ASSOCIATION OF KARNATAKA MICROFINANCE INSTITUTIONS

Microfinance in Karnataka

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Commissioned by Association of Karnataka Microfinance Institutions (AKMI)

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Abbreviations

AKMI	Association of Karnataka Microfinance Institutions
BC	Business Correspondent
BCP	Business Continuity Process
CBS	Core Banking Solution
EMI	Equated monthly instalment
FY	Financial Year
IT	Information Technology
JLG	Joint Liability Group
KYC	Know Your Customer
MFI	Microfinance Institution
NABARD	National Bank for Agriculture and Rural Development
NIM	Net interest Margin
NPA	Non Performing Asset
PAR	Portfolio at Risk
PSIG	Poor States Inclusive Growth programme
PSL	Priority Sector Lending
RBI	Reserve Bank of India
ROA	Return on Assets
ROE	Return on Equity
SBLP	Self Help Group Bank Linkage Programme
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
TAT	Turn Around Time
TLTRO	Targeted Long term Refinancing Operations

Preface

When I was asked by AKMI to put together a short document on microfinance in Karnataka, Covid had taken hold of the country. Existential matters had taken priority and the document suffered a delay. When I was putting together the document, more recent data for FY 2022 became possible. I then set out to put data together and carry out an analysis of the Karnataka microfinance market. The analysis of several pieces of information brought to the fore the maturity of microfinance in the state. Several microfinance institutions, big and small have flourished in the enabling conditions provided by the state. The largest stand-alone MFI and the largest BC in the country are from Karnataka. Microfinance penetration is high in the state with high performance from both MFI and SHG streams. SKDRDP has made a name for itself with its development orientation and partnership with all major banks. Credit Access Grameen has become a large purveyor of microfinance not just in Karnataka, but in other states as well. I was admiring the orderly growth of business (barring a few hiccups), discipline among the borrowers and the quality of manpower in the state.

I was greatly helped by AKMI which commissioned a special study on impact of microfinance as seen through customer's eyes. My thanks are due to Shaishavi Consultants for carrying an impact assessment study through customer opinions. The findings of the study have been reflected in a separate chapter in this document. Mr. Ananda Rao, President-AKMI, (Chaitanya India Fin Credit), Mr. Udaya Kumar, CEO of Credit Access Grameen and Mr. Vivekananda Salimath of IDF financial services deserve my fullest thanks for their support and sparing time for one to one interviews. This document is factual and brings information together. It does not bring any new data to the reader, but provides space for gaining new insights. It takes a look at the Covid disruption through the eyes of MFIs. The comforting thought is that the impact as reported by borrowers validate several assumptions as to what small, but regular loans provided over a long time can do to poor households. Yes, the loans have the power to bring people out of poverty. And that is the reason that clients continue to return to microfinance loans, cycle after cycle.

Let me thank Mr. V N. Hegde CEO of AKMI for his patience and ready responses to my requests for data. My thanks to the managing committee of AKMI for entrusting me with this task. Any errors of omission or commission are mine. Views expressed are mine and do not bind AKMI or its office bearers in anyway.

N.Srinivasan
Sector expert

Chapter 1

Cradle of **financiers Karnataka**

The State of Karnataka has been highly supportive of micro finance in different forms over a long period of time. While it can be called the crucible of Self Help Group lending methodology it also had a very significant MFI led financing initiative. Karnataka had an active banking network and had been full of bank promoters. The Karnataka Gazetteer describes early banking in Karnataka as follows

"Bangalore saw three banking companies in 1868, and a total of 24 such institutions were seen by 1876 in the city, though not many survived. Chitradurga Savings Bank was founded in 1870. If, the Bombay Presidency Bank had its branch at Dharwad in 1863 the Madras Presidency Bank had founded its branch at Bangalore in 1864. Subsequently there branches were also started at Belgaum and Mangalore (1867) Hubli (1870) and Kumta (1872-73) South Kanara had its Banking Companies like the Canara Bank, (Mangalore) (1906) and Corporation Bank (Udupi) (1906). Later came the Pangal Nayak Bank (1920), Jayalakshmi Bank (1923), Karnataka Bank (1924), Udupi Bank (1925), Catholic Bank (1925), Vijaya Bank (1925) and the Syndicate Bank (1925). The Town Co-operative Bank was started at Hospet in 1915. Dharwad District saw many Co-operative Societies beginning with the one at Kanaginal in 1906, most of them in present Gadag district. The Dharwad D.C.C. Bank was started in 1916." Given the times, it is a very large number of banks that came up in Karnataka, giving rise to the statement that Karnataka is the cradle of banks. Many public sector banks had their origin in the private banks set up in Karnataka. Some of the larger banks in recent public memory are as follows:

Table 1.1: Karnataka born banks

Bank	Origin	Year established
Canara Bank	Mangalore	1906
Karnataka Bank	Mangalore	1924
Vijaya Bank	Mangalore	1931
Corporation Bank	Udupi	1906
Syndicate Bank	Udupi	1925
Vysya Bank	Bangalore	1930
State Bank of Mysore	Mysore	1913

Today, as a result of mergers not many of these banks exist in their original form. Among Public sector banks only Canara Bank remains, but it has Syndicate bank merged with itself. Karnataka Bank is the only private sector bank that continues to function. Karnataka has always had a flair for finance and this is reflected in the way microfinance flourished in the state.

Early days in **Microfinance**

In the late seventies MYRADA was already forming groups of women to undertake coordinated activities to improve their wellbeing. In the mid 80s influenced by the need for financial inclusion of women MYRADA tested out credit management groups which later were named as Self Help Affinity Groups which subsequently under NABARD's leadership started to be called as Self Help Groups. The early stage work that MYRADA did from the late 80s to early 90s sowed the seeds for self help group based lending programme operated by banks[1]. On the other side Karnataka also had a number of micro finance operations. BSS had one of the early operations in Joint Liability Group mode of lending in the state. Institutions such as Grameen Koota took up the JLG based lending model based on the Grameen Bank's experience. A number of other institutions such as Ujjivan, Janalaxmi, Navchetna, IDF, Sanghamitra, started making forays into financial services for the poor. The institutions which had headquarters outside the state such as SKS Micro Finance[2], Spandana, Share, Equitas and others also started their operations in Karnataka as the state offered a highly conducive environment for business.

On the self help group lending side SKDRDP[3] which was an NGO working on livelihoods and social development of vulnerable rural people in Karnataka started entering into formation of self help groups and facilitating support in different forms. In 1991 the first Pragati Bandhu Self Help Groups were set up by SKDRDP and today it covers more than 40 million women all over Karnataka[4] . There were a number of programmes funded by external doners and multi laterals in the state that helped in mobilizing women into groups and building capacities to deal in finance – savings and credit. In terms of leadership Aloysius Fernandes of MYRADA provided the thought and practice leadership over a 30 year period. Apart from leading MYRADA's entry into self help groups he also set up Sanghamitra Financial Services in 1999 which made early stage self help groups into bank ready groups for credit. Dr. Veerendra Hegde and Mrs. Hemavathi Hegde took leadership on the self help group formation under the banner of Shri Krishna Shetra Dharmasthala Rural Development Programme. There were other NGOs in Karnataka that were active in the period 1990 to 2005 supported by SDC, GIZ, DANIDA, MISEREOR, OXFAM NOVIB and several others. NABARD supported NGOs for formation of self help groups during that period. The growth in outreach and volumes is described in a subsequent section of this publication.

AKMI was established in 2007 after a year long consultation process among microfinance players in Karnataka. Microfinance institutions faced problems in Davangere, from the district administration. RBI during one of the meetings to resolve the problems asked the sector players to establish an industry body that can engage with state and central administrators, RBI and others in case unwarranted action is taken against microfinance activities. This set off a thought process. With important contributions from Suresh Krishna (then with Grameen Koota) Vivekanand

1 Now termed as SBLP, Self Help Group Bank Linkage Programme.

2 Now renamed as Bharat Financial Inclusion Services Limited

3 Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) was influenced by MYRADA to enter SHG methodology in most of its development work in the state.

4 Act of Faith

Salimath (IDF) and Samit Ghosh (Ujjivan Financial Services) in terms of time, ideas and resources, AKMI became a reality in 2007. In its early days, Aloysius Fernandes (MYRADA) and Dr Veerendra Hegde (SKDRDP) provided considerable support. AKMI which had 13 members at its inception now has 34 members. AKMI was unique at that time in being the only state level association that did more than merely meeting when there was a problem. The Microfinance India State of the Sector Report[5] observed that that "*The association has been set up with the objectives of (1) working towards presenting the MFIs in a positive light in the state, (2) presenting local problems to the government on a common platform, (3) adopt a common code of conduct for members and (4) share information among the members on issues such as staff, fraudulent transactions and other developments of interest to members. The association has a code of conduct in place which is reportedly more stringent than that of Sa-Dhan. The association looks into issues of poaching of staff from the member organisations, coaching of clients of member organisations, sharing of information relating to errant borrowers as also errant staff. Information relating to multiple borrowing by some of the members as also loan misuse is also shared. The cooperation between the MFIs extends to not only exchange of information but also blacklisting of those clients who misuse loans, staff who mis-represent their background during recruitment and engaged in fraudulent transactions. Presently the AKMI has more than 30 members and is expanding. It has been able to gain visibility and is a regular invitee to meetings convened by RBI, state government and NABARD. It's hoping to be an active industry-level platform in the state which is able to solve the problems of members and present the government and other policy establishments with quality information relating to the working of MFIs in the state.*"

Within a year of its formation, AKMI was tested on its capability and resolve to deal with sector level problems. An annual report of AKMI[6] pointed out

> *The biggest challenge came in the form of Kolar Crisis during January '09, where in ANJUMAN Committee had issued a Fatwa to its community members not to repay the loans availed by them from the Microfinance Institutions. AKMIs efforts to talk to the members of Anjuman did not prove much fruitful. AKMI the tirelessly took up the matter with the Superintendent of Police, the Deputy Commissioner, Deputy Governor of Reserve bank of India,, Lead Bank officials and various other Government functionaries, appraising them about the crisis and seeking their intervention. Even though AKMI was not able to restore normalcy in the functions of MFIs, AKMI effectively countered the propaganda created by Jaya Karnataka Sangha and Karnataka State Farmers Association in Ramanagar. Through a series of write-ups and items of clarifications AKMI was able to nip the crisis in its bud.*

Today the association works with the members and customers on the ground on several credit plus and beyond credit themes. The member activities beyond credit are described in a later section of the book.

Around the time AKMI came into existence in 2007, the population of Karnataka was about 57.4 million. By 2021 the population is estimated to have increased to 69.5 million. Of this about 13.2%

5 *Microfinance India State of the Sector Report 2009, N.Srinivasan, for Access Development Services, Sage Publications, 2009.*

6 *AKMI Annual Report 2012-13*

are multi-dimensionally poor (about 9.2 million) according to NITI Aayog's estimates[7]. The state is placed in 10th position under MPI ranking out of the 28 large states, indicating that there is still room for improvement of livelihood opportunities and services to the vulnerable people. Poverty levels have declined in Karnataka. Karnataka has made significant strides between 2008 and 2022. The average annual income per capita had increased from about Rs.37,000 in 2007-08 to Rs. 2,22,002 in 2019-20[8], an increase of six times over a 12 year period. The banking spread in Karnataka had always been impressive with several banks having had their headquarters (such as Canara Bank, Syndicate Bank, Vijaya Bank, Karnataka Bank Ltd. and lately among the small finance banks Ujjivan, Janalakshmi and Fincare). While the State reports all villages being covered by banking services either through branches or Business Correspondent agents, the spread of branches and availability of services were not evenly distributed. Despite the presence of a decent banking network and reasonably efficient cooperative banking system with its primary cooperative societies in several districts, micro finance institutions found a lot of space to operate. There were a number of home-grown micro finance institutions that started within Karnataka. At the same time MFIs that were formed outside Karnataka also found considerable space to expand business in Karnataka.

AKMI as a network of member institutions has been able to play a positive role as it was able to get the support of the Government of Karnataka. The positive outlook from the government and a forward looking bureaucracy have ensured that AKMI can bank on their support for business continued for credit flow to the vulnerable poor in the state. AKMI was able to steer the sector in the state over the last several years on account of the constructive role played by the state government during the Kolar crisis, aftermath of AP crisis, demonetisation disruptions and the Covid pandemic.

7 National Multi Dimensional poverty Index Base Line Report, NITI Aayog, September 2021. The national MPI measure has been constructed by utilising twelve key components which cover areas such as health and nutrition, education and standard of living.

8 Karnataka Economic Survey 2022, Government of Karnataka publication.

Chapter 2

Micro finance **outreach**

KARNATAKA AND OTHER LEADING STATES – A COMPARISON

The state of Karnataka had been in the forefront of micro finance lending. At the end of March 2022 the state had 9.4 million loan accounts covering 5.4 million unique clients[9]. The state was placed fourth across India after Tamil Nadu, Bihar and West Bengal.

Ten years back, in 2013 the state had 4.2 million loan accounts which had increased at an annual growth rate of 14%. This growth rate should be seen as a robust one as the sector had to endure significant downturns in its business in 2017 and 2018 on account of demonetisation and 2020 and 2021 on account of Covid disruptions.

Table2.1 Progress of microfinance in top 5 states

Sr. No.	State	Portfolio FY 2022 (crores)	Loan accounts FY 2022 (lakhs)	Growth of portfolio over FY20-21	Growth of loan accounts over FY20-21
1	Tamil Nadu	34,955	152	10%	2%
2	Bihar	34,579	135	18%	10%
3	West Bengal	28,804	101	-23%	-17%
4	Karnataka	23,182	94	13%	6%
5	Uttar Pradesh	22,773	91	25%	16%
	India	**2,62,599**	**1,081**	**5%**	**4%**

In general, the southern part of India had seen vigorous growth and leadership in micro finance business over the last two decades. Karnataka state had a huge contribution to make in this. The state accounted for 8.3% of all accounts in India and 8% of unique clients in the sector, though it had a much lower share of country's population. Karnataka also had SHG loans outstanding to the tune of Rs 16520 crores, with total loans to microfinance clients (SHG and MFI) amounted to Rs 39602 crores. Andhra Pradesh and Tamil Nadu topped the states with combined loan outstanding of Rs 48250 crores and Rs 46905 crores respectively.

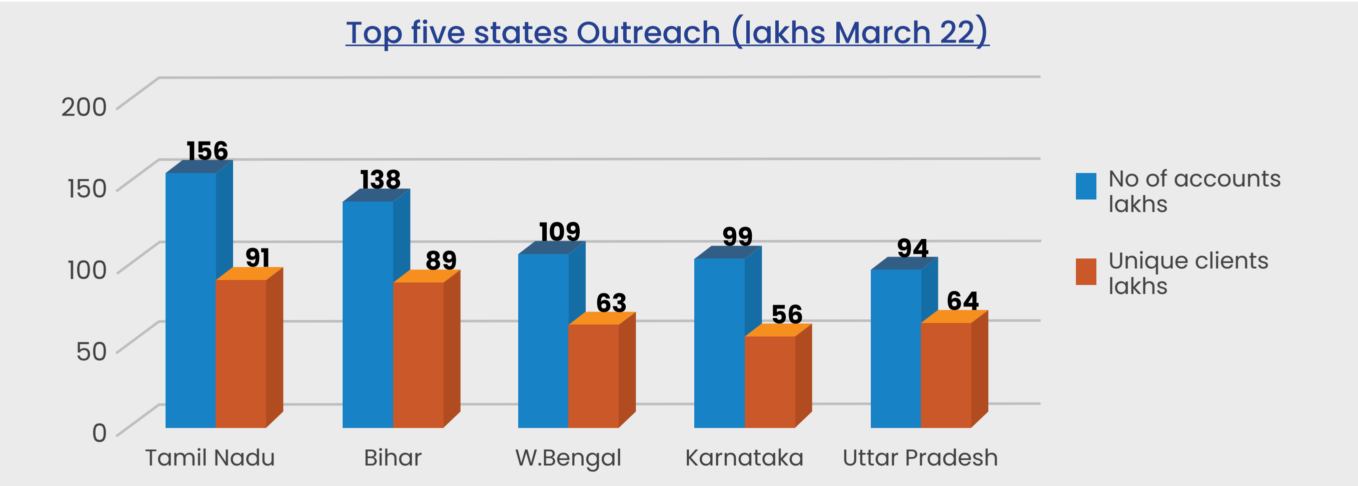
9 *There are differences between data reported by CRIF (Microlend) and Sa-Dhan (BMR 2022), on account of sources from which data is collected.*

Table2.2: Share of clients

State	Active loans Share %	Unique clients share%	Population share %
Tamil Nadu	14.10%	12.90%	6.31%
Bihar	12.50%	13.50%	9.69%
W.Bengal	9.30%	8.40%	7.61%
Karnataka	8.70%	8.10%	5.25%
Uttar Pradesh	8.40%	9.60%	17.46%

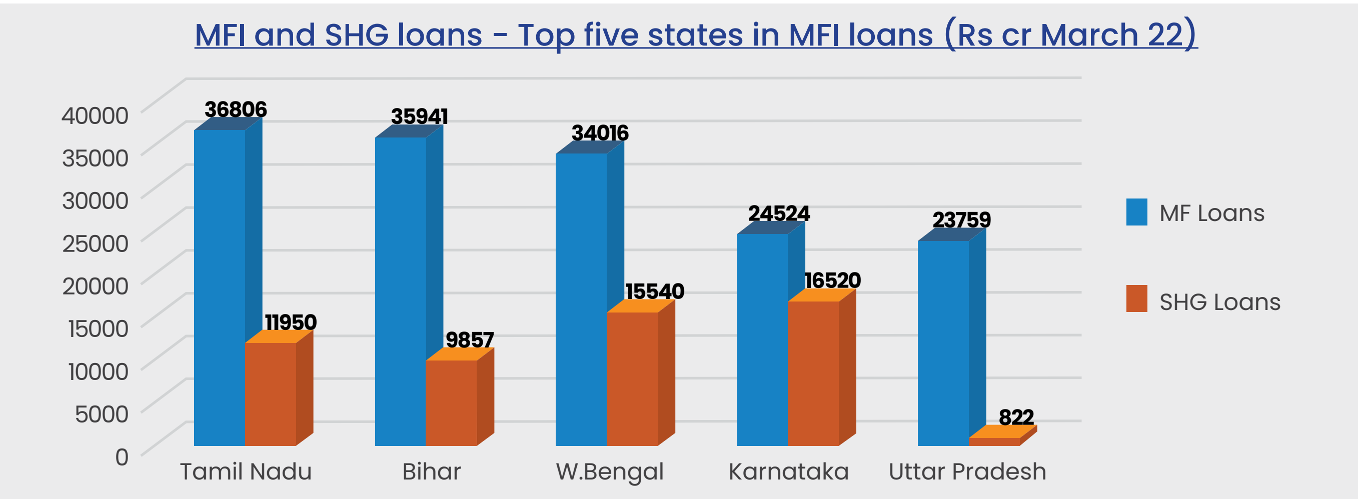
While the population of Karnataka in 2021 was estimated at about 5.25% of the country's population, the state has a much higher proportion of unique clients and loan accounts. Microfinance sector is not just widespread, but also deep in its reach.

Figure 2.1 Top five states outreach



The point also to note is that the state has had strong self-help group movement initiated by pioneering efforts of MYRADA and a few other NGOs from the early nineties. In the recent past SHG movement has been mostly facilitated by SKDRDP and in close partnership with a slew of banks that enable a lower cost of credit to SHGs compared to MFI loans. Even with such strong competition for clients who belong to the same socio-economic profile micro finance institutions have managed to post robust business growth.

Figure 2.2 Top five states in MFI loans and SHG portfolio



The conclusions that we can draw from such vigorous growth of MFI loans in the face of availability of lower cost SHG loans are that i) the demand for credit from small borrowers is high and supply is not near saturation, ii) interest rates are less of a concern to these borrowers than access to credit and iii) the microfinance borrowers are highly disciplined in keeping up repayments. Another aspect of the sector presence in Karnataka is the balance between SHG and MFI loans outstanding. The gap between the two streams is the lowest in Karnataka as banks provide the SHG loans to a reasonable extent and the MFIs serve their customers. Even in a state like Tamil Nadu, which has been a long-term pioneer in the sector, the SHG loans are much lower than the MFI loans, indicating the relative lack of appetite among banks for financing SHGs. Uttar Pradesh is an extreme case; banks simply do not seem have confidence in financing SHGs, but in the same state MFIs have built a business of small loans.

The state had the second highest average MFI loan outstanding per unique client. Only W.Bengal had higher loan outstanding per client. That higher average loans have been managed with decent portfolio quality is testimony to the efficiency of credit processes in the state. The number of loans per unique client was well within the limit of no more than two MFI loans per unique client.

Table 2.3: Average loans per client

State	Average loans Rs/client
Tamil Nadu	40,547
Bihar	40,557
W.Bengal	53,708
Karnataka	44,036
Uttar Pradesh	36,904
India	**42,838**

Mysuru district in Karnataka is the fifth largest in terms of district level portfolio outstanding in the country with Rs 2350 crores outstanding. The outstanding loans in Mysuru is more than 10% of loans outstanding at the state level.

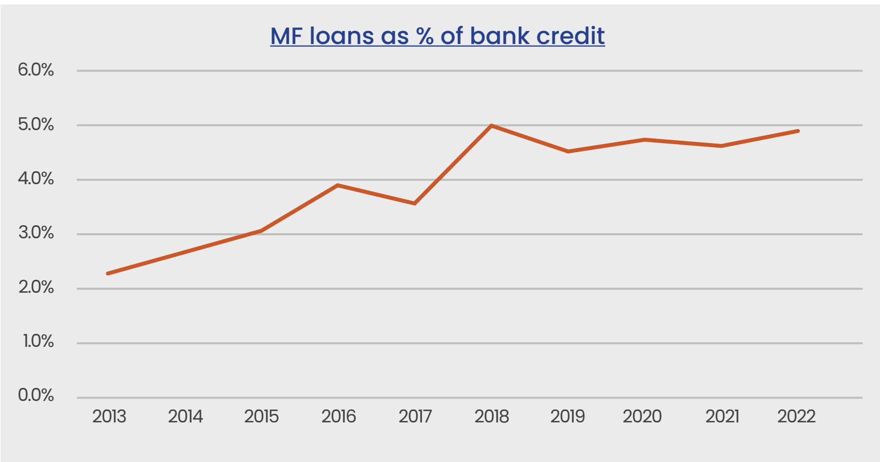
Chapter 3

Micro finance **Karnataka**

Micro finance sector has played a key role in the state in providing badly needed credit support to vulnerable sections of population. The credit support over the years has been increasing by leaps and bounds and has also increased in significance. In the year 2013 self-help group and micro finance loans put together constituted 2.3% of total credit flow in the state this has now reached a level of 4.9% in March 2022 the average annual growth rate of bank credit was 16% over the 10 year period 2013 – 2022. Micro finance loans had increased at an average annual growth rate of 48% over the same period. The self-help group loans had increased at an average annual growth rate of 45% during the period. Micro finance loans put together (MFI and SHG loans) had grown at three multiples of the rate at which bank credit grew over this period.

The significance of microfinance loans has increased in the state over time. Ten years back, as a proportion of the total bank credit outstanding in the state, microfinance loans (comprising SHG and MFI loans) constituted 2.3%. By March 2022, microfinance loans were about 4.9% of bank credit. In the year 2018 the proportion of microfinance loans reached a peak of 5% of bank credit and declined in 2019 on account of a vigorous growth in bank credit.

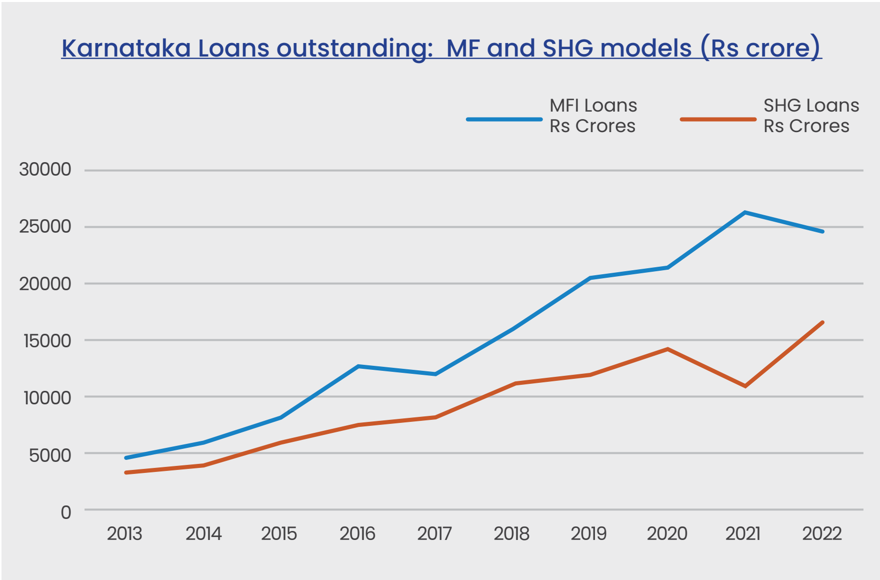
Figure 3.1: Microfinance and bank credit in Karnataka - a comparison



A comparison of position of micro finance in 2013 with 2022 in Karnataka brings out some interesting facts. The number of customers of micro finance institutions increased by 136% from 4.2 million to 9.9 million. In comparison the number of self help groups increased by 24%, from 6.45lakh groups to 8.02 lakhs over the same period. However, in terms of MFI credit there was a significant increase from Rs 4595 crores in 2013 to Rs 24524 crores in 2022, an increase of 434%. The comparative increase in self help groups credit outstanding was of the order of 402% over the same period. While MFIs recorded significant client and loan volume growth, SHGs recorded only loan volume growth. While MFIs lend to both men and women, SHGs have tended to mostly women as members. The increase in overall credit deployment by MFIs and self help groups appears impressive but the increase is lower than the overall income growth per capita in the state over the comparable period. This means that micro finance had not managed to keep pace with income increases.

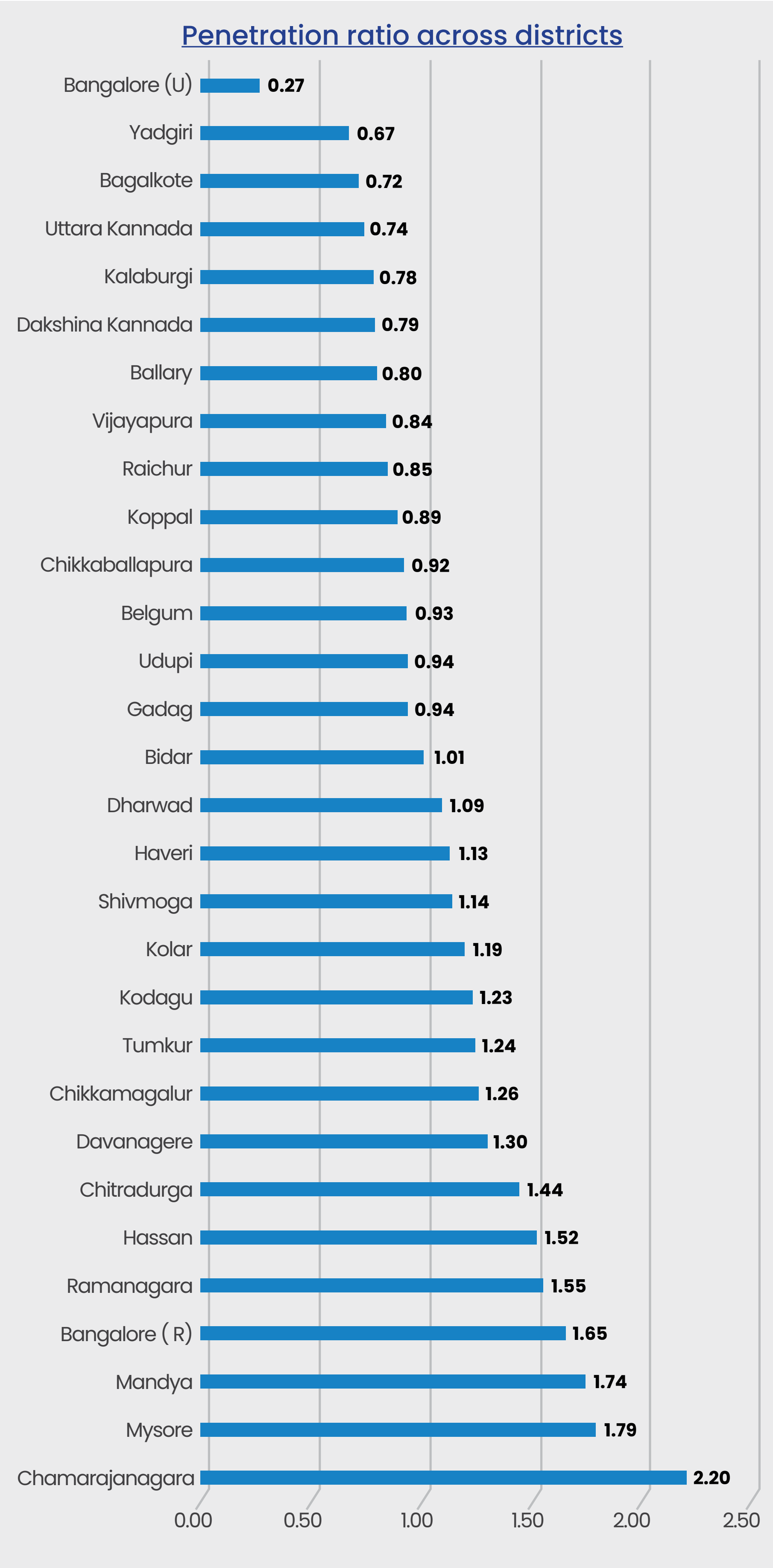
Traditionally, both SHG movement and MFIs have been finding steady support in the state. Given the favourable conditions for financing the vulnerable sections, both streams of finance gained ground and in a balanced manner. While the SHG movement had stronger roots till about 2010, MFIs gathered momentum, with the advent of commercial microfinance. A comparison of loans outstanding under SHG and MFI streams shows that over the last five years MFIs have been increasing their business at a faster pace. SHG loans recovered somewhat in the last year (2021-22), but still the gap between the streams is wide. The gap in loan outstanding was about Rs 1300 crores in 2013 and ten years later in 2022, it has widened to Rs 8000 crores, with MFIs continuing to increase their loan business. The active presence of SKDRDP across the state and its effective facilitation have a lot of to do with strong showing under SHG loans. In case of MFIs a number of large and small institutions including a couple of Small Finance Banks headquartered in the state have done significant development work with the customers. Bengaluru based Credit Access Grameen (erstwhile Grameen Koota) is the largest MFI in the country.

Figure 3.2 Loans MFIs and SHGs in Karnataka



Geographically Micro Finance institutions covered all the districts in Karnataka. The coverage of urban and rural areas under microfinance in Karnataka has been almost even (with 49.4% of portfolio in Urban areas and 50.6% of portfolio in rural aeras). The number of micro finance institutions (that are members of AKMI) operating in the state were 23 in 2014 and had increased to 34 in 2022. The number of branches of MFIs in the state increased from 1016 to 2364 over the same period. Within the state there were wide variations in the intensity of micro finance coverage across the districts. Penetration of MFIs in the districts has been analysed across the districts to understand where there was deeper engagement and where there is space left for MFIs to expand. The analysis was done by dividing the share of the district in the total number of loan accounts in the state to the share of the district in State's population.

