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Analysis of Microfinance sector in India

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ABSTRACT: India is second largely populated and seventh largest economy in world. As said by IMF recently that India can be fifth in the race of Largest Economy in the World. To achieve this position, India should be having balanced economic growth and development. Major obstacle which affects overall economic development is selected or marginal class of people who are the poor and not having enough availability finance resulting into instable economic development. Due to lack of finance they do not have enough options for income generation activities, upliftment in standard of living etc. Micro finance proved to be a big Triumph card for India for balanced economic and financial growth with social upliftment of underserved people of India by commercial banks. Microfinance provides various facilities like micro credit, micro insurance, micro pension training for skill development and many more. Microfinance in India is provided by many delivery models which covers each and every poor all over India. This paper analyse the overall overview of microfinance in India and by comparing growth rates of past three years.

Keywords: Microfinance, growth rate, SIDBI

<u>CONCEPT OF FINANCE</u> :

What comes in mind when the term Finance' blinks in mind. Simply we mean funds or money. The word finance is as much older as the existence of human life on the planet. It is originally a French word which was meant for "Management of money". Actually finance is not restricted just to the exchange of money but it is broadly an art of managing various available resources like money, assets, investments, securities etc. in this developing age of the economy as a whole, finance is the soul of all the economic activities throughout the world. Finance can also be meant as prerequisite for obtaining physical resources which are needed to perform productive activities & carrying on business operations. Finance is inseparatable part of day to day life today. Often it has become a word which is often encountered by everyone on daily basis.

Finance can be defined as "The management of money & other valuables which can be easily converted into cash."

Moreover it is "A branch of economies concerned with resource allocation as well as resource management, acquisition & investment."

<u>STRUCTURED & UNSTRUCTURED FINANCE</u> :

Broadly there are two wider bifurcation of the finance. Structured finance & Unstructured finance. Structured finance refers to the service that involves highly complex financial transactions offered by financial institutions for companies with very unique financing needs. It means that structured finance means the way of financing that the banks & other financial institutions follow. It includes the way of systematic financing. Only large amount for financing is covered here. When any company or any individual needs finance of huge amount & finance is granted to him by asking for collateral, down payment, income tax return, salary proofs etc. it means that the finance is in structured way. In structured finance the traditional system is followed of asking for security, make surety of good financial condition of the applier, making certain documentations etc. it is the matter of financing not for tiny or small, it includes only comparatively large amount for loan purpose. It implies only financially stable or sound people only can take advantage of financing.

But question is for the poor or backward class people, who are not having income tax return or any collateral or any other properties to get the desired amount of loan. As a result, often they go to the private money lenders who generally charges are very high amount of interest & also the term of financing found to be complicated . In such cases major of their earnings are spent in payment of loan only. They were exploited by the money lenders in other words. Therefore to draw them out of such worst position, the need felt by the Government to provide small amounts of loan at very easy terms & also without any collateral. For servicing the finance to these class of people the concept of Micro Finance has emerged. Under the concept of micro finance, the system is developed to provide small amount to large amount of loan to the class people who are neglected by the commercial banks. Under micro finance they can get finance of even 500/- to say 50,000/- to 1,00,000/- also. No collateral is required as well no complicated procedure is required to get loans. Thus, we can say that Micro Finance is financing to the "Poorest To the Poor". So the unstructured or unorganized way of financing is called micro finance.

HISTORY OF MICROFINANCE:

GENESIS:

Banking is relatively very known term in finance. Banks mainly manages lending and borrowing activities, it means investment and savings. They divert the savings in productive investments. But with the developments in the banking sector, more and more focus was given to rich and middle class of the society. They were given loans easily for their future economic plans but the most important and weaker section of the society was neglected by commercial banks. Because of such hurdles some groups have started to collect small amounts from the poor and help them for their financial needs. Microfinance is not just introduced concept. In old times also savings and credit groups used to operate microfinance, but in another form. The actual term "Microfinance" is said to be emerged in 1970. Credit and saving institutions had come into existence to help out the neglected class of society by commercial banks. One of the former and longer lived micro credit organization providing small loans to poor with no collateral was the Irish loan Fund System. The well known author Jonathan Swift began the first loan fund for the poor in Ireland in 1720. By passage of time it had become wide spread institution about 300 funds.

DEVELOPMENT:

With the passage of time & with worldwide development in each and every sector, it was felt that in spite of high cost of financing programs, poor class of people were not covered properly.. Poverty is the biggest & rather burning issue for every developing economy. Though, as we have discussed above informal credit was provided to the backward class people by private money lenders or chit fund or any private institutions. So from 1950's focus was to provide credit to marginal customers The main aim was improvement in their economical condition by increasing productivity & this can be made possible only by making them financially sound. From 1960s to 1970 with sincere efforts of government to help the poors, the era of rural finance was expanded. Many Agricultural Development Banks was also set up. For eradication of poverty they simply emphasized on mobilizing idle savings & convert them for productive motives. Moreover for Agricultural Sector state-owned financial institutions emerged which targeted to give loans the neglected class of society at the rate of interest below the market rate. But because of low interest rates, easy terms of finance there were more and more cases of non repayment of loan, corruption , misappropriation of funds etc. these financial programs got failed.

