JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Micro Finance Institutions in India : A study

Dr. Renu Sardana
Associate Professor
Deptt. Of Economics
Pt. J.L.N. Govt. P.G. College
Faridabad (Haryana)

Ms Monisha Chaudhary
Associate Professor
Deptt. Of Economics
Pt. J.L.N. Govt. P.G. College
Faridabad (Haryana)

Abstracts:- Micro Finance Institutions, also known as MFIs, a microfinance institution is an organisation that offers financial services to low income people. Almost all give loans to their members and many offer insurance, deposit and other services. A great scale of organisations are regarded as microfinance institutes. They are those that offer credits and other financial services to the representatives of poor strata of population.

Keywords:- MFIs, loan, NBFIs, NABARD, SHGs

Objectives:-

- To study the role of microfinance in India
- To study and evaluate the growth and trends of MFIs in India
- To know about the impact MFIs in Urban & Rural sector.
- To know about the concept of microfinance in India.

Database and Methodology:- Present study is based on mainly secondary data.It's focused on the Micro Finance Instituions in India. The data has been collected from Govt. of India, Economic Survey 2021-22, website of RBI, NABARD and Micro Finance Pulse Report, books and Newspapers.

Research area- The Economy of India has transitioned from a mixed plan economy to a mixed middle-income devloping social market economy with notable state participation in strategic sectors. It is the world`s fifth-largest economy by nominal GDP and third largest by purchasing power parity(PPP). It is seventh largest country in the world, with a total area of 3,287,263 square kilometeres. India is the second most populated country in the world after China.

Introduction:- Micro financing is an option for impoverished dreamers looking to start a business and get ahead. Micro finance also known as microcredit is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital like banks or investors.

Unemployed or low income individuals do not have to remain in the same financial state forever, they deserve a chance to thrive. Sometimes all that's needed is a little help to get started. Micro finance is concerned with the delivery of essential financial services to the poor people. The main purpose of micro finance is to eliminate or to lower the poverty. This can be possible by providing micro finance for their productive activities. Microfinance helps to provide them full-time employment and enables to generate some saving from the economic surplus.There are various Banks and MFI's which are providing credit to the people in this sector without any collateral security and at liberal terms. The people are being provided micro finance through self-help groups (SHGs) by the MFIs and banks.

The poor people are coming out of vicious circle of poverty and adopting micro finance as a development strategy by way of self-employment through their financed activities . The concept of micro finance is now being regarded as a development strategy. True micro finance the poor people get finance to enhance their activities and generate sizable income to repay the loan, wipe out previous debt and save some amount. Thus, the people come out of the vicious circle of poverty and the nation shows the signs of development.

The government of India has initiated various poverty alleviation and employment generation programs like Prime Minister Rozaana(PMRY), Pradhan Mantri gramodya Yojana (PMGY), Swarna jayanti swarozgaar Yojana (SJSRY), Indra Awas Yojana(IAY), prime Minister employment generation program (PMEGP), where the government is providing subsidies and the banks are providing loans to the eligible people. Besides these programs the banks and the MFIs are providing direct loans to the people for financing their various activities. These programs and the microcredit provided by the banks and the MFIs are helping to reduce the poverty to a larger extent.

Poor people →micro finance →financial activity →generating economic surplus →loan repayment →savings →investments →income rising poverty line →breaking vicious circle of poverty

Ever since the first MFI came into existence in 1996, the microfinance sector has witnessed a stable growth, but the momentum picked up after 2004. The number of institutions providing microfinance services has gone up from a few to a couple of hundreds. The quantum of credit made available to the poor and financially excluded clients has reached `1,13,459 crore and number of clients benefitted crossed 42 million as of March 2021. The SHG Bank Linkage Programme has equally grown to touch the lives of 138 million families through more than 1.1 crore SHGs with an outstanding loan portfolio of `1,03,290 crore. In addition to MFIs, microfinance customers are being served by a wide range of providers such as Banks, SFBs, NBFCs. As on 31 March 2021, the combined micro credit portfolio of 262 lenders has reached `2,52,181 crore through 108.6 million active loans.

Client outreach and loan portfolio are two key indicators of an MFI's contribution to financial inclusion as well as the depth and breadth of financial deepening achieved by it. This study aims to provide an overview of MFIs' outreach in terms of client coverage and loan portfolio, based on the data received from 208 MFIs. This chapter is divided into two parts; the first part explains geographical distribution of microfinance institutions and their client outreach. The second part discusses the issues of portfolio outstanding, loan disbursement, and purpose of loans.

