

MICROFINANCE AND ITS GROWTH IN INDIA

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ABSTRACT

The lack of literacy among the most vulnerable population in the country's most remote areas, in addition to the country's enormous size, is another barrier preventing banking services from reaching these millions of people. Notwithstanding these difficulties, microfinance continues to be one of the most important weapons for India's quest to advance as a significant economic force. The basis for this study is secondary data. With the help of several books and magazines, the RBI report, the NABARD report, and other publications, websites, and papers secondary data was acquired. The study focuses on examining the inclusive growth of microfinance and assessing the benefits of microfinance which is the major key factor for India's entrepreneurial spirit whereby making easy access to credit. As per SIDBI – Equifax newsletters NBFC MFI's have registered 24% growth recently. The function of MFIs in India is nearly around 615 districts which are as follows Northeast and East – 37%, South – 25%, North – 14%, West – 15%, Central India – 9%. During FY 21-22 the total number of active loans by MFI was 8.22 crore and the Gross Loan Portfolio was by Rs. 1,57,644 which indicates a growth of 7%. Microfinance also has a significant impact on women's empowerment in society. In India, the majority of microfinance banks treat women's empowerment as one of their core policies and design their programs accordingly.

Keywords: Microfinance, Women Empowerment, Credits, NBFC, Gross Loan.

Introduction

According to the World Population Report, a well-known fact is that a sizable portion of the Indian population still lives in rural areas devoid of facilities and knowledge and has the bare minimum of development indicators (64.97%), according to sources that are officially recognized. India, the world's second most populous nation, employs 60% of its workforce in the agricultural sector, which causes underemployment and, in turn, lower than average per capita income. The amount of money earned is too little for the people to cover their essential necessities. A sort of banking service called microfinance is offered to people who find it difficult to acquire traditional financial services. It is intended for the unemployed and low-income demographic segment.

The organizations that promote microfinance provide products and services including lending, opening bank accounts, and microinsurance. Financial services provided through formal channels do not satisfy the needs of the rural poor in developing nations like India. The lack of official job documentation or collateral that the poor can supply when requesting loans is the main reason that traditional banking institutions in India fail to lend to the rural poor. Small loan savings accounts come with a high level of risk and transaction expenses, which is also problematic for banks. The only option left to the impoverished in this situation is to borrow money at hefty interest rates from local moneylenders.

Therefore, microfinancing is a blessing for those who live in rural areas since it gives them stability with regard to their financial problems. It can make it easier to implement national policies aimed at raising living standards, reducing poverty, empowering women, and supporting vulnerable populations.

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Objectives of the Study

The objectives of the study are:

- To understand the origin and concept of Microfinance Institutions (MFIs),
- To analyze the growth and loan portfolio of the Indian MFIs,
- To understand the benefits and challenges in the Indian MFIs sector.

Methodology

The study is descriptive in nature and the foundation for the study is based on the existing literature on the subject including books, journals, newspaper reports, articles, research-based articles on microfinance published in journals and international best practices, reports of concerned committees and institutions, etc. The analysis portion was completed using secondary data that was gathered from a variety of sources, such as the State of the Sector Report, the Sa-Dhan Report, the NABARD report, numerous websites, etc.

Origin and Concept of Microfinance

The concept of "microfinance," is a type of financial business that consistently and legally offers modest loans and other financial services to low-income and underprivileged households. It is an economic instrument created to encourage financial inclusion, which enables low-income and impoverished households to escape poverty, raise their income levels, and generally improve their standard of living.

