,000. Any application for a loan above Rs.1,00,000 will be decided by the Governing Body of the MASK.

GRAMIN, on the other hand, offers micro-credit to the members of SHGs, Joint Liability Groups (JLG), Individuals and Businessmen. For the members of SHGs and JLGs the amount of loan starts from Rs.3,000 with a maximum amount of Rs.5,000 to each member. But for financially sound individuals and businessmen, GRAMIN grants loan maximum up to Rs.25,000. There is a fixed repayment period of 50 weeks for the beneficiaries of the loans. In case of any earlier loan settlement, the beneficiary has to pay full interest of 50 weeks.

Microfinance and Interest Rates

Sonali MFI charges a flat rate of 2% interest per month on the principal amount. Therefore, the annual rate of interest is 24% and the interest is charged on reducing balances. For example, if the loan amount is Rs.10,000 and if the beneficiary agrees to repay the principal amount of Rs.500 per month, then his loan repayment schedule is given in Table 1:
Thus, Total Loan Taken = Rs.10,000
Total Interest Paid = Rs.2,100
Therefore, Effective Rate of interest paid by the beneficiaries
\[ = \frac{(Total \text{ Interest Paid/Total Amount of Loan}) \times 100}{100} \]
\[ = \frac{(Rs.2,100/Rs.10,000) \times 100}{100} = 21\% \]
Thus we find that the effective rate of interest is 21% which is 1.75% per month.

Loan Duration = Total Loan Taken / Affordable Amount
\[ = \frac{Rs.10,000}{Rs.500} = 20 \text{ instalment} \]

MASK charges an interest rate of 0.5% per month which is around 6% per annum on reducing balances. Following the same procedure above, the effective rate of interest is found to be 5.25% per annum. Interest has to be paid on quarterly basis. MASK can give loan at such a low interest rate because the loan is given out of the seed money Rs.10,000,000 which is collected from the donors and this amount need not to be repaid.
GRAMIN (Microfinance) offers different rates of interest for different categories of beneficiaries. An interest rate of 18% per annum is charged from the SHG members whereas 24% per annum interest rate is charged from individuals and businessmen on reducing balances. The interest charged to the JLG loan is flat 15% per annum on reducing balance. The mode of payment of interest and principal is weekly for the JLG members and monthly for the SHGs, Individuals and Businessmen.

**Prerequisites for Microfinance**

Sonali MFI provides loan only to the persons who are members of the society and the membership period should be at least 6 months old irrespective of any amount of their deposit.

MASK offers loans in the form of Micro-credit Assistance only to the SHGs and not directly to individuals. Loans are given only after a year of formation of a group. The groups must have an experience of at least six months in internal lending (i.e., from its own resources). Once any SHG qualifies the above criteria, then the group will be rated based on some parameters. If the group secures 75% and above, then only it is eligible for the loan.

For GRAMIN (Microfinance) the eligibility criteria vary for different categories of beneficiaries. For loan given to JLG and SHG members, the beneficiary has to be a member of the respective groups. There are no fixed criteria for the loan to be given to individuals and businessmen. Credit Officers along with the Branch Managers decides the individual creditworthiness of the borrower and forwards the loan application to the higher authorities.

**Micro-credit Delivery System**

When a person seeks a loan from Sonali Microfinance, he is referred to the nearest Area Collector (also called the Agent). At present, Sonali Microfinance has more than 315 Area Collectors. Then the person contacts the Area Collector and writes an application with his assistance. The Area Collector is a local agent and generally knows the loan applicant and his creditworthiness. Then depending upon the applicant's creditworthiness, Area Collector forwards the application to Head office which is located at Khelmati. There is an Advisory Council comprising of 7 members and the Council has the authority to sanction the loan. Initially the Council again forwards the application form to the Loan Officer and asks them to verify the actual loan requirement. The Loan Officers then visits the family of the applicant. He surveys the authenticity and genuineness of the loan amount and type of business proposed to be conducted. Once the Loan Officers are satisfied with the genuineness of the loan requirement and success of the proposed business, then the application is forwarded to the Advisory Council who in turn sanctions the loan. Then, if the loan is sanctioned, the applicant is asked to come to the Head office with relevant documents to
collect the loan amount. Documents are in the form of residence certificate given by Gaon Panchayat Mukhiya, electricity bill, photograph, ration card representing the loan applicant's identity and address proof. The applicant is also asked to bring a Stamp Paper on which an agreement is made between the loanee and the Sonali Microfinance and the required loan amount is delivered to the beneficiary.

