Impact Assessment of Microfinance in India

Interim findings from a national study of MFIs in India

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Impact Assessment of Microfinance in India

This paper presents the interim findings of a national level impact assessment of microfinance in India. The study aims to assess on a national scale the outreach and development impact of MFI programmes in relation to different product designs and delivery systems in various parts of India.

The study is part of the Micro Finance Support Project (MFSP) supported by the Department for International Development, UK (DFID) and the International Fund for Agricultural Development, and implemented by the Small Industries Development Bank of India (SIDBI) through its Foundation for Micro-Credit. The SIDBI Foundation is lending to credit-rated MFIs and providing funding support for their capacity building. As of March 2003, SIDBI had an outstanding portfolio of $11.7 million to 45 MFIs.

The impact assessment is a longitudinal design coinciding with the seven-year period of the MFSP (2000-2007). The research design and pre-test phase was carried out over six months starting in July 2001. Panel data collected during the baseline (2002-2004) will be compared with follow up data to be collected two-three years later. The comparison of panel data will provide evidence for impact at the end of the project (impact being defined as '**change that can be plausibly associated with involvement in a microfinance programme**'). Currently, the study is mid baseline, with data from ten MFIs. Field work and data entry for another ten MFIs are in progress.[1]

This paper presents some of the interim findings of the study so far. It also includes a brief introduction to microfinance in India, and a review of the methodology used for the research.

[1] Impact assessment is being undertaken by a team from EDA Rural Systems involving Frances Sinha, Meenal Patole, Tara Nair, Nishant Tirath, R Vardhani, Saurabh Srivastava, Sakshi Varma and S Madhavi. The team is associated with Professor David Hulme and Jennefer Sebstad, through the Institute of Development Policy and Management at the University of Manchester, UK. Field work is carried out directly by the EDA team assisted by local field researchers, and involving MFI staff. Reports are reviewed by participating MFIs and by an Advisory Committee of representatives from SIDBI, DFID, the National Institute of Rural Development, Jawaharlal Nehru University, Indian Institute of Management (Ahmedabad) and the Self Employed Women's Association.

An understanding of impact takes time and reflection, and involves various approaches to data collection, analysis and reporting. I trust this paper contributes to such an understanding and look forward to feedback and suggestions on any aspect.

The micro-finance context in India

In India there is a diversity of approaches to microfinance, involving banks, government agencies, NGOs. The focus of this study – is the specialized MFIs who provide financial services whilst building their own financial sustainability.

Most MFIs use groups as intermediaries for financial transactions, but there are different ways of working with groups. These may be broadly classified as the Self Help Group model (SHGs), the Grameen replicators and Cooperatives (the latter often catering to a specific economic sector – such as fishing, handlooms, dairying). In each of these models, the group usually assumes joint liability for loans taken by its members, but there are significant differences in the services offered and in the extent of client responsibility in financial transactions (discussed further below). A small number of MFIs have an individual banking approach.

The 45 MFIs (including one Apex MFI) associated with SIDBI represent the more established microfinance institutions in the country. They have been functioning as MFIs for at least 4 years, with experience ranging up to 10 years. In terms of scale, the range is from 1,500 to over 120,000 members. The combined membership is over 1.3 million. Most of these MFIs follow the SHG model (Table 1).

Table 1: SFMC partners in microfinance (March 2003)

MFI model	Number of MFIs	Number of Members	%
SHG	23	833,000	69.1
Grameen	10	383,000	23.0
Individual banking	6	61,000	4.3
Sector Cooperative	5	14,000	3.6
	44 [a]	**1,291,000**	**100.0**

[a] SFMC also partners an Apex MFI which supports another 47 smaller MFIs with over 300,000 members

Research Design

The research design was developed through a 'pre-test' phase which, following a literature review, involved stakeholder discussions including MFI representatives and academicians, and exploration of indicators with MFI clients.

Impact assessment is essentially about whether a programme is meeting its objectives. Therefore, the starting point was the overall goal of MFSP, stated as: "**Substantial poverty elimination and reduced vulnerability in India amongst users of microfinance services, especially women**". The MFSP goal was developed into key research questions, taking MFI objectives into consideration:

(i) Who is being served by microfinance? Are the poorest getting left out?

(ii) Does microfinance lead to a reduction in poverty: Is it sufficient to move poor families out of a situation of poverty deprivation and vulnerability? Or does it enable the better-off to provide employment opportunities to the very poor?

(iii) Which products and services are most effective in reaching the poor, responding to the needs of the poor – and at the same time providing a cost-effective and sustainable microfinance service?

(iv) Does women's role as clients for microfinance translate into empowerment for them? Or is this merely a pragmatic means of ensuring repayments and group discipline?

(v) What effect does microfinance have on other systems or sources of finance – both formal (local banks) and informal (moneylenders, traders)?

