



## A STUDY ON PERFORMANCE OF MICROFINANCE IN INDIA

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### ABSTRACT:

To improve the economic status, there is need to concern about the low income population prevails in the economy Microfinance, is one of the most important tool for helping those people who are financially poor by giving micro credit to them. To bridge the gap between the formal financial institution and the poor people microfinance institution came into existence. It is an organization that provides financial services to the low income population. Micro financial institutions (MFIs) provide micro finance to see individuals and small business to help them to become self sufficient. Microfinance includes micro credit, small loans to poor clients, savings and checking accounts, micro insurance and payment system. MFI came into existence in the 90's because formal institutions reluctant to lend to the poor people without knowing the credit history.

The main focus area of this research paper is to know full acquaintance of microfinance, need of micro financial institutions, benefits of microfinancial institutions in India, performance of microfinancial institutions, problem faced by MFIs this paper is based on the secondary data.

**KEYWORDS:** Micro finance , Micro finance institutions, Self-help groups, E-shakti.

### INTRODUCTION

To improve the economic status, there is need to concern about the poor population prevail in economy. Micro finance is the best thing which helps the peoples who are financially poor by giving loans to them. MFI help to reduce the gap between formal financial institutions & poor people. Absence of formal employment makes them **NON- BANKABLE**.

Micro finance is the provision of financial services to low income clients including consumers & self employed, who are not able to get the banking or related devices. It is not just about providing loans to poor but it also provide wide range of services like credit, savings , insurance , remittance & other non- financial services like training etc.

There are some type of MFI which are so popular now a days. Like

1. SHG (Self help group)
2. SAKHI

### SHG (Self help group)

SHG Is group of people who comes together having the same problem. The target of SHG is to provide the financial facilities to the group members. For this they start saving in routine basis as they save small amount of money but at the collective basis it is the big amount for the SHG. The saved amount they kept at bank with the name of SHG common fund. From time to time they provide small

amount of fund to the member of SHG. SHG is unofficial group of people which registered under any society act or cooperative act. There is the proper committee of the members of SHG who are well educated & provide the facilities related with the amount or working of the SHG. They are known as Facilitator.

There is the big contribution of NABARD in establishing the SHG. The minimum amount of capital is provided by NABARD or NGO's. SHG includes mostly 10-20 members only having the same problem (economically / financially). There is regular meeting of SHG members. The motto of SHG is - **SAVING FIRST - CREDIT LATER.**

### SAKHI

SAKHI is the organisation for women established in the year 2002. In this organization some women come together having the same skill of doing the work. SAKHI started by Mrs. Alpa Chauha in India.

The main functions of SAKHI are same as SHG with little difference that they provide facilities to the women only. It helps to provide micro loans from ₹ 3000 to ₹ 15000. Provides the facilities of insurance, banking, savings & also help to start to women entrepreneur business. The main source of raising the fund by SHG is Friends of women World Bank (FWWB) and Indian Bank. SAKHI is not as popular as SHG because of the high rate of interest charge by the organization.

### HISTORY OF MICROFINANCE

To provide the financial services to the doorsteps of the poor people, micro credit movement was started by the Muhammad Yunus and AI Whittaker in the 19<sup>th</sup> century. Yunus saw the extreme poverty in his country, Bangladesh. He saw that the formal institutions rejected the poor as unworthy of credit. Yunus was determined to find practical solutions to help small villages by stepping outside of the formal institutions. To help the poor people he started an organization called Grameen Bank (which now serves over 7 million poor Bangladeshi women). The success of the Grameen bank has inspired the world. The history of microfinance can be traced as far as the middle of 1800s when theorist named 'Lysander Spooner' was writing about the benefits of small finance to entrepreneurs and farmers as a way of getting the people out of the poverty. Independency of Spooner, the first cooperative lending bank to help the farmers in rural Germany was founded by the "Friedrich Wilhelm Raiffeisen". The modern microfinance has roots in the 1970s. When the Grameen bank started by Yunus gives shapes to the modern industry of micro financing.

### LITERATURE REVIEW.

**Yahaya, K.A, Osemene, O.F and Abdulraheem.A** In their research paper states that microfinance banks help in the alleviation of poverty in the Kwara state Nigeria by providing financial services to the poor people. Microfinance helps in generating the employments and also provides small loans to grow the small businesses. For analyzing data, t-test and ANOVA was used by them. They concluded on the note that microfinance policy should be publicized so that the awareness of microfinance increased and poor people can get knowledge about the efficacy of the microfinance banks.

