



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A STUDY OF NON-PERFORMING ASSETS OF MICROFINANCE INSTITUTIONS

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Abstract : The study has been undertaken to investigate about Non- Performing Assets of Microfinance Institutions in India. Non-Performing Assets of SHGs, women SHGs, Public Sector Banks, Private Sector Banks with reference to different schemes/yojnas of

microfinance like Swarnim Rojgar Yojna. Hypothesis have been tested by using ANNOVA method. It is concluded that Private Sector Banks and Co-operative banks are more efficient than Public Sector Banks to control NPA and maintain to minimum level.

Moreover it has been studied that performance of Public Sector Banks is more efficient than any Private Sector Banks or Co-operative Banks is much better to help schemes of microfinance and provision of funds for the same.

Key Words: Microfinance, Non-Performing Assets, Microfinance Institutions

INTRODUCTION

With specific intention to reduce poverty in India, 'Microfinance' was introduced in India in 1980. The other objective of microfinance is to empower women. Though it has very strong potential, the microfinance sector faces challenges related to accessibility in rural India.

Microfinance is a type of banking service provided to those who have difficulty in accessing formal financial services. It is targeted at the low-income and unemployed fraction of the population. The institutions supporting microfinance offer services such as lending, setting up bank accounts and providing micro-insurance products. In developing countries such as India, financial services through formal channels do not meet the demands of the rural poor, so microfinance can help small-scale businesses flourish by providing greater financial stability.

The Government of India and various state governments have developed different schemes to help poor people of the rural and urban areas through Microfinance either through any financial institutions or through banks. National Rural Lively hood mission, National Urban Lively hood mission, Antyodaya Yojana of Swarojgar etc. NABARD is one of fund providing agency to various Banks under different schemes of Microfinance.

However, all the schemes of Microfinance need rigorous post-disbursement monitoring to reduce the chances of Non-Performing assets. Due to several reasons bank is facing the problem of Non-Performing assets under Microfinance schemes. According to data released by MFIN (Microfinance Institutions Network), the microfinance representative body, the gross loan portfolio (GLP) of the MFI sector as on March 31, 2020, was Rs 2,31,788 crore, against 1,79,314 crores as on 31st March 2019.

1. Micro Finance through NBARD

NABARD is working as disbursing agency for providing Microfinance to the weaker section of the society. NBARD is providing finance to Public Sector, Private Sector, Regional Rural Bank and Co-operative Banks.

NABARD is working as an agency of RBI for providing finance to various Banks for Microfinance in rural and Urban area. NBARAD receives fund for Microfinance and disburse it through Public Sector Banks, Private Sector Banks, Regional Rural Bank and Co-operative Banks.

Regional Rural Banks are established for the development of specifically rural region in which such bank is located. The role of regional rural bank for the economic upliftment is significant. Financial assistance to the needy and eligible persons in rural areas through Regional Rural bank is the most effective one. One can easily reach to the actual needy candidate through such route. Bank officials of Regional rural banks know fund utilisers under various schemes of government under microfinance. These peculiar characteristics of regional rural banks can be very helpful in the decision of granting finance or not.

The amount of finance in the area of Microfinance sector is highest through Public Sector Banks. Similarly, NPA status of Private sector bank is significantly lower as compared to Public Sector Bank.

2. National Rural Livelihood Mission

National Rural Livelihood Mission is one of the Important missions of central government for providing livelihood to the citizens who are below poverty line. Microfinance to such poor citizen is needed at one hand and at other hand such finance may not be returned in time. Repaying capacity of the borrower is very poor in this case. Hence we can conclude that there are very high chances of NPA in such cases.

The Swarnjayanti Gram Swarozgar Yojana (SGSY) was a flagship programme of the Ministry of Rural Development. It was started in 1999 and was restructured in FY 2010-11 for implementation as the National Rural Livelihoods Mission. The SGSY aimed at providing sustainable income to rural BPL households through income-generating assets/economic activities in order to bring them out of poverty.

Evaluation of the SGSY by the National Institute of Rural Development (NIRD), Bankers Institute of Rural Development (BIRD) and several others institutions showed mixed results.

Out of estimated 25 million households organized into SHGs until 2010, only 22% succeeded in accessing bank credit. The studies showed that there were significant variations in the extent of mobilization of poor SHGs and the quality of their operation. The one-off association programme focusing on single livelihood activity did not meet multiple livelihood requirements of the poor. Often, the capital investment was provided up-front as a subsidy, without adequate investment in social mobilization or group formation.

Objectives of National Rural Livelihood Mission

- Mobilizing poor households into functionally effective SHGs and their federations
- Enhancing access to bank credit and financial, technical and marketing services
- Building capacities and skills for gainful and sustainable livelihoods development
- Converging various schemes for efficient delivery of social and economic support services to poor households.