These questions were framed as hypotheses linking input variables (MFI services) and moderating variables (client characteristics, programme characteristics, other context factors) to impacts at the levels of household, individual client and local community.[2] Methods, indicators and tools were pre-tested at 5 MFIs.

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[2] The conceptual framework of an impact chain provides the basis for identifying the hypotheses and selecting the impact variables to be addressed. Details of the impact chain for this study and the methodologies are available on the following websites: www.edarural.com,www.mitrabharathi.com,www.enterprise-impact.org.uk

Methodological Approach

The scale of the study (a number of institutions across a large country), the number of hypotheses and impact pathways, and the long-term timing of the study entailed adaptations - and some innovations - in established methodologies.

These included, in terms of established approaches:

- Longitudinal analysis of panel data – the same baseline sample is revisited after 2-3 years
- Cluster based sampling: 2-6 'clusters' (a cluster is a village or in an urban area a demarcated section) randomly sampled at each MFI, the number depending on the variation within an MFI
- All MFI members within a cluster interviewed (150-200/MFI: the minimum number of households required is 96 for a statistical confidence level of 95% for each MFI model at regional level)
- A mix of quantitative (survey, questionnaire based) and qualitative (focus group discussions, case studies, semi-structured interviews)
- Non-member households as a ('quasi experimental') comparison group in the ratio of 1: 3 clients (selection on the basis of wealth ranking is intended to address the difficult issue of client self-selection)
- Including dropouts (all in the cluster who have left a programme in the previous 2 years)
- Regional development ranking to compare different operational contexts of MFIs.

Innovations in the study methodology include:

- ***Poverty*** 'measurement': the study uses a combination and triangulation of different approaches (PRA, index scoring, household income) to link multiple local indicators of household status and contextual information to standardised categories. Five wealth rank categories are applied: very poor, poor, borderline, self-sufficient, surplus. In terms of poverty line definitions based on household income levels, "Very poor" and "Poor" correspond to 'below local poverty line'; "Borderline" corresponds to below '$/day' (at purchasing power parity)
- ***Financial landscaping and household portfolio analysis*** provides details of the context in which MFIs are operating (alternative local finance providers), and household credit

needs and use of different sources of finance (apart from the MFI) over the 2 year period prior to the survey

- ***Combining longitudinal with cross-sectional analysis:*** analysing the base line sample by *levels of involvement* in an MFI programme (in terms of time of membership and access to microcredit); three levels defined as 'low ' (recent members less than 2 years with the programme), 'medium' and 'high'; this enables use of the 'baseline' data for interim findings, before completion of the end-line survey
- ***MFI profile information*** is collected in detail – including savings and loan products, indicators of portfolio performance, growth, approach to targeting and gender and degree of service innovation; this will form part of the analysis comparing inputs to outreach and impact.

'Models' of microfinance delivery

The sample framework for the research is based on the different models of microfinance delivery. Some key features of each model are presented in Table 2. For the study, the individual banking MFIs and sector based cooperatives (representing less than 8% of all microfinance clients in the country) are analysed together, since a number of their features are similar in practice.

Table 2: Microfinance models in India

Operational features of different microfinance models in India			
Operational features	**SHG**	**Grameen**	**Individual banking/ Sector cooperative**
Client type	Groups (15 to 20 members)	Groups (usually 5 members)	Individual clients
Service focus	Savings and credit	Credit – regular cycle	Credit
Role of MFI staff	Guide and facilitate (groups may develop autonomy)	Organise (groups dependent on staff)	Organise
Mechanism	Monthly meetings	Weekly meetings	Variable - Often Daily*
Savings products	Rs20-100 (45cents-$2) / month	Rs5-25 (10-50cents) / week	Variable
Insurance	In early stages		Links to national companies
Credit products	Rs5-10,000 ($110-220) also, internal loans from group funds	Rs2-5,000 ($45-110)	Rs15-35,000 ($350-800)
Effective interest rate	14-36%	29-41%	18-24%
Developmental Services	Often through associated NGOs	Usually none	Enterprise support

*(Individual transactions linked to production cycle)

Study sample MFIs among different microfinance models in India			
Study sample MFIs	**SHG**	**Grameen**	**Individual banking/ Sector cooperative**
Baseline completed	6	3	1
Baseline in process	3	3	4

In SHG[3] model MFIs the groups can mature to be relatively autonomous: members organise their own meetings (usually monthly), take decisions on financial transactions, circulate their savings as internal loans (group loans), and group leaders/office bearers play a significant role, guided by MFI staff. In the Grameen model, in contrast, MFI staff play the main role in weekly meetings and transactions, focusing on a regular annual cycle of credit. Products and interest rates vary between MFIs, but SHG loans usually start at $110 with effective interest rates (EIR)[4] up to 27%. Grameen loans start smaller ($45), with equal weekly instalments and interest charged on a 'flat' basis, working out to EIRs in the range of 29-41%.

In individual banking and sector specific cooperatives, loan sizes are higher ($800), often linked to a specific economic sector with individual transactions linked to the production cycle, including daily collections.