But after that in 1970s some experimental programs were initiated in Bangladesh. The birth of 'modern' micro-finance was in the mid 1970s in rural Bangladesh. Dr. Muhammad Yunus, professor of economics at the University of Chittagong initiated an idea to help poors by giving them loans of small amounts. His idea of giving tiny loans to the poor class of society got appreciation in the financial market.

Dr. Mohammad Yunus in 1983 formed the Grameen Bank, founded on principles of trust and solidarity. Major beneficiaries were women and recovery rate was found much higher than of other banks. In India the **Self-Employed Women's Association** (SEWA) started the concept of microfinance.Sewa has started to form the groups of needy women and encouraged them for savings, and out of their savings they were given loans for their economical and social needs. SEWA proved to be most successful in Indian history of micro finance with 95% repayment ratio compared to the traditional finance The first initiative by NABARD for microfinance in 1986-87,with establishment of 'Saving and Credit Management of Self-Help Groups' of Mysore Resettlement and Development Authority (MYRA). NABARD launched a pilot project by linking of nationalized or co-operative banks &non-governmental organizations (NGOs) for promoting and developing self-help groups of socio-economically homogeneous members. SHG- Bank Linkage Program (SHG-BLP) was a big Game Changer in this field. Looking to the needs of marginal customer's financial needs, government allowed private players in this field. NBFC-MFI, NGO, Non-banking Financial Companies (NBFCs) and other registered companies are the private players in the field.

DEFINING THE TERM :

The simplest idea behind the concept of Micro Finance was by giving loans of smaller amounts to poor class, they can expand their employment and income generation capacity and when they will pay back the amount that amount can be recycled to more borrowers and more and more families can be helped to get out from poverty.

In simple terms Microfinance means "**Offering financial and non financial services to people excluded from traditional banking system**."

According to Reserve Bank Of India Microfinance is **"A company (other than a company licensed under Section 25 of the Companies Act, 1956) which provides financial services pre-dominantly to low-income borrowers with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks and which further conforms to the regulations specified in that behalf".** (www.rbi.org.in)

In India National Microfinance Taskforce 1999 defines microfinance as "provisions of thrift, credit and other financial services & products of very small amount to the poor in rural, semi urban or urban areas for enabling them to raise their income levels & improve living standards." (www.rbi.org.in)

OBJECTIVES OF STUDY:

1. To understand the concept of Micro Finance and delivery models of Microfinance.
2. To analyse overall growth of the sector of Microfinance over last three years.

OVERVIEW OF MICROFINANCE INDUSTRY:

Well said by Mr. Chandra Shekhar Ghosh, founder of Bandhan Bank. "India has 25 Crore families and If we exclude the top 15% and bottom of 15% and again leave another 20%, we have 12.5cr families eligible for micro finance credit." Also he cited that Micro finance industry is expected to have growth of more 15 lakh crore in the coming 5 years. (www.economictimes.com)

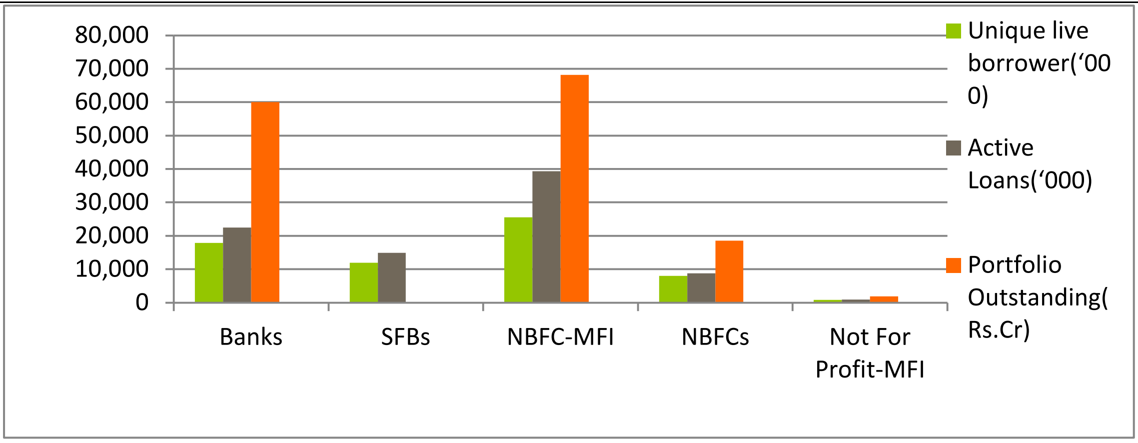
Micro finance industry marked 42.9% growth in first quarter of 2019-20 over corresponding period last year with total loan portfolio at Rs.1,90,684 Crore as on June 30, 2019. (www.mfin.org)

