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Emerging Trends and Patterns in Micro Finance in India

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Abstract

Microfinance may be conceptualized as the accessibility of monetary offering to the neglected section of the society who does not have any accessibility of funds. Microfinance provides working capital loans to entrepreneurs through which they can start their own business. It helps to create employment not only to entrepreneurs but also generate employ opportunities to others too. Banks are not best suited to of fermion finance since they do not take along-term view; do not offer non-financial services such as training; and lack the combined qualitative and quantitative approach that is unique to micro finance institutions. The concept of micro finance and micro credit is usually used for mutual exchange. But micro credit is always given with the thrift and therefore a more appropriate expression rather than a micro finance. This includes the entire gamut of financial services, such as savings required by poor, loans, insurance, equipment leases, remittances etc. Against this backdrop, present paper highlights the growth andemerging trends and patterns in micro financing in India.

Introduction:

Micro Finance has emerged as is a powerful instrument for poverty alleviation and empowering poor. The global nature of the Micro Finance movement is reflected in the growing number of organizations providing Micro finance to poor people. Micro Finance is being referred to as one of the cost effective and supplementary tools of rural credit delivery system which facilitates prompt and timely availability of institutional credit to poor in an effective and economical manner. One of the objectives of development planning is to reduce extant of poverty by providing employment opportunities and raising the income levels of the population. There has been remarkable progress in the outreach and expansion of MFIs in India. In this part of dissertation an attempt has been made to analyze the views of MFIs officials regarding micro finance activities.

NABARD has introduced the concept of Joint Liability Group in 2006-07 in order to help clients like tenant farmers, share cropper, oral lessees, etc, through formal banking channels/MFIs as they had no access to credit *due to lack of acceptable collateral. Joint liability lending schemes has positive impact on the repayment performance of borrowers. In the sense that social collateral of borrowers takes the place of traditionally accepted forms of physical collateral, joint liability lending relied upon social capital of the group. Under such lending conditions, the group bears the liability for the individual. Loans of members and by that solved the problem of lack of traditional forms of collateral. By delegating the function of screening, monitoring, and enforcement of loans to the group members, banks in their turn overcome the problem of asymmetric information and accordingly the problem of prohibitively high transaction costs*

In order to increase the credit flow in priority sector, commercial banks, regional rural banks, cooperative banks etc. were promoted and large scale credit fair was organized. However, credit access to the poor from formal financial institutions is still limited and the poor depend on non-formal agencies for their credit needs. Thus, micro-finance institutions (MFIs) are institutions other than banks, which are engaged in the provision of financial services to the poor. Micro finance is seen as a central axis in the field of development with a focus on poor women. Micro Finance has had several successful initiatives, including the range of outreach, as well as the development of local institutions and innovative products that reach out to marginalized communities. Micro-finance has been accepted at the national policy level for poverty reduction. The expansion of banking network and expansion of micro finance programs have enabled the poor to undertake income generating activities for their empowerment. There are three types of lending technologies: (1) Document-based and asset-based traditional technology, which is followed by almost all existing banks; (2) Group lending technology, which comes in various sizes and forms and has its own benefits; and (3) Individual based lending technique is one where micro-finance institutions have to take great care in assessing the repaying capacity of the borrowers. In fact, a major innovation in this area is that MFIs have to train loan officers to assess the repaying capacity of potential borrowers. These techniques have been focused on micro finance through SHG, although there has been a tremendous increase in credit access to the poor through SHG and recovery has been comparatively high. Importantly, the provision of financial services dealing with small loans and savings has been increasingly appreciated as an effective means of poverty reduction. There is continuous and rapid improvement in understanding how financial services can be provided for poor people. However, micro-finance institutions initially have small operations and expand their outreach very rapidly.

Financial Inclusion:

Financial inclusion is imperative for increasing the outreach and accessibility of financial services to poor , marginalized and weaker sections of society. The global experience demonstrates financial inclusion reduces social and income inequalities comparatively faster than other banking and financial services (Beck et al.

2007).The financial inclusion and financial instruments have also positive impact on generation of self-employment, business development and family level domestic consumption (Bauchet et al. 2011). The increasing access of microcredit also has augments household consumption and reduces poverty while it enables entrepreneurs and business men todevelop businesses and face the risks (Banerjee and Duflo, 2011,Dupas and Robinson, 2013). Furthermore, randomized evaluations of health and insurance have positive impacts on farmers and also reduces risks and (Cole, et al., 2013; Karlan, Osei-Akoto, Osei, and Udry ,2014).The studies have shown positive results on savings and investment for future (Dupas and Robinson, 2009), It microcredit also increases social Dupas and Robinson, 2009), and women empowerment.