Interim findings

The following sections present interim findings relating to some of the research hypotheses. The findings are based on a sample of 10 MFIs, selected from different regions of the country, rural and urban, and representing the different MFI models: 6 SHG, 3 Grameen, 1 Cooperative (fisheries sector). The field work covered 39 clusters (30 rural, 9 urban), a questionnaire based household survey of 1,728 client households (1,870 clients), 568 non-clients and 129 dropouts, focus group discussions (on average around 10 involving about 80 participants at each MFI) and 74 case studies. The presentation is necessarily selective, and draws on both survey and qualitative data to illustrate the emerging issues.

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[3] Mutually aided cooperative societies (MACS) are included in the SHG category since whilst the primary cooperative membership may be over 50, these often consist of smaller SHG type groups

[4] The effective interest rate (EIR) converts all financial costs to the borrower (such as interest, fees) into a declining balance interest calculation. (The figure in the table does not include the cost of compulsory savings, which would add another 5% to the EIR)

Outreach analysis

Overall hypothesis

Microfinance is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance – supported

Outreach of MFIs is explored in terms of their geographical location, the gender of clients, their social group, poverty level and access to formal sector finance. Information on geographical location and gender of clients is drawn from all SFMC's 45 partner MFIs. For all other indicators, the information relates to the sample survey data for 10 MFIs. Information on poverty level and access to formal sector finance is analysed in relation to 'recent' clients – those who have been members of the MFI programme for less than two years.

The 45 current SFMC partner MFIs are operating mainly in rural areas (78% of members are rural) but are concentrated in the south and western regions of the country (90% of total members). The south and west are more developed than the north and east in terms of indicators of infrastructure, economic activity and social development. Nevertheless, the study sample shows that within these regions, the MFIs are operating in underdeveloped areas – poorer districts and urban slums.

The majority of MFI clients are women. In the SHG and Grameen model MFIs, 99% of clients are women. In the sector cooperatives, women members are 44% of the total, and just 23% in individual banking MFIs.

Why do MFIs target women?

Microfinance is a 'women's movement' but there is a sense that MFIs tend to target women for the pragmatic reason that they are willing to attend group meetings and to comply with savings and loan terms. They may also believe that women are more conscientious in using finance for the benefit of the family. Men, by comparison, prefer larger, individual transactions. Some MFIs are beginning to respond to men's requirements for larger (often enterprise linked) loans – either indirectly (through their wives as clients) or directly as individual clients.

MFI services are ‘reaching the unreached’ - those who do not access formal sector finance. Only 5% of households of recent clients of sample MFIs have accessed formal bank credit; though 30% have formal savings in a bank, post office or with a national Life Insurance Company (mainly in the urban North).

MFI services are reaching the poor, but not exclusively. The sample data shows that MFI clients usually come from all economic and social sections and tend to reflect the profile of the local community. Thus, 30% of members are scheduled caste or scheduled tribe [5]; 39% of recent members are poor (below the local poverty line), 33% are borderline (vulnerable non-poor – roughly below the international poverty line); 28% are non-poor. MFIs do not specifically target the poorest who are 8% of recent members.

Four of the 10 MFIs (2 SHG model, 2 Grameen) aim to target the poor. The profile of their recent clients reflects a greater poverty focus, with more significant outreach to the very poor, but still some involvement of the better off (Table 3).

Table 3: Are MFIs reaching the poor? Wealth rank analysis of recent clients

MFIs Target	Number of MFIs	Sample: No. of recent clients		Wealth rank distribution			
				Very poor	Poor	Borderline	Non-poor
Poor as target group	3	99	(100%)	21%	32%	35%	11%
General/open target	6	399	(100%)	9%	26%	33%	32%
All MFIs in sample	**10**	**498**	**(100%)**	8%	31%	33%	28%

MFIs have effective outreach to women headed households (widows, women deserted by their husbands, having to bring up their children practically single-handed and regarded as a particularly vulnerable group in their local communities) who account for 14% of members.

The data shows higher rates of dropout for the very poor in Grameen model MFIs – 16% compared to 9% for other wealth ranks and 6% in the SHG model. The main reasons given for dropping out were the inability to save and to attend meetings (with the very poor more likely to migrate for temporary casual employment). Very poor dropouts also mentioned weekly payments and high interest rates as a constraint in the Grameen model.

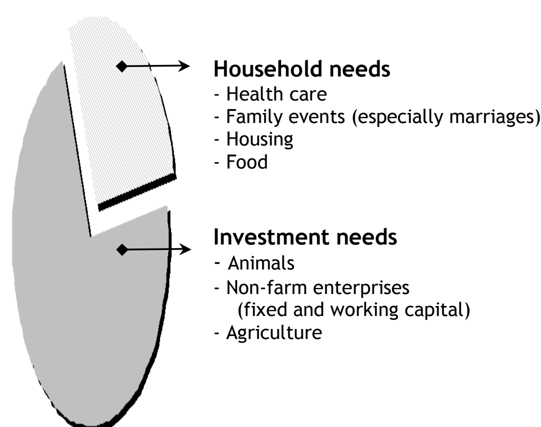
[5] These are marginalized social groups, especially in rural areas where they usually live in peripheral settlements to the main village

What do clients use microcredit for?

