

## **Emerging Trends and Patterns in Micro Finance in India**

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### **Abstract**

Microfinance may be conceptualized as the accessibility of monetary offering to the neglected section of the society who does not have any accessibility of funds. Microfinance provides working capital loans to entrepreneurs through which they can start their own business. It helps to create employment not only to entrepreneurs but also generates employment opportunities to others too. Banks are not best suited to offer microfinance since they do not take a long-term view; do not offer non-financial services such as training; and lack the combined qualitative and quantitative approach that is unique to microfinance institutions. The concept of micro finance and micro credit is usually used for mutual exchange. But micro credit is always given with the thrift and therefore a more appropriate expression rather than a micro finance. This includes the entire gamut of financial services, such as savings required by poor, loans, insurance, equipment leases, remittances etc. Against this backdrop, present paper highlights the growth and emerging trends and patterns in micro financing in India.

### **Introduction:**

Micro Finance has emerged as is a powerful instrument for poverty alleviation and empowering poor. The global nature of the Micro Finance movement is reflected in the growing number of organizations providing Micro finance to poor people. Micro Finance is being referred to as one of the cost effective and supplementary tools of rural credit delivery system which facilitates prompt and timely availability of institutional credit to poor in an effective and economical manner. One of the objectives of development planning is to reduce extant of poverty by providing employment opportunities and raising the income levels of the population. There has been remarkable progress in the outreach and expansion of MFIs

in India. In this part of dissertation an attempt has been made to analyze the views of MFIs officials regarding micro finance activities.

NABARD has introduced the concept of Joint Liability Group in 2006-07 in order to help clients like tenant farmers, share cropper, oral lessees, etc, through formal banking channels/MFIs as they had no access to credit due to lack of acceptable collateral. Joint liability lending schemes has positive impact on the repayment performance of borrowers. In the sense that social collateral of borrowers takes the place of traditionally accepted forms of physical collateral, joint liability lending relied upon social capital of the group. Under such lending conditions, the group bears the liability for the individual. Loans of members and by that solved the problem of lack of traditional forms of collateral. By delegating the function of screening, monitoring, and enforcement of loans to the group members, banks in their turn overcome the problem of asymmetric information and accordingly the problem of prohibitively high transaction costs

In order to increase the credit flow in priority sector, commercial banks, regional rural banks, cooperative banks etc. were promoted and large scale credit fair was organized. However, credit access to the poor from formal financial institutions is still limited and the poor depend on non-formal agencies for their credit needs. Thus, micro-finance institutions (MFIs) are institutions other than banks, which are engaged in the provision of financial services to the poor. Micro finance is seen as a central axis in the field of development with a focus on poor women. Micro Finance has had several successful initiatives, including the range of outreach, as well as the development of local institutions and innovative products that reach out to marginalized communities. Micro-finance has been accepted at the national policy level for poverty reduction. The expansion of banking network and expansion of micro finance programs have enabled the poor to undertake income generating activities for their empowerment. There are three types of lending technologies: (1) Document-based and asset-based traditional technology, which is followed by almost all existing banks; (2) Group lending technology, which comes in various sizes and forms and has its own benefits; and (3) Individual based lending technique is one where micro-finance institutions have to take great care in assessing the repaying capacity of the borrowers. In fact, a major innovation in this area is that MFIs have to train loan officers to assess the repaying capacity of potential borrowers. These techniques have been focused on micro finance through SHG, although there has been a tremendous increase in credit access to the poor through SHG and recovery has been comparatively high. Importantly, the provision of financial services dealing with small loans and savings has been increasingly appreciated as an effective means of poverty reduction. There is continuous and rapid improvement in understanding how financial

services can be provided for poor people. However, micro-finance institutions initially have small operations and expand their outreach very rapidly.