In India, there are several types of microfinance institutions (MFIs), including:

● Non-Banking Financial Companies (NBFC-MFIs): MFIs registered as NBFCs are regulated by the Reserve Bank of India (RBI) and can offer a variety of financial products and services.

● Self-Help Group-Based MFIs: These MFIs work in collaboration with self-help groups (SHGs) of poor women to provide microfinance services.

● Cooperatives: MFIs in the form of cooperatives are registered under the Cooperatives Societies Act and are governed by the Ministry of Agriculture and Farmers' Welfare.

● Section 8 Companies: These are non-profit organizations registered under the Companies Act, 2013, and are promoted by individuals, trusts, or foundations.

● Microfinance Institutions Network (MFIN): MFIN is a self-regulatory organization for NBFC-MFIs and registered as a Section 8 company.

Each type of MFI operates differently and has its own set of advantages and disadvantages. The choice of MFI type depends on the objectives and goals of the organization, as well as the regulatory and legal framework in India.

Geographical Spread of Microfinance

MFIs currently operate in 28 States, 5 Union Territories and 595 districts in India. Table 2.2 shows the distribution of MFIs by state. In particular, it shows the number of MFIs operating in each state and the number of districts with microfinance operations. Annexure1 indicates the state wise presence of different MFIs. Sixteen MFIs with a large outreach and portfolio have operations in more than ten states, out of which thirteen leading MFIs are operating in more than fifteen states. A total of 63 MFIs (30%) are operating in two to five states, 31 MFIs (15%) are operating in six to ten states, while 98 MFIs (47%) have confined their operations to only one state. The details of States/Union Territories-wise operation are given in Table 1.1.

Table 1.1: No. of MFIs in Indian States/UTs

	FY 2020-21	FY 2019-20
No. of States/UTs	No. of MFIs	
1	98	90
2 to 5	63	74
6 to 10	31	22
11 to 15	3	4
>15	13	12
Total	208	202

Source:- The Bharat Microfinance Report 2021
Sa-Dhan The Association of Community Devlopment Finance Institution

Table 1.1 shows that the number of MFIs having operations between 2 to 5 states has reduced to 63 in FY 2021 from 74 in FY 19-20 whereas the number of MFIs having operations between 6 to 10 states has increased to 31 from 22. The number of MFIs having operations in more than fifteen states has marginally increased from 12 to 13. MFIs with a smaller scale or regional focus have concentrated their operations in 1-2 states only whereas other MFIs have spread across a higher number of states in order to increase their size, scale and simultaneously mitigate concentration risk. MFIs operating in multiple states, in general, are typically larger in size and follow the legal form of an NBFC-MFI. The geographical expansion of bigger MFIs is illustrated by the fact that while in 2013-14 only 15 MFIs had operations in more than 5 states that number increased to 38 in 2019-20 and stands at 47 in 2020-21. List of top 10 MFIs operating in more number of states and more number of districts are presented in Figures 1.1 and 1.2 respectively.

