A Study on The Performance of Microfinance Institutions In India, For Balanced Economical Growth

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Abstract- *One of the greatest challenges before the Indian sub- continent which accommodates more than one-third of the population is poverty. India, one of the BRIC nations with more than 1.2 billion population is seen by many developed countries as an emerging economy. India's economic growth has failed to make a significant improvement in its poverty figures with 400 million- more than the total in the poorest African Nations- still stuck in poverty. Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The reasons may be many such as failure to reach the target group, loopholes in the system, developing a robust mechanism to name a few. Many countries including India experimented with subsidized credit which only led to increase in the NPAs. The microfinance has come forward to fill up the gap.*

In a country like India where 70 percent of its population lives in rural area and 60 percent depend onagriculture (according to the World Bank reports), micro-finance can play a vital role in providingfinancial services to the poor and low income individuals. Micro-finance is regarded as a useful tool forsocio-economic upliftment in a developing country like India. It is expected to play a significant role inpoverty alleviation and development. The emphasis of present paper is to study the performance and roleof microfinance institutions in the development of India.

India falls under low income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area. 60% of people depend on agriculture, as a result there is chronic underemployment and per capita income is only $ 3262. This is not enough to provide food to more than one individual. The obvious result is abject poverty, low rate of education, low sex ratio, and exploitation. The major factor account for high incidence of rural poverty is the low asset base.

Keywords- Micro finance, Performance, rural, Institutions, World Bank, underemployment.

I. INTRODUCTION

Microfinance is not a new concept. It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson and Rogaly, 1997).

According to the records of World Bank, India falls under low income class. It is second populated country in the world. 70 percent of its population lives in rural area. 60% of people depend on agriculture; as a result, rate of underemployment is high. Rural people have very low access to institutionalized credit (from commercial bank). Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socioeconomic development. Hence Microfinance can play a vital role for improving the standard of living of poor.

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment.

Microfinance can be called a novel approach to provide saving and investment facility to the poor around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non-Government Organizations(NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash. The initiatives of Government for poverty alleviation could not succeed to the desired level, may be due to the fact that they do not take cognizance of power of the poor to deal with their own problems. Government tries to help them by way of subsidies and other help but these initiatives hardly reduce their poverty levels and are not a long term solution.

II. REVIEW OF LITERATURE

Kumar Vipinet. al. (2017) study concluded that the SHG's and MFI's are playing a vital role in deliveryof microfinance services which leads development of poor and low income people in India. However,slow progress of graduation of SHG members, poor quality of group functioning, dropout of membersfrom groups etc., have also been reported various study findings in different parts of the country, whichneed to be taken into account while designing the road map for the next phase of the SHG programme

Nikita (2014) study concludes that first time in the year 2012-13 after the launch of SHGs BLP there is adecline in the number of SHGs who's saving linked with banks. The study also finds out there wasgrowth in the loan outstanding of SHG and which was responsible for increases in NPAs. At last it isfound out that the major share belongs to commercial banks when the agency wise loan issued to MFI. Hesuggested that steps should be taken to improve the performances of programs launched underMicrofinance time to time.

Mahantaet. al. (2012) Study revealed that lending to the poor through microcredit is not the end of theproblem but beginning of a new era. If effectively handled, it can create miracle in the field of povertyalleviation. But it must be bundled with capacity building programs. Government cannot abdicate itsresponsibility of social and economic development of poor and downtrodden. The absence of any specialskills with the clients of microcredit, the fund is being used in consumption and procurement of nonproductiveassets.Hence it is very important to provide skills development training program like handicraft, weaving,carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non-agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided post loan technical and professional aid for success of their microenterprises. If government and MFIs acttogether then microcredit can play a great role in poverty alleviation.

Maruthi Ram Prasad, Sunitha and LaxmiSunitha (2011) conducted a study on Emergency andImpact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs,etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promotea cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-FinanceInstitution (MFIs), so as to optimize their contribution towards the growth of the sector and povertyalleviation. Each Indian state could consider forming multi-party working group to meet withmicrofinance leaders and have a dialogue with them about how the policy environment could be mademore supportive and to clear up misperceptions. With one state leading the way, we need to build on asuccessful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surelytransform India in ways we can only begin.

Idowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance on Small andMedium-Sized Enterprises in Nigeria. The fundamental objective of this study is to assess the impact ofMicrofinance on Small and Medium Enterprises (SMEs) in Nigeria. Simple random sampling techniquewas employed in selecting the 100 SMEs that constituted the sample size of the research. Structuredquestionnaire was designed to facilitate the acquisition of relevant data which was used for analysis.Descriptive statistics which involves simple percentage graphical charts and illustrations was tacticallyapplied in data presentations and analysis. The findings of the study reveal that significant number of theSMEs benefitted from the MFIs loans even though only few of them were capable enough to secure therequired amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and theoverall economic company competitive advantage. Other than tax incentives and financial supports, it isrecommended that Government should try to provide sufficient infrastructural facilities such aselectricity, good road network and training institutions to support SMEs in Nigeria.

Rajasekhar and Madheswaran (2005) examine the functioning of microfinanceprogrammes and analyze economic and social benefits of the programme based on astudy of the project areas of two NGOs in Karnataka and Andhra Pradesh. The studyfound that economic benefits of the programme are region specific. The programmedid not result in large amount of loans and income in one study are (3 villages inKrishna district, Andhra Pradesh) while this result in substantial economic benefits tothe members of another area (one village in Kolar district of Karnataka). They foundthat the NGO could not facilitate linkage between SHGs and banks in the formerwhereas the NGO was successful in doing so in the second case.

Robinson (2001) concluded that microfinance services help low income people to (i) improve household and enterprise management, (ii) increase productivity, (iii) smoothen income flows and consumption cost, (iv) enlarge and diversify their micro-business and increase their incomes.

III. METHODOLOGY AND DATA

Research design is partly descriptive, partly exploratory .The data for the present study was collectedfrom different sources. To assess the performance of the microfinance institutions in India, The relevantinformation relating to loans disbursed, loans outstanding, client outreach, assets, etc. were collected fromStatus of Micro Finance in India, NABARD report (various issues), The Bharat Microfinance Report(various issues) and other relevant sources for the period 2013-14 to 2017-18. Simple statistical tools likeaverages, percentage, etc were used to derive the inferences of the study.

IV. OBJECTIVES OF THE STUDY

1) To understand & study the concept of microfinance in India.
2) To examine the current status, performance of microfinance in India
3) To offer suggestions for the improvements.

V. CONCEPT OF MICROFINANCE

Microfinance enables the poor and excluded section of people in the society who do not have an access toformal banking to build assets, diversity livelihood options and increase income, and reduce theirvulnerability to economic stress. In the past, it has been experienced that the provision for financialproducts and services to poor people by MFIs can be practicable and sustainable as MFIs can cover theirfull costs through adequate interest spreads and by operating efficiently and effectively.Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impactstudies have demonstrated that microfinance is really benefiting the poor households (Littlefield andRosenberg, 2004). The Asian Development Bank (2000) defines microfinance as the provision of broadrange of services such as savings, deposits, loans, payment services, money transfers and insurance topoor and low income households and their micro-enterprises. This definition of microfinance is notrestricted to the below poverty line people but it includes low income households also. The taskforce onSupportive Policy and Regulatory Framework for Microfinance constituted by NABARD definedmicrofinance as “ the provision of thrift, saving, credit and financial services and products of very smallamount to the poor’s in rural, semi urban and urban areas for enabling them to raise their income leveland improve their standard of living.” (Sen, 2008) .

Microfinance is defined as a development tool that grants or provides financial services and products suchas very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very orexceptionally poor in expanding or establishing their businesses (Robinson, 1998). In addition to financialintermediation, some MFIs provide social intermediation services such as the formation of groups,development of self-confidence and the training of members in that group on financial literacy andmanagement (Ledgerwood, 1999). There are different providers of microfinance (MF) services and someof them are; Non-Governmental Organizations (NGOs), savings and loans cooperatives, credit unions,government banks, commercial banks or non-banking financial institutions. The target group of MFIs areself-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers,hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

Features of Microfinance

- It is an essential part of rural finance.
- It deals in small loans.
- It basically caters to the poor households.
- It is one of the most effective and warranted Poverty Alleviation Strategies.
- It supports women participation in electronic activity.
- It provides an incentive to grab the self-employment opportunities.
- It is more service-oriented and less profit oriented.
- It is meant to assist small entrepreneur and producers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision ofcredit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a smallamount of money, given as a loan by a bank or any legally registered institution, whereas, Micro-financeincludes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. forpoor people.