Micro finance currently operates in 29 states,5 Union Territories and 591 districts in India. 93% of Micro finance loan were used for income generation activities. Micro finance had total loan portfolio of Rs.1, 78,547 Cr as on 31st March, 2019 as against growth of 40% over 31st march,2018.

OVERALL OVERVIEW OF MICROFINACE INDUSTRY FOR MARCH,2019

Micro finance industry overview of March,20191	Banks	SFBs	NBFC-MFI	NBFCs	Not For Profit-MFI
Unique live borrower('000)	17,849	11,894	25,533	8047	780
Active Loans('000)	22,509	14,914	39,340	8780	924
Portfolio Outstanding(Rs.Cr)	59,999	29.990	68,156	18,539	1863
Market share in outstanding portfolio(%)	34	17	38	10	1
Loan Disbursed(Rs. Cr)	78,596	31,673	83,200	17,448	2157
Average Ticket size of Loan(in Rs.)	42,086	30,780	25,850	31,722	29,656

(source: Micro finance Pulse, SIDBI report)



(Source: Microfinance Pulse, SIDBI report, 2019)

NBFC-MFI holds the largest share portfolio in micro-credit with total loan outstanding of Rs.68,126 Cr which comes to 38% of total industry portfolio. Banks are second largest provider of micro-credit in India with loan outstanding of Rs.59,999 Cr including direct and indirect lending through BC partnerships by contributing 34% of total micro-credit universe. Small Finance Banks (SFB) are having total loan outstanding amounted to Rs.29,990 Cr which comes to 17% of total micro-credit. NBFC accounts for 10% and Not-for-Profit MFIs contribute 1% of industry portfolio. (www.sidbi.in)

Risk level (PAR) has reduced from 2.41% in March,2017 to o.24% in March,2019.Number of unique borrowers of total Micro Finance industry is 64,103,000 which is distributed as 17,849,000 in banks , 11,894,000 in Small Finance Banks, 25,533,000 in NBFC-MFI, 80,47,000 in NBFCs and 7,80,000 in Not For Profit MFIs. (www.sidbi.in)

TICKET SIZE LOAN GIVEN TO BENEFIACIARIES OF MICROFINANCE

Ticket size of loan	FY 2018	FY 2019
0-10,000	52 Lakh	49 Lakh
10,000-20,000	102 lakh	97 Lakh
20,000-30,000	257 Lakh	314 Lakh
30,000-40,000	74 lakh	113 lakh

40,000-50,000	30 Lakh	51 lakh
50,000-60,000	9 lakh	15 lakh
60,000+	21 lakh	36 Lakh

(Source: Microfinance Pulse, SIDBI report, 2019)

From the above table, it is seen that ticket size of loan for greater amount is increasing while demand for lesser amount is decreasing, which indicates that beneficiaries of Micro Finance are availing loans of bigger amounts and as they take loans for business purposes more, they are having growth in business which turned to upward trend in their income generation activity and economic as well as social upliftment.

PORTFOLIO OUTSTANDING (In Rs. Cr.)

Particulars	**FY 2016**	**FY2017**	**FY2018**	**FY2019**
BANKS	21,175	33,176	43,914	59,999
SFBs	-	32,384	23,160	29,990
NBFC-MFI	34,067	31,992	45,764	68,156
Not For Profit MFIs	2355	1467	1616	1863
Total Industry	78,123	1,05,994	1,27,223	1,78,547
Y-O-Y Growth Rate (CAGR) (%)	-	36	20	40

(Source: Microfinance Pulse, SIDBI report, 2019)

From the above table , it is seen that portfolio outstanding is growing with a good CAGR (Compound Annual Growth Rate). If we find out the CAGR between the Time Lag 2016-2019, it comes to 32% and if we interpret, anything between 18% to 25% over 5 years or less can be considered as good CAGR while Microfinance industry is showing much more than satisfactory level of CAGR.

NUMBER OF LOAN DISBURSED (In Lakh)

Particulars	FY 2016	FY 2017	FY 2018	FY 2019
BANKS	125	129	141	187
SFBs	120	99	88	103
NBFC-MFI	213	219	277	322
NBFCs	37	31	49	55
Not For Profit MFIs	21	7	7	7
TOTAL	516	485	562	674
CAGR (%)	-	(-6.01)	16	20

As per the table and trend of CAGR (Annual Growth Rate) it seems that number of loan disbursed is also increasing Year by Year slowly. Growth over last 3 years shows 9% growth rate which suggests that amount of loan disbursement should be improved so that more and more needy people can get benefited. Here also NBFC-MFI are having highest loan disbursement ratio.