**Salenuddin Ahmed** in his research paper review the Bangladesh experience with microcredit. It also emphasizes role of autonomous national efficiency fund and analyzes the efficiency of microfinance delivery mechanisms in Bangladesh. Paper also examines the challenges faced by the microfinance movement in the Bangladesh. Data was collected from various institutions and by survey in Bangladesh.

**Shah Nawaz** in the research paper studied the impact of microfinance programs on multidimensional poverty. For knowing the impact, a village study in Bangladesh has conducted where three microfinance programs had been operated for more than 5 years. The study reveals that microfinance resulted moderate reduction in the poverty. To make microfinance more effective means

of poverty reduction other services like skills training, technological support, education and health related strategies should be included.

**Durrani, Usman, Malvic** in their research papers states that microfinance is an important element for an effective poverty reduction strategy. The role of microfinance on poverty alleviation is checked both in social and economic factor like improvement of life style, accommodation standard, income generation, life standard, purchasing power, expansion of business facility, self-employment and adoption of better technology. The study reveals that microcredit enable the poor to smooth their consumption, develop microenterprises, enhance their income earning capacity and also improved quality of life. The study concluded by stating that with little more efforts, the performance of MFIs can be improved.

### OBJECTIVES OF THE STUDY

- To get the full acquaintance of microfinance
- To study about the needs of micro finance institutions
- To know the benefits of micro finance institutions
- To know about the financial performance of micro finance institutions
- To know about various problems and challenges faced by micro finance institutions

### RESEARCH METHODOLOGY

This paper is based on the secondary data and drained from various articles, reports and websites.

### Needs of MFI in India

According to the latest research done by the World Bank, India is home to almost 1/3rd of world's poor. Poor needs financial services to fulfill their needs like consumption, building of assets & protection. As its name suggest it is related with the small amounts. Of financial Institutions. These institutions provide facility to the micro or small business & poor people.

There are so many reasons for evaluation of MFI in India. The main and for most reason is to **reduce the poverty** in India. And provide all facilities to the poor .there are some reasons are as follows:-

1. Before the MFI, the financial facility is provided by the banks and other unorganized sectors to the people or institute or business which is able to get profit on time. Inother words financial support is given to the business man only having good credit worthiness and having the high approach. There is no facility for poor people. They face problem related with finance and not even able to fulfill their basic needs due to financial disability.
2. The aim of MFI is not only to provide financial help to the poor people but also provide the basic education related with the market and working of MFI. They also help them to know how to utilize the funds in best way so that they can able to get maximum profit with less amount of money.
3. MFI are not working like banks which provide finance only but they help to understand value of money and help to utilize the fund with the team work . The best example of team work is the SHG (self help group). Here people come together with small amount and provide that amount to the member of group who need that amount. It helps them to create team work and other moral values to all the group members.
4. Another reason of MFI in India. Is exploitation or negligence of oud poor people section by the govt. & private sector. They target only the people who have enough amount of funds to expand their business. So they get their share of profit.
5. Some other reason of MFI is the enjoyment opportunity, as the population of India increases day by day there is no sufficient job opportunity for the people. With the help of MFI small people able to start small business, it widens the employment opportunity for others.
6. Target to remove poverty. Poverty in India rising at an alarming rate. Lack of education has lead to unemployment & it turns to poverty. With the help of MFI the small poor people able to start business

or do any activity which helps to provide employment. It will help to reduce the poverty level of India.

### **BENEFITS OF MICRO FINANCE INSTITUTIONS**

The main aim of microfinance is to provide the credit facilities to the low-income population and majority population of the world which forced to survive on the \$ 2 per day microfinance become a solution for them. It helps in improving the living condition of the households. The main benefits of microfinance are

- Access credit to poor population: The formal financial institution does not give the credit to those who doesn't provide collateral security so without credit it is impossible for someone who is living in poverty to become self-sufficient but microfinance makes it possible. It provides finance to poor people to become self-sufficient.
- Empowering women: The primary recipient of microloans in developing nation is women. Mostly loans are granted to women rather than man by microfinance institution.
- Help in job creation: Microfinance helps the people to become the self-reliant. It provides loan to poor people to start their own business which further help in creating the job opportunities in the economy for others.
- Helps in providing the education facility: families of the poor people pull out their children out of the schools due to the economic reasons because they don't have sufficient money to get their children educate. Thus, they also help in extending the education facility.
- Better loan repayment rate: The main target microfinance is women because they are statistically less likely to default in the repayment of loans as compared to the men. According to a survey conducted by Zenger Folkman on the integrity & honesty in leadership a role that was separated by the gender women are more honest as compared to the man.