When any SHG member requires loan from MASK, the loan application form has to submit to the Area Coordinator of the respective Cluster. MASK forms SHG in various villages in Clusters. The number of members in a SHG ranges from 10 to 20. If there are more members, then MASK forms different SHGs in a village and combines them into a single Cluster. The Area Coordinator will handover the application to a field staff of MASK. The field staff will, in turn, submit a report on a prescribed format on the functioning of the group after interacting with the members and also inspect its books of accounts and various relevant records. The field staff will then return the application form with his comments on the report and forward it to the respective Area Coordinator. The Area Coordinator will then present the application along with his comments at the Area Coordinators’ Committee Meeting which is held once a month. The members present in the Area Coordinators’ Committee Meeting will seek for explanation and clarification about the authenticity of the loan. After a thorough discussion, a resolution is taken. In case the group has not been assessed, an assessment of the group is done based on the NABARD format. However, a loan could be sanctioned conditionally before the assessment report of the group. Loans are given by cheque. Only in emergencies like hospitalization etc. loans are given in cash based on a request made by the President and the Secretary of the SHG and the formalities are completed later. The Area coordinator of the respective group informs the SHG of the Area Coordinator's decision. In case the loan is sanctioned, the President and the Secretary of the Group would collect the cheque from the the Head office of MASK within a week on any working day from 9 am to 11 am. Before receiving the loan all the members of the group will have to sign a Promissory Note in a prescribed format. The President and Secretary has to affix their stamp and sign on the reverse of the cheque, payment voucher and repayment schedule of MASK. This completes the micro-credit delivery process to its beneficiaries.

GRAMIN (Microfinance) adopts different mechanism of micro-credit delivery to its beneficiaries. When any category of loan application—whether it is from SHG or JLG or Individual or Businessmen—is received in the Branch Office, the application is forwarded to the Credit Officer who works under direct supervision of the Branch Manager. The Credit Officer visits the place of the loan applicant and interacts with his neighbors and family members and tries to find the authenticity of his loan requirements. Once the Credit Officer is convinced about the genuineness of the loan, then the Branch Manager along with him again visits the place of the applicant. The Branch Manager then investigates about the past credit history of the applicant from his neighbours.
He also evaluates the business model proposed by the applicant with respect to the current market scenario and finds out whether the business would be profitable or not. Once the Branch Manager is satisfied with the authenticity of the loan requirement and profitability of the proposed business, he forwards the application to the Operational Manager. Operational Manager puts his comments and forwards the application to the General Manager. Finally, the Chairman-cum-CEO approves the loan. The Branch Manager is informed about the decision and the applicant receives the loan amount earliest within 2 weeks, but definitely within a maximum period of 12 weeks.

**Micro-credit Monitoring**

In Sonali MFI, micro-credit monitoring is done quarterly. If it is found that a beneficiary is not making any repayments of the loan for the last three months, then a notice is sent to the Area Collector/Agent through whom the loan process was initiated. The Area Collector investigates about the matter and asks the beneficiary to pay the monthly instalments within 15 days. When the 15 days' time period is over, then the Loan Officer again makes 2 to 3 visits and asks the beneficiary to pay the instalments. Even after this, if the payment is not made, then the Area Collector sends the Executive Group comprising of women members of the SHGs and pressurizes the beneficiary for the repayment of the loan.

The micro-credit monitoring agent of the MASK is called "Animator". Every month one Animator looks after 20 SHGs. At present MASK has 8 Animators for monitoring the loans that are given to the beneficiaries. The Animator plays a vital role in opening bank account, conflict management among the SHG members, Cash Book handling and preparation of Ledger and Trial Balances. Animator prepares the monthly supervision and monitoring report of the SHGs. Every Saturday staff meeting is held for regular and effective micro-credit monitoring. Generally, the meeting of the Presidents and Secretaries of all SHG is conducted twice in a year. There is a system of cross-checking of the performance of Animators. In Area Coordinators' Meeting, an assessment of the Animators is also done. From 2005, MASK has no record of any default loans till May 2009.

GRAMIN (Microfinance) regularly monitors the present status of all its loans to different categories of beneficiaries by conducting a weekly meeting. GRAMIN is really dynamic in micro-credit monitoring in the sense that all the key officials starting from Zonal Manager, Operation Manager, HR Manager, Finance & Accounts Officer and the Chairman-cum-CEO meets every week for better and effective micro-credit monitoring of the loans disbursed; and they also critically analyse the repayment schedule of the beneficiaries. Besides this weekly meeting, the Branch Managers from all the Zones meet once every month in the Head Office and discuss the various problematic loan issues. The Branch Manager
monitors the loan repayment regularly. In case of any non payment of weekly or monthly loan instalments, he discusses and tries to find out the reason of non-payment with the beneficiary.