Figure 3.3: Penetration Ratio - Microfinance



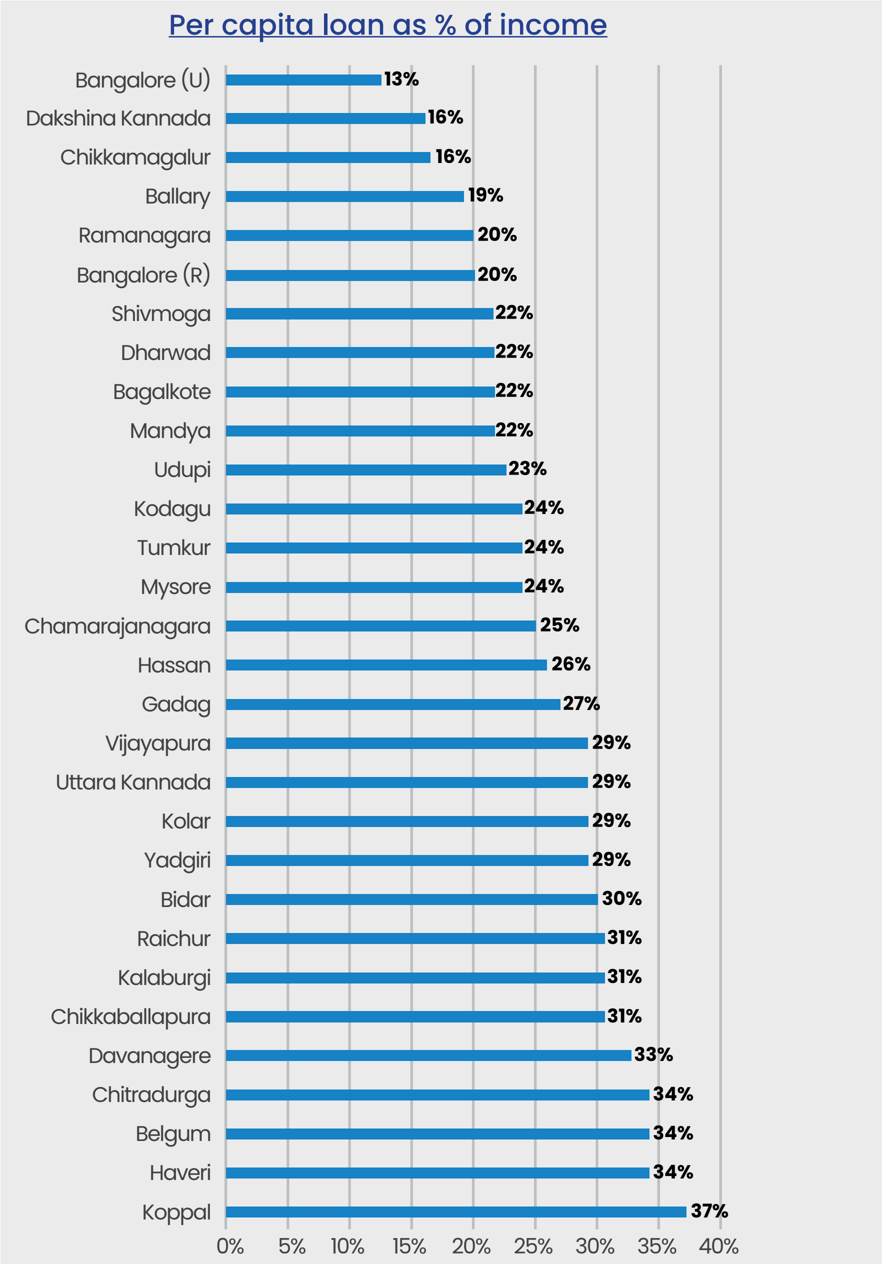
The top five districts in terms of loans accounts had 23% of state population but a more than proportionate 31% of loan accounts. The capital city of Bangalore with 15.7% population was not intensely served by MFIs, it had a much lower than proportional share 4.2% of clients in the state. Barring Belgaum, the other districts in the following table carry a higher risk potential.

Table3.1: Top five districts by loan accounts

District	No of accounts	Share of loan accounts in state	Share of population
Mysuru	8,07,496	8.8%	4.9%
Belgaum	6,68,834	7.3%	7.8%
Tumkur	5,00,615	5.4%	4.4%
Mandya	4,72,378	5.1%	3.0%
Hassan	4,05,979	4.4%	2.9%
Total	**28,55,302**	**31.1%**	**23.0%**

It was clear that districts where per capita incomes and the economic potential was comparatively high, the loans were at a much lower level as a percentage of per capita incomes. It was also seen that the districts which were in the bottom 10 rungs of per capita income were figuring in the top 10 ranks of the ratio of loans to income. This is illustrated in the chart that follows

Figure: 3.4 Per capita loan as ratio of per capita income



The average loan per account in the state was about Rs 37,500. But the on account of the inter district differences, some districts reported a significantly higher loan size. Udupi, Dakshin Kannada and Bengaluru have a much higher banking presence and yet seem to attract a customer base with high loan requirements. Despite the higher average loan size in these districts, loans as a proportion of per capita income is significantly lower than in other districts with low average loan size. Five out of four districts with low average loan size have a much higher ratio of loan to per capita income. This implies that in the districts with lower economic potential incomes, MFIs provide loans with care reflected in lower average size, but still the customer has a higher debt load when seen as a proportion of per capita income. The caveat here is that the average income is across the district and not that of those having microfinance client profile.

Table 3.2: Top and bottom five districts by average loan size

Top five Districts	Average loan per capita	Loan as % of income	Bottom five Districts	Average loan per capita	Loan as % of income
Bengaluru Urban	68067	13	Kalaburgi	30783	31
Udupi	67435	23	Vijayapura	33051	29
Dakshin Kannada	59852	16	Yadagiri	33300	29
Uttara Kannada	48323	29	Ballary	33380	19
Chickmagalur	46799	16	Bidar	33590	30
Karnataka State	**42194**	**19**	**Karnataka State**	**42194**	**19**

The districts with the highest ratios of loan to income are listed in the following table. The recent regulations of RBI require the MFIs to examine debt levels in the context of household income and debt servicing capacity. Given that compliance with RBI regulations has commenced, one should see a reduction in the ratio of debt to incomes in the current year and next year.

Table 3.3: Loan to income ratio – the top five districts

District	Average loan as % of percapita income
Koppal	37
Haveri	34
Chitradurga	34
Belgaum	34
Davangere	33
Karnataka	**19**

BUSINESS CORRESPONDENT MODEL

At the country level, Sa-Dhan BMR reports that as of March 2022 the outstanding portfolio through BCs was Rs 30,517 crores. More than 50% of this was generated by one BC in Karnataka, Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) which had a portfolio outstanding of Rs 16,712 crores within Karnataka state. Of the top ten BCs three were headquartered in Karnataka, SKDRDP, BSS Microfinance and Saggraha.

RISKS AND PORTFOLIO QUALITY

Karnataka is placed fourth among the states across the country with Tamil Nadu, Bihar and West Bengal leading in terms of amount of gross loan portfolio. In terms of average loans per client however Karnataka is placed second at Rs.44,036 behind West Bengal at Rs.50,708. When compared on asset quality Karnataka was third among the top five states by portfolio, with 4.7% of portfolio at risk (30 days past due). One of the indicators used to assess high level of debt in the hands of borrower is that of the number of lenders per customer and number of customers with more than two lenders. A high proportion (85.6%) of customers in Karnataka had either two lenders or less, 10.4 % of clients had 3 lenders,and 4.2% of clients had 4 or more lenders providing loans. In comparison Tamil Nadu had 22.6% clients, and Bihar had 16.7% clients with 3 or more loans. The past RBI regulation had mandated that no microfinance customer can be given a loan by a third MFI (loans from MFIs limited to two lenders per unique microfinance client and this was measured through a reference to a credit bureau).

A comparison of outreach of microfinance loans across states revealed that Karnataka had the highest ratio of loans per unique client. The ratio of loans per unique client worked out to 1.77 in Karnataka. This meant that the medium and small micro-finance institutions worked hard not only to widen the sector but also deepen their engagement with customers. With the recent RBI guidelines stipulating debt levels and debt servicing capacity as key decision parameters, the focus on number of loans per client may not be tracked in future as a proxy indicator of risk potential.

Table 3.4 Loans per unique client – top five states

State	No of loans per unique client FY 22
Tamil Nadu	1.71
Bihar	1.55
W.Bengal	1.68
Karnataka	1.77
Uttar Pradesh	1.47

Equifax reported that country level PAR 30 days was at 8.19 % and PAR 90 days was at 2.43%. Karnataka has reported much better performance in portfolio quality compared to the national average.

Table 3.5: Portfolio quality – comparison across top states

State	PAR 90 %	PAR 30 %
W.Bengal	4.38	8.8
Tamil Nadu	2.43	8.0
Karnataka	1.62	4.7
Bihar	1.54	3.8
Uttar Pradesh	1.16	2.9
India	**2.43**	**8.19**

Loan delinquency appeared to be coming under control in the state, after the spike in defaults and delays in repayment during Covid disruptions. According to CRIF, the PAR levels in all buckets declined compared to previous levels either in March 2021 or December 2021.

Table 3.6: PAR levels in Karnataka[10]

PAR	March 2021 %	Dec 2021 %	March 2022 %
1 to 30 days	2.6	4.8	2.4
30 +	4.5	7.0	4.7
90+	2.1	2.1	2.0
180+	4.6	7.1	6.9

10 Source: CRIF Microlend; Vol XIX, March 2022

The spike in PAR levels in December is caused by the loans emerging from moratorium period.

NBFC MFIs have been the best placed in terms of collection efficiency and asset quality. NBFC MFIs had a PAR 30+ days level of 2.3% of portfolio compared to the industry level of 3.85% in the state. Banks operating in the state had PAR 30 ratio of 4.6%. In case of SFBs it was 7.6% and NBFCs at 4%.

Within Karnataka there were differences in portfolio quality.

Table 3.7 – PAR accounts and amounts – top five districts

Name of district	% of PAR accounts	Name of district	% of PAR outstanding
Mysuru	16.5	Mysuru	5.4
Chamaraja nagara	15.7	Vijaypura	4.7
Bengaluru U	15.1	Chamaraja nagara	4.6
Mandya	14.7	Bengaluru U	4.3
Udupi	13.4	Ramanagara	4.3

Mysuru and Bengaluru Urban districts were occupying top two spots in terms of outstanding loans. Given that loan exposure in these districts is already high, these two districts finding a place in the top five districts in terms of PAR 30 accounts and PAR 30 loan outstanding is a matter of concern. The risk potential is high, especially in Mysuru district on account of its fairly high penetration ratio. Vijayanagara district (newly formed) had the lowest proportion of PAR accounts and amounts outstanding.

While the all-India level write-off ratios of irrecoverable loans were of the order of 1.33 % in Karnataka the same was high at 3.17%. This high level of write-off was on account of a couple of institutions which had faced significant challenges during demonetisation and its aftermath. The overall situation relating to NPAs in the state shows that there are pockets where significant problems did exist. While Karnataka is a prominent state in micro finance institutions and also self help group lending, there have been problems at times in certain pockets of the state. The institutions have learned to manage these kinds of problems and come up with suitable solutions without major disruptions to flow of credit to vulnerable households. The role of the state government in supporting the micro finance movement in the state is to be commended. In the aftermath of the AP crisis in 2010, the Govt. of Karnataka consulted all the stakeholders in micro finance in the state and came to the conclusion that the sector is playing a very critical and positive role in the lives of vulnerable people. Coupled with the MFI regulation introduced subsequently by the RBI, the state's supportive stance ensured that any concerted delinquent behaviour was contained in local pockets and not allowed to become mainstream. The state had significant learnings from the occurrences in Kolar in 2009 (which was the precursor to the AP crisis) however despite the religious overtone of the Kolar crisis the state with both political and bureaucratic will ensured that the MFIs are able to operate under certain and enabling environment.

Annex 3.1 Number of loan accounts as % of population- district wise

Name of Dist	Population	No of loan A/Cs	No of accounts as % of population
Bagalkote	21,52,805	2,03,367	9.4%
Ballary	27,93,996	2,94,082	10.5%
Bangalore (R)	11,28,859	2,46,407	21.8%
Bangalore (U)	1,09,60,871	3,84,399	3.5%
Belgum	54,44,990	6,68,834	12.3%
Bidar	19,40,399	2,58,254	13.3%
Vijayapura	24,80,415	2,74,137	11.1%
Chamarajanagara	11,62,885	3,37,100	29.0%
Chikkaballapura	14,29,814	1,73,027	12.1%
Chikkamagalur	12,96,365	2,15,632	16.6%
Chitradurga	18,90,452	3,58,612	19.0%
Dakshina Kannada	23,80,528	2,47,416	10.4%
Davanagere	22,16,310	3,80,560	17.2%
Dharwad	21,04,129	3,033,74	14.4%
Gadag	12,12,758	1,50,151	12.4%
Kalaburgi	29,23,559	3,01,324	10.3%
Hassan	20,23,699	4,05,979	20.1%
Haveri	18,20,063	2,70,906	14.9%
Kodagu	6,31,708	1,02,781	16.3%
Kolar	17,50,268	2,75,997	15.8%
Koppal	15,83,397	1,86,131	11.8%
Mandya	20,57,132	4,72,378	23.0%
Mysore	34,18,884	8,07,496	23.6%
Raichur	21,97,303	2,45,496	11.2%
Ramanagara	12,33,339	2,52,431	20.5%
Shivmoga	19,96,736	2,99,975	15.0%
Tumkur	30,51,894	***5,00,615***	16.4%
Udupi	13,41,250	1,65,593	12.3%
Uttara Kannada	16,37,223	1,59,883	9.8%
Yadgiri	13,37,730	1,18,389	8.8%
Vijayanagara		1,26,491	
TOTAL	**69599762**	**91,87,217**	**13.2%**

Annex 2: Microfinance penetration ratio

Name of Dist	Share of population	% share of accounts	Penetration ratio
Bagalkote	3%	2%	72%
Ballary	4%	3%	80%
Bangalore (R)	2%	3%	165%
Bangalore (U)	16%	4%	27%
Belgum	8%	7%	93%
Bidar	3%	3%	101%
Vijayapura	4%	3%	84%
Chamarajanagara	2%	4%	220%
Chikkaballapura	2%	2%	92%
Chikkamagalur	2%	2%	126%
Chitradurga	3%	4%	144%
Dakshina Kannada	3%	3%	79%
Davanagere	3%	4%	130%
Dharwad	3%	3%	109%
Gadag	2%	2%	94%
Kalaburgi	4%	3%	78%
Hassan	3%	4%	152%
Haveri	3%	3%	113%
Kodagu	1%	1%	123%
Kolar	3%	3%	119%
Koppal	2%	2%	89%
Mandya	3%	5%	174%
Mysore	5%	9%	179%
Raichur	3%	3%	85%
Ramanagara	2%	3%	155%
Shivmoga	3%	3%	114%
Tumkur	4%	5%	124%
Udupi	2%	2%	94%
Uttara Kannada	2%	2%	74%
Yadgiri	2%	1%	67%
Vijayanagara	0%	1%	NA
TOTAL	**100%**	**100%**	**100%**

The penetration has been calculated as the ratio of share of the district instates number of loan accounts to the districts share of state's population. When the ratio is equal to 1, the penetration in the district is equal to that of the state. The higher it is away from 1, more is the penetration and poses a concentration risk. The lower it is from 1, the penetration is weak and does not serve the population in the district well.

Chapter 4

Credit and **beyond**

The members of AKMI went beyond providing loans to their customers either as part of their customer development initiatives or as part of their corporate social responsibility interventions. There was heightened awareness of the vulnerable nature of clients on the part of the MFIs and banks. This sensitivity to customers livelihood situation and their need for better enabling conditions to make their livelihoods successful had led the AKMI members to take up several interventions well beyond credit, which is the prime business driver. Clients continued good health is an aspect that the institutions focused on. Good health and timely access to quality health care were seen as critical in the success of livelihood activity and household's quality of life. Many members took up health related interventions in the form of conducting health camps, supporting hospitals and primary health centres with infrastructure and equipment, dealing with specific health issues and facilitating vaccinations during the Covid pandemic. While loans supported the livelihood enterprises, the institutions recognised that improved skills will result in better incomes for the clients. Many AKMI members implemented skills training and enterprise creation programmes among the customers and their households. In a bid to strengthen livelihoods projects relating to holistic development of village, watershed development, natural resource management, livestock-based interventions had also been taken up. The client population had significant concerns relating to education of their children as reflected from a part of loans being taken for schooling. Recognising the need for quality education, AKMI members took up support education related initiatives such as funding digital learning centres, study centres, equipment in schools, salary support for teachers, drinking water and sanitation in schools. For the deserving children some MFIs offered scholarships focused on indigent children especially girls. Disaster relief – from natural calamities was a major part of 'beyond credit' initiatives. Some of the unique interventions related to development of sports, cleft lip surgery for children, digital literacy and programmes for people with disabilities. Some AKMI members, especially the larger institutions such as Credit Access Grameen, SKDRDP, Ujjivan had both long and short term programmes of support. A number of AKMI members have been recipients of different awards – for their interventions in areas beyond credit. More details of institution specific range of activities beyond are provided in the following table. Some of the case stories of customers benefitting from loans and development support and improving livelihoods have been listed after the table.

Table:4.1 Beyond Credit interventions of AKMI members

Name of MFI	Karnataka Outreach Lakhs	Karnataka Portfolio Rs cr (Mar 22)	Credit plus activities
Asirvad Microfinance Limited	2.2	600	Health care, Women empowerment, eradication of Poverty, hunger and malnutrition
Belstar Microfinance	1.5	362	Enterprise training, financial literacy, agriculture related training, vocational skills
Bharat Financial Inclusion	8.2	2546	Holistic village development comprising Watershed development, primary healthcare, education, drinking water.
BSS Microfinance	3.5	1465	Support to livestock based livelihoods – especially healthcare, education – school infrastructure improvement.
Chaitanya India Fin Credit	3	1016	Healthcare, disaster relief, Covid vaccination and sanitation awareness
Credit Access Grameen	10	5722	Equipment support to police stations and health centres, children digital learning centres, anganwadi improvement, skill development, disaster relief, medical camps, customer awareness building through Jagruti
IDF Financial Services	0.3	190	Support to traditional cottage industries, interest free loans to ultra-poor for livelihood stabilisation
Madura Microfinance	0.64	128	Health care, health awareness, business education for micro-entrepreneurs, disaster relief
Muthoot Microfinance	2.3	496	Cleft lip surgery for children, sports academies in volleyball, badminton and football, Covid health care, facilitating vaccinations
NABARD Financial Services	0.8	360	Sanitation facilities in hospitals and schools, education, disaster relief, women empowerment activities
Navachetana Microfin Services	0.6	178	Covid awareness initiatives
IIFL Samasta Financial	1.9	842	Livestock development, scholarship for girl students, tree plantation campaigns.
RORS Finance Ltd	0.04	13	
L&T Finance	4.6	1652	Digital finance literacy and skills (Digital Sakhi), rejuvenation of rural ecosystems
NOCPL	1.6	317	Skill development, education, health care, rural development, Covid relief, customer education
Saagraha Management services	1.3	216	Hunger mitigation during Covid, Covid protocols awareness
SKDRDP	31.8	16597	School infrastructure and equipment, milk cooperative buildings, community buildings, crematoriums, drinking water facilities, destitute pension, ultra-poor support, scholarships, equipment support to persons with disabilities, Covid equipment to hospitals and health centres

Sanghamithra Rural Financial Services	0.7	138	Drinking water, support school for the deaf, livestock livelihoods development, cancer awareness.
Satin Credit care Network	0.5	125	Water and sanitation, toilet construction support
Svatantra Microfin	0.2	80	Enterprise development. digital literacy
Svamaan Financial Services	0.2	79.3	Covid relief, client awareness programmes

Name of SFB	Karnataka Outreach Lakhs	Karnataka Portfolio Rs cr (Mar 22)	Credit plus activities
Equitas	0.8	186	Health camps of different types, Vaccination camps, education, skills development
ESAF	0.8	343	Disaster relief, skill development, job training and placement
Fincare	3.3	748	Health and hygiene, Covid relief, study centres for children, financial and digital literacy programmes, disaster relief through rations, tree plantation drive, drinking water supply
Jana	2.5	2019	Financial literacy, support for solid waste management, food and rations during Covid,
Suryoday	1.4	278	Health camps, financial literacy, Covid relief
Ujjivan	4.1	1989	Covid relief, vaccination drive, infrastructure and equipment to community institutions such as schools, health centres, support to persons with disabilities,

Success Stories

OF CLIENTS REPORTED BY AKMI MEMBERS

While the microfinance loans support millions of livelihoods, the power of micro loans to lift vulnerable people from poverty to decent living conditions is felt when seen in the context of specific customer stories. While the institutions have stories to tell as an example, there are millions of such people who brought themselves up through hard work and enterprise, helped by the small loans over successive cycles. The following section carries stories from some of the MFIs and banks as reported by the,.

BHARAT FINANCIAL INCLUSION

RESHMA, AN 11-YEAR-OLD GIRL belongs to the Lambani community of Bhankoorwada village and she used to be very irregular to school as she had to support of her parents in the daily household chores when they went out in search of livelihood. Such was her condition, that she could neither recognize numbers nor letters of Kannada and English let alone its basics. She caught the eye of the LLF personnel in charge of the LEAP program, and taken under their wings. Regular support and one-to-one sessions with Reshma made confident and able to have foundation literacy and numeracy skills.

LAXMIKANTH, PATTAN VILLAGE, AGED 45 YEARS is one of the farmers living in Pattan village. The village faced considerable water stress on account of limited rainfall and lack of water management measures. BFIL through Myrada took up soil and watershed development works in the village which resulted in improved water availability."There is water in the bore wells and in my own open wells which were not functioning earlier. My heartfelt thanks to the project partners" says Laxmikant.

CHAITANYA INDIA FIN CREDIT PVT LTD.

LAXMI FROM KALBURGI, Karnataka who is associated with Chaitanya for the last 7 years, shares her journey with us.

Laxmi's family face financial challenge as the income level is on the lower side. With an aim to combat and overcome those challenges, Laxmi took her first step by availing a loan from Chaitanya and started a general store. The income generated by the store became a major source of income for her family overtime and steadily uplifting their standard of living.

CREDIT ACCESS GRAMEEN LTD

Launched in 2011, Jagruti (literally means "to create awareness") is CreditAccess Grameen's flagship and universal customer education initiative. It has covered more than 500 topics, reaching out to all the customers of the company, periodically.

Being a trusted financial partner to millions of low-income households, the company constantly endeavours to create meaningful customer relationships than just transactional. In a significant effort to disseminate awareness on key socio-economic aspects to its customers and enhance their ability to make informed decisions for an improved living, it conceptualized "Jagruti".

Armed with knowledge, the persona of Jagruti, as a trusted friend and confidante of the customers was created to spread awareness and enlighten them with information on various topics like health management, children's care, financial literacy, education, hygiene, basic legal know-how, rights and duties of a citizen, etc. Jagruti plays a vital role in supporting customers to break the barriers of poverty and empowers them transform their lives and communities.

Since storytelling has historically been a critical channel for information dissemination in rural areas, Jagruti would share the requisite information with our customers mostly through a story. This program is conducted periodically and the letters written by Jagruti are read out at Kendra meetings. JAGRUTI transformed from letter mode to digital mode in 2020. Now, it is also in the process of creating a new multimedia channel through 'YOU TUBE' which enables better and direct dissemination of the message to our customers in their vernacular.

KALPANA IS A MEMBER OF CA GRAMEEN. Her family consists of her husband and three college-going children. She used to work as a daily wage labourer along with her husband in a local Drishti doll making industry. However, even after working dedicatedly for the whole day, she and her husband could barely make ends meet. Things began to look up after an officer from CA Grameen visited her village and explained how easy and advantageous it was to take loans from microfinance companies such as CA Grameen. Kalpana liked the idea of owning her own business and decided to take a loan for the same. She knew this would help her save the hefty commissions that she would otherwise pay to the middlemen. CA Grameen sanctioned her a loan and she used the capital to buy raw materials required to make Drishti dolls. Soon, she established a stable business with her husband, which brought them much-needed financial stability. She went on to take more loans to aid the education of her children in order to secure their future. The idea of financial independence has not only brought happiness in Kalpana's life but managed to boost the confidence of other women in her village who aspire to give wings to their entrepreneurial dreams.

IDF FINANCIAL SERVICES PVT LTD

PROSPERITY THROUGH MICRO ENTERPRISE

If I invest 50,000 I can earn 1,00,000 through my areca leaf plate industry.

Renukamma, a woman entrepreneur from Hirehalli, a village 20 kilometres from Tumkuru town said proudly that she earns from her areca leaf plate industry that she established a few years ago.

Renukamma was working as an accountant in a private industry earning a moderate salary. The working hours were long and she was unable to concentrate on both family as well as work life. When once she visited an areca leaf plate making unit near her relatives home, the idea of starting such a unit was born in her mind. She started collecting information on how to start such a micro enterprise. But finding finance was a challenging task. The IDF FSPL came to help and encouraged her to start her enterprise by giving a term loan of ₹ 80,000.

With this loan and her savings/hand loans she started her enterprise by purchasing 2 machines at a cost of Rs 1.80 lakhs. As her business grew, she was emboldened to add 2 more machines. Now her enterprise which she named as ***Veerabhadra swamy enterprises*** consist of 4 machines and employs 4 workers.

Areca leaf sheath is the raw material for this industry which is available in plenty in her as well as neighbouring forms. With one leaf sheath it is possible for her to make 2 leaf plates. Areca growing farmers supply her raw material at her doorstep.

Renukamma has the capacity to manufacture 1000 areca leaf plates a day. In festivals the demand could be more than 1000, for which she can work overtime and produce as much as there is demand. She confidently says that "all my products are sold like hotcakes. Buyers come to my doorstep and collect the produce by paying the money. The demand for this product is unending ".

She earns ₹ 1,00,000 a month by selling leaf plates. The expenditure includes labour, cost of raw material, electricity and other overheads. She earns a net income of ₹ 45,000 to ₹ 50,000 a month. This helps her to lead a comfortable life keeping work life balance. The enterprise is environmental friendly and the waste is that is generated is easily converted into manure which improves the fertility of the land.

She proudly remembers IDF financial Services Private limited for providing her collateral free loan without which she could not have achieved this prosperity. She wants that all her neighbours should get engaged in such micro enterprises and get ahead in their life.

MUTHOOT MICROFIN LTD

A THIRTY-THREE-YEAR-OLD HOUSEWIFE TURNED WOMAN ENTREPRENEUR NAFISA BASHIR KHAN from Hukkeeri in Belagavi district of Karnataka beams with pride as she presents her products to customers at her shop. The shop, small but housing hundreds of neat stacks of agarbathi sticks, is one spot not to miss in the neighbourhood as a warm fragrance of agarbathis fills the air attracting customers.

Her business was impacted severely a year ago when the Covid lockdown was imposed. The shop remained closed for several days.

After the lockdown, Nafisa struggled with inventory and loss of earnings during the lockdown. However, she was determined to rescue her business and was looking for funds, when she was introduced to Muthoot Microfin by a friend. After learning about the hassle-free loan procedures, she immediately joined a neighbourhood JLG and availed of the first cycle loan of ₹20,000. With the money, she bought all the required raw materials in bulk to resume production of quality agarbathis at the shop.

A year later, thanks to her business acumen and timely financial support by Muthoot Microfin, Nafisa's business strongly rebounded and carries five times the initial amount of merchandise and is still growing. She managed to navigate the troubled waters with calm and grace. Now, she has availed the second cycle loan of ₹45,000 and utilised the entire amount to increase her production and employed two neighbours at the shop. The loan also motivated Nafisa to create her first savings account. A thankful Nafisa says "***I was given a new life after the lockdown by microfinance. Muthoot's timely loan and motivation helped me to rebuild my lost business***".

RORS FINANCE PVT LTD

RATHNAMMA RESIDING AT VALLABHAI ROAD, SRINIVASAPUR TOWN, KOLAR DIST. has been a client of RORS FINANCE PRIVATE LIMITED, since 13 years. The first loan of Rs.6,000/- had increased to Rs.1,00,000/- currently. Before taking the loan from our company, she was in a poor situation and she doesn't have pleasant life and having debt burden on her. From our 1st loan, she bought one milch animal and selling the milk daily to the nearest dairy.

After a gap of 13 years, now she has 4 milch animals and selling around 80-100 litres of milk daily. With the income from dairying she has purchased a house and married her daughter. Without the 13 year support through loans, the livelihood improvement would not have been possible.

NEW OPPORTUNITY CONSULTANCY PVT LTD (NOCPL)

COMING FROM A POOR FAMILY, RANJHITA LIVES IN DODDAMALURU, KARNATAKA, with her husband, an electrician, and her 6 year old daughter. With a loan of Rs.48,000 facilitated by NOCPL and a training in stitching and garments, she has started her own small business, which generates a decent income and supports her family.

SANGHAMITRA FINANCIAL SERVICES LTD

BHAGYALAXMI NAGARA SFS IN KUDLIGI TOWN consisting of 14 members availing loan with us since 2001. In the current cycle the Group has availed Rs 3.00 lacs . One of the members Jayamma stands as a good example in achieving self reliance through financial assistance from Sanghamithra. She started making snacks and sweets to sell the same in foot path of kudligi town. With financial assistance of Rs 60000/- (out of group lending) she purchased machinery available in the market for making Shankarapoli, Kodubale and other snacks and with the assistance of family members. She is selling the products to various condiment shops in the town and earning more than Rs 20000/- per month. Inspired by Smt Jayamma the group members are aiming to start their own activity to achieve economic independence.

SKDRDP

SKDRDP invested approximately Rs. 25190 crore on community development and community households last year, with the leadership of Dr Veerendra Heggade and Smt Hemavati Heggade. Of the several programmes aimed at social development, some important ones are listed here.

1. JNANADEEPA EDUCATION PROGARMME: where in the rural schools are supported with funds for building construction, providing desks and benches, play facilities, water, sanitation and electricity, providing honorary teachers etc.

2. SUPPORT TO DIGITAL EDUCATION (JNANATHANA): Children of SHG members in rural areas were supported to avail digital education with tabs fully charged with the educational kits. 12,000 tabs and 12,000 laptops were supplied at subsidized prices to and loans were arranged to the SHG members.

3. SUPPORT TO MILK SOCIETIES: Every year more than 200 Milk Producers Cooperative Societies are grant-funded for purchasing equipment, developing own premises and streamlining their operations.

4. HINDU RUDRABHUMI: Support to Hindu Crematorium for updating the facilities within the crematorium. This effort has reduced the fuel wood requirement for body burning by almost 50%.

5. SUJNANA NIDHI SCHOLARSHIP SCHEME: SKDRDP supports the children of SHG members with a monthly scholarship for pursuing higher education. During last financial year **17,239 students** received scholarships ranging from Rs. 400/- to 1,000/-.

6. MONTHLY PENSION TO THE INFIRM: SKDRDP provides a monthly pension amounts ranging from Rs. 750/- to 3,000/- to families with no support. **13,242** such families receive these pensions.

7. SUPPORT TO HANDICAPPED AND DIFFERENTLY ABLED: SKDRDP supports with equipment like wheel chair, water bed, walking stick etc., to the victims of disease and accidents who become disabled. More than 13,629 such equipment's have been provided to right beneficiaries.

8. CLEANLINESS DRIVE: SKDRDP motivated the village communities to take up cleanliness drive especially in places of worshiping and public places. Until now **84,222 temples and places of worships** were cleaned up by the members of SHGs. As part of sanitation drive, 6,354 sanitation units (toilets) were constructed during the year 2021-22 by SHG members. Cumulatively **4,70,157 sanitation** units have been constructed over the years.

9. SHUDDA GANGA PROJECT: This is a unique project where the drinking water in remote rural villages are purified by removing the toxic fluoride content and hardness. For this, heavy duty reverse osmosis plants have been installed in 364 villages benefiting. 90,000 families.

10. NAMMOORU – NAMMA KERE: The rural drinking water tanks are rejuvenated by de-silting and taking up other participatory development works which helps the rural people to get more water for day-to-day needs for them and their domestic animals.