• Major Milestones of Indian MFIs

Year	Achievements
1974	Self-Employed Women's Association (SEWA), the first MFI, was established in Ahmadabad.
1984	Other government agencies adopted SHG Linkage as a key strategy for reducing poverty after NABARD.
2004	The RBI recognized MFI as a vehicle for financial inclusion and included MFI financing in priority sector lending.
2009	All NBFC-MFIs are eligible for membership in the Microfinance Institutions Network (MFIN), which was established as a self-regulatory body for the industry.
2010	The biggest concentration of defaulters worldwide, 9.2 million borrowers in Andhra Pradesh (AP) are in default on MFI loans. When the AP crisis occurs, the state enacts legislation to control the MFI industry while banks refuse to extend loans to MFI businesses.
2011	Malegam Committee regulations are published by RBI.
2012	Margin cap decreased from 12% to 10% for MFIs with portfolios of more than \$1 billion.
2013	Complete implementation of Malegam's proposals puts the sector back on the path of expansion.
2014	The largest microlender in terms of assets, Bandhan, receives a Universal Banking license from the RBI. The RBI formally recognized MFIN as a self-regulatory agency.
2015	MUDRA Bank declared it, and RBI loosened lending requirements for MFI businesses.
2015	Eight MFI firms, including Disha, ESAF, JFS, RGVN, Suryoday, Ujjivan, Equitas, and Utkarsh, received Small Finance Bank (SFB) licenses.
2016	Due to demonetization, the lending sector experienced a brief growth lull in which the majority of MFI transactions are cash-based.
2017	Microfinance was made possible by digital delivery channels including mobile banking and e-wallet integrations, which were mostly in the form of computers, phones, and bank transfers.
2019	The market was paralyzed by the COVID-19 pandemic.
2022	a) India's Aadhaar-enabled identification system has helped the country carry out microfinance activities more quickly. RBI issued a New Regulatory Framework for Microfinance Loans

Source: PwC Analysis 2022

- **Groups Organized by Microfinance Institutions in India**

- **Join Liability Groups (JLG)**

- It is an unofficial group made up of four to ten people looking for loans with mutual guarantees. Landlords, farmers, and rural employees will fall under this category. Loan repayment is the responsibility of every member

- **Self-Help Groups (SHG)**

For a brief time, individuals create a group and set up a shared fund for their business needs. It will fall under the category of a non-profit. The collection of the debt is the group's responsibility.

- **Gram Model Bank**

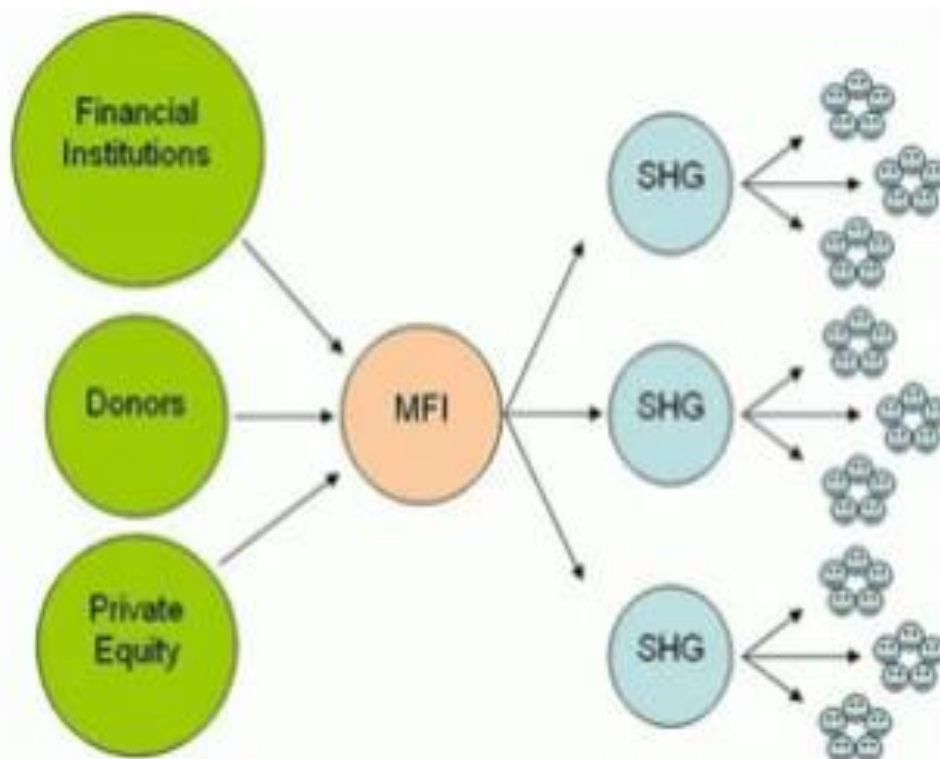
The main goal is the complete development of the rural economy.

