



Progress and performance of microfinance institutions in India

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Abstract

Microfinance is regarded as a useful tool for the economic wellbeing of low income groups in a developing country like India. It plays a significant role in poverty alleviation through the provision of finance and other facilities towards productive activities. Microfinance Institutions (MFIs) serve to provide microfinance to the weaker sections of the population through group based mechanism. The emphasis of the present study is to assess the performance and role of microfinance institutions in India. The purpose of this research paper is to identify how microfinance is made available in rural areas for needy people and also how microfinance institutions can check or reduce poverty with the help of microfinance. The Government of India and the Reserve Bank of India have created a conducive policy and regulatory framework for MFIs to operate in the country. The present article aims at studying the overall progress of the MFI-Bank Linkage Program in India.

Keywords: Micro Finance Institutions (MFIs), Self Help Groups (SHGs), Joint Liability Groups (JLGs), National Bank for Agriculture and Rural Development (NABARD)

Introduction

The goal of Microfinance Institutions (MFIs) is to offer low-income individuals microfinance services. The wide range of financial services offered to low-income individuals is referred to as microfinance. Microfinance is the term used to describe financial services such as savings accounts, insurance, and loans that are given to low-income small-business owners and entrepreneurs who are unable to obtain bank loans because they lack collateral (Verma, 2019) ^[1]. MFIs have grown in importance as development policy tools in recent years.

In India nowadays, microfinance services are provided by a variety of public and private sector organisations. Such institutions are broadly categorized into two categories, namely formal institutions and non-formal institutions. The former category comprises of apex development financial institutions, Commercial Banks, Regional Rural Banks, and Co-operative Banks that provide microfinance services in addition to their general banking activities. The informal institutions that undertake microfinance services as their main activities are referred to as Microfinance Institutions (MFIs). Although both public and private ownership are found in formal financial institutions offering microfinance services, MFIs are mainly found in the private sector. There are three types of MFIs - not-for-profit MFIs, mutual benefit MFIs and for-profit MFIs (Mishra and Chowbey, 2009) ^[5].

According to Consultative Group to Assist the Poor (CGAP, 2001) ^[1], the main objectives of Microfinance Institutions (MFIs) are:

- To lower hazards and assist the impoverished and in need in meeting their fundamental needs;
- To strengthen their financial situation by means of savings accounts and minor loans;
- To provide self-employment opportunities, especially to women.

To address this issue, the Government proposed the introduction of MFIs, to be regulated and supervised by the RBI, which would lend to the poor at subsidized interest rates. This paved the way for the entry of MFIs in the

1980s. In the late 1990s, institutions such as SIDBI and NABARD entered the arena to assist the ailing microfinance business. The importance of microfinance can be assessed by the fact that the Reserve Bank of India classifies microfinance loans as priority sector loans.

Objectives of the Study

To study the evolution of microfinance in India and the progress of the MFI-Bank linkage program in India and its delivery models.

1. To understand the concept of microfinance and delivery models of microfinance in India.
2. To define features of the role and importance of microfinance in India.
3. To evaluate the current status and prospects of MFIs in India.

Literature Review

The study by Ahmed *et al* (2013) reveals that, 'Microfinance Institution' is a 'social enterprise', whose primary mission is to improve the lives of poor people through provision of financial services. If a for-profit organisation followed a strict "double bottom line" attitude, it might be able to meet this requirement; nonetheless, improving the lives of the impoverished must undoubtedly be one indicator of success. Better financial transparency has the potential to draw in contributors, investors, and other stakeholders, according to the study.

Moses (2011) ^[7] focuses on the history, definition, and functions of microfinance as well as its role in India. He also reviews its strengths and shortcomings and offers recommendations for enhancing microfinance's potential as a tool for empowering women, reducing poverty, and promoting rural development in the country.

The findings of Nikita's (2014) ^[8] study indicate that the number of SHGs declined for the first time in 2012–2013, following the introduction of the SHGs BLP. The study also finds out there was growth in the loan outstanding of SHG and which was responsible for increases in NPAs. Eventually, it is discovered that commercial banks hold the

majority of the shares when the agency-wise loan to MFI is given. He recommended that actions be taken to enhance the results of programmes periodically introduced under microfinance.

Hartarska, Caudill and Gropper (2006) [3] in their paper presented the first systematic statistical examination of the performance of MFIs operating in Eastern Europe and Central Asia. A cost function was estimated for MFIs in the region from 1999-2004. Microfinance institutions were important, particularly in developing countries, because they expanded the frontier of financial intermediation by providing loans to those traditionally excluded from formal financial markets. First, the presence of subsidies was found to be associated with higher MFIs costs. When output was measured as the number of loans made, it was observed that MFIs became more efficient over time and that MFIs involved in the provision of group loans and loans to women had lower costs. However, when output was measured as volume of loans rather than their number, this last finding was reversed. This might be due to the fact that such loans were smaller in size; thus for a given volume more loans were given.