3. National Urban Livelihood Mission

To reduce poverty and vulnerability of the urban poor households by enabling them to access gainful self-employment and skilled wage employment opportunities, resulting in an appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots level institutions of the poor. The mission would aim at providing shelters equipped with essential services to the urban homeless in a phased manner. In addition, the mission would also address the livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.

Literature Review

Singh and Singh (2017) has examined Non-performing assets of Microfinance provided in the state of Bihar. Bihar is a state with lower GDP and Lower Per capita Income too. It has been observed that financial institutions and government of state is performing efficiently for recovery of Non-Performing Assets Under the various schemes. It has been observed that the during the study period NPA for Microfinance shows negative trend. Channelization of fund though Microfinance has been aptly utilized for reduction of poverty and generation of employment in rural area.

Parekh and Bhatt (2016) had rightly observed that there was no single regulatory authority guiding all legal forms of microfinance institutions except NBFC-MFIs. Due to lack of unique regulatory authority, there are different ways of classification of assets and provisioning. Researchers have also observed that majority of women who get finance under Microfinance scheme could not have regular income. Hence Women oriented SGH face problem in recovery of loan. It has been further noticed that Borrowers' belong to lower class of society where they did not have much awareness about the money management. Because of lack of proper knowledge, majority of them were not giving much importance to savings or they had not planned the repayment schedule when they had taken microfinance loan. They were just focusing on the current requirement and based on that they apply of the loan.

Nikade and Chakrabarty (2021) had examined causes of lower effectiveness of Micro finance in the country during post COVID-19 situation. Had concluded that Interest of Microfinance provided to borrower is significantly higher. Lower the interest rate can indirect enhancement of purchasing power. Over and above researcher has rightly observed that agro product market mechanism is directly affecting to farmers with lower purchasing power. Such mechanism can have provided fair return to farmers and such return is useful for timely payment of interest and principle both.

RESEARCH METHODOLOGY

- Research Objectives

1. To Understand Recent Trends of Non-Performing assets created Under Microfinance in different regions of India.
2. To suggest different ways to reduce NPA in Microfinance.

- Research Design

As we have examined and described the trend of Non-Performing assets, we have adopted descriptive research design for our research work.

- Data Type and Data Source

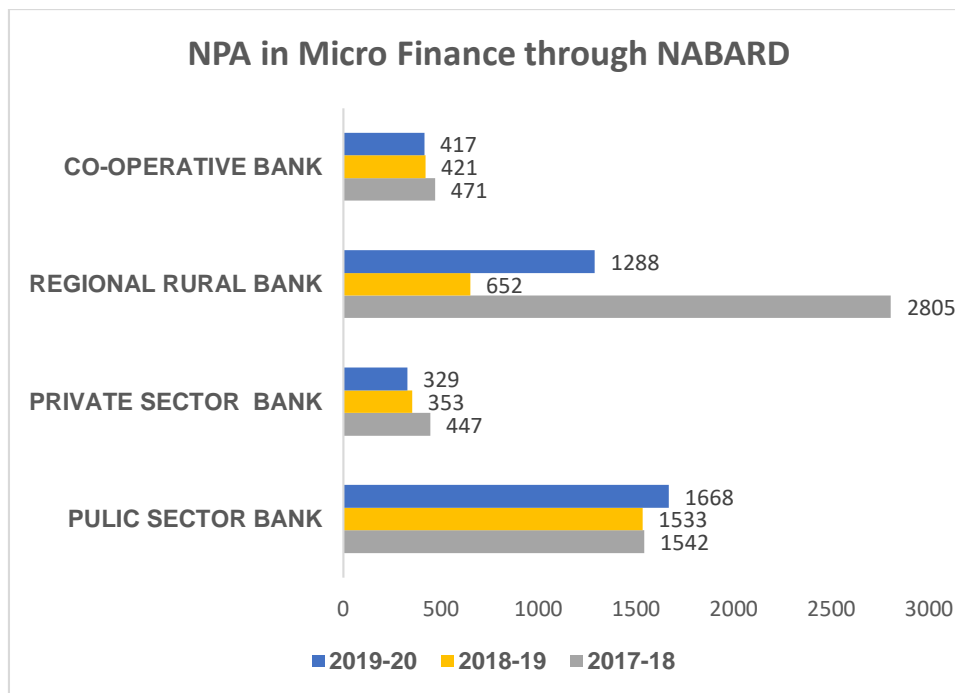
- Our research work is in the area of Non-Performing Assets and Trends Analysis. Hence we need to use published financial statements. Our work is restricted to NPA though Microfinance. We have used secondary data for our research work.
- We have obtained data of Non-Performing Assets from Annual Reports of NABARD.

- Scope of Research work

The scope of our research work is restricted to Non-Performing assets under Microfinance scheme through NABARD during 2017-2020. We have obtained annual reports from website of NABARD.

