



## Microfinance in India: An overview

### ORIGINAL ARTICLE



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### Abstract

*Microfinance Institutions (MFIs) is playing very crucial role in economic development of India. Microfinance is a very important source of obtaining financial services for those people and micro enterprises that do not have easy access to commercial banks and other financial institutions. Microfinance does not only fulfill the shortage of physical capital amongst the poor but also creates social awareness among corporate level to marginalized market segment of the society. It gives services such as loans, deposit facilities, payment related services, money transfers, insurance to poor and low income households and for their micro enterprise. This research article throws light on the role and current status of microfinance in Indian perspectives.*

### Key Words

*Microfinance, Microcredit, Financial Inclusion, Entrepreneurs.*

### Introduction

Microfinance can be defined as, financial services such as banking facilities like saving account, fund transfer, insurance facilities, and credit facilities provided to poor and small income groups so as to help them increase their income, thereby improving their standard of living. A basic feature of microfinance is that under it, loans are provided to people without any security. It not only provides financial help to small businessmen and entrepreneurs in urban areas but also helps in the economic development of people living in rural areas. So we can say that Microfinance institutions focus on both urban and rural areas. It takes various types of measures to eliminate poverty in rural India. In the context of a developing country like India, it would be correct to say that most of the population of India resides in rural areas and they face financial difficulties to meet their basic needs. Microfinance can help to overcome these difficulties.

### Objectives of the Study

- To know the Concept of Micro finance India.
- To study the role of Micro finance in India.
- To study challenges before microfinance in India.

### Research Methodology

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to highlight the conceptual analysis.

Micro Finance includes the Following Products:

- Short term loans.
- Long term loans.
- Emergency loans.
- Fund transfers.
- Short term deposit.
- Medium term deposit.
- Pension plan or long term deposit.

## Features of Microfinance

Some of the important features of microfinance are as follows:

1. **No Collateral required:** The most important feature of micro credit under microfinance is that it does not require any security deposit.
2. **The Borrowers are generally Poor People:** The main objective of microfinance is to help the needy people. So generally the borrowers of microfinance are the people belonging to backward areas of India and small businessmen or entrepreneurs.
3. **The Tenure of Loan is Short:** Microfinance institutions give small amounts in the form of loans; hence their repayment period is also very short. The borrowers have to return the loan amount to the bank within the stipulated period.
4. **Small Amount given to Borrowers:** Generally the amount taken as loan under microfinance is very small. It is also called micro loans. The money given in the form of microloans under microfinance is usually in a small amount ranging in between <sup>1</sup> 20,000 – <sup>1</sup> 30,000 in India.
5. **Loans given for Income Generating Purpose:** As we all know that microfinance loans are given to small businessmen and people with low income. So the main focus of microfinance loans is to generate income for the marginalized section of the society, so that he can live his life with respect.

There are mainly two Streams of microfinance in India. Microfinance is primarily distributed through two channels:

### 1. The SHG-Bank Linkage Microfinance Programme (SBLP)

- The Self Help Group-Bank Linkage Programme (SBLP) was started as an action research by the NABARD in 1989 and was later crystallized into a pilot project in 1992.
- In this model there is mainly a group of 10 to 15 members in which economically weaker women are included. They contribute their savings to the group regularly. These contributions are used to provide loans to those group members who really need it.
- Later on, SHGs are also offered bank loans, which can be used to fund income-generating activities.
- This model has led to success in the past. It has also gained popularity in helping to empower women in entrepreneurship.
- Once these self-sustaining groups have achieved stability, they can operate almost independently with minimum support.

## Key Statistics under SHG-BLP as on March 2022

- Total Amount disbursed during 2021-22 — Rs. 99,729 crore.
- Total loan amount outstanding — Rs. 1,51,051 crore.
- Total No. of SHGs credit linked during 2021-22 – 33.98 lakhs.
- Total number of SHGs with loan outstanding – 67lakhs.

- Total saving amount of SHGs linked with banks — Rs. 47,240 crore.
- Total number of SHGs saving linked with banks –118.93 lakhs.

