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## MICROFINANCE INSTITUTIONS IN INDIA

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### ABSTRACT

In India, there are many institutions like banks that grant loans to finance businesses. So what raises the need for the Microfinance companies? The need arises as it provides financial assistance to businesses that cannot place collateral, encourages women entrepreneurs and provides assistance even for nominal amounts which generally are funded as hand loans and many things which normal banks are not providing. Prof. Muhammad Yunus the Nobel Prize Winner minted out the idea of Microfinance in the 1970s in Bangladesh. In simple terms, microfinance is a type of banking service which is provided to the people who have difficulty in accessing the formal services. Microfinance services are provided by banks, credit unions and microfinance organizations which are also known as Micro Enterprise Development Organizations (MDO). These companies provide micro-loan, savings and insurance to the poor people for income generating activities. The basic aim and principle of microfinance: Combating poverty through microcredit, and primarily serving women in emerging countries.

The main aim of this paper is to analyze the growth of country through Microfinance.

**Keywords:** NABARD, Financial Institutions, Poverty, Self-Employed.

### INTRODUCTION

Microfinance is a notion that has been around for a long time. It dates back to the nineteenth century, when money lenders acted informally as now-formal financial institutions. Various development techniques have been devised by governments, international development agencies, and non-governmental organizations over the last two decades. NGOs, and others working to alleviate poverty in emerging countries. This is one of them. (Johnson and Rogaly, 1997)

The Self-Help Group (SHG) – Bank Linkage Programme (SBLP), which began as a trial initiative in 1992 by NABARD, is credited with launching the microfinance movement in India. This programme has shown to be successful. It has proven to be a huge success and has become India's most popular microfinance scheme. In India, there is no single regulatory framework for microfinance. Commercial banks, Regional Rural Banks (RRBs), SHGs, cooperative organizations, and institutions (MFIs) of different types, including NGOs and Non-Bank Financial Institutions (NBFIs) offer microfinance. The Reserve Bank of India (RBI) regulates banks and

non-banking financial institutions (NBFIs), NABARD regulates SHGs, and the Registrar of Cooperative Societies (RCS) regulates cooperatives, among others.

## **CONCEPT OF MICROFINANCE**

Microfinance is a type of financial service that caters to individuals and small enterprises who do not have access to traditional banking or associated services. Microcredit, the provision of modest loans to impoverished clients; savings and checking accounts; micro-insurance; and payment systems, among other services, are all part of microfinance. Microfinance services are meant to reach out to underserved clients, generally from lower socioeconomic groups that are socially disadvantaged or geographically isolated, and assist them in becoming self-sufficient. Microfinance had a narrow meaning at first: it was defined as the provision of microloans to impoverished entrepreneurs and small companies who did not have access to credit. The two major methods for delivering financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small companies; and (2) group-based models, in which many entrepreneurs join forces to seek for a loan and other services as a group.

“The Asian Development Bank (2000) defines microfinance as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises.”

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998). In addition to financial intermediation, 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 and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of 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 are self-employed low-income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc. (Ledgerwood, 1999).

## **DEVELOPMENT OF MICROFINANCE INSTITUTIONS IN INDIA**

1. In India, the first initiative to introduce microfinance was the Self-Employed Women’s Association (**SEWA**) in Gujarat, which established SEWA Bank in 1974.
2. Grameen Bank started as a small initiative in Bangladesh in 1976 by Prof. Muhammad Yunus.
3. 1992- NABARD launched SHGs-Bank linkage programme.
4. One successful initiative is *Kudumbashree*, the Kerala State’s Poverty Eradication Mission that was launched in 1998.
5. 1999- SIDBI created Microcredit (SFMC) to create a national network of strong, viable and sustainable Microfinance. Institutions from the Informal and Formal financial sector especially women.
6. 2006-NABARD launched the ‘Micro-Enterprises Development Programme (MEDP) for skill Development.
7. ***Microfinance truly evolved when Prof. Muhammad Yunus and Grameen Banks were awarded the Nobel Prize for Peace in 2006.***