**Repayment Rates**

It is the repayment rate of MFIs that has attracted the attention of everyone in the world related to the financial system. When the professionally managed commercial banking system carries huge amount of non performing assets (NPA) around the world, the MFIs of Bangladesh showed a repayment rate of 98-100%. The repayment rates of the beneficiaries of the MFIs are most important criteria to measure the efficiency of the entire microfinance system. Repayment rate helps in understanding the behaviour of clients and performance of the institution for a particular on-going period. So far as India is concerned, only 46.5% of the banks has a recovery rate of more than 95% which is evident from Table 2.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Total no. of Banks reported recovery</th>
<th>No. of banks based on percentage distribution of recovery performance of bank loans to SHRs as on 31 March 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks (Public Sector)</td>
<td>25</td>
<td>95%  80-94%  50-79%  less than</td>
</tr>
<tr>
<td>Comercial Banks (Private Section)</td>
<td>8</td>
<td>8  7  1  --</td>
</tr>
<tr>
<td>Regional Rural Banks (RRBs)</td>
<td>70</td>
<td>22  25  17  6</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>726</td>
<td>113  39  51  23</td>
</tr>
<tr>
<td>TOTAL</td>
<td>329</td>
<td>153  70  77  29</td>
</tr>
<tr>
<td>Percentage of Banks</td>
<td>46.5</td>
<td>21.3  23.4  8.8</td>
</tr>
</tbody>
</table>

Source: NABARD Report 2007-2008

<table>
<thead>
<tr>
<th>Period</th>
<th>Sonali MFI</th>
<th>MASK</th>
<th>GRAMIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>98%</td>
<td>100%</td>
<td>81%</td>
</tr>
<tr>
<td>2006-07</td>
<td>95%</td>
<td>100%</td>
<td>80%</td>
</tr>
<tr>
<td>2005-06</td>
<td>100%</td>
<td>100%</td>
<td>79%</td>
</tr>
</tbody>
</table>
Thus we see the repayment rates of the beneficiaries of the three MFIs are substantially high. Sonali and MASK has an average repayment rate for three years as 97.67% and 100%, whereas GRAMIN — though it is more professionally managed — has got a lower repayment rate of 80%. Thus we can say that the repayment behaviour of the clients of these MFIs are regular and positive and this, in turn, reveals that the loans were utilized for the purpose it was taken and has promoted economic productivity in the concerned places. One advantage of the MFIs over the banks is that they know their beneficiaries more closely compared to the bank knowing their clients. The constant monitoring and peer group pressure are also likely to have contributed regular repayment of loans.

**Overall Status of MFIs**
The overall status of the MFIs can be had from the (next page) Table 4.

**Relationship Building of MFIs**
The success of these MFIs has become possible because of their strong contacts and links with other institutions and government machineries. All members regularly visit the block office of the local government for information and have a good rapport with the Block Development Officer. They regularly visit the DRDA and local NGOs. Seeing their interest, various government agencies and NGOs conducted training programmes on goat-raising, piggery, fishery, duckery, horticulture, pisciculture, dairy farming, Golden Grass cultivation and processing. In most meetings, the Block Development Officer, Asst. Agriculture Officer and other govt. bureaucrats/technocrats along with NGOs participated. These NGO-MFIs have established a good relationship with the developmental funding agencies. For example SONALI MFI has a regular contact with DRDA, MASK receives assistance from NABARD in micro-credit monitoring and assessment and GRAMIN (Microfinance) has also established a good relationship with SIDBI, ICICI and APEX Bank. GRAMIN has taken a loan of Rs. 1.25 Cr, Rs. 2.5 Cr. and Rs. 0.5 Cr. from APEX Bank, ICICI Bank and SIDBI, respectively.

**MFI Capacity Building for Sustainability**
The MFIs feel that participation and interaction with external bodies and agencies would reduce the inequalities in their social system. Consequently, they keep good contacts with DRDA, Block Offices, local NGOs and NABARD. In turn, these agencies provided training in pisciculture, piggery, goat-raising, duckery, horticulture, dairy farm management, cultivation, squash and pickle-making.