## 2. Microfinance Institutions (MFIs)

- The primary business of these institutions is microfinance.
- These lend under the concept of a Joint Liability Group (JLG), an informal group of 5-10 members who seek loans together or separately.

## Historical Aspects of Microfinance

The history of Micro-financing can be traced back to the middle of the 18<sup>th</sup> century. At that time, Theorist *Lysander Spooner* was making people understand through his writings how small entrepreneurs and farmers could be brought out of poverty through small credit. By the end of the Second World War, his ideology took a huge form. Microfinancing expanded into a new era in 1970s during the development of Grameen Bank of Bangladesh, which was founded by the microfinance pioneer, *Muhammad Yunus*. In 1976, Yunus gave an institutional form to microfinance with the establishment of Grameen Bank in Bangladesh. Most of the people in developing countries still depend on farming and basic food trade for their livelihood. Therefore they need support through micro credit.

*Akhtar Hameed Khan* is another pioneer of microfinance sector. At that time various types of new experiments were done in the field of microfinance. Lots of pioneering enterprises starting experiment with loaning to the poor people. In 1974, the first microfinance bank was established in Chicago named 'Shorebank'.

United Nation Economic and Social Council declared international year of microcredit in the year 2005. This effort of the United Nations was successful to a great extent. In the year 2006, *Md. Yunus* was awarded the Nobel Prize for his contribution in the field of micro credit.

## Microfinance in India

Self-Employed Women's Association which is popularly known as SEWA was started in 1974 by *Ela Bhatt* in Ahmedabad, Gujarat. It is now one of the first modern-day microfinance institutions of the country. NABARD offered financial services to those people who do not have account in commercial banks, especially women. Afterwards NABARD decided to experiment with a different strategy, which is now popularly known as Self-help Groups (SHGs). SHG Bank Linkage Programme (SHG-BLP) has become an important instrument of financial inclusion with 118.93 lakh SHGs covering nearly 14.2 crore households, brought under the formal banking fold. It also supports social, economic and financial empowerment of the rural poor, especially the women. The programme has been steadily progressing year on year with additional groups being formed and getting linked to banks. In 2021-22 too, there was a net addition of 6.7 lakh savings linked SHGs, with a stable growth of 6%.

## The Current Status of Microfinance in India:

Branches are the operational units for an MFI. As on 31<sup>st</sup> March 2022, there were 22,428 branches of KFIs operating in the country. This number has shown an increase of 12 % compared to 2020-21, when it was at 20,065. The total number of clients served by MFIs, as on 31<sup>st</sup> March 2022 stood at 448 lakhs. Number wise client outreach in 2021-22 has increased to 448 lakhs from 422 lakhs, posting a moderate growth of 6%. The slow growth is mainly due to the pandemic during the period. As on 31<sup>st</sup> March 2022, 213 MFIs have served 448 lakh clients through 669 lakh active loans. Out of 699 lakh active loans, 158 lakh loans have been covered under cashless collection mode.

In the Financial Year 2021-22, in addition to 213 MFIs, 9 Small Finance Banks (SFBs) who are involved in microfinance have submitted data. As on 31<sup>st</sup> March 2022, total number of clients served by 9 Small Finance Banks together is 154 lakhs through 4,025 branches across 33 States/UTs. About 117 lakh

new borrowers were added by 144 MFIs during financial year 2021-22. As of Marh 2022, the total loan portfolio outstanding of MFIs has reached <sup>1</sup> 1,35,099 crores with a growth of 19%.

### Geographical Spread of Microfinance

MFIs currently operate in all 28 States, 5 Union Territories and over 602 districts in India. Table 1.1 shows the distribution of MFIs by State/UT. In particular, it shows the number of MFIs operate in each State/UT.