AMOUNT OF LOAN DISBURSED (Rs. Cr)

Particulars	FY 2016	FY 2017	FY 2018	FY 2019
BANKS	34,859	44,225	54,107	78,596
SFBs	27,054	24,368	24,146	31,673
NBFC-MFI	33,259	41,819	63,009	83,200
NBFCs	7290	7602	14,016	7448
Not For Profit MFIs	2729	1508	1933	2157
TOTAL	1,05,191	1,19,522	1,57,211	2,13,074
CAGR(%)	-	14	32	36

(Source: Microfinance Pulse, SIDBI report, 2019)

It is shown that amount of loan disbursed under Micro Finance to the beneficiaries are also increasing year by year with enough growth rate. CAGR (Annual Growth Rate) over last 3 years shows 27% which is again satisfactory level. The trend shows that all delivery channels of Micro Finance are providing more and more loans to marginal class people as a good sign of availability of finance to poor class for their economic and social development.

Delivery Models of Micro Finance in India:

(1) SHG-BLP Model

(2) Micro Finance Institutions model

(3) Federated Self Help Group Model

(4) Bank Partnership Model

(5) Banking Correspondent Model

Among all above models, SHG-BLP model has proved to be a Triumph Card for Government to remove or reduce poverty. SHG-BLP Model has crossed the milestone of 1 Cr SHGs covering more than 12 Cr families having savings deposits amounted to Rs. 23,324 Cr and more than 50 lakh groups are having outstanding loan of over Rs.87, 098 Cr with 15.21% increase than last year out of which 88% of total loans were disbursed to rural women groups as on 31st March, 2019. Average amount of loan disbursed to SHGs comes to Rs. 2,16,119 Cr and loan outstanding amounted to Rs.1,71,543 Cr. Moreover to this, NPAs of banks to SHGs has reduced from 6.12% to 5.19%. Joint Liability Group (JLG) are also promoted on a large scale which comes to 16 lakh during FY 2018-19 and loan disbursed amounted to Rs.30,756 Lakh. In addition to this, NABARD keeps on conducting Training Programs and till date 1.34 Lakh participants are benefited under 4026 Training Programs. (www.nabard.org)

Another new and growing delivery model of Micro Finance is Micro Finance Institutions Model, (NBFC-MFI) emerged in late 1980s to bridge deficit of availability of banking service among unserved or underserved population. NBFC-MFI , having large distribution network and financial resources from commercial banks, continued serving relatively major portion of power middle class and poor class of society. Moreover, these institutions provide financial services and also agency services like training to group members to develop skills, training them to start own business or develop new option to increase earnings. They also go to various villages and make people understand the importance of savings and motivate them to start savings with nominal amount like 100 Rs. Per month. In spite of having large amount of operational cost , MFIs continue to give such kind of services to poor section of people and reach to them where no other commercial banks have reached. As per MFIN, Micro Meter as on 31st March,2019, Microfinance industry has a total loan portfolio under this model amounted to Rs.1,8,386 Cr having YOY growth of 38%. Thus this new sector of Micro Finance is serving major contribution to the field.

POST COVID EFFECTS ON THE FIELD OF MICROFINACE:

As we know that the whole world is facing pandemic situation so as our country is. During these tough times, people have lost their jobs, having huge losses on their business, struggling to meet up even basic needs for family etc. The sector of microfinance is also facing a big challenge. According to Investment Information and Credit rating Agency of India (ICRA) , COVID-19 has impacted badly on liquidity and assets profiles of MFIs. Even borrowers had not paid interest on loans given by the industry ,but over and above all difficulties Microfinance sector has sustained in a great way like even during pandemic the sector employed more than 2 lakh employees, The Reserve Bank of India has also given financial assistance to the extent of 10,000 crore to MFIs to cover up all the possible financial hurdles during the pandemic. (www.rbi.in)

CONCLUSION:

From all facts and figures presented by reports of NABARD, MFIN, SIDBI etc., for the year ended on 31st March,2019, we can evaluate the sector of Micro Finance having increasing growth pertaining to loans disbursed, loans outstanding, higher of repayment of micro finance loans, easily availability, more reach to beneficiaries, training programs for skill development and employment generation activities etc.

Even normal commercial banking sector is also having tough competition with Micro Finance sector. In all terms Microfinance sector is having satisfactory CAGR (Annual Growth Rate) indicating many more years of development and growth of the sector which will turn into financial and economical advantages to the needy.

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