Microfinance may be conceptualized as the accessibility of monetary offering to the neglected section of the society who does not have any accessibility of funds. Microfinance provides working capital loans to entrepreneurs through which they can start their own business. It helps to create employment not only to entrepreneurs but also generates employment opportunities to others too. Banks are not best suited to offer microfinance since they do not take a long-term view; do not offer non-financial services such as training; and lack the combined qualitative and quantitative approach that is unique to microfinance institutions. The concept of micro finance and micro credit is usually used for mutual exchange. But micro credit is always given with the thrift and therefore a more appropriate expression rather than a micro finance. This includes the entire gamut of financial services, such as savings required by poor, loans, insurance, equipment leases, remittances etc. Micro credit is the credit of a small amount of money, which plays an important role in enhancing human life, which should be used in a proper manner to generate income, to eliminate poverty, create jobs etc. Micro finance is usually known through small groups. As self-help group [SHG] not only works as a platform to monitor each other's activities, but also provides social assistance. The amount of loan on the SHG member is based on the amount of SHG savings and is usually collected in monthly installments. Debt is repeated and gradually increased, thus, the establishment of relationship banking. The small scale enterprises mostly deals in trading different range of products like handicrafts items, fruits and vegetables seller, general store, potter works, dairy farms, painting and embroidery works, papad-making and pickle-making, sewing works, agarbatti making, candle-making, hair dresser or salon, etc. Banks are unable to deal with poor people due to involvement of high transaction cost, thus, micro-finance comes into picture to fill this gap. Microfinance institutions provide all essential services required to start up enterprises or to give training so that poor people can earn their livelihood. MFIs motive to capture poor people by making their groups to credit them and provide financial security to them. In the last decades, microfinance has turned into one of the major issues in the discourse of economic development from literally unknown development tools. During the last two decades in the developing world, there have been two different approaches to micro finance in the micro credit sector. It is important to know them, because issues of a permanent system have to be checked in that context. The first is the business approach that considers micro-finance as a marketing of credit to meet the needs of the informal sector or any other customer, whose credibility does not match the requirements of formal banking practices. Entrepreneurship and development have been emphasized.

### **Financial Inclusion:**

Financial inclusion is imperative for increasing the outreach and accessibility of financial services to poor, marginalized and weaker sections of society. The global experience demonstrates financial inclusion reduces social and income inequalities comparatively faster than other banking and financial services (Beck et al. 2007). The financial inclusion and financial instruments have also positive impact on generation of self-employment, business development and family level domestic consumption (Bauchet et al. 2011). The increasing access of microcredit also has augments household consumption and reduces poverty while it enables entrepreneurs and business men to develop businesses and face the risks (Banerjee and Duflo, 2011, Dupas and Robinson, 2013). Furthermore, randomized evaluations of health and insurance have positive impacts on farmers and also reduces risks and (Cole, et al., 2013; Karlan, Osei-Akoto, Osei, and Udry, 2014). The studies have shown positive results on savings and investment for future (Dupas and Robinson, 2009), It microcredit also increases social Dupas and Robinson, 2009), and women empowerment.

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reduction. There is continuous and rapid improvement in understanding how financial services can be provided for poor people. However, micro-finance institutions initially have small operations and expand their outreach very rapidly.

### **Trends and Patterns :**

The SHGs based micro financing programme has wider coverage to more than 10 million groups while a large amount of loan was disbursed for livelihood generating activities. The poverty alleviation programmes such as NRLM and NULM account for majority of SHGs (NABARD,2019). However, Southern states have major share while Central Region (10.6 per cent) and Northern Region (5.5 per cent) recorded lower shares. Micro Finance Institutions presently are in operation in 29 States and 4 Union Territories with the outreach of 563 districts. Twenty one MFIs have wide outreach and are functional in more than five states while four MFIs are operating in more than fifteen states. However, 57 MFIs are functional in two to five states while 90 MFIs are confined to only one state. The client outreach of MFIs had grown significantly during the period of 2005 to 2011 and achieved a level of 317 lakh clients. Majority of these clients are being served by NBFCs (NBFC/ NBFC-MFIs). Number of functional MFIs during 2017 was reported large in Maharashtra followed by Madhya Pradesh, Bihar, Chhattisgarh and Uttar Pradesh. However, number of branches was reported large in Uttar Pradesh followed by Karnataka, Madhya Pradesh, Tamil Nadu, Bihar and West Bengal. Number of clients was reported high in Karnataka followed by Uttar Pradesh, Bihar, Odisha and Tamil Nadu. Gross loan portfolio was recorded high in Karnataka followed by Uttar Pradesh, Maharashtra, Bihar, Tamil Nadu and West Bengal (Mishra and Tankha, 2018).

