

# Growth of Microfinance Institutions in India: A Comparative Study

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**Abstract – Microfinance institutions provide financial services such as loans, savings, and insurance to society's needy individuals and small business entrepreneurs who cannot qualify for a standard bank loan. The microfinance industry's gross loan portfolio (GLP) stood at 1,87,386 Rs. crore at the end of March, up 38 per cent year-on-year, said a MFIN report Monday. The total number of microfinance accounts was 9.33 crore at the end of March 2019, showing a growth of 21.9 per cent, said Microfinance Institutions Network (MFIN), an RBI-recognised self-regulatory organisation and industry association of the microfinance industry. Non-Banking Finance Company-Microfinance Institutions (NBFC-MFIs) hold the largest share of portfolio in micro-credit with the total loan outstanding of ₹68,868 crore, which is 36.8 per cent of total micro-credit universe. As on March 31, 2019, aggregated GLP of NBFC-MFIs stood at ₹68,207 crore, 47 per cent year-on-year growth compared to March 2018, said MFIN. It refers to small scale financial services for both credits and deposits that are provided to people/ firms, who operate at small level and their needs, are confined to small amount of money. The present paper looks at the performance analysis of Indian microfinance institutions. The paper collectively covered various MFIs for the period 2016–2019.**

**Keywords - Microfinance Institutions, Financial Services, Business Portfolio**

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## 1. INTRODUCTION

An economy's performance is very much related to that economy's financial sector performance. In any economy the financial sector is a very important part. India's financial sector is gaining strength over the years and its contribution to growth is gigantic. Banks are seen as Indian Financial Sector's main component. Good banking sector performance itself is representative of the sector's overall good results, which ultimately leads to improved economic growth.

In the early 1980s microfinance started as a global movement to provide credit to low-income households with restricted access to traditional banking. Some of the main challenges for the microfinance industry globally have been the volatile regulatory environment, over borrowers' indebtedness and lack of an institutional framework. However, the microfinance industry has undergone significant transformation in recent years with the creation of self-regulatory organizations, the formulation of structured guidelines, digital interventions and the adoption of a redefined approach to customer service. This has contributed to a substantial increase in the loan portfolio and, thus, the number of borrowers.

Microfinance is a form of financial services which lack access to banking and related services for entrepreneurs and small businesses. The two key frameworks for providing financial services to such clients are:

1. Relationship-based banking for individual entrepreneurs and small businesses; and
2. Community-based models, in which several entrepreneurs come together to apply for loans and other services as a group.

For some, microfinance is a movement whose goal is a world where as many poor and near-poor households as possible have permanent access to a reasonable range of high-quality financial services, including not only credit but also deposits, insurance, and transfers of funds. In general, many of those who support microfinance believe such exposure would help poor people out of poverty.

For others, through supporting micro-entrepreneurs and small businesses, microfinance is a way to promote economic development, jobs, and growth. Microfinance is a wide service category which includes microcredit. Microcredit is credit services provided to disadvantaged consumers. Micro-credit

is one of the microfinance elements and the two are often confused. Conservatives may criticize microcredit by referring to it as either 'microcredit' or 'microfinance' indiscriminately.

Impact assessment is difficult because of the wide range of microfinance programs and very few studies have attempted to determine its full impact. Many proponents say that microfinance lifts people out of poverty but the evidence is mixed. Moreover, what it does is to step up financial inclusion.

Microfinance institutions are occupied with digital taking so as to activate family unit investment funds, they become budgetary delegates. Therefore, prudential money related guidelines become important to guarantee the dissolvability and monetary sufficiency of the organization and to ensure the contributors. Nonetheless, unreasonable guidelines that don't think about the idea of microfinance organization and their activity can hamper their suitability. Considering little credit size, microfinance institutions ought to be exposed to a base capital necessity which is lower than that relevant to business banks. Then again, an increasingly stringent capital amplexity rate (the proportion among capital and hazard resources) ought to be kept up on the grounds that microfinance institutions give unsecured advances.

