ISSN – 2277-7911
Impact Factor – 5.958

YOUNG RESEARCHER
A Multidisciplinary Peer-Reviewed Refereed Research Journal

January - 2025
Vol. 14
Special Issue
No. 1

# An Overview on Performance of Microfinance Institutions in India before Covid 19 Pandemic

**Dr. Abhay Shende[1] & Mrs. Pooja Bhadrasen Badekar[2]**
*[1]HOD, Economics Department*
*Modern college of Arts Science and Commerce (Autonomous) Shivajinagar, Pune*
*[2]Assistant Professor*
*Modern college of Arts Science and Commerce (Autonomous) Shivajinagar, Pune*
***Corresponding Author: Dr. Abhay Shende***

**DOI - 10.5281/zenodo.14935929**

***Abstract:***

*In a nation like India, where, according to World Bank reports, 60% of the population works in agriculture and 70% of the population lives in rural areas, microfinance can be extremely important in helping the underprivileged and low-income people access financial services. Microfinance is considered a valuable instrument for socio-economic improvement in a developing nation such as India. It is anticipated to have a major impact on development and the reduction of poverty. The performance and contribution of microfinance institutions to India's development are the main focus of this paper. from 2015–16 to 2016–17, the percentage of MFIs that obtained bank loans rose from 9.8% to 257.6%. The total amount of bank loans to MFIs fell 7.2% in 2016–17 compared to the year before. All of the following years saw an increase in the amount of loans owed to MFIs. In 2015–16 and 2016–17, it rose 13.7% and 14.3%, respectively. Furthermore, it is discovered that MFI business models in India are increasingly focused on urban areas, as evidenced by the fact that, with the exception of Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir, and Andaman, the percentage of rural clients in various states and union territories has decreased from 2016 to 2017. Andaman had the largest increase (267%), followed by Jammu & Kashmir (17%). During 2015, the percentage of income generation loans stayed constant, and in 2017, it rose to 94%.*

***Keywords: Microfinance, MFI's, Self Help Groups, Poverty***

**Overview:**

The idea of microfinance is not new. It began in the 19th century, when moneylenders were acting as informal substitutes for what are now recognized financial institutions. To reduce poverty in developing nations, policymakers, international development agencies, non- governmental organizations, and others have developed a number of development strategies over the last 20 years. One of these tactics, which have gained popularity since the early 1990s, is microfinance programs, which give working poor people access to financial services like credit and savings opportunities (Johnson and Rogaly, 1997).India is classified as a low-income country by the World Bank. It has the second-highest population in the world.. Seventy percent of its people reside in rural areas. Agriculture employs 60% of the population, which contributes to the high rate of underemployment. Access to institutionalized credit (from commercial banks) is extremely limited for rural residents. Reducing poverty has been a top priority for both national and international development since the 1990s. The government has taken a number of actions within this framework. Microfinance has gained attention as a useful instrument for socioeconomic development and poverty alleviation.

Therefore Microfinance has the potential significantly raise the living standards of the impoverished. In 1992, NABARD launched the Self Help Group (SHG)-Bank Linkage Programme (SBLP) as a pilot project, which marked the beginning of the microfinance movement in India. Due to its great success, this program has become the most widely used microfinance model in India. In India, the laws governing microfinance are not uniform. Commercial banks, SHGs, Regional Rural Banks (RRBs), cooperative societies, and institutions (MFIs) in a variety of forms, including non-bank financial institutions (NBFIs) and non-governmental organizations (NGOs), all offer microfinance. The Reserve Bank of India (RBI) oversees banks and NBFIs, NABARD oversees SHGs, the Registrar of Cooperative Societies (RCS) oversees cooperatives, etc.

**A Review of the Study:**

A Ravi Kumar (2006),according to this book despite slow growth rate in the initial period, as of, India today has the highest number of poor being served by the microfinance sector in (25 million) having over taken its neighbouring Bangladesh one of the first countries to have adopted microfinance route as an effective poverty alleviation strategy. Through self help groups Bank linkage program bulk of the self help group linkage targets have been achieved through the public sector banks and even today 73% of all microfinance loans are provided by the government owned Bank

A Vijay Kumar (2010) Changing Era of E- Banking according to this book from 12th paper, focused on the working of self help groups in Namakkal district used survey method interview schedule was prepared a pilot study was conducted with 10 member 150 respondents were selected from vennathur block of Namakkal district. In this, about 35 to 40 percent of the members of the self- help groups agree that there is an increase in savings, reduction in social disparity, increase in income, 50% of the members agree that there is an increase in decision-making ability, increase in social visits, family difficulties, financial difficulties. Problems Market problems The need for larger organizations were also mentioned by the members.

Lokhande, M. A. (2012). this study conducted in Konkan region of Maharashtra state total 350 women self help groups had been taken from three district Rajgarh Ratnagiri and sindhudurga district this study had been successfully evaluated with positive impact of microfinance through self help groups. According to this research journal it was seen that there is positive impact on members through saving, income after the joining self help groups. The average monthly income of the group members was lower before participating in the self-help group but it was observed that the monthly income increased after participation. members dependency on money lenders were reduced. In conclusion, the study shows that there has been an increase in financial services. Women's attitude towards saving income has been changed, political point approach, economic dependence is reduced.

According to a 2015 study by Kumar Vipin et al., SHGs and MFIs are essential to the provision of microfinance services, which propels the advancement of India's impoverished and low-income population. However, a number of study findings from across the nation have also been reported, including slow graduation rates for SHG members, poor group functioning, member dropouts, etc. These factors must be taken into consideration when creating the roadmap for the next stage of the SHG program.

According to Nikita's (2014) research, the number of SHGs that have bank-linked savings has decreased for the first time since the SHGs BLP was introduced in 2012–2013. The study also reveals that SHG loan outstandings increased, which contributed to the rise in non-performing assets. When agency-wise loans are given to MFI, it is finally discovered that the majority of the shares belong to commercial banks. He recommended that actions be taken to enhance the results of programs periodically introduced under microfinance.

