

A STUDY ON PROGRESS OF MICRO FINANCE INSTITUTIONS BANK LINKAGE PROGRAM IN INDIA

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ABSTRACT

Micro Finance Institutions (MFIs) act as an important channel for extending financial services to the microfinance sector in the country by raising resources from Banks and other institutions and extending loans to individuals or members of SHGs/JLGs. MFIs have evolved into a vibrant segment of financial sector exhibiting a variety of business models in recent years. The Indian Microfinance Sector has witnessed a phenomenal growth over the past few years. The number of Institutions providing microfinance services has gone up from a few to several hundreds. The Government of India and the Reserve Bank of India has created conducive policy and regulatory framework for Microfinance Institutions (MFIs) to operate in the country. The quantum of credit made available to the poor and financially excluded clients has gone past Rs.60,000 crore and number of clients benefitted is close to 40 million as of March 2016. The present research article is to study the overall progress of MFI-Bank Linkage Program.

Key Words: *Micro Finance Institutions (MFIs), Self Help Groups (SHGs), Joint Liability Groups (JLGs), National Bank for Agriculture and Rural Development (NABARD), Financial services*

I. INTRODUCTION

Microfinance can be defined as the provision or the source of providing financial services to those sections of the society to whom these services are not available. This would include people from the lower end of the economic spectrum, the so called “bottom of the pyramid”. In India, the National Bank for Agriculture and Rural Development (NABARD) has defined microfinance as the “provision of thrift, credit and other financial services and products of very small amounts to

the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards” (NABARD, 1999) While exclusively covering the poor, it lays emphasis on graduating borrowers from the pre-microfinance stage to the post-microfinance stage with the support of financial and non-financial services.

a) Banking system through the SHGs under SHG-Bank Linkage Program (SHG-BLP) and JLG bank lending program and

b) Through Micro Finance Institutions (MFIs) lending through individual and group approach.

II. LITERATURE REVIEW

Manoharan, P. et al. (2011) studied to analysis the financial performance of various microfinance institutions operating in India based on their operating profile, financial health and performance.

Moses, E. (2011) focus on the origin and concept of micro finance, features and role of microfinance in India, reviewing the progress and weakness followed by suggestion for making micro finance as an effective instrument of poverty elevation, women empowerment and rural development in India.

Padama K. M. S. et al. (2012) stated about the framework to help MFIs to adopt the systematic way of risk management practices in order to capitalize new opportunities and also to minimize the risks in their operations.

Nasir, S (2013) tries to outline the prevailing condition of the microfinance in India in the light of its emergence till now and its aim is to provide a cost effective mechanism for providing financial services to the poor.

III. OBJECTIVES OF THE STUDY

To study the evolution of microfinance in India and progress of microfinance institutions bank linkage program in India and its delivery models.

IV. RESEARCH METHODOLOGY

This study is purely based on available Secondary data. The data and information has been collected with the help of Research Articles, Reports of RBI, NABARD, MFIN, Bharat microfinance etc. The data was collected for the period from 2012-13 to 2016-17.

V. EVOLUTION OF MICROFINANCE INSTITUTIONS

Microfinance Institutions in India emerged in the late 1980s in response to the gap in availability of banking services for the un served and underserved rural population. Their business **proliferated** in 1990s under the open economy regime. Most of the institutions that entered in the field were from the social sector and hence they took the legal form of **trusts** or Societies. However, not-for-profit status of those institutions started becoming a limitation for the sustainability and scalability forcing them to **morph** as MFIs with the business growth. However, due to **specificity** of the business they were pursuing, these institutions were then registered as NBFC-MFIs under the category created by RBI based on Malegam committee recommendations.

In a country like India with almost 30% (more than 360 million) people still below poverty line and according to latest census figures, more than 70% or 840 million people living in rural areas with little or no access to formal banking and other financial services, microfinance has a big role to play in order to bridge this gap. The history of micro financing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. The current day use of the expression micro financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, were starting and shaping the modern industry of microfinance.

In the Indian context, true expansion of financial services in India started with the nationalization of all banks in the country during the late 1960s. This was reinforced with the establishment of Regional Rural Banks (RRBs) in 1976, and directed credit became the mantra of

the Indian financial sector. The microfinance sector in India gained real impetus with the establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982. From humble beginnings, the sector has grown significantly over the years to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India and the NABARD devoting significant financial resources to microfinance. Today, the top five private sector MFIs reach more than 20 million clients in nearly every state in India and many Indian MFIs have been recognized as global leaders in the industry.