### **Status of microfinance in India in 2016-2017**

Self-help groups are the large microfinance in the world today they touch 10 crore households through more than 85 lakh SHG's due to this joint effort of more than 100 schedule banks, 349 DCCBs, 27 State livelihood missions & over 5000 NGOs .

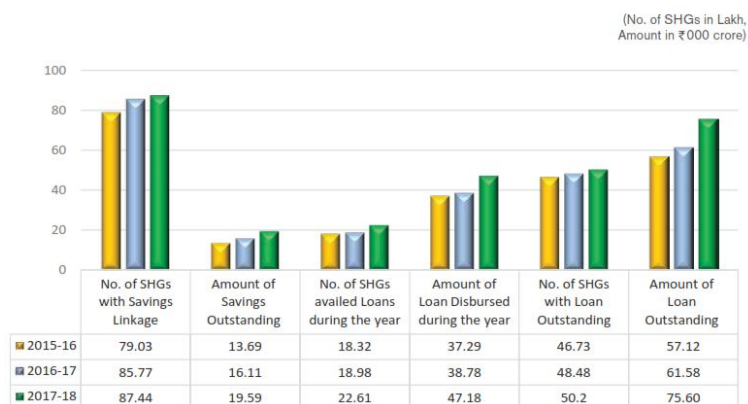
In today's world, the entire banking system use the technology for the smooth flow of data to take the advantage of the available information technology the NABARD attempted the digitalisation of SHGs under a project called E-SHAKTI upload all the financial as well as non-financial information includes minutes of meeting through an app loaded on android based tablets/mobiles.

## Overall Progress under SHG-Bank Linkage Programme during past Three Years

Particulars	2015-16		2016-17		2017-18	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Total SHG Nos.	79.03 (2.68%)	13691.39 (23.79%)	85.77 (8.53%)	16114.23 (17.69%)	87.44 (1.95%)	19592.12 (21.59%)
All women SHGs	67.63 (1.68%)	12035.78 (29.92%)	73.22 (8.26%)	14283.42 (18.67%)	73.90 (0.94%)	17497.86 (22.51%)
SHG Savings with banks as on 31st March						
Percentage of women	85.58	87.91	85.36	88.64	84.51	89.31
Of which NRLM/SGSY	34.57 (13.27%)	6244.97 (41.16%)	37.44 (8.30%)	7552.70 (20.94%)	41.84 (11.76%)	10434.03 (38.15%)
% of NRLM/SGSY Groups	43.74	45.61	43.65	46.87	47.85	53.26
Of which NULM/SJSRY	4.46 (3.00%)	1006.22 (6.12%)	5.46 (22.42%)	1126.86 (11.99%)	4.25 (-22.10%)	1350.80 (19.87%)
% of NULM/SJSRY Groups	5.64	7.35	6.36	6.99	4.86	6.89
Total no. of SHGs extended loans	18.32 (12.67%)	37286.90 (35.18%)	18.98 (3.60%)	38781.16 (4.01%)	22.61 (19.13%)	47185.88 (21.67%)
All women SHGs	16.29 (12.50%)	34411.42 (40.92%)	17.16 (5.34%)	36103.13 (4.92%)	20.75 (20.92%)	44558.74 (23.42%)
Disbursed to SHGs during the year						
Percentage of women groups	88.92	92.29	90.42	93.09	91.78	94.43
Of which NRLM/SGSY	8.16 (26.91%)	16785.78 (76.92%)	8.86 (8.58%)	17336.26 (3.28%)	12.70 (43.41%)	25055.18 (44.52%)
% of NRLM/SGSY Groups	44.54	45.02	46.69	44.7	56.2	53.1
Of which NULM/SJSRY	1.11 (5.71%)	2620.22 (40.00%)	1.06 (-4.5%)	2675.77 (2.12%)	1.06 (0.17%)	2424.07 (-9.41%)
% of NULM/SJSRY Groups	6.06	7.03	5.6	6.9	4.71	5.14
Total no. of SHGs linked	46.73 (5.59%)	57119.23 (10.81%)	48.48 (3.74%)	61581.30 (7.81%)	50.20 (3.55%)	75598.45 (22.76%)
No. of all women SHGs linked	40.36 (4.61%)	51428.91 (12.04%)	42.84 (6.14%)	56444.24 (9.75%)	45.49 (6.20%)	70401.73 (24.73%)
Outstanding against SHGs as on 31st March						
Percentage of Women SHGs	86.37	90.04	88.36	91.66	90.62	93.13
Of which NRLM/SGSY	21.91 (18.69%)	26610.16 (34.72%)	24.91 (13.69%)	29994.43 (12.72%)	27.93 (12.13%)	38225.29 (27.44%)
% of NRLM/SGSY Groups to Total	46.89	46.59	51.37	48.71	55.63	50.56
Of which NULM/SJSRY	3.13 (-1.57%)	3979.75 (14.93%)	3.18 (1.60%)	4133.29 (3.86%)	2.90 (-8.58%)	5350.63 (29.45%)
% of NULM/SJSRY Groups to Total	7	6.97	6.55	6.71	5.79	7.08