Governments ought to give an empowering legitimate and administrative structure which supports the improvement of a scope of establishments and permits them to work as perceived monetary mediators subject to straightforward supervisory and revealing necessities. Usury laws ought to be repulsed or loose and microfinance institutions ought to be given opportunity of setting loan costs and expenses so as to take care of working and account costs from intrigue incomes inside a sensible measure of time. Government could likewise encourage the procedure of change to a maintainable degree of activity by offering help to the loaning establishments in their beginning period of improvement through credit upgrade components or appropriations.

One method for extending the effective activity of microfinance establishments in the casual segment is through fortified linkages with their conventional area partners. A commonly useful association ought to be founded on near qualities of every area. Casual division microfinance institutions have similar favorable position as far as little exchange costs accomplished through versatility and adaptability of tasks (Ghate et al. 1992). They are better outfitted to manage credit appraisal of the urban poor and henceforth to ingest the exchange costs related with advance handling. Then again, formal area organizations approach more extensive asset base and high influence through digital activation (Christen et al. 1994).

Along these lines, formal segment money establishments could frame a joint endeavor with casual area organizations where the previous give assets as value and the later stretches out reserve funds and advance offices to the urban poor. Another type of partnership can include the conventional segment establishments renegotiating credits made by the casual area moneylenders. Under these settings, the casual part organizations can tap extra assets just as having a motivator to practice more noteworthy monetary control in their administration.

Microfinance organizations could likewise fill in as go-betweens among borrowers and the formal monetary segment and on-loan supports sponsored by an open area ensure (Phelps 1995). Efficient NGOs can offer business banks methods for subsidizing micro entrepreneurs with ease and hazard, for instance, through utilized bank-NGO-customer credit lines. Under this course of action, banks make one mass credit to NGOs and the NGOs bundles it into enormous number of little advances at advertise rates and recover them (Women's World Banking 1994). There are numerous on-going exploration on this line however setting explicit research is expected to distinguish the most proper model. In light of this we talk about different potential options of formal-casual segment linkages in India.

## 2. LITERATURE REVIEW

Otero (1994), to be fruitful, budgetary middle people that offer types of assistance and produce residential assets must have the ability to fulfill elite guidelines. They should accomplish great reimbursements and give access to customers. What's more, they should work toward working and money related independence and growing customer reach. So as to do as such, microfinance foundations need to discover approaches to eliminate their regulatory expenses and furthermore to widen their asset base. Cost decreases can be accomplished through improved and decentralized advance application, endorsement and assortment forms, for example, through gathering advances which give borrowers duties regarding a significant part of the advance application process, permit the advance officials to deal with a lot more customers and hence less costs.

Barry, N. (1995), deposit mobilization is the significant methods for microfinance organizations to grow exceed by utilizing value (Sacay et al 1996). So as to be manageable, microfinance loaning ought to be grounded on advertise standards since huge scope loaning can't be practiced through sponsorships.

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sponsored by an open part ensure. Efficient NGOs can offer business banks methods for subsidizing small scale business people requiring little to no effort and hazard, for instance, through utilized bank-NGO-customer credit lines. Under this course of action, banks make one mass credit to NGOs and the NGOs bundles it into enormous number of little advances at showcase rates and recuperate them. There are numerous on-going examines on this line yet setting explicit research is expected to distinguish the most proper model. In view of this we talk about different potential options of formal-casual segment linkages in India.

Kim (1995), most needy individuals figure out how to activate assets to build up their undertakings and their homes gradually after some time. Budgetary administrations could empower the poor to use their drive, accelerating the way toward building livelihoods, resources and monetary security. Be that as it may, traditional account foundations only occasionally loan down-market to serve the requirements of low-pay families and ladies headed families. They are all the time denied access to credit for any reason, making the conversation of the degree of loan cost and different terms of account insignificant. In this way the crucial issue isn't such a large amount of unreasonably expensive terms of advance as the absence of access to credit itself.

Grameen Trust (1995), Microfinance organizations can expand their asset base by assembling investment funds, getting to capital markets, credit reserves and successful institutional improvement support. A coherent method to tap capital market is securitization through a company that buys advances made by microenterprise organizations with the assets raised through the securities issuance on the capital market. There is atleast one pilot endeavor to securitize microfinance portfolio thusly in Ecuador. As another option, BancoSol of Bolivia gave a testament of deposit which is exchanged Bolivian stock trade. In 1994, it additionally gave declarations of deposit in the U.S. (Churchill 1996). The Foundation for Cooperation and Development of Paraguay gave bonds to raise capital for microenterprise loaning.