VI. PROGRESS UNDER MFI-BANK LINKAGE PROGRAMME

The Indian Microfinance Sector has witnessed a phenomenal growth over the past few years. The number of Institutions providing microfinance services has gone up from a few to several hundreds. Post Andhra crisis, the Reserve Bank of India has notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations named as NBFC–MFIs have been created subject to satisfying certain conditions regarding the capital to be employed, lending to members, cap on interest to be charged and margin to be retained, etc. The quantum of credit made available to the poor and financially excluded clients has reached `46,842 crore and number of clients benefitted crossed 29 million as of March 2017 without the data of 6 large sized MFIs who converted to Small Finance Banks before April 2017. The importance of microfinance can be assessed by the fact that the Reserve Bank of India classifies microfinance loans as priority sector loans. The successful utilization of microfinance loans for income generation as proven by high repayment rates of microfinance clients is one of the reasons that there is now a proven business case for such loans. The total gross loan portfolio of MFIs, excluding Small Finance Banks (SFBs), was over `46,000 crore on 31 March 2017. This is a growth of around 18% over the previous year.

The Agency-wise detail of loans extended to MFIs during the last 5 years is shown below.

Table-1: Loans to MFIs by Commercial Banks

(Amt. Rs. lakh)

| Year | Loans disbursed to MFIs during the year | | | Loan outstanding against MFIs as on 31 March | | |
|---------|---|-----|----------|--|-----|----------|
| | No. of Loan Accounts | % | Amount | No. of Loan Accounts | % | Amount |
| 2012-13 | 368 | 100 | 7422.66 | 1769 | 100 | 12467.72 |
| 2013-14 | 484 | 132 | 9468.83 | 2197 | 124 | 14307.57 |
| 2014-15 | 541 | 147 | 13858.64 | 4445 | 251 | 18720.61 |
| 2015-16 | 564 | 153 | 19324.14 | 1561 | 88 | 22682.85 |
| 2016-17 | 1430 | 389 | 17091.33 | 3328 | 188 | 25089.18 |

Source: Status of Microfinance in India 2012-13 to 2016-17

(figures in the % column indicates growth/decline over the base year)

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

The total loans to MFIs by Commercial banks increased gradually for the year 2016-17 in comparison to the previous years respectively. While the loan outstanding against MFIs increased at a much lesser space at 188%. The growth in this sector is also due to Reserve Bank of India allowing many NBFC-MFIs to act as banking correspondents (BCS) connecting commercial banks with customers in small towns and rural areas.

Table-2: Loans to MFIs by Regional Rural Banks

(Amt. Rs. lakh)

| Year | Loans disbursed to MFIs during the year | | | Loan outstanding against MFIs as on 31 March | | |
|---------|---|-----|--------|--|-----|--------|
| | No. of Loan Accounts | % | Amount | No. of Loan Accounts | % | Amount |
| 2012-13 | 14 | 100 | 4.58 | 153 | 100 | 70.66 |
| 2013-14 | 16 | 114 | 163.18 | 124 | 81 | 222.00 |

| | | | | | | |
|---------|----|-----|-------|-----|-----|---------|
| 2014-15 | 15 | 107 | 47.69 | 131 | 86 | 1186.62 |
| 2015-16 | 31 | 221 | 52.42 | 344 | 225 | 210.23 |
| 2016-17 | 13 | 93 | 37.83 | 250 | 163 | 78.75 |

Source: Status of Microfinance in India 2012-13 to 2016-17

(figures in the % column indicates growth/decline over the base year)

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

The number of loan accounts opened with regional rural banks has been increased in the year 2015-16 in comparison to the previous years respectively. The positive aspect is that the outstanding loans with MFIs has been decreased which shows that the MFIs are performing well enough in the field of providing loans to the borrowers.