- **Rural Cooperatives**

Poor people received financial services, and the system had sophisticated monitoring frameworks. It only benefits India's rural areas

- **Working in Microfinance**

All loans in India that are less than Rs. 1 lakh are categorized as microloans. Scheduled commercial banks (SCBs), comprising small finance banks (SFBs) and regional rural banks (RRBs), cooperative banks, and NBFCs are the institutions that offer microcredit.



Source: Financial Express Jan 23

Growth and Loan Portfolio of Indian Microfinance

As of right now, 595 districts in 28 States and 5 Union Territories make up India's microfinance activities. The total portfolio of 225 lenders' microcredits as of March 31, 2022, was R2,62,599 crores, an increase of 5% from the prior year. This compares to 209 lenders' loan portfolios of R2,50,826 crore. In FY 2021–22, there will be 225 institutions offering microfinance services, up from 209 in FY 2020–21 (82 NBFC-MFIs, 18 Banks, 09 SFBs, 71 NBFCs, and 45 Non-profit MFIs). (Refer to Sa-Dhan)

- **Client Outreach by Region**

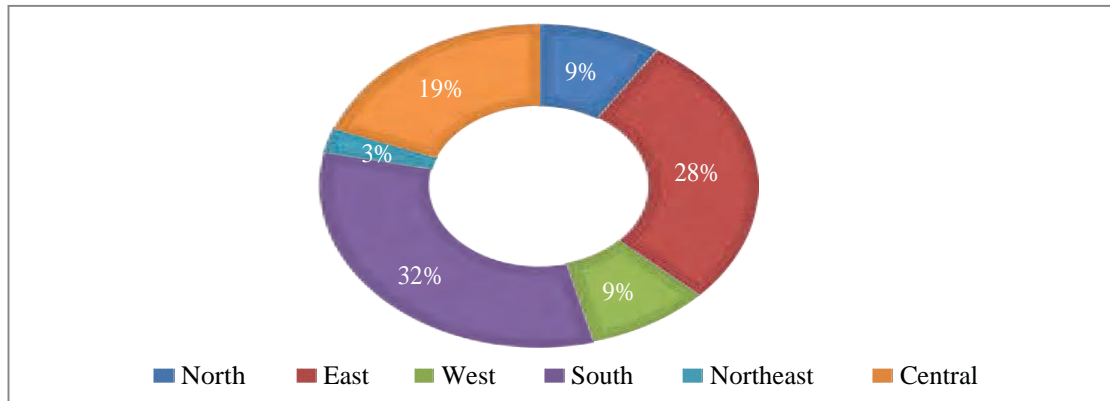


Figure 1

Source: Sa-Dhan, Bharat Microfinance Report 2022

The Southern region led the 448-lakh client base with 32%, followed by the Eastern region with 28%, the Central region with 19%, the Western region with 9%, and the Northern region with 9% apiece. With 3%, the Northeast area has the lowest client outreach. Share in outreach indicates that it has increased in the Eastern region from 27% to 28% and the Northern region from 8% to 9%, while it has slightly decreased by 1% each in the Southern and North Eastern regions, or from 33% to 32% and from 4% to 3%, respectively. The shares for the Western and Central regions are still at 9% and 19%, respectively.