According to a study by Mahanta et al. (2012), microcredit lending to the impoverished marks the start of a new era rather than the resolution of an existing issue. It has the potential to make a huge difference in the fight against poverty if managed well. However, it needs to be combined with initiatives to increase capacity. The government cannot neglect its duty to promote the social and economic advancement of the underprivileged. The money is being used for the purchase and consumption of non-productive assets since microcredit clients lack any specialized skills. Programs for skill development, such as handicrafts, weaving, carpentry, poultry, goat rearing, masonry, beekeeping, vegetable farming, and many other agricultural and non-agricultural trainings, are therefore crucial. In this situation, the government must take the initiative. Priority must be given to those with specialized skills when it comes to microcredit lending. For these clients' microbusinesses to succeed, post-loan technical and professional assistance should also be given. Microcredit has the potential to significantly reduce poverty if the government and MFIs work together.

A study on emergencies and the effects of microfinance on the Indian context was carried out in 2011 by Maruthi Ram Prasad, Sunitha, and Laxmi Sunitha. The Indian microfinance scene is now in its takeoff stage thanks to the innovative efforts of the government, banks, NGOs, and others. To boost the emergence of Micro-Finance Institutions (MFIs) and maximize their contribution to the sector's growth and poverty alleviation, an effort could be made to develop a cadre of new generation microcredit leaders. Every Indian state should think about setting up a multi-party working group to meet with leaders of the microfinance industry and discuss ways to improve the policy environment and dispel misconceptions. We must expand on an effective model, with one state setting the standard. Unlocking the entrepreneurial potential of the impoverished will gradually change India in ways we can only imagine.

A study by Idowu Friday Christopher (2010) sought to determine how microfinance affected Nigerian small and medium-sized businesses. The primary aim of this research is to evaluate the influence of microfinance on Nigerian SMEs. The 100 SMEs that made up the research's sample size were chosen using a straightforward random sampling technique.

In data presentations and analysis, descriptive statistics—which include straightforward percentage graphical charts and illustrations—were strategically used. The study's conclusions show that, despite the fact that only a small percentage of SMEs were able to obtain the necessary funds, a sizable portion of them benefited from MFI loans. It's interesting to note that the majority of SMEs recognize the beneficial effects of MFI loans on increasing their market share, developing innovative products that achieve market excellence, and enhancing their overall competitive advantage. In order to support SMEs in Nigeria, the government should endeavor to provide adequate infrastructure, including training facilities, a good road network, and electricity, in addition to tax breaks and financial aid. Minimol .M.C (2015),Banking and Micro Finance in India This book provides a total of five research articles written by different researchers on microfinance. Microfinance is a type of banking service that provides self-employment to people. These articles discuss the relationship between microfinance and commercial banks and how microfinance benefits poor borrowers and affects them. It has been studied and the correlation between micro finance and self-help groups has been explained in these books and how financial inclusion is done through micro finance without interest rates and how financial empowerment of women has been done through self-help groups has also been explained in these books. The study on micro finance and commercial banks covers the period from 2006 to 2010 and also collects information through secondary data collection including information published by banks, reports of various committees of RBI.The performance of private sector banks has been increased consistently in micro finance sector. efforts are being made to link self-help groups to commercial banks to member owned organizations together to achieve economies of scale and scope. Entrepreneur skill, income and savings habits are increased due to the micro finance activities.

The amount of credit was inadequate for the members to pursue their income generating activities smoothly. Different factors viz., lack of training facilities to upgrade their skills, low level of technical knowledge, delay in receiving credit for investment and very short gestation period of repaying the investment are major hurdles for the members. Majority of the respondents (78 per cent) mentioned that sometimes they needed to start repaying their borrowed money even before investing the money, which led to producing of false vouchers to be shown to the banks (Rahman, 2010).

Different problems of the creditors related to low proportion of loan used for non-farm activities, lack of technical training, marketing the products, problem of bribery, insufficient amount of loan, delay in sanction of loan and lack of publicity etc obstruct the growth of several SHGs (Madheswaran and Dharmadhikary, 2001; Bashir and Naeem, 2010).

Montgomery et al., (1996) has also expressed that micro credit reinforces the existing gender discrimination, inequalities and contributes little to alter the social status of women.

Martin and Rab (1997) and Rahman (1999) pointed out that the access of micro finance may increase the vulnerability and insecurity of the family as women often depend on their husbands or male relatives to help with repayment.

Hoqu ea (2004) analysed the negligible impact of credit on poverty reduction in terms of monthly total consumption expenditures (i.e. food and non-food consumption) per adult equivalent of households.

Hunt and Kasynathan (2002) noted that many women are merely 'postboxes' passing on the full amount of their loans directly to their husbands, sons or sons- in-law, with little or no access to the income generated and receiving back only enough money to make weekly loan repayments. There is an increase in dowry practice, violence against women and threatening to ask for further dowry payments if she did not bring in more credit

In India, where the SHG movement has gained momentum, the poorest still remain poor. Despite the proliferation of SHGs across the state in Andhra Pradesh, statistical analysis found an insignificant relationship between the village level poverty indicators and number of SHGs, though more remote areas are likely to have fewer SHGs (Basu and Srivastav, 2005).

The dominant nature of the group leader, power and control dynamics exercised by external members, problems relating to raw materials, marketing, infrastructure etc were some of the major causes which lead to the closure of SHGs. The control of women's involvement in the public sphere has been often strongest at the family level viz., husbands prevented women from going out of their home; using domestic quarrels, violence and other forms of intimidating behavior, or tried to splurge women's savings etc resulting in irregular payments in the group. Lack of coordination and communication between group members, lower caste and social status have further inhibited entry into group entrepreneurial occupations, which in turn limited their economic activities leading to ultimate closure of the groups (Torri, 2010).

Chavan and Birajdar (2009) reported that the irregularity in repayments of loans is a major cause for dropouts among SHG members. The continued dependence of women members belonging to mature SHGs on informal sources, as revealed from primary data, further corroborates the point regarding the limited spread of micro finance. As a result, less than one per cent of the total bank credit from scheduled commercial banks is sanctioned to SHGs. The falling trend in the percentage share of bank credit and loan accounts held by SHGs, regional disparity in terms of the spread of micro finance in India further makes the programme less successful

Ray-Bennett (2010) noted that the irregularities in the monthly repayment of credit due to poverty were met with verbal abuse and fiery arguments. The respondents who were already poor were now overburdened with debt. Therefore, the economic empowerment of these respondents remained a far- fetched concept. Nevertheless, the respondents showed their keenness to keep the SHG intact, because the SHGs gave them the opportunity to get together and share their experiences during the meetingssomething which did not occur in their daily lives.