11. SOCIAL FORESTRY: SKDRDP focuses on afforestation in various districts of the Karnataka during last three decades. Till now 4,16,114 plants are planted in 3,808 hectares land by organizing 4,133 environment awareness programmes across the state. It has been planned to plant 10 lakhs fruit bearing plants during the 1st phase and so far 2,13,000 saplings are planted in forest area.

12. JANA JAGRUTHI PROGRAMME: Jana Jagruthi forum is working jointly with SKDRDP in prevention of alcoholic and drug abuse among the public. So far more than **1,10,000** addicts are successfully treated by various field camps conducted by the forum through **1,593** deaddiction camps.

13. SUPPORT TO COMMUNITY DURING COVID CRISIS: SKDRDP has worked with the government and the community during Covid crisis. It has provided free food, transportation, facilities and managed four COVID care centers in different parts of Karnataka. It donated liberally to the PM Care Fund. It provided equipment such as ventilators, oxygen high flow machines, Oxygen concentrators to hospitals. It has supplied **84 tons** of liquid Oxygen to boost the availability of Oxygen in the hospitals.

14. JNANAVIKASA WOMEN EMPOWERMENT PROGRAM: This programme has reached out to more than 5,000 villages and **3,00,000 women** to offer capacity building and awareness training once in a. This program mainly concentrates on 6 core subjects - health and hygiene, family harmony, nutrition, importance of education, utilization of government facilities and self-employment.

ESAF SMALL FINANCE BANK

A MEMBER OF NAGADEVI JLG OF ESAF, SHWETHA SARAVANAN HAILS from the silk city of Ramanagara, Halayakattai, Mysuru. She has three siblings and parents depending on her livelihood. The family has the agrarian background and agriculture has been their main source of livelihood for the past 21 years. In 2015, disaster struck in the form of floods. Soon, Shwetha's sister was diagnosed with a life-threatening illness on which the family was forced to spend approximately Rs.5 lakh, "For all of us, it was a very dark time," she recalled.

Shwetha considered entrepreneurship as a means to overcome the harrowing situation. She started a tea stall in 2018 with a loan of Rs.35000 from ESAF Small Finance Bank. She got qualified for a larger loan as she seldom defaulted in repayments. Shwetha used the second loan to establish a restaurant called Hotel Saibaba on a rental basis. Three people are now employed at the Hotel, she easily earns more than Rs.25000 per month, "People now a days prefer variety when dining out. I intend to expand the menu soon to include additional delicacies from continental, Mexican and Chinese cuisines, all of these are extremely popular today," she said. Shwetha's long term goal is to purchase her own property and relocate her restaurant, she is highly motivated and has already developed a five-year business plan. Shwetha has a clear vision on how she wants to use the funds and on how to initiate strategic marketing activities, and grow her business.

FINCARE SMALL FINANCE BANK

YASHODHAMMA HAS BEEN THE CUSTOMER OF FINCARE SMALL FINANCE BANK SINCE 2017.

Farming was her only source of income. To improve her financial situation, she decided to take her first microfinance loan of Rs. 26000/- and purchased a cow. A few months later, her daily income grew by Rs.350/- per day. She was able to repay the entire loan amount along with interest in 2017 itself and within the due date.

She further took group loan in four cycles and in the last cycle, where the loan amount was Rs.55,000/- she purchased more cows and some sheep for dairy business, which also gives her incremental income. Today Yashodhamma's household income has grown up to Rs.20000 per month. She has been able to construct 2 extra rooms for her family, a sea change from the days when she earned a pittance and lived in one- room home along with her family.

Her Husband is a tractor driver and involved in agriculture work. Her family members are also involved in growing silkworm cocoons. At present the household is able to earn Rs 4 to 5 Lakhs a year.

Chapter 5

Leader **speak**

MFIs have been at the forefront of financial services for the poor and vulnerable. The Karnataka context of microfinance has been detailed in an earlier chapter. To understand the nuance of the business and the motivations from an organizational perspective, three industry leaders were interviewed. The CEOs of thee MFIs, one in the top three list nationally, another a large sized multi-state MFI with significant presence in Karnataka and a third one, relatively small operating only in Karnataka. The interactions with the three CEOs brought in different perspectives and the challenges and successes of operating in the sector. The three CEOs interviewed were Udaya Kumar of Credit Access Grameen, Ananda Rao of Chaitanya India Fin Credit and Vivekanand Salimath of IDF financial Services. The questions and responses are provided in the following paragraphs, with minimal edits.

ANANDA RAO
Chaitanya India Fin Credit

How did you experience the microfinance sector in Karnataka in these last few years?

Karnataka has been a good market, but it can also turn adverse if the ground level conditions become difficult. The problems of Kolar in 2008 and 2009 had been managed by the MFIs and the situation returned to normal. The MFI sector was posting smooth progress across the state. Demonetisation of large value currency notes had a particularly bad impact on customers and business. We never anticipated the strong reaction from the customers – who were staging Dharna against recovery efforts and repayment of loans. MFIs had difficult times to absorb losses arising from the 'demon' effect.   However during Covid, the state had lower defaults than many other parts of the country. There have been localized problems in the state from time to time. AKMI managed these situations well and helped the MFIs. Dealing with local bureaucracy is a continuous effort and the MFIs have a strong support in AKMI in smoothening relationships and putting across the sector's point of view.

How did Chaitanya fare during and after Covid?

Chaitanya has come out much stronger after Covid. Today it has one of the best recovery rates in the industry. Chaitanya did not compromise on credit discipline during the Covid time; but it did continue to disburse loans during the period, recognizing that clients needed liquidity to keep their businesses and livelihoods afloat. Chaitanya offered moratorium on loans to the needy clients. Only 20% of clients took up moratorium; the remaining 80% clients paid up their loans on time. Majority stake Chaitanya had been acquired by Navi Technology group and hence during Covid the institution had adequate equity and access to loanable funds. This helped in continued disbursement of loans, when some of the other medium and small MFI faced a liquidity crunch. RBI's several measures on the liquidity front, eased the constraints in funds flow to MFIs and resulted in reduced cost of funds by about 2%. The Credit Guarantee Scheme introduced also helped the MFIs access resources cost effectively during a stressful period.

Do you have challenges in staffing?

Microfinance is a sector where the 'feet on the street' is the most important part that can make or mar the business. The sector offers a well rounded experience to entry level staff in managing customer relationship and financial services. But the choices available to entry level staff hare many in recent times. This results in higher attrition rates than in the past. The staff have also become discerning- with expectation of good 'work-life' balance. We used to work six days a week; now staff want the weekends off. The pay and incentives had been usually linked to productivity and efficiency – but in the recent past the pay is determined more by what other competing sectors and institutions offer. In case of Chaitanya, higher retention levels of staff and effort at increase of longevity of staff have kept costs low. Training and skilling of staff has been a continuous and ongoing effort in Chaitanya. Managers in Chaitanya are trained to be flexible and manage different roles. With increasing adoption of information technology, staff training has moved beyond normal skill aspects.

How are you progressing in digitization, given the recent focus of the sector institutions on the same?

Chaitanya is engaged in appropriate digitization with the objective of improving productivity, optimize costs and pass on the savings to the customers. We have adopted digital 'KYC' processes to cut down time and excessive paper handling. In customer acquisition. Our references to credit bureaus are through digital means and built in to the credit decision process, again cutting down time and improving accuracy. On aspects such as digital disbursement of loans and collection of repayments, we are moving ahead with what is most convenient to the customers. We are clear that digitization should not increase burden on the customer for transacting with Chaitanya. We are setting up cash points through our BC operations so that customers can more easily operate through digital channels.

During the year RBI had announced its revised guidelines for the sector. What are the new elements and how are you coping with the changes?

We welcome the new regulations as these respond to most our demands. The regulations offer flexibility to the sector in its operations but casts a responsibility for orderly conduct of business. The guidelines will ensure that only serious players remain in business over time. RBI requirements detailed assessments of the customer and the household as to their eligibility for a loan and also the extent of the loan. This entails higher order skills in our loan officers. Prior to regulations, our front line staff requires reasonable skills of managing customer relations and follow easy guidelines. Now they require skills of making credit decisions even as they acquire potential customers. Borrowers with higher incomes have to be rejected. Regulations require us to focus on low-income households. The detailed appraisal processes will increase our operating costs by about0.5%. The regulations also make it possible for MFIs set interest rates. MFIs can now hope for a reasonable net margin. As a result of regulations and the increased costs of skilling and detailed processes, interest rate is estimated to increase by 1.00 to 1.50% in the sector.

How do you view the future of the sector?

Our twelve experience is mostly in dealing with microfinance as a niche product in which other financial institutions did not have much of interest. This is now changing big time. With banks seeking to reach their Priority Sector targets of 40%, microfinance has become a lower risk, higher margin asset class. There is increased competition and it set to intensify.

On the customer side, the good ones (many of them are) improve the size and scale of their operations through proper utilization of loans. When they become bigger than what microfinance can offer, our challenge is 'how to evolve with the customer and be material in their effort to scale up'. It is not possible to do this through the group mode; we need to make organizational changes to deal with the fast growing customers. Another aspect of customer demand is that it is changing – at the bottom of the pyramid. There is less patience with group loans and very soon we need to set up individual lending frameworks. A class of new borrowers might need an opening to enter MFIs. We need to work hard to identifying these classes and what might best suit them consistent with regulation.

At the sector level, the playing field is uneven between the large MFIs and others. Capital determines the ability to compete and the medium and small MFIs suffer from lack of capital to grow. But these are the ones that can lead innovation in customer facing aspects of business. The sector seems to be moving in the direction of consolidation. Either you merge or face a low extinction. If as an MFI you are too small with less than Rs 100 crore turnover, you are not of much interest to a prospective buyer, compared to a size of Rs 1000 to 2000 crore in turnover. The smaller institutions need to grow bigger even for suitable merger/acquisition options. The market for small loans and vigorous demand is there to stay. The institutions of the future are those with good IT processes, skilled staff, customer connect, fair market conduct and innovation in their DNA.

VIVEKANAND SALIMATH
Chairman, IDF Financial Services

How do you see the sector today in the context of your more than two decades experience?

When we started the supply side of the sector was very narrow with almost no choice for the customer. Today the customer has a choice of MFIs and banks too with the latter entering microfinance in a big way. Especially the last six years we hav seen significant increase in supply of microfinance in terms of institutions and quantum of loans. Turn Around Time (TAT) has been declining and becoming shorter and shorter. Today we are able to process a loan application in six days, increasing customer comfort.

With high supplies, some borrowers tend to over-borrow; borrow from one MFI to repay another. MFIs need greater vigilance today to avoid roundtripping by a small portion of over-indebted customers. The situation on funds for lending has improved for MFIs. Today banks, NBFCs, SFBs, etc., provide bulk funds, which is much better than in the past. RBI guidelines on Priority Sector Lending has enabled the participation of banks through bulk funds, direct loans or BC route, easing liquidity constraints.

On the customer front, the meeting culture is fast vanishing with centre group meetings no longer a priority. With low attendance in meetings, collections have to be door-to-door. This inflicts higher costs and results in incidences of frauds. MFIs have to invest in tele-calling and monitoring to support door-to-door recovery effort. A natural fallout is the loss of peer pressure as a factor in community induced collections and the making up of shortfalls in collection by the group.

What is the situation of small MFIs in the context of the sector growth?

Small and medium MFIs have always found capital and bulk loans in short supply. Fortunately, IDF has not had problems on this score on accounts of its long and good relationship with banks. But many smaller MFIs report constraints, despite a host of financial institutions offering liquidity. Equity capital is the hardest to come by. Typically, MFIs with portfolio of Rs 1000 crore or more are able to attract equity. A compounding factor is the lack of domestic equity sources. India Microfinance Equity Fund in SIDBI and earlier to that the PSIG project of the then DFID provided some equity support to small MFIs. But even here, there difficulties when the equity investments are redeemed by the investor – the MFIs are unable to offer viable exits. RBIs initiatives provided some relief to the smaller MFIs during Covid. SFBs are now able to make priority sector bulk loans to medium and small MFIs with the changes made by RBI to PSL guidelines.

Covid had a significant impact on the sector. How did you face the challenges in this period?

In the first phase of COVID, the lockdowns were total. All activities of IDF were suspended. We were closely attending to business continuity issues and managing liquidity for servicing our loans to banks. Guidance from Sa-dhan and MFIN helped us considerably. RBI introduced moratorium for clients which facilitated dealing with customer loans and keeping the health of portfolio from 'default deterioration'. Phase I of Covid was relatively easy to deal with for MFIs, except for liquidity to service loans of banks. But the second phase impact of Covid was more in rural areas and affected livelihoods there in greater measure. MFIs witnessed a lot of stress among customers engaged in service activities, temple towns, tourism related enterprises. Bulk lenders to MFIs offered moratorium on their loan dues which was very welcome. SIDBI gave liquidity support to MFIs in a hassle free process. IDF got Rs 15 crores which was timely, useful and helped tide over the difficult period with ease. Post-moratorium, MFIs restructured loans to individual customers on a case-by-case analysis. RBIs stipulation of providing 10% of restructured assets was a difficult one to adhere to, but MFIs did the same as it was in the interest of the sector. The smaller MFIs with lower capacity to make provisions, restructured loans to the extent of available provisioning capacity and tried to find alternative means of dealing with the remaining moratorium loans such as top-up loans, etc. The alternative methods introduced indiscipline at the customer level. In some states the Covid impact on livelihoods was so severe that customers had no means of repaying the loan even after normalcy. Many MFIs had to write off a part of restructured portfolio.

SIDBI introduced a lower cost finance window under TLTRO, with the condition that interest rates to borrowers was reduced by 2%. IDF received Rs 20 crores under TLTRO. The redeeming feature in the midst of the Covid problems was that the Operating expenditure ratio did not increase. Cost of funds declined and we were able to pass on the reduced finance costs in the form of lower interest rates to borrowers. After the second phase of Covid, demand for credit has boomed. Resumption of schooling, festivals after two years of muted celebrations, etc. drive the demand for credit. The demand is now at pre-Covid levels.

RBI had recently issued revised microfinance regulations. What is your view on that?

RBI has levelled the playing field among the different forms of institutions, listening to the voice of the sector. The flexibility on interest pricing now made available to MFIs is a positive development. Smaller MFIs found it difficult to manage their margins with interest caps. The focus on loan servicing capacity in determining loan size (rather than on number of loans and lenders) is bound to result in good outcomes for both the borrower and lenders. There are a few problems that have cropped up, receiving MFIs attention. Assessing income levels of households is difficult when the customer does not have clear records of income and expenditure. When more than one institution makes income assessments, the results are bound to differ – in such a case which income level to adopt? The guidelines seem to orient loans towards income generating purposes. But a part of the MFI loans have been for other purposes such as education, health, etc. The thumb rule is that if EMIs exceed Rs 1200 do not give a loan. But with on full season of working, we are bound to sort of the teething issues arising from changes in regulation. Overall the changes welcome and make for a better sector environment where all players can compete and co-exist.

What are your thoughts on the future of the sector?

Economic growth will power the microfinance sector to higher levels of growth. We see an increase in aspiration levels of people and these aspirations need finance for fulfilment. MFIs see a strong demand backed up by an ability to repay. The high demand and low risks is seeing many new players entering and existing players broadening their presence. Karnataka is seeing more MFIs entry. One needs to cautious that AP crisis of the past, firmly remains in past and does not revisit us. Given the regulations that curb excess=debt at customer level, more interest in expanding to markets with low debt levels will be generated. States such as UP, Bihar are likely to post higher growth rates.

Technology has become an essential part of MF processes. The cost of technology has come down significantly. IDF has promoted digitally connecting with customers for loan repayments through any payment app.

MFIs with capital constraints find that BC options a viable one with which they can connect to more customers. Mergers and acquisitions have been in the air for some time. While some MFIs have been merged in to banks, some others have become subsidiaries. Some MFIs have become BCs of banks. Mergers are welcome as they bring greater capital and organisation to the smaller players and increased their outreach.

We need to be conscious of the changes in customer preferences and behaviours as pointed out earlier. MF operations, whether from MFIs or banks, should be built around the customers' needs.

UDAYA KUMAR

Credit Access Grameen

Grameen has been part of the microfinance landscape in Karnataka with a large presence. What is your view of the sector in Karnataka?

Karnataka has been a good state for the sector, giving birth to many institutions. Barring some stray occurrences, the state has good conditions on the ground for MFIs to thrive. The customers and MFIs have been able to absorb the problems arising from state and national events. The AP crisis, demonetization and Covid are large adverse factors that affected institutions all over, but eh MF sector in Karnataka has absorbed the shocks and moved ahead. The customer base, the diligence of staff and the state leadership at different points of time have all had a role to play in this.

What had been you experience of Covid?

In Karnataka and elsewhere, we had been impacted by the lockdowns that nearly brought all operations at customer and MFI levels to a halt. However, we were ensuring that our liquidity remained adequate and our liabilities are well serviced. We offered moratorium on loans to needy and deserving clients. But we did not relax any credit disciplines so that there is no compromise on business principles. RBI and GOI measures helped all MFIs, but the small and medium ones had more problems than the rest. In the first two months of the second wave, we came to the conclusion that we have to continue the operations as otherwise the gap in economic activity of our customers might be too long leading to irrecoverable damage. We went ahead with customer acquisition, disbursements, opening branches and staff hiring. We were correct in our assessment; when normalcy returned after the second wave, we were already in a good position as a business, but more importantly our customers were better placed. During this time weekly meetings were taking place and collections were being effected. We told the customers who are unable to pay any weeks instalment to make the good the same in the following week. The employees were advised to be empathetic and customer centric in their approach. All this handsomely helped us when normalcy was restored. It is not that customers did not have problems. Some of the restructured loans were not repaid and we had to absorb the losses. But we got out of the Covid disruptions much better than many other entities.

How is your institution dealing with technology?

We have been using IT applications consistent with our size for a long time. We were one of the early MFI adopters of Core Banking Solutions. During COVID we had a lot more work done in increasing IT alignment with business. We have AI and ML based applications integrated in to our systems. We are planning to set up a 'digital bank' within. We make use of data analytics to generate leads, explore product development and arrest customer attrition. At the customers hands we provide digital literacy and implement cashless solutions provided the location and customers find it feasible. Our approach to digitalization has been that the institution should have the most effective and current technology that reduces costs and improves productivity; at the same time technology should not be forced on borrowers. We invest in preparing the customer for digitally enable interface which they can adopt when they are ready.

What is your take on the changes in MFI regulation recently introduced?

The regulations are a welcome response from RBI to the demands made by the sector. The arbitrage on differences in regulation between banks, for-profit MFIs and others has now been removed. The playing field is levelled offering opportunity for productivity, efficiency and innovation to compete for customer's attention. The freedom on credit decisions and interest pricing have provided a lot of elbow room to MFIs. While expanding to remoter geographies, MFIs will be more confident on account of the ability to price the risks and operating costs fully. WE see that the guidelines on pricing are very supportive of our risk-based pricing methodology. There will be a learning curve in income estimation and debt service capacity based loan sanctions. But this is a question of time and effort to be invested rather than becoming an impediment..

On account of household income levels becoming a determinant of eligibility there has been a spike in the number of rejections of loan applications; but this is declining. At Grameen we have a larger proportion of 'new to credit' and unique to 'Grameen clients' which helps to keep rejections rates low around 30% or less. We have a large client base in rural areas is material that is critical in keeping rejection rates low. The leeway given for on-microfinance loans in the regulation provides a pathway for us to deal with our existing clients who graduate and demand higher size loans.

How is the situation with regard to raising resources?

During COVID, the entire sector was supported by RBI and GOIs policy and schemes that made liquidity available to the sector. Being a large institution and with an ambitious growth plan, we need to be continually engaged with raising resources. As we look in to the future we realise that we need diversification in our liability profile. While banks and NBFCs have been supportive, for the high requirements of liquidity from now onwards we need to establish sources of long term funds so that we can offer loans of reasonable tenor to our borrowers. We have consciously planned to seek resources from entities abroad which are of longer term. We also would seek domestic funds, of longer maturity. From the present levels of around 12% of international borrowings, we would like to reach a leel of 35 to 40%. We also intend to float NCDs in the domestic market to diversify our funds base. All these measures will enable us to raise adequate resources without causing debt fatigue in domestic market.

What would highlight as your contribution to the vulnerable sections of people, going beyond credit?

Grameen came from a NGO parentage and still carries the development mindset when it deals with local communities. It deals with issues in education, health, public infrastructure, livelihoods and succour in times of need. Our field force is adequately trained and capacitated to respond to societal requirements whenever such needs are identified. In education the work Grameen ranges from improving Aanganwadis, providing scholarships to children and supply of equipment and refurbishment of schools. Women and Youth have been trained in setting up and managing their own enterprises, thereby creating an enterprise culture. Grameen has upgraded infrastructure in community spaces and institutions such as health centres, hospitals, schools, police stations etc. Grameen has also undertaken natural resource management programmes involving rainwater harvesting, ground water recharge and water use optimization. It has supported mobile health check-up and has provided relief Covid affected clusters besides facilitating vaccinations in a number of locations. Its annual report is now reporting on five different capitals (including social and relationship capital, natural capital and human capital) and working towards ESG compliance.

What is your perspective on future?

The sector is set to grow and with greater flexibility in building robust models with RBIs new dispensation. The commitment grow should see us entering new geographies and deepen our engagement with new to credit customers. We will remain rural as the rewards of doing business in such low-competition locations are plenty. We have ambitious growth rates and will seek to secure the liabilities side of our balance sheet with a diversified set of funders (domestic and foreign) with long tenor loans. This is necessary to provide our borrowers with loans of adequate maturity and keep costs of finance under control. The risk of excessive dependence on one or two sources of finance has also to be managed. The foray in to domestic NCD market is to broadbase the resources profile and increase the duration of borrowings. Technology adoption has been a continuing theme with Grameen. Out commitments to different stakeholders remain firm and focused positive returns consistent with the nature of the stakeholder. We will be alive to opportunities, even inorganic growth possibilities (such as the acquisition of Madura Microfinance in the past). Our goal is to be the best MFI with a high contribution to customers livelihoods and a social conscience.

Chapter 6

Impact Assessment of microfinance in Karnataka

Microfinance institutions have been active for more than three decades in the state of Karnataka. The institutions account for a significant coverage of vulnerable households, consistently growing loan portfolio and self-reported impact on people's lives. Despite their presence in the state (and indeed in the country) and the eagerness of borrowers to access their credit products in millions, there have always been questions about the functionality and relevance of Microfinance as a sector and the MFIs as significant institutions. There have been national and local level studies in the past to examine the impact of Microfinance. The Association of Karnataka Micro Finance Institutions (AKMI) thought it fit to commission a study in the state of Karnataka to understand and disseminate the nature and extent of impact of Microfinance on people's lives and their financial awareness. The study was carried out independently by an experienced consulting firm (Shaisavi Project Consultants Ltd) active in development sector. The study focused on harvesting customer perceptions and voices rather than data collection and analyses on each aspect of impact. The following is a summary of the study and its findings.

The study was carried out in seven districts of Karnataka State (Udupi, Chamarajnagar, Gulbarga, Kolar, Mysore, Gulbarga and Raichur) in April & May month of Year 2022. A sample of 2310 microfinance clients were interviewed. The sample was drawn from several microfinance institutions to ensure diversity. The survey adopted stratified purposive sampling. The sample consisted of a cross section of the population – 70 % from backward communities of which 37% of respondents belonged to Other Backward Caste (OBC) category, 21% of the respondents belong to Schedule Caste (SC) and 12% from Scheduled Tribe (ST) Category. Educationally, 77% respondents had studied till primary level and 18% have studied up to secondary level. Only 3% of respondents were graduates. Affluence wise the sample represents lower level income segment with 90% of the respondents belonging to BPL households, and 10% respondents belonging to APL household. MFIs by and large have been dealing with vulnerable sections of people and disadvantaged communities is reflected in the sample. The average family size of the sample was 4.5 persons. The average number of earning members per family was around 2 (1.8) with 45% of the respondents having one earning member in the family and 36% of the respondents having two earning members.

The average monthly family income is around Rs. 23000/; 53% of the respondents fall in the income segment of less than Rs. 20,000 monthly income, 32% of the respondents fall in the income segment of Rs. 20001-30000 and 15% fall in the income segment of more than Rs. 30000. The recent RBI guidelines mandate Rs 3.00 lakhs annual household income as the ceiling for eligibility as microfinance client, The sample shows that about 15% of households may not make the cut and might have to access non-microfinance loans future. Udupi, Mysore, Gulbarga and Belgaum districts have higher concentration of income segment of Rs. 10-20k, these districts also have higher concentration of income segment of up to Rs. 10,000/ except Belgaum. Belgaum, Raichur and Kolar districts have higher concentration of income segment of Rs. 20-30k.

Labour as the main income source is the largest segment with 38% of respondents, followed by Agriculture 21%, service 17% and Business 16%. 5% of respondents reported Agriculture + activities with combination of service & business and 4% of respondents reported Business + Service as the main occupation.

Table 6.1 Sample distribution by source of income

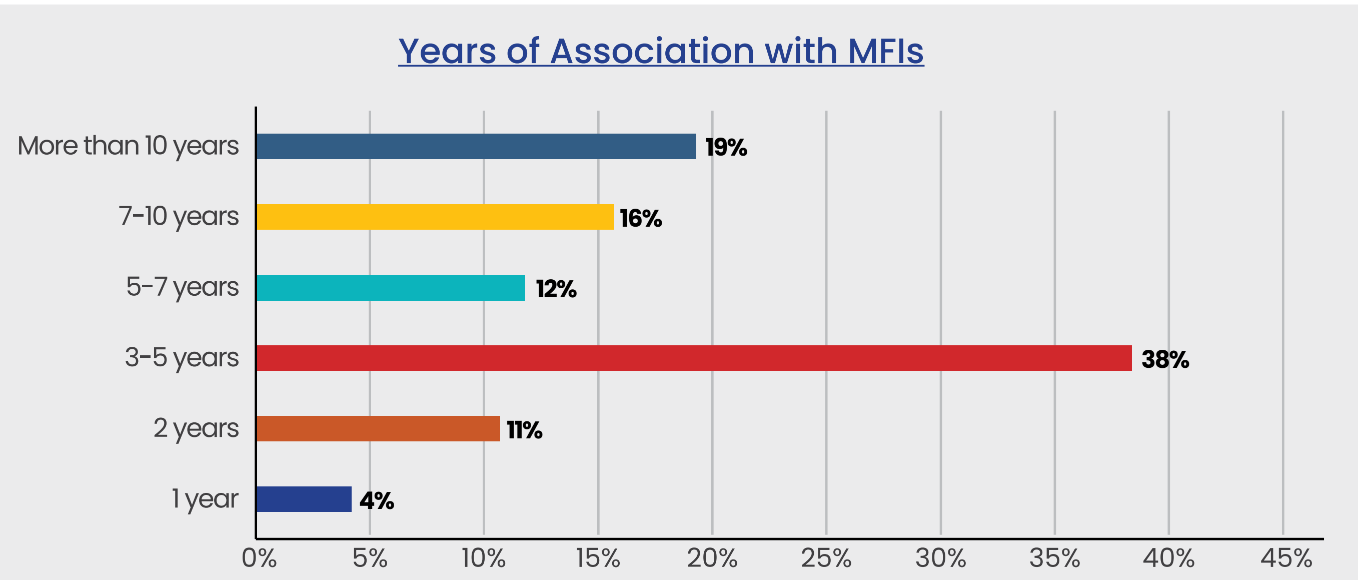
Main income source	% of sample households
Labour	38
Agriculture	21
Services	17
Business	16
Agriculture + service or business	5
Business + service	4

The income sources indicate the economic vulnerability of the population accessing microfinance.

1.1 ASSOCIATION WITH MICROFINANCE

The sample comprised both mature and recent clients of microfinance. 47% of members associated with microfinance for more than 5 years and 53% of the respondents have joined microfinance network within last 5 years. 85% clients had been with MFIs for more than three years and their maturity as clients lends more weight to the findings.

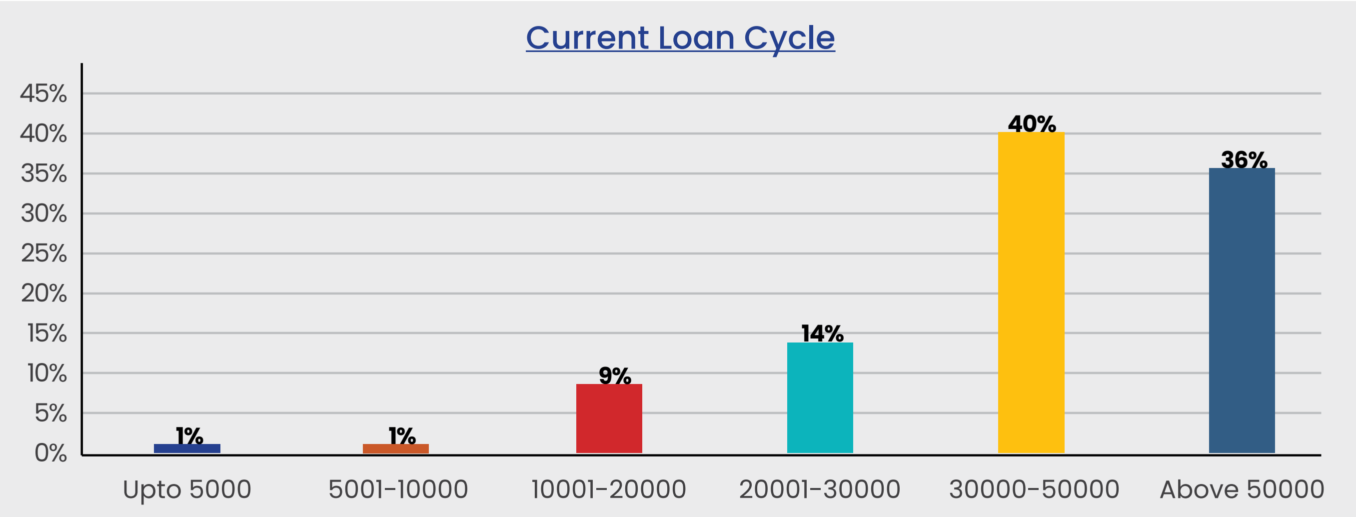
Figure 6.1: Maturity of survey sample



Loans

The first cycle of loan was typically smaller than the subsequent cycles. The first loans reported by the sample ranged from Rs 5000 to Rs 30000+ with 85% of respondents reporting loan of Rs 30000 or less. The current cycle loan outstanding however was significantly higher, reflecting that the customers were able to borrow higher amounts with increased familiarity with the institution and their expanding activities.

