IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Financial Performance Of Micro Finance In India- An Analysis

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Microfinance is an economic activity which deals with disbursement and collection of small-scale investment particularly to unbaked people. Microfinance institutions (MFIs) have demonstrated commendable growth rate in Indian finance sector especially in south regions. Consistent monitoring and emergence of new regulatory bodies like MFIN, the confidence of stakeholders has been enhanced in this sector. Although MFIs sufficiently capitalized for their present operations, the ability to procurement of capital properly still is critical to maintain the growth momentum. Finance is an extraordinary effective tool in spreading economic opportunity and fighting against poverty. Access to finance allows the poor to use their rich talents or open avenues for greater opportunities. Providing sustained credit services is one of the means to increase income and productivity of poor. Though the banking system in India witnessed unprecedented growth and achieved phenomenal outreach, notwithstanding this, empirical studies in the 1980s have revealed that a very large number of poorest of the poor continue to remain outside the reach of formal banking system. It is realized that existing banking policies, procedures and system not have been well suited to meet the credit needs of poor. And, it is in this situation micro finance has come as a solution. However, today it represents a market solution to mitigation of poverty and acts as a development and economic tool in bringing about financial inclusion in India. The institutions that are providing microfinance services such as savings, credit, insurance and remittance services to poor are called Microfinance Institutions (MFIs). MFIs have come up as a bridge between banks and poor, whose only source of credit has so far been the money lender.

Concept of Microfinance

The terms ***Microfinance*** refers to the extending the whole range of financial Services from saving to micro credit to micro insurances to micro enterprises and lot more for the poorest section of the society. Robinson gives a very plausible definition of microfinance. According to him, Microfinance refers to small scale financial services for both credit and deposit-that are provided to people who farm or fish or herd; operate small or micro- enterprises where goods are produced, recycled, repaired or traded; provide services; work

for wages or commissions; gain income from renting out small amount of land, vehicle, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas". The history of micro financing can be traced back as

far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. A group of Indian women have assembled to make bamboo products that they intend to resell. Two women talk about financial matters. The woman on the right is a loan officer for the Small Enterprise Foundation (SEF). The conversation shown is taking place in Tzaneen, South Africa in February 2010. The system of microfinance was introduced about 28 years back with an organization of Grameen Bank in Bangladesh by a famous economist Prof. Mohammed Yunus. He was starting and shaping the modern industry of micro financing. He observed that most villagers were unable to obtain credit at reasonable rates. So he began to lend them money from his own pocket, allowing the villagers to buy materials for projects like weaving bamboo tools and making pots (New York Times, 1997). Another pioneer in this sector is Akhtar Hameed Khan. In India, the National Bank for Agriculture and Rural Development (NABARD) took this idea and started the concept of microfinance in India. Under this mechanism, there exists a link between SHGs (Self-help groups), NGOs and banks. SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations are they entitled to seek credit from the banks. It provides poor people with the means to find their own way out of poverty. During the current year, microfinance has registered an impressive expansion at the grass root level.

Types of MFIs

- Domestic Commercial Banks including Public Sector, Private Sector and Local Banks;
- Regional Rural Banks;
- Co-operative Banks;
- Co-operative societies;
- Registered NBFCs;
- Unregistered NBFCs; and Others include Societies and Trusts.

Main Features of Microfinance are:

- Loans to those people who live below the poverty line;
- Members of SHGs may benefit from micro finance;
- Maximum limit of loan under micro finance H25,000/-; and
- Microfinance is different from Microcredit- In micro credit, small loans are given to the borrower but under microfinance alongside many other financial services including savings accounts and insurance.