Kar (2008) found that the borrowers are not able to utilise the funds properly so as to help themselves out of the poverty level due to absence in marketing of the local products to local people with minimum profit. Lack of guidance to use the funds and absence of supervision in the sustainable development of the groups is among the major obstacles in the road of the group formation.

**Significance of the Study:**

There doesn't appear to be a practical framework for evaluating the financial performance of microfinance institutions, at least not in India. The absence of a dedicated law governing the operation and administration of microfinance institutions exacerbates this issue. The issue is further exacerbated by the absence of a regulatory framework governing microfinance institutions' financial disclosures. This study aims to analyze the performance of microfinance institutions in India and investigate the significance of microfinance. Given that these institutions are users of limited and marginal capital and that the targeted beneficiaries are the underprivileged segments of society, it takes on significance because they must be operated effectively. To continue pursuing their ambitious goals, MFIs need to be able to support themselves financially through strong financial performance.

**Methodology and Data:**

The research design is a combination of exploratory and descriptive.The information used in this study was gathered from various sources. In order to evaluate the effectiveness of India's microfinance institutions, The Status of Micro Finance in India, the NABARD report (various issues), the Bharat Microfinance Report (various issues), and other pertinent sources were consulted in order to gather pertinent data regarding loans disbursed, loans outstanding, client outreach, assets, etc. for the years 2012–13 through 2016–17.

The study's conclusions were derived using basic statistical tools like averages, percentages, etc.

**Objectives of the Study:**

1. To understand the concept and delivery methods of microfinance in India.
2. To investigate the role and importance of microfinance in India.
3. To evaluate the performance of India's microfinance institutions.

**Concept of Microfinance:**

Microfinance helps the underprivileged and marginalized segments of society who lack access to traditional banking to accumulate assets, diversify their sources of income and livelihood, and lessen their susceptibility to financial strain. It has been demonstrated in the past that MFIs can provide financial services and products to the impoverished in a sustainable and feasible manner because they can pay for all of their expenses through appropriate interest rates and by running their businesses effectively and efficiently. Microfinance is not a panacea that will lift its customers out of poverty. However, a number of impact studies have shown that microfinance actually helps low- income households (Littlefield and Rosenberg, 2004). Microfinance, according to the Asian Development Bank (2000), is the provision of a wide range of services to low-income households and their microbusinesses, including savings, deposits, loans, payment services, money transfers, and insurance. This definition of microfinance encompasses low-income households as well as those who are below the poverty line. The taskforce on supportive policy and regulatory framework for microfinance, established by NABARD, defines microfinance as "the provision of thrift, saving, credit, and financial services and products of very small amount to the poor in rural, semi-urban, and urban areas for enabling them to raise their income level and improve their standard of living." Sen (2008). Robinson (1998) defines microfinance as a development tool that grants or provides financial services and products such as money transfers, microleasing, microinsurance, and savings accounts to the very or exceptionally poor in order to help them start or expand their businesses. Some MFIs offer social intermediation services in addition to financial intermediation, including group formation, confidence building, and financial literacy and management training (Ledgerwood, 1999). Nongovernmental organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, and nonbanking financial institutions are some of the various organizations that offer microfinance (MF) services. Self-employed low-income business owners, such as traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, blacksmiths, and artisans, are the target group for MFIs (Ledgerwood, 1999).

**Features of Microfinance:**

- It's a crucial component of rural finance.
- Small loans are its specialty.
- In essence, it serves low-income households.
- It is among the best and most justified strategies for reducing poverty.
- It encourages women to engage in electronic activities
- It offers a motivation to seize the chances for self-employment.
- It is less profit-oriented and more service-oriented.
- It is intended to help producers and small business owners.

Because they are straightforward and devout, poor borrowers rarely miss loan payments. Microcredit is one of the many services that fall under the umbrella of microfinance. Giving credit services to low-income customers is known as microcredit. Microfinance and microcredit are not the same thing. While micro-finance encompasses a variety of services for the impoverished, including loans, savings accounts, insurance, transfer services, and microcredit loans, microcredit is a small sum of money that is provided as a loan by a bank or any other legally registered organization.

**Evolution of Microfinance in India:**

Four major stages can be distinguished in the development of the Indian microfinance industry: The Cooperative Movement (1900–1960) was

**Phase 1:** Credit cooperatives served as a means of providing villages with government-sponsored subsidized credit during this time.

**Phase 2:** Social Banking with Subsidies (1960s-1990) In response to the failure of cooperatives, the government implemented policies like nationalizing banks, establishing Regional Rural Banks (RRBs), expanding rural branch networks, and establishing apex institutions like the Small Scale Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD). Additionally, the government-sponsored Integrated Rural Development Programme (IRDP) was started. Even though these actions helped reach a large number of people, the time was marked by widespread credit abuse, which made bankers doubt the legitimacy of microborrowers and made it even harder for low-income individuals to access banking services.

**Phase 3:** Growth of SHG-Bank Linkage Programs and NGO-MFIs (1990-2000) A paradigm shift in the provision of rural credit was brought about by the failure of subsidized social banking, and NABARD launched the Self Help Group (SHG) Bank Linkage Programme (SBLP) with the goal of connecting unofficial women's organizations with official banks. The initiative started a shift in the bank's perspective of low-income families from "beneficiaries" to "customers," and it helped expand the banking system's reach to otherwise unreached individuals. As a result, credit was extended at market rates during this time. Newly established Microfinance Institutions (MFIs), the majority of which are non-profit, expressed a great deal of interest in working with NABARD under this program as a result of the model. The early 1990s macroeconomic crisis, which prompted the 1991 Economic Reforms, gave the financial sector more independence. Additionally, this resulted in the rise of new private sector banks that, ten years later, would play a significant role in the microfinance industry.