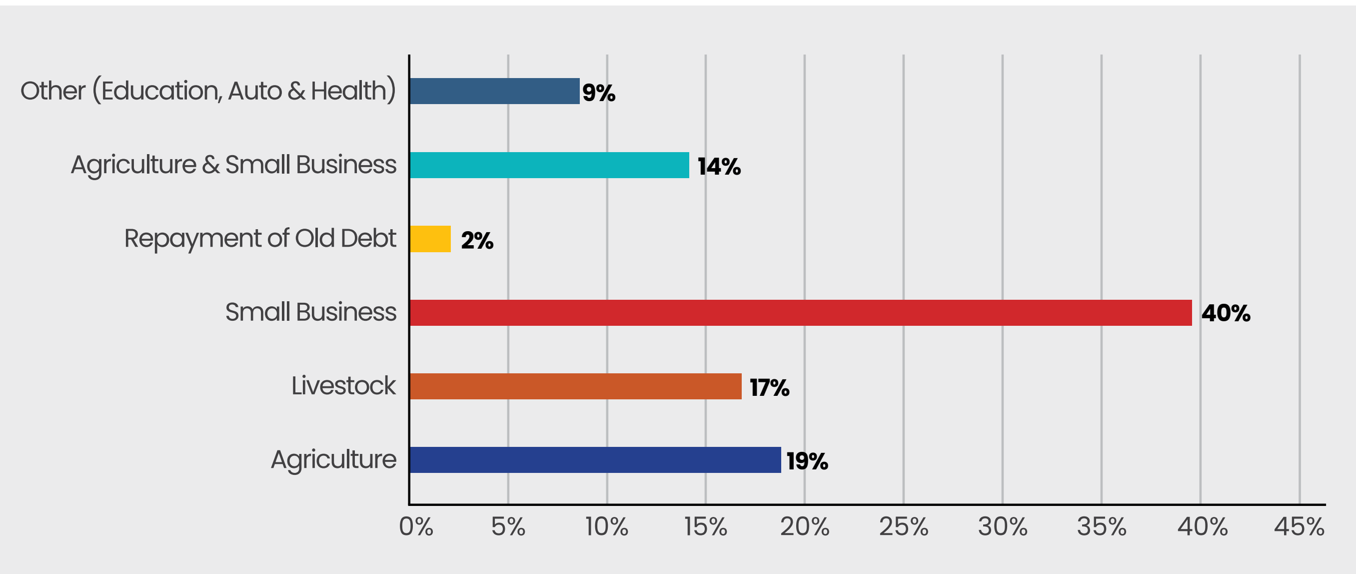
Figure 6.2: Size of loans in current cycle



There is significant increase in the quantum of microfinance loans compared to the first loan cycle with the average size of current loan standing at Rs. 62k. 76% of members fall in the bracket of more than 30k indicating that MFIs were able to cater to the increasing needs of clients.

A large proportion of borrowers (90%) in the sample applied the loans in income generating activities. The utilisation of microfinance loans has been in investment in productive assets/enterprises and the loan purpose fitted in well with the occupation profile of the respondents. Majority of sample (79%) reported loan tenure of up to two years, followed by 15% with loan tenure of up to one year and only 6% with loan tenure of more than 2 years. The loan tenure duration is in sync with current loan sizes wherein 79% of the loans are above Rs. 30k.

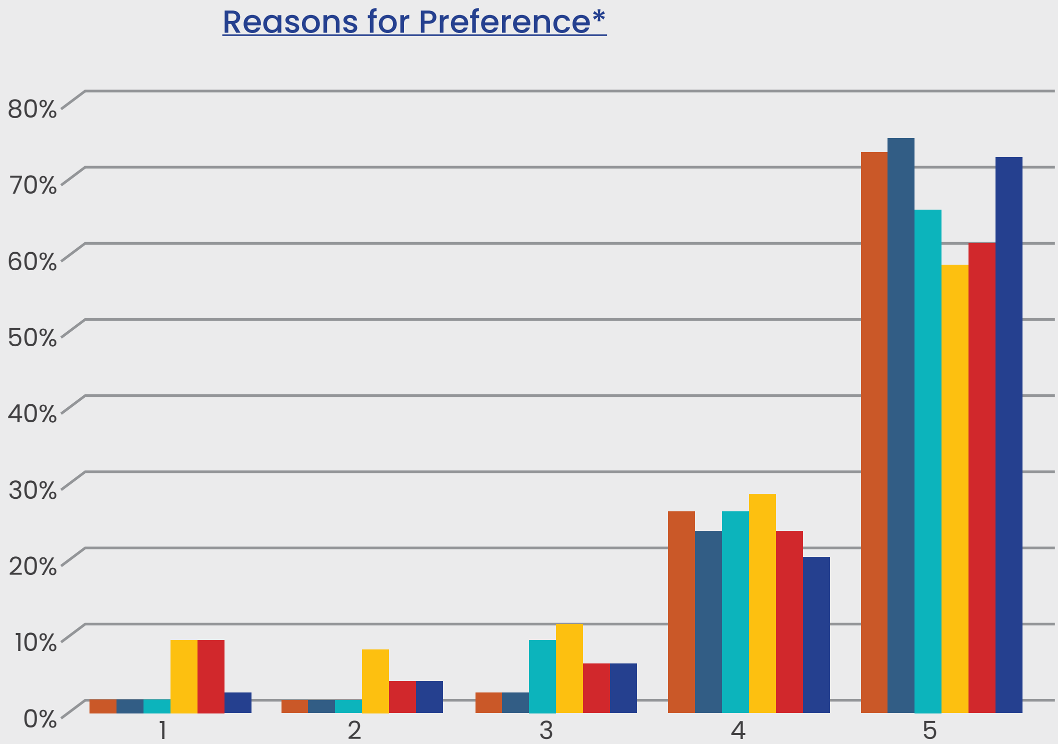
Figure 6.3 – Purpose for which loans were utilised



MEMBER PERCEPTION

MFIs have emerged as the most preferred institution for loans with 89% of respondents chose MFIs as their top preference for taking loans despite banks being present, with only 7% preferring banks. 3% preferred NBFCs and 2% preferring other sources (friends & relatives). The major reasons attributed by members for preferring Microfinance institutions were ease of documentation, collateral free nature, Service quality and good behaviour of microfinance personnel. The other major factors were quick loan processing time and Rate of interest.

Figure 6.4 Reasons for preferring MFIs over other institutions



	1	2	3	4	5
Documentation	1%	1%	2%	25%	72%
Collataral	1%	1%	2%	23%	73%
Accessibility	1%	1%	9%	25%	64%
Rate of Interest	9%	8%	10%	27%	47%
Loan Processing Time	9%	3%	5%	23%	60%
Service & Behaviour	2%	3%	5%	19%	71%

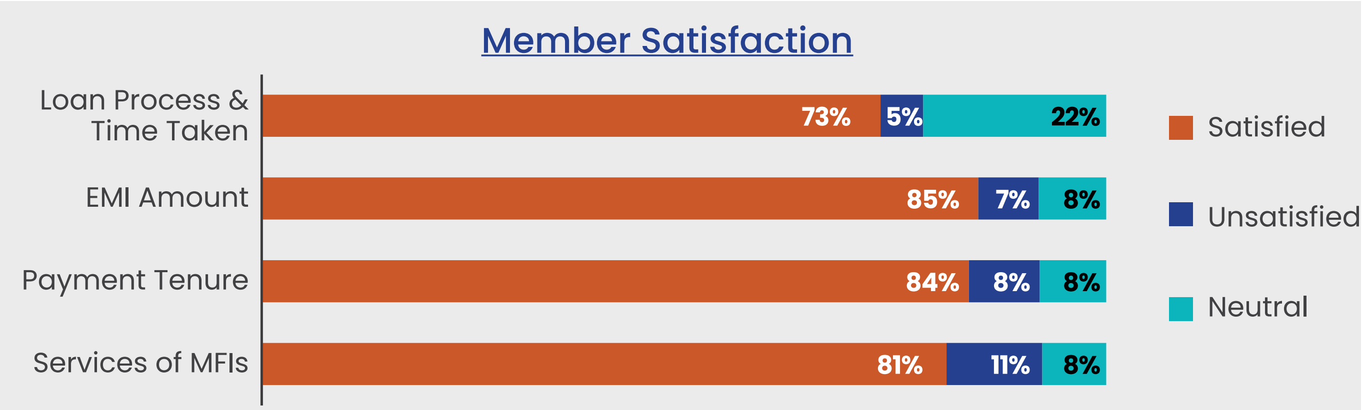
- *The numbers in the x axis on the graph are the scores offered by customers for the different aspects of MFI products and services.*

Members perception on interest rates, terms of loan and others changes are fairly positive with 73% of the members interviewed stating that microfinance loan interest rates are appropriate, 54% of the members stating that the terms of microfinance loans are appropriate and 50% of the members stating that the other charges (loan processing fee and insurance) are appropriate. 35% stated that they are not appropriate and could be reduced. While interest rates are seen as appropriate by a overwhelming majority of the respondents, the reason why the majority is thin among the members while responding to terms of microfinance and other charges. MFIs need to introspect and find ways of improving clients satisfaction levels.

The top three aspects of microfinance liked by the members are Easy and minimal documentation (34%), Quick processing time (18%), and employee behaviour (13%). The other aspects liked about microfinance are decent loan amount for business and help with emergency loans when needed. The aspects of microfinance loans members would like to change are tenure of loan, loan amount, interest rate and meeting frequency.

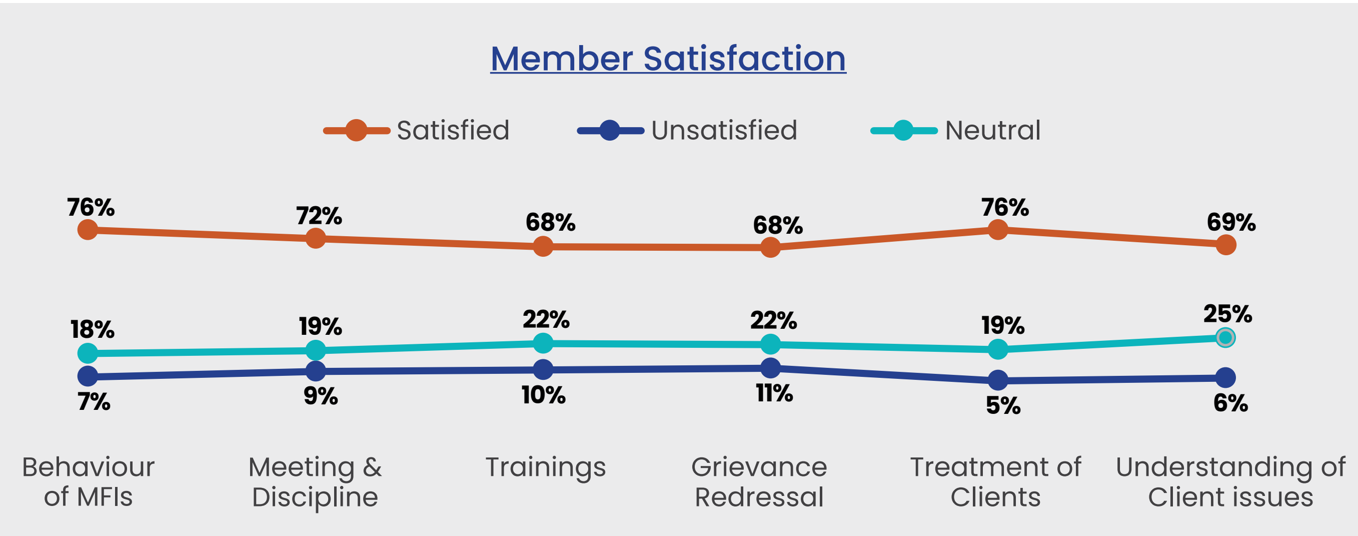
The results shows highly satisfied clientele with 73% of the respondents stated they are satisfied with the loan processing and time taken; more than 80% of the respondents satisfied with the loan EMI amount and payment tenure and overall satisfaction with services of MFIs.

Figure 6.5: Proportion of members expressing satisfaction – Loan aspects



The response on satisfaction on non-financial/behavioural aspects of microfinance was also very positive and satisfactory with about 70% of the respondents being satisfied with the behaviour of MFI staff, meeting discipline, trainings provided, and the Grievance resolution system of MFIs.

Figure 6.6: Proportion of members expressing satisfaction – Staff behaviour

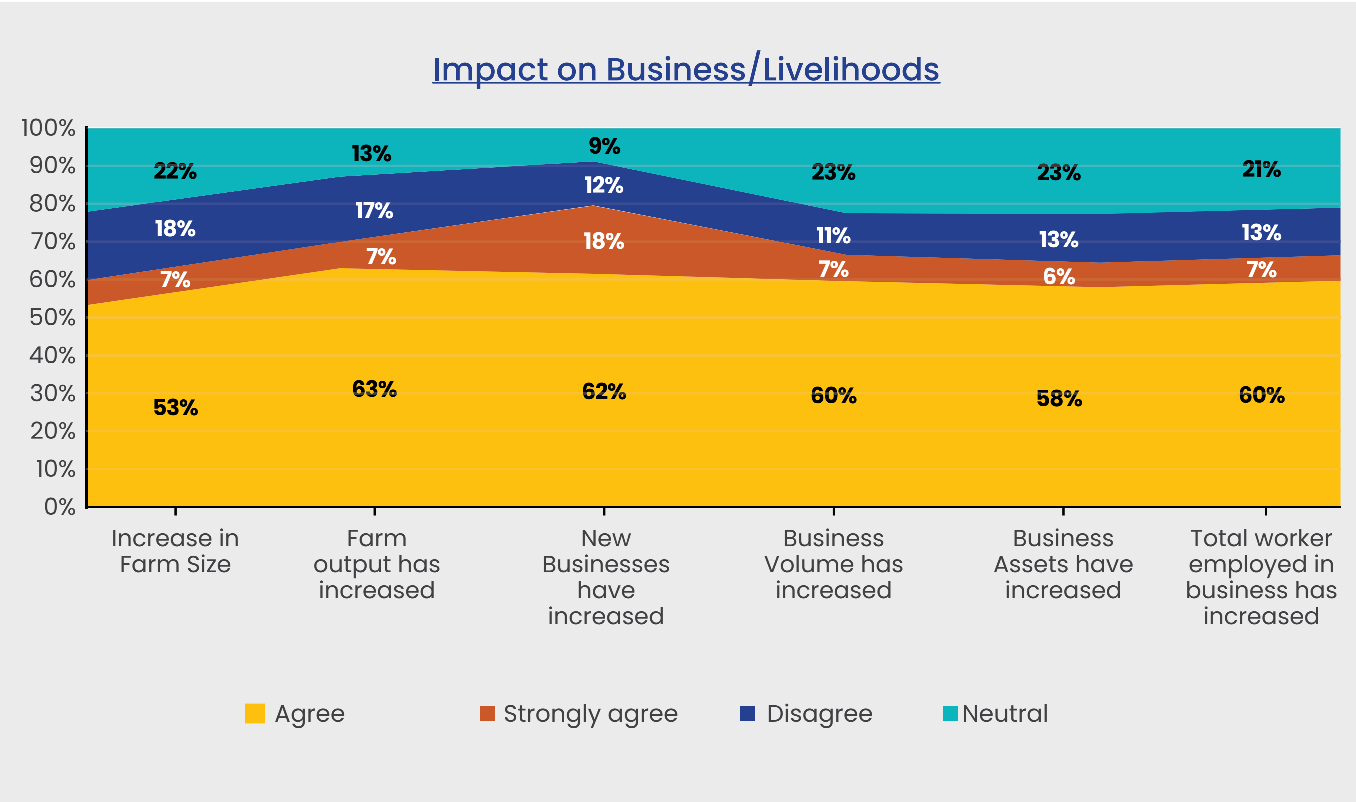


IMPACT OF MICROFINANCE

Impact on livelihoods

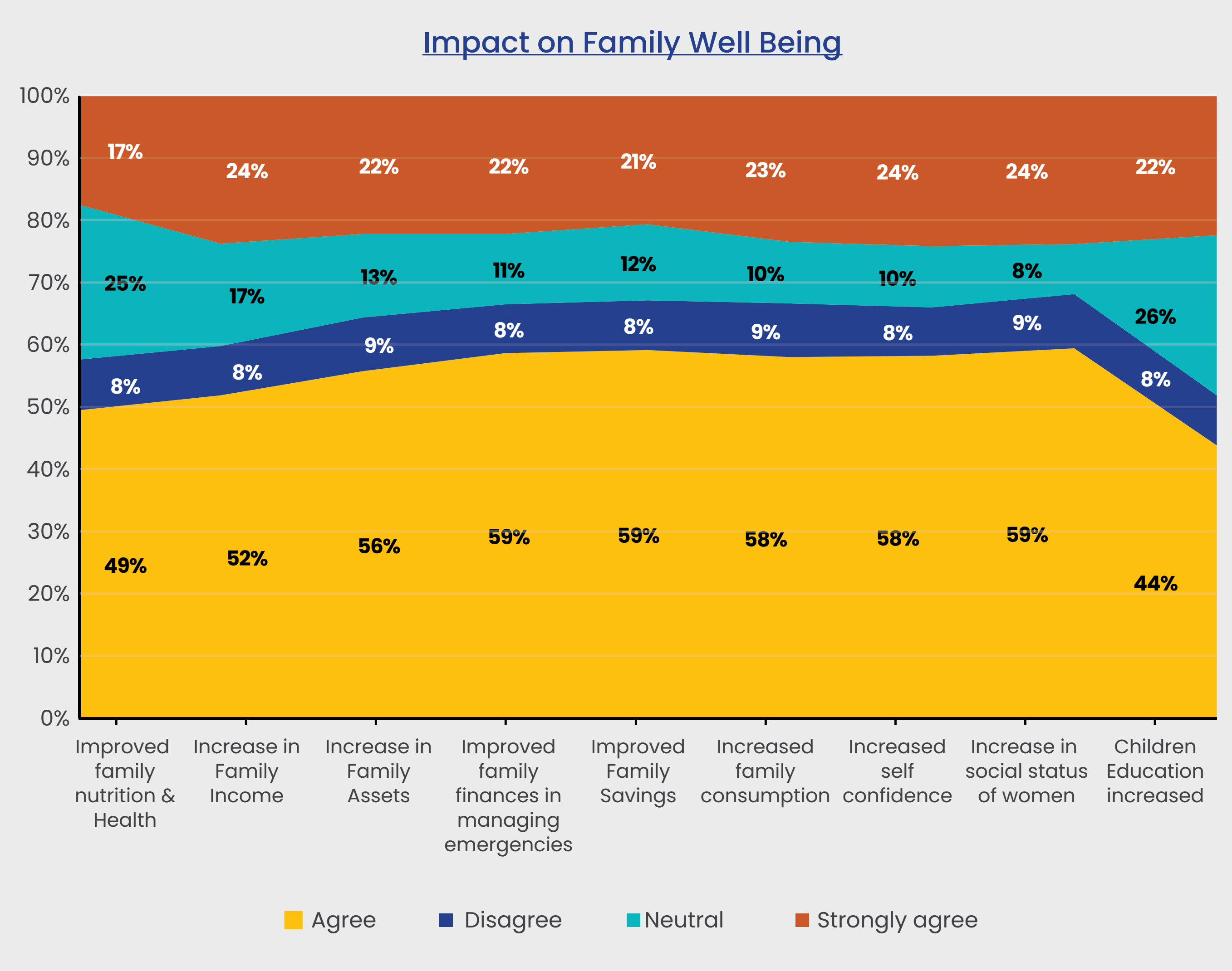
The findings show that the overall impact on majority of clients was positive. The stronger positive scores were in respect of improved farm output, setting up new business, employment of creation, increased family income and assets and women's standing in the society. Within agriculture sector 53% of the members stated they were able to increase the farm size with the support of microfinance loans. 63% of the members also stated that the farm output has increased over the period of time with consistent and timely support of microfinance.

Figure 6.7: How microfinance influenced livelihoods



With development interventions, it is never the case that all participating households will benefit to the fullest extent. With a comparatively high priced small loan, microfinance seeks to improve livelihoods of people on the premise that timely and continuing access to finance over a long period can improve incomes, livelihoods with positive consequences. The study findings clearly indicate that the premise is well laid and the assumptions valid for the most part.

Figure 6.8: Microfinance and family wellbeing.



The impact of microfinance on the family well-being was evident in the field. Income, assets, savings and status of women had all increased as confirmed by a large majority of respondents.

Impact on financial behaviour

The members attribute the intervention of MFIs (Loans and trainings) for improving their financial decision making capacities in the household. 26% of the respondents stated that the they are able to take the financial decisions in the HH., while 48% stated that financial decision is taken jointly by both adult male and female in the household.

This is substantial change in the decision making in financial matters for women wherein earlier the financial decision making was largely kept with male members of the HH. The financial decision making of women member increased on account of loan transactions through women members. Women started using bank accounts for transactions for the first time due to the MFIs introducing them to banks. Members reported using different financial tools, firstly starting from usage of banks accounts by women as loans are transferred in the bank account of women. 81% of the women members have started using ATM and Debit cards frequently and 23% of the women have started using UPI for payments and transfer of money.

FINANCIAL LITERACY

MFIs provided compulsory training to 100% borrowers before loan application and loan sanction. The training provided by MFIs was comprehensive with focus on loan utilisation, servicing of loan, importance of savings, loan EMI calculation and general financial prudence practices. In addition to the compulsory trainings 71% of the respondents have received at least one financial literacy training from their respective microfinance institutions and the members welcome and appreciate the financial literacy services. The fruits of financial literacy trainings was evident in the field. 86% of the members started to save regularly; 82% of the members reported that they have started planning for short term and long term goals and are setting up their savings requirement to achieve the goals. 22% of the respondents have started to utilise the loans judiciously and plan their requirement before taking loan.

The study analyses impact through the customers eyes and voices. Customers who responded to the study survey have clearly indicated that microfinance, despite the scepticism, has been effective in most cases. The satisfaction of households that are part of microfinance sector stems from finance flowing in time, with frequent and convenient repayment schedules. The long term involvement of MFIs in continuing to provide finance with suitable need based enhancement of loans has provided a reliable base from which clients had built their livelihoods. The availability of emergency funding to meet existential pressures relating to health, education, etc,, has been a boon, which enables the customers to continue their livelihood enterprise without disruption. The reported increases in income, assets, savings and employment in enterprises run by clients, indicate a positive forward movement in the local economies, where vulnerable people are able to look to future with optimism. While respondents also indicate the need to lower interest rates and other charges, these are born out of a quest to secure more favourable terms on a facility that can increase the surpluses in the clients hands, the intent is not disrupt the arrangement, but to improve the same to the extent possible. As stated earlier the set of assumptions with which the business of microfinance was built seem to be validated. Microfinance does have a positive impact on clients livelihoods and financial behaviour.

Chapter 7

Looking **ahead**

Microfinance in Karnataka has made big strides on both SHG and MFI channels. The performance of the sector from the customers and institutions perspectives has been consistently good, with occasional event based hiccups. The role of the Government of Karnataka is a critical influence that has made the MF sector flourish in the state. The state seems well covered in terms of outreach, though some pockets of the state can do with better coverage. With the changes in regulations relating to borrower selection, loan size and pricing, there are incentives to spread to hitherto underserved districts.

The context of the customers has undergone changes over the last few years. The changes have become particularly sharp during the Covid pandemic. The group meeting based delivery of services and collection has now been found to be superfluous. The Covid lockdowns have made the customers conclude that it is possible to lend and recover microfinance loans without group meetings. MFIs need to rejig their products and processes without excessive reliance on group meetings and joint liability guarantees. Given the increased value of time, members prefer being given individual loans; at the least to be dealt with individually even if the loans are considered JLG loans. With the increased cost of investments in livelihoods higher loan sizes are in demand. MFIs in their own interest will do well to increase the loan size to avoid multiple lenders and multiple EMIs.

Dealing with graduating clients with enterprise potential is an area that should receive priority attention. While RBI has made it possible to finance such clients, there is a cap of 25% of portfolio for such customers (75% of portfolio to be in qualifying microfinance loans). MFIs should focus on product development and skill development in staff for such lending. While the liquidity flows for large and many medium MFIs were adequate, some institutions in small and medium categories did not attention from banks. Cost of finance has been creeping up over the last year. Networks such as AKMI should take on the role of facilitating financial flows to the MFIs, especially small and medium ones.

Mergers, acquisition and consolidation has been taking place over the last few years (even during Covid times). The shape of the sector is changing. At a certain stage of growth and business volume, MFIs attract either an acquisition proposal or think of becoming a small finance bank. At the same time new institutions emerge and register brisk growth powered by technology. Competition from fintechs and reputational risks from some of the fringe entities do create pressures for MFIs. While competition in the sector is healthy and benefits customers, reputational risks arising from 'shady entities' that fraudulently mimic MFIs should be exposed by AKMI as it has the resources and the required reach.

The future seems to be critically dependent on information technology in use. It is no longer enough to be efficient with skilled manpower in place. Robust IT platforms for customer interface, accounting and reporting, sound MIS and an ability to seamlessly engage with IT based external systems are essential for survival and growth. How to maximise customer comfort and minimize costs through increased IT adoption are the questions before MFIs. The recent response of the sector to challenges has been strong and appropriate. There is hope to believe that the emerging challenges will be met well and the sector will continue to emerge stronger and better.

STUDY ON IMPACT ASSESSMENT OF MICRO FINANCE SERVICES & FINANCIAL LITERACY INTERVENTION ON CLIENT'S LIVES

KARNATAKA

SHAISHAVI PROJECT CONSULTANTS PVT LTD. (SPCL)

Foreword

Karnataka microfinance sector has witnessed phenomenal growth over the past two decades – both in terms of the number of institutions providing microfinance as well as the quantum of credit. The persistent challenge is to deepen and maintain the outreach to poor and backward communities on a sustainable basis; as well as significantly increase the impact of micro- finance in their lives, especially in rural poor.

This will require a careful analysis of the category of people that microfinance institutions are able to reach (or not reach) along the poverty continuum, as well as a detailed in-depth analysis of how microfinance services and financial literacy have impacted the businesses, assets, households and lives of the economically active rural poor. Client perception and satisfaction with microfinance services are crucial for understanding its impact and relevance.

Financial literacy is a significant means to enhance client protection, fair and transparent pricing, effective communication, sensitivity to over indebting clients, and ethical behaviour of staff. Customers' well-being is fundamental to microfinance services and its delivery.

Association of Karnataka Microfinance Institution's (AKMI's) unique position as a state association gives us the privilege of engaging closely with the regulator, policymakers, lenders, customers, and various other key stakeholders. It also gives us unparalleled access to a broader and granular set of information and insights beyond financial standards, such as on customer grievances, employee practices and direct understanding of the issues at district and institution levels.

In this context, we felt the need and responsibility to present, client perception/perspective about the microfinance services in the state. For preparing this report, we drew insights from AKMI partners' knowledge and experience. This publication is a comprehensive source of ground-level data on client perception and outlook on microfinance's impact on well-being, economic development, financial awareness and literacy, and digital readiness. We sincerely acknowledge the contribution of all AKMI member MFIs who participated and assisted in the study.

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Snapshot

PROFILE & ASSOCIATION WITH MFIS

Majority Clients (70%) belong to backward communities. Average monthly family income of **Rs. 23k** with labour as main source of income

Mature client segment with 47% being client for more than 5 years. *Significant increase in quantum of loan.*

PERCEPTION AND SATISFACTION

Most preferred financing institutions by 89% *Highly satisfied (98%)*

High satisfaction on non-financial aspects such as *behavior (76%), Grievance redressal (68%) and understanding of issues (69%).*

IMPACT

Positive Impact on **income, livelihoods, business & family well-being.**

A good 60% stated high positive impact.

Micro finance attributed by clients for *increasing social status of women & financial decision making*

FINANCIAL LITERACY & DIGITAL READINESS

All **100% members trained** though CGT & Financial literacy trainings.

High impact of FL trainings - regular *savings habit, loan management and planning for short term & long-term goals.*

Digital readiness & willingness with increased ownership of smartphones & using digital apps like UPI.

Executive Summary

The study titled **Impact Assessment of Micro Finance Services & Financial Literacy Intervention on Client's lives** was commissioned by Association of Karnataka Micro Finance Institutions (AKMI) to evaluate the existing profile of microfinance clients, to assess client perception and satisfaction level, challenges faced and effectiveness of microfinance program in reducing poverty and generating/ enhancing livelihoods.

The study was carried out in seven districts of Karnataka State (Udupi, Chamrajnagar, Kalburgi (Gulbarga), Kolar, Mysore, Belgaum and Raichur) in April & May in the year 2022. A sample size of 2310 microfinance clients were interviewed, representing multiple microfinance agencies. Structure questionnaire based KIIs were conducted with the clients of microfinance, using stratified purposive random sampling.

2.1 PROFILE OF RESPONDENTS

GEN	Minority	OBC	SC	ST
15%	15%	37%	21%	12%

The sample largely consisted of backward communities (70%). Of these, 37% of respondents belonged to Other Backward Caste (OBC), 21% of the respondents belonged to Schedule Caste (SC), and 12% belonged to Scheduled Tribe (ST) category.

Graduate	P.G/Others	Primary	Secondary	Technical
3%	1%	77%	18%	0.4%

The sample represented low level of education - 77% respondents had studied till primary level and 18% had studied up to secondary level. Only 3% of respondents were graduates. Similarly, the sample represented lower level income segment. Majority of the respondents, 90%, belonged to BPL households, while only 10% respondents belonged to APL household. This signifies that intervention of MFIs is majorly with poorer section of the society for the purpose of livelihood enhancement and economic stimulation.

Up to 3 members	3-5 members	6-10 members	Above 10 members
21%	61%	17%	1%

The average family size of the sample was 4.5. Majority (61%) of the sample fell in the size range of 3-5 members, followed by 21% with up to 3 members in the family and 17% with 6- 10 members in the family. The average number of earning members per family was around 2 (1.8) - 45% of the respondents had single earning member in the family and 36% of the respondents had two earning members in the family.

The sample largely consisted of backward communities (70%). Of these, 37% of respondents belonged to Other Backward Caste (OBC), 21% of the respondents belonged to Schedule Caste (SC), and 12% belonged to Scheduled Tribe (ST) category.

Up to 10000	10001-20000	20001-30000	30001-50000	Above 50000
11%	42%	32%	13%	2%

The average monthly family income was around Rs. 23000/-. Of all respondents, 53% of the respondents fall in the income segment of less than Rs. 20,000 monthly income, and 13% fall in the income segment of Rs. 30001-50000. Only 2% respondents fall in the income segment of Rs. 50000 and above.

Labour was the main income source with 38% of respondents, followed by Agriculture 21%, service 17% and Business 16%. Only 5% of respondents reported Agriculture + activities with combination of service & business and 4% of respondents reported Business + Service as the main occupation.

2.2 ASSOCIATION WITH MICROFINANCE

1 year	2 years	3-5 years	5-7 years	7-10 years	More than 10 years
4%	11%	38%	12%	16%	19%

The sample represents a fairly mature client segment with 47% of members associated with microfinance for more than 5 years and 37% for more than 7 years. Only 12% are associated with microfinance for 5-7 years. The high level of mature clients in the sample adds more weightage to the findings as the perception of clients towards microfinance services will reflect the results and experience of long years of using the products and services of MFIs.

There is a significant increase in the quantum of microfinance loans as compared to the first loan cycle, with the average size of current loan standing at Rs. 62k. Majority (76%) of the members fell in the bracket of more than 30k and 36% fell in the bracket of above 50k loan.

This indicates increasing contribution of microfinance in supporting livelihoods as well as creating and supporting small businesses. The first loan cycle of microfinance reported by members ranged from 5k to 30k with average loan size of Rs. 22000/-.

Agriculture	Livestock	Small Business	Repayment of Old Debt	Agriculture & Small Business	Other (Education, Auto & Health)
17%	16%	45%	2%	12%	8%

The utilisation of microfinance loans has mostly been in investment for productive assets/ enterprises. Around 40% of microfinance members utilised money for small businesses, followed by 19% for agriculture, 17% for livestock, 14% for agri & small business, 2% for repayment of old debts and 9% for other purposes (largely comprising of vehicle loans, education, and health). The loan purpose fits in well with the occupation profile of the respondents.

Majority of the sample (79%) reported loan tenure of up to two years, followed by 15% with loan tenure of up to one year and only 6% with loan tenure of more than 2 years. The loan tenure duration is in sync with current loan sizes wherein 79% of the loans are above Rs. 30k.

2.3 MEMBER PERCEPTION & SATISFACTION

Bank	MFI	NBFC	Other (relatives)
7%	89%	3%	2%

MFIs has emerged as the most preferred institution for availing loans - 89% of respondents chose MFIs as their top preference for taking loans. The major factors associated by members for preference of taking loans from Microfinance institutions are Documentation, Collateral, Service and Behaviour of microfinance personnel being rated highest, on the scale of 5. The other major factors reported highest on the scale of 5 are accessibility, quick loan processing time and Rate of interest by 43% of the respondents.