Idowu Friday Christopher (2010) led an examination to discover the Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. The essential target of this investigation is to evaluate the effect of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria.

Kamau (2011) planned to contemplate the effectiveness and efficiency of banks in Kenya. Information Envelopment examination and MPI (Malmquist Productivity Index) were applied to the exhibition pointers. The outcomes indicated well execution of the banks over the examination time frame.

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) directed an investigation on Emergency and Impact of Micro-Finance on Indian Scenario. After the spearheading endeavors by Government, Banks, NGOs, and so on the microfinance scene in India has come to in take off stage. An endeavor could be started to advance a unit of new age smaller scale credit pioneers so as to reinforce the development of Micro-Finance Institution (MFIs), to advance their commitment towards the development of the segment and neediness easing. Every Indian state could consider shaping multi-party working gathering to meet with microfinance pioneers and have an exchange with them about how the approach condition could be made increasingly strong and to clear up misperceptions. With one state driving the way, we have to expand on a fruitful model. By releasing the innovative ability of poor people, we will gradually change India in manners we can just start.

Suberu et al. (2011) study got to the effect of microfinance establishments for little scope endeavors in Nigeria. The exploration was illustrative in nature and a study technique was utilized. Discovered that positive commitment of microfinance institutions advance towards advancing little scope undertakings piece of the pie, creation effectiveness and seriousness and govt. strategies and modified intended to grow little scope ventures in Nigeria were incapable and subsequently should be re-conceptualized..

Abbas et al. (2012) led an examination on Pakistani banks to assess their budgetary presentation over the investigation time frame. Profit for Operating Fixed Assets was utilized to assess the presentation and it was discovered that high all out resources, high absolute working fixed resources and high value were no comparable to better execution of banks.

Mehta (2012) analyzed the monetary exhibition of UAE banks after and before the emergency time frame. The investigation secured the period from 2005 to 2010 and saw that the presentation of banks was gravely influenced by the emergency. The emergency had predominantly influenced the presentation of ROA and ROE as all the productivity proportions had declined after emergency.

Rai and Rai (2012) learned about the factor influencing money related manageability of microfinance organization. To discover the components influencing money related manageability a Multiple Linear Regression investigation was utilized and found that the capital/resource proportion, working costs/credit portfolio and portfolio at risk > 30 days were the primary elements, which influence the maintainability of microfinance institutions.

Jha and Hui (2012) made a correlation of budgetary execution of banks in Nepal. The aftereffects of multivariate relapse uncovered that arrival on resources was essentially impacted by capital ampleness proportion, intrigue costs to add up to advance and net intrigue edge, while capital sufficiency proportion had impressive impact on return on value.

Mahanta et. al. (2012) Study uncovered that loaning to the poor through microcredit isn't the finish of the issue yet start of another period. On the off chance that successfully dealt with, it can make supernatural occurrence in the field of neediness mitigation. Be that as it may, it must be packaged with limit building programs. Government can't renounce its duty of social and monetary improvement of poor and discouraged. The nonappearance of any extraordinary aptitudes with the customers of microcredit, the digital is being utilized in utilization and acquisition of ineffective resources. Henceforth it is critical to give aptitudes advancement preparing program like workmanship, weaving, carpentry, poultry, goat raising, brick work, honey bees cultivating, vegetable cultivating and numerous other agrarian and non-horticultural preparing. Government needs to assume proactive job right now. Individuals with some extraordinary aptitudes must be given need in loaning microcredit. These customers ought to likewise be furnished with post advance specialized and expert guide for accomplishment of their microenterprises. On the off chance that legislature and MFIs act together, at that point microcredit can assume an extraordinary job in neediness easing.

Ananda and Colaco (2012) outlined the presentation and plan and portrayed how microfinance was successful and money related suitable strategy for tending to practical country advancement through arrangement of microcredit to rustic poor for profitable exercises. Small scale credit had accepted an exceptional essentialness with regards to expanded accentuation on neediness lightening, ladies strengthening and provincial advancement in India.