Figure 1.1: Top 10 MFIs Operating in Number of Indian States/Union Territories

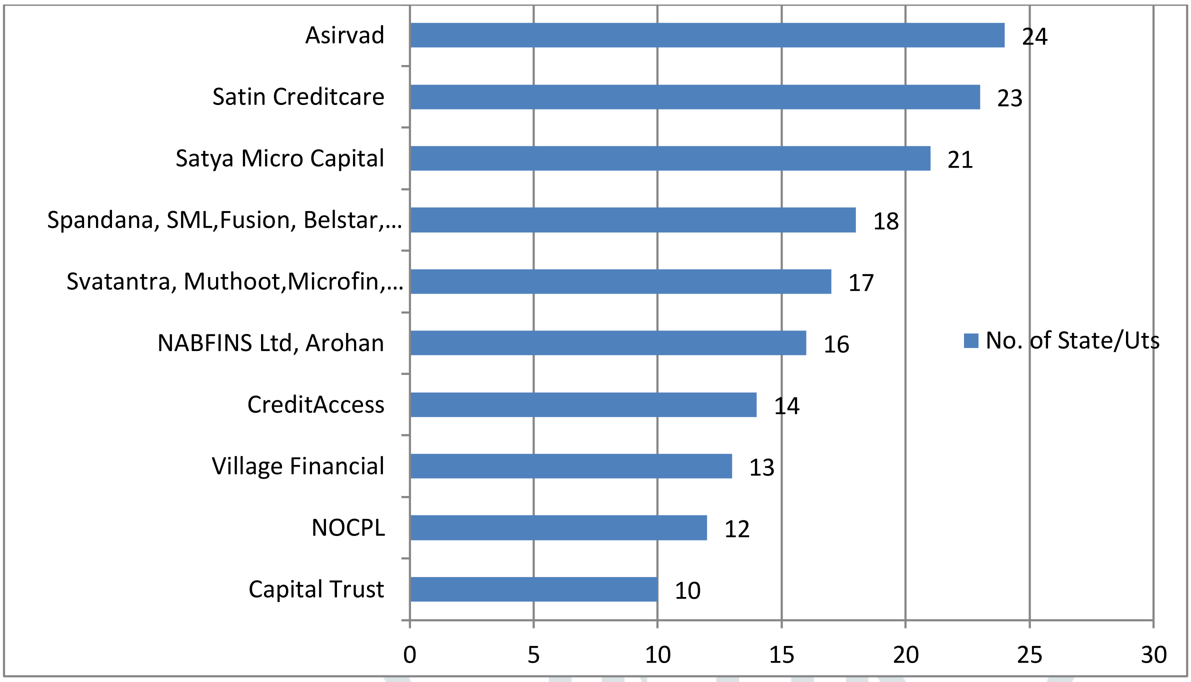


Figure 1.2: Top MFIs Operating in Number of Indian Districts

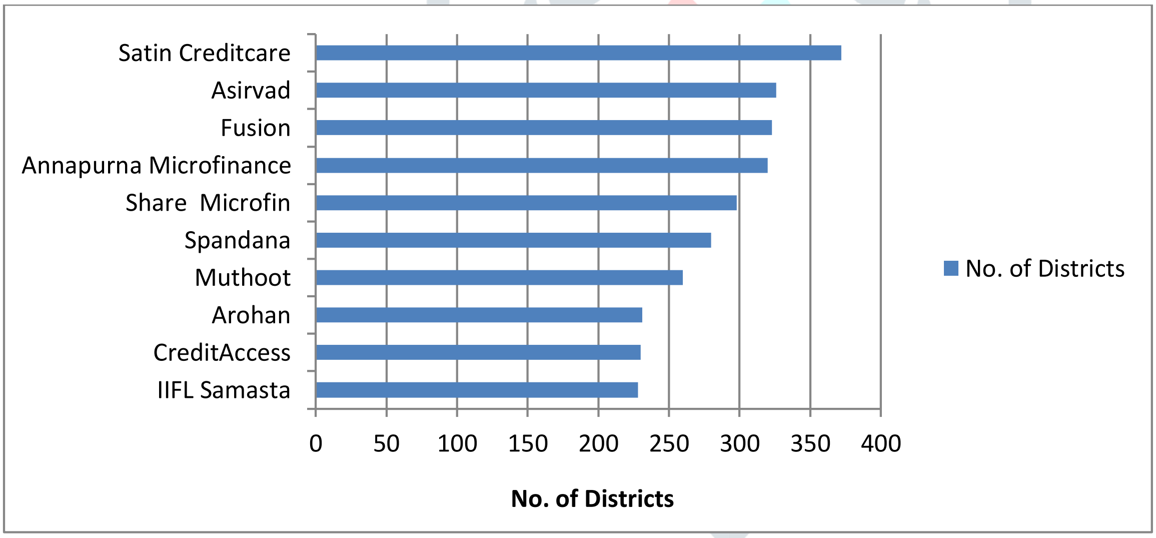
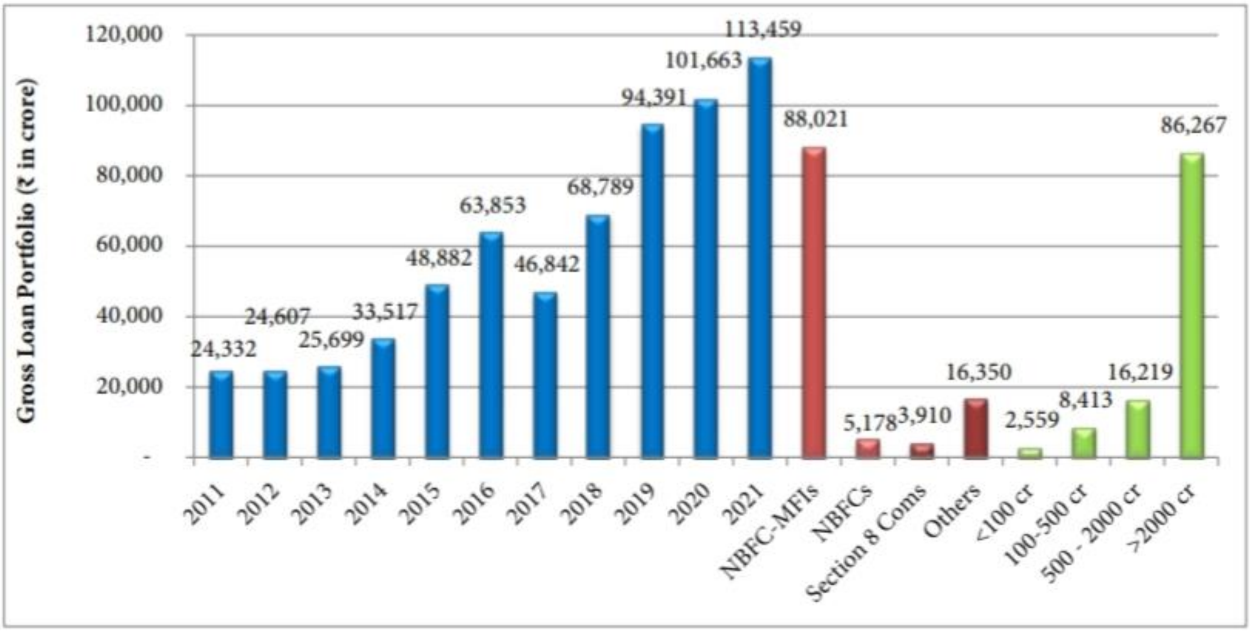