Client Perception	Appropriate	Not appropriate	Same as others	Un decided
Interest Rates	73%	9%	9%	9%
Terms of Loans compared to other FIs	54%	9%	28%	9%
Other Charges	50%	35%	7%	8%

Member's perception on interest rates, terms of loan and others changes are fairly positive as 73% of the members stated that microfinance loan interest rates were appropriate. The members however suggested that the other charges (loan processing fee and insurance) could be reduced (35% of the members).

The top three aspects of microfinance loans liked by the members were - easy and less documentation (34%), quick processing time (18%), and employee behaviour (13%). The other aspects liked about microfinance were decent loan amount for business and help in emergency loan requirements. The aspects of microfinance loans that the members would like to change were - tenure of loan, loan amount, interest rate and meeting frequency.

Parameters	Satisfied	Unsatisfied	Neutral
Services of MFIs	81%	11%	8%
Payment Tenure	84%	8%	8%
EMI Amount	85%	7%	8%
Loan Process & Time Taken	73%	5%	22%

Overall, the members had a positive outlook of microfinance services. Most of the respondents (98%) were satisfied with the overall services and relationship with MFIs. Of all respondents, 47% of the respondents rated the overall services as very good and 51% of the respondents rated the overall services as good and only 2% respondents reported average rating for overall services of MFIs.

The response on satisfaction with non-financial/behavioural aspects of microfinance was also very positive and satisfactory. Majority of the respondents (76%) stated they were satisfied with the behaviour of MFI staff and 18% remained neutral. A good 72% stated they were satisfied with meeting discipline, 68% stated they were satisfied with the trainings provided, 68% stated they were satisfied with the Grievance resolution system of MFIs. Also, 76% of members stated that they were treated with respect by MFIs and 69% stated that MFIs were understanding towards the issues of clients.

2.4 IMPACT OF MICROFINANCE

There has been a positive impact of microfinance on a range of aspects such as business/ livelihoods, creation of livelihood, increase in business assets and overall family wellbeing and women empowerment.

Impact of Microfinance on Business/Livelihoods	Agree	Strongly agree	Disagree	Neutral
Increase in Farm Size	53%	7%	18%	22%
Farm output has increased	63%	7%	17%	13%
New Businesses have increased	62%	18%	12%	9%
Business Volume has increased	60%	7%	11%	23%
Business Assets have increased	58%	6%	13%	23%
Total worker employed in business has increased	60%	7%	13%	21%

Within the agriculture sector, 53% of the members stated that they were able to increase the farm size and 63% of the members stated that they had increased farm output. Similar pattern was reported for small business sector, wherein 62% of the members stated that microfinance had helped in creation of new businesses and 60% of the members stated increased business volume.

The impact of microfinance on the family's well-being was evident in the field and members were very vocal about the benefits and impact of microfinance loans in their lives. Of all respondents, 60% of the respondents agreed that microfinance had helped in increasing the family income and 65% of the respondents stated that there was an increase in family assets. Also, 57% of members stated that family nutrition and health had improved as a result of increased family income, savings & assets. Consequently, it had improved the ability of the household in managing emergency situations (67%).

The members attributed enhancement in the social status of women in the community to microfinance. Of all the respondents, 68% of the women felt that their social standing in the community had improved and similarly 64% of the women members stated that it had helped in increasing the self-confidence of women in overall household management, financial management & decision making.

The members attribute the improvement of their financial decision making capacity in the household to the intervention of MFIs (loans and trainings). Of the respondents, 26% stated that they were able to take the financial decisions in the HH, while 48% stated that financial decision was taken by both adult male and female in the household. The financial decision making of women members also increased due to loan transactions in their bank account, wherein it was the first time when women actually started interacting and using bank accounts for transactions.

Significant changes can be seen in members using different financial tools, starting from usage of banks accounts by women as loans are transferred in their bank account. The usage of ATM has increased significantly - 81% of women members have started using ATM and Debit cards frequently and 23% of women have started using UPI as payments and transfer of money.

2.5 FINANCIAL LITERACY

It was noticed that MFIs provided compulsory training to 100% borrowers before loan application and loan sanction. The training provided by MFIs is comprehensive with focus on loan utilisation, servicing of loan, importance of savings, loan EMI calculation and general financial prudence practices.

Insurance Products	Loan management	Expenses management	Savings management
18%	42%	53%	71%

In addition to the compulsory trainings, 71% of the respondents had received at least one financial literacy training from their respective microfinance institutions and they welcome and appreciate the financial literacy services.

Regularly Saving Now	Planing for short term & long term goals	Taking Loan as per requirement
86%	82%	22%

The benefits of financial literacy trainings was evident in the field as members have been able to make good use of the trainings received by them. Consequently, 86% of the members had started to save regularly post savings management trainings and 82% of the members reported that they had started planning for short term and long term goals and were setting up their savings requirement to achieve the goals. Whereas 22% of the respondents had started to utilise the loan judiciously and plan their requirement before taking loan.

2.6 DIGITAL LITERACY READINESS

The members of the microfinance community emphasised on digital literacy requirement and importance. As a result, 35% of the respondents stated that digital literacy is important and required due to the augment of new technologies and increase in mobile banking. Around 51% of the respondents stated that they were not sure and only 14% felt that it was not required.

Ownership and usage of smartphones have witnessed a positive change over the years. Majority of the respondents (69%) stated that they own smartphones and 47% of the respondents know how to operate smartphones. Some of the common apps used by respondents on smartphones are WhatsApp, YouTube and ecommerce apps. With increased ownership and usage of smartphones, 51% of the respondents feel that they are ready and would be able to conduct the digital transactions using UPI, if proper orientation and training is conducted for the same and that microfinance loan repayments can be done digitally especially for the individual and high ticket size loans.

The major problems associated with digital transactions in the field are lack of knowledge (28%), connectivity issues (6%) and payments errors (5%). Lack of knowledge is considered as the biggest issue in making digital transactions. Almost half of the respondents (47%) have never done digital transactions but around 14% stated that there were no major issues in conducting digital transactions. This reflects that there is a need for digital transactions orientation and training to the members.

Microfinance In Karnataka

3.1 INDIAN MICROFINANCE SECTOR

As per Bharat Microfinance Report 2021, the active loan clients in microfinance sector stands at 1086 lakh with portfolio outstanding of Rs. 2,52,181 crore. Estimated branch network of MFIs is 20,065 with 3.83 million centers through 217 MFIs in 28 states, 5 union territories and 595 districts. The loan outstanding per borrower stood at Rs. 18,894 and 90% of loans were used for income generation purposes.

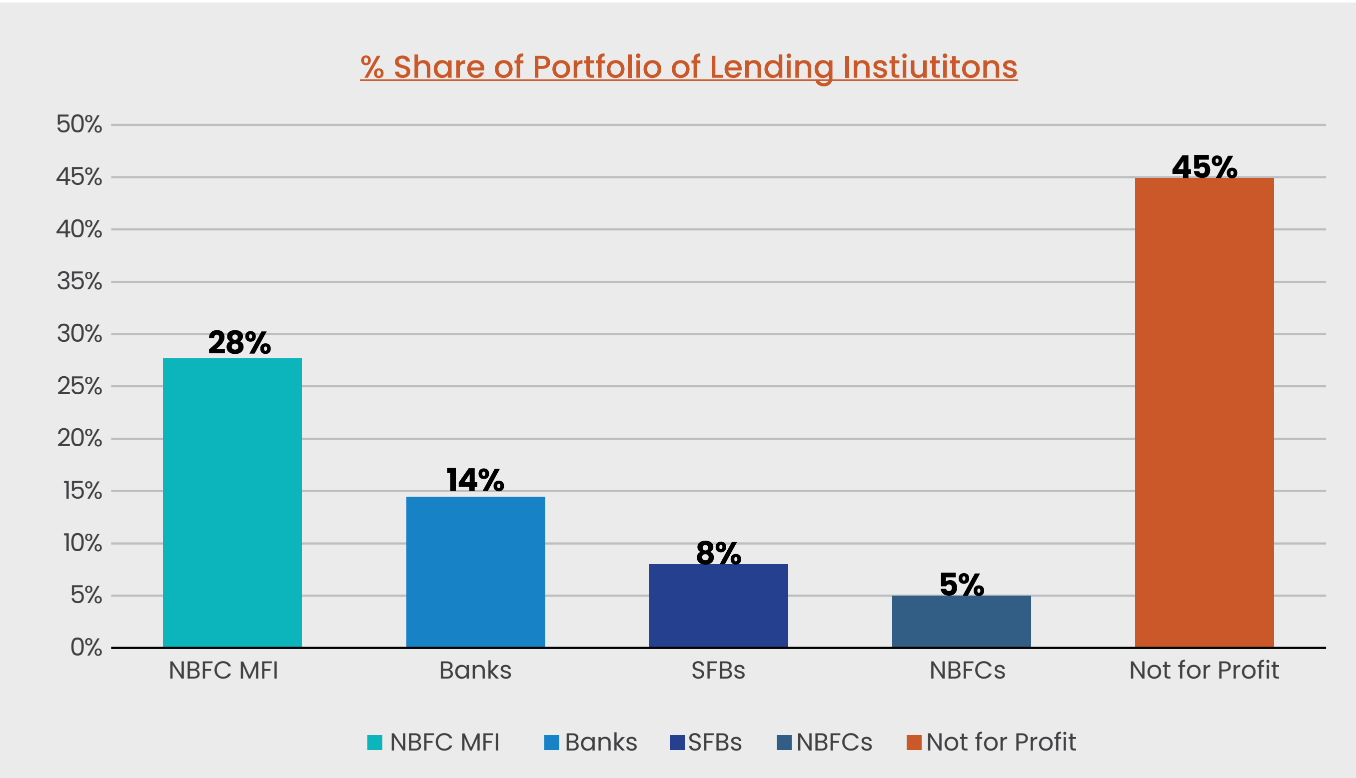
The loan outstanding grew by 7%, wherein loan disbursements declined by 20% in FY 20-21. The Southern region continues to have the highest share of both outreach and loans outstanding, followed by East. Share in portfolio has expanded only in Southern and Northern regions. Southern region has expanded to 39% from 38%, and Northern region has expanded to 8% from 7%. The proportion of rural clientele is 75% in 2020-21. Women borrowers constitute 98% of the total clientele of MFIs, SC/ST borrowers constitute 25% and minorities constitute 12%.

Indicators	Type of Lenders[1]	As of March 2021	Lender Share(%)	Y-o-Y Growth (in%)
Number of Active loans (in lakhs)	NBFC-MFIs	361	34%	-7%
	Banks	416	38%	14%
	SFBs	177	16%	-5%
	NBFCs	78	7%	18%
	Non-profit MFIs	54	5%	2%
	Industry	**1,086**		**0.1%**
Loan Outstanding (₹ in crores)[2]	NBFC-MFIs	79,399	31%	6%
	Banks	1,10,121	44%	20%
	SFBs	40,175	16%	-13%
	NBFCs	19,016	8%	-6%
	Non-profit MFIs	3,470	1%	7%
	Industry	**2,52,181**		**7%**
Amount disbursed (₹ in crores)[3]	NBFC-MFIs	60,097	30%	-23%
	Banks	1,06,277	52%	-9%
	SFBs	24,723	12%	-36%
	NBFCs	10,150	5%	-41%
	Non-profit MFIs	2,015	1%	-46%
	Industry	**2,03,262**		**-20%**

3.2 KARNATAKA MICROFINANCE SECTOR

The Karnataka micro finance sector have 34 micro finance institutions and 05 small finance banks covering 31 districts with 1678 branches as of March 2021. The total member outreach is 65.20 lakh, an increase of 4.35% over March 2020, with unique borrowers number of 50.74 lakh. The gross loan portfolio outstanding as of March 2021 stands at Rs. 26191 crore which is an increase of 22.74% from March 2020. Total loan disbursed in Karnataka state in FY 2020- 21 was Rs. 21086 with a growth of 2.12% from FY 19-20.

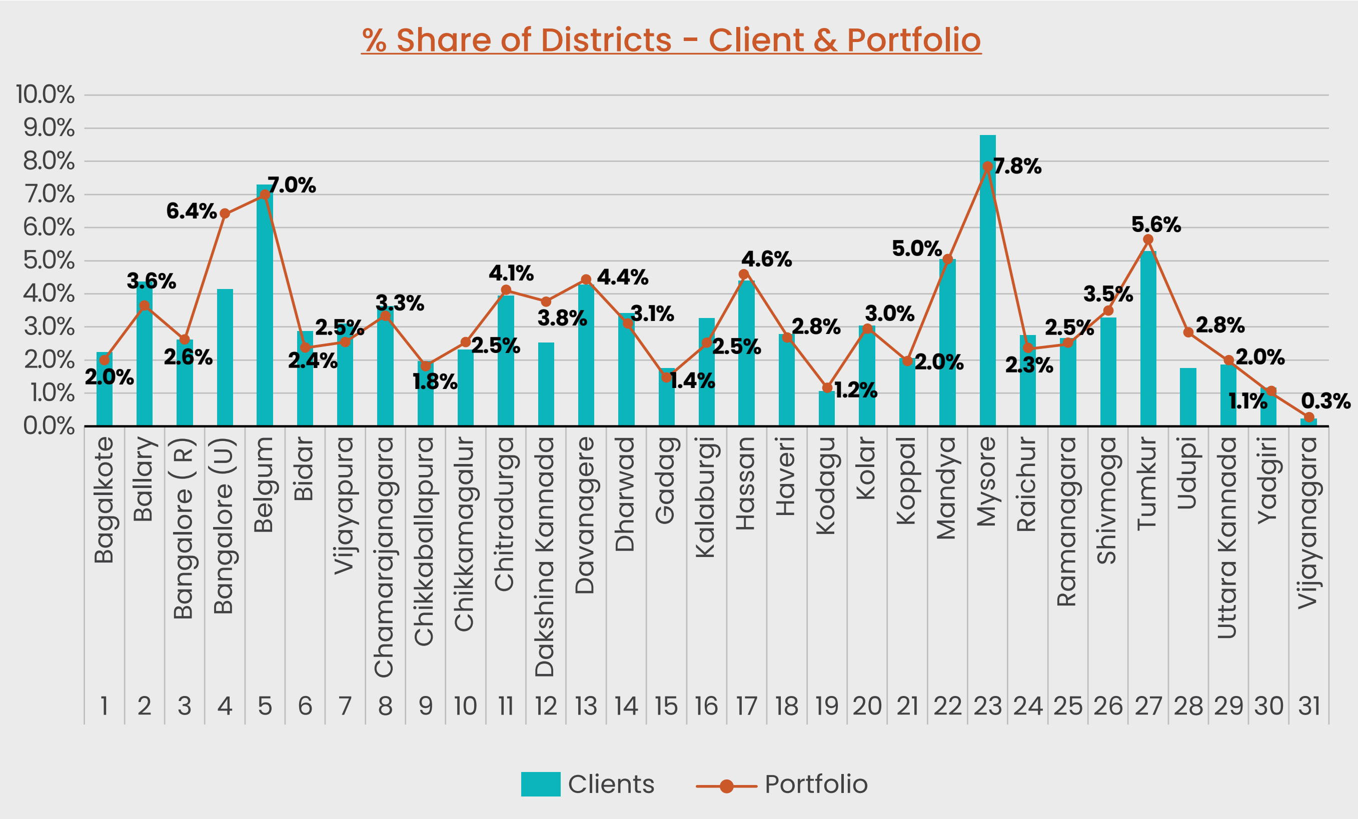
As of December 2021, the number of active loans in Karnataka stands at 97.64 lakh with 47.16 lakh unique borrowers representing 8.75% of overall number of active clients in India. The portfolio outstanding of Karnataka as of December 2021 stands at Rs. 36676 crore.



The NBFC MFIs represent 28% of the total portfolio of Karnataka state, followed by Banks 14%, SFBs 8%, NBFCs 5%. The largest share of portfolio is of Not for profit institution (45%), largely attributed to SKDRDP SHG portfolio.

Mysore and Belgaum district of Karnataka are among the top 25 districts in terms of portfolio outstanding with Mysore portfolio outstanding of Rs. 2135 crore and Belgaum portfolio outstanding of Rs. 1467 crore.

The asset quality in Karnataka State is among the best in the country with 30+ Delinquency percentage of 6.56% as an industry, as on December 2021. NBFC MFI 30+ PAR stands at 3.95%, while the same stands at 9.31% for Banks, 10.29% for SFBs, 6.88% for NBFCs and 1.77% for Not for Profit entities.



The loan portfolio and number of clients are more or less evenly distributed in the 31 districts of Karnataka. The major concentration of portfolio and clients is seen in 8 districts - Mysore, Belgaum, Mandya, Tumkur, Hassan, Davangree, Banglore and Ballary. These 8 districts constitutes 43% of the overall loan portfolio in Karnataka. Mysore and Belgaum constitutes for 16% of total portfolio outstanding of Karnataka state.

3.3 KARNATAKA SHG BLP PROGRAM

	C Bs		RRBs		Cooperatives		Total	
	No of SHGs	Amount Rs. Lakh	No of SHGs	Amount Rs. Lakh	No of SHGs	Amount Rs. Lakh	No of SHGs	Amount Rs. Lakh
Savings	309873	1,11,243	209927	16,746	265015	52,503	784815	1,80,492
Bank Loan	159276	2,85,469	23361	62,344	34111	1,21,430	216748	4,69,243
Outstanding	257841	6,96,709	99401	2,28,259	76055	1,62,939	433297	10,87,907
NPA		29,094		20,713		2,467	0	52,274

	C Bs		RRBs		Cooperatives	
	No of SHGs	Amount Rs. Lakh	No of SHGs	Amount Rs. Lakh	No of SHGs	Amount Rs. Lakh
Savings	39%	62%	27%	9%	34%	29%
Bank Loan	73%	61%	11%	13%	16%	26%
Outstanding	60%	64%	23%	21%	18%	15%
NPA		55.7%		39.6%		4.7%

The state of Karnataka has around 7.84 Lakh SHGs with cumulative savings of Rs. 180492 Lakh. Commercial banks have 39% share of SHGs with 62% share of savings, RRBs have 11% share of SHGs and 9% share of savings and Cooperatives have 34% share of SHGs and 29% share of Savings.

Out of 7.84 Lakh SHGs in Karnataka, only 55% (around 4.33 Lakh SHGs) have bank loan outstanding of Rs. 1087907 Lakh as of March 2021 with 64% share of commercial banks in outstanding, 21% share of RRBs in loan outstanding and 15% of cooperatives in loan outstanding.

If we look at the SHG savings figure and loan outstanding figures, the ratio in Karnataka is almost 1:6 which is very encouraging. The average loan outstanding of SHGs in Karnataka stands at around Rs. 2 Lakh with average disbursement amount of Rs. 2.16 Lakh, which is very good compared to National Level figures and other performing states.

The percentage share of Commercial banks in overall NPAs in Karnataka stands at 55.7%, RRBs share in overall NPAs in Karnataka stands at 39.6%. The rest is shared by Cooperative banks and Private banks (4.7%).

% Share of NPA SHG & NPA Amount among category of banks in Karnataka

	CBs	RRBs	Cooperatives	Total
	Amount Rs. Lakh	Amount Rs. Lakh	Amount Rs. Lakh	Amount Rs. Lakh
NPA	29,094	20,713	2,467	52,274
NPA %	4.18%	9.07%	1.51%	4.81%

The overall NPA percentage in SHG BLP in Karnataka state stands at 4.81%, which is very good compared to national average. The NPA percentage within different segments of banks is - Commercial banks NPA parentage stands at 4.18% of their loan outstanding, the same stands at 9% for RRBs and 1.51% for Cooperative Banks.

Association of Karnataka Microfinance Institutions (AKMI)

4.1 ABOUT AKMI

AKMI (Association of Karnataka Microfinance Institutions) was established in 2007 to bring in better transparency and governance, client protection and ethical practices among the MFIs in Karnataka. It is a self-regulatory authority with code of conduct for its members.AKMI is a registered society under the societies Act 1960. Its registered office is at # 3, 1st Floor, 1st Main, 1st Cross, Kodgehalli Main Road, Bhadrappa Layout, Nagashettihalli, Bangalore – 560094.

4.2 MISSION

To promote the field of community development finance in Karnataka, to enable its members and associate institutions to serve low-income households in a better way, particularly women, in both rural and urban Karnataka and India, in their quest for establishing stable livelihoods and improving quality of life. AKMI aims to cover all microfinance institutions functioning in Karnataka as its members to bring uniformity in community development, strengthen MFI function, resolve conflicts among MFIs & co-ordinate with other partners.

4.3 OBJECTIVES

- To, initiate, promote, support, encourage, conduct and organise any and all forms of Community Development Finance and related activities.
- To provide a forum for entities, organizations and individuals engaged directly or indirectly in the field of Community Development Finance in Karnataka, to meet, share and exchange their experiences, expertise and resources.
- To work towards promoting co-operation amongst CDFIs, resolving conflicts amongst CDFIs and entities and organizations involved with CDFIs.
- To strengthen the capacities of institutions involved in Community Development Finance through research, consultancy, publication and training in different aspects of Community Development Finance.
- To serve as a catalyst for further building the field of Community Development Finance in Karnataka.
- To establish linkages between members and resource institutions, such as funding agencies, financial institutions, rating agencies training, consultancy, academic and research institutions.
- To work with other networks and coalitions of institutions involved in Community Development Finance.
- To make representation to the Government of Karnataka, Government of India (GOI), the Reserve Bank of India (RBI) and other regulatory and policy making bodies to promote institutions providing Community Development Finance and help create a favourable policy environment for such institutions, both at a State and National Level.

4.4 AKMI INTERVENTIONS IN THE STATE

4.4.1 ESTABLISHMENT OF DISTRICT LEVEL FORUMS

AKMI has established 30 district level forums with the agenda of resolving local level issues in close coordination with district administration and liaison. The district level forums have bi-monthly meetings to discuss various issues and support required from administration and also to establish transparency and communication with district administration. The lead MFI in the district takes charge of district form meetings and coordination with district administration. With the establishment of district level forums, the relationship and communication with district administration has significantly improved. Due to the district forums, the comprehension of district administration on understanding of microfinance in general and working of MFIs have improved significantly; also leading to a positive image of microfinance sector.

The district level forums have conducted virtual meetings in last year and have identified client centric issues related to financial literacy, COVID support, grievance redressal, livelihood support etc. and have designed and implemented programs (training & awareness) around these issues.

4.4.2 SETTING UP OMBUDSMAN FOR KARNATAKA MICROFINANCE

AKMI has established OMBUDSMAN for microfinance clients in Karnataka state. The ombudsman's main objective is to provide access, facilitate and resolve MFI clients grievances related to MFI operations, behaviour, access to credit, dispute management, interest rate etc. The Ombudsman office is based at AKMI head office and a free helpline number is provided to all the microfinance clients.

AKMI has set up a call center to receive grievances of clients and resolve them through close coordination with the district level forums and head offices of MFIs. In the last one year, the Ombudsman has received 1022 grievances of clients related to micro insurance, ATM card, staff behaviour and general enquiry about MFIs. AKMI ombudsman has successfully resolved and facilitated all the 1022 grievance in record time.

4.4.3 LIAISON & COORDINATION WITH STATE LEVEL BANKERS COMMITTEE (SLBC)

AKMI has successfully established working relationship with State Level Bankers Committee (SLBC) and regularly attends the SLBC meeting in the State. AKMI represents the Karnataka microfinance sector in SLBC and keeps them informed about the progress, impact and issues of microfinance in Karnataka.

The work of AKMI with SLBC has helped in improving understanding of microfinance in SLBC, role of microfinance institutions playing in poverty alleviation and partnerships with various banking schemes. The efforts of AKMI at SLBC has positively impacted the fund flow to the microfinance sector in Karnataka.

4.4.4
CREDIT PLUS AND FINANCIAL LITERACY PROGRAMS

Moving beyond micro credit, business loans and enterprise loans, AKMI with its members regularly organises credit plus and financial literacy programs for microfinance clients at district, block and village levels. The association of AKMI with SLBC and presence of district forums in districts enables it garner support from banking community in these programs.

AKMI has conducted numerous programs on capacity building of clients on Credit discipline, loan management, Insurance, Enterprise development, digital and financial literacy, livelihood development etc. AKMI in last one year has provided virtual trainings to microfinance staff in various districts on managing COVID scenario, delinquency management and support to clients.

4.4.5
CREATION OF PLATFORM FOR INFORMATION DISSEMINATION

In its effort to reach out to maximum number of clients and disseminate information about microfinance loans, benefit of microfinance, credit management, enterprise and livelihood development and how to avail micro credit from banks and microfinance agencies - AKMI started organising plays & nukkad nataks at village level involving the local communities and panchayats. This has led to immense interest and awareness in the community about various aspects of microfinance.

AKMI started its new initiative to run a digital informative program on local TV channel in their effort to reach out to maximum number of clients and community at large. The digital informative program focuses on benefits of microfinance, information on AKMI ombudsman, how to avail micro credit facility for business creation and financial literacy.

Objective of the Study

THE OBJECTIVES OF THE STUDY ARE:

- To evaluate the profile of existing microfinance clients with lineage timeline of microfinance services.
- To assess client satisfaction level for microfinance services rendered by MFIs around products, services, process.
- Effectiveness of microfinance program in reducing poverty, generating and enhancing client livelihoods.
- Challenges faced by clients (loan size, tenure, indebtedness, flexibility, usage etc.)
- Feedback of clients on improving microfinance services & products.

Methodology

Both qualitative and quantitative methods have been used to build on each other, facilitating the triangulation of findings.

The quantitative data of the study was collected from time microfinance loanees/beneficiaries. SPCL collected relevant quantifiable information from beneficiaries on key impact indicators in consultation with the AKMI. It aimed to assess the current profile of members, perception & satisfaction and impact of microfinance services. The quantitative component of the study was administered through structured questionnaires.

Similarly, the qualitative data of the study was collected from beneficiaries, lending Institutions AKMI, and other stakeholders. This component used discussion guides and face-to-face discussions. The qualitative component tried to understand the challenges, perceptions, and critical factors.

6.1 SECONDARY RESEARCH

The secondary information used for the study included information/data on records from AKMI, Sa-Dhan & MFIN reports on status of microfinance in Karnataka state such as geographical coverage, portfolio outreach, number of beneficiaries, number of players, etc. In addition, relevant documents from AKMI on state level initiatives.

6.2 PRIMARY RESEARCH

Primary data was collected through field surveys in selected districts. A set of pre-tested questionnaires were administered to the identified and selected stakeholders for the collection of required data.

6.3 SAMPLING

Stratified purposive random sampling technique was used ensuring adequate representation of geographies, rural-urban, lending institutions. A total sample of 2310 beneficiaries for quantitative survey was covered in 7 districts of Karnataka State.

The sample included stakeholders across the continuum of delivery of micro finance; enabling triangulation of information from all sources. There are different sets of respondents interviewed in the quantitative and qualitative components of the study.

The sample for the quantitative component of the study included beneficiaries bifurcated into individual, JLG and SHGs from different categories of communities. A proportionate sample was distributed across lending institutions to maintain adequate representation.

6.4 QUESTIONNAIRE DESIGN AND PILOT TESTING

The study team designed a schedule to collect the responses from the respondents. The schedule was divided into four main sections. The first section included questions on the demographic profile of client and microfinance lineage of the beneficiary. The second section covered client perception about microfinance services/ loans, third section covered satisfaction level of members on products, services and service delivery component of microfinance and fourth section covered the impact of microfinance on business, livelihood, household well-being and women empowerment.

After completing the schedule, the study team conducted the pilot testing of the questionnaire and made the necessary changes. The major changes were related to factors affecting microfinance services, credit plus services and digital readiness.

6.5 DATA ANALYSIS

The study has adopted quantitative and qualitative data analysis techniques to analyse the primary data collected from different respondents. It applied **descriptive analysis, Exploratory Factor Analysis (EFA)** to analyse responses of the structured schedule and thematic analysis to analyse interview responses.

The study applied EFA to identify the relevant factors out of the selected variables based on the literature. EFA identifies the factors from a large number of statements used in the questionnaire to understand the factors.

In the thematic analysis, the study team coded the responses of the interview and identified the relevant codes. Further, these codes are clubbed together to make a particular theme.

STUDY AREAS

7.1 GEOGRAPHICAL DISTRIBUTION OF SAMPLE

The study was carried out in 07 districts of Karnataka namely Udupi, Chamrajnagar, Kalburgi, Kolar, Mysore, Raichur and Belgaum. A total of 2310 respondents were interviewed - minimum sample size of 300 respondents per district were kept for the study purpose. The figure below depicts the geographical distribution in terms of percentage of respondents with almost equal representative of respondents from each district.

Figure 1 Geographical Distribution of Sample

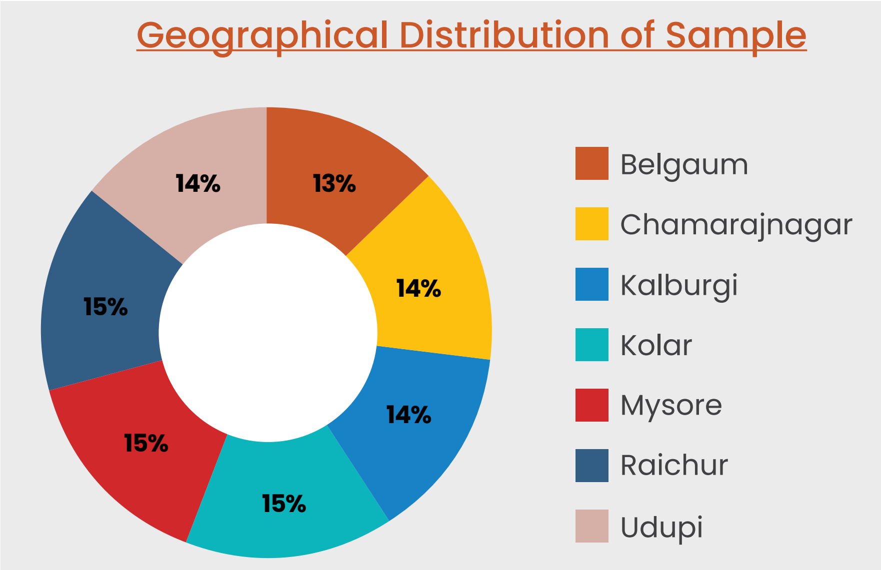


Table 1 Geographical Distribution of Sample

Districts	%	Count
Chamarajnagar	**14%**	**320**
Kalburgi	14%	327
Kolar	15%	343
Mysore	14%	334
Raichur	15%	356
Udupi	14%	320
Belgaum	13%	310
Grand Total	**100%**	**2310**

STUDY FINDINGS

8.1 RESPONDENTS PROFILE

8.1.1 Category of Respondents

The sample largely consisted of backward communities (70%). Of these, 37% of respondents belonged to Other Backward Caste (OBC), 21% of the respondents belonged to Schedule Caste (SC), followed by 15% General and 12% from Scheduled Tribe (ST) category. District Udupi and Mysore had higher concentration of OBC category - 73% & 64% respectively, Kalburgi district had higher concentration (50%) of SC category. Raichur, Mysore and Kalburgi had higher concentration of minorities. Belgaum had highest concentration of General category.