Nikita (2014) study infers that first time in the year 2012-13 after the dispatch of SHGs BLP there is a decrease in the quantity of SHGs who's sparing connected with banks. The examination additionally discovers there was development in the advance remarkable of SHG and which was answerable for increments in NPAs. Finally it is discovered that the significant offer has a place with business banks when the organization shrewd credit gave to MFI. He proposed that means ought to be taken to improve the exhibitions of projects propelled under Microfinance time to time.

Kumar Vipin et. al. (2015) study presumed that the SHG's and MFI's are assuming an indispensable job in conveyance of microfinance administrations which drives improvement of poor and low pay individuals

in India. In any case, slow advancement of graduation of SHG individuals, low quality of gathering working, dropout of individuals from bunches and so forth., have likewise been accounted for different examination discoveries in various pieces of the nation, which should be considered while planning the guide for the following period of the SHG program.

### 3. RESEARCH METHODOLOGY

#### 3.1. Source of Data

This study is primarily based on secondary data. The data have been mainly collected from Microfinance Pulse report June 2019

#### 3.2. Sample and Sampling Design

The MFIs which have selected for the analysis are Bank, SFBs, NBFC-MFIs, NBFCs, Not for Profit MFIs. The data for the financial years from 2016-2019 have been identified.

#### 3.3. Tools for Analysis

The descriptive statistics has been used, namely, Mean, Standard deviation and Coefficient of Variation (CV per cent). The growth measures have been estimated during the study period.

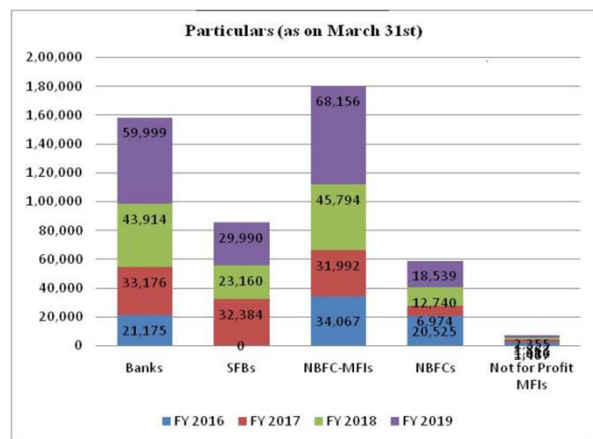
### 4. DATA ANALYSIS AND INTERPRETATIONS

As of March 31, 2019, the microfinance industry has a total loan portfolio of ' 1, 78,547 crore which reflects a 40 percent growth over March 31, 2018.

**Table: Portfolio Outstanding (in crore)**

Particulars (as on March 31st)	FY 2016	FY 2017	FY 2018	FY 20
Banks	21,175	33,176	43,914	59,999
SFBs		32,384	23,160	29,990
NBFC-MFIs	34,067	31,992	45,794	68,156
NBFCs	20,525	6,974	12,740	18,539
Not for Profit MFIs	2,355	1,467	1,616	1,863
Total Industry	78,123	1,05,994	1,27,223	1,78,547
Y-O-Y growth rate %	-	36	20	40

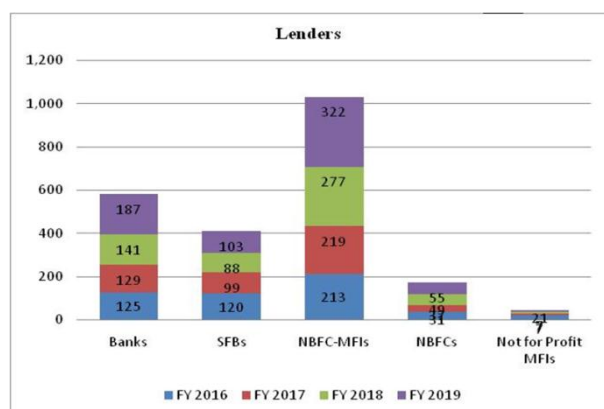




NBFC-MFIs hold the largest share of micro-credit portfolio with a total outstanding loan of ₹ 68,156 crore, representing 38 per cent of the total portfolio of industry. Banks are the second largest micro-credit provider with an outstanding loan amount of ₹ 59,999 crore, which involves both direct and indirect lending through BC alliances, representing 34 per cent of the total micro-credit universe. SFBs have an unpaid total loan amount of ₹ 29,990 crore, with a minimum 17 per cent share. NBFCs account for 10 percent of the industry portfolio and Not - for-Profit MFIs account for 1 percent.