Materials and Methods

This study only uses secondary data that is currently available. The data and information has been collected with the help of Research Articles, Status of Microfinance in India, published by NABARD, Bharat Microfinance Report, published by Sa-Dhan, Annual Report and Working Report of SIDBI, Annual Report of CGAP etc. The data was collected for the period from 2012-13 to 2016-17.

This article is based on descriptive research with secondary data. Various statistical methods and tools are used in this study. These are average, percentage, Compound Annual Growth Rate (CGAR) etc. CGAR is used to find out the growth of credit disbursement, credit outstanding and the number of MFIs being engaged in providing microfinance.

Credit delivery model used by microfinance institutions

The SBPL model and the MFI model are the two main models used to provide microfinance in India at the moment.

1. SHG-Bank linkage model

A Self Help Group (SHG) is usually a union with up to 20 members. SHGs refer to self-governed, peer-controlled, informal groups of people with the same socioeconomic background and collective aims. Here, poor people voluntarily group together to set aside as much funds as they can from their work for savings. They then agree to jointly contribute that amount to a common fund, from which they will lend members' money to cover both productive and emergent needs (Verma, 2019) [11]. In this paradigm, cooperative banks (such as State Co-operative Banks, NABARD, District Co-operative Banks, etc.) and commercial banks in the public and private sectors directly fund Self Help Groups (SHGs). The SHGs create the corpus, which is supplemented by revolving cash credit from the banks.

2. Microfinance Institution (MFI) model

MFIs were created to promote the key objectives of microfinance which is to help economically underserved communities achieve greater financial independence and build sustainable livelihoods. MFIs seek to work closely with regulators and other key stakeholders to achieve larger financial inclusion goals through microfinance (Mittal and Srivastava, 2014) [6].

There are several different types of Mutual Funds (MFIs) in India. These include registered trusts under the Public Trust Act of 1920 and the Indian Trust Act of 1882, cooperative societies registered under the Reciprocal Co-operative Societies Act of States, and Non-Banking Financial Companies (NBFC) - MFIs registered under section 25 of the Companies Act of 1956 or registered with the Reserve Bank of NBFC. These MFIs are scattered all over the country and the registration authorities are due to plurality. In India, the top four microfinance models are as follows:

1. The model I - Individuals or group borrowers are financed directly by banks without the intervention/facilitation of any Non-Government Organization (NGO);
2. Model II - Borrowers are financed directly with the facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions (MFIs) like NGOs, Non-Bank Financial Intermediaries and Co-operative Societies;
3. Model III - Financing is done in the form of facilities and financing agencies through NGOs and MFIs;
4. Model IV - Grameen Bank model, similar to the model followed in Bangladesh.

For MFIs, there isn't currently a single regulatory framework in existence. While NBFCs are regulated by the Reserve Bank of India, NGOs – MFIs, non-profit companies and mutual benefit MFIs are regulated by the specific Act under which they are registered. As such, they are not subjected to minimum capital requirements and other prudential norms.

Regulation and Governance of MFIs

Given the size of the market for microfinance, India requires both a formal and self-regulatory framework. According to the 2011 Report of the Central Board of Directors Sub-Committee of the RBI, "NBFC-MFIs have a very large exposure to the banking system; even though they do not accept public deposits." It is estimated that more than 75% of their source of funds comes from the banking system'. This strongly underscores the strong need for regulating the NBFC-MFIs.

As regards the apex regulatory body for microfinance, the Bill of May 2012 sought to empower the RBI as the regulator of MFIs but the Parliamentary Panel recommended an independent regulator. India has yet to see a comprehensive legislation for microfinance. RBI's NBFC-MFIs guidelines came in handy for MFIs. In the absence of an enactment, the operating guidelines of NABARD relating to SHGs and RBI's master circulars (issued from time to time) relating to both SHGs and MFIs render guidance for the regulation and governance of microfinance. RBI8 proposed a Self-regulatory organisation for NBFC-MFIs (Krishnan and Rao, 2014) [4].

The state and Growth of MFIs in India

1. Progress under MFI-Bank Linkage Programme

The Indian Microfinance Sector has witnessed phenomenal growth over the past few years. The number of Institutions providing microfinance services has gone up from a few to several hundred. The total gross loan portfolio of MFIs, excluding Small Finance Banks (SFBs), was over Rs.44,000 crore on 31 March 2023. This is a growth of around 26% over the previous year.

The detail of loans extended to MFIs during the last 5 years is shown below.