- **Market Share of Financial Institutions in Outstanding Portfolio**

As savings increase, SHGs become more qualified to apply for bank or financial institution loans, increasing their ability to invest in businesses. According to Table – 1 Banks reported an increase of 6.7 lakh SHGs savings connected at the national level during the FY 2021–22, representing a growth of 5.97% compared to 9.57% in 2019–20. The program's saturation in many places is the cause of the slower growth. In terms of the number of SHGs saved linked to banks, positive growth was observed across all regions during the FY 2021–22, according to a comparative analysis of regions.

Table 1: Market Share of Financial Institutions in Outstanding Portfolio

Sr. No.	Regions	2019-2020		2020-21		2021-22	
		No. of SHGs	Savings-Amount	No. of SHGs	Savings-Amount	No. of SHGs	Savings - Amount
A	Northern	5,77,122	59,550	6,09,808	1,74,345	6,80,143	1,99,582
B	North Eastern	5,56,899	48,141	6,33,714	83,126	6,80,845	1,06,441
C	Eastern	28,11,130	6,64,333	31,22,424	7,74,912	32,43,980	13,58,595
D	Central	11,35,083	1,71,217	13,45,575	2,11,870	13,55,564	3,25,696
E	Western	14,73,853	2,01,880	15,50,176	3,74,023	16,88,451	3,27,691
F	Southern	36,89,236	14,70,085	39,61,703	21,29,485	42,44,070	24,06,043
	Total	1,02,43,323	26,15,206	1,12,23,400	37,47,761	1,18,93,053	47,24,048

Source: NABARD, Status of Microfinance 21-22

In keeping with the upward trend in savings linkage seen throughout the year, SHGs' total bank savings increased by 26% from R374.78 trillion in 2020–21 to R472.40 trillion in 2021–22. The saving outstanding position of SHGs is a crucial factor to consider when evaluating the health of SHGs since it demonstrates the group's financial stability and thriftiness. Every region showed growth on a positive scale. According to state-level statistics, 16 States and UTs experienced growth rates above the national average, while 7 States and UTs (Arunachal Pradesh, Chhattisgarh, Lakshadweep, Maharashtra, Meghalaya, New Delhi, and Punjab) experienced growth rates below the national average.

- **Credit Disbursement by Banks**

According to Table-2 Banks disbursed credit totaling R99729 crore to 34 lakh SHGs in 2021–2022 compared to R58071 crore to 29 lakh SHGs in 2020–2021; this represents an increase of 72% and

18% in the amount of credit disbursed and the number of SHGs credit linked over the year, respectively. Comparative information about bank loans made to SHGs throughout the previous three fiscal years (2019–20 to 202–21),

Table 2: Credit Disbursement by Banks

Region	2019-2020			2020-21			2021-22		
	No. of SHGs	Total Loans Disbursed	Average Loan Disbursed	No. of SHGs	Total Loans Disbursed	Average Loan Disbursed	No. of SHGs	Total Loans Disbursed	Average Loan Disbursed
Northern	62,905	84,694	1,34,637	67,658	94,045	1,39,001	79,532	1,17,102	1,47,239
North Eastern	37,807	57,893	1,53,128	68,116	1,03,651	1,52,168	94,871	1,84,636	1,94,618
Eastern	11,23,517	17,85,075	1,58,883	11,24,578	14,87,551	1,32,276	13,01,505	25,68,978	1,97,385
Central	1,11,074	1,04,249	93,856	1,28,617	1,05,428	81,971	1,84,322	2,16,983	1,17,720
Western	1,74,218	2,49,327	1,43,112	1,61,159	2,30,331	1,42,921	2,39,086	3,81,363	1,59,509
Southern	16,36,481	54,84,696	3,35,152	13,37,266	37,86,063	2,83,120	14,98,951	65,03,860	4,33,894
Total	31,46,002	77,65,935	2,46,851	28,87,394	58,07,068	2,01,118	33,98,267	99,72,923	2,93,471

Source: NABARD, Status of Microfinance 21-22

Borrowers from low-income households who are unable to access loans from the regular banking system make up the microfinance sector. Both rural and urban poor are included in this. MFIs typically provide financing to their clients through groups, including SHGs and JLGs. As of the end of March 2022, MFIs were providing services to 448 lakh clients overall. Client outreach in terms of numbers climbed to 448 lakhs in 2021–22 from 422 lakhs, representing a modest growth of 6%. The epidemic that occurred at that time was a major factor in the poor growth. From over 300 lakhs in 2011 to approximately 448 lakhs today, it has increased. The main reason the numbers were nearly unchanged in 2020 and 2021 was the damage to the environment brought on by pandemics and other events. This further illustrates the fact that the pool of microfinance borrowers is not being expanded enough.