Data Analysis

1. Over all Non-Performing Assets in the area of Microfinance to SHGs

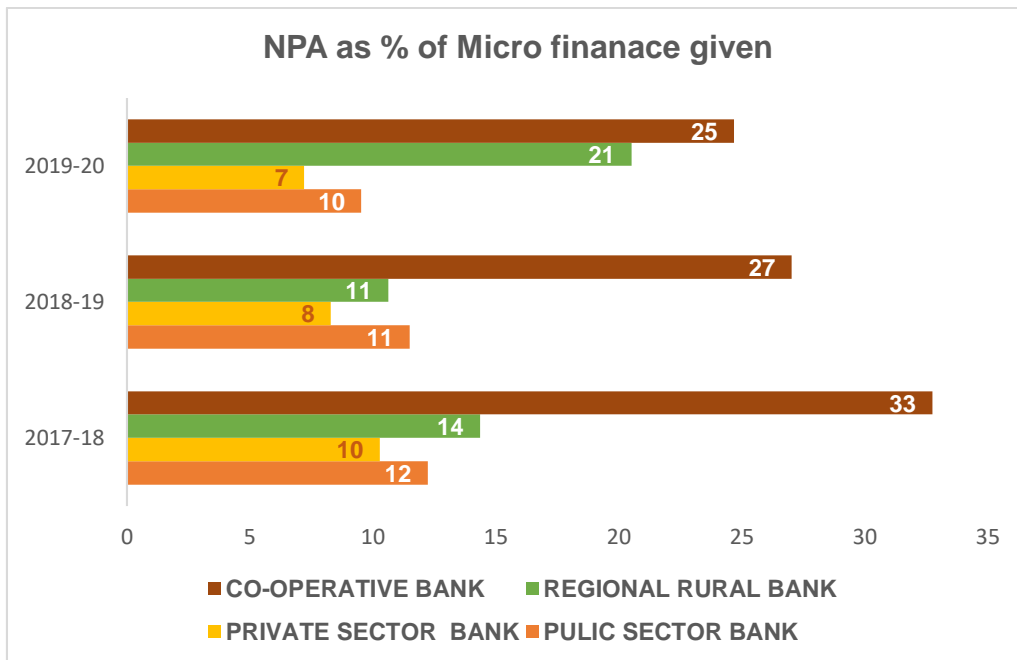


In a span of three years there has been increase in NPA though Public Sector Bank from Rs.1542 lakhs to Rs.1668 lakhs. However, we can see reduction in NPA in Microfinance through Public Sector Bank from Rs. 447 lakhs to Rs.329 lakhs. This indicates efficiency of Private sector bank for recovery in the most critical sector.

Level of NPA in Regional Rural Bank was significantly higher in the first year of study which is Rs.2805 lakhs. However, it has been observed that firms recovered significant amount in the next year of study and bring down to Rs.652 lakhs. In a span of 12 months' Regional Rural banks has reduced NPA by 75%. In the last year of study again NPA becomes double as to 2018-19.

Co-operative banks efforts are in right direction. In the span of three years Co-operative Banks are proven to be efficient in reduction of NPA. NPA of Microfinance through co-operative bank has been reduced from Rs.471 lakhs to Rs.417 lakhs. Amount of finance in Microfinance sector is highest through Public Sector Banks. Similarly, NPA status of Private sector bank is significantly lower as compared to Public Sector Bank.

