



## A STUDY ON GROWTH OF MICROFINANCE AND PROGRESS OF MICROFINANCE INSTITUTIONS BANK LINKAGE PROGRAMME IN INDIA

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### ABSTRACT :

*Microfinance Institutions (MFIs) have been providing their financial services to the poor and rural people by raising their resources from banks and other sources. In the recent years, MFIs in India have evolved as a vibrant segment of Indian financial sector with their verity of business models. The Indian microfinance industry has witnessed tremendous growth over past few years. The growth of number of microfinance institutions is above the expectation. The Government and Reserve Bank of India (RBI) have formulated favorable policies and regulations*



*for Microfinance Institutions to operate successfully in the country. The growth of microfinance industry of India was 47 per cent with a gross loan portfolio of Rs 68,789 crore in the financial year ended March 2018 as against Rs 46,842 crore in the year ended 2017. The Microfinance sector witnessed 56 per cent (₹ 81,737 crore) increase in loan disbursements in 2017-18 over the year 2016-17 which was the highest since 2015-16. The top 10 MFIs disbursed 67 per cent (₹ 55,013 crore) of sector's total amount disbursed, and rest of the other MFIs disbursed 33 per cent. The present paper is to study the growth of Microfinance and progress of microfinance institution bank linkage programme (MFI- Bank Linkage Programme) in India.*

**KEYWORDS :** *Microfinance Institutions (MFIs), financial services, Reserve Bank of India (RBI), Bank Linkage Programme.*

### INTRODUCTION:

Microfinance is a term for the practice of providing financial services like micro-credit, micro-savings or micro-insurance to the poor particularly to those who formed SHGs. The concept of lending extremely small amounts of capital to poor entrepreneurs has developed by Mohammed Yunus of Bangladesh during the 1970's. He has worked out various schemes for upliftment of weaker section of rural people. Finally, he launched the scheme of Self Help Group and played a key role in getting loan from Gramin Vikash Bank of Bangladesh in the year 1975 for which of his act he is known as the pioneer of Self Help Groups. Microfinance has emerged as a needful programme to cater to the needs of the most underprivileged people i.e. tribal, dalits, and women. The Task Force on Supportive Policy and Regulatory Framework for Micro Finance of NABARD has defined Micro Finance as "the provision of thrift, credit and other financial services to the poor in rural, semi-urban and urban areas to help raise their income levels and improve their living standards". Micro Finance is a participative model that can address the needs of the poor especially the women. The most common microfinance product is a micro credit or Loan. These tiny loans are enough for hard working micro-entrepreneurs particularly the rural women to start or expand their small business such as weaving, handloom & handicrafts, embroidery & tailoring etc. and sell the products in the markets for generating their

income. These incomes provides better food, housing, health care and education for entire family and most important, additional income provides hope for the better future of the rural poor. During the last two decade, microfinance has gained a lot of significance and momentum and now India occupies a significant place and a niche in global microfinance through promotion of the SHGs under SHG-Bank Linkage (SBL) programme and the Microfinance Institution (MFI) model.( Mansuri B.B., "Microfinancing through Self-Help-Groups- a case study of Bank Linkage Programme of NABARD", ) In the ninth and tenth five year plans in India, proper emphasis has been given for the empowerment of women through SHGs by the planning commission. Again in the eleventh five year plan proper emphasis has given for inclusive growth and faster reduction of poverty. Micro finance through SHGs is the vital tool for reducing the poverty. The NABARD is the main initiator of the SHG movement since 1986-87. Now a day's both central and state governments, nationalized commercial banks, regional rural banks, cooperative banks, NGOs, non-banking financial corporation (NBFC) etc. have joined in the Microfinance movement as promoters.

### **OBJECTIVES OF THE STUDY:**

The study is basically concerned with the growth of Microfinance and progress of microfinance institution bank linkage programme (MFI- Bank Linkage Programme) in India.

### **METHODOLOGY OF THE STUDY:**

The study is based on the secondary data availed from various sources like reports of Reserve Bank of India, NABARD, Bharat Microfinance etc.. The data was analysed for the period from 2015-16 to 2017-18.