\*Source- NABARD Report FY(2017-18)

### Progress of SHG-BLP during past three years



### Progress under MFI/MFO-Bank Linkage

(Amount Rs. Crore)

Particulars	2015-16		2016-17		2017-18	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Loans disbursed by banks/FIs to MFIs/MFOs	647	20795.57	2314	19304.38	1922	25515.23
Loans outstanding against MFIs/MFOs as on 31 March	2020	25580.84	5357	29225.45	5073	32305.92

\*NABARD report FY( 2017-18)

### Loans to MFIs / MFOs by banks/ Financial Institutions

Financing Agency	Period	Loans disbursed to MFIs during the year		Loans outstanding against MFIs as on 31 March	
		No. of loan account	Amount	No. of loan account	Amount
Commercial Banks	2015-16	564	19324.14	1561	22682.85
	2016-17	1430	17091.33	3328	25089.18
	2017-18	641	22133.6	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	17	11.76
	2016-17	834	207.33	1682	261.54
	2017-18	1248	38.7	2653	68.51
SIDBI	2015-16	49	1413.01	98	2676
	2016-17	37	1967.9	97	3795.98
	2017-18	20	3287	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- NABARD Report FY (2017-18)

In the pilot project data of about 1.3 each SHGs has been digitalised

## PROBLEMS OF MICROFINANCE

**High transaction cost:** High transaction cost is a major challenge for MFIs. The transactions are so small in number but the fixed cost of these transactions is very high.

**Lack of resources:** MFIs operate at very small level. They have lack of resources due to limited means which creates difficulty in their working. This is a major problem for MFIs.

**Illiteracy rate:** Illiteracy rate among poor people in India is very high due to low income level of them. Poor people face problem in understanding the terms and conditions of MFIs. They do not easily rely on these institutions.

**High interest rate:** one of the major problem of MFIs is high interest rate. Although they work for the welfare of poor people, their interest rate is high because they borrow money from the banks. Their interest rate generally ranges between 24 to 30% which is very high for poor people.

**Limited budgets:** MFIs have limited budgets so this makes in providing finance to poor people. This limits their growth for providing funds to the needed people.

**Geographic factors:** More than half of MFIs be of the same opinion that geographic factors make it complicated to reach the people of far areas who need finance which create huge problem for the organization.

**Security challenges:** The people who get finance by MFIs are those who have very less or no official identification. They also don't have any security to provide. So, this makes difficult for MFIs to operate.

**Lack of awareness:** This is major problem of MFIs. Poor people don't have much awareness about the MFIs. They don't know about the criteria and how MFIs provide loans. So, due this they don't take initiative for it.

## CONCLUSION

Micro credit movement was started by Muhammad Yunus in the 19<sup>th</sup> century to provide the financial services to the door steps of the poor people. It is not just about providing loans to poor but it also provides wide range of services like credit, savings, insurance etc. It also helps in extending the education facilities, improving health facility, increase employment opportunities. Micro finance institutions provide loans to poor and needy people to become self-sufficient.

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