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Trends and Patterns :

The SHGs based micro financing programmer has wider coverage to more than 10 million groups while a large amount of loan was disbursed for livelihood generating activities. The poverty alleviation programmes such as NRLM and NULM account for majority of SHGs (NABARD,2019). However, Southern states have major share while Central Region (10.6 per cent) and Northern Region (5.5 per cent) recorded lower shares. Micro Finance Institutions presently are in operation in 29 States and 4 Union Territories with the outreach of 563 districts. Twenty one MFIs have wise outreach and are functional in more than five states while four MFIs are operating in more than fifteen states. However, 57 MFIs are functional in two to five states while 90 MFIs are confined to only one state. The client outreach of MFIs had grown significantly during the period of 2005 to 2011 and achieved a level of 317 lakh clients. Majority of these clients are being served by NBFCs (NBFC/ NBFC-MFIs) .Number of functional MFIs during 2017 was reported large in Maharashtra followed by Madhya Pradesh, Bihar, Chhattisgarh and Uttar Pradesh. However, number of branches was reported large in Uttar Pradesh followed by Karnataka, Madhya Pradesh, Tamil Nadu, Bihar and West Bengal. Number of clients was reported high in Karnataka followed by Uttar Pradesh, Bihar, Odisha and Tamil Nadu. Gross loan portfolio was recorded high in Karnataka followed by Uttar Pradesh, Maharashtra, Bihar, Tamil Nadu and West Bengal (Mishra and Tankha, 2018).

Membership of SHGs has enabled economic authorizationof women throughmanagement of resources, political empowerment through participation in decision-making, social empowerment through higher social standing obtained by better economic status. Thus, the SHGs becamethe foremost powerful conduits for incubating and empowering women to maneuver from subsistence to sustainability. The programme of linking of SHGs to banks was started on a pilot basis by NABARD within the year 1991-92 and since then NABARD has been propagating, promoting and funding SHG-Bank Linkage Programme. As on thirty one March 2021 the SHG - BLP programme has reached many milestone with a complete membership of concerning 112.23 lakh SHGs. covering 13.8 large integer households across India. Throughout the year 2020-21, the amounts of SHGs hyperbolic by Rs. 9.80 lakh with a corresponding increase within the savings by Rs. 11325.56 crore. The savings outstanding of SHG with Banks as on thirty one March 2021 has reached an incomparable high of Rs.37477.61 crore. Taking the getting to know of collateral loose lending from the SHG concept, NABARD piloted and evolved an powerfulcredit score product for landless laborers, share-croppers and tenant farmers i.e. "Joint Liability Groups" (JLGs). This product allowstroubleloosecredit scorethat is of longer term; satisfying seasonal wishes of credit score large in quantum. The product however, is predicated on mutual assure of customers like small /marginal/tenant farmers, oral lessees and sharecroppers, micro-entrepreneurs, who've no traditional collateral to offer. It leverages on social collateral presented via way of means of the members. Encouraged via way of means of NABARD's one hundred percentage refinance assist to banks, the Scheme has additionally recorded an outstandingincreaseall through 2020-21 with 41.27 lakh JLGs receiving economic help to the tune of Rs. 58311 crore from diverse banks. Under the Scheme NABARD has sanctioned a cumulative furnish help of Rs. 219.73 crore to Joint Liability Groups Promoting Institutions (JLPIs) for selling 11.69 lakh JLGs throughout the usa and allowing float of collateral loose mortgage to tenant/ landless farmers.

The MFIs emerged in India in reaction to the distance in availability of banking services for the un-served and underserved in rural population. There are round 184 MFIs (which include NBFC-MFIs) running in India in numerous forms - trusts, societies, cooperatives, Section 25 businesses and Non-Banking Financial Companies (NBFCs). The MFI enterprise has provensimilarly promising increase. As in step with Sa-Dhan, as on 31 March 2021, the microfinance enterprise has a completemortgage portfolio of Rs. 2,47,839 crore with a 12 monthsincrease of 17 percent . The percentage of the numerousgamers in typical portfolio exceptionalsuggests that the Banks' percentagebecomemaximum amounting to Rs. 110122 crore (44 percent), NBFC-MFIs Rs. 79115 crore (32 percent), Small Finance Banks Rs. 37724 crore (15 percent), NBFCs Rs. 18765 crore (8percent) and Non-income MFIs Rs. 2113 crore (1 percent).