Table-3: Loans to MFIs by Cooperative Banks

(Amt. Rs. lakh)

| Year | Loans disbursed to MFIs during the year | | | Loan outstanding against MFIs as on 31 March | | |
|---------|---|-------|--------|--|------|--------|
| | No. of Loan Accounts | % | Amount | No. of Loan Accounts | % | Amount |
| 2012-13 | 3 | 100 | 4.00 | 18 | 100 | 6.83 |
| 2013-14 | 4 | 133 | 4.48 | 17 | 94 | 7.97 |
| 2014-15 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2015-16 | 3 | 100 | 6.00 | 17 | 94 | 11.76 |
| 2016-17 | 834 | 27800 | 207.33 | 1682 | 9344 | 261.54 |

Source: Status of Microfinance in India 2012-13 to 2016-17

(figures in the % column indicates growth/decline over the base year)

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

Cooperative banks are not actively involved in providing loans to the Microfinance Institutions. Data in the above table shows that the accounts in the year 2014- 15 were nil. The contribution of cooperative banks is relatively low in comparison to other financial institutions upto 2015-16. Whereas in the year 2016-17, it has got increased by a good percentage with the adoption of technology and liberalization of regulatory policies & new business activities. Cooperative banks are now functioning in a highly competitive environment. Cooperative banks with their intimate knowledge of customers and familiarity with the area of operation can attract new customers and retain the existing clientele with their unique selling proposition.

Table-4: Loans to MFIs by SIDBI

(Amt. Rs. lakh)

| Year | Loans disbursed to MFIs during the year | | | Loan outstanding against MFIs as on 31 March | | |
|---------|---|-----|---------|--|-----|---------|
| | No. of Loan Accounts | % | Amount | No. of Loan Accounts | % | Amount |
| 2012-13 | 41 | 100 | 408.27 | 102 | 100 | 1880.63 |
| 2013-14 | 41 | 100 | 646.01 | 84 | 82 | 1979.90 |
| 2014-15 | 33 | 80 | 1283.80 | 86 | 84 | 2593.23 |
| 2015-16 | 49 | 120 | 1413.01 | 98 | 96 | 2676.00 |
| 2016-17 | 37 | 90 | 1967.90 | 97 | 95 | 3795.98 |

Source: Status of Microfinance in India 2012-13 to 2016-17

(figures in the % column indicates growth/decline over the base year)

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

The loan accounts have been increased in the year 2015- 16 in comparison to the year 2014- 15. SIDBI is actively working towards providing funds to the Microfinance Institutions and at the same time loan outstanding with MFIs is also very high.

Table-4: Loans to MFIs by all Agencies

(Amt. Rs. lakh)

| Year | Loans disbursed to MFIs during the year | | | Loan outstanding against MFIs as on 31 March | | |
|---------|---|-----|----------|--|-----|----------|
| | No. of Loan Accounts | % | Amount | No. of Loan Accounts | % | Amount |
| 2012-13 | 426 | 100 | 7839.51 | 2042 | 100 | 14425.84 |
| 2013-14 | 545 | 128 | 10282.49 | 2422 | 119 | 16517.43 |
| 2014-15 | 589 | 138 | 15190.13 | 4662 | 228 | 22500.46 |
| 2015-16 | 647 | 152 | 20795.57 | 2020 | 99 | 25580.84 |
| 2016-17 | 2314 | 543 | 19304.38 | 5357 | 262 | 29225.45 |

Source: Status of Microfinance in India 2012-13 to 2016-17

(figures in the % column indicates growth/decline over the base year)

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

It can be observed that the total amount of loans disbursed to Rs. 7839.51 lakh against 426 MFIs as on 31st March 2013. The same has been increased to Rs. 19304.38 lakh against 2314 MFIs as on 31st March 2017. The total amount of loans outstanding against 2042 MFIs as on 31st March 2013 amounted to Rs. 14425.84 lakh. The same has been increased to Rs. 29,225.45 lakh against 5357 MFIs as on 31st March, 2017.