Membership of SHGs has enabled economic authorization of women through management of resources, political empowerment through participation in decision-making, social empowerment through higher social standing obtained by better economic status. Thus, the SHGs became the foremost powerful conduits for incubating and empowering women to maneuver from subsistence to sustainability. The programme of linking of SHGs to banks was started on a pilot basis by NABARD within the year 1991-92 and since then NABARD has been propagating, promoting and funding SHG-Bank Linkage Programme. As on thirty one March 2021 the SHG - BLP programme has reached many milestone with a complete membership of concerning 112.23 lakh SHGs. covering 13.8 large integer households across India. Throughout the year 2020-21, the amounts of SHGs hyperbolic by Rs. 9.80 lakh with a corresponding increase within the savings by Rs. 11325.56 crore. The savings outstanding of SHG with Banks as on thirty one March 2021 has reached an incomparable high of Rs.37477.61 crore. Taking the getting to know of collateral loose lending from the SHG concept, NABARD piloted and evolved an powerful credit score

product for landless laborers, share-croppers and tenant farmers i.e. “Joint Liability Groups” (JLGs). This product allows trouble loose credit score that is of longer term; satisfying seasonal wishes of credit score large in quantum. The product however, is predicated on mutual assure of customers like small /marginal/tenant farmers, oral lessees and sharecroppers, micro-entrepreneurs, who've no traditional collateral to offer. It leverages on social collateral presented via way of means of the members. Encouraged via way of means of NABARD's one hundred percentage refinance assist to banks, the Scheme has additionally recorded an outstanding increase all through 2020-21 with 41.27 lakh JLGs receiving economic help to the tune of Rs. 58311 crore from diverse banks. Under the Scheme NABARD has sanctioned a cumulative furnish help of Rs. 219.73 crore to Joint Liability Groups Promoting Institutions (JLPis) for selling 11.69 lakh JLGs throughout the usa and allowing float of collateral loose mortgage to tenant/ landless farmers.

The MFIs emerged in India in reaction to the distance in availability of banking services for the un-served and underserved in rural population. There are round 184 MFIs (which include NBFC-MFIs) running in India in numerous forms - trusts, societies, cooperatives, Section 25 businesses and Non-Banking Financial Companies (NBFCs). The MFI enterprise has proven similarly promising increase. As in step with Sa-Dhan, as on 31 March 2021, the microfinance enterprise has a complete mortgage portfolio of Rs. 2,47,839 crore with a 12 months increase of 17 percent . The percentage of the numerous gamers in typical portfolio exceptional suggests that the Banks' percentage become maximum amounting to Rs. 110122 crore (44 percent), NBFC-MFIs Rs. 79115 crore (32 percent), Small Finance Banks Rs. 37724 crore (15 percent), NBFCs Rs. 18765 crore (8 percent ) and Non-income MFIs Rs. 2113 crore (1 percent ).

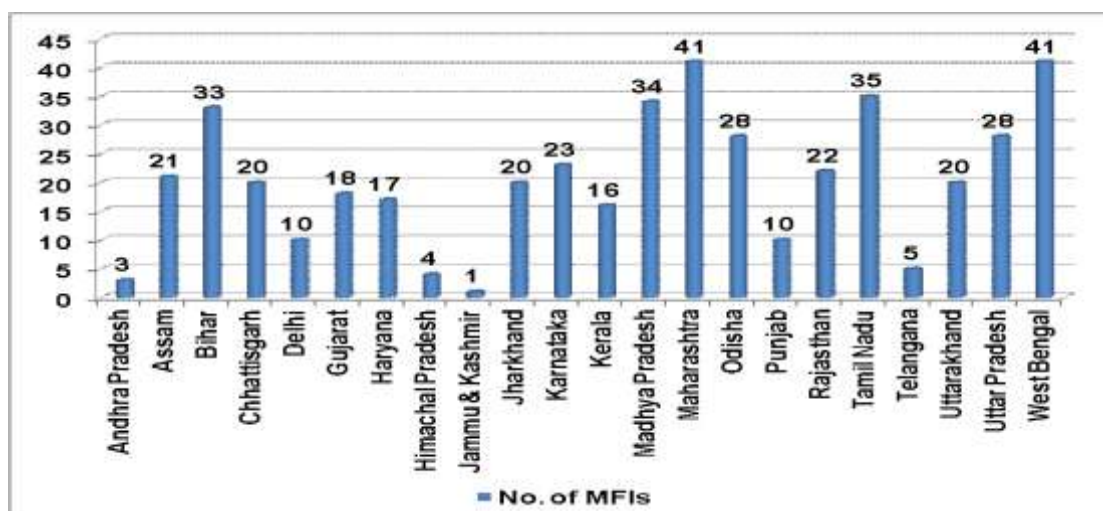
In 2020- 21 , the lockdown due to COVID -19 pandemic affected the economic activities across the country. The worst affected had been firms with very little reserves and excessive liquidity turnover operations, which turned into the case for ordinary micro and small businesses. When those MFIs confronted a shutdown in collections and disbursements because of regulations on mobility within side the early months of the pandemic, the impact turned into devastating. The Covid-19 pandemic has induced unceasing damages to the Indian economic system. In view of the revival of the Indian economy from the slump, the banking region inter alia appears to have obtained unique attention. Financial measures were adopted to provide relief. In India, the MFIs have enormous contributions in reaching the a great deal pointed out the goal of economic inclusion. During the pandemic, SHGs were massively engaged in manufacturing of PPE kits such as masks, sanitizers, and providing banking services at the doorstep. As per Sa-dhan (2019) report, the MFIs have an outreach to forty million customers with an superb mortgage portfolio of \$ 12.76 billion.