**Phase 4:** Commercialization of MicrofinanceThe first decade of the new millennium saw the emergence of rural markets as the new growth engines for banks and MFIs. The latter became interested in the sector as a new business line and as part of their corporate social responsibility. In order to draw in commercial investment, NGO- MFIs started to change into more regulated legal entities, like Non-Banking Finance Companies (NBFCs), on the demand side. The SBLP and MFIs are the two main delivery models in the microfinance industry as it currently exists.

**Microfinance Delivery Models In India:**

One of the main issues in India has always been the lack of banking and credit options for the poor and disadvantaged groups in society. The Reserve Bank and the government have occasionally implemented a number of measures, including nationalizing banks, establishing priority sector lending guidelines, and lowering interest rates for the less fortunate members of society. However, it became clear that more direct efforts were needed to meet the credit needs of the underprivileged. The SHG bank linkage program (SBLP), which was introduced in the early 1990s in response to this need, marked the beginning of the microfinance movement in India. In India, microfinance is currently delivered primarily through two models:

**Shg – Bank Linkage Programme (SBLP):**

An SHG is a small group of roughly ten to twenty people from a uniform class of impoverished people in both rural and urban areas who encourage saving among themselves and use these funds to cover their credit needs. The group chooses its own leaders after forming democratically. SHGs' key characteristics are that their members share a common economic objective and are part of the same community or society. The informal SHGs in this model have credit connections to the official financial institutions. In terms of the total number of borrowers and outstanding loans, the SHG- Bank Linkage Model has become the most popular model. This model is adaptable, fosters independence, and grants members of the group the freedom to save and borrow as needed. The SHG-BLM is highly appropriate for the Indian context because of the extensive rural bank branch network. The SHG-Bank Linkage Programme (SHG BLP) marked the beginning of the microfinance movement in India. In order to lower transaction costs for both the banks and the rural clients, the program uses Self-Help

Groups (SHGs) as a middleman between the banks and the impoverished in rural areas. Banks supply the resources, and government agencies, NGOs, and bank employees organize the impoverished into Self-Help Groups (SHGs). Three distinct approaches are used to provide loans to SHGs under this program:

**Model I:** Bank-Financed SHGs Established: Under this model, banks themselves take on the responsibility of creating and fostering the groups, opening bank loans and savings accounts for them.

**Model II:** Agency-Formed SHGs Directly financed by banks but not banks themselves: According to this model, NGOs and other official microfinance organizations help SHGs organize, form, and grow while also providing them with credit and thrift management training. These SHGs receive loans directly from the banks.

**Model III:** Bank-Financed SHGs Through Other Organizations as Financial Middlemen: Under this model, in addition to forming groups, NGOs also take on the additional function of financial intermediation. NGOs are urged to organize and approach a suitable bank for bulk loan assistance in areas where the formal banking system is constrained. The majority of NGOs with modest budgets typically employ this strategy.

**Micro Finance Institutions (MFIs):**

In recent years, the MFI model has also become more popular in India. While the SHG-BLM model is an Indian model, the MFI model is used all over the world. According to the MFI model, MFIs obtain substantial sums of money from banks, donors, and top financial institutions in order to lend them to people or organizations. These MFIs offer financial services to both individuals and organizations, such as Self-Help Groups. These organizations make loans using the Joint Liability Group (JLG) concept. A JLG is an unofficial organization made up of five to ten people who get together to apply for bank loans, either individually or through a group mechanism, under the condition of mutual guarantee.

In India, MFIs can take many different forms, such as trusts under the Indian Trust Act, 1882/Public Trust Act, 1920; societies under the Societies Registration Act, 1860; cooperatives under the State- specific Mutually Aided Cooperative Societies Acts; and nonbanking financial companies (NBFCs), whether they are registered with the Reserve Bank or under Section 25 of the Companies Act, 1956. Because there are numerous registering authorities, these MFIs are dispersed throughout the nation.

**Role and Importance of Microfinance:**

Nearly a third of the world's poor, or those who make less than $1 per day, live in India, according to World Bank research. Even though India currently has a large number of state and federal programs aimed at reducing poverty, microfinance is a key factor in financial inclusion. It has made a significant contribution to the eradication of poverty in recent decades. According to reports, microfinance recipients have been able to raise their income and, consequently, their standard of living. Therefore, microfinance is crucial to the improvement of the Indian economy in the following ways:

**Credit to Rural Poor:** The rural sector typically relies on non-institutional organizations to meet its financial needs. Microfinance has been effective in bringing institutionalized credit to the impoverished and establishing their economic and social stability. Poverty Alleviation: Microfinance helps the poor find work. Additionally, it encourages them to take advantage of business opportunities and helps them develop their entrepreneurial skills. Poverty is decreased when employment raises income levels.

**Women's Empowerment:** Typically, women form over 50% of Self-Help Groups. They now have easier access to economic and financial resources. It is a step in the direction of women's increased security. Therefore, microfinance gives impoverished women more economic and social power. Economic Growth: A major factor in promoting long-term, steady economic growth is finance. Microfinance boosts the production of goods and services, which raises GDP and supports national economic expansion.

**Savings Mobilization:** Microfinance helps people form saving habits. Now, even those with low incomes can save and become bankable. Its members receive loans and advances from the financial resources created by savings and microcredit acquired from banks. Microfinance thus facilitates the mobilization of savings.

**Development of Skills:** Potential rural business owners have benefited greatly from microfinance. SHGs encourage their members to establish business units either individually or collectively. Supporting organizations train them and teach them leadership skills. Therefore, skill development is indirectly a result of microfinance.

**Mutual Assistance and Cooperation:** Microfinance encourages members to assist one another and work together. The group's combined efforts foster economic interest and aid in the socioeconomic transition. Social Welfare: People's incomes rise in tandem with the creation of jobs. They might pursue improved family welfare, health, education, etc. Therefore, social welfare or the improvement of society is a result of microfinance.

