

## Progress pathway of Microfinance in India: Challenges and Potential

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### Abstract

*In India, the non-accessibility of credit and banking facilities to poor and vulnerable segments of society has always been a major concern. Several steps have been taken from time to time by the Government and the Reserve Bank such as nationalization of banks, prescription of priority sector lending criteria and concessional interest rate for the weaker segment of society. It was, however, realized that further direct efforts were required to address the credit needs of poor people. In response to this requirement, the Micro finance movement started in India. The aim of this paper is to inspect the current status, challenges and potential of Microfinance in India. Descriptive research methodology is followed and analysis is done based on data available from secondary sources. This paper illustrates present challenges and potentials in Microfinance in India considering data of last ten years. This paper concludes with the finding that South Region of India is doing great and North Region of India is lacking in SHGs – Bank Linkage Programme.*

### Keywords

MFI, SHG, Microfinance, SHGBLP, financial sustainability

### I. Introduction

Microfinance comprises of financial services such as credit, savings, and insurance to low income individuals which comes just above the nationally defined poverty line, and poor individuals which comes below that poverty line, with the goal of forming social value. The creation of social value comprises poverty alleviation and the wider impact of refining livelihood opportunities through the endowment of capital for micro enterprise, and insurance and savings for risk mitigation.

According to NABARD, the non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India. The

Government and the Reserve Bank have taken several initiatives, from time to time, such as nationalization of banks, prescription of priority sector lending norms and concessional interest rate for the weaker section of society. It was, however, realized that further direct efforts were required to address the credit needs of poor people. In response to this requirement, the Micro finance movement started in India with the introduction of SHG bank linkage programme (SBLP) in the early 1990s. At present, there are mainly two models for delivery of Microfinance in India these are SHG – Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFIs)

## **II. Objectives of the Study**

1. To identify progress of Microfinance in India under SHG-Bank linkage programme (SBLP) and Micro Finance Institutions.
2. To identify the challenges faced by MFIs.
3. To explore the strategies to be implemented to overcome these challenges.
4. To identify the potential challenges associated with MFI's in India.

## **III. Review of Literature**

Prathap, Subrahmanya and Harisha B S (2018) found that the growth of microfinance is slowed down by numerous regulatory and operational foottraces they are obstructing the smooth functioning of Microfinance Institutions (MFIs). The main downside faced by MFIs in financing the rural poor people was the low profitability and much transaction cost while trying to maximize the reaching to the needy in terms of small credit at regular intervals. Hossain & Wadood (2018) have shown that the inspection was done about the Current Status, Prospects and Problems of Urban Micro finance in Bangladesh. They did the research on secondary data. This paper shows the glimpse of present scenario of Urban Microfinance by using tables, graphs, charts etc. they found out that urban microfinance in Bangladesh has been growing very rapidly during the last decade. During the 2006-17 period the number of members within the microfinance has increased by 110.69%. They say that the rate of proliferations of total net savings of Urban Microfinance members was higher than the rate of increases of total net savings of the rural microfinance members. The loan interest rate varies between 15%-30%.

Priyadarshani (2017) highlights the four important points on measuring the impact of microfinance. The first was Qualitative Study- Research Findings this study uncovered new variables like distance from the city center that influence the overall socio economic impact in

Deoghar District Jharkhand. The second study was Microfinance impact estimation using Control Group and variables were Increase in Income, Increase in Savings, Savings Differentials, Reduction in Migration Etc. Kumar et. al. (2015) concludes that the SHGs and MFIs are playing a very important role in delivering of micro finance services which lead to development of poor and low income group of people in India. However, leisurely progress of graduation of SHG members, deprived quality of group functioning, backout of members from groups etc. have also been reported in numerous parts of country which need to be taken into consideration while manipulative the next phase of SHG programme. The Microfinance Sector of the State Report (2013) states that the SHG programme has started to lose pace and optimism the programme initiated for almost 20 years ago by NABARD worked well with steady growth. But in the last three years it has slackened. And now, with the NRLM in the picture, things got worse without a clear agreement between NABARD and NRLM on how the SHG programme will evolve in the future. Sane and Thomas (2012) in their article “What should regulation do in the field of micro-finance?” had deliberated the dilemmas of financial regulation in this field from first principles, and claimed that the mainstream mechanisms of consumer protection and micro-prudential rule need to be modified due to joint-liability groups. They recommended that the regulatory policies that need to be adopted for dealing with micro-credit and financial distribution that emphases on the poor.