Figure 1.3 shows the total number of clients served by MFIs stood at 422 lakhs as on 31 March, 2021. Number wise client outreach in 2020-21 has decreased to 422 from 423 lakhs, there is a marginal decline of 0.11% because of impact of COVID-19 on microfinance operations.

Client outreach of MFIs had grown substantially from 2005 to 2011, reaching a level of 317 lakhs. This trend slowed down during 2012 and 2013 and the number of clients slumped to 275 lakhs. The trend reversed in 2014 with a growth and reached a level of 330 lakhs. This trend continued in 2016 with a huge rise in clients/ borrowers to an all-time high of 399 lakhs, again dipped in 2017, but bounced back to reach a level of 429 lakhs in 2019. Now in 2021, there is a slight dip in client outreach. Majority of these clients are being served by NBFC-MFIs - 81%, whereas NBFCs account for 6%, Section 8 Companies account for 3% and Others (Society/Trust/MACS) account for 10%. MFIs with outstanding portfolio above `2000 crore are responsible for reaching out to 69% of the clients in the industry.

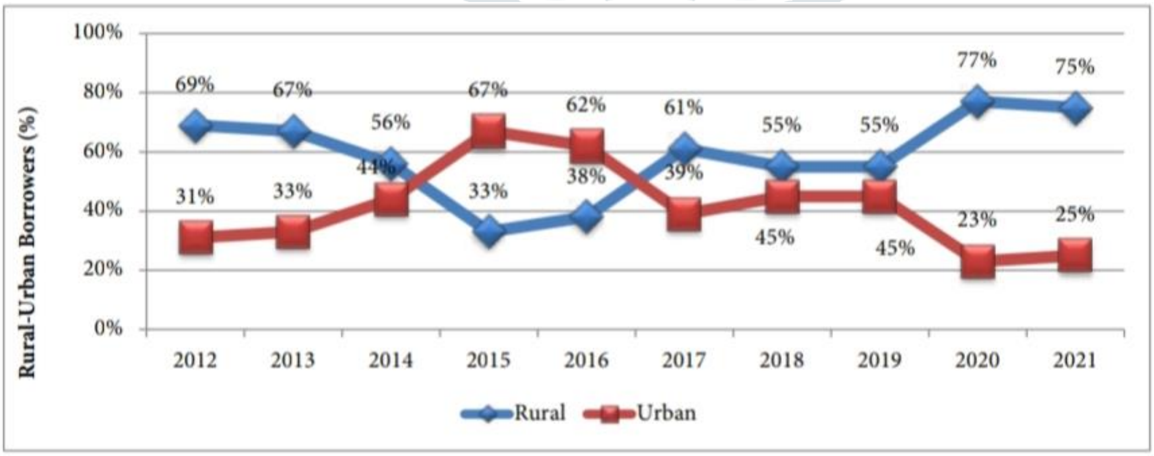
Figure 1.3 Outreach to Borrowers (in lakhs): Yearly Trend and Category-wise Breakup for 2021