**Data Analysis and Discussion:**

Schedule 1: MFI-bank linkage program growth (amount in crore)

| Year / Particular | 2012-13 | | 2013-14 | | 2014-15 | | 2015-16 | | 2016-17 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **No. of MFIs** | **Amt.** | **No. of MFIs** | **Amt.** | **No. of MFIs** | **Amt.** | **No. of MFIs** | **Amt.** | **No. of MFIs** | **Amt.** |
| Loan Disbursed by Banks/FI to MFIs | 426 (-8.4) | 7840 (50.6) | 545 (28.0) | 10282 (31.2) | 589 (8.1) | 15190 (47.7) | 647 (9.8) | 20796 (36.9) | 2314 (257.6) | 19304 (-7.2) |
| Loan O/S against MFIs on 31st March | 2042 (4.2) | 1442 (26 | 2422 (18.6) | 16517 (14.5) | 4662 (42.5) | 22500 (36.2) | 2020 (56.7) | 25581 (13.7) | 5357 (165.2) | 29225 (14.3) |
| Fresh Loans as % to loans O/S | | 54.3 | | 62.3 | | 148.13 | | 123.0 | | 151.4 |

Source: NABARD Annual Report, Status of Microfinance in India, 2012 to 2017.

Schedule 1: presented progress under MFI-Bank linkages programme. In comparison with the corresponding prior year, fewer MFIs obtained bank loans in 2012–2013.The number of MFIs availing loans from the banks during the year 2013-14 increased by 28 per cent over the year 2012-13.However, compared to the prior year, there was a notable rise in the number of MFIs obtaining bank loans in 2015–16 and 2016–17. The rate increased to 257.6% from 9.8%. Bank loans to MFIs grew overall in 2012–13, 2013–14, 2014–15, and 2015–16 compared to the prior year. There were approximately 50.6, 31.2, 47.7, and 36.9 percent increases. The total amount of bank loans to MFIs fell 7.2% in 2016–17 compared to the year before.

Every year that followed saw an increase in the amount of loans owed to MFIs compared to their prior years. In 2015–16 and 2016–17, it rose by 13.7% and 14.3%, respectively, over the prior year. Every year after that, the percentage of new loans compared to outstanding loans has increased. Therefore, it is evident that MFIs are gaining the trust of both lending institutions and their clients.

Schedule 2: MFI outreach in all states and union territories (in lakhs).

| States/UT | 2017 | 2016 | Growth in % |
|---|---|---|---|
| Karnataka | 68.33 | 75.28 | -9 % |
| Tamil Nadu | 32.25 | 57.22 | -44% |
| Uttar Pradesh | 29.82 | 39.36 | -24% |
| Odisha | 22.94 | 23.52 | -2% |
| Bihar | 22.57 | 23.93 | -6% |
| Maharashtra | 21.33 | 38.57 | -45% |
| West Bengal | 21.16 | 24.91 | -15% |
| Madhya Pradesh | 20.53 | 28.19 | -27% |
| Assam | 7.73 | 6.84 | 13% |
| Kerala | 7.42 | 12.23 | -39% |
| Rajasthan | 6.28 | 8.20 | -23% |
| Jharkhand | 6.21 | 6.75 | -8% |
| Punjab | 5.46 | 6.26 | -13% |
| Chhattisgarh | 5.35 | 8.36 | -36% |
| Gujarat | 4.6 | 12.63 | -64% |
| Haryana | 3.83 | 5.98 | -36% |
| Telangana | 2.59 | 2.95 | -12% |
| Uttarakhand | 1.92 | 3.22 | -40% |
| Delhi | 1.15 | 2.52 | -54% |
| Andhra Pradesh | 1.04 | 7.27 | -86% |
| Manipur | 0.73 | 0.88 | -16% |
| Mizoram | 0.57 | 0.65 | -12% |
| Tripura | 0.43 | 1 | -58% |
| Puducherry | 0.28 | 1.27 | -78% |
| Arunachal Pradesh | 0.19 | 0.17 | 9% |
| Himachal Pradesh | 0.13 | 0.49 | -73% |
| Meghalaya | 0.12 | 0.19 | -36% |
| Sikkim | 0.11 | 0.28 | -59% |
| Goa | 0.07 | 0.13 | -47% |
| Nagaland | 0.04 | 0.04 | 10% |
| Jammu & Kashmir | 0.03 | 0.02 | 17% |
| Chandigarh | 0.02 | 0.13 | -82% |
| Andaman | 0.02 | 0.01 | 267% |
| Total | 295 | 399 | |

Source: Bharat Microfinance Report 2016-17.

Schedule 2 shows client outreach in several states. Out of total client's base of 295 lakh in 2017, Karnataka state contributed highest number of clients base (23.16%) followed by Tamil Nadu (10.93 %),Uttar Pradesh (10.11%), Odisha (7.78%), Bihar (7.65%), West Bengal (7.17%), M.P. (6.96%) etc. Chandigarh, Jammu & Kashmir, and Andaman made up the least amount of the total (0.01%).With the exception of Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir, and the Andaman Islands, the clientele of the various states and union territories has decreased from 2016 to 2017. Andaman had the largest increase (267%), followed by Arunachal Pradesh (9%), Assam (13%), Nagaland (10%), and Jammu & Kashmir (17%). Andhra Pradesh saw the biggest drop (86%) followed by Chandigarh (82%), Puducherry (78%), Gujarat (64%), and so on. Odisha saw the least amount of decline (2%). The decline in client outreach in the majority of states can be attributed to the exclusion of six small finance banks (SFBs)

| **Year** | **Rural** | **Urban** | **Total** |
|---|---|---|---|
| 2013 | 184 (67) | 91 (33) | 275 (100) |
| 2014 | 185 (56) | 145 (44) | 330 (100) |
| 2015 | 122 (33) | 249 (67) | 371 (100) |
| 2016 | 152 (38) | 247 (62) | 399 (100) |
| 2017 | 180 (61) | 115 (39) | 295 (100) |