Overall hypothesis
Microcredit is used for both investment purposes and to meet household needs – supported

Access to MFI loans is highest for the Grameen model (84% of members) compared to the SHG model (33% of members) and the sector specific Cooperative (23%). However, in the the latter, members also have access to their group funds loans (based on their savings) for internal loans (63% of SHG members).

Clients from all wealth ranks have equal access to loans, but in SHG MFIs, poorer clients have slightly lower access to group loans; and the better-off borrow larger amounts.



Actual Use of MFI Loans – all models
Source: Survey data

Overall, 49% of the sample [841 clients] had borrowed from the MFI in the two years prior to the survey. The average amount borrowed by each household over this period was Rs9,100 ($165). Of this, 88% was used for investment in the Grameen and sector specific MFIs, but 44% in SHG MFIs. Clients of SHG MFIs have greater flexibility of loan use, and are more likely (across all categories of involvement) to use microcredit for household needs. This finding underlines significant client demand for a range of needs that may not be directly productive.

How significant is microcredit to client households?

Microcredit (MFI or group loan) is one source of loans. In terms of cost, the effective annual interest rate on microfinance loans ranges from 14-41%. Grameen model MFIs which charge at a flat rate of interest, are at the higher end of this range. FGD feedback across the sample confirms that microcredit is more costly (but far more accessible) than formal bank loans, and less costly than alternative informal providers (moneylenders, pawnbrokers, private finance companies) whose normal interest rates are 36-60%, even up to 200% a year for short term loans.

On average, the data shows that microcredit meets 34% of client household needs. The balance comes mainly from other informal sources, including low cost sources such as family and neighbours. However, high cost credit from moneylenders accounts for 34% of client credit needs - the same as microcredit – though there is evidence for reduced dependency on this source (see Table 6 below).

Microcredit for enterprise

Overall hypothesis

Microfinance increases enterprise activity

Just over half (53%) of the sample - 919 clients – across all wealth ranks had used microcredit as fixed and/or working capital for over 1,000 productive activities or assets; (47% of clients had not used microcredit for investment).

The sectoral distribution is evenly balanced in the rural sample between agriculture, animals and non-farm activities. In the urban sample, services and trade are the main activities. (Manufacturing accounts for less than 10% of supported enterprises). Nearly one fourth (245) of supported activities were *new non-farm enterprises* (e.g. a milch animal, a small shop) although 20% of these had closed by the time of the survey.

Clients were asked whether investment of the microfinance loan had resulted in an increase in income from the supported activity. The responses were positive in 77% of non-farm enterprises, and 50% of agriculture activities (with otherwise no change or low rainfall affecting productivity in some areas).

Non-Farm enterprises

Animal husbandry

Milch animals
Goats
Poultry

Trade

Small provision shops
(e.g. food items,confectionary, toiletries)
Hawking
non-perishables (e.g. bangles, cloth)
perishables (e.g. milk, vegetables, fish)

Services

Tea stall/tiffin centre
Repair units (e.g. cycle puncture, radio)
Transport (e.g rickshaws, bullock carts)
Barber

Manufacturing

Household based:
Leather work (shoes/belts)
Handlooms
Hand fans
Metal accessories – 'silver balls'

Separate unit (urban):
Soda manufacture
Pen refills
Cakes/biscuits manufacture

In non-farm enterprises, microcredit had contributed to expansion or quality improvements, with for example the use of working capital to diversify or improve the quality of goods, or to take advantage of seasonal bulk purchase. There were some problems. These included: illness in the household, which can directly affect productivity and drain working capital (reported in 30% of enterprises across all sectors, especially for the very poor - 42% of their enterprises); loss or damage to an asset (a broken push cart, a sick animal, a fire) or seasonal marketing constraints (13% of non-farm enterprises). Some successful entrepreneurs (especially men, see further below) are looking for larger credit inputs than are usually available through microfinance.

Case studies illustrate both successful enterprises supported by microfinance – resulting in improved economic status – and examples of closure or difficulty.

Case study examples

(i) ***Successful microfinance support enables a widow to earn independently***

When her husband died, Saraswathy amma continued to live in the family house and was supported by her son and daughter-in-law. Their one acre of land now belonged to her son. But they were a poor family and did not look after Saraswathy amma. So, she decided to move out and fend for herself. With a small loan (Rs1,000 -$22- interest free) from neighbours, she started a snack centre in the village.