Different Models of Microfinance: There are two models in India that link the formal financial sector with lending to low-income households in India, namely:

1) **SHG – Bank Linkage Programme (SBLP):** The SBL model is a home grown model of microfinance in India which was conceptualized and initiated by NABARD in 1996, when it launched nation-wide pilot projects to link the existing SHGs with banks. 12-15 people form a group and start an account with a bank. They start to build up internal funds through thrift and savings. Once this reaches a substantial level, they begin borrowing from the bank This model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks.
2) **MFI – Bank Linkage Programme (MLP)**: Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the sector in the country by raising resources from Banks and other institutions and extending loans to JLG / members. This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on lending to SHGs and other small borrowers MFIs are of different legal entities viz.

- NGO MFIs - registered under the Societies Registration Act, 1860 or the Indian Trusts Act, 1880;
- Co-operative MFIs - registered under the State Cooperative Societies Act or mutually aided Cooperative Societies Act or Multi State Cooperative Societies Act.;
- NBFC MFIs incorporated under Section 25 of Companies Act, 1956.; and
- NBFC MFIs incorporated under the Companies Act, 1956 and registered with RBI.

The objectives are to analyses the progress of SHG and MFI bank linkage programme; and to study out Advantages of Micro Finances Institutions. The present study is based on secondary data. The relevant data has been collected from National Bank for Agriculture and Rural Development (NABARD) (Status of microfinance in India report). The time period of the study has been taken 2006-07 to 2021-22. The model wise over all programmes under microfinance during the year 2006-2007 to 2021-2022 are presented in Table-1.

Table-1

Model Wise over All Programmes under Microfinance in India
(During the Year 2006-2007 to 2021-2022)
(Rupees in Crores)

Particulars			2006-07	2015-16	2019-20
SHGs Bank Linkage Model					
Saving of SHGs with Banks of on 31 March	No.of SHGs	Total SHGs	4160584	7903000	10243000
		Out of which under SGSY	956317	3457000	6244970
	Amount (Rs.)	Total SHGs	3512.71	13691.39	26152.05
		Out of which under SGSY	757.5	6244.97	15235.70
Bank Loans disbursed to SHGs during the Year	No.of SHGs	Total SHGs	1105749	1832323	3146000
		Out of which under SGSY	188962	816000	2049000
	Amount (Rs.)	Total SHGs	6570.39	37286.90	77659.35
		Out of which under SGSY	1411.02	16785.78	52183.73
Bank loans disbursed with SHGs as on 31 March	No.of SHGs	Total SHGs	2894505	4673000	5677000
		Out of which under SGSY	687212	2191000	3689000
	Amount (Rs.)	Total SHGs	12366.49	57119.23	108075.07
		Out of which under SGSY	3273.03	26610.16	67717.07
MFI-Bank Linkage Model					
Bank Loans disbursed to MFIs during the Year	No.of MFIs		334	647	4762
	Amount (Rs.)		1151.56	20795.57	2022599.86
Bank Loans outstanding with MFIs as on 31 March	No.of MFIs		550	2020	15197
	Amount(Rs.)		1584.48	25580.84	2928861.94

Source:- Status of Microfinance in India, by NABARD Reports from 2005 to 2022, Mumbai, India.

From the Table-1 reveals that a model wise over all programmes under microfinance in India are explain that two models are working in India. These are the SHGs Bank Linkage Model and MFI- Bank Linkage Models. The above two model are rapidly growth, in particularly SHGs and Amount from 2006-07 to 2019-2020. The SHG-Bank linkage programme has proved its efficacy as a mainstream programme for banking with the poor. The main advantages of the programme are one-time repayment of loans to banks; the reduction in transaction costs both to the poor and to the banks; the doorstep savings and credit facilities to the poor; and the exploitation of the untapped business potential in rural India.

Progress under MFI Bank Linkage Programme in India

The MFI-Bank Linkage Programme has emerged as the major microfinance programme in the country and is being implemented by the Commercial banks, RRBs and Co-operative banks. SHG-Bank Linkage Programme (SBLP) is operational in all states in India and is actively channelling credit to the poorer sections of society for mainly non-farm activities. The trends of SHGs bank linkage are presented in Table-2.