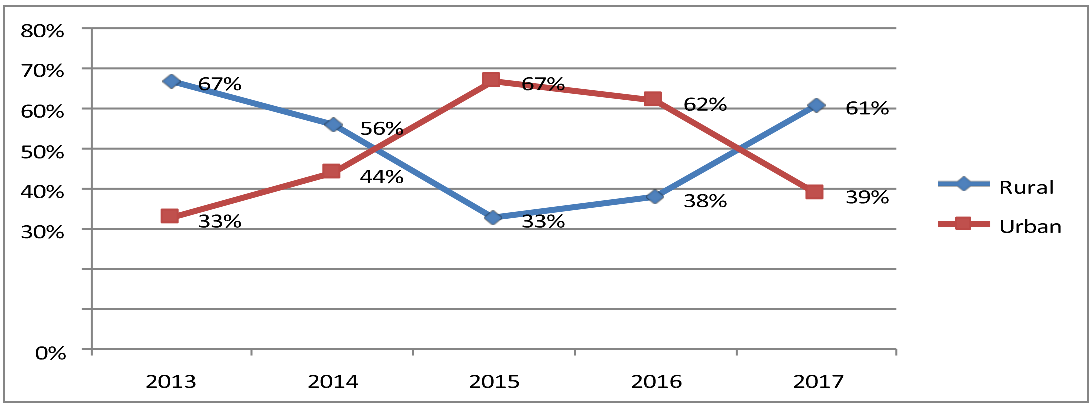


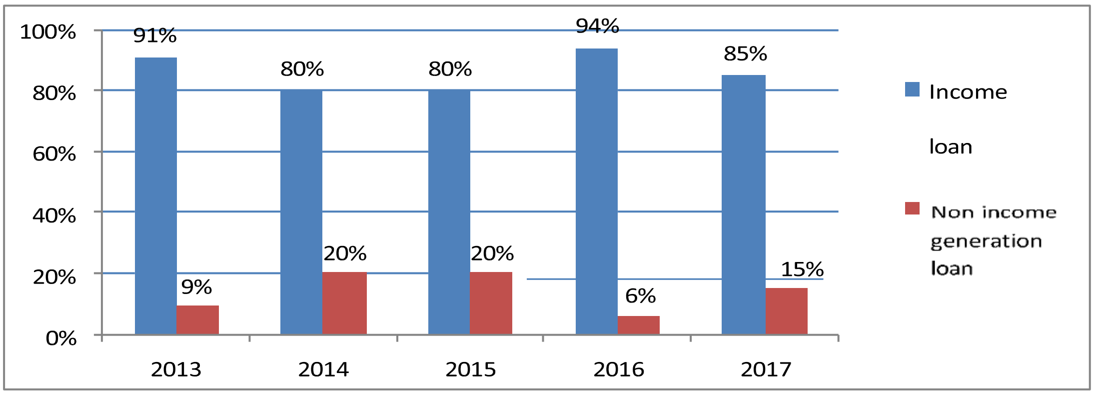

Figure 1: Changes in MFI Borrowers' Contribute of Rural and Urban Areas

Schedule 3 and Figure 1 display the distribution of MFI borrowers by rural and urban area. Microfinance in India was primarily viewed as a rural phenomenon. Rural clientele accounted for 67% of the total in 2013, dropped to 56% in 2014, and then sharply declined to 33% in 2015. The percentage of rural clients increased marginally to 38% in the following year, or 2016. For the first time, the number of urban clients exceeded that of rural clients. However, a notable improvement was observed in the percentage of rural clients, which rose to 61% in the following year, or 2017.The rural-to-urban trend in 2017 is the opposite of the 2016 trend as a result of the six SFBs being excluded. One of the study's main conclusions is that small MFIs are primarily located in rural areas.

**Purpose of Loan:**

MFIs have historically provided loans for both productive and consumption uses. It is thought that impoverished people use their loans more for emergencies and consumption than for sustaining themselves. According to a 2015 RBI regulation, at least 50% of MFI loans must be used for revenue-generating endeavours.

| Year | Income generation loan | Non income generation loan | Total |
|---|---|---|---|
| 2013 | 23474.36 (91) | 2321.64 (9) | 25796 (100) |
| 2014 | 30846.4 (80) | 7711.6 (20) | 38558 (100) |
| 2015 | 47129.6 (80) | 11782.4 (20) | 58912 (100) |
| 2016 | 68004.3 (94) | 4340.7 (6) | 72345 (100) |
| 2017 | 44579.95 (85) | 7867.05 (15) | 52447 (100) |




*Figrue 2: Income generation loans and non- income generation loans*

In 2013, the percentage of income generation loans was 91%; in 2014, that percentage dropped to 80%, as indicated by Table 4 and Figure 2. The percentage of loans for income generation stayed constant in 2015, the following year. In 2016, it experienced a 94% increase. The ratio of loans for In 2017, In 2017, the ratio of income generation to loans for non-income generation was 85:15. The three main subsectors where income generation loans are used are agriculture, animal husbandry, and trading. Loans for non-income-generating purposes are utilized for things like housing, education, health, water and sanitation, and consumption. Trading and small business received up to 31% of the total income-generating loan, followed by agriculture (30%) and animal husbandry (22%). Transport, cottages, handicrafts, and other activities received the remaining percentage of the income-generating loan.

| Year | Assets |
|---|---|
| 2011 | 22736 |
| 2012 | 24240 |
| 2013 | 28051 |
| 2014 | 36125 |
| 2015 | 51564 |
| 2016 | 58621 |
| 2017 | 47247 |

***Source: NABARD's 2012–2017 Status of Microfinance in India Report.***

Schedule 4 displays the total assets of MFIs. In 2011, the total assets held by MFIs were Rs. 22,736 crore. Over time, these assets grew steadily, reaching Rs. 58621 core in 2016. Over the previous six years, from 2011 to 2016, the total assets of MFIs showed a steady upward trend; however, from 2016 to 2017, there was a significant 21 percent decline. An MFI's net loan portfolio makes up the majority of its assets. At the end of 2016–17, the net loan portfolio of reporting MFIs alone accounted for roughly 73% of their total assets. Second place went to cash and cash equivalents, which held a 19% stake. The primary reason that cash and cash equivalents are at this level is that the majority of MFIs receive debt funding near the end of the year, even though it can only be lent to clients at the start of the following year. Trade and other receivables, which account for 7% of the MFIs' total assets, are the next largest component of assets. The MFI's net fixed assets make up only 1% of its total assets.