**Table 1:** No. of MFIs in Indian States/UTs

	FY 2021-22	FY 2020-21
<b>No. of State/UTs</b>	<b>No. of MFIs</b>	
1	99	98
2 to 5	70	63
6 to 10	26	31
11 to 15	06	03
>15	12	13
<b>Total</b>	<b>213</b>	<b>208</b>

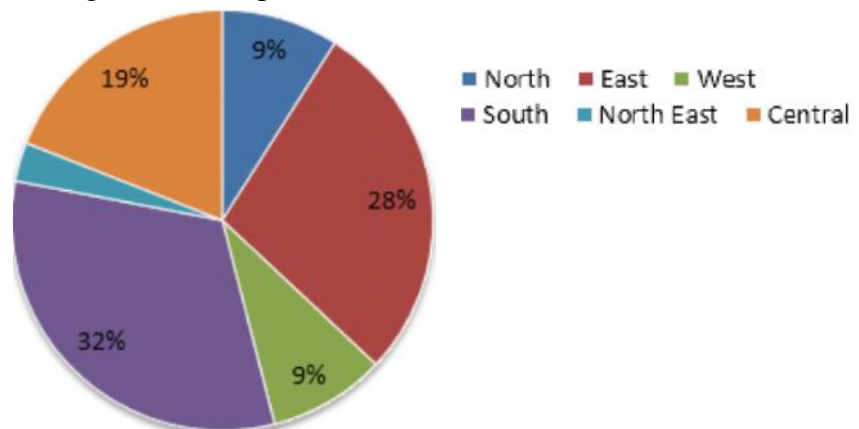
(Source: The Bharat Microfinance Report 2022)

Because of the dynamic nature MFIs, there has been some changes in the number of States/UTs operated by them on year to year, as can be seen from Table 1.1. While there was an increase in the number of MFIs operating in 2 to 5 States, there was a reduction as far as MFIs operating in 6 to 10 States. This could due to expansion/reduction/closure of operations of MFIs especially in the light of external events including recent pandemic or the merger of some entities in the consolidation process.

### Regional Outreach of MFIs

Out of the total client base of 448 lakhs, Southern region was leading with 32%, followed by Eastern region with 28%, Central region with 19% and Western and Northern region each with 9%. Northeast region has the least client outreach at 3%.

**Table 2:** Regional break up of Client Outreach



(Source: The Bharat Microfinance Report 2022)

### State-wise Client Outreach

Client outreach in various States/UTs is mapped in Table 1.3. it is observed that the client outreach of some States/Uts like West Bengal, Kerala, Maharashtra, Tamil Nadu, Puducherry, Andhra Pradesh and almost all states of North East such as Assam, Sikkim, Mizoram, Meghalaya, Nagaland, Manipur have experienced negative growth in active clients while States such as Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh, Haryana, Arunachal Pradesh, Tripura etc. have experienced a positive growth.

**Table 3:** Client Outreach (in lakhs) of MFIs across States/UTs

State/UT	2022	2021	Growth (%)
Karnataka	70.64	65.20	8.35%
Tamil Nadu	57.35	57.39	-0.07%
Bihar	52.60	46.12	14.04%
Uttar Pradesh	43.32	36.22	19.59%
Madhya Pradesh	32.82	29.78	10.21%
Odisha	30.60	30.27	1.09%
Maharashtra	27.73	27.75	-0.08%
West Bengal	27.40	28.93	-5.30%
Rajasthan	20.82	18.10	15.03%
Jharkhand	13.27	10.53	26.01%
Gujarat	12.25	11.39	7.58%
Kerala	11.69	11.99	-2.53%
Chhattisgarh	10.29	9.90	3.89%
Punjab	10.02	9.54	5.04%
Haryana	8.66	7.17	20.75%
Assam	7.74	11.33	-31.64%
Tripura	2.89	2.73	5.97%
Uttarakhand	2.59	2.00	29.57%
Andhra Pradesh	2.29	2.65	-13.59%
Puducherry	1.21	1.36	-10.83%
Himachal Pradesh	0.47	0.29	62.30%
Manipur	0.40	0.42	-4.23%
Telangana	0.33	0.28	17.53%
Goa	0.31	0.25	22.14%
Delhi	0.14	0.14	0.89%
Jammu & Kashmir	0.13	0.08	58.95%
Meghalaya	0.10	0.15	-36.14%
Chandigarh	0.08	0.07	9.14%
Sikkim	0.08	0.18	-57.57%
Arunachal Pradesh	0.03	0.09	70.10%
Andaman & Nicobar Islands	0.02	0.02	-20.99%
Nagaland	0.01	0.02	-34.40%
Dadra & Nagar Haveli and Daman & Diu	0.00	0.00	0.00%
Ladakh	0.00	0.00	0.00%
Lakshadweep	0.00	0.00	0.00%
<b>Total</b>	<b>448.00</b>	<b>422.00</b>	<b>6.24%</b>