Soon after starting the centre, she joined an SHG. This was two years ago. As a member, she has taken two loans (Rs4,000 and 5,000 - $87 and $109) from the MFI which she used to buy an electric grinder and expand her working capital. She manages the tiffin centre by herself and the business is doing well. Loan repayments have all been on time and she now earns a net profit of up to Rs3,000 ($63) per month.

Business is profitable, despite some problems: not being able to work when she is ill, or dealing with customers who expect service on credit. Her plans now are to save enough money to start a new hotel on the main road outside the village – not for herself, but for her son…

South India, rural, SHG model
Wealth rank now non-poor, WHH

(ii) A traditional family handloom business grows through regular inputs of microcredit

Chabita Mana's family of five was very poor, with no permanent source of income. Handloom weaving was the traditional occupation of her husband's family. But her husband worked only as a daily wage labourer, not earning enough to meet the household's needs. So, Chabita decided to borrow Rs2,500 ($54) from a local moneylender to purchase a loom and raw material to start weaving cotton *dhotis*.

At around the same time, in 1998, she joined the savings group promoted by a local MFI. After regular savings for six months, Chabita got her first MFI loan of Rs2,000 ($43), which she invested back in her business. Since then, she has taken four loans increasing in amount each year (Rs3,000, Rs5,000, Rs7,000 and Rs8,000 – up to $174). All the loans were used to expand working capital and were repaid in full with income from the enterprise.

Both Chabita and her husband now work full time in handloom weaving. They earn up to Rs4,000 ($80) a month and have employed another woman to work with them. They have plans to expand the business and start weaving saris as well. She expects to get a larger loan from the MFI to buy another loom and hire more weavers.

North, rural, Grameen,
Wealth rank now Borderline

(iii) Microfinance contributes to expansion of a tea shop but fails to support after a fire

Vijay Singh came from a farming family. But after he broke his back in a tractor accident, he leased out his land and decided to start a small tea shop on the highway outside the village. He invested money from his land and borrowed from two moneylenders to get started. Then, he took a loan of Rs5,000 from the MFI, and used this to expand his working capital, repaying within the year.

The shop was doing very well but just as he was planning to convert his wooden stall to a *pucca* brick structure, the shop was set on fire. All the goods were damaged.

He approached the MFI for a loan to repair his shop and replenish the inventory, but his request was turned down – since the MFI had limited funds. So he has had to turn again to moneylenders.

North, rural, SHG – male individual borrower
Wealth rank non-poor

(iv) The risks of poverty undermine microcredit investment – but microfinance holds out options for the future

Venkatamma is a widow with four children (3 sons, 1 daughter) aged 8 to 19 years. The two older children, both boys, work as labourers breaking rocks into small *kankar* (stones) that are used to lay roads. The two younger ones go to school, but stay home if there is work to do. Venkatamma, too, sometimes breaks *kankar* or sells firewood. She also works as an agricultural casual labourer but rains have been scarce for the past two years and farm labour is hard to come by.

She has been a member of a local MFI four years. With savings of Rs1,360 ($30) she is Secretary of her microfinance group. She has taken one group loan in the past two years – Rs1,000 ($22) to cover food expenses and, before that, an enterprise loan of Rs5,500 ($120) from the MFI to purchase five goats. However, the goat investment proved unsuccessful. Her young daughter, kept back from school to graze the animals, could not protect them. Within two months all five goats were dead and there was still the loan to repay – Rs610 a month, from a monthly family income of just Rs1,000.

As Secretary of the group, Venkatamma knew that she had to set the right example and repay the loan. She managed to repay and is now thinking of taking another loan. If she gets a loan this time, she would like to start a small tea shop or buy some sheep. She feels that sheep would be safer than goats.

South, rural, SHG, WHH
Wealth rank – very poor

Supported enterprises are mainly small scale, family based, with 950 employed (*mostly self employed/family labour*) in 615 non-farm enterprises (here excluding agriculture and coastal fisheries). Over half of those working are *men* – although the majority of the enterprise loans have been taken in the name of women clients! But 8% are children, half working full time, one fourth as hired labour (Table 4).

Table 4: Employment in MFI supported enterprises (non-farm sectors)

Sector (non-farm)	Total no. employed	% by sector	% of total employed				
			Women	Men	Children	Family	Full-time
Animal husbandry	256	27%	46%	43%	12%	90%	47%
Trading	329	35%	25%	70%	5%	91%	75%
Services	203	21%	36%	56%	8%	89%	69%
Manufacturing	163	17%	39%	53%	8%	94%	77%
Total	**951**	**100%**	**35%**	**57%**	**8%**	**91%**	**67%**

Source: Survey data

'Full-time' – defined as regularly working, more than 8 months of the year, at least 6 hours/day
'Part-time' – defined as less than this, including both seasonal and irregular employment
Children – less than 15 years of age. The percentage for girls and boys separately is 3% girls, 5% boys.

New employment resulting from microfinance was 24% of the total employment. This was almost entirely due to newly started enterprises, with negligible increase in employment in enterprise activities which had existed before microfinance support.