**Schedule 6: MFIs Model Performance I*ndica*tor *in India***

| ***Particular*** | ***2016*** | ***2017*** |
|---|---|---|
| Client outreach (Lakhs) | 399 | 295 |
| Women client (%) | 97% | 96% |
| Gross O/S Portfolio (crore) | 63853 | 46842 |
| Average loan per borrower (crore) | 11425 | 12751 |
| Income generation loan (%) | 94% | 85% |
| Margin (%) | 10% | 8.08% |
| ROA (%) | 2.20% | 2.4% |
| ROE (%) | 11.60% | 13.31% |
| OSS (%) | 113% | 114% |
| CAR (%) | 19.39% | 21.13% |
| NPA(%) | 0.15% | 0.69% |

Source: Bharat Microfinance Report 2016-17

The overall performance of microfinance institutions in 2016 and 2017 was shown in Table 6. According to the schedule 6, client outreach decreased by 26% in 2017 compared to 2016. Nonetheless, the outreach percentage for women also dropped from 97% to 96%. While the average loan per borrower has increased by 11.60 percent during this time, the gross outstanding portfolio has decreased from Rs. 63,853, crore to Rs. 46,842, crore, or by roughly 27% for the 2017 period compared to 2016. In 2016, 94% of all loans were income-generating loans; by 2017, that percentage had dropped to 85%. During this time, the capital adequacy ratio and other measures of overall financial structure, including return on equity and return on assets, have increased. Between 2016 and 2017, the average OSS of Indian MFIs climbed from 113% t 114%. The ability of an MFI to cover all of its financial and operational expenses from its operating revenue is known as operational self-sufficiency. Additionally, the profit margin has dropped to 8.08 percent in 2017 from 10 percent in 2016. During this time, the percentage of non-performing assets rose from 0.15 to 0.69.

**Major Findings:**

The number of MFIs that obtained bank loans in 2013–14 rose by 28% compared to 2012–2013. However, compared to the prior year, there was a notable rise in the number of MFIs obtaining bank loans in 2015–16 and 2016–17. The percentage increased to 257.6% from 9.8%.

Bank loans to MFIs grew overall in 2012–13, 2013–14, 2014–15, and 2015–16 compared to the prior year. There were approximately 50.6, 31.2, 47.7, and 36.9 percent increases. The total amount of bank loans to MFIs fell 7.2% in 2016–17 compared to the year before.

Every year that followed saw an increase in the amount of loans owed to MFIs compared to their prior years. In 2015–16 and 2016–17, it rose by 13.7% and 14.3%, respectively, over the prior year. Every year after that, the percentage of new loans compared to outstanding loans has increased.With the exception of Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir, and the Andaman Islands, the clientele of various states and union territories has decreased from 2016. Andaman had the largest increase (267%), followed by Arunachal Pradesh (9%), Assam (13%), Nagaland (10%), and Jammu & Kashmir (17%). Odisha saw the least amount of decline (2%). Six small finance banks (SFBs) were left out, which contributed to the drop in client outreach in most states.Clientele from rural areas made up 67% of the total in 2013, fell to 56% in 2014, and then fell precipitously to 33% in 2015. The percentage of rural clients rose marginally to 38% in the following year, or 2016. Due to the exclusion of six SFBs, the trend from rural to urban areas in

2017 is the opposite of that of 2016. One of the study's main conclusions is that small MFIs are primarily located in rural areas. The percentage of loans for income generation stayed constant in 2015, the following year. In 2016, it experienced a 94% increase. In 2017, there were 85:15 loans for income generation compared to loans for non-income generation.MFIs held a total of Rs. 22,736 crore in assets in 2011. Over time, these assets grew steadily, reaching Rs. 58621 core in 2016. Over the previous six years, from 2011 to 2016, MFIs' total assets showed a steady upward trend; however, from 2016 to 2017, there was a significant 21 percent decline. During this time, the capital adequacy ratio and other measures of overall financial structure, including return on equity and return on assets, have increased. Between 2016 and 2017, the average OSS of Indian

MFIs climbed from 113% to 114%. The ability of an MFI to cover all of its financial and operational expenses from its operating revenue is known as operational self- sufficiency.Additionally, the profit margin decreased from 10% in 2016 to 8.08 percent in 2017. During this time, the percentage of non-performing assets rose from 0.15 to 0.69.

**Conclusion:**

It is impossible to overstate the significance of microfinance in developing nations like India, as it is essential to the socioeconomic advancement of the impoverished and low-income populations.

Reducing poverty has been a top priority for both national and international development since the 1990s. The government has taken a number of actions within this framework. Microfinance has gained attention as a useful instrument for socioeconomic development and poverty alleviation. Therefore, Microfinance has the potential to significantly raise the living standards of the impoverished. The availability of financial services has a significant impact on a nation's economic development. A wide range of financial services, including deposits, loans, payment services, money transfers, insurance, savings, microcredit, and more, are provided to low-income and impoverished people through microfinance. An economy with a strong financial system has more investment opportunities. Therefore, in order to guarantee inclusive and sustainable growth, the Indian government must concentrate on expanding financial services to both rural and urban areas. For the past 20 years, microfinance institutions in India have been crucial to the operation of rural communities. The RBI and the central government should take the appropriate actions to maintain the expansion of India's microfinance industry. In order to improve people's economic standing and standard of living, the concerned state governments also take the appropriate steps to raise awareness about the benefits of using microfinance institutions.