VI. DATA ANALYSIS AND DISCUSSION

Table 6.1: Progress under MFI-bank linkage Programme (Amount in crore)

Year / Particular	2013-14		2014-15		2015-16		2016-17		2017-18	
	No.of MFIs	Amt.	No.of MFIs	Amt.	No.of MFIs	Amt.	No.of MFIs	Amt.	No.of MFIs	Amt.
Loan Disbursed by Banks/FI to MFIs	426 (-8.4)	7840 (50.6)	545 (28.0)	10282 (31.2)	589 (8.1)	15190 (47.7)	647 (9.8)	20796 (36.9)	2314 (257.6)	19304 (-7.2)
Loan O/S against MFIs on 31st March	2042 (4.2)	14426 (26.0)	2422 (18.6)	16517 (14.5)	4662 (42.5)	22500 (36.2)	2020 (56.7)	25581 (13.7)	5357 (165.2)	29225 (14.3)
Fresh Loans as % to loans O/S		54.3		62.3		148.13		123.0		151.4

Source: NABARD, Status of Microfinance in India Report, 2012 to 2017.

Table 6.1 presented progress under MFI-Bank linkages programme. The number of MFIs availing loans from banks during the year 2012-13 decreased over the respective previous year. The number of MFIs availing loans from the banks during the year 2013-14 increased by 28 per cent over the year 2012-13.

However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 over the previous year.it increased from 9.8 per cent to 257.6 per cent.

The total loans to MFIs by banks increased during 2013-14, 2014-15, 2015-16 and 2016-17 over the previous year respectively. It increased by about 50.6, 31.2, 47.7 and 36.9 per cent. The total loans to MFIs by banks decreased during 2017-18 by 7.2 per cent over the previous year.The loan outstanding against MFIs increased all the subsequent years over their previous years. It increased by 13.7 and 14.3 per cent in 2016-1 and 2017-18 over the previous year. The fresh loan as percentage to loan outstanding has been increased all the subsequent years over the previous year. Thus it is clear that MFIs gaining confidence of clients as well as with the lending institutions.

Table 6.2: Outreach of MFIs across States/UTs (in lakh)

States/UT	2017	2016	Growth in %
Karnataka	68.33	75.28	-9 %
Tamil Nadu	32.25	57.22	-44%
Uttar Pradesh	29.82	39.36	-24%
Odisha	22.94	23.52	-2%
Bihar	22.57	23.93	-6%
Maharashtra	21.33	38.57	-45%
West Bengal	21.16	24.91	-15%
Madhya Pradesh	20.53	28.19	-27%
Assam	7.73	6.84	13%
Kerala	7.42	12.23	-39%
Rajasthan	6.28	8.20	-23%
Jharkhand	6.21	6.75	-8%
Punjab	5.46	6.26	-13%
Chhattisgarh	5.35	8.36	-36%
Gujarat	4.6	12.63	-64%
Haryana	3.83	5.98	-36%
Telangana	2.59	2.95	-12%
Uttarakhand	1.92	3.22	-40%
Delhi	1.15	2.52	-54%
Andhra Pradesh	1.04	7.27	-86%
Manipur	0.73	0.88	-16%
Mizoram	0.57	0.65	-12%
Tripura	0.43	1	-58%
Puducherry	0.28	1.27	-78%
Arunachal Pradesh	0.19	0.17	9%
Himachal Pradesh	0.13	0.49	-73%
Meghalaya	0.12	0.19	-36%
Sikkim	0.11	0.28	-59%
Goa	0.07	0.13	-47%
Nagaland	0.04	0.04	10%
Jammu & Kashmir	0.03	0.02	17%
Chandigarh	0.02	0.13	-82%
Andaman	0.02	0.01	267%
Total	295	399	

Source: Bharat Microfinance Report 2016-17.