Microfinance and poverty reduction

Overall hypothesis

Microfinance contributes to a reduction in poverty in client households

The following indicators are used to study poverty reduction in client households: asset formation (including savings), diversification of livelihoods, reduced dependency on costly financial sources, and ability to send children to school.

The feedback from focus group discussions is that women clients especially see an increase in savings as a key impact of microfinance. Women clients now have the opportunity to save in small amounts on a regular basis – in a safe place. Involvement in a microfinance programme is instilling a habit of saving and in some areas clients have also started saving with formal sources – such as the post office. The data on savings supports significant savings for clients in comparison with non-clients, especially for the very poor and poor who usually have limited options to save (Table 5).

Table 5: Households that save – a comparison of microfinance clients and non-clients
(excluding savings at home)

Households	Total sample	Households that save				
		Total	Very poor	Poor	Borderline	Non-poor
Clients[a]	n = 1,692	98%	100%	98%	98%	98%
[b]Average HH savings (Rs)	n = 1,728	5,900	2,000	3,200	4,800	13,000
% MFI programme		28%	76%	44%	35%	16%
Non-clients[a]	n = 568	40%	18%	27%	45%	60%
[b]Average HH savings (Rs)	n = 501	12,000	1,000	4,700	5,900	27,000

Source: Survey data. [a]Household information is for 10 MFIs. [b]Average saving information based only on SHG and Grameen sample. (The Cooperative MFI is not included since financial transactions in coastal fisheries are at a much higher level than in the other MFIs). The average savings amount of non-clients (except for the very poor) is higher than for clients, reflecting larger deposits in formal mechanisms (post office or bank) in comparison with the much smaller deposits common in microfinance programmes

The profile of acquisition of assets is similar: 75% of the clients sample had acquired assets (productive or household) in the previous two years, 85% in the case of high involvement clients, all wealth ranks. Amongst non-clients, by comparison, 62% of all wealth ranks had acquired assets, with the proportion just 44% in the case of the very poor.

In terms of livelihood security, client households have a slightly higher number of income sources (2.00) in comparison with non-client households (1.73), and a lower dependency burden. The difference is most significant in the case of very poor and poor clients who are most likely to report an increase in overall household income in the previous two years (62% of high involvement clients compared to 32% of non-clients – poor categories).

Data on household credit (based on recall for the two years prior to the survey) supports a reduction in dependency on moneylenders among microfinance clients as a result of access to microfinance. Table 6 compares client households with non-clients, and recent with high involvement clients.

Table 6: Household borrowings (total over previous two years from any source)

n – sample borrowers	Credit/ household	Credit from different sources			
		MFI/group	Bank	Money-lenders	Other informal[a]
EIR range		***14-41%***	***12-18%***	***36-200%***	***0-36%***
Clients (n=1,491)	Rs19,600 ($425) 100%	34%	8%	34%	25%
Non-clients (n=394)	Rs18,400 ($400) 100%	-	16%	44%	40%
Clients by involvement level :					
Recent (n=431)	Rs14,300 ($310) 100%	19%	8%	47%	26%
High (n=461)	Rs27,700 ($600) 100%	45%	7%	24%	24%

[a] Other informal sources of finance include relatives, neighbours, local chit funds

Source: Survey data, 9 MFIs; Cooperative sample not included since average credit levels are much higher in the economic sector covered. Statistical tests for differences between client and non-client households are significant for informal sources

Even for high involvement clients, however, it is clear that microfinance is not always sufficient to meet their credit needs so that clients have no choice but to go to other sources as well. In the SHG and sector specific sample, the data for high involvement clients shows

significant moneylender contributions to a higher overall debt amount. In other words, in terms of the absolute amount, the moneylender borrowings actually increase – perhaps an indication of increasing creditworthiness.

Assuming (on the basis of FGD feedback and case studies) that, if there were no MFI programme, clients would have borrowed half the microcredit amount from higher cost informal sources, there would be an estimated saving of Rs1,110/borrower ($24) on interest payments as a result of the MFI programme. For a poor household, this is a significant amount.

The data does not support the hypothesis that microfinance enables clients to take advantage of educational opportunities for their children. Child school attendance rates are similar for clients and non-clients (85% at primary level, 44% at secondary level – and higher for boys than for girls in both types of household!). Some 16% of clients with school-age children had borrowed from various informal sources to meet schooling costs. Microfinance (only group loans in the SHG model MFIs) contributes just 17% of total borrowings for education.

Overall, does microfinance help move clients out of poverty, or into less poor categories? Whilst there are some clear examples of positive shifts from successful enterprises supported by microfinance, a comparison between high involvement and low involvement clients (cross-sectional analysis) does not clearly support the hypothesis. The wealth ranking profile is quite similar, and amongst high involvement clients (whose average time with an MFI programme is over 5 years) a significant proportion – 42% - are poor, including 11% very poor. Clearer findings on this will be possible from the follow-up survey of the same households.