Figure 2 Category Composition

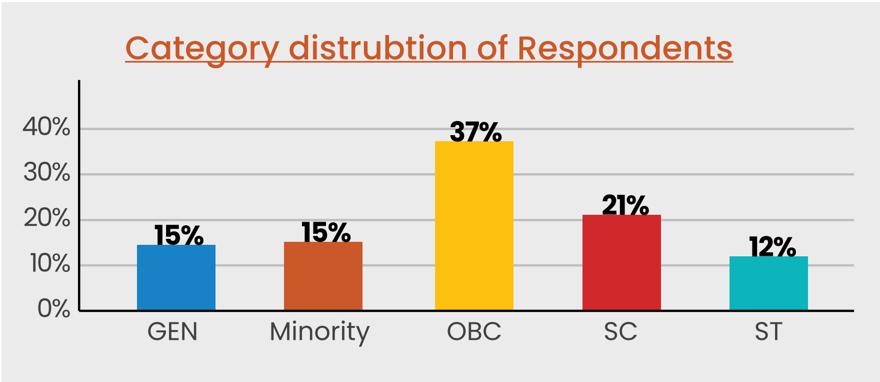
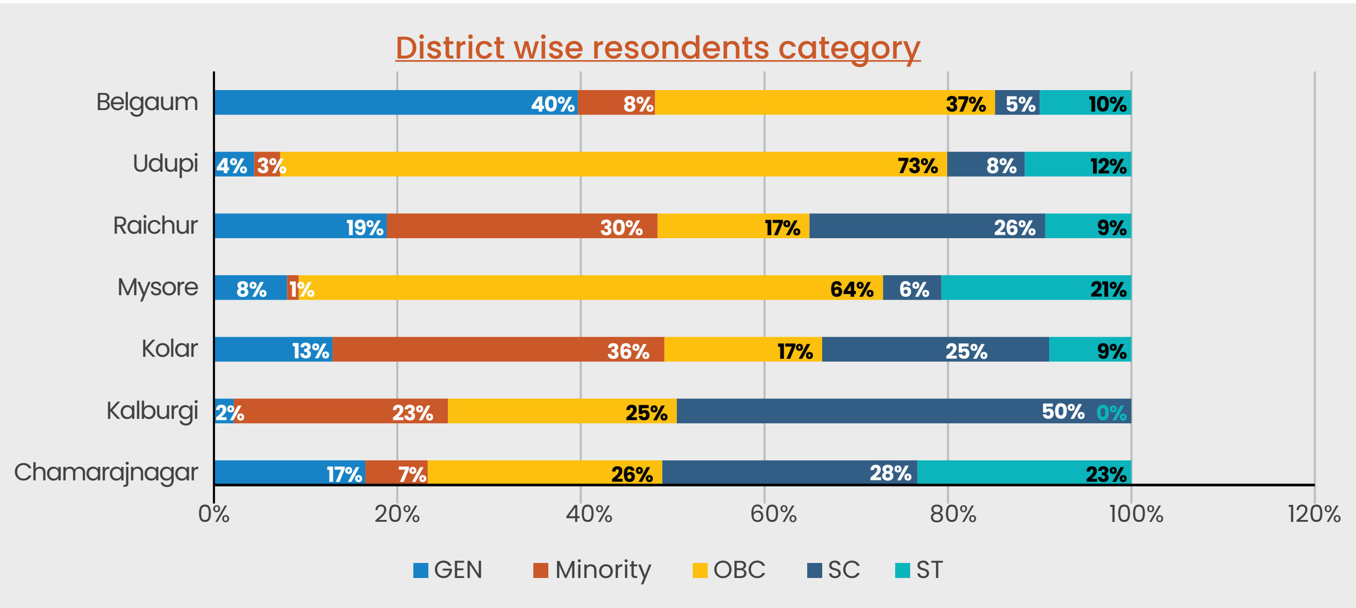


Figure 3 District wise Category



8.1.2 Age of Respondents

The sample represented fairly younger population - more than 81% of the respondents were below 45 years of age. Maximum respondents were from the 26-35 and 36-46 years category. Around 16% of the respondents were from 46-56 years followed by 3% above 55 years of age.

Figure 4 Age Composition

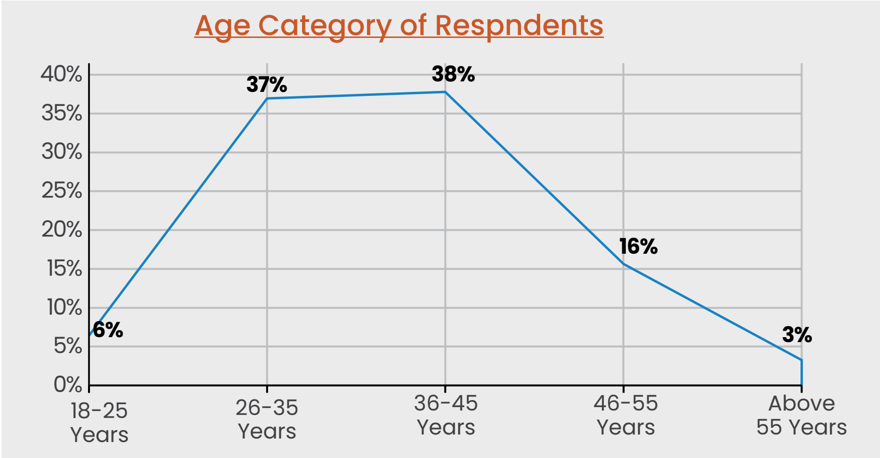
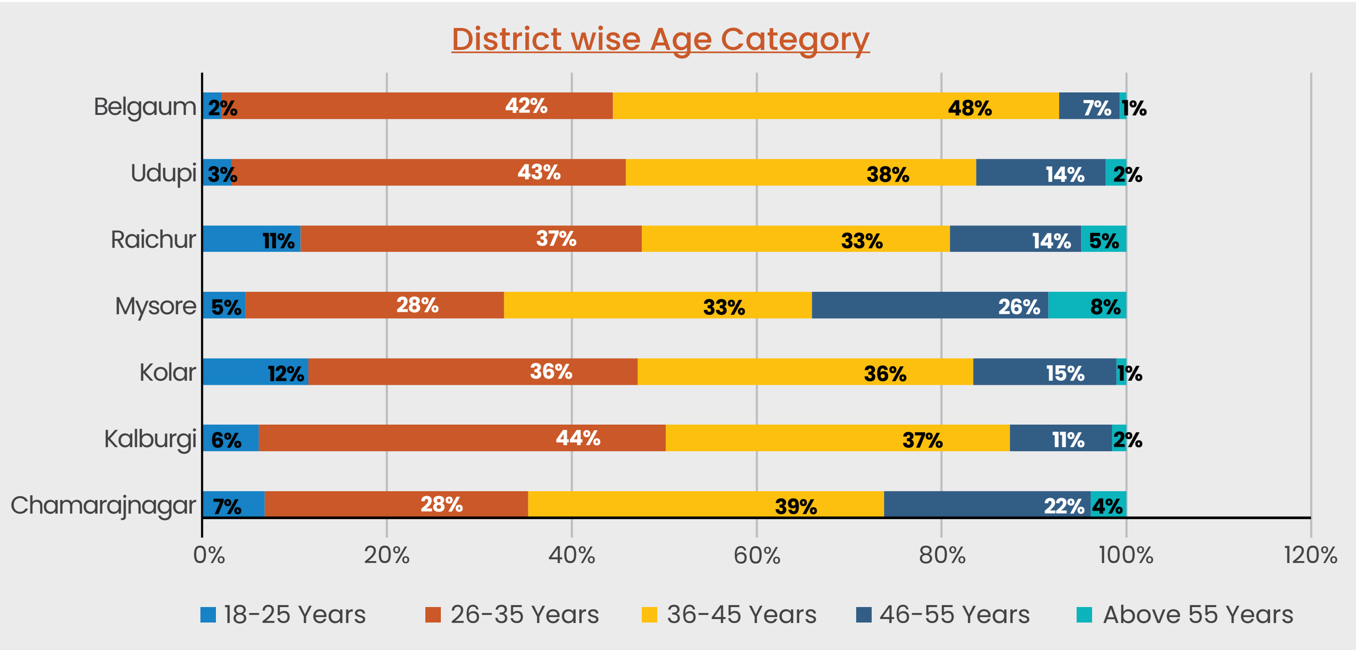


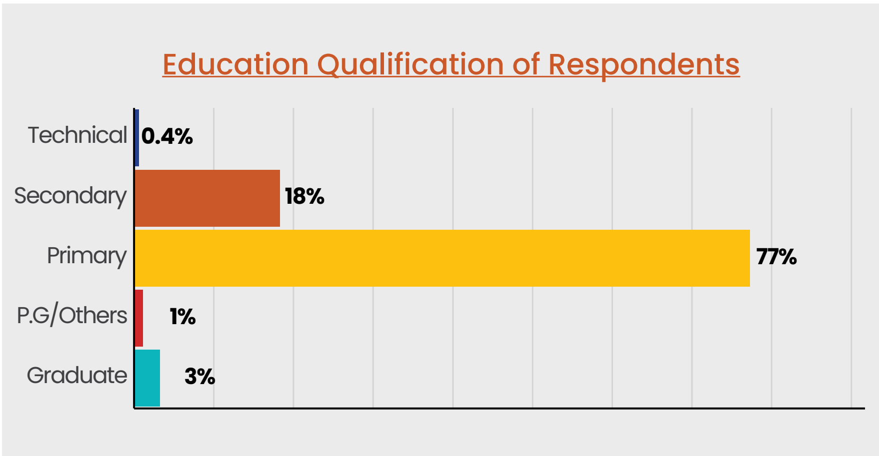
Figure 5 Age Composition District Wise



8.1.3 Education Qualification of Respondents

The sample represented lower level of education - 77% respondents studied till primary level. Only 3% of respondents were graduates and 18% had studied up to secondary level. Only 0.4% possessed technical education whereas 1% of respondents had done post-graduation/technical course.

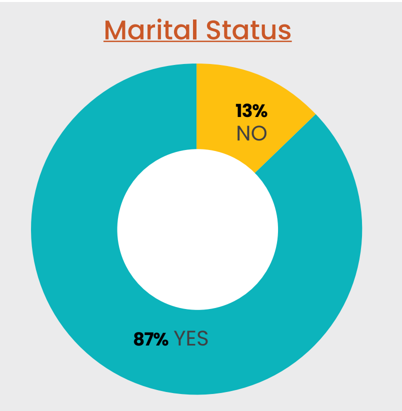
Figure 6 Education Qualifications



8.1.4 Marital Status

A good 87% of the respondents were married women and 13% of the respondents were unmarried women members.

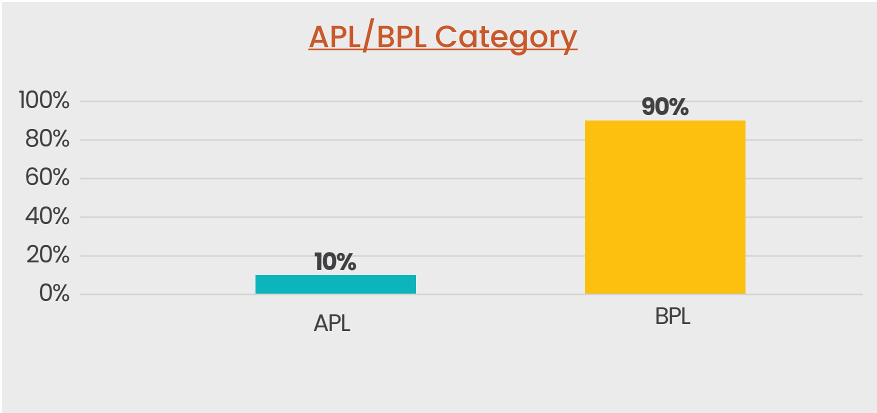
Figure 7 Marital Status



8.1.5 APL/BPL Category

The sample represented fairly lower level income segment. Majority of the respondents (90%) belonged to BPL households, while only 10% respondents belonged to APL household. This portrays that the intervention of MFIs was largely with poorer section of the society for livelihood enhancement and economic stimulation.

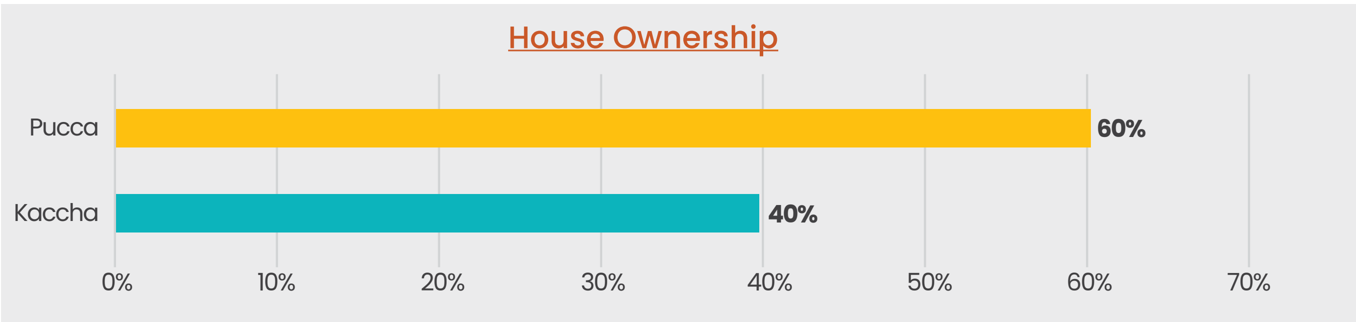
Figure 8 APL/BPL Category HH



8.1.6 Type of Housing

Of the total respondents, 60% owned pucca house while 40% of the respondents still lived in Kucha (mud) houses. This again portrays that the intervention of MFIs is largely with poorer section of the society for livelihood enhancement and economic stimulation.

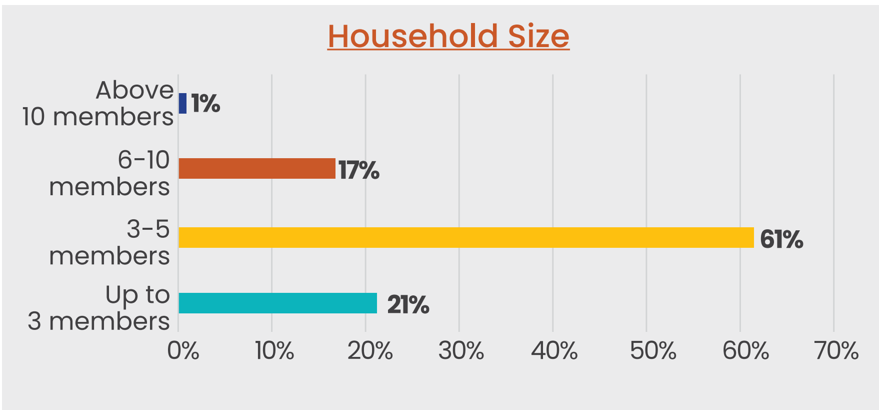
Figure 9 Type of Housing



8.1.7 HH Size & Earning Member

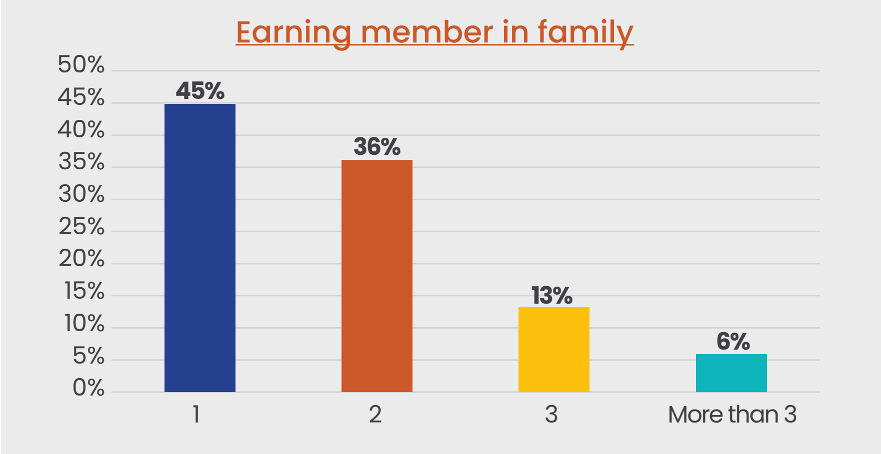
The average family size of the sample was 4.5. Of all the respondents, 61% of the sample fell in the family size of 3-5 members, followed by 21% with up to 3 members in the family and 17% with 6-10 members in the family.

Figure 10 HH Size



The average earning members per family was around 2 members (1.8). Overall, 45% of the respondents had single earning member in the family, 36% of the respondents had 2 earning members in the family followed by 13% respondents having 3 earning members in the family and only 7% reported more than 3 earning members in the family.

Figure 11 Earning Member in the Family



8.1.8 Income Segment of Respondents

The average monthly family income was around Rs. 23000/-. More than half of the respondents, i.e., 53% fell in the income segment of less than Rs. 20,000 monthly income, 32% of the respondents fell in the income segment of Rs. 20001-30000 and 13% fell in the income segment of Rs. 30001-50000. Only 2% respondents belonged to the income segment of Rs. 50000 and above.

Figure 12 Income segment of respondents

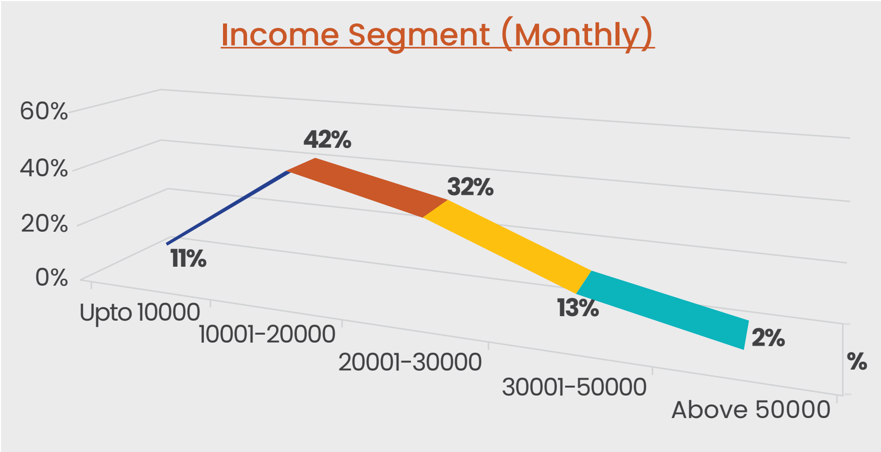
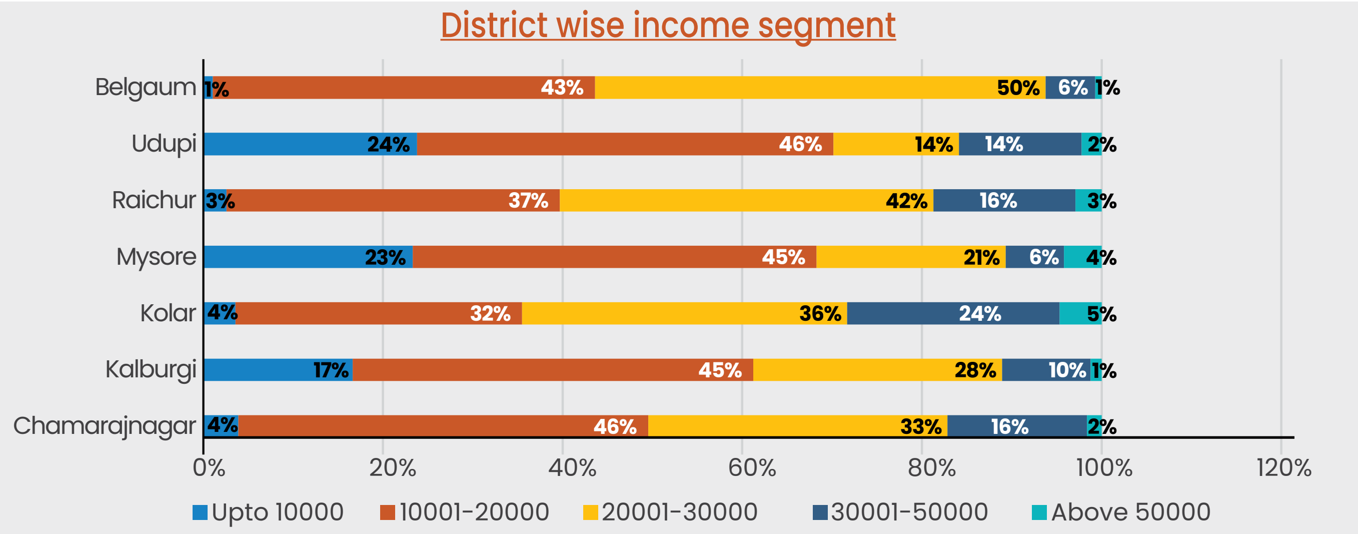


Figure 13 District wise income segment of respondents



Udupi, Mysore, Kalburgi and Belgaum district had higher concentration of income segment of Rs. 10-20k. These districts also had higher concentration of income segment of up to Rs. 10,000/- except Belgaum. Belgaum, Raichur and Kolar district had higher concentration of income segment of Rs. 20-30k.

8.1.9 Occupation Profile of Respondents

Labour as the main occupation of income was the highest segment with 38% of respondents, followed by Agriculture 21%, service 17% and Business 16%. Only 5% of respondents reported Agriculture + activities with combination of service & business and 4% of respondents reported Business + Service as the main occupation.

Figure 14 Occupation segment of respondents

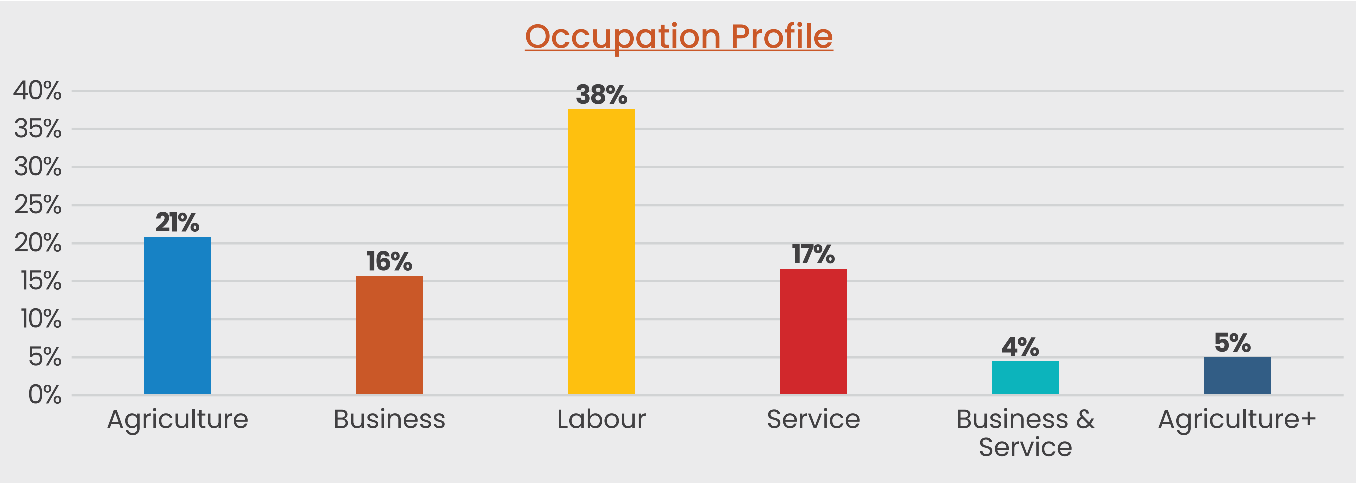
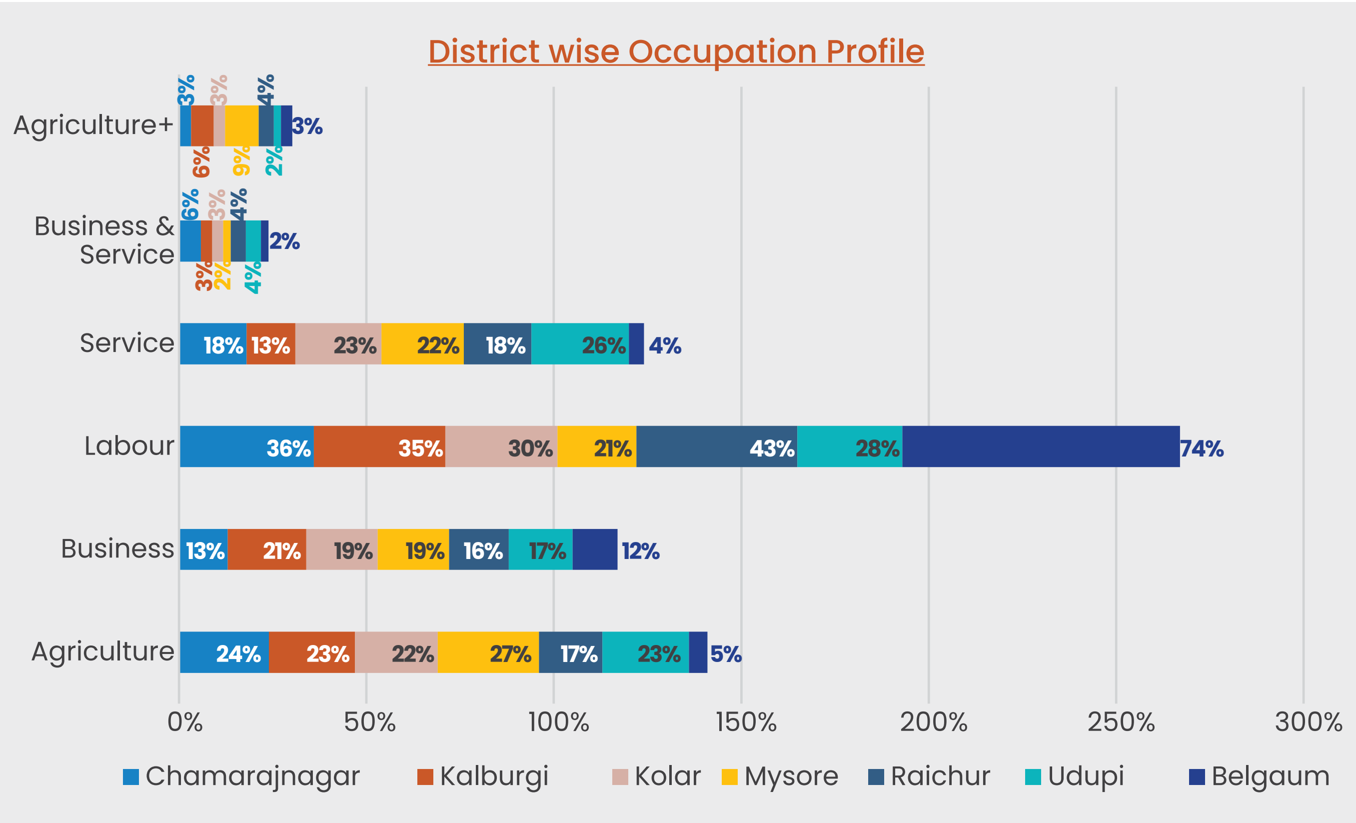


Figure 15 District wise occupation segment of respondents



8.1.10 Ownership of Assets

Television was the highest owned household asset with 82% of the ownership followed by Motorcycle 50%, Fan + TV 43%, Refrigerator 22% and cooler was owned by only 7% of the household. Combination of Motorcycle, TV, Refrigerator and fan was reported by 8% households and 13% households reported combination of Motorcycle, TV and Fan.

Figure 16 Household Assets

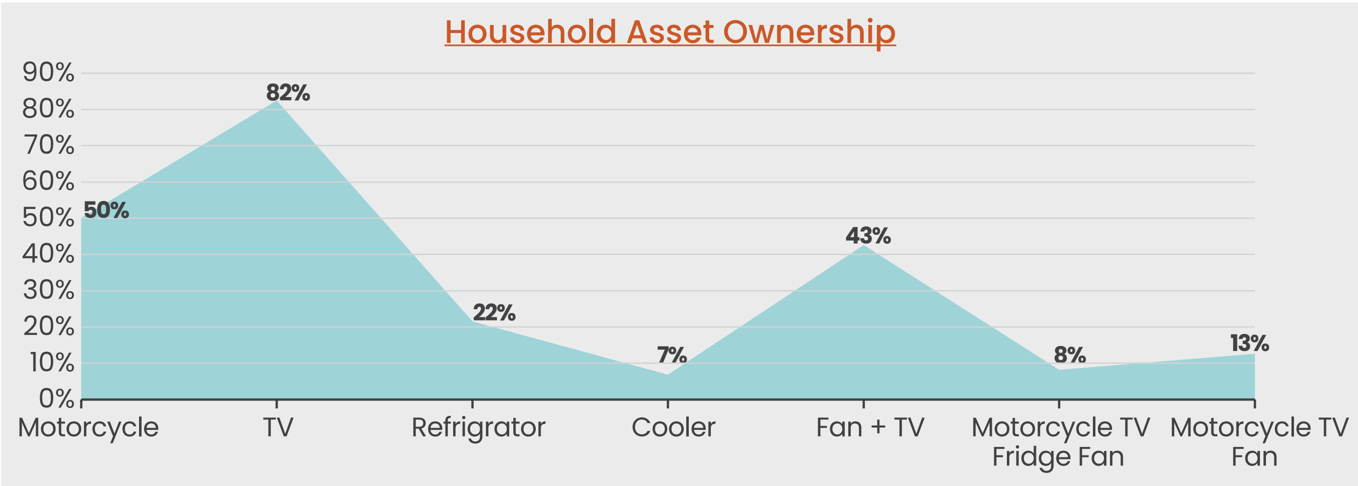
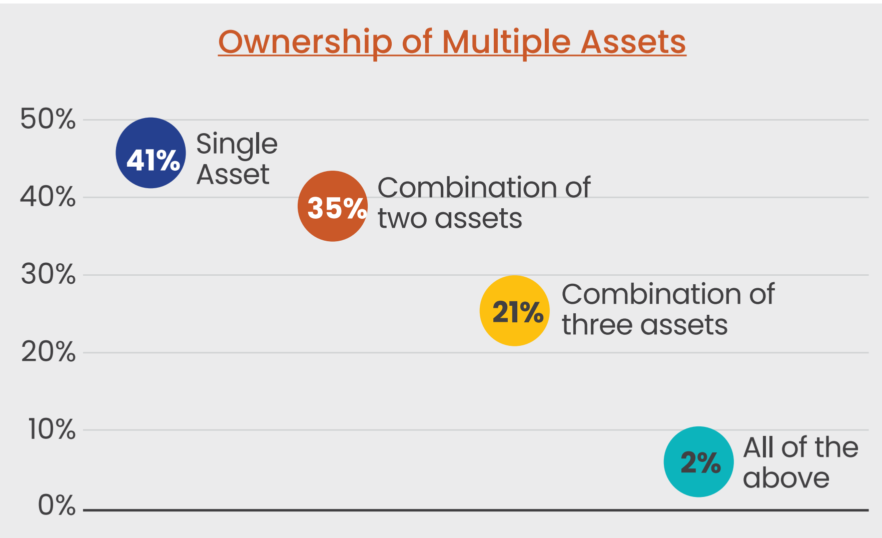


Figure 17 Household Assets



The ownership of assets shows that 41% of the households reported ownership of either one of the assets. Of the rest, 35% of the households reported ownership of combination of two assets, 21% reported ownership of combination of three assets and only 2% reported ownership of all the assets.

Agriculture land ownership is reported by only 32% of overall households. Kolar, Mysore and Raichur districts reported higher concentration of agriculture land with 48%, 38% and 35% households with ownership of agriculture assets.