2. Over all Non-Performing Assets in Percentage in comparison finance to total Microfinance sanctioned

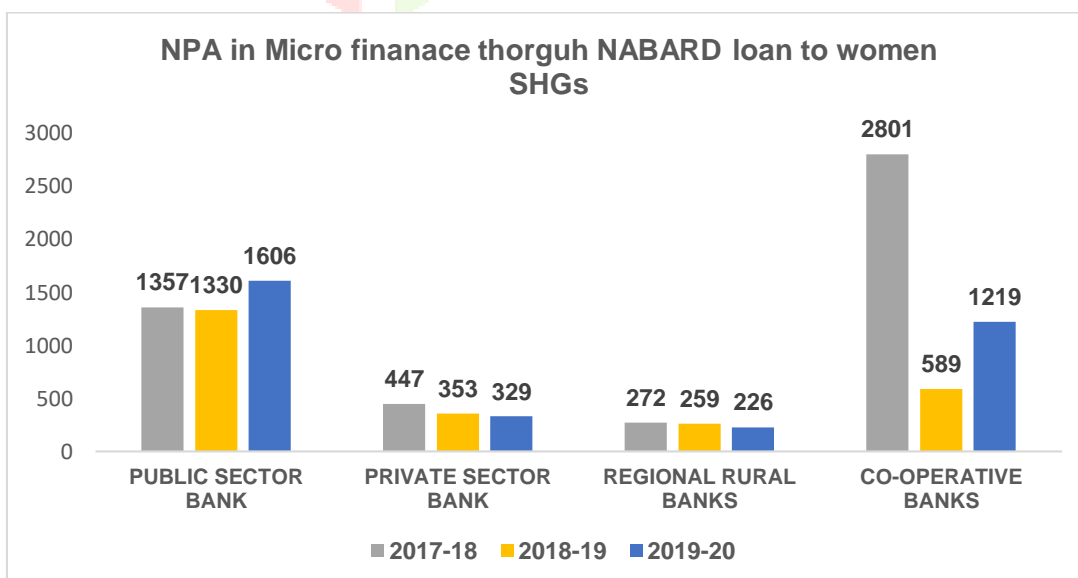


NPA in comparison to total advances given to Micro Finance sector by different banks in a period of last three years shows that Public Sector Banks has reasonable control over the situation and it has reduced over all NPA by 2%. Private sector bank is more efficient as to public sector bank in that area. Private sector bank’s NPA in comparison to total Micro Finance lending NPA has been reduced from 10% to 7%.

Regional Rural Banks are failed to control NPA at low level as to total finance provided to Microfinance. Level of NPA is increasing from 14% to 21%. It shows growth by 50%. This is really alarming situation.

Worst NPA controlling efforts can be observed in case of Co-operative Banks. In the first year of study out of total finance given in Microfinance section one third portion was NPA. IN the span of three years they have reduced it and bring it to one fourth. 3

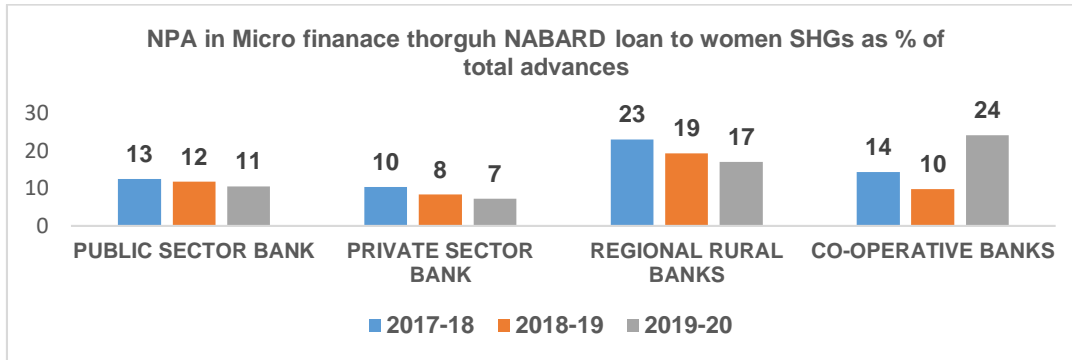
3. NPA in Microfinance to Women SHGs



Women empowerment through Microfinance is one of the agency of central government. Hence, priority has been given to microfinance to Women. Public sector bank’s NPA in such sector is showing slight increase from Rs.1357 lakhs to Rs. 1606 lakhs. Level of NPA has been reduced from Rs.447 lakhs to Rs. 339 lakhs in case of Private sector Banks. Regional Rural Bank is also on the same way and reduced burden of NPA from Rs.272 lakhs to Rs.226 lakhs.

Drastic control over NPA from finance to women under Micro finance sector has been observed in case of Co-operative Banks. It has been reduced from Rs.2801 lakhs to Rs.1219 lakhs.

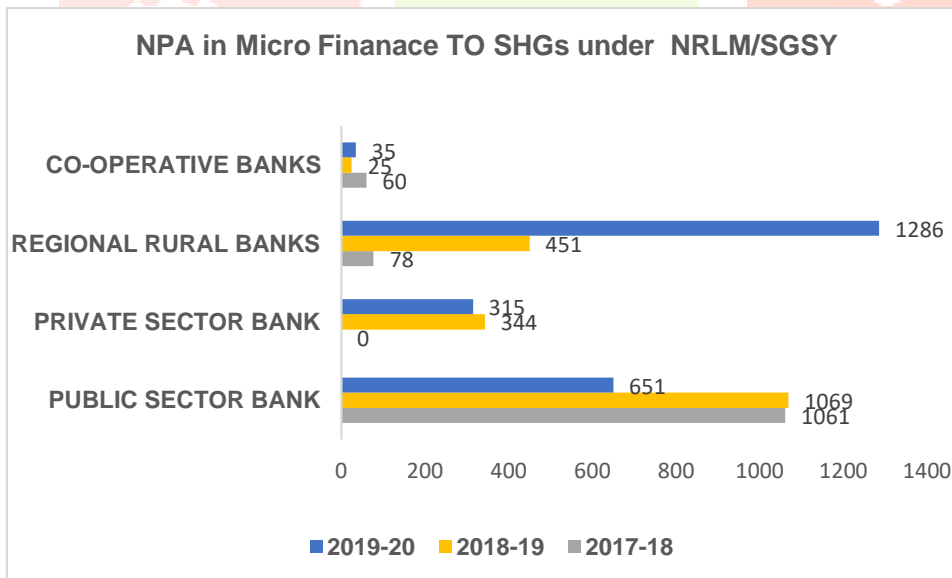
4. NPA to Microfinance Women SHGs in Percentage to total Advances



Volume of NPA is significantly higher in case of Microfinance Provided by Public Sector bank. However, in relation to total amount of Microfinance disbursed by Public sector bank amount of NPA is in the range of 11% to 13%. Public sector bank is putting close supervision and control over Non Performing assets in a span of three years. Private sector banks are efficient as usual and manage to reduce their NPA amount just 7% of Total Microfinance advance.