## MICROFINANCE'S FUNCTION AND SIGNIFICANCE

According to World Bank data, India is home to about one-third of the world's impoverished (surviving on an equivalent of one dollar a day). Microfinance is a key contribution to financial inclusion in India, despite the fact that several federal government and state government poverty alleviation initiatives are now operating. Microfinance contributes significantly to the development of the Indian economy in the following ways:

1. **Women Empowerment:** Microfinance is a concept that focuses on women by providing loans to them. It serves as a tool for impoverished women's empowerment because as women become more independent, they are able to contribute directly to their families' well-being and combat all gender inequities. Microfinance mostly serves disadvantaged rural and urban households, as well as women.
2. **Poverty Alleviation:** It is also necessary for impoverished individuals to engage in income-generating activities such as marginal farming and other small-scale self-employment businesses.
3. **Economic Growth:** Finance has a critical role in promoting long-term economic prosperity. Microfinance boosts the creation of products and services, which raises GDP and helps to the country's economic growth.
4. **Easily Accessible:** Banks generally won't lend to those who have few or no assets, and they don't offer micro loans like microfinance. Small loans are made and made available through microfinance.
5. **Education and Jobs:** Microfinance beneficiaries are less likely to take their children out of school for financial reasons. In addition, when it comes to work, people are more inclined to start small enterprises that will help create new jobs.

## PROBLEMS FACED BY MICROFINANCE INSTITUTIONS IN INDIA

The idea of microfinance was brought into the Indian economy with the primary goal of bringing financial inclusion to the poorest and most backward parts of society, particularly women. Since its inception, the Indian microfinance business has experienced tremendous development. Factors such as the National Bank for Agriculture and Rural Development's (NABARD) assistance and the banking system's linkage with self-help organizations have helped the ignored sections of the Indian economy succeed through micro finance.

When comparing microfinance organizations to commercial banks, however, it is only reasonable to conclude that they have a good time to go. Microfinance institutions are behind the curve not just in terms of structure and operations, but also in terms of general financial transactions.

1. **Over-Indebtedness:** The most major problems that stress the microfinance sector in India are the rising tendency of repeated borrowing by customers and inadequate risk management. Microfinance institutions make loans without requiring collateral, increasing the risk of bad debt. Rapid development necessitates careful infrastructure planning, which the Indian microfinance sector clearly lacks.
2. **Widespread Dependence on Indian Banking System:** As most of the microfinance organisations are non-profits, they rely on financial institutions such as commercial banks for stable funding to carry out their lending activities. The majority of these commercial banks are private entities that charge a higher interest rate. They can also grant loans for a shorter length of time.

3. **Higher Interest Rates in Comparison to Mainstream Banks:** When compared to conventional banks, most microfinance institutions charge extremely high interest rates (12%-30%). (8%-12%). The Reserve Bank of India (RBI) released rules removing the 26% interest rate cap for MFI loans. The RBI's guideline change helped many MFI sector firms, but it hurt borrowers.

4. **Regulatory Issues:** The Reserve Bank of India is the country's leading regulator of the microfinance business. However, the RBI favours commercial and conventional banks over microfinance institutions. Some rules appear to have benefited MFIs, while others have left a slew of concerns unresolved. Despite the fact that regulatory changes are irregular and unusual, and Microfinance looks to be fighting to stay afloat.

## STATISTICS

### Progress under MFI/MFO-Bank Linkage

Particulars	2017-2018		2018-2019		2019-2020	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Loans disbursed by Banks/FIs to MFIs/MFOs	1922	25515.23	1933	14625.95	4762	20225.99
Loans outstanding against MFIs/MFOs as on 31 <sup>st</sup> March	5073	32305.92	5488	17760.68	15197	29288.62

(Data source-NABARD SMFI 2019-20)

Above table shows the data from the year 2017-2020 of Loans disbursed by Banks/Financial Institutions to Microfinance Institutions (MFIs)/Microfinance Organizations (MFOs) and Loans outstanding against MFIs/MFOs as on 31<sup>st</sup> March.