Disbursement trends: Loan disbursement rose by 20 per cent in volume during FY 2019.

		FY 2017	FY 2018	FY 2019
Banks	125	129	141	187
SFBs	120	99	88	103
NBFC-MFIs	213	219	277	322
NBFCs	37	31	49	55
Not for Profit MFIs	21	7	7	7
Total	516	485	562	674



Loan disbursed sum for FY 2019 is ₹ 213,074 crore, which as compared to FY 2018 has risen by 36 per cent. As of FY 2019, all India ATS is ₹ 31,623, which on Y-O-Y basis had increased by 13 per cent. Bank loan ATS is highest at ₹ 42,086, while NBFC-MFI ATS is lowest at ₹ 25,850. Highest number of loans in FY 2019 is disbursed in the categories '20,000-30,000 ticket size.

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Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. Micro-finance is an important tool for improving the standard of living of poor. In spite of many organizations of micro finance, micro finance is not sufficient in India. The organizations that provide these services, known as microfinance institutions (MFIs) may operate as formal micro banks, non-bank financial institutions, non-governmental organizations, or community-based financial institutions. These providers offer a range of financial services from small business loans to savings accounts, money transfers, insurance, and consumer loans. Growth of the microfinance industry, however, the microfinance is important as a minimum condition for achieving these social missions. Major Cross-section can have benefit if this sector will grow in its fastest pace. On the basis of growth and evolution related to micro finance, the study predicts the new agenda for future.

The microfinance industry being very small in terms of value added to the Indian financial sector. It examines the experience, of India, which has one of the largest microfinance sectors in the world. Globally, over a billion poor people are still without access to formal financial services. Some 200 million of these people live in India. Microfinance, the provision of a wide range of financial services to poor people, has proved a very successful way of providing immensely valuable services to poor people on a sustainable basis. Access to financial services has allowed many families throughout the developing world. It is incontestable that an efficient and effective microfinance system is essential for building a sustained. Economic growth. The Indian Government should find an avenue for creation of awareness on how microfinance can benefit from loans and monitors closely to ensure disbursement of loans and grants to entrepreneurs.

## 5. SCOPE AND LIMITATIONS OF THE STUDY

**Scope of the study** - the writing reviewed in the past section plainly achieve a thought the issues and prospects of microfinance, its effect on society, the development and improvement of intrigue free financial institutions and its degree. Premium free money related establishments including banks and microfinance foundations are created to top off the hole made by regular monetary organizations. This paper shows the working and administrative proportions of microfinance area in the nation. The present paper also looks at the performance analysis of Indian microfinance institutions. The paper collectively covered various MFIs for the period 2016–2019.

**Limitations of the study** - The paper collectively covered various MFIs for the period 2016–2019 which are limited to the mentioned time periods only. It can be further analyzed to includes more years data to find out the significant analysis.

## CONCLUSION

Outstanding portfolio as at March 31, 2019 is' 178,547 crore and it grew by 40 percent from' 127,223 crore as at March 31, 2018 NBFC-MFIs witnessed the highest outstanding portfolio growth of 49 percent across all lenders groups as at the end of FY 2019 compared to the previous year. Loan disbursement in volume increased by 20% in FY 19 compared to FY 18 NBFC-MFIs in all categories NBFC-MFIs have received the maximum loans in all groups of borrowers Banks have seen the largest growth through FY 18 to FY 19 at 32 per cent.

Some significant insights has drawn from the experience of fruitful Microfinance activity. As a matter of first importance, the poor reimburse their advances and are happy to pay for higher financing costs than trade banks given that access to credit is given. The solidarity bunch pressure and successive loaning give solid reimbursement inspiration and produce very low default rates. Furthermore, the poor spare and subsequently microfinance ought to give the two reserve funds and advance offices. These two discoveries infer that putting money on poor people can be a productive business. Be that as it may, accomplishing financial reasonability and supportability is the major institutional.

Digital mobilization is the significant methods for microfinance foundations to grow exceed by utilizing value (Sacay et al 1996). So as to be maintainable, microfinance loaning ought to be grounded on advertise standards since enormous scope loaning can't be cultivated through endowments.

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