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Analysis of Growth of Microfinance Sector in India

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Abstract: Every economic activity is directed to empower the economy of a nation. Without finance, no economy can think of its development. An inclusive development is necessary which includes all the sections of society, be it rich or poorest. Microfinance as a concept is defined as a tool which is used to make finance accessible to those who lack financial security. The main objective of microfinance is to provide finance and financial services to the poorest so that they come out of the ambit of poverty. It is important to analyze the growth and development of microfinance sector in India in order to identify the opportunities and challenges in this sector.

Key-Words: Microfinance, Poverty, Financial Services, Financial Inclusion.

INTRODUCTION

Microfinance refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises. Microfinance is an approach that has been proven to empower people around the world to pull themselves out of poverty. Relying on their traditional skills and entrepreneurial instincts, recipients of small loans, other financial services, and support from local organizations called microfinance institutions (MFIs) to start, establish, sustain, or expand very small, self-supporting businesses.

Microfinance is not merely extending credit, but extending credit to those who require most for the family's survival. It cannot be measured in term of quantity but due weight to quality measurement i.e. how credit availed is used to survive and grow with limited means. Microfinance is also known as Micro Finance Institutes, Informal sector, co-operative activity, Self helper groups (SHG's), Non government organization (NGO), Micro credit, etc.

Financial inclusion refers to the unrestrained access to the financial services to the vast sections of society, thereby bringing everyone under the umbrella of financial services. Prime Minister of India Sh. Narendra Modi has also stressed on financial inclusion by initiating a scheme known as Jan Dhan Yojna. This scheme highlights the importance of including every citizen under the scope of financial services.
Reports have shown that banks have collected more than Rs. 1500 crore under this scheme as deposits from new customers. More than 3 crore savings bank accounts have been opened in just three weeks since the launch of the scheme. However, it is also estimated that only 20% of the savings accounts opened under the scheme have a positive bank balance whereas only 80 % are still empty.
Financial inclusion is on the rise globally. The 2017 Global Findex database shows that 1.2 billion adults have obtained an account since 2011, including 515 million since 2014. Between 2014 and 2017, the share of adults who have an account with a financial institution or through a mobile money service rose globally from 62 percent to 69 percent. In developing economies, the share rose from 54 percent to 63 percent. Yet, women in developing economies remain 9 percentage points less likely than men to have a bank account.

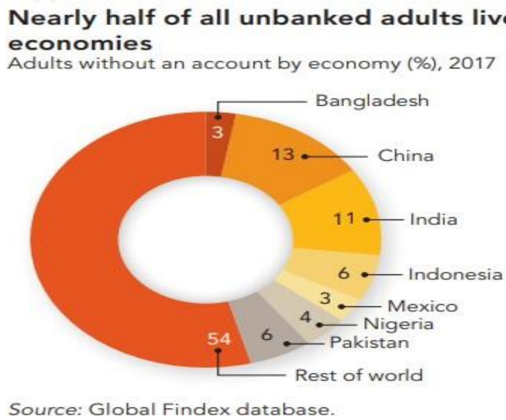

Figure-1: Adults without an account by economy (%) 2017

Globally, about 1.7 billion adults remain unbanked—without an account at a financial institution or through a mobile money provider. In 2014 that number was 2 billion.

MICROFINANCE EVOLUTION IN INDIA:

Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. These stages are described below: The evolution of Microfinance sector can be broadly divided into four distinct phases:

Phase 1: The cooperative movement (1900-1960) During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase 2: Subsidized social banking (1960s – 1990) With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers, thus further hindering access to banking services for the low-income people.

Phase 3: SHG-Bank linkage program and growth of NGOMFIs (1990 – 2000) The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiate a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates. The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

Phase 4: Commercialization of Microfinance: The first decade of the new millennium Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line.

OBJECTIVES

The present paper is an attempt to analyze the growth of Microfinance sector in India for the period 2015 to 2019. This is required to have an overview of the growth and the underlying opportunities within the sector. Also, an attempt has been made to highlight the key problems faced by the microfinance sector.

RESEARCH METHODOLOGY

The study is primarily descriptive in nature. Data have been collected from secondary sources that include reports published by microfinance agencies, NABARD and various status reports. The scope of study is microfinance units and data have been analyzed for the period 2015-2019.