VII. DELIVERY MODELS

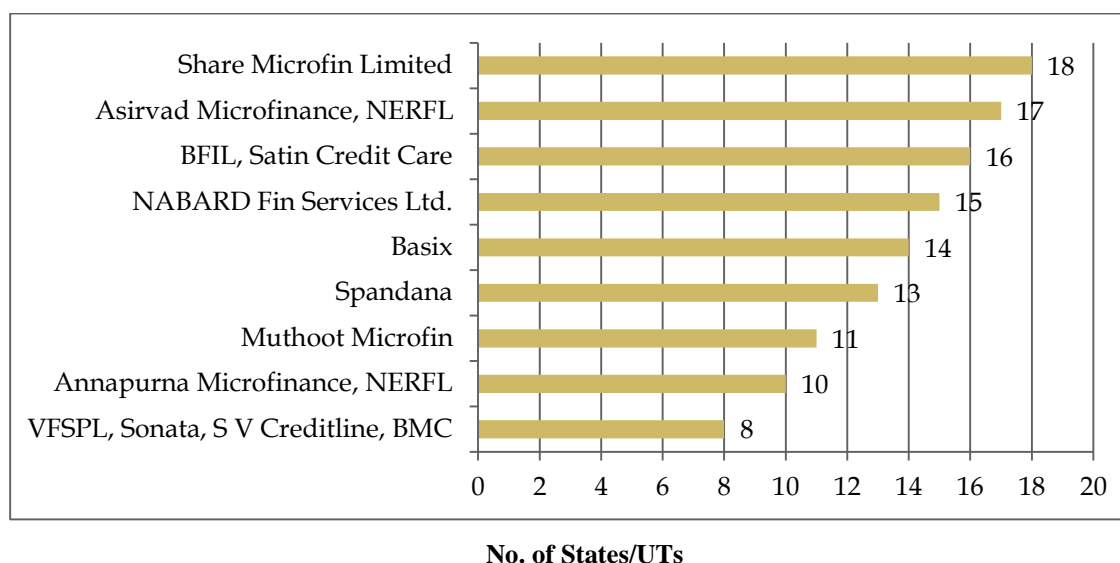
MFIs as Channels for Govt. Programs

Reserve Bank granted NBFC-MFIs general permission to act as channelizing agents for distribution of loans under special schemes of central/state government agencies exempting such loans from the qualifying assets criteria. This would be a big boost to MFIs to take a rightful place in the implementation of credit-linked poverty alleviation programs of central and state governments. At the same time it would give a fillip to the spread of implementation of these programs to the difficult and remote areas still unreached by banks.

Geographical Spread of Microfinance

MFIs currently operate in 29 States, 4 Union Territories and 563 districts in India. 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 25 in 2015 -16. List of top 10 MFIs operating in more number of states are presented in Figure 1 respectively.

Figure 1: Top 10 MFIs Operating in Number of Indian States/Union Territories



Source: *The Bharat Microfinance Report 2017*

Outreach to Special Segment of Borrowers (Women, SC/ST, and Minorities)

World over the focus of microfinance has always been on serving women. In India as an alternate vehicle of credit, microfinance serves a large segment of people from Scheduled Castes, Scheduled Tribes and Minorities. According to the data for the year 2016-17 Women clients constitute 96% of the total clients of MFIs. Microfinance Institutions targets women borrowers because most of the rural and marginalized women are not able to fulfill the basic necessities. Women are generally sensitive towards the work and thus put their efforts to achieve the targets

of their work. The chance of returning the amount along with the interest is comparatively high in case of women population as they keep the account of money and invest according to the need of time and work purpose. Similarly, SC/ST borrowers also constitute a substantial chunk (20%) of the clients. Focusing on microfinance services towards women, SC/ST and minorities, MFIs are contributing significantly to the well being of the under privileged, leading to a rise in their welfare and assisting with the financial inclusion agenda.

Table 2: Composition of Borrowers – Category wise

| Year | Women Borrowers | SC/ST Borrowers | Minority Borrowers |
|---------|-----------------|-----------------|--------------------|
| 2012-13 | 96% | 21% | 23% |
| 2013-14 | 97% | 19% | 14% |
| 2014-15 | 97% | 28% | 18% |
| 2015-16 | 97% | 30% | 27% |
| 2016-17 | 96% | 20% | 10% |

Source: The Bharat Microfinance Report 2017

REVOLVING FUND ASSISTANCE / CAPITAL SUPPORT TO MFIs BY NABARD

NABARD has been providing financial assistance to MFIs since 2007-08 by way of capital/ revolving fund support to help them to extend their outreach to the poor households and to enable them to leverage commercial borrowings from banks. However, after the announcement of creation of “India Microfinance Equity Fund” with SIDBI for the same purpose these supports were discontinued with effect from 1st April, 2011. The outstanding against capital support provided by NABARD stood at Rs. 3.80 crore to 12 entities as on 31 March 2017 and the RFA outstanding was Rs. 4.25 crore against 11 entities.