Figure 18 Agriculture Landholding

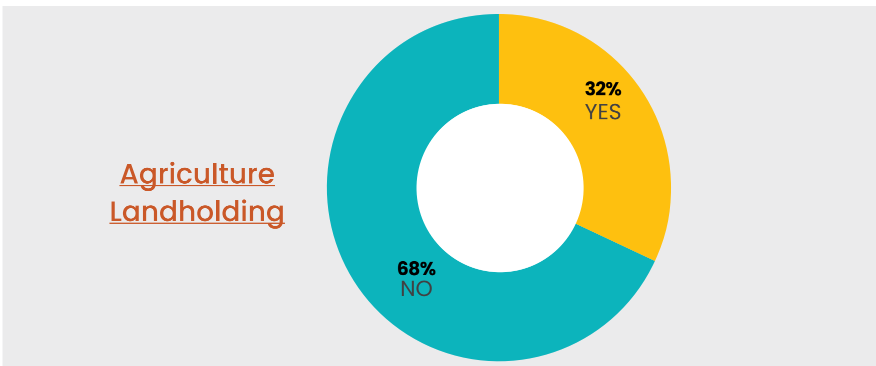


Figure 19 District wise Agriculture Landholding

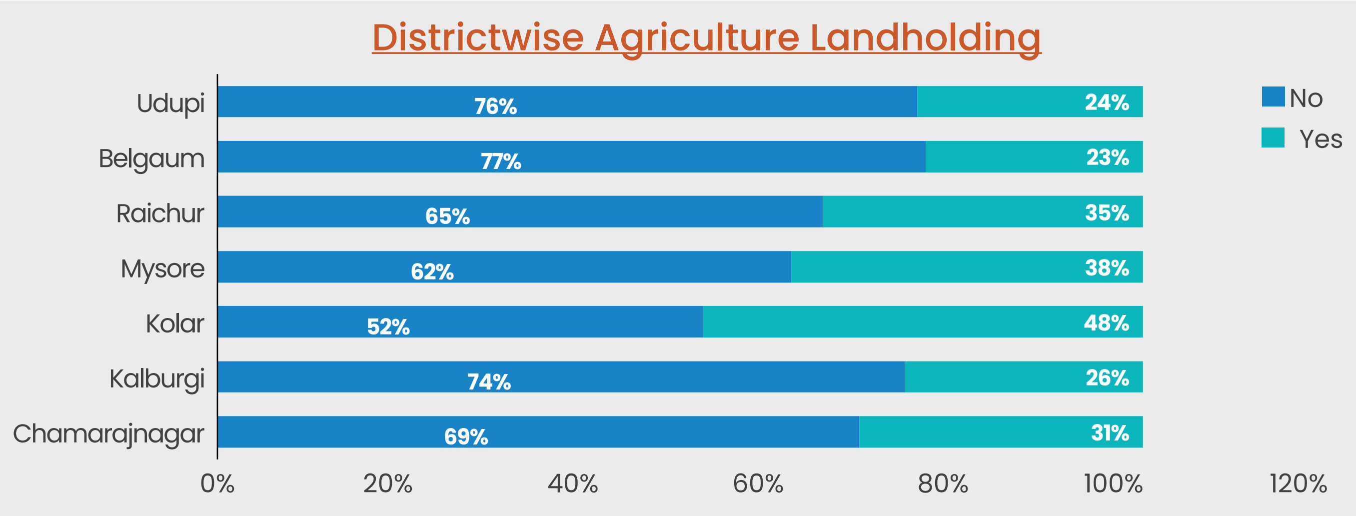
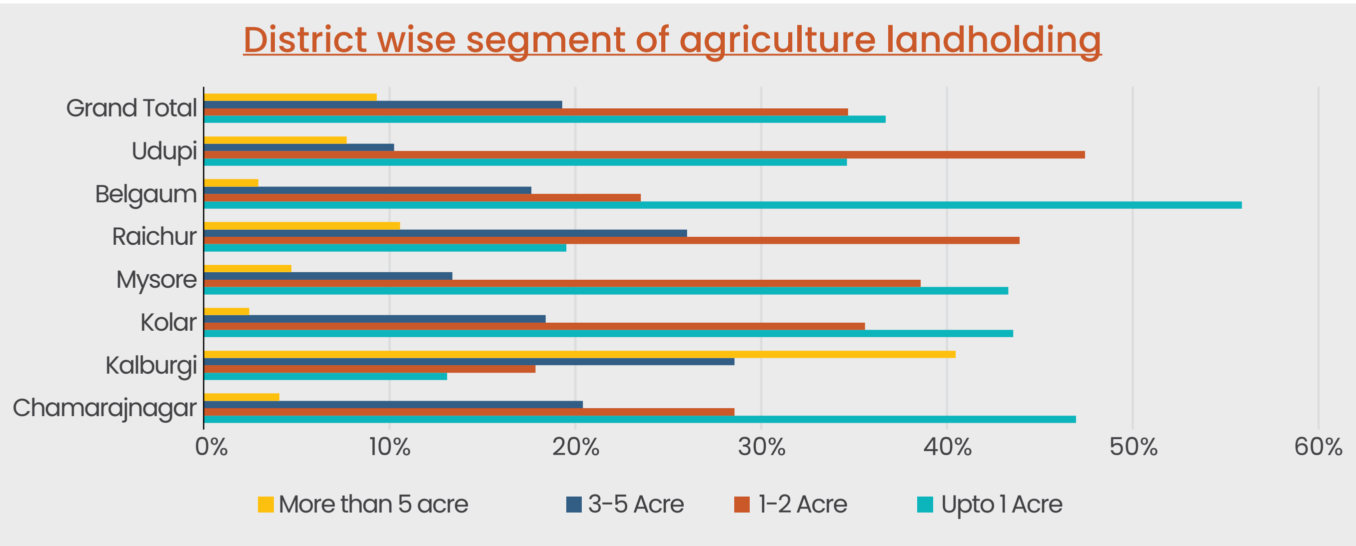


Figure 20 District wise segment of agriculture landholding

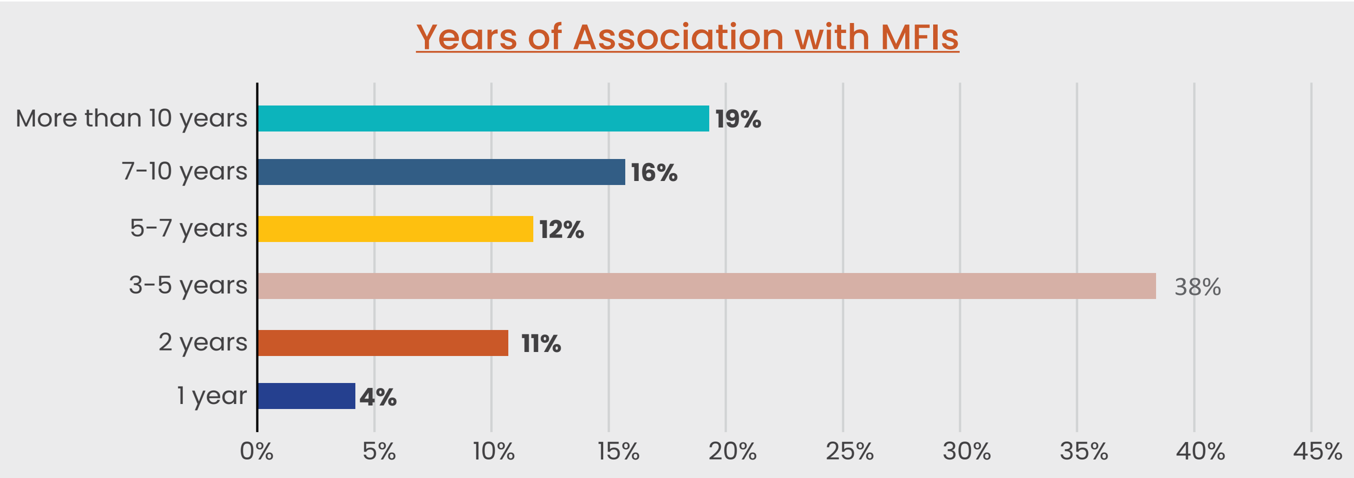


Majority of sample fell under less than 2 acre land ownership - 37% reported to own less than 1 acre of land and 35% reported ownership of 1-2 acre. Around 19% reported ownership of 3-5 acres and only 9% households reported ownership of more than 5 acres of land. Belgaum, Chamarajnagar, Kolar and Mysore reported highest proportion of 1 acre landholding with 56%, 47%, 44% and 43% respectively. Udupi and Raichur District represented higher proportion of 1-2 acre landholding. Kalburgi district reported highest proportion of above 5 acres landholding (40%).

8.2 ASSOCIATION WITH MICROFINANCE

8.2.1 Microfinance Association

Figure 21 Years of Association with Microfinance



The sample represented fairly mature client segment. Around half of the members, i.e., 47% were associated with microfinance for more than 5 years and 37% for more than 7 years. Only 12% were associated with microfinance for 5-7 years. More than half of the respondents (53%) had joined microfinance network in last 5 years, 38% (majority) had been member of microfinance companies for 3-5 years, 11% for 2 years and 4% for one year.

The mature sample puts more weightage to the perception of clients towards microfinance services, as they have years of microfinance experience, having dealt with more than 7 loan cycles with increasing trend.

This indicates high vintage value of microfinance services for their clients as they have been associated for long periods and there has also been an increase in new membership (last 5 years). This represents a very good mix of old and new client base of microfinance in Karnataka.

8.2.2 First Loan & Current Loan cycle

The first loan cycle of microfinance reported by members ranges from 5k to 30k with average loan size of Rs. 22000/-. More than 37% of the respondents stated first loan cycle above 20k and 55% of sample stated the first loan cycle of less than 20k. Around 30% of the members reported first loan cycle of Rs 30k, followed by 25% with loan cycle of Rs. 10k and 15% with first loan cycle of above Rs. 30k. Of the rest, 12% of the members were with first loan cycle of less than 5k and 18% with first loan cycle of 10-20k. This represented wide range of loan amount/cycle and also represented the change of loan cycle over the years with incremental increase in loan amount. Starting from 5k loan more than 10 years to Rs. 30k first loan (last 5 years).

Figure 22 First Loan Size

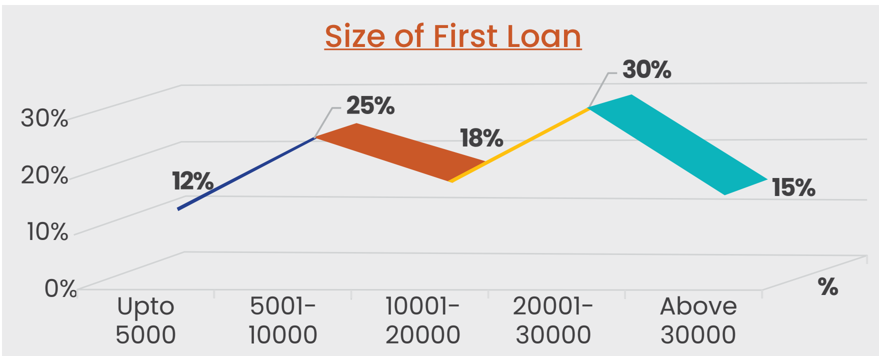
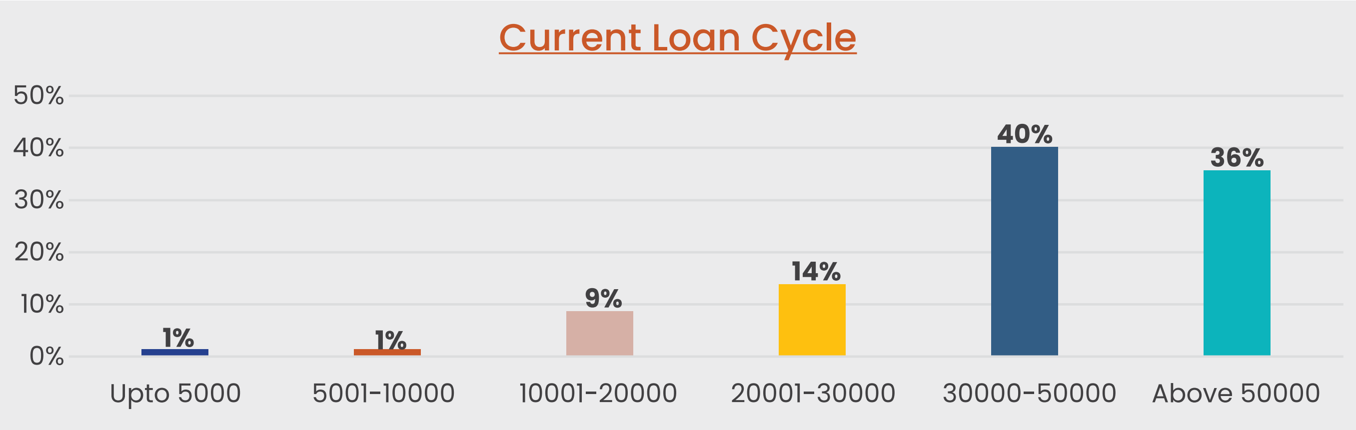


Figure 23 Current Loan Size



As against the first loan cycle, 76% of the members belonged to the category of more than Rs. 30k loan amount with 36% falling in above 50k loan amount. This shows the incremental growth of loan amount for microfinance clients in Karnataka - supporting, creating and enhancing livelihoods of clients.

8.2.3 Loan Purpose, Tenure & Type of Loans

The loan utilisation of microfinance loans tells the story of investment in productive assets. 40% of microfinance members borrowed money for small businesses, followed by 19% for agriculture, 17% for livestock, 14% for Agri & Small Business, 2% for repayment of old debts and 9% for other purposes (largely comprising of vehicle loans, education, and health). The loan purpose fits in sync with the occupation profile of the respondents.

Figure 24 Loan Purpose

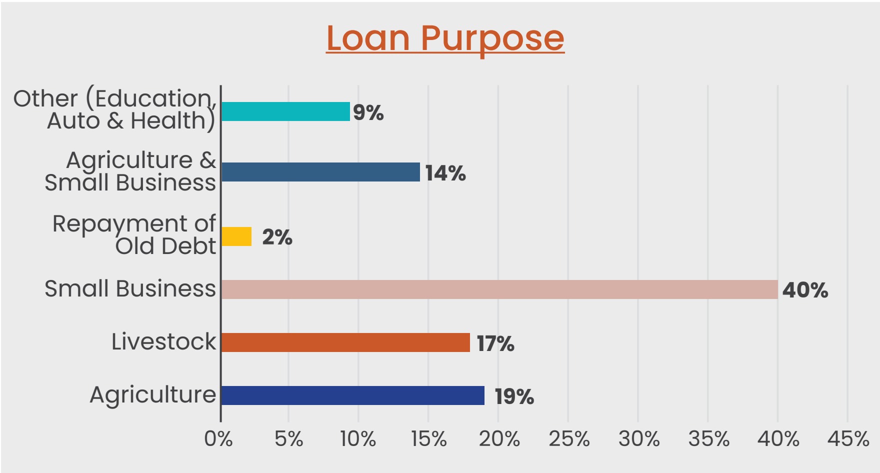
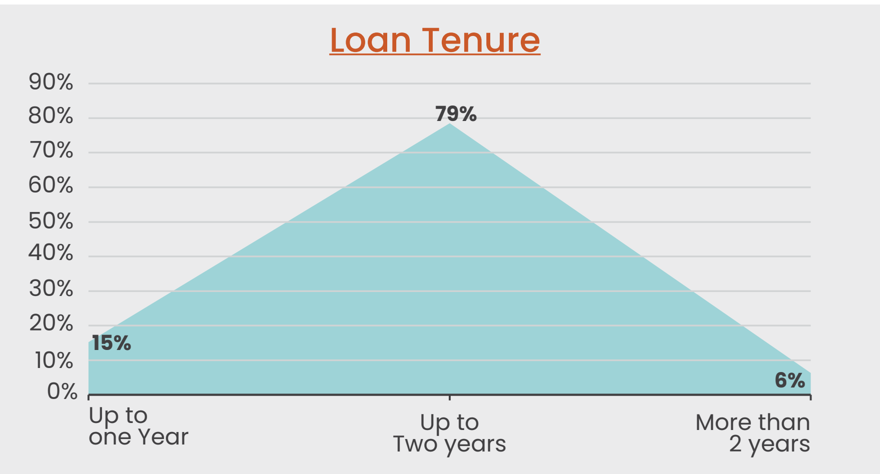
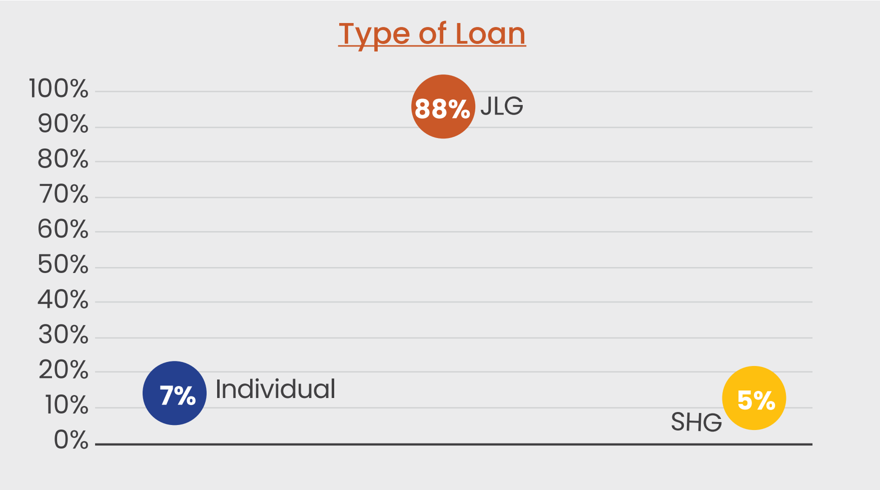


Figure 25 Loan Tenure



Majority of samples (79%) reported loan tenure of up to two years, followed by 15% with loan tenure of up to one year and only 6% with loan tenure of more than 2 years. The loan tenure duration is in sync with current loan sizes wherein 79% of the loans were above Rs. 30k loan amount.

Figure 26 Type of Loan



Three major types of loans were reported in the field - 88% of the members had taken JLG loans with group liability, 7% of members had taken individual loans and 5% had taken loans in SHG groups. The demand and inclination of individual loans is on increasing trend along with increase in loan sizes and tenure.

8.2.4 Loan Purpose, Tenure & Type of Loans

Overlap of 27% of microfinance members was seen with National Rural Livelihood Mission (NRLM), the biggest SHG movement in the country. Majority (73%) NRLM members reported that they had received benefits under NRLM such as CLF funds and Group funds for livelihood and enterprise creation.

Figure 27 NRLM Membership

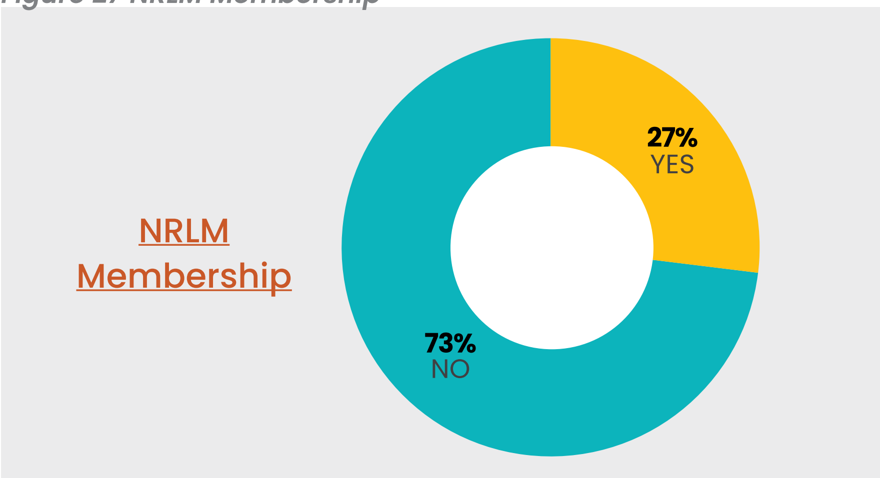
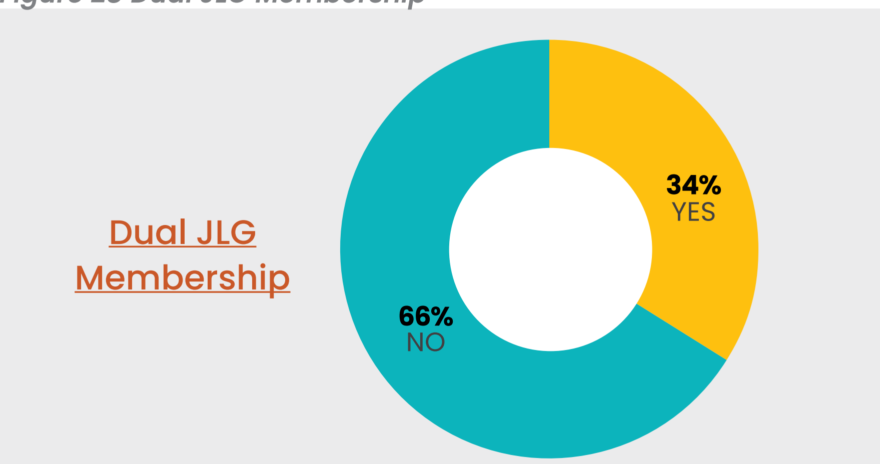


Figure 28 Dual JLG Membership

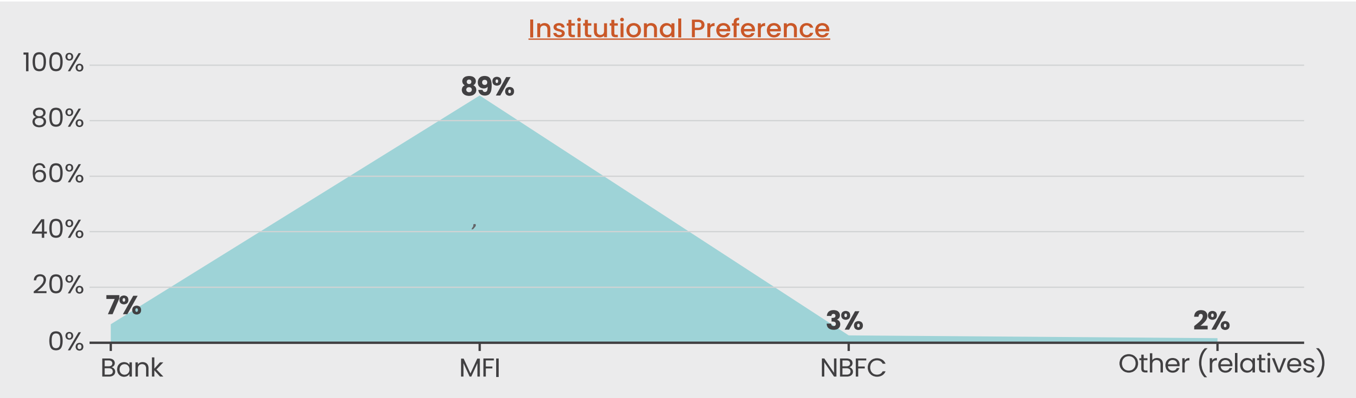


Of all microfinance members surveyed, 34% reported to be member of more than one Joint Liability Group (JLG). Out of these, 58% reported membership of 2 JLGs, 25% reported membership of 3 JLGs, 13% reported membership of 4 JLGs and 4% reported membership of more than 4 JLGs.

8.3 MEMBER PERCEPTION, SATISFACTION & PREFERENCES

8.3.1 Preference of Institution for Loan

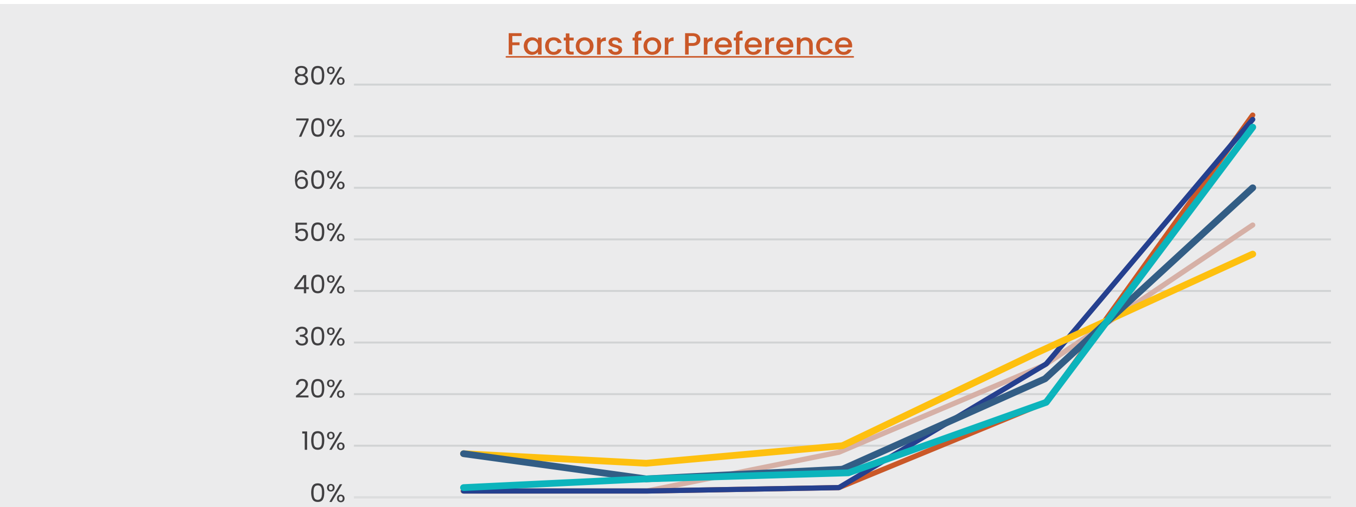
Figure 29 Institutional Preference for Loan



MFIs emerged as the most preferred institution for availing loans - 89% of respondents stated MFIs as their top preference for taking loans, followed by 7% preferring banks, 3% preferring NBFCs and only 2% preferring other sources (friends & relatives).

8.3.2 Factors for Preference of Institution for Loan

Figure 30 Reasons for preference

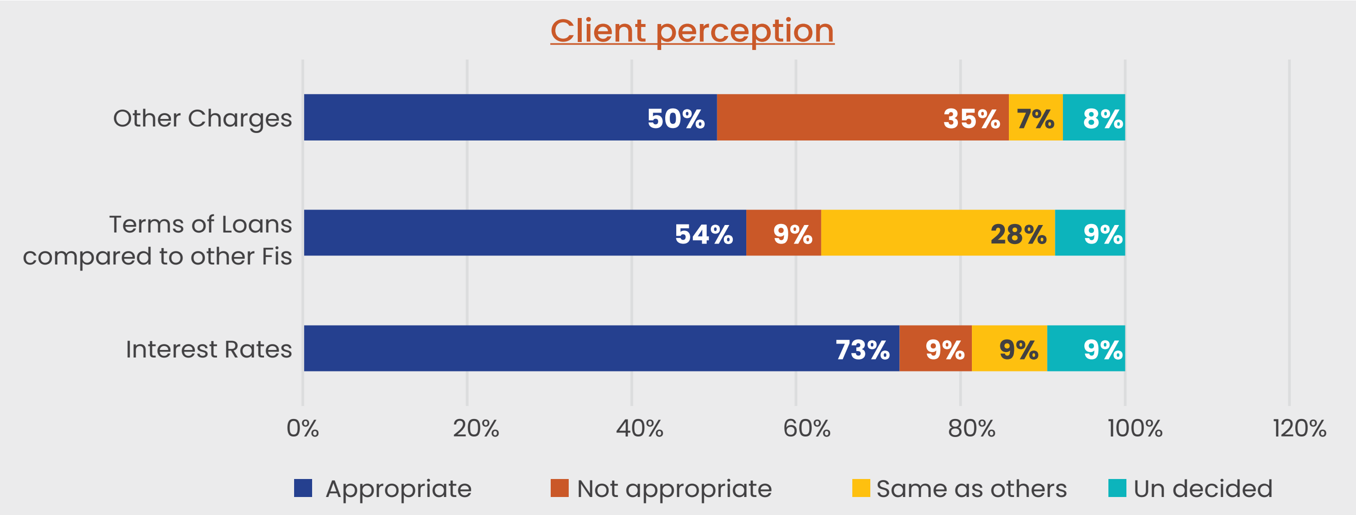


	1	2	3	4	5
Documentation	1%	1%	2%	25%	72%
Collataral	1%	1%	2%	23%	73%
Accessibility	1%	1%	9%	25%	64%
Rate of Interest	9%	8%	10%	27%	47%
Loan Processing Time	9%	3%	5%	23%	60%
Service & Behaviour	2%	3%	5%	19%	71%

The major factors associated by members for preference of taking loans from Microfinance institutions were Documentation, Collateral and Service, and Behaviour of microfinance personnel being rated highest on the scale of 5. The other major factors reported highest on the scale of 5 were accessibility, Quick Loan processing time and Rate of interest rated 5 by 43% of the respondents.

8.3.3 Member Perception on Interest Rates, Terms & Other Charges

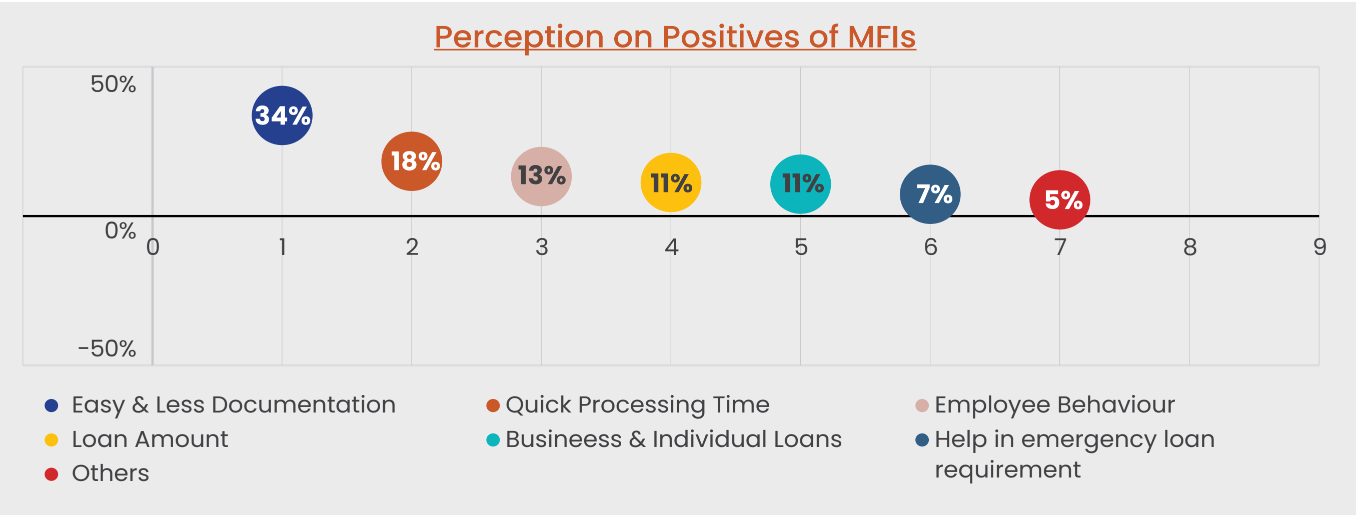
Figure 31 Member Perception on MFI Loans



Members perception on interest rates, terms of loan and others changes were fairly positive. of Majority of the members interviewed (73%) stated that microfinance loan interest rates were appropriate, 54% of the members stated that the terms of microfinance loans were appropriate and 50% of the members stated that the other charges (loan processing fee and insurance) were appropriate, 35% stated that they were not appropriate and could be reduced.