In 2020- 21 , the lockdown due to COVID -19 pandemic affected the economic activities across the country. The worst affected had beenfirms with very little reserves and excessive liquidity turnover operations, which turned into the case for ordinary micro and small businesses. When those MFIs confronted a shutdown in collections and disbursements because ofregulations on mobility within side the early months of the pandemic, the impactturned into devastating. The Covid-19 pandemic has induced unceasing damages to the Indian economic system. In view of the revival of the Indian economy from the slump, the banking region inter alia appears to have obtainedunique attention. Financial measures were adopted to provide relief. In India, the MFIs have enormous contributions in reaching the a great dealpointed out the goal of economic inclusion. During the pandemic, SHGs were massively engaged in manufacturing of PPE kits such as masks, sanitizers, and providing banking services at the doorstep. As per Sa-dhan (2019) report, the MFIs have an outreach to forty million customers with an superbmortgage portfolio of $ 12.76 billion. There has been a 22 percentagegrowth in customer outreach and a 34 percentagegrowth in mortgage disbursements over the preceding year, indicating aexcessiveincrease rate. MFI lending performs a tremendousposition in decreasingthe proportion of casual borrowings amongstfamilies. The MFI operation and the views of economicofferings to the negativewant revamping within side the wake of the pandemic associated lockdown measures being in pressurethroughout the country. To incorporateunfold of Covid-19, the management has mandated social distancing and confinedmarketplace. Needless to say, the MFI mode of operation mostlyincludes the distribution of credit scoreon thecustomers' doorsteps, periodic organization of meetings and collections. The pandemic primarily based totallyregulations; however, create demanding situations to the continuation of the operations. Further, a majority of the MFIs' economicofferings are directed to low-profitsfamilies whose income are abnormal and to a bigger extent, are daily. The regulationsat themonetarysports have visibly adversely affected the income and the cash-go with the drift to the families. Considering the MFIs as instrumental in offeringeconomicofferings to the negative, and that the MFIs are presentlylocating it hardto elevate capital from the debt marketplace, the authorities of India has deliveredpositivebeneficial measures to enhance their liquidity needs. A unique liquidity scheme of $ 4.06 billion has been released for the non-banking economic companies, housing finance companies, and the MFIs under Self Reliant India. This is anticipated to ease the MFI operation and in turn, assist the needy avail of a great deal-wantedcredit score to permitpass the business. Under the latelyintroduced scheme of the government “Self-Reliant India”, a economicpackage deal of USD 270.forty two billion is introducedto restore the economy .The monetarypackage deal has the supply of economichelp to the small-scale industries particularlydomestic industries, cottage industries, small-scale industries, and MSMEs .

MFIs can either grow by expanding their branch network or by adding more clients to the existing branch. While the first approach typically leads to greater breadth in operations, the second approach leads to depth within the existing area of operation. During the year 2017–18, an analysis of the operations of the top 10 NBFC-MFIs shows that a mixed approach was the trend. Except in the case of Spandana, Muthoot and Asirvad, growth in the number of clients is either similar to growth in branches or slightly less. The overall data for 47 NBFC-MFIs also confirms this trend, as the sector average was 25 per cent annual growth in both the number of branches and clients. A logical corollary of this aspect is that the existing operational areas of MFIs are saturated, necessitating a move to new geographies. As the number of districts with NBFC-MFI presence did not see a corresponding increase during the year, it can be inferred that most of the new branches are within existing districts. It is a positive development because in previous years the focus was more on depth that is, adding more branches.

Operation of MFIs in India is shown in Chart 1. The number of micro finance institutions functional in the state was reported high in Maharashtra followed by West Bengal, Tamil Nadu, Madhya Pradesh, Bihar and Uttar Pradesh. Number of districts of the state which were covered by MFIs operation was reported high in Uttar Pradesh followed by Madhya Pradesh, Maharashtra, Tamil Nadu, Bihar, Karnataka and Odisha. Similarly, there were 10233 branches of MFIs and a large number of MFI branches were found located in Karnataka, Tamil Nadu, West Bengal, Uttar Pradesh, Madhya Pradesh and Maharashtra. The top five states viz., Karnataka, Tamil Nadu, Uttar Pradesh, Odisha and Bihar account for 60 per cent of total client outreach in India.

Loan disbursed to MFIs by financial institutions and banks has shown fluctuating trend over the period of 2016-17 to 2018-19. During 2015-16, number of loan accounts were reported 647 which increased to 2314 during 2016-17 however, the number of accounts declined to 1933 during 2018-19.. The amount of loan disbursed to Micro Finance Institutions has increased by 22.69 per cent during 2015-16 to 2017-18. Commercial Banks accounted a large share against amount of loan disbursed to MFIs by banks and financial institutions in India while outstanding loan against micro finance institutions as on 31st March, 2019 was reported to be Rs. 17760.66 crores. The amount of outstanding loan has shown increasing trend during 2015-16 to 2017-18.There has been phenomenon growth in MFI-bank linkages in India during 2012-13 to 2018-19. The number of MFIs to whom loan was disbursed by banks and financial institutions has increased by 4.54 times while there has been 3 times increased in the amount of loan disbursed to MFIs in India during the period of 2012-13 to 2018-19. Similarly, loan outstanding of MFIs has shown 2.69 times increase while amount of outstanding loan has increased by 1.23 folds during the corresponding period (NABARD, 2019).

Conclusion:

Micro-finance initiatives are well recognized all over globe as an effective tool for poverty alleviation and substantial income generation. In India too, micro-finance is playing crucial role in reducing poverty, empowering poor and small business development. Micro finance is seen as a central pivot in the development space with its focus on poor. The expansion of banking network and extending outreach of micro finance programmes has enabled poor to initiate income generating activities for their empowerment. The SHGs based micro financing has become a regular feature of the Indian financial system since 1996. The SHGs are small, informal and homogenous groups which have proved as cyclic agents of development in both the rural and urban areas. The micro finance movement in India, unleashed around the 1970s, has come a long way from being a tool for welfare, to becoming an effective strategy for poverty alleviation and development of enterprises. The movement has gained with the wider outreach of area and clients. In the last decade, micro finance has moved from a virtually unknown development tool to one of the key issues in economic development discourse.

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