Regional Rural bank’s NPA is relatively higher. It was 23% of Total Advance of Microfinance in 2017-18 and later on it had been reduced to 17% in 2019-2020. Most unusual control over NPA of Microfinance has been observed in case of Co-operative Banks. Out of total amount of loan disbursed to Microfinance section nearly one fourth is NPA in the year 2019-20.

5. NPA under National Rural Livelihood Mission scheme/ Swarna Jyanti Swarozgar Yojana

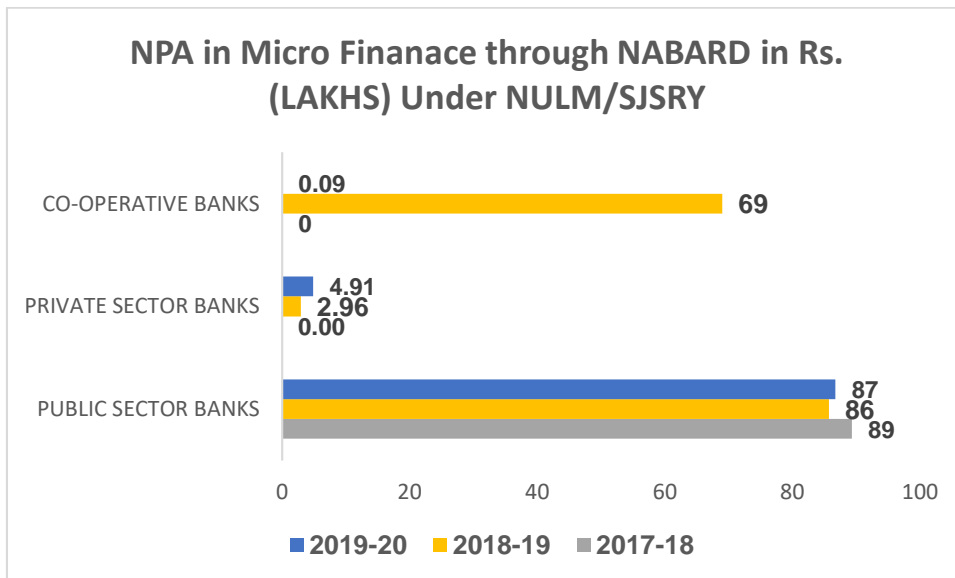


Public sector bank has highest NPA amount in the year 2017-18 towards NRLM/SGSSY scheme. PSU bank has reduced such NPA by 40% in a span of 3 years. However, in case of Private Sector Bank such level is Rs.315 lakhs in 2019-20 which is nearly double to Public Sector Bank.

Regional Rural Bank has faced very high amount of NPA in span of three years. IN the last year of study, the level of NPA through Co-operative Bank in NRLM/SGSSY IS Rs.1286 lakhs.

Co-operative bank’s contribution in this scheme is very less. Hence its NPA is also very less. However Co-operative bank’s NPA has been reduced from Rs.60 lakhs to Rs.35 Lakhs.