Table 1: Loans to MFIs by all Agencies

Year	Loans disbursed to MFIs during the year		Loan outstanding against MFIs as on 31 March	
	No. of Loan Accounts	Amount	No. of Loan Accounts	Amount
2018-19	1933	14625.95	5488	17760.68
2019-20	4762	20226.00	15197	29288.62
2020-21	28562	12739.33	61181	22601.78
2021-22	24628	23173.45	58753	34865.37
2022-23	80211	36756.99	106355	44119.79
CAGR (%)	148.28	21.88	107.11	22.07

Source: Status of Microfinance in India 2018-19 to 2022-23

It can be observed that the total amount of loans disbursed to 1933 MFIs was Rs. 14625.95 crore during 2018-19. The same has been increased to Rs. 36756.99 crore against 80211 MFIs during 2022-23. The total amount of loans outstanding against 5488 MFIs as of 31st March 2019 amounted to Rs. 17760.68 crore. The same has been increased to Rs. 44119.79 crore against 106355 MFIs as of 31st March 2023. The

estimated CAGR of loan disbursement was 21.88 per cent, while that of loan outstanding was around 22 per cent.

2. Progress of Loans to MFIs by Small Industries Development Bank of India

Table-2 shows the number of MFIs and the amount of loan given by Small Industries Development Bank of India (SIDBI) to MFIs.

Table 2: Loans to MFIs by SIDBI

Year	Loans disbursed to MFIs during the year		Loan outstanding against MFIs as on 31 March	
	No. of Loan A/Cs	Amount	No. of Loan A/Cs	Amount
2018-19	20	905.00	84	1715.87
2019-20	16	1093.00	56	2032.79
2020-21	18	2583.00	78	1672.00
2021-22	-	2893.00	-	3118.00
CAGR (%)	-5.41	54.43	-3.78	17.30

Source: Status of Microfinance in India 2018-19 and 2019-20, and Annual Report, SIDBI, 2020-21 and 2021-22.

Table-2 shows that though the number of MFIs getting loans from SIDBI was not so prominent, the loan disbursement was quite adequate and was increasing significantly. During 2018-19, Rs. 905 crore was disbursed by SIDBI to 18 MFIs which has increased to Rs. 2893 showing a CAGR of 54.43 per cent over a period from 2018-19 to 2021-22. The loan outstanding to MFIs also increased from Rs. 1715.87 to Rs. 3118, showing a CAGR of 17.30 per cent. SIDBI is actively working towards providing funds to Microfinance Institutions.

outreach also increased from 98 per cent to 97 per cent. The gross outstanding portfolio has increased from Rs. 113459 crore to Rs. 135099, crore, i.e. by about 19 per cent during this period in 2022 over 2021. Average loan per borrower has shown upward movement during this period, i.e. average loan per borrower has increased by around 10 per cent during this period. Out of total loans, the proportion of income generating loans was 90 per cent in 2021 which increased to 96 per cent in 2022. The indicators relating to overall financial structure such as Return on assets (ROA) and Return on equity (ROE) have increased over this period, while the capital adequacy ratio (CAR) has decreased. The average Operational self-sufficiency (OSS) of the Indian MFIs has increased from 105 per cent in 2021 to 114 per cent in 2022. Operational self-sufficiency measures the ability of an MFI to meet all its operational and financial costs out of its income from operations. The profit margin has also improved from 8.4 per cent in 2021 to 9.04 per cent in 2022. Non-performing assets increased during this period from 1.85 per cent to 2.05 per cent.

Performance of MFIs

Table-3 presents the overall performance of microfinance institutions during the years 2021 and 2022.

Table 3: Performance indicator of MFIs Model in India

Particular	2021	2022
Client outreach (Lakhs)	422	448
Women client (%)	98%	99%
Gross O/S Portfolio (RS. crore)	113459	135099
Average loan per borrower (Rs.)	18894	20789
Income generation loan (%)	90%	96%
Equity outstanding (Rs. crore)	4637	6439
Fund flow (outstanding) (Rs. crore)	53152	64693
Yield (%)	16.80%	16.50%
Margin (%)	8.40%	9.04%
ROA (%)	0.64%	1.11%
ROE (%)	2.83%	4.26%
OSS (%)	105%	114%
CAR (%)	28.41%	28.00%
NPA (%)	1.85%	2.05%

Source: Sa-Dhan, Bharat Microfinance Report, 2022

Table-3 shows that client outreach increased by 6 per cent in 2022, over 2021. Similarly, the percentage of women's

Conclusion

MFIs played a major role in bridging the gap between the formal financial institutions and the rural poor. From the above study, it can be viewed that SHGs and MFIs are playing a vital role in the delivery of microfinance services which leads to the development of poor and low income people in India. The functioning of Microfinance institutions in India has been playing an important role in rural areas for the last two decades. This study focused on the MFIs in India in terms of the provision of loans to clients as well as the performance of them. It can be observed from the study that MFIs have been disbursing sufficiently adequate credit to the clients. At the same time, the overall performance of the MFI

sector in recent years is satisfactory and has been improving over time. Government should support this sector by providing financial and technical help. At the same time it should frame suitable policy perceptions to manage and regulate MFIs efficiently.

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