(Source: The Bharat Microfinance Report 2022)

## Importance of Micro-finance in India

In a country like India, where more than 80 percent people work in the unorganized sector, microfinance institutions may be very useful. Because of the lengthy process and high charges, local banks are often not an option for small business owners. People can lack the paperwork needed to create an account, such as identity proof, address proof and income verification. They are unable to read and write clearly enough to fill

the forms. Microfinance institution fulfills its responsibility and helps people in this regard. In India, microfinance has a significant impact on country's economic development. It helps in alleviating poverty of the people living in rural areas of India. Micro finance institution basically provides his services to small business owners with access to money. It provides services related to insurance, loans and savings accounts to the poor people.

The microfinance institution especially focuses on the upliftment of women. It serves as a tool for the strengthening of low-income women because as they gain independence, they can immediately improve the lives of their families and challenge all forms of gender inequality. The poor households in rural and urban areas, as well as women, are the main focus of microfinance. Regarding the minimum and maximum sums that can be loaned, the Reserve Bank of India does not impose any restrictions.

### **Challenges before MFIs in India**

In spite of great advantages of micro finance scheme there are some challenges which are great hurdle in achieving the main objectives of micro finance institutions.

- **Insufficient Data** : As far as the total loan accounts are concerned, they are increasing rapidly but the data related to how much it has helped in poverty alleviation is either not available and even if available, it is not completely correct.
- **Impact of COVID – 19**: COVID and its variants had severely disrupted the livelihoods of the poor people. Studies by several institutions show that a number of enterprises closed down or scaled down operations. The unorganized sector was deeply affected during COVID-19 pandemic and associated lockdowns. The disruptions so caused adversely affected credit deployment by MFIs and their repayment cycle.
- **Social Purpose was Ignored**: Microfinance institutions were established for those peoples who are still not connected to the mainstream of society. In recent years, microfinance institutions have been focusing more on their profitability and growth rate but paying less attention to social responsibility.
- **Non-income Generating Loans**: It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. But this is not completely true. Analysis of the loan portfolio held by 132 reporting MFIs for 2021-22 shows that the proportion of income generation loans to non-income generation loans is 96:4.

### **Conclusion & Suggestions**

Micro finance Industry is growing very fast in India but as we know a lot of the total population of India is still poor hence it has to grow more rapidly. Currently, microfinance companies are able to provide their services to only 25 percent of India's poor. For covering the remaining poor with micro finance schemes, Micro finance would get recognized and organized as an industry in India. Saving services should be available for all poor clients through both banks and micro finance institutions. It is fact that micro finance schemes are more popular in southern India, which create regional disparities in micro finance outreach. This should be addressed through both the bank linkage program as also MFI.

Commercial banks and Micro finance institutions should come together as a partner and the Government should have work constructively with NGOs to solve many of the problems faced by the micro finance sectors. State Government should take an active part in promoting micro finance scheme. It is necessary that micro-finance sector displays strong and consistent growth so that majority of the poor have access to institutional financial services.

If seen overall, microfinance has made a very positive contribution in the field of inclusive growth in India. It has a huge role in providing opportunities to all sectors of the economy. SHGs bank linkage programme is playing an important role in women empowerment. It provides microfinance services to women across India to connect them to the mainstream of the economy. With the help of various models of microfinance,

financial facilities can be provided to those people of the society who were deprived of this facility till now. Different development activities are provided by the microfinance institutions like basic education, financial literacy capacity building, livelihood promotion, preventive healthcare, etc. but there is some weaker section of microfinance institutions, that is most of the microfinance institutes are work in the southern region of India. It is very important that microfinance institutions should be spread all over India.

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