There has been a 22 percentage growth in customer outreach and a 34 percentage growth in mortgage disbursements over the preceding year, indicating a excessive increase rate. MFI lending performs a tremendous position in decreasing the proportion of casual borrowings amongst families. The MFI operation and the views of economic offerings to the negative want revamping within side the wake of the pandemic associated lockdown measures being in pressure throughout the country. To incorporate unfold of Covid-19, the management has mandated social distancing and confined marketplace. Needless to say, the MFI mode of operation mostly includes the distribution of credit score on the customers' doorsteps, periodic organization of meetings and collections. The pandemic primarily based totally regulations; however, create demanding situations to the continuation of the operations. Further, a majority of the MFIs' economic offerings are directed to low-profits families whose income are abnormal and to a bigger extent, are daily. The regulations at the monetary sports have visibly adversely affected the income and the cash-go with the drift to the families. Considering the MFIs as instrumental in offering economic offerings to the negative, and that the MFIs are presently locating it hard to elevate capital from the debt marketplace, the authorities of India has delivered positive beneficial measures to enhance their liquidity needs. A unique liquidity scheme of \$ 4.06 billion has been released for the non-banking economic companies, housing finance companies, and the MFIs under Self Reliant India. This is anticipated to ease the MFI operation and in turn, assist the needy avail of a great deal-wanted credit score to permit pass the business. Under the lately introduced scheme of the government "Self-Reliant India", a economic package deal of USD 270.forty two billion is introduced to restore the economy .The monetary package deal has the supply of economic help to the small-scale industries particularly domestic industries, cottage industries, small-scale industries, and MSMEs .

MFIs can either grow by expanding their branch network or by adding more clients to the existing branch. While the first approach typically leads to greater breadth in operations, the second approach leads to depth within the existing area of operation. During the year 2017–18, an analysis of the operations of the top 10 NBFC-MFIs shows that a mixed approach was the trend. Except in the case of Spandana, Muthoot and Asirvad, growth in the number of clients is either similar to growth in branches or slightly less. The overall data for 47 NBFC-MFIs also confirms this trend, as the sector average was 25 per cent annual growth in both the number of branches and clients. A logical corollary of this aspect is that the existing operational areas of MFIs are saturated, necessitating a move to new geographies. As the number of districts with NBFC-MFI presence did not see a corresponding increase during the year, it can be inferred that most of the new branches are within existing districts. It is a positive development because in previous years the focus was more on depth that is, adding more branches.

Operation of MFIs in India is shown in Chart 1. The number of micro finance institutions functional in the state was reported high in Maharashtra followed by West Bengal, Tamil Nadu, Madhya Pradesh, Bihar and Uttar Pradesh. Number of districts of the state which were covered by MFIs operation was reported high in Uttar Pradesh followed by Madhya Pradesh, Maharashtra, Tamil Nadu, Bihar, Karnataka and Odisha. Similarly, there were 10233 branches of MFIs and a large number of MFI branches were found located in Karnataka, Tamil Nadu, West Bengal, Uttar Pradesh, Madhya Pradesh and Maharashtra. The top five states viz., Karnataka, Tamil Nadu, Uttar Pradesh, Odisha and Bihar account for 60 per cent of total client outreach in India.