### **PROGRESS MFI-BANK LINKAGE PROGRAMME:**

MFIs have been providing their financial services to the people by raising their resources from bank and other sources. In India, MFIs are:

- NGO-MFIs registered as Society and Trust.
- Cooperative MFIs registered under Cooperative societies Acts.
- NBFC-MFIs (not for profit) incorporated under section 25 of Company Act.1956.
- NBFC-MFIs under Company Act 1956 and registered with RBI. (Sarmah, 2012:20).

Though MFIs entered into microfinance sector lately but they grew largely than the popular SHG-Bank Linkage Programme. In spite of fast growth of the MFI sector there were criticisms regarding MFIs policies on recovery of credit, interest on credit etc. The suicide of borrowers of MFIs in the Krishna district of Andhra Pradesh in 2006 resulted criticism of functioning of MFIs. The criticism was due to charging of high interest on loan and strict and barbaric debt recovery method of MFIs etc. Moreover, the unhealthy and aggressive market growths of for-profit-NBFCs were also responsible for death of MFI borrowers (Kumar, 2006). The district authority of Andhra Pradesh imposed restrictions on activities of MFIs.

As a result industry lobby came forward to rescue of MFIs by proposing code of conduct for them. But MFIs did not follow the code of conduct properly and as a result more suicide cases of MFI borrowers came into notice during the last quarter of 2010. (Nair, 2011:23). The state government of Andhra Pradesh issued the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance, 2010 and imposed restrictions on MFIs operation which is called as "*Andhra Pradesh Crisis*".

This Andhra Pradesh crisis compelled RBI to form a committee which was headed by Y H Malegam to study the functioning of MFIs. In the earlier circulars, RBI and NABARD did not impose conditions on the capital formation, lending procedure, retained margin, interest rate, etc. for the MFIs. Therefore, as per recommendations of the Malegam Committee, RBI formed a new form of MFI called as NBFC-MFI with various conditions on capital, lending procedure, interest cap and retained margin, etc. The bank loan to newly formed NBFC-MFIs is now qualified for priority sector lending and a result, growth rate of MFI increased. Millions of poor people of the country got direct linkage with the microfinance movement with the techs mart new MFIs and erstwhile resource-rich MFIs. MFIs today

try to emphasis on use of technological application for automation of their operation not to reduce client touch but to enhance the customer experiences. Bharat Microfinance Report, 2017 shows Active Borrower per Credit Officer (ABCO) 426, which is high. Active Borrower per Credit Officer (ABCO) reveals the number of active borrowers served by a credit officer of Microfinance Institutions. If ABCO ratio is low, better service is available and as a result, MFIs may reduce cost of the product and price products better.

Traditionally MFI business was cash centric but after demonetization, 'digital payments' came into force which necessitated digital literacy among MFI clients. Under the guidance of RBI, banks already invested in the financial literacy of customers. After demonetization, considering the lack of digital literacy among clients, MFIs also consider for investment in clients digital literacy as promotional measure.

Bank Loans extended to MFIs by Banking Agencies during last three years shown in the table 1.1.

**Table- 1.1**  
**Loans status to MFIs by Banks** (₹ in Crore)

Particulars	2015-16		2016-17		% of Growth (2016-17)		2017-18		% of Growth (2017-18)	
	No. Of Accounts	Amount	No. Of Accounts	Amount	No. Of Accounts	Amount	No. Of Accounts	Amount	No. Of Accounts	Amount
Bank loan disbursed to MFIs during the year	647	20795.57	2314	19304.38	257.6	-7.17	1922	25515.23	-16.9	24.34
Bank loans outstanding with MFIs as on 31 March	2020	25580.84	5357	29225.45	62.29	12.47	5073	32305.92	-5.30	9.53

(State of Sector Report, NABARD 2016-2017-2018).

In the Table-1.1, the growth and progress of microfinance sector under MFI Bank Linkage programme from 2015-16 to 2017-18 are shown. The growth of MFI Bank linkage Programmes over the last three years are analysed in table 1.1 on the basis of bank loan disbursed to MFIs and bank loan outstanding with MFIs. In the year 2015-16 total 647 MFIs were financed by the banks total amount of ₹. 20795.57 crores. An amount of ₹19304.38 crores to total of 2314 MFIs again in the year 2016-17. The growth rate in the year 2016-17 over the year 2015-16 in terms of number and loan disbursed were 257.6 per cent and (-) 7.17 percent respectively. Thus in the year 2017-18 total 1922 MFIs were financed by the bank with the amount of ₹ 25515.23 crores. The growth rate over the previous year was (-) 16.9 per cent and 24.34 per cent.