Above-mentioned studies highlighted the problems faced by Micro Finance Institutions and the slowed down in their Growth and the means of outspreading required credit funds to poor people. Some studies talked about the rural area people who are engaged in Agricultural Sector. Other studies were confined to specific time duration like 2-3 years of 5 years. And some studies were focused on specific Areas like Self Help Groups and few were focused towards Women Empowerment. In Contrast, this paper attempts to present a complete overview of the problems and challenges faced by Micro finance in India as a whole for a decade from 2010-2019.

#### **IV. Research Methodology**

This paper is based on Descriptive Study that has been done by collecting and examining secondary data. The background data were compiled from reliable secondary sources like NABARD including different survey reports, research articles, brochures and newspaper articles. This research paper majorly focuses on two segments and channels of micro finance viz. Self Help Group Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFIs)

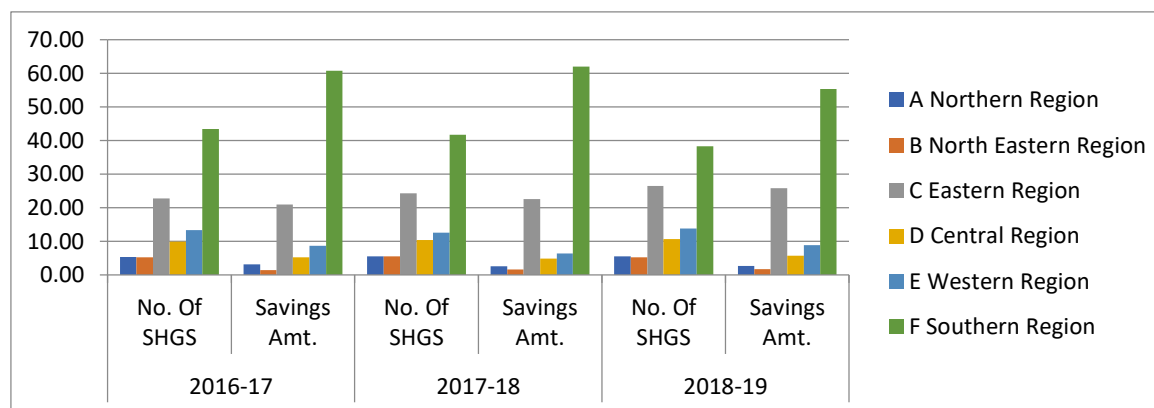
## V. Data Analysis and Interpretation

Table 1: Region-wise progress of saving linked SHGs with Banks (2016-17 – 2018-19)  
(Amt. Rs. Lakhs)

Regions	2016-17		2017-18		2018-19	
	No. Of SHGS	Savings Amt.	No. Of SHGS	Savings Amt.	No. Of SHGS	Savings Amt.
Northern Region	457199	49676.28	478883	49293.91	548624	62452.82
North Eastern Region	452887	22955.7	485591	32207.59	523469	40407.05
Eastern Region	1953076	336538.57	2130997	441803.18	2654358	601154.88
Central Region	848514	83898.12	902222	95385.11	1062759	133230
Western Region	1140601	138696.27	1097448	124694.93	1388615	205275.15
Southern Region	3724598	979657.7	3649296	1215826.8	3836418	1289928.25
<b>Total</b>	<b>8576875</b>	<b>1611422.64</b>	<b>8744437</b>	<b>1959211.52</b>	<b>10014243</b>	<b>2332448.15</b>

Source: NABARD

Figure 1: Regional Distribution of SHGs with savings Linkages (% Share of SHGs)



Source: NABARD

Table 2: Progress under MFI – Bank Linkage Programme

Progress under MFI - Bank Linkage Programme																	(Amount in Crores)	
Particulars	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		2018-19	
	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount	No. Of Account	Amount
Loans disbursed by banks to MFIs	471	844.96 (-21.3%)	465	5205.29	426	7839.51 (50.6%)	545	10282.49 (31.16%)	589	15190.13 (74.73%)	647	20795.57 (36.90%)	2314	19304.4	1922	25515.2	1933	14626
Loan Outstanding against MFI as on	2315	13730.62 (-2.0%)	1960	11450.4	2042	14425.84 (26%)	2422	16517.43 (14.50%)	4662	22500.46 (36.22%)	2020	25580.84 (13.69%)	5357	29225.5	5073	32305.9	5488	17760.7
Loan Outstanding as a % of Fresh Loan				219.98		184.01		160.64		148.13		123						