Rural-Urban share of MFIs Borrowers

2014-15 can described as watershed year as far as the rural-urban divide in Indian microfinance is concerned. Hitherto Indian microfinance was touted as basically a rural phenomenon as compared to microfinance in Latin America as also in large parts of Africa and Asia. A very interesting trend is seen in the rural-urban focus of MFIs. Figure 1.4 shows that the share of rural clientele which was 69% in 2012 decreased to 56 % in 2014 and has drastically came down to 33% in 2015. The proportion of rural to urban clients for the year 2014-15 was 33% to 67%. In the year 2015-16, there was a slight improvement in the share of rural clientele which increased to 38% because of exclusion of Bandhan. In 2016-17, the trend of rural to urban is the reverse of trend of 2015-16 because of exclusion of 6 SFBs. In 2017-18 and 2018-19, the trend of rural over urban is continuing although in 2019-20, there was a sharp increase in the share of rural clientele which rose to 77%. In 2020-21, the share of the rural clientele slightly decreased to 75 %. One of the key findings from our research shows that small sized of MFIs are rural centric

Figure 1.4 : Trends in Rural - Urban Share orrowers



Microfinance institutions (MFIs) in India face several challenges, including:

● Regulation: MFIs face difficulties in navigating the complex and constantly changing regulatory landscape in India.

● Financial sustainability: MFIs face challenges in maintaining financial viability and stability, especially in serving low-income communities.

● Competition: MFIs face intense competition from other financial institutions, leading to increased pricing pressure and reduced profitability.
● Technology adoption: MFIs face challenges in adopting new technology to improve their operations and increase efficiency.
● Reputation: MFIs often face a negative reputation among the public, making it difficult to attract new clients and secure funding.
● Loan recovery: MFIs face difficulties in recovering loans from low-income clients, especially in rural areas where poverty and illiteracy levels are high.
● Socio-economic environment: MFIs face challenges in serving low-income communities due to the social, economic, and political context in India.
● Scaling: MFIs face difficulties in scaling their operations to reach more clients, especially in remote and underserved areas.

Conclusion:-

● The year 2020-21 was one which none had witnessed during their lifetime. The pandemic and the lockdowns disrupted the economy in general but also the financial sector which is lifeblood. As a part of the financial sector, microfinance was also affected. But as the year progressed, the sector dusted up its act and embarked on its services to poor. Through the festive season and the dawn of the New Year with near normal operations the sector hoped to end the financial year on an optimistic note. Just when one imagined that things were normalizing after the first Covid 19 wave, the second wave hit us harder in April and May 2021. This was an unsparing calamity that not only overwhelmed our medical infrastructure, it also scarred our collective memories. The rural and urban areas were affected alike. While the pandemic spared no one, it had a particularly debilitating impact on the economically poor. Many families lost their bread earners, and several children lost their parents. Amidst the all-round despair, life still had to go on, and livelihoods still had to be earned.
● Microfinance institutions have an important role in the economic and social status and business structure of rural women entrepreneurs. These financial institutions work to empower rural women by connecting them through bank linkage programs and self-help groups, which are the economic and social forces of the country. an important step in the development.
● Loans are provided to women entrepreneurs for various works and purposes by micro finance institutions. But the main objective is to bring empowerment to rural women by making them self-dependent.
● Micro finance (financial inclusion) has emerged as one of the importannt financial instrument for the poor and low income families to raise their income level, improve their standard of living and thus enables one to break out of poverty. It has a potential to be a means to achieve Poverty reduction, women empowerment, assistance to vulnerable groups and national policies targeting community development.

References:-

- Economic survey of India – Government of India, Department of Economic affairs, Economic Division New Delhi.
- www.nabard.org
- www.rbi.org.in
- www.indiamicrofinance.com
- https://www.mudra.org.in
- **https://www.sidbi.in**
- Jha Mithlesh kumar, Microfinance and Rural Devlopment: Role of Self Help Group- Concept Publishing Company, Delhi
Publication Pvt. Ltd. New Delhi 2004.
- Mishra & Puri, Indian Economy, Himalya Publishing House, New Delhi,2014
- Datt & Sundharam`s, Indian Economy, S. Chand & Co, Ltd, New Delhi,2014
- www.yourarticlelibrary.com