NBFC-MFIs service the majority of these clients (80%), while NBFCs (8%), Sec. 8 Companies (3%), and Others (Society/Trust/MACS) (9%), respectively, serve the remaining clients. MFIs with outstanding portfolios over 2,000 crore rupees had a greater client base and were in contact with 74% of the industry's clientele.

As of March 31, 2022, 213 MFIs had provided 699 lakh active loans to 448 lakh consumers. 158 lakhs of the 699 lakh active loans have been collected without using cash. 9 Small Finance Banks (SFBs) that are active in microfinance in addition to the 213 MFIs have supplied data this year. As of March 31, 2022, 9 SFBs collectively served 154 lakh clients through 4,025 branches spread across 33 states and UTs.

• Loan Disbursement

Loan Disbursement over the Years

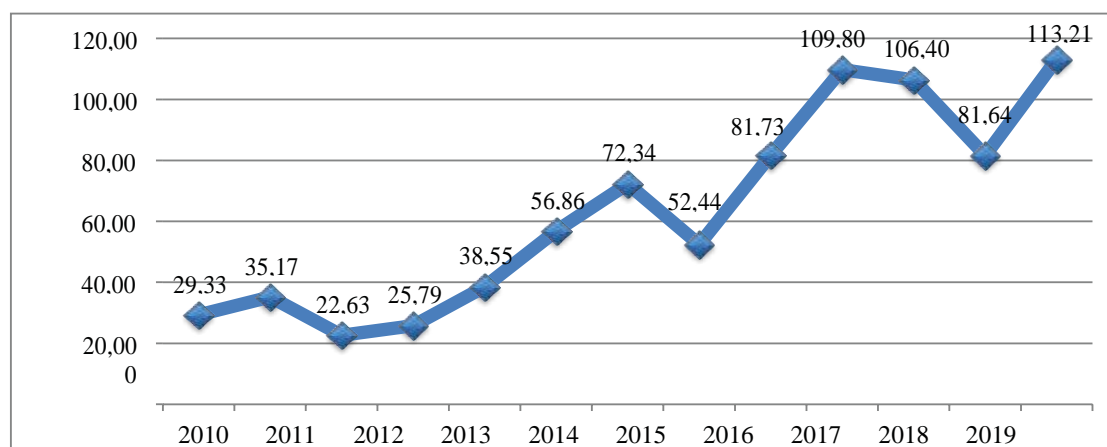


Figure 2

Source Sa- Dhan, Bharat Microfinance Report 2022

With the exception of a few years owing to uncontrollable external factors like the covid epidemic and demonetization, MFI loan disbursements have similarly shown a consistent upward trend. The microfinance industry experienced a remarkable rebound in 2021–2022 with loan disbursements of 31,564 crores higher than the prior year, resulting in an overall disbursement of 1,13,211, or a 39% rise. Out of the overall disbursement, 18 MFIs with portfolio sizes greater than 2,000 Cr have disbursed 90,560 crores. Client outreach and loan outstanding both increased by 6% and 19% over the previous year, however, loan disbursements increased by 39%. The Eastern region comes in second place behind the Southern region in terms of the share of outreach and loans that are still outstanding. In 2021–22, 75% of the client will be from rural areas. Women make up 99% of MFIs' entire customers, SC/ST people make up 24%, and minorities make up 9%

88% of customer outreach and 83% of the outstanding portfolio are contributed by for-profit MFIs (NBFCs/NBFC-MFIs), with the remaining portion coming from not-for-profit MFIs. Significant contributions are made to the sector's overall outreach (74%) and loan outstanding (80%) by MFIs with portfolio sizes of more than 2,000 Cr.