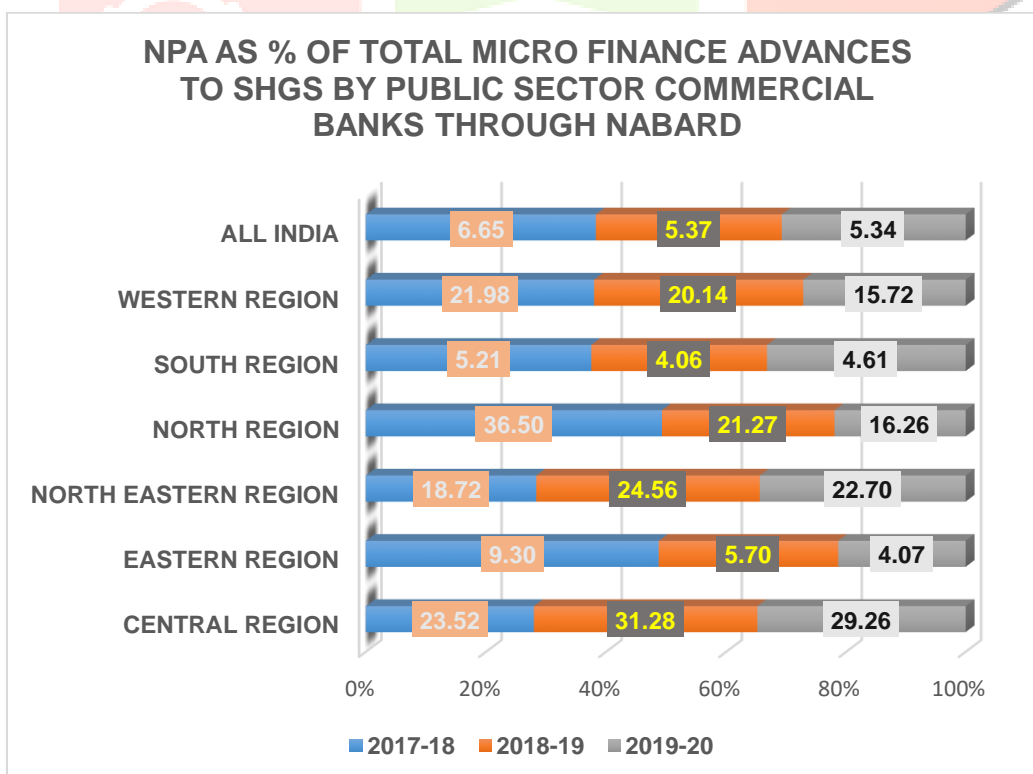
6. NPA under National Urban Livelihood Mission scheme/ Swarna Jyanti Swarozgar Yojana as % of Total Advances under scheme.



Allocation of fund for the National Urban Lively hood mission is significantly lower. Public sector bank has NPA in the range of Rs.87-89 lakhs in a span of last three years. NPA in this scheme in Public Sector Bank is increased to Rs. 4.91 lakh Cooperative Bank has NPA to the extent of Rs.69 lakhs in the year 2018-19. Later on it has been reducing to Rs0.09 lakhs in 2019-20.

Efficiency of Private sector bank be seen in the trend of last three years. However, in case of Public sector bank amount is stagnant. So we can conclude that efforts are less by Public sector bank for recovery of funds.

7. NPA of Microfinance provided by Public Sector banks in different regions of India



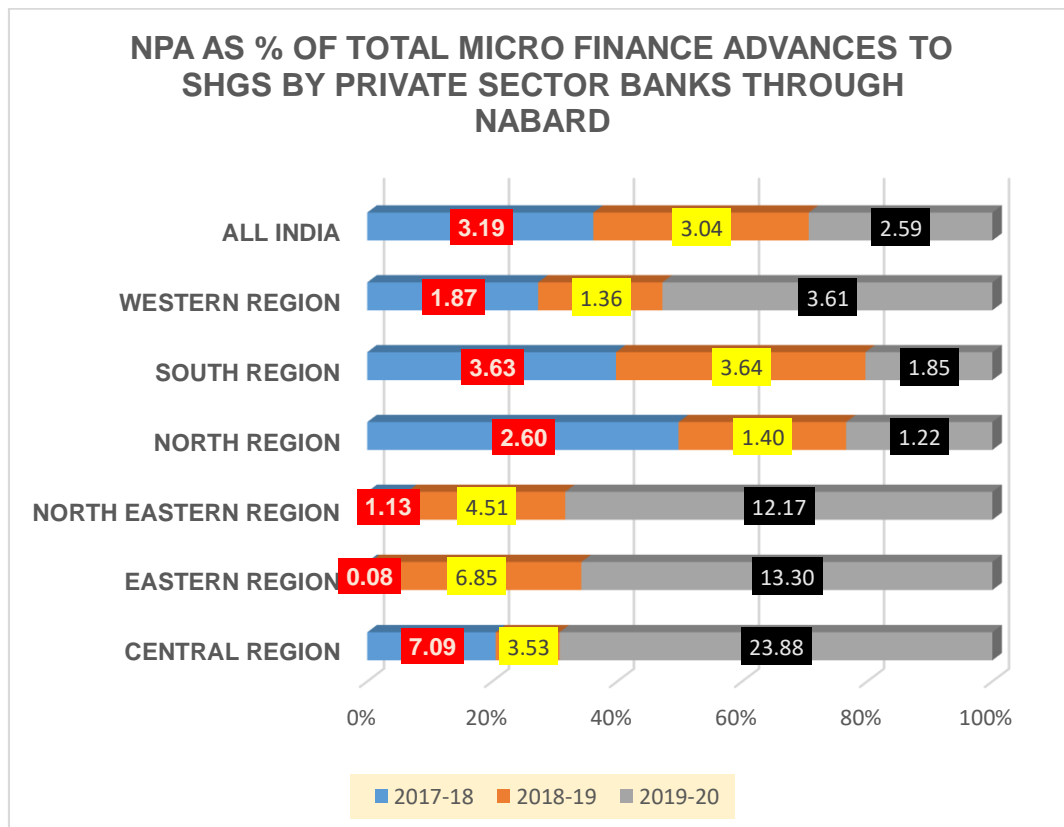
Region wise comparison shows the efficiencies of different region in collecting fund. Central Region has highest NPA as percentage of finance provided for Microfinance followed by North Eastern and Western region. However, we can observe that Western Region has reduced amount of NPA in a span of 3 years and bring down from 21.98% of total finance to 15.72%.