Microfinance and vulnerability

Overall hypothesis

Microfinance builds the capacity of individuals and households to manage risks

Apart from a promotive role (through boosting economic status and opportunities) microfinance may also play a protective role – enabling vulnerable groups (the poor and borderline categories, women headed households) to protect against risk (or loss) ahead of time, or to cope with risks when they occur.

The main risks that the poor identify are invariably associated with financial stress. Family events – especially marriage of a daughter or a death in the family – are included as a risk because of high associated expenses and social expectations.

<u>Risks associated with financial stress</u>

Illness
Life-cycle events (marriage, death)
Alcoholism and gambling among men and boys
Loss of husband/main income earner
Loss of livelihood/asset
Seasonal difficulties (low employment, leaking roof)

Source: FGDs

Ex ante, as seen in the previous section, microfinance has helped poor clients to save and to build assets, which may be sold (for example animals) at times of financial stress. Microfinance has also helped women (especially women who are head of their household) to earn independently whilst the microfinance group, especially in the SHG model, can be an important source of peer support and example for women facing difficult situations.

Ex post, borrowing is one of the main coping strategies of the poor: 75% of vulnerable households (both clients and non-clients) had borrowed in the two years prior to the survey to meet costs of medical care, food, house repair and debt redemption. The contribution of microcredit was 40% - the balance coming from informal sources. In the SHG model, internal group loans are a significant source of credit to meet these needs, reflecting the flexibility of the group mechanism in such situations.

Some instances of vulnerability, however, lead to dropout. If a client wishes to access her savings, rather than taking a loan, then in most MFIs (which lock in savings) she can only do so by leaving the programme. Here microfinance provides a short-term support. In some extreme situations, a client may get heavily into debt to a moneylender (for instance for medical expenses for her husband) with only limited earning opportunities by herself. In such cases, the debt servicing requirement is likely to exceed the household income, she loses her creditworthiness, and she can no longer afford regular savings.

The option of insurance is only at a very preliminary stage in the microfinance sector. Insurance products (loan linked asset or life) were available in just 3 of the 10 MFIs, covering 15% of clients. Not surprisingly, perhaps, these insurance services appear to be more related to protecting the MFI (ensuring loan repayments) than directly supporting the client. The high risk of illness and medical costs (emerging clearly in the case studies) suggests a clear need for health insurance in particular, covering the entire family.

Microfinance and gender

Overall hypothesis

Microfinance contributes to women's empowerment

Whilst MFIs may target women as clients, the gender approach varies depending on whether financial service delivery is the main focus, or gender issues are also a development concern. Most MFIs which focus on financial services – especially the Grameen model which emphasises credit delivery and repayments – are 'gender-neutral': they provide basic finance related training (group norms, interest rates, signing one's name[6]) whilst MFI staff conduct all transactions. Some SHG model MFIs are gender-supportive: the approach provides for member involvement in group-based activities and decisions, with a greater role for group leaders (managing accounts, taking responsibility for group meetings and activities) and also parallel educational programmes (especially health, hygiene, reproductive health, sometimes enterprise skills). None in our sample (though there are a few such MFIs in the country) have a 'gender-transformative' approach incorporating a policy of gender equity.

Nevertheless, feedback from FGDs exploring indicators identified by women clients themselves (see Box), indicates positive impacts at individual and household levels. In terms of savings and access to loans, contribution to household income and role in household decision-making, there is a positive direction of change, especially for women who are directly earning (~77% southern sample, ~55% northern sample).

Women's indicators of empowerment through microfinance

- *Ability to save and access loans*
- *Opportunity to undertake an economic activity*
- *Mobility – opportunity to visit nearby towns*
- *Awareness – local issues, MFI procedures, banking transactions*
- *Skills for income generation*
- *Decision making within the household*
- *Group mobilisation in support of individual clients – action on social issues*
- *Role in community development activities*

Source: FGDs

For women heads of household (14% of women clients), microfinance support can make all the difference to their being able to support themselves. And women gain a sense of self-respect and confidence from the opportunity to meet other women in a group, sharing

[6] 60% of women clients in the sample had no schooling

experiences and ideas, and having the support of common action (which is more likely in mature groups, in SHG model MFIs).

Survey data at the household level, however, shows that conventional gender patterns (ownership of assets by men, enterprise management by men) continue. For example, women clients were asked through the survey whether they are involved in managing the activity for which microcredit is provided in their name. Their responses were positive for just over half of the enterprises: in 34% of the enterprises women manage the enterprise themselves, in 20% of enterprises they do so jointly with their husband or son – leaving nearly half (46%) in which women are not involved at all. (Women's involvement in management is much higher in the southern sample (72% including agriculture) than in the north (43% non-farm, 12% in agriculture). This reflects the very different social culture of south India compared to the north where women's opportunities are more limited.)