Bank loan outstanding with 2020 MFIs, in the year 2015-16 was ₹.25580.84 crores and with 5357 MFIs in the year 2016-17 ₹29225.45 crores. The growth rate in the year 2016-17 over 2015-16 was 62.29 per cent and 12.47 per cent in respect of number of MFIs and outstanding amount. Similarly, bank loan outstanding with 5073 MFIs in the year 2017-18 was. ₹ 32305.92 crores and the growth

rate over the previous year -5.30 per cent and 9.53 per cent in respect of number of MFIs and outstanding amount. From the above analysis of MFI Bank Linkage Programme, it was observed that bank loan provided to MFIs in the year 2015-16 (₹20795.57) is more than in the year 2016-17 (₹19304.38) but in terms of number year 2016-17 is more than the year 2015-16. Again in the year 2017-18 numbers of MFIs decreased and loan amount increased.

The growth rate of MFI Bank Linkage Programme shows a fluctuating picture but loan amount disbursed to MFIs in the year 2017-18 has increased. The position of outstanding bank loan with MFIs is almost satisfactory. The fluctuating picture might be due to RBI guidelines and demonetisation effect.

The agency wise details of loans extended to MFIs are shown in the table 1.2

**Table 1.2**  
**Agency wise Loans to MFIs by Financial Institutions**

Financing Agency	Period	Loan disbursed to MFIs during the year		Loan outstanding against MFIs	
		No. of Loan Accounts	Amount ₹ in Crore	No. of Loan Accounts	Amount ₹ in Crore
Commercial Banks	2015-16	564	19324.14	1561	22682.85
	2016-17	1430	17091.33	3328	25089.18
	2017-18	641	22133.60	1962	26039.52
Regional Rural Banks	2015-16	31	52.42	344	210.23
	2016-17	13	37.83	250	78.75
	2017-18	13	55.93	358	64.16
Cooperative Banks	2015-16	3	6.00	17	11.76
	2016-17	834	207.33	1682	261.54
	2017-18	1248	38.70	2653	68.51
SIDBI	2015-16	49	1413.01	98	2676.00
	2016-17	37	1967.90	97	3795.98
	2017-18	20	3287.00	100	6133.74
Total by all agencies	2015-16	647	20795.57	2020	25580.84
	2016-17	2314	19304.38	5357	29225.45
	2017-18	1922	25515.23	5073	32305.93