Table-2
Progress of Self-Help Groups Bank Linkage Programme in India
(Amount Rupees in Crore)

Years	No. of SHGs Financed by Banks		Bank Loan	
	During the year	Trend (Per cent)	During the year	Trend (Per cent)
2005-06	620109	100	4498.08	100
2006-07	1105749	178.31	6570.39	146.07
2007-08	1227770	111.03	8849.26	134.68
2008-09	1609586	131.09	12253.51	138.46
2009-10	1586822	98.58	14453.30	117.95
2010-11	1196134	75.37	14541.73	100.61
2011-12	1147878	95.96	16534.72	113.71
2012-13	1219821	106.26	20585.36	124.49
2013-14	1366421	112.01	24017.36	116.67
2014-15	1626238	119.01	27582.31	114.84
2015-16	1832323	112.67	37286.91	135.18
2016-17	1898120	103.59	38781.65	104.01
2017-18	2261132	119.12	47186.38	121.67
2018-19	2698400	119.33	58318.91	123.59
2019-2020	3146002	116.58	77659.35	133.16
2020-2021	2887394		5807068	
2021-2022	3398267		9972923	

Source:-Status of Microfinance in India, by NABARD Reports from 2005 to 2022, Mumbai, India.

From the Table-2 observed that the number of 620109 SHGs linked with bank during 2005-2006, increased to 3146002 by March 2020. The amount of bank loans routed through SHGs increased from Rs. 4498.08 crore to Rs. 77659.35crore by March 2020.The Self-Help Group - Bank Linkage Programme (SBLP) provided a major succor to the rural women folk and helped them in gaining financial access for their livelihood. The launching the SBLP as rural financial innovations in the beginning of 90s for increased popularity of Micro-Finance (MF) is a viable tool for extending credit to the poor. The SHG - Bank Linkage Programme shows a tremendous growth over a period of 15 years from 2005-2006 to 2019-2020. The progress is notable in cases of granting bank loan to the beneficiaries and the number of groups linked. The trend line in all the aspects shows a positive one. However, the progress of SHG-Bank linkage programme is good. The agency-wise distribution of SHGs that were linked with external credit is presented in Table-3.

Table-3

Agency Wise Distribution of SHGs Linked with External Credit in India
(Amount in Rs. Crores)

Years	Commercial Banks		Regional Banks		Cooperative Banks		Total	
	No	Loan Amount (Rs.in Lakhs)	No	Loan Amount (Rs.in Lakhs)	No	Loan Amount (Rs.in Lakhs)	No	Loan Amount (Rs.in Lakhs)
2005-06	344567	2827.41	176178	1222.61	99364	448.11	620112	4498.13
2006-07	571636	3918.94	381199	2052.73	152914	598.72	1105749	6570.39
2007-08	735119	5403.91	327651	2651.84	165001	793.52	1227771	8849.27
2008-09	1001587	8060.53	405569	3193.49	199431	999.49	1609587	12253.51
2009-10	977521	9780.19	376797	3333.21	232504	1339.92	1586822	14453.52
2010-11	669741	9724.55	296773	3197.62	229621	1625.56	1196135	14547.73
2011-12	600807	9942.04	304809	5026.05	242262	1566.67	1147878	16534.77
2012-13	735577	13385.01	312011	5626.52	172234	1573.84	1219822	20585.36
2013-14	767253	16037.49	333421	6288.13	265748	1691.73	1366422	24017.36
2014-15	855724	17334.13	522139	7725.22	248375	2522.96	1626238	27582.31
2015-16	1132281	25184.97	470399	9164.93	229643	2937.01	1832323	37286.91
2016-17	1116442	24297.02	557540	11613.00	224138	2871.13	1898120	38781.16
2017-18	1272886	28707.62	782563	15119.34	205683	3358.92	2261132	47185.88
2018-19	1512907	449246.74	940818	955264.43	244675	427251.71	2698400	5831762.88
2019-20	1796099	843108.56	1093788	2423162.23	256115	499664.05	3146002	7765934.84
2020-21	1457333	2795251.01	1184775	2449430.11	245286	562386.71	2887394	5807067.83
2021-22	2079254	6122577.33	1105178	3259124.42	213835	591220.76	3398267	9972922.51

Source: Status of Microfinance in India, by NABARD Reports from 2005 to 2022, Mumbai, India.