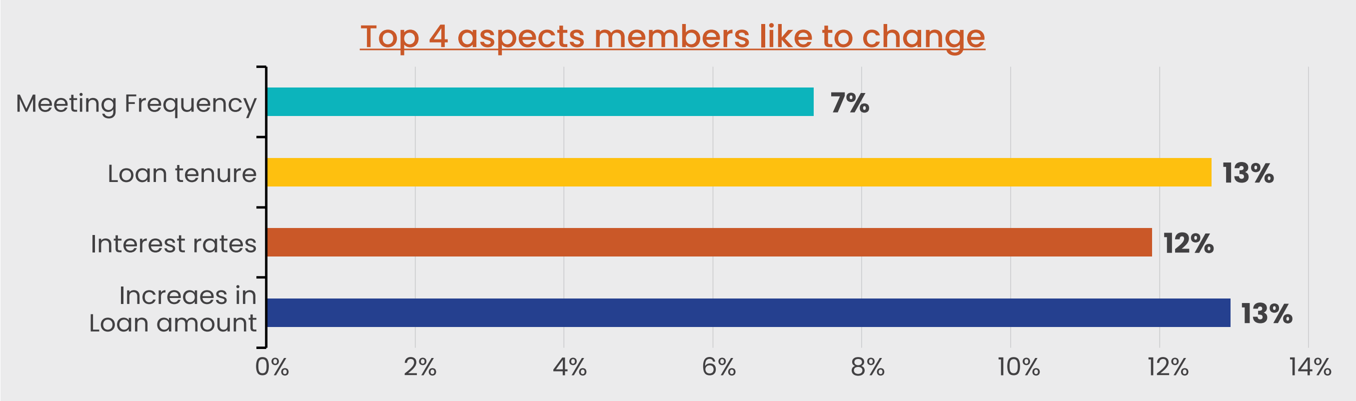
8.3.4 Member Perception on Positives of MFIs

Figure 32 Positives of MFIs



Members interviewed stated that the top three things they liked about microfinance loans were - easy and less documentation (34%), quick processing time (18%), and employee behaviour (13%). The other features they liked about microfinance were decent loan amount for business and help in emergency loan requirements.

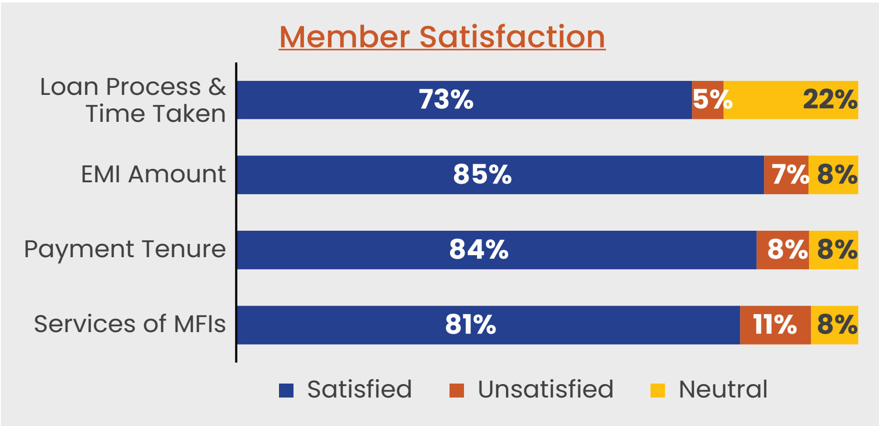
Figure 33 Changes seek by clients



Feedback from the members in terms of the changes they would like to see were in four segments - 13% of the members stated that they would like to change the loan tenures (reduced tenures) and an increase in loan amounts. Of the rest, 12% of members suggested to reduce interest rates for bigger loans and 7% of the members stated to change the meeting frequency from 15 days to monthly meetings.

8.3.5 Member Satisfaction

Figure 34 Member Satisfaction on MFI Loans

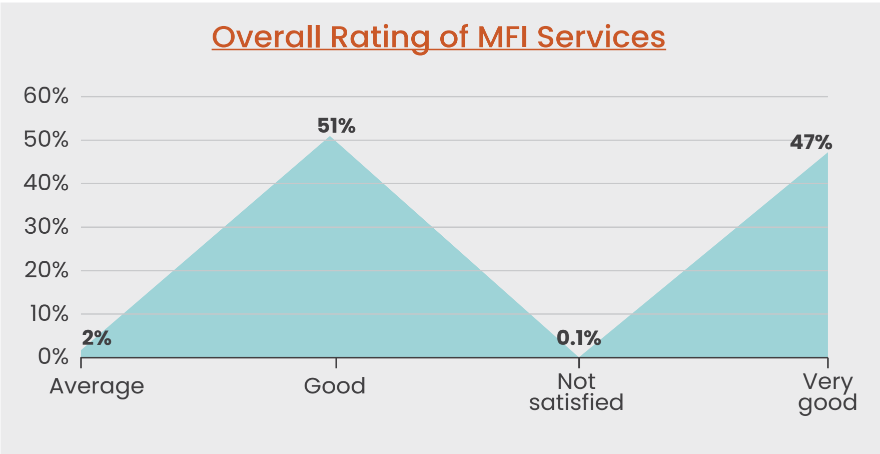


The results show highly satisfied clientele - 73% of the respondents stated they were satisfied with the loan processing and time taken by MFIs, while 22% remained neutral in their response. Of all the respondents, 85% and 84% of the respondents respectively stated that they were satisfied with the loan EMI amount and payment tenure of microfinance loans. Overall, 81% of the members stated they were overall satisfied by services of MFIs, while 11% stated that they were not satisfied with few services/aspects of MFIs.

Figure 35 Member Satisfaction on Behaviour Aspects

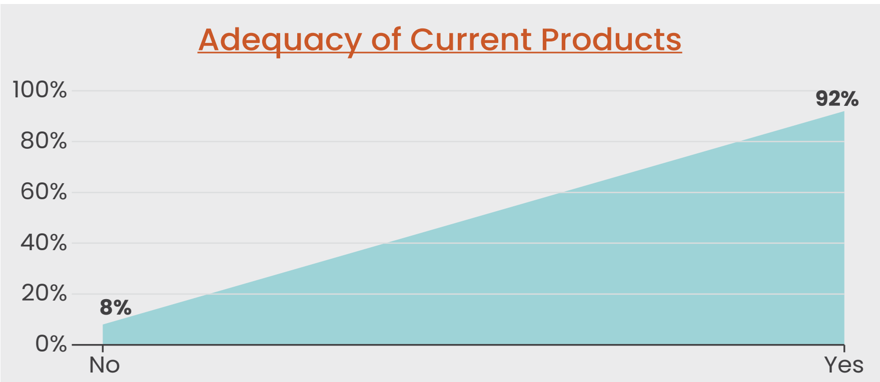
The response on satisfaction on other than financial aspects of microfinance was also very positive and satisfactory - 76% of the respondents stated that they were satisfied with the behaviour of MFI staff whereas 18% remained neutral. A good 72% stated that they were satisfied with meeting discipline, 68% stated that they were satisfied with the trainings provided, 68% stated that they were satisfied with the Grievance resolution system of MFIs. Also, 76% of members stated that they were treated with respect by MFIs and 69% stated that MFIs were understanding towards the issues of clients.

Figure 36 Member Satisfaction on Overall Services



Overall, the members had a very positive outlook of microfinance services. Almost all the respondents, i.e., 98%, were satisfied with the overall services and relationship with MFIs. Of the respondents, 47% rated the overall services as very good and 51% of the respondents rated the overall services as good with only 2% respondents reporting average rating for overall services of MFIs.

Figure 37 Adequacy of Current Products

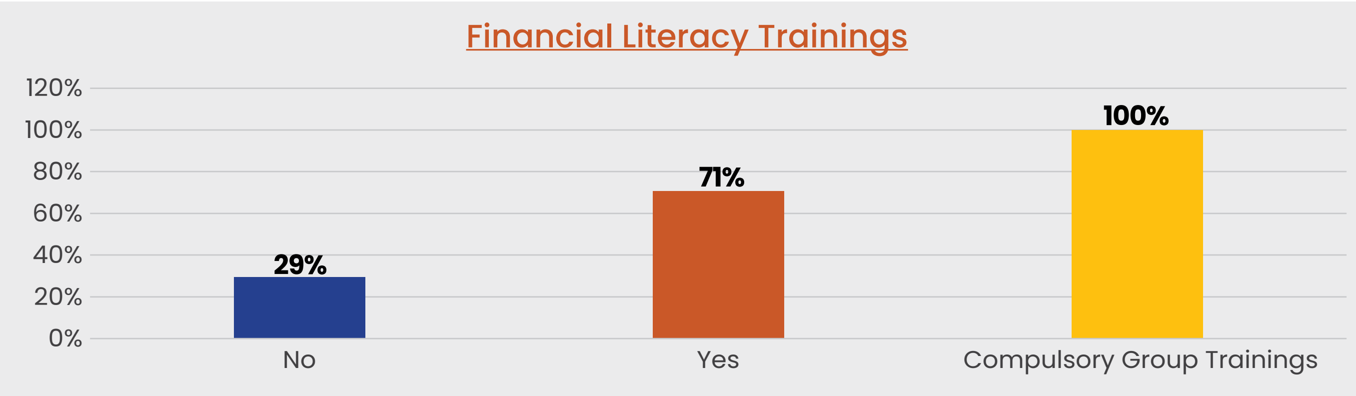


The members felt that the current product and services of microfinance were adequate. Overall, 92% of the respondents were satisfied with the current products of MFIs and stated that the current products were adequate to meet their current requirements. Only 8% of the respondents stated that the current products were not adequate for meeting their requirements and there is a need to add product bouquet with Individual & high ticket size loans, with longer repayment schedule.

8.4 FINANCIAL LITERACY EFFORTS & REQUIREMENTS

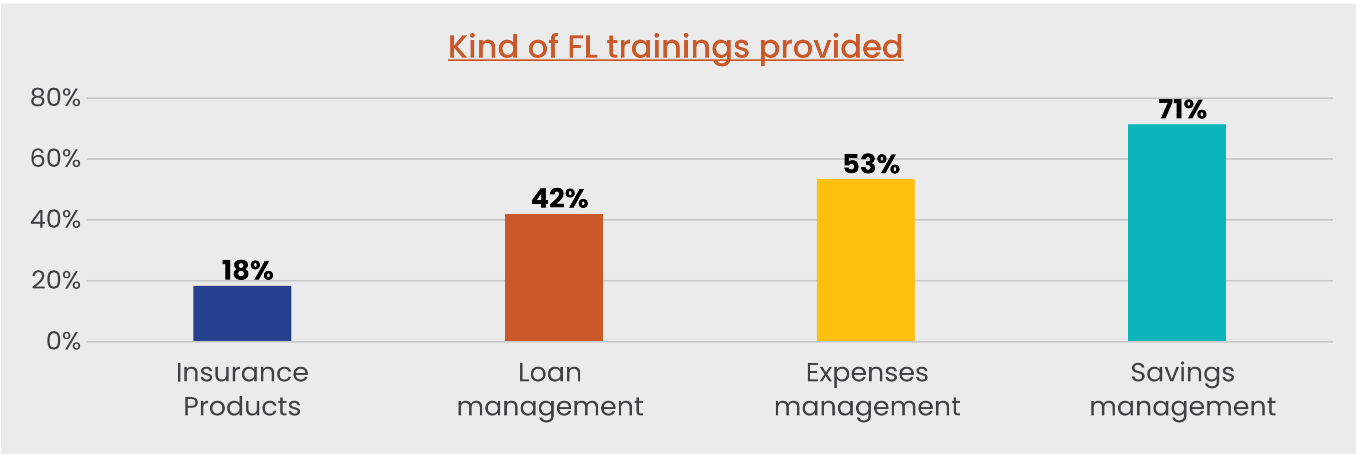
8.4.1 Financial Literacy Trainings Received of Institution for Loan

Figure 38 Financial Literacy training



It was noticed in the field that MFIs provided compulsory training to 100% borrowers before loan application and loan sanction. The training provided by MFIs was comprehensive with focus on loan utilisation, servicing of loan, importance of savings, loan EMI calculation and general financial prudence practices. In addition to the compulsory trainings, 71% of the respondents received at least one financial literacy training from their respective microfinance institutions and the members welcomed and appreciate the financial literacy services.

Figure 39 Types of Financial Literacy training



Four major types of financial literacy trainings had been reported by the clients of MFIs. Majority of them reported (71%) that they had received training on savings management, 53% reported that they had received training on expenses management, 42% reported that they had received training on loan management aspects and 18% reported to have received training on insurance products.

8.4.2 Impact of Financial Literacy Trainings

The benefits of financial literacy trainings was evident in the field. The members have been able to make good use of the trainings received by them. Consequently, 86% of the members started to save regularly post savings management trainings and 82% of the members reported that they have started planning for short term and long term goals and are setting up their savings requirement to achieve the goals. Only 22% of the respondents have started to utilise the loan judiciously and plan their requirement before taking loan.

Figure 40 Impact of Financial Literacy trainings

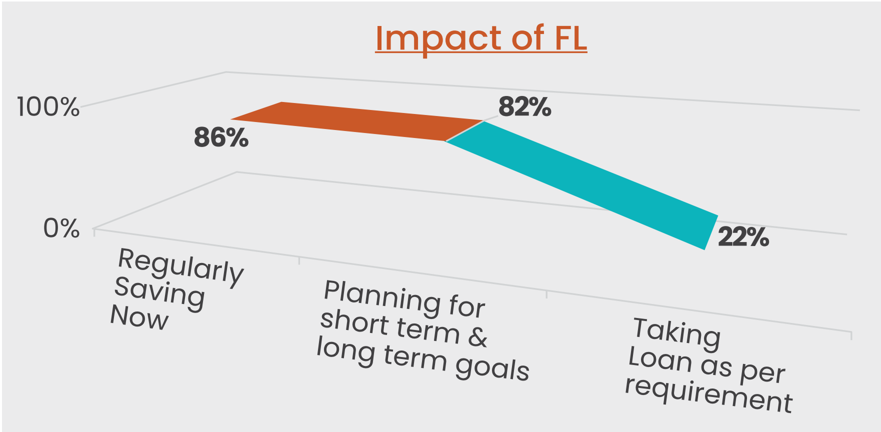
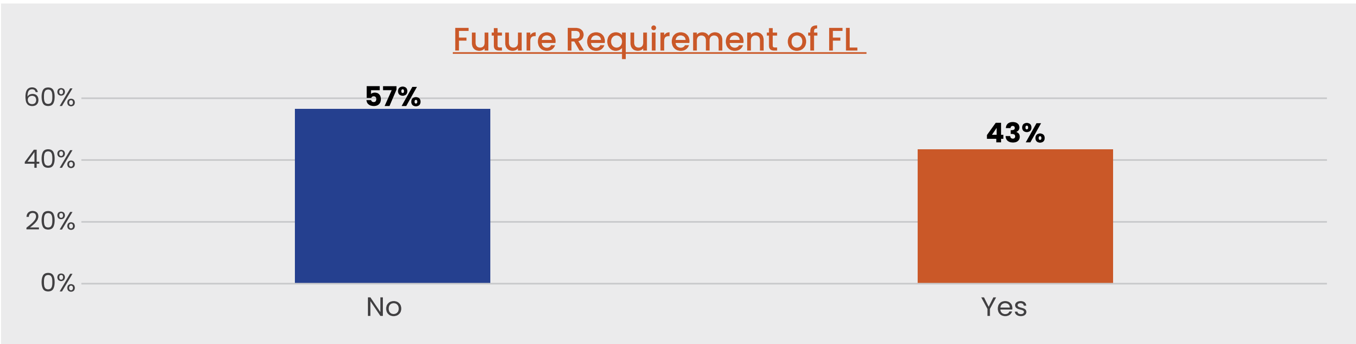


Figure 41 Future Requirement of FL

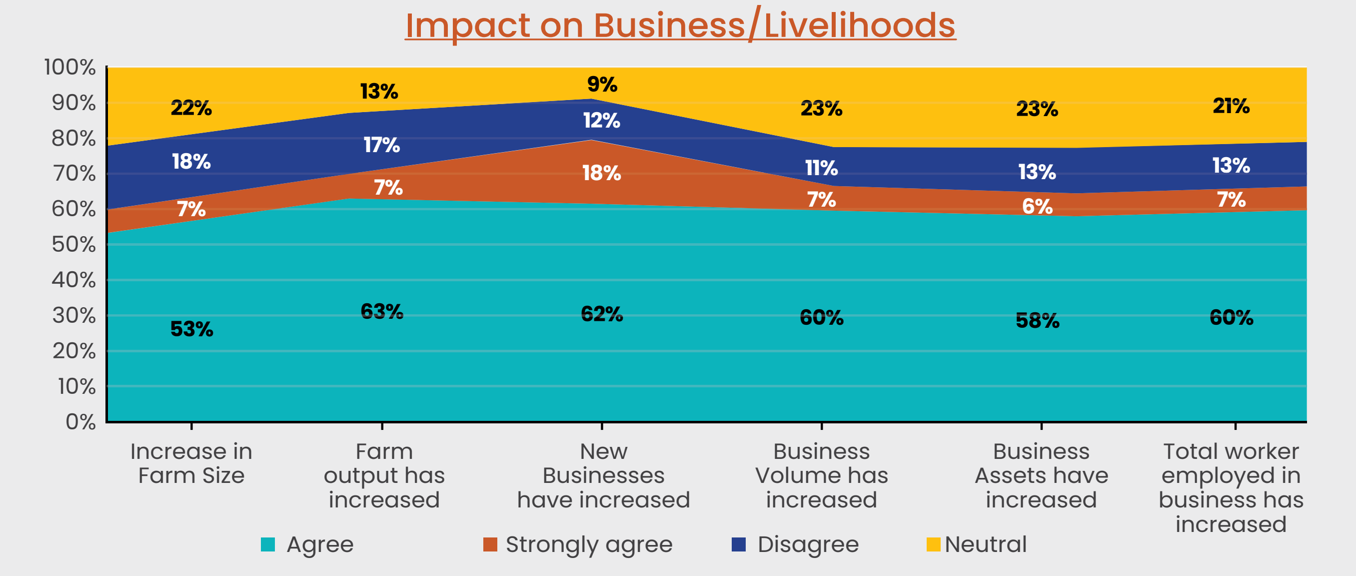


Discussions with the members revealed that 57% of members would like to continue receiving FL trainings and have suggested to include aspects of digital literacy, insurance & investments, business finance & management. The current level of financial literacy trainings were enough for 43% of the members.

8.5 IMPACT OF MICROFINANCE

8.5.1 Impact of microfinance on business/livelihoods

Figure 42 Impact of MF on business/livelihood



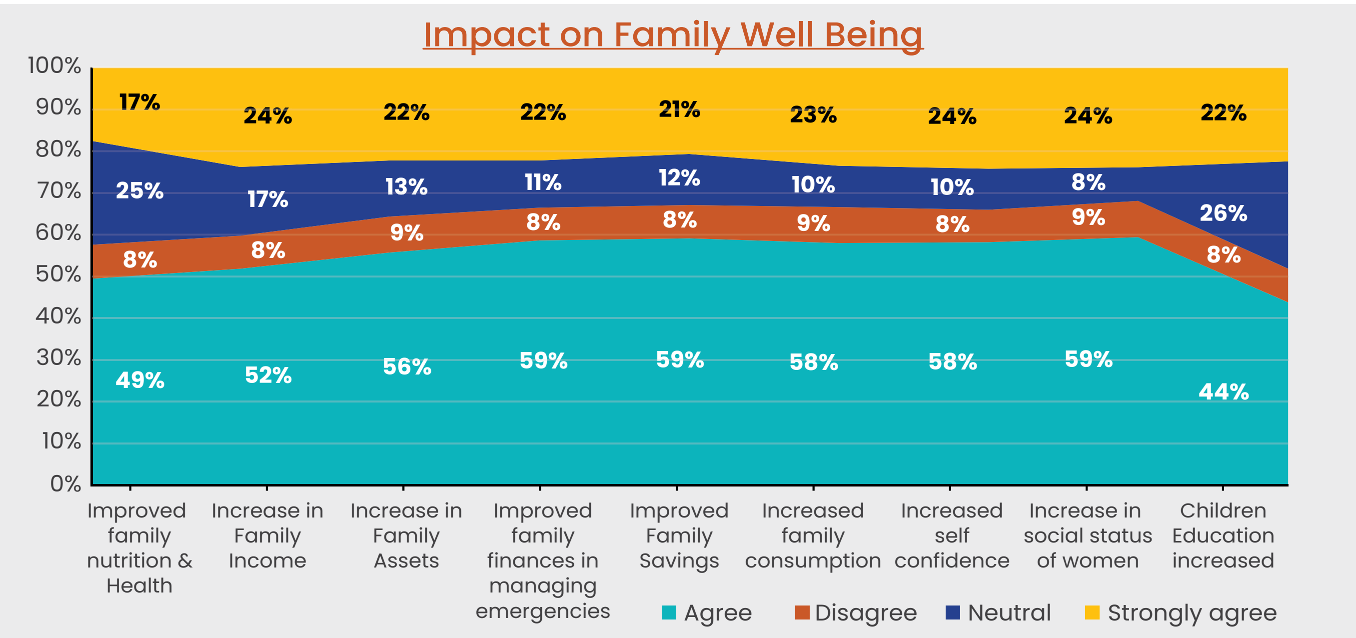
The impact of microfinance on the business/livelihoods was covered under livelihood created, increase in business assets, increase in business volume and total work force engaged by the businesses supported by microfinance loans.

Within agriculture sector, 53% respondents stated that microfinance had helped them to increase the farm size and 63% of the members also stated that the farm output had increased.

Positive impact on small businesses were reported. Of all the respondent, 62% respondents stated that microfinance had helped in creation of new businesses and 60% of the small businesses stated that microfinance loans had helped in increasing the business volumes. Overall, 69% stated that the total work force employed in the business had also increased.

8.5.2 Impact of microfinance on well being

Figure 43 Impact of MF on business/livelihood



The impact of microfinance on the well-being of the family was evident in the field and members were very vocal about the benefits and impact of microfinance loans in their lives. Around 60% of the respondents agreed that microfinance had helped in increasing the family income through timely support of finance for business and 65% stated increase in family assets.

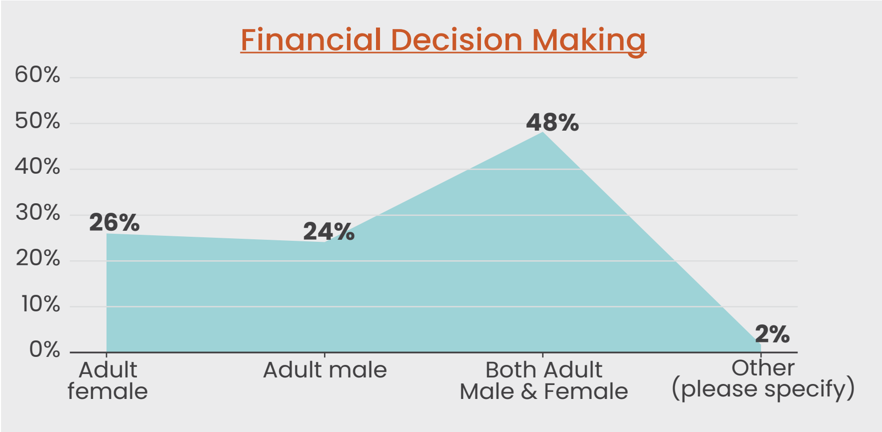
More than half of the members (57%) stated that family nutrition and health had improved as a resultant increase in family income, savings & assets and consequently has improved the ability of the household in managing emergency situations (67%).

The members attributed enhancement in social status of women in the community to microfinance loans. Overall, 68% of the women felt that their social standing in the community had improved and similarly 64% of the women members stated that it had helped in increasing their self-confidence in overall household management, financial management & decision makings.

8.5.3 Impact of microfinance on financial decision making

The members attributed the improvement in their financial decision making capacities in the household to the intervention of MFIs (loans and trainings). Of the respondents, 26% stated that they were able to take the financial decisions in the HH, while 48% stated that financial decision was taken by both adult male and female in the household.

Figure 44 Impact of MF on financial decision making

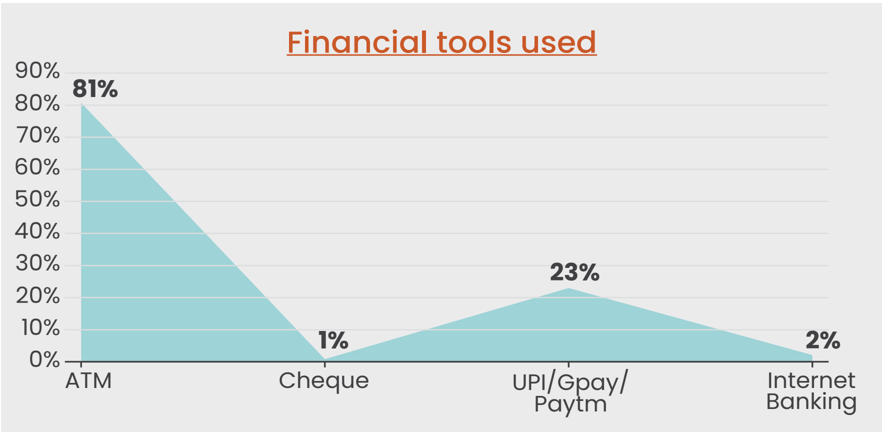


This was a substantial change in the decision making in financial matters for women wherein earlier the financial decision making was largely dominated by the male members of the HH. The financial decision making of women member also improved due to loan transactions in their bank account, wherein it was the first time women actually started interacting and using bank accounts for transactions.

8.5.4 Impact of microfinance on financial transaction & tools

Significant changes could be seen in members using different financial tools - starting from usage of banks accounts by women as loans are transferred in their bank account. The usage of ATM and Debit cards has increased significantly - 81% of the women members have started using ATM and Debit cards frequently and 23% of the women have started using UPI as payments and transfer of money.

Figure 45 Impact of MF on financial transactions & tools

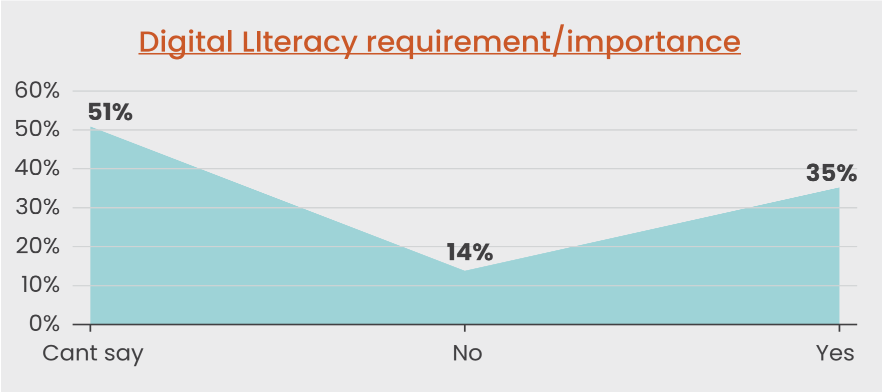


8.6 DIGITAL LITERACY & READINESS

8.6.1 Requirement of Digital Literacy

The members of the microfinance community emphasised on digital literacy requirement and importance - 35% of the respondents stated that digital literacy is important and required due to the augment of new technologies and increase in mobile banking.

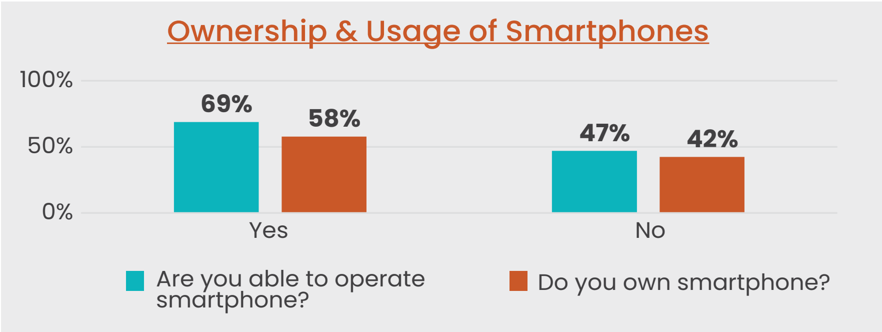
Figure 46 Requirement of digital literacy



8.6.2 Smartphone ownership & usage

Ownership of smartphones and usage - both have witnessed a positive change over the years. Of all the respondents, 69% own smartphones and 47% of the respondents know how to operate smartphones. Some of the common apps used by respondents on smartphones are WhatsApp, YouTube, ecommerce apps and UPI.

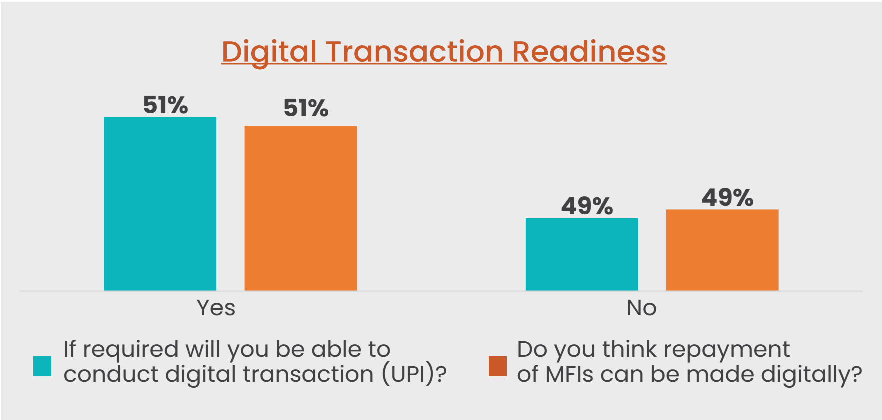
Figure 47 Smartphone ownership & usage



8.6.3 Readiness for digital transactions

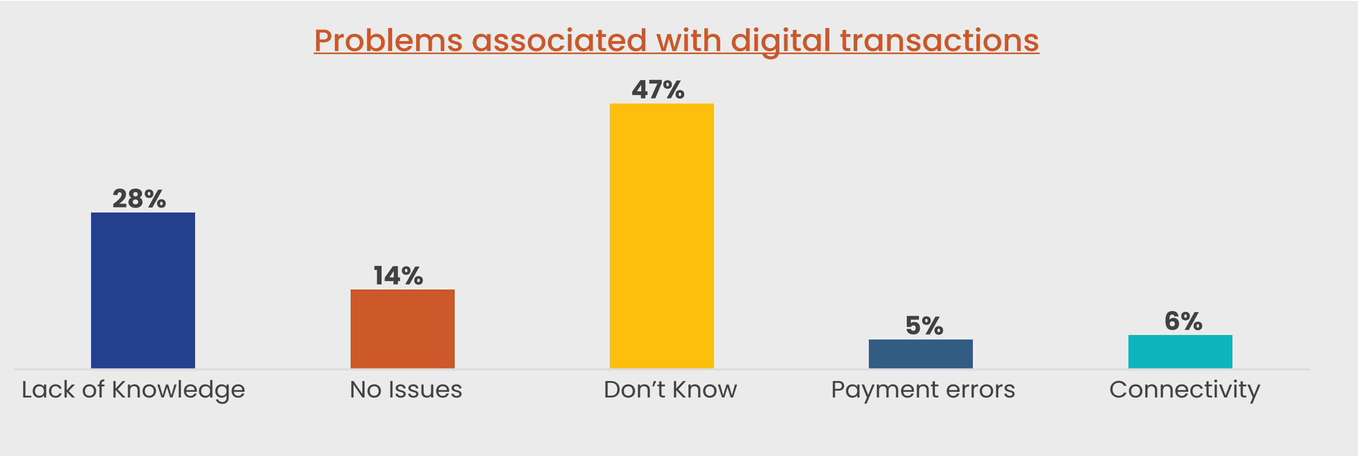
With increased ownership and usage of smartphones, 51% of the respondents felt that they were ready and would be able to conduct the digital transactions using UPI if proper orientation and training is conducted for the same and that microfinance loan repayments can be done digitally, especially for the individual and high ticket size loans.

Figure 48 Digital transaction readiness



8.6.4 Problems associated with digital transactions

Figure 49 Digital transaction issues



The major problems associated with digital transactions in the field were - lack of knowledge (28%), connectivity issues (6%) and payments errors (5%). Lack of knowledge was considered as the biggest issue in making digital transactions. Almost half of the respondents (47%) did not comment on the issues as they had not conducted any digital transaction and 14% respondents stated that there were no major issues in conducting digital transactions.

ASSOCIATION OF KARNATAKA MICROFINANCE INSTITUTIONS