**Chart-1 Operation of MFIs in India**



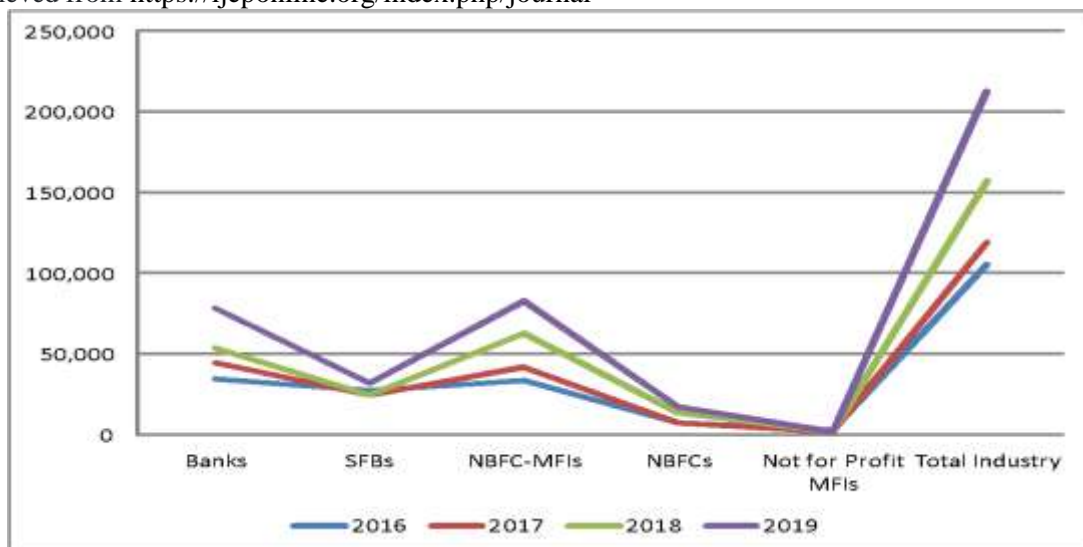
Loan disbursed to MFIs by financial institutions and banks has shown fluctuating trend over the period of 2016-17 to 2018-19. During 2015-16, number of loan accounts were reported 647 which increased to 2314 during 2016-17 however, the number of accounts declined to 1933 during 2018-19.. The amount of loan disbursed to Micro Finance Institutions has increased by 22.69 per cent during 2015-16 to 2017-18. Commercial Banks accounted a large share against amount of loan disbursed to MFIs by banks and financial institutions in India while outstanding loan against micro finance institutions as on 31<sup>st</sup> March, 2019 was reported to be Rs. 17760.66 crores. The amount of outstanding loan has shown increasing trend during 2015-16 to 2017-18. There has been phenomenon growth in MFI-bank linkages in India during 2012-13 to 2018-19. The number of MFIs to whom loan was disbursed by banks and financial institutions has increased by 4.54 times while there has been 3 times increased in the amount of loan disbursed to MFIs in India during the period of 2012-13 to 2018-19. Similarly, loan outstanding of MFIs has shown 2.69 times increase while amount of outstanding loan has increased by 1.23 folds during the corresponding period (NABARD, 2019).



The states of Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, West Bengal, Bihar, Madhya Pradesh, Rajasthan, Gujarat and Odisha are top 10 performing states of Prime Minister Mudra Yojana in India. During 2016-17 to 2017-18, the sanctioned amount under the scheme has increased significantly in the state of Rajasthan followed by Odisha, Gujarat and Uttar Pradesh .PMMY loan accounts were reported 48.13 million and southern states constituted about 30 per cent share while northern states accounted for 18 per cent share. However, Southern and Northern states accounted for about 54 per cent share in sanctioned amount during 2017-18. Out of total PMMY loan during 2017-18, more than 2/5<sup>th</sup> loan was reported under the category of Shishu while number of accounts under Shishu accounted for 88.65 per cent share in the corresponding year. However, more than 1/3<sup>rd</sup> amount was sanctioned under Tarun category against 9.67per cent share of loan accounts during the period. The number of loan accounts under the Kishore category constituted less than 2 per cent share but loan sanctioned under the category accounted for about 1/4<sup>th</sup> share (Mudra, 2019). The micro finance industry is growing significantly while total loan portfolio was recorded in the tune of Rs.1,78,547 crore as on March 31, 2019 .NBFC-MFIs accounts for lion's share in micro-credit with total loan outstanding of Rs. 68,156 crore while Banks constitute 34 percent of total micro-credit outreach . Number of MFI loan has shown an increasing trend during the period of 2016 to 2019. During 2019, about 48 per cent number of loan reported to be NBFC-MFIs while its share during 2016 was recorded 41.27 per cent. Number of loans by banks constituted about 27.7 per cent. MFI disbursed amount is shown in Chart 2. Out of total MFI loan amount during 2019, about 40 per cent loan amount was reported for NBFC-MFIs while banks constituted 36.88 per cent share in the MFI loan amount disbursed during the year. There has been significant increase in the loan amount during the period of 2016to 2019 (102.56 per cent).