From the Table-3 shows that the agency wise distribution of SHGs linked with external credit in India are observed that the SHGs linked with banks from 620112 to 3398267 and loan amount increased from Rs.4498.13 crores to Rs. 9972922.51 lakhs during the period 2005-06 to 2021-22. In particularly the commercial banks link with the SHGs are 344567 to 2079254 and loan amount Rs.2827.41 crores to Rs. 6122577.33 crores; the regional banks link with the SHGs are 176178 to 1105178 and loan amount Rs.1222.61 crores to Rs. 3259124.42 crores and the co-operatives banks link with the SHGs are 99364 to 213835 and loan amount Rs.448.11 crores to Rs. 591220.76 crores in during the period 2005-06 to 2021-22 in the India level.

Major Advantages of the Micro Finance

- Microcredit empowers women to become independent because in the past, women were not able to participate in economic activities. Microfinance institutions now provide women with the capital they require to start business projects;
- Microfinance also helps to manage the assets of the poor and generates income through microfinance;
- Microfinance helps the poor people get access or save funds over a period of time with low interest rates. Also, the poor could solve their own issues by working together as a community and this creates trust and social capital in their communities. It also leads to stability and growth in their households, as well as their communities;
- NABARD has also been encouraging voluntary agencies, bankers, socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs;
- Micro finance institution reduced dependence of SHGs on local money lenders fully or partially. Loans given by banks to the groups 1-3 times higher than the saving of the groups;
- NGO and other government department also provide skill training to SHG members which prove beneficial for group members. For example after receiving training in animal husbandry the SHG convinced the local banker for a small loan for every member of an SHG for dairying. Realising that private milk vendors are exploiting the dairy farmers, they decided to take over a defunct Milk society in the area and started collecting milk from all members and sell it to the Apex Milk Cooperative Federation. The individual member's daily income shot up from `50 to `84 daily and with it came a hope for the future of their family for a better standard of living, better education for the children and equally important is the transformation it brought about in the social status of the women members in the family and in the community. Today, the entire village is rejoicing at the success of these women in the village and
- Micro financing can help create new employment opportunities, which has a beneficial impact on the local economy.

Conclusion

The microfinance sector has grown rapidly over the past few decades. The study concludes that first time in the year 2021-22 after the launch of SHGs BLP there is decline in the number of SHGs who's saving linked with banks. The study also finds out there was growth in the loan outstanding of SHG and which was responsible of increases in NPAs. At last we find out that the major share belongs to commercial banks when agency wise loan issued to MFI. At last steps should be taken to improve the performances of programmes launched under Micro finance time to time. Microfinance has been an important tool in poverty alleviation, empowerment of women and in bringing about financial inclusion. India has the highest number of households, about 145 million, which are excluded from banking system. Also, out of 6 lakh villages in India, only approximately 50000 have access to finance as on January 2021. Hence there exists a great opportunity for the microfinance sector to provide credit to the low income population, thereby, reducing poverty and thus in the development of country as a whole. Technological innovations, product requirements, and on-going efforts to strengthen the capacity of Indian MFIs are needed to reduce costs, increase outreach and boost overall profitability. Although the microfinance sector has reported an impressive growth, sufficient regulatory and governance would help achieve the goal of poverty alleviation and financial inclusion and this could be achieved with combined cooperation of banks, donors, Government, NGO and other players in the country. Thus, continuous efforts are required to diversify the sources of funding available for the MFIs in order to attract foreign Investment for well-established MFIs in order to serve the rural low income population, alleviate poverty and also, make them profitable.

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