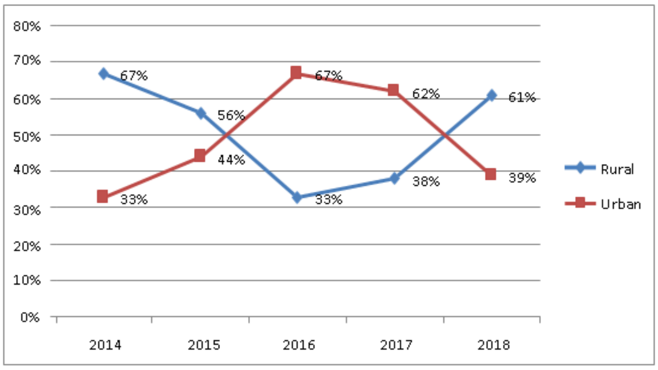
Client outreach in various states is presented in Table 2. Out of total client's base of 295 lakh in 2017, Karnataka state contributed highest number of clients base (23.16%) followed by Tamil Nadu (10.93 %),Uttar Pradesh (10.11%), Odisha (7.78%), Bihar (7.65%), West Bengal (7.17%), M.P. (6.96%) etc. The contribution of Chandigarh, Jammu & Kashmir and Andaman was least (0.01%).

Comparison of client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17 %), Assam (13%), Nagaland (10 %), and Arunachal Pradesh (9%). The highest decline was in Andhra Pradesh (86%) followed by Chandigarh (82%), Puducherry (78%) and Gujarat (64%), etc. The least decline was in Odisha (2%). Exclusion of six small finance banks (SFBs) is the reason for the decrease in client outreach in most of the states.

Table 6.3: Rural and Urban Share of MFI Borrowers

Year	Rural	Urban	Total
2014	184 (67)	91 (33)	275 (100)
2015	185 (56)	145 (44)	330 (100)
2016	122 (33)	249 (67)	371 (100)
2017	152 (38)	247 (62)	399 (100)
2018	180 (61)	115 (39)	295 (100)

Source: Bharat Microfinance Report 2017-18



Rural-urban distribution of MFI borrowers is shown in Table 3 and figure 1. Indian microfinance was basically considered as a rural phenomenon. The share of rural clientele was 67 per cent in 2013 which decreased to 56 per cent in 2014 and has drastically reduced to 33 % in 2015. During the next year i.e. in 2016 the share of rural client slightly increased to 38 per cent. It is first time that urban client base outpaced rural client base. However, in the next year i.e. in the year 2017, significant improvement was noticed in the share of rural client which increased to 61 per cent. In 2017, the trend of rural to urban is the reverse of trend of 2016 because of exclusion of 6 SFBs. One of the key finding from this study shows that small sized of MFIs are ruralcentric.

Purpose of Loan

Traditionally, MFIs have been lending for both consumption and productive purposes. It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. In 2015, RBI regulation stipulated that a minimum of 50% of the MFI loans are to be deployed for income generating activities.

Table 6.4: Income generation loans and non- income generation loans (Rs crore)

Year	Income generation loan	Non income generation loan	Total
2013	23474.36 (91)	2321.64 (9)	25796 (100)
2014	30846.4 (80)	7711.6 (20)	38558 (100)
2015	47129.6 (80)	11782.4 (20)	58912 (100)
2016	68004.3 (94)	4340.7 (6)	72345 (100)
2017	44579.95 (85)	7867.05 (15)	52447 (100)

Source: Bharat Microfinance Report 2016-17

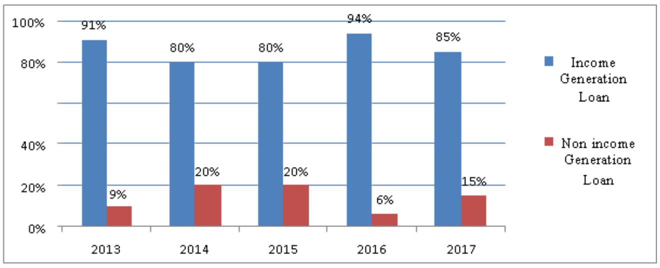


Figure 2: Income generation loans and non- income generation loans

Above data shows that the proportion of income generation loan was 91 per cent during the year 2014, this reduced to 80 per cent during the year 2015. The proportion of income generation loan remained same during the next year i.e. 2016. During the year 2017 it increased up to 94 per cent. In the year 2018 the proportion of income generation loan to non-income generation loan is 85:15.