### **Chart\ 2: MFI Disbursed Amount**

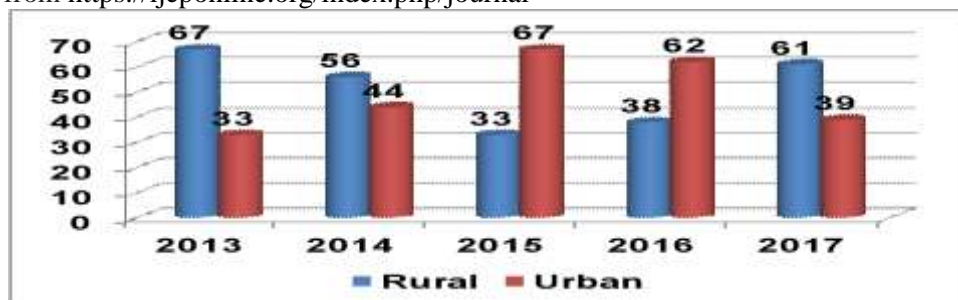
**( Rs Crores )**



There has been increase of 128.55 per cent in MFI portfolio outstanding during the period of 2016 to 2019. MFI portfolio outstanding was reported Rs. 78123 crores during 2016 which increased to Rs. 178547 crores during 2019. Microfinance industry has a presence in 619 districts in India while top 30 districts account for 25 percent of portfolio outstanding. MFI concentration was reported high in Puducherry followed by Tripura, Tamil Nadu, Sikkim, Assam, Odisha, Karnataka, West Bengal and Kerala while number of active borrowers was reported high in Tamil Nadu followed by West Bengal, Bihar and Karnataka (SIDBI, 2019). Most of MFIs provide financial services through group based financial model such as JLGs/ SHGs. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group which comprising of 5 to 10 individual members who join together for receiving credit either individually or through the group based mechanism. Out of cumulative number of JLGs promoted in India as on March 31st, 2019, southern states accounted share of 30.97 percent while eastern states constituted more than one third share. The share of northern states was recorded 13.24 percent while least share went to north eastern states. Out of the total loan disbursed as on March 31st, 2019, about two fifth share accounted for southern states while about 27 percent share was reported for eastern states (NABARD, 2019).

There has been global focus of microfinance on serving women. However, in India, MFIs also target Scheduled Castes, Scheduled Tribes and Minorities besides women clients. However, about two fifth borrowers are from urban centers. Rural-urban distribution of MFI borrowers is shown in Chart 3.

**Chart 3: Rural and Urban Share of MFI Borrowers**



### Conclusion:

Micro-finance initiatives are well recognized all over globe as an effective tool for poverty alleviation and substantial income generation. In India too, micro-finance is playing crucial role in reducing poverty, empowering poor and small business development. Micro finance is seen as a central pivot in the development space with its focus on poor. The expansion of banking network and extending outreach of micro finance programmes has enabled poor to initiate income generating activities for their empowerment. The SHGs based micro financing has become a regular feature of the Indian financial system since 1996. The SHGs are small, informal and homogenous groups which have proved as cyclic agents of development in both the rural and urban areas. The micro finance movement in India, unleashed around the 1970s, has come a long way from being a tool for welfare, to becoming an effective strategy for poverty alleviation and development of enterprises. The movement has gained with the wider outreach of area and clients. In the last decade, micro finance has moved from a virtually unknown development tool to one of the key issues in economic development discourse.

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