• **Outreach to Borrowers (in Lakhs)**

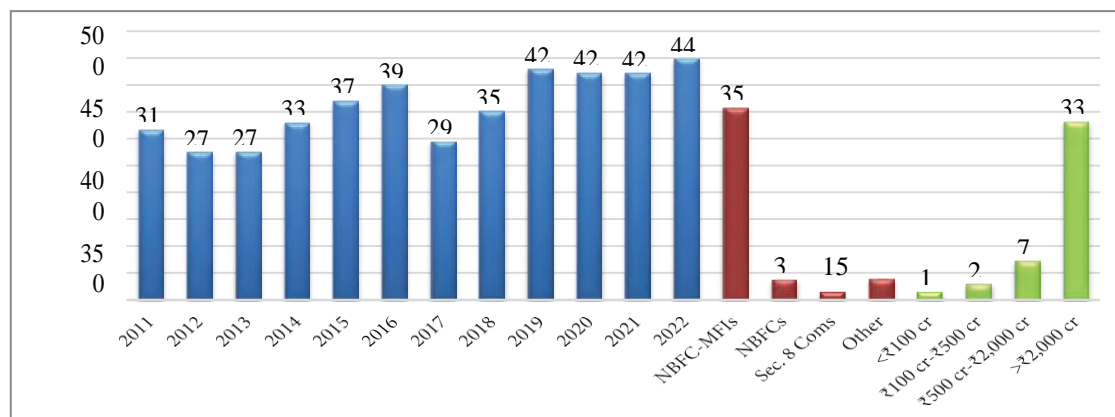


Figure 3

Source: Sa Dan, Bharat Microfinance Report 2022

• **State-based Client Engagement (in Lakhs) of MFIs (Decreasing Order)**

From Table – 3, it has been noted that some states and UTs, including West Bengal, Kerala, Maharashtra, Tamil Nadu, Puducherry, and almost all of the North Eastern states, including Assam, Sikkim, Mizoram, Meghalaya, Nagaland, and Manipur, have seen a decline in the number of active clients, whereas other states, including Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, Haryana, Arunachal Pradesh, and Tripura, have experienced positive growth.

Table 3: State-based Client Engagement (in Lakhs) of MFIs (Decreasing Order)

State/UT	2022	2021	Growth (%)
Karnataka	70.64	65.20	8.35%
Tamil Nadu	57.35	57.39	-0.07%
Bihar	52.60	46.12	14.04%
Uttar Pradesh	43.32	36.22	19.59%
Madhya Pradesh	32.82	29.78	10.21%
Odisha	30.60	30.27	1.09%
Maharashtra	27.73	27.75	-0.08%
West Bengal	27.40	28.93	-5.30%
Rajasthan	20.82	18.10	15.03%
Jharkhand	13.27	10.53	26.01%
Gujarat	12.25	11.39	7.58%
Kerala	11.69	11.99	-2.53%
Chhattisgarh	10.29	9.90	3.89%
Punjab	10.02	9.54	5.04%
Haryana	8.66	7.17	20.75%
Assam	7.74	11.33	-31.64%

Tripura	2.89	2.73	5.97%
Uttarakhand	2.59	2.00	29.57%
Andhra Pradesh	2.29	2.65	-13.59%
Puducherry	1.21	1.36	-10.83%
Himachal Pradesh	0.47	0.29	62.30%
Manipur	0.40	0.42	-4.23%
Telangana	0.33	0.28	17.53%
Goa	0.31	0.25	22.14%
Delhi	0.14	0.14	0.89%
Jammu & Kashmir	0.13	0.08	58.95%
Meghalaya	0.10	0.15	-36.34%
Chandigarh	0.08	0.07	9.14%
Sikkim	0.08	0.18	-57.57%
Mizoram	0.05	0.09	-40.67%
Arunachal Pradesh	0.03	0.02	70.10%
Andaman & Nicobar Islands	0.02	0.02	-20.99%
Nagaland	0.01	0.02	-34.40%
Dadra & Nagar Haveli and Daman & Diu	0.00	0.00	0.00%
Ladakh	0.00	0.00	0.00%
Lakshadweep	0.00	0.00	0.00%
Total	448	422	6.24%