Source: NABARD

The above data is collected on two segments of Micro Finance: SHG – Bank Linkage Programme and MFI – Bank Linkage Programme which shows overall progress of SHGs and MFIs Savings, Loan Disbursed and loan outstanding in overall India. The relevant information relating to loans disbursed, loans outstanding, client outreach, assets, etc. were collected from Status of Micro Finance in India, NABARD report (various issues), The Bharat Microfinance Report (various issues) and other relevant sources for the period 2010-11 to 2018-19

## VI. Key Findings

### Progress of MFIs under Self Help Group Bank Linkage Programme (SBLP)

- As we can see in the below table Savings Linked with SHGs Bank of last three years 2016-17 to 2018-19, In the year 2016-17 No. of SHGs were 85,76,875 which increased to 1,00,14,243 so it shows a good increase in the number and a lot many people have opened their account in SHG and getting the benefit of it.
- The another thing from the below table, we can see that from last three years major contribution region wise is of South India they worked on it really hard and had a great achievement.
- Last thing, we can see that savings amount is increased by 45% in last three years. So, we can say that they are working and going in right direction to help lower class people.
- North Region and North Eastern Region lacks in SHGs Bank Linkage Programme; they need to work hard and give their best they can.

### Progress of MFIs under MFI-Bank linkage Programme

- In the below table of MFI – Bank Linkage Programme, we can see last 10 years data of Loan Disbursed by Banks to MFIs and Loan Outstanding against MFI. As we can see no. of account in 2010-11 which was 471 and now in 2018-19 it is increased to 1933 which is 310% in last 10 Years.
- The amount of Loan disbursed in 2010-11 was a decrease from the last year by 21.3% which was increased and became positive in 2015-16 is 36.90% at that time they were doing great. But in last year 2018-19 it again decreased which is a drawback it means they are not giving their best services to their customers.
- The indicator relating to overall financial structure such as Return on assets and Return on equity, capital sufficiency ratio has increased over this period. The average OSS of the Indian MFIs has increased from 113 per cent in 2016 to 114 per cent in 2017.

## VII. Challenges in Microfinance

- **Dropouts and Migration of group members:** Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group). Most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.
- **Difficulty in measuring the social performance of MFIs:** - There is no specific tool to measure the performance with proves that is working in positive direction and where it lacks, what more initiative is needed.
- **Lack of customized solution for the poor people:** - Many poor and rural people are illiterate and not able to easily understand about the rule, policies, and features of products. Thus, proper channel must be set up for the customer satisfaction and solution of problem.
- **Dual responsibility of MFIS to be financially sustainable, sound and development oriented:** MFIs have dual responsibility to be financially sound and work for socioeconomic development of in rural, semi rural or urban areas.

- **Human resource challenges in MFIs:** Due to low salary, low growth rate, lack of resources, and lack of good human resource policies, employee' resignation rate is high.
- **Challenge regarding clarity of regulation about MFIs:** Still, microfinance bill is pending. How to make clear regulation and policies about MFIs is a big challenge.

### **VIII. Potentials in Microfinance**

- Majority of clients belong to caste, ethnic or religious groups that are historically discriminated against and live in under developed, under-served regions including northeast.
- Being a learning organization, gathering and applying best practices from other banks and institutions in the microfinance industry.
- Systematic client consultation: they can elect client committees to guide the organization and broaden the level and gather the feedback by discussions and surveys.
- Frequent and long term client engagement: They should establish a pattern of frequent meetings with clients to become a part of clients' lives.
- Leveraging finance for sustainable community development: To address the need for services beyond finance by devising potentially sustainable solution.

### **IX. Conclusion and Recommendation**

It can be concluded that the importance of microfinance in developing countries like India cannot be undermined as it plays a vital role for socio-economic upliftment of poor and low income people. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development. Hence, Microfinance can play a vital role for improving the standard of living of poor. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc.

This paper recommends that the following:

- **Proper Regulation:** The regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment that protects interest of stakeholders as well as promotes growth, is needed.

- **Field Supervision:** In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep a check on the performance of ground staff of various MFIs and their recovery practices. This will also encourage MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.
- **Encourage rural penetration:** It has been seen that in lieu of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.
- **Complete range of Products:** MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.

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