Eastern and southern regions are performing well in recovering NPA of Microfinance as both regions have controlled NPA just below 5% of total Advances to Microfinance.

According to trend analysis North region can be considered to be most efficient as it has reduced NPA from 36.50% of total amount to 16.26% of total Microfinance provided.

However, at macro level viz, India level NPA level as to total finance provided for Microfinance is significantly lower and under control.

8. NPA of Microfinance provided by Private sector banks in different regions of India



Central Region has registered jump in NPA in the last year of study and it has been reached to 23.88% of total Microfinance provided. It had been increased by 300% times in last three years. Similar situation has been observed in case of Eastern Region NPA, North Eastern Region NPA too.

North and South region has performed very well and put the situation under full control and do not allow to increase NPA more than 4% of total Microfinance provided during all three of study.

At Macro level NPA of Microfinance provided through Public sector banks has shown decreasing trend. Thus, banks are using their machinery in right direction and with efficient use.

Private sector banks are following government's direction for providing finance under Microfinance schemes. However, they are more efficient in recovery too. Hence, NPA level in comparison to the total Microfinance provided is lower.

HYPOTHESIS TESTING

PUBLIC SECTOR BANK

H0: There is no difference in Average NPA percentage as to total NPA for finance provided by Public sector banks amongst Different Region of country.

H1: There is significant difference in Average NPA percentage as to total NPA for finance provided by Public sector banks amongst Different Region of Country.

NPA AS % OF TOTAL MICRO FINANCE ADVANCES TO SHGS BY PUBLIC SECTOR COMMERCIAL BANKS THROUGH NABARD

| YEAR | CENTRAL REGION | EASTERN REGION | NORTH EASTERN REGION | NORTH REGION | SOUTH REGION | WESTERN REGION |
|---------|----------------|----------------|----------------------|--------------|--------------|----------------|
| 2017-18 | 23.52 | 9.30 | 18.72 | 36.50 | 5.21 | 21.98 |
| 2018-19 | 31.28 | 5.70 | 24.56 | 21.27 | 4.06 | 20.14 |
| 2019-20 | 29.26 | 4.07 | 22.70 | 16.26 | 4.61 | 15.72 |

| SUMMARY | | | | |
|----------|------------|-------|---------|----------|
| Groups | Count | Sum | Average | Variance |
| Column 1 | 3.06666660 | 84.06 | 28.02 | 16.21 |
| Column 2 | 3.00 | 19.07 | 6.36 | 7.16 |
| Column 3 | 3.00 | 65.98 | 21.99 | 8.90 |
| Column 4 | 3.00 | 74.03 | 24.68 | 111.12 |
| Column 5 | 3.00 | 13.88 | 4.63 | 0.33 |
| Column 6 | 3.00 | 57.84 | 19.28 | 10.35 |

| ANOVA | | | | | | |
|---------------------|---------|----|---------|---------|----------------|---------|
| Source of Variation | SS | df | MS | F | P-value | F crit |
| Between Groups | 1426.29 | 5 | 285.258 | 11.1088 | 0.00036 | 3.10588 |
| Within Groups | 308.142 | 12 | 25.6785 | | | |
| Total | 1734.43 | 17 | | | | |

Interpretation:

As P value of ANOVA test is lower than 0.05, we can conclude that there is significant difference in Average NPA percentage as to total NPA amongst different regions of Country. Thus here we reject H₀.

PRIVATE SECTOR BANK

H₀: There is no difference in Average NPA percentage as to total NPA for finance provided by Private sector banks amongst Different Region of Country

H₁: There is significant difference in Average NPA percentage as to total NPA for finance provided by Private sector banks amongst Different Region of Country

NPA AS % OF TOTAL MICRO FINANCE ADVANCES TO SHGS BY PRIVATE SECTOR BANKS THROUGH NABARD

| YEAR | CENTRAL REGION | EASTERN REGION | NORTH EASTERN REGION | NORTH REGION | SOUTH REGION | WESTERN REGION |
|---------|----------------|----------------|----------------------|--------------|--------------|----------------|
| 2017-18 | 7.09 | 0.08 | 1.13 | 2.60 | 3.63 | 1.87 |
| 2018-19 | 3.53 | 6.85 | 4.51 | 1.40 | 3.64 | 1.36 |
| 2019-20 | 23.88 | 13.30 | 12.17 | 1.22 | 1.85 | 3.61 |