Source: Status of Microfinance India

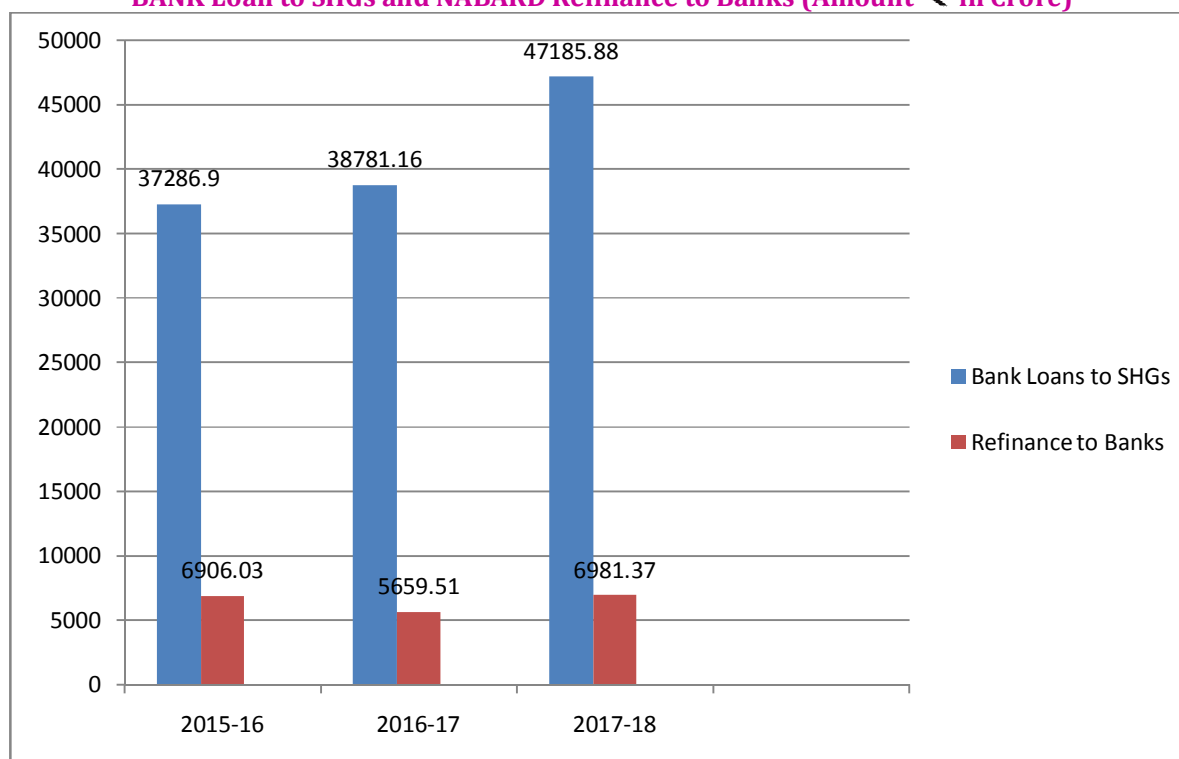
### REFINANCE TO MFIS

Under Refinance scheme NABARD had been providing financial assistance to MFIs by way of Long Term Refinance support to eligible NBFC-MFIs since 2014-15. NBFC-MFIs having grading up to 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 required conditions. During 2017-18, ₹744 crore has been disbursed to 12 MFIs as refinance by NABARD.

### REFINANCE TO BANKS

NABARD has been providing complete refinance to banks as resource supplement for their lending to SHGs. During 2017-18, NABARD extended refinance to the extent of ₹6981.37 crore under SHG lending, comprising 14.80 % of the total refinance Provided to banks for investment credit, as against ₹5659.51 crore disbursed during 2016-17. Cumulative disbursement of refinance by NABARD for SHG lending now stands at 50274.97 crore. Total loans issued by banks to SHGs and the refinance extended by NABARD for such loans are shown in Figure 1.1.

**Figure:1.1**  
**BANK Loan to SHGs and NABARD Refinance to Banks (Amount ₹ in Crore)**



#### Recent Trend of MFIs:

According to the Bharat Microfinance Report 2018, the growth of microfinance industry of India was 47 per cent with a gross loan portfolio of Rs 68,789 crore in the financial year ended March 2018 as against Rs 46,842 crore in the year ended 2017. According to the report, the sector witnessed 56 per cent (₹ 81,737 crore) increase in loan disbursements in 2017-18 over the year 2016-17 which was the highest since 2015-16. The top 10 MFIs disbursed 67 per cent (₹ 55,013 crore) of sector's total amount disbursed, and rest of the other MFIs disbursed 33 per cent. Among the different regions of India, southern region disbursed highest loan to MFIs with 34 per cent, followed by eastern India with 30 per cent. Central and western India has a share of 18 per cent and 9 per cent respectively. While northern and northeastern region have least disbursement share of 7 per cent and 2 per cent, respectively. A list of India's top 10 MFIs is shown in the table 1.3.

**Table 1.3.**  
**India's Top 10 MFIs Operating in Number of Indian States/Union Territories**

Serial No.	Name of MFI	No. of States/UTs
1	Share Microfin Limited	18
2	Asirvad Microfinance	17
3	BFIL, Satin Credit Care	16
4	NABARD Financial Services	15
5	Basix	14
6	Spandana	13
7	Muthoot Microfin	11
8	Annapurna Microfinance, NERFL	10
9	VFSPL, Sonata, S V Creditline, BMC	8
10	Disha Microfinance	7

Source Bharat Microfinance report 2017



**CONCLUSION:**

MFIs have been providing their financial services to the rural people by raising their resources from bank and other sources. Now MFIs in India have evolved as a vibrant segment of Indian financial sector with their verity of business models. With the progress of NBFC-MFI which was launched under RBI guidelines, introduction of Mudra Bank, and small banks licenses provided to top MFIs, the microfinance industry has witnessed tremendous growth over past few years. Now, MFIs should keep themselves relevant in terms of providing capital by re-evaluating their current position in the market.

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