REFINANCE TO MFIs

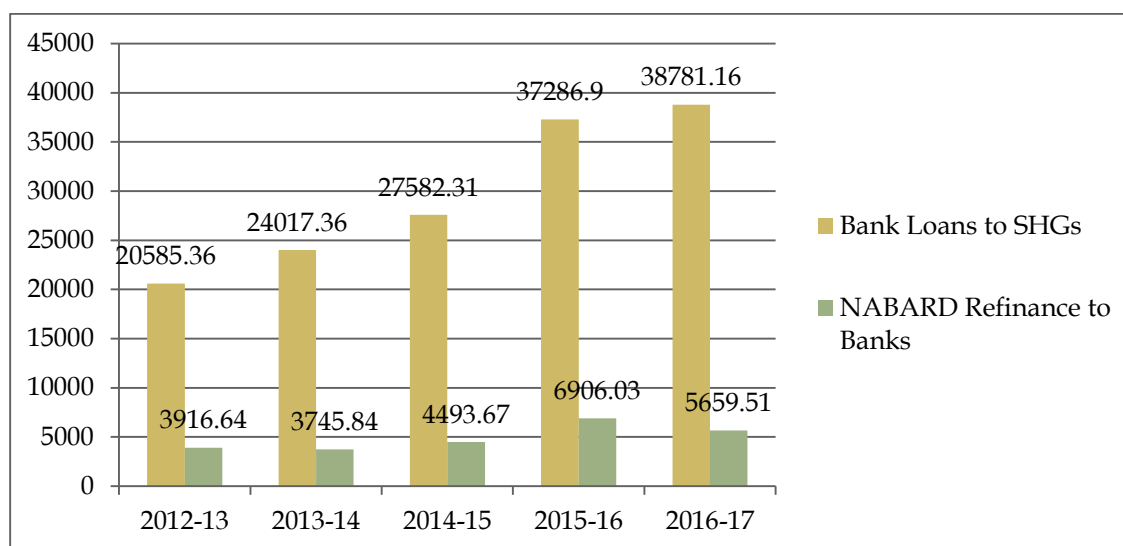
NABARD has been providing financial assistance to MFIs by way of Long Term Refinance support to eligible NBFC-MFIs since 2014-15. NBFC-MFIs having grading upto mFR2 (mFR3 in North Eastern states and Hilly areas) by CRISIL or equivalent and continuous profit

during last three years are eligible for refinance subject to fulfilling other conditions. During 2016-17, refinance to the tune of Rs. 3498 crore have been disbursed to 19 MFIs.

REFINANCE TO BANKS

NABARD has been extending 100% refinance to Banks towards their lending to SHGs and MFIs to supplement their resources. Total loans issued by Banks to SHGs and the refinance extended by NABARD for such loans is shown in Figure 2. During 2016-17, NABARD extended refinance to the extent of Rs. 5659.51 crore against their SHG lending forming 10.58% of the total refinance provided to Banks for investment credit, as against Rs.6906.03 crore disbursed during the previous year.

Figure 2: Bank Loans to SHGs and NABARD Refinance to Banks (Amount Rs. in crore)



Source: Status of microfinance in India- Annual reports of NABARD

MFIs AND MICROFINANCE

In India, the MFI sector has grown remarkably during past two decades, spreading across the country and surviving the 2010 Andhra Pradesh microfinance crisis. As on 31 March 2016, they reached out to 40 million clients with an outstanding credit of Rs. 63,853 crore. There was a steady growth in the average credit outstanding per client, by 76% from Rs. 7481 crore in 2011 to Rs.

13162 crore in 2015. Interestingly, in the recent past MFIs are growing fast in the states like Punjab, Haryana, Gujarat, Himachal Pradesh, and Uttar Pradesh, which are left uncovered by SHG-BLP. Though MFIs provided loans for both consumption and productive purposes, a major part of the credit flow, 94% in 2016, is channelized for income generating activities. Agriculture, Animal husbandry and small trading are the major income generating activities that account for 79% of the micro credit provided by MFIs in 2016, Non-income generating loans are mostly used for consumption, housing and education of children.

VIII. CONCLUSION

MFIs in India have evolved into a vibrant segment of the financial sector, exhibiting a variety of business models. MFIs played a major role in bridging the gap between the formal financial institutions and the rural poor. With the introduction of institutional provisions like revision of RBI guidelines for NBFC-MFI operations, launch of MUDRA bank and small bank licenses over the past few years the microfinance industry has seen strong growth. The positive role played by this sector is evident from the awarding of universal banking and small finance bank licenses to the top MFIs in India. MFIs now need to re-evaluate their current positioning in the market and remodel themselves in order to stay relevant in terms of providing capital.

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