Is this an issue for women? Maybe not, since women say that what is important for them is not whether they manage the enterprise or not, or own an asset, but that the activity generates income for the family. Nevertheless, some women did raise the issue of continuing dependence on men – for non-earning women that they continue to be dependent on their husbands for microfinance transactions, including savings, and for clients of some MFIs (including most Grameen model MFIs) that they have to get their loan applications signed by a male relative.

There was also less positive feedback: that group leaders get more opportunities than other members, that women sometimes find it difficult to find the time for meetings and there is some continuing discrimination against scheduled caste women in mixed groups. At the community level, groups would like to take action against alcoholism – but group based initiatives within the community were few, and not necessarily successful.

Observations and client feedback

The findings of this study so far support substantial achievements of SFMC partner MFIs who are moving towards greater outreach to the unreached (to the poor, to women – including women headed households and to marginal social groups). The MFIs covered in the sample represent different models of microfinance with variations in focus, approach and products. They provide a safe savings mechanism and the options for microcredit (both from the MFI and from internally circulated group savings), compare favourably with formal bank loans in terms of accessibility, and with alternative informal moneylenders in terms of cost.

Nevertheless, informal sources continue to be important on account of their speedy accessibility and flexibility in amount and terms.

Comparison of alternative financial service providers						
Parameters	**Microfinance**			**Informal**		**Formal**
	SHG		**Grameen MFI**	**Moneylender**	**Family**	**Bank**
	MFI	**Group**				
Loan amount	Medium	**Variable**	Low-Medium	**Variable-High**	Low-Variable	High
Access	Variable	Medium	Medium	Medium	Medium	Low
Speed	Medium	**High**	'Fixed'	**High**	**High**	Low
Flexibility	Medium	**High**	Low	**High**	**High**	Low
Cost	Medium	Medium	Medium-High	High	Variable	**Low**
Source: FGDs. Preferred features in bold						

The implications of the continuing use of high cost credit are significant. In terms of microfinance planning, there is substantial demand for credit and the growth in demand for credit beyond what is being supplied by MFIs; and cost is not the only criteria of utility. Accessibility and flexibility, in relation to credit needs, are probably more important. In terms of impact assessment, the issue of attribution becomes even more complex – since microfinance emerges as just one amongst other financial service providers.

Suggestions to MFIs on adapting their financial services to client needs, include the following:

Savings: are an important component of microfinance. This service could be made more flexible in terms of deposit frequency and allowing some withdrawability, with clearer communication about interest benefits

Loan products: need to be designed with greater flexibility in purpose, amount and repayment terms. This applies particularly to Grameen MFIs which have weekly repayments and a very high EIR (based on a flat rate of interest). In rural areas, weekly payments are difficult due to the seasonal nature of many livelihoods; in urban areas, earnings are more regular but weekly repayments affect working capital. Loan products for different types of enterprise need to be linked to specific enterprise requirements – and these need to be better understood by MFIs

Insurance services: are a prime need, especially for assets and for health (of the family, not just the client). MFIs can link clients to insurance schemes operated by national agencies

The group mechanism: There tends to be a focus on group leaders for training inputs and skill development. There is scope for spreading leadership responsibilities and widening skill effects through encouraging rotation of group leaders and peer training

At the policy level, issues include:

Regional imbalance: the North and East of the country are under-served; this should be addressed through support to local MFIs as well as to regional extensions by southern MFIs

Targeting the poor: nearly all MFIs say they target the poor, but they could do so more systematically. Grameen model MFIs are more likely to have specific criteria to identify the poor, but these are not always applied effectively

Gender as part of the microfinance strategy: most MFIs target women clients for pragmatic reasons. Being a microfinance client is a good start, but membership may not by itself be empowering. MFIs should be encouraged to make gender concerns more of a focus in their strategy and approach, especially in the North where cultural constraints to women's mobility and empowerment are very strong

Business Development Services: linked to, but not part of, microfinance would help enterprise growth, especially for example through identifying opportunities, financial planning, and helping traditional manufacturing units respond to changing market demands

Other development issues: the research has shown some child labour and negative environmental effects in enterprises supported by microfinance. These are not extensive but MFIs should have an avoidance policy.

In relation to poverty reduction, microfinance is not a panacea by itself. Other issues of development policy and implementation, which affect poverty reduction and the utility of microfinance, need to be addressed at a different level altogether: these include cost-effective medical care, promotive/preventive health, and remunerative employment opportunities for women.

The **next phase of the study** will cover an additional 10 MFIs, extending the total sample to approximately 5,000 (including clients, non-clients and dropouts). The larger sample will enable more detailed analysis in relation to context (region and rural/urban area) and input variables (MFI portfolio performance - repayment rates and PAR, operational self sufficiency, and product innovation).

The next phase will also include: more case study based analysis on enterprise economics, credit needs and returns on investment; data presenting the range of credit needs and a sub-sample profiling household incomes, dietary patterns, health/education expenditures and understanding of accounts/banking procedures by clients from different wealth ranks.