

## Regional Disparities in Microfinance Distribution: Evidence from Indian States

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**Abstract :** Over the last few decades, Indian banking system has achieved remarkable growth in its credit volume. However, one of the most disturbing facts about this growth is the uneven distribution of financial services across regions. Having witnessed limited success from all the earlier efforts towards financial inclusion targeting the rural poor and the underprivileged, provision of microfinance, of late, has emerged as a supplementary mechanism. There are two prominent modes of microfinance distribution in India namely Bank-SHG linkage (SBLP) and private Microfinance Institutions (MFIs). Ironically, such efforts also seem to have failed to achieve the desired targets as the microfinance services have witnessed skewed distribution across the states of the country. This study attempts to make a comparative analysis of the geographical skew of the SBLP and MFI in India and examine the factors influencing their regional distribution. The results indicate that microfinance services are largely concentrated in the southern region, accounting for about 50% of all microfinance clients and 49% of all microfinance loan portfolios. This is distantly followed by an eastern region where client outreach is close to 25% only. The north-eastern, northern, central, and western regions lag far behind in microfinance sectors, accounting for only 4%, 4%, 10%, and 7 % client outreach respectively. The penetration of SHGs is equally skewed, with the southern region accounting for 46% of client outreach and 70% of loan portfolios followed by an eastern region with 21% of client outreach and 13% of the loan portfolio. Contrarily, north-eastern, northern, central, western and eastern regions account for 5%, 5%, 10%, and 13% of client outreach and 3%, 3%, 7%, and 4% of loan portfolios respectively. The study examines the impact of literacy rate, rural poverty, population density, primary sector share, non-farm activities, loan default behavior and bank penetration on the microfinance penetration. The study is limited to 17 major states of the country over the period 2008-2014. The results of the GMM estimation indicate the significant positive impact of literacy rate, non-farm activities and population density on microfinance penetration across the states, while the rise in loan default seems to deter it. Rural poverty shows the significant negative impact on the spread of SBLP, while it has a positive impact on MFI penetration, hence indicating the policy of exclusion being adhered to by the formal financial system especially towards the poor. However, MFIs seem to be working as substitute mechanisms to banks to fill the gap. The findings of the study are a pointer towards enhancing financial literacy, non-farm activities, rural bank penetration and containing loan default for achieving greater microfinance prevalence.

**Keywords :** bank penetration, literacy rate, microfinance, primary sector share, rural non-farm activities, rural poverty

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