**Conclusion**
Thus the above analysis reveals that the innovation of MFIs aims not only to facilitate the promotion and protection of livelihood by providing a range of customized financial products to rural residents but also to include them in the financial system and promote entrepreneurial skills. To fulfil this aim,
TABLE 4
Summary Information of SONALI, MASK and GRAMIN

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SONALI</th>
<th>MASK</th>
<th>GRAMIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Initiation</td>
<td>February 2005</td>
<td>February 2006</td>
<td>October 2005</td>
</tr>
<tr>
<td>Members (in Nos.)</td>
<td>1,800</td>
<td>1,500</td>
<td>12</td>
</tr>
<tr>
<td>Total No. of Staff (in Nos.)</td>
<td>20</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Total No. of Agents (in Nos.)</td>
<td>315</td>
<td>NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Yearly Interest Rate (in %)</td>
<td>24</td>
<td>6</td>
<td>18-24</td>
</tr>
<tr>
<td>Total Borrowers (in Nos.)</td>
<td>15,000</td>
<td>300</td>
<td>7,229</td>
</tr>
<tr>
<td>No of Women Borrowers (in Nos.)</td>
<td>12,000</td>
<td>210</td>
<td>4,340</td>
</tr>
<tr>
<td>No of Male Borrowers (in Nos.)</td>
<td>3,000</td>
<td>90</td>
<td>2,889</td>
</tr>
<tr>
<td>Corpus Fund (in INR)</td>
<td>NIL</td>
<td>71,051</td>
<td>15,50,800</td>
</tr>
<tr>
<td>Member Contribution (in INR)</td>
<td>16,860</td>
<td>10,950</td>
<td>59,98,141</td>
</tr>
<tr>
<td>Grant Received (in INR)</td>
<td>NIL</td>
<td>10,000</td>
<td>12,87,345</td>
</tr>
<tr>
<td>Cash in Bank (in INR)</td>
<td>2,49,885</td>
<td>179,194</td>
<td>33,77,239</td>
</tr>
<tr>
<td>Cash in Hand (in INR)</td>
<td>1,44,096</td>
<td>134,489</td>
<td>1,38,066</td>
</tr>
<tr>
<td>Principal Loan Recovery (in INR)</td>
<td>3,640,429</td>
<td>251,700</td>
<td>1,91,63,423</td>
</tr>
<tr>
<td>Bank Loan Received (in INR)</td>
<td>NIL</td>
<td>NIL</td>
<td>1,12,41,353</td>
</tr>
<tr>
<td>Total Loan Distribution (in INR)</td>
<td>57,41,250</td>
<td>1,14,000</td>
<td>8,803,500</td>
</tr>
<tr>
<td>Principal Loan Repaid to the Bank (in INR)</td>
<td>NIL</td>
<td>NIL</td>
<td>1,55,59,318</td>
</tr>
<tr>
<td>Loan Portfolio Outstanding (in INR)</td>
<td>86,56,147</td>
<td>115,501</td>
<td>2,12,43,563</td>
</tr>
<tr>
<td>Bank Interest Received (in INR)</td>
<td>64,901</td>
<td>1,823</td>
<td>2,60,108</td>
</tr>
<tr>
<td>Interest &amp; Fee Expenses (in INR)</td>
<td>8,095</td>
<td>2809</td>
<td>1,51,317</td>
</tr>
<tr>
<td>Loan Processing Fees (in INR)</td>
<td>55,785</td>
<td>72,029</td>
<td>2,57,957</td>
</tr>
<tr>
<td>Insurance Premium (in INR)</td>
<td>NIL</td>
<td>NIL</td>
<td>70,063</td>
</tr>
<tr>
<td>Administrative Expenses (in INR)</td>
<td>1,15,554</td>
<td>62,208</td>
<td>10,18,345</td>
</tr>
<tr>
<td>Fixed Assets (in INR)</td>
<td>4,40,969</td>
<td>5,57,284</td>
<td>6,17,270</td>
</tr>
<tr>
<td>Net Income (in INR)</td>
<td>94,579</td>
<td>8,41,556</td>
<td></td>
</tr>
<tr>
<td>Current Asset (in INR)</td>
<td>94,10,879</td>
<td>NA</td>
<td>57,73,042</td>
</tr>
<tr>
<td>Current Liability (in INR)</td>
<td>1,00,37,316</td>
<td>NA</td>
<td>7,14,045</td>
</tr>
<tr>
<td>Staff Salary (in INR)</td>
<td>6,12,385</td>
<td>49,000</td>
<td>1,24,200</td>
</tr>
</tbody>
</table>

Microfinance was strategically channelized through self-help groups. The MFIs are clearly different in nature and they significantly differ in their way to reach poor and maintain sustainability. The micro-credit assessment, micro-credit delivery and micro-credit monitoring system is different for all the MFIs under
study. Sonali and MASK works closely with the beneficiaries and is more related with the SHGs than GRAMIN which is more professionally managed group. Sonali, on the other hand, is following a different model, offering recurring deposits and fixed deposits and financially more self-reliant successfully working without any subsidies. Self-help groups (SHGs) are used extensively as an effective tool for poverty alleviation, empowerment and livelihood options and have become a fast-developing commercially viable business proposition.

BIBLIOGRAPHY