DATA ANALYSIS

The total number of microfinance accounts was 9.33 crore at the end of March 2019, showing a growth of 21.9 per cent according to a report by Microfinance Institutions Network (MFIN), an RBI-recognized self-regulatory organization and industry association of the microfinance industry. The microfinance industry's gross loan portfolio (GLP) stood at Rs 1,87,386 crore at the end of March 2019.

Non-Banking Finance Company-Microfinance Institutions (NBFC-MFIs) hold the largest share of portfolio in micro-credit with the total loan outstanding of Rs 68,868 crore, which is 36.8 per cent of total micro-credit universe.
As on March 31, 2019, aggregated GLP of NBFC-MFIs stood at Rs 68,207 crore, 47 per cent year-on-year growth compared to March 2018. Compared with the financial year 2017-18, there has been a year-on-year increase of 28 per cent in number of loans disbursed and 44 per cent in loan amount disbursed.
In 2018-19, NBFC-MFIs received a total of Rs 35,759 crore in debt funding (from banks and other financial institutions). This represents a growth of 63 per cent compared to 2017-18. Total equity grew by 42 per cent during the same period and is at Rs 14,206 crore.

Progress of Microfinance under SHG-Bank Linkage Model

(Numbers in lakh/ Amount in Rs. Crore)

	2015-16	2016-17	2017-18	2018-19
SHG Savings with Banks	**13691.39**	**16114.23**	**19592.12**	**23324.48**
Total Number of SHGs Extended loans	**37286.90**	**38781.16**	**47185.88**	**58317.63**
Total Number of SHGs linked	**57119.23**	**61581.30**	**75598.45**	**87098.15**
NPAs	**3686**	**4002**	**4628**	**4524**
NPAs as % to loan outstanding	**6.45**	**6.5**	**6.12**	**5.19**
Total Number of SHGs	**7903002**	**8576875**	**8744437**	**10014243**

(Source: Status of Microfinance, NABARD)

Table 1: Progress of Microfinance under SHG

Progress of Microfinance under MFI-Bank Linkage Model and Joint-Liability Group:
Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the microfinance sector in the country by raising resources from Banks and other institutions and extending loans to individuals or members of SHGs/ JLGs. The Indian Microfinance Sector has witnessed a phenomenal growth over the past few years. The number of Institutions providing microfinance services has gone up from a few to several hundreds.

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(Amount ` Crore)

	2015-16	2016-17	2017-18	2018-19
Loans disbursed by banks/FIs to MFIs	20795.57	19304.38	25515.23	14625.95
Loans outstanding against MFIs as on 31 March	25580.84	29225.45	32305.92	17760.68
NABARD Refinance to Banks	6906.03	5659.51	6981.37	12885.68
No. of JLGs Promoted	1751722	2453345	3472744	5076400
JLG-Loan Disbursed during the year	6160. 72	9511.17	13955.15	30946.88

Table2: Progress of Microfinance under MFI-Bank Linkage Model and Joint Liability Group

CHALLENGES AND ISSUES

The main aim of introducing Indian microfinance industry was financial inclusion of poorer and backward section of the society. Micro finance is important for rural India, especially women. The growth of Indian microfinance industry has been remarkable. In addition support of National Bank for Agriculture and Rural Development (NABARD) to link banking system with the self-help groups led to further success in the sphere of micro finance in India. But compared to the roaring success of commercial banks, micro finance institutions have a long way to go. They lag behind in terms of structural, operational, and financial processes. The challenges faced by Indian microfinance industry which restrain it from achieving their full benefits are as follows:-

1. Over-indebtedness
2. Lack of risk management framework
3. High rates of interest
4. Over-dependence on banking system for funding
5. Lack of awareness of financial services
6. Regulatory issues
7. Problem in identification of appropriate model

CONCLUSION

Indian microfinance industry came a long way from 1975 with the development of RRB (Regional and Rural Banks). It is one the major steps taken by the government to reach the poorer section of the society who are not part of the formal financial system. During the course, the industry faced various highs and lows and which can be seen through a spate of crises over the years. This industry needs to improve the quality of services and its operational structure.

Government has to involve in the course of the action in order to make this industry thrive. Smooth functioning of Indian microfinance industry can be enabled through setting up of a separate regulatory authority to discourage malpractice and political influence. Strengthening the credit check and debt collection processes and educating the villagers about products and consequences is important. Specific representatives of the legal system should be appointed who will visit the villages on a regular basis. The government is trying to aid this sector by helping the linkage between the self-help group and banks to grow through NABARD, the section of RBI that regulates the micro finance industry. However the stakeholders should take a lot more measures to address the issues identified above.

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