Agriculture, animal husbandry and trading are major sub-sectors where income generation loans are deployed. Non-income generation loans are used for consumption, housing, education, water & sanitation, health, etc. As high as 31 per cent of the total income generating loan was disbursed for trading and small business followed by agriculture 30 per cent and animal husbandry (22 %). The rest of the proportion of income generating loan was disbursed to transport, cottage, handicraft and other activities.

VII. FINDINGS

- MFIs availing loans from the banks during the year 2014-15 increased by 28 per cent over the year 2013-14. However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 over the previous year.it increased from 9.8 per cent to 257.6 percent.
- The total loans to MFIs by banks increased during 2013-14, 2014-15, 2015-16 and 2016-17over the previous year

respectively. It increased by about 50.6, 31.2, 47.7 and 36.9 per cent. The total loans to MFIs by banks decreased during 2017-18 by 7.2 per cent over the previousyear.

- The loan outstanding against MFIs increased all the subsequent years over their previous years. It increased by 13.7 and 14.3 per cent in 2015-16 and 2016-17 over the previous year. The fresh loan as percentage to loan outstanding has been increased all the subsequent years over the previous year.
- The client's base of different states/UTs in 2018 with 2017 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu &Kashmir (17 %), Assam (13%), Nagaland (10 %), and Arunachal Pradesh (9%). The least decline was in Odisha (2%). Exclusion of six small finance banks (SFBs) is the reason for the decrease in client outreach in most of thestates.
- The share of rural clientele was 67 per cent in 2014which decreased to 56 per cent in 2014 and has drastically reduced to 33 % in 2015. In the next year i.e. in 2016 the share of rural client slightly increased to 38 per cent. In 2018, the trend of rural to urban is the reverse of trend of 2017 because of exclusion of 6 SFBs. One of the key finding from this study shows that small sized of MFIs are ruralcentric.
- The proportion of income generation loan remained same during the next year i.e. 2015. During the year 2016 it increased up to 94 per cent. In the year 2017 the proportion of income generation loan to non-income generation loan is85:15.
- The total assets with the MFIs was Rs. 22,736 crore in 2013which continuously increased over the years and reached to Rs. 58621 core in 2017. Total assets of MFIs have seen a consistent growth trend over last 6 years from 2012 to 2016 but in 2017-18, there is a sharp decline of 21percent
- The indicators relating to overall financial structure such as Return on assets and Return on equity, capital adequacy ratio have increased over this period. The average OSS of the Indian MFIs has increased from 113 per cent in 2017 to 114 per cent in 2018. 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 declined from 10 per cent in 2016 to 8.08 per cent in 2017. Non-performing assets increased during this period from 0.15 per cent to 0.69 percent.

VIII. SUGGESTIONS

- There were state wise discrimination in distribution of financial resources, hence government have to think about allocation of funds equally for sustainable development of the country.
- The performance of the scheme is good in urban area compare to that of rural area, actually micro finance is the need of hour in rural area, as India is a county of villages, action need to be taken to improve the performance in rural area.
- Main motive of micro finance is to provide loan for poor people, present performance is good in profit motive loan, strategies need to adopt to improve the non-income generation loans.

IX. CONCLUSION

The importance of microfinance in the developing countries like India cannot be undermined it play a vital role for socio-economic upliftment of poor and low income peoples. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development.

Hence Microfinance can play a vital role for improving the standard of living of poor. The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well-developed financial system promotes investment opportunities in an economy. Therefore it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth.

The functioning of Microfinance institutions in India is playing an important role in rural areas since last two decades. The central government and RBI should take necessary measurements to sustain the growth of the microfinance sector in India. The concern state governments also take necessary measurements to create awareness among people to use the services of Microfinance institutions to strengthen their Economic status and improve their livelihood.

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