Source: Sa Dan, Bharat Microfinance Report 2022

• Findings

According to the most recent Equifax information available for the industry as of August 2022, a total of 231 institutions had a combined loan outstanding of \$2,67,637 Cr, funded by 1,084 lakh loan accounts. Following are the various institutions' percentages of total loans outstanding: Banks Rs. 96,858 accounted for 36 percent of the total, followed by NBFC-MFIs Rs.1,00,174 crores of 37%, SFBs Rs. 44,288 Cr of 17%, NBFCs Rs. 23,292 Cr of 9%, and non-profit MFIs Rs. 3,025 Cr of 1%.

The Share of Active loans of various institutions - Banks accounted for 392 lakhs (36%) of the total, followed by NBFC-MFIs (425 lakhs, 39%), SFBs (169 lakhs, 16%), NBFCs (84 lakhs, 8%) and Non-profit MFIs (14 lakhs, 1%). Therefore, it can be shown that the microfinance industry continues to thrive in 2021 and 2022 despite the lockdown caused by the second wave of the Covid-19 pandemic and its impacts.

Benefits and Challenges of MFIs

Benefits

- It improves the income and employment situation by making credit more easily accessible.
- It assists in providing for underfinanced groups like women, the unemployed, and individuals with impairments.
- It aids low-income families in balancing their income fluctuations and setting up money for upcoming needs.
- In good times, microfinance supports the growth of families and small enterprises; in crisis times, it can aid in coping and reconstruction.
- Families who get microloans are more likely to give their kids a better and ongoing education.

Challenges

- Because the information available is dispersed it is difficult to predict how these loans would affect clients' degrees of poverty, even though the total number of loan accounts has been increasing.
- The availability of loans with no security through the microfinance sector increases the risk of bad debts.
- MFIs have turned away from their original goals of eradicating poverty and empowering society in favour of making quick money.
- Lack of a sufficient regulatory framework is making it difficult for the microfinance industry to survive.
- The lack of harmonized data and a fraud monitoring system increases Non-Performing Assets and undermines the institution's credibility.

Conclusion

In conclusion, it should be noted how crucial it is to consider how microfinance lending affects the macroeconomy as a whole. Despite making up a relatively tiny portion of the financial sector, the microfinance industry is projected to have contributed significantly to the creation of 38.54 lakh jobs by the NBFC-MFIs alone and 1.28 crore jobs by the sector as a whole. Many MFIs combine social and business goals in their strategy, which is known as the "double bottom line."

Leading MFIs were able to transition into SFBs thanks to the avenues for MFIs to become Banks. In the majority of emerging banks, that transformation appears to be almost finished. It's time for the MFIs to make investments in product development, customer happiness, and cost reductions through improved IT integration now that the COVID crisis appears to be behind us. Microfinance loans and other forms of credit have a multiplier effect when other supportive variables, such as a robust infrastructure and a supportive legislative and regulatory environment, are also present.

Future sector growth will be significantly influenced by the continued focus on geographic, financial, and operational risks, as well as the MFIs' capacity to collaborate on shared platforms to identify risk potential and manage it at the sector level. Another factor that requires attention is the capacity to attract and keep talent. Given the increase in demand, improved collections, and a favorable regulatory and policy environment, the near future appears promising and encouraging. Carefully imagining the long-term future is necessary. The questions call for a nuanced response study on how the sector should be structured, its institutions, and the importance of customers to sector players.

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