- ✓ It shows under Loans disbursed by Banks/FIs to MFIs/MFOs that the No. of accounts in 2017-2018 is 1922 which increases to 4762 with amount 20225.99 in the year 2019-2020.
- ✓ Loans outstanding against MFIs/MFOs as on 31<sup>st</sup> March on 2017-2018 is 5073 which in the year 2019-2020 becomes 15197. The loan outstanding against MFIs increased all the subsequent years over their previous years.

### STATUS OF MICROFINANCE IN INDIA 2020-2021

NABARD takes pride in the fact that the self help Group-Bank Linkage Programme which is the largest microfinance programme in the world, today touches **13.8** Crore households through more than **112** Lakh SHGs with deposits of over **Rs. 37,477** Crore and annual loan off take of more than **Rs. 58,000** Crore and loan outstanding of over **Rs. 1,03,289** Crore.

**SPECIAL INITIATIVES DURING COVID-19 BY NABARD**

NABARD has taken up some special initiatives to help SHG members. These are:

- ✓ E-Shakti portal used for sending 40 lakh health advisory SMS to SHG members.
- ✓ SHGs under E-Shakti Portal engaged for making face masks, hand sanitizers, PPE kits and so on. All these initiatives have created additional income for SHG members.
- ✓ Keeping in view the COVID-19 pandemic and laborers' reverse migration to rural areas, allocations under MEDPs, LEDPs and capacity Building were increased substantially to provide adequate skill set for employment in rural areas. The focus is on Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Uttar Pradesh, Odisha and West Bengal, where the impact of reverse migration is expected to be maximum.

**PROGRESS OF MFI OPERATIONS DURING 2020-2021**

The various Microfinance players are broadly categorized into 5 categories: NBFC, BANKS, SFB, NBFC-MFI and NON-PROFIT MFI. All these except, NON-PROFIT MFIs are regulated by RBI.

Type of Lender	2019-2020		2020-2021		GROWTH %	
	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances
NBFC-MFI	356	72110	359	79115	0.90%	9.70%
BANKS	303	81001	416	110122	37.10%	36.00%
SFB	168	38986	163	37724	-3.00%	-3.20%
NBFC	84	18073	78	18765	-6.70%	3.80%
NON-PROFIT .MFI	8	1679	11	2113	42.80%	25.80%

(Data Source: NABARD SMFI 2019-20)

The total industry loan outstanding as on 31<sup>st</sup> March 2021 is estimated at Rs. 247839 crores with 1028 lakh active borrowers, an overall growth of 17% and 12% respectively over the previous financial year. In 2020-2021 the SFBs and NBFCs have registered a negative growth in active loans and outstanding portfolio.

**FURTHER 2021 DATA REGARDING MICROFINANCE**

As on March 31, 2021, the microfinance industry served 5.93 crore unique borrowers, through 10.83 crore loan accounts.

The overall microfinance industry's gross loan portfolio (GLP) surged by 11.9% to Rs.259377 crore as on 31, 2021 from Rs. 231787 crore as on March 31, 2020. The growth was driven by an addition of 4 lakh borrowers during the pandemic-struck 12-month period ending March 2021.

As of May 2021, the Reserve Bank of India had registered 94 non-banking financial companies (NBFC) to run microfinance institutions. Chennai, Mumbai and New Delhi had been the cities with the most Companies.

## **CONCLUSION**

Economic development through Microfinance is playing an active role in the life of poor people. Microfinance program helps the underprivileged people by providing them finance without any collateral security. Microfinance basic motive is development of the country. It provides the fund to people so that they can invest in some productive activities and later on gain from their investment. Government is organising many programs of Microfinance to make people aware of these programs because people are still unaware of these programs. Institutions like NABARD and SIDBI has improves the sector of Microfinance and strengthens and uplifting the poor people and society. Government and banks are needed to make people aware of Microfinance schemes and promote Entrepreneurship.

*Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge, posing an untapped opportunity to create markets, brings people in from the margins and gives them the tools with which to help themselves. – kofi Annam*

Till now, Microfinance is showing a positive response in India.

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