**References:**

1. Mahanta Padmalochan, Panda Gitanjali and Sreekumar (2012) Status Of Microfinance In India - A Review, International Journal of Marketing, Financial Services & Management Research Vol.1, Issue 11, pp. 142- 155.
2. Maruthi Ram Prasad, Dr. G. Sunitha and K. Laxmi Sunitha (2011), Emergency and Impact of Micro-Finance on Indian Scenario. KKIMRC IJRFA (1.
3. Nikita (2014) An Analysis of Performance of Micro Finance in India, International Journal of Management Research & Review Volume 4, Issue 7, pp. 715-721.
4. Rosenberg, R. and Littlefield, E., (2004). Microfinance and the Poor: Breaking Down Walls between Microfinance and Formal Finance. Finance and Development, CGAP.
5. Sen, Mitali (2008), "Assessing Social Performance of Microfinance Institutions in India", The ICFAI Journal of Applied Finance, Vol. 14, No. 86, pp.77-86.
6. NABARD, Status of Microfinance in India Report, 2012 to 2017. Bharat Microfinance Report 2016-17.
7. The New York Times(1997) "Micro loans for the very poor" (editorial) February 16.
8. Shastri Rajesh Kumar (2009), "Micro Finance and povertyreduction in India (A comparative study with Asian countries.)", African journal of business management vol. 3(4): pp. 136-140, Apr 2009.
9. Sridhar (2009), Head - count ratio of people below poverty line higher in state: Tendulkar committee, The Hindu, 21-12-2009, p1.
10. SHG-Bank linkage programmes in Karnataka (2005-06), published by NABARD Annual Report, p.17.
11. S.K. Datta, and A. Raman. "Can heterogeneity and social cohesion coexist in self-help groups, evidence from group lending in AP in India." Indian Journal of Agricultural Economics, vol.33, no.4 (2000), pp.421-424.
12. P. Satish. "Some issues in the formational of SHG's." Indian Journal of Agricultural Economics, vol.56, no.3 (2001), pp.430.
13. S. Barbara and R. Mahanta. "Micro finance through self-help groups and it's impact A case of Rashtriy a Gramina Vikas Nidhi - credit and saving programme in Assam." Indian Journal of Agricultural Economics, vol.56, no.3 (2001), pp.441.

14. N. Manimekalai and Rajeswari. "Nature and performance of informal self-help groups – A case from Tamil Nadu." Indian Journal of Agriculture Economics, vol.56, no.3 (2001), p.453.
15. Source: Global Microscope on the Microfinance Business Environment 2009–2011, Economic Intelligence Unit Ltd (www.eiu.com).
16. The number of members of SHGs is not based on a count of actual members. With an increased number of government programmes and the associated tim bound targets, the actual group size might tend to be smaller.
17. The data on SBLP is provisional and is likely to undergo changes at the time of finalization. The final data for the year will be published by NABARD by October 2012 as is the normal practice—in its annual publication Status of Microfinance in India 2011-2012
18. .Sarumathi1 and Dr.K.Mohan (2011). "Role of Micro Finance in Women's Empowerment (An Empirical study in Pondicherry region rural SHG's)", Research Scholar, Dept. of International Business, Pondicherry University, Journal of Management and Science Vol.1, No.1. ISSN: 2249-1260.
19. Sa-Dhan (2015), 'Bharat Microfinance Report-2015', Sa-Dhan, The Association of Community Development Finance Institutions', New Delhi
20. Sa-Dhan (2016), 'Microfinance Directory', 2nd Edition, Sa-Dhan, The Association of Community Development Finance Institutions', New Delhi
21. Vijay Kumar ,A.(2009). "Banking, Micro Finance and Self-help-Groups in India, New Century publication
22. Minimol .M.C.,(2015). "Banking, and Micro Finance in India , New Century publication
23. Bansal, H. (2003). SHG-Bank Linkage Program in India: an overview. Journal of Microfinance, 5(1), pp.21-49
24. Mukherjee, A. and Kundu, A. (2012). Microcredit and Women's Agency: A Comparative Perspective across Socio-religious Communities in West Bengal,India. Gender, Technology and Development, 16(1), pp.71-94
25. Soma Chakraborty,Socio-Economic Implications Of Women Empowerment Through Self-Help Groups: A Case Study Of District Of North 24 Parganas
26. Dr.Seema G. and Dr.Srinivasrao., "Poverty Measurement in India, Ministry of Rural Development, working paper.
27. Rajesh, Chakrabarti. (2004). The Indian Microfinance Experience – Accomplishments and Challenges.
28. Ramona Rao, D.V.V. (2001). Impact of Institutionalisation of Credits on th Socioeconomic Condition of Rural Women in Self-Help Groups – A Case Study in Bidar District of Karnataka.
29. Ramesh, Arunachala. (1999). Alternative Technologies in the Indian Micro-Finance Industry, New Delhi: Action Aid.
30. Ranadive, Joy Deshmukh (2004). "Women's Self-Help Groups in Andhra Pradesh – Participatory Poverty Alleviation in Action." New Delhi: The International Bank for Reconstruction and Development / The World Bank
31. Rao, V.M. (2011). Empowering Rural Women. New Delhi: Anmol Publications, pp.157-179. Rao, K.D.,

Dasgupta, R., and Khankhoje, D.P. (2001). OBC in the New Millennium – Banking with the Poor. Pune: National Institute of Bank Management.
32. Ray, D. (1998). Development Economics. New Jersey: Princeton.
33. Idowu Friday Christopher (2010), Impact of Microfinance on Small and Medium- Sized Enterprises in Nigeria.
34. International conference on Innovation and management.
35. Johnson S, Rogaly B. 1997. Microfinance and Poverty Reduction. Oxfam Poverty Guidelines. Oxfam: Oxford. Kumar vipin, Chauhan Monu and Kumar Ritesh (2015) An Overview of Microfinance in India, Abhinav National
36. Monthly Refereed Journal of Research in Commerce & Management, Volume 4, Issue 10, pp. 19-26.
37. Ledgerwood, J. (1999), Microfinance Handbook: An Institutional and Financial Perspective, Washington, DC: World Bank.
38. Ledgerwood, J., (1999). Microfinance Handbook: an Institutional and Financial Perspective, The World Bank: Sustainable Banking with the Poor, Washington D.C.

**Websites**

1. www.indiamicrofinance.com.
   www.rbi.org.in.
2. http://study-material4u.blogspot.
   http://www.legalservicesindia.com.
   http://www.ukessays.com
   https://www.rbi.org.in/scripts/PublicationsView.aspx?Id=10932
   http://rbidocs.rbi.org.in/r
3. docs/Publications/PDFs/88
   http://shodhganga.inflibnet.ac.in
4. http://indiamicrofinance.com.
   https://niti.gov.in
   https://www.nabard.org
   https://www.researchgate.net
   https://www.ijsr.net/
   https://rural.nic.in