| SUMMARY | | | | |
|----------|-------|-------|---------|----------|
| Groups | Count | Sum | Average | Variance |
| Column 1 | 3 | 34.5 | 11.5 | 118.117 |
| Column 2 | 3 | 20.23 | 6.74333 | 43.7006 |
| Column 3 | 3 | 17.81 | 5.93667 | 31.9969 |
| Column 4 | 3 | 5.22 | 1.74 | 0.5628 |
| Column 5 | 3 | 9.12 | 3.04 | 1.0621 |
| Column 6 | 3 | 6.84 | 2.28 | 1.3917 |

| ANOVA | | | | | | |
|---------------------|---------|----|---------|---------|---------------|---------|
| Source of Variation | SS | df | MS | F | P-value | F crit |
| Between Groups | 203.334 | 5 | 40.6667 | 1.23965 | 0.3500 | 3.10588 |
| Within Groups | 393.662 | 12 | 32.8051 | | | |
| Total | 596.995 | 17 | | | | |

Interpretation:

As P value of ANOVA test is higher than 0.05 we can conclude that there is significant difference in Average NPA percentage as to total NPA for finance provided by Private sector banks amongst Different Region of Country. Thus we accept H₀.

FINDINGS

- Out of all four agencies of MICRO finance disbursement and recovery Public Sector bank is proven to be most inefficient one in recovery of Micro Finance Loan.
- Private Banks and Co-operative societies are most efficient in controlling NPA. In the span of three years both agencies have reduced level of Non-Performing Assets.
- Regional Rural Bank's performance is also satisfactory as they have reduced NPA by 50%.
- Private sector Banks and Co-operative banks strict approach in collection from irregular and non-performing assets pays.
- Public sector banks and other agency banks are given target of Micro Finance by Reserve Bank through NABARD. Only Public sector bank has fulfilled target of disbursement and not recovery.
- Public sector banks are contributing highest in creating NPA in total but as compared to advances given NPA by them in significantly lower.
- It is only private sector Bank who can keep NPA in single digit in span of last three years of study.
- Regional Rural Bank and Co-operative Banks are not monitoring post disbursement phase of Microfinance.
- Scenario is worst in case of Co-operative bank's control over NPA. Looking to the current condition one fourth amount disbursed under the Microfinance scheme can't be recovered as well as its interest income is also affected adversely.
- Microfinance to women is considered to be key for economic uplift of weaker section of society. Microfinance to women is considered to safe. Generally, women manage finance more wisely and return principle and interest both on regular basis. However, NPA in Women SHGs is in case of Regional Rural Banks and Co-operative Banks. Is significantly higher.
- Microfinance to women SHGs by Public sector bank and Private Sector Bank shown downward trend. Efforts of bank is in right direction and for the betterment of banking system.
- Non-performing assets in NRLM/SGSYY is relatively higher as compare to NULM/SJSRY.
- NPA under NRLM/SGSYY has been significantly higher with Public Sector Banks. Private Sector banks have very negligible amount of NPA under this scheme.
- Overall performance of Public sector banks for reduction of NPA in Microfinance segment is satisfactory. In the span of three years' public sector banks are controlling NPA in every section.
- Role of Regional Rural banks for providing Microfinance is significant. However, bank is not able to control NPA under different Microfinance schemes.
- Co-operative bank's financial strength is lower as compared to Public Sector Banks and Private sector banks. Hence, such banks have not provided much more finance to weaker section of society under the schemes.
- Private sector bank's performance in recovery of Non Performing assets at different regional level across India is also better as to Public Sector Bank.

- At regional level there is different approach for recovery of NPA for Microfinance amount.
- All over Indian level NPA of Microfinance is lower in case of Public sector banks as to Private sector Banks.

SUGGESTIONS

- a. Microfinance firms or NGO of SHG should develop supervision schedule for every quarter for better post disbursement control.
- b. Close monitoring of government scheme finance and non-government scheme finance is one of the most effective and economical way of reduce NPA.
- c. Involvement of NBARD in financial assistance through Banks is most effective way of creating better opportunity for bottom of pyramid. Same way, Involvement of NABRD in controlling NPA is expected to make such collection effective.
- d. Microfinance is clean finance. Hence, Finance disbursing organization should provide finance after considering neighbor or relative as a guarantor for recovering non-performing assets.
- e. Strict control should be imposed on misuse of funds disbursed under microfinance scheme.
- f. SHG should be made accountable for NPA. Hence, SHG can create pressure for the regular repayment of Interest and Principle.
- g. Technical training to SHG employees or members or Monitoring finance disbursement and recovery of interest.
- h. A consortium is to be created for credit rating of Microfinance to Individual under any government scheme as well as non-government scheme so that before disbursement of fund one can take precautionary steps.
- i. Involvement of government for various Microfinance scheme should be reduced and should be managed by NBARD and concern bank only.
- j. NABARD should put restrictions on further disbursement to bank when NPA of such Microfinance through such bank is higher than 20% of Advances.
- k. Regional level different strategies should be develop for reducing NPA created by Microfinance.

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