

Microfinance Institutions -Bank Linkage Program In India

Dr. D. Jayakkodi

Assistant professor, Department of Commerce,
Arulmigu Palaniandavar Arts College for Women, Palani.

ABSTRACT

Microfinance has become an indispensable part of India's economy. Nowadays, micro finance has taken a development strategy to address the alleviation of poverty and the empowerment of the society through provision of thrift, credit and other financial services and products of very small amounts to raise the income level of clients and improve their standard of living. Bank and other financial institutions provide financial support to MFIs for further offering financial help to poor and financial needy people. A microfinance institution is an organization that offers financial services to low income populations. The microfinance service providers include institutions like Small Industries Development Bank of India, the National Bank for Agriculture and Rural Development, Commercial Banks, Regional Rural Banks and Co operative Banks provide micro financial services. Micro finance operate through two main channels in India i.e., Banking system through the SHGs under Self Help Group-Bank Linkage Programme (SHG- BLP) and joint liability group- JLG bank lending program and Micro Finance Institutions (MFIs) lending through individual and group approach. The study was undertaken to study growth rate of loan disbursement and to study growth rate of loan outstanding of MFI-Bank Linkage Program in India. The bank linkage program is important for poverty alleviation and growth of the economy. The contribution of Cooperative banks and SIDBI is relatively low as compared to Commercial and Regional Rural Banks up to 2015-16. In the year 2016-17, it has increased by a good percentage with the adoption of technology and liberalization of regulatory policies & new business activities. Financial system in India operating highly inclusive growth of rural development preferred social activities of women sector.

KEYWORDS: Micro Finance, Bank Linkage Program, Poverty, Women Empowerment.

1. INTRODUCTION

Microfinance has become an indispensable part of India's economy. Poverty is the main cause of concern in improving the economic status of developing countries. Nowadays, micro finance has taken a development strategy to address the alleviation of poverty and the empowerment of the society through provision of thrift, credit and other financial services and products of very small amounts to raise the income level of clients and improve their standard of living.

Bank and other financial institutions provide financial support to MFIs for further offering financial help to poor and financial needy people. Basic target clients of MFIs are villagers, micro entrepreneurs, indigent women and poor families. A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor.

MICRO FINANCE IN INDIA

India is a home to the largest population of poor in the world and out of its total population there are nearly 75 million poor house-holds in India, thus it has become the prime obligation of the regulators to provide some definite solution for poverty alleviation. So India has also been a forefront participant in using micro finance as a tool of poverty alleviation as microfinance is used both by government and Reserve Bank of India as a means for poverty alleviation with credit support from the banking system.

RBI & NABARD regulate the microfinance operations of the banking sector as a part of their overall banking operations. The informal group lending in India started in 1986-87 when the NABARD supported & funded an action research project on ' Saving and Credit Management of Self Help Groups' of the Mysore Resettlement & Development Agency (MARYADA). The large no's of women's organizations, like SEWA(Self Employed Women's Association), Working Womens Forum(WWF) etc., were also involved in microfinance activities like group lending. A range of institutions in public sector as well as private sector offers the micro finance services in India.

India has adopted the Bangladesh's model in a Modified form. To alleviate the poverty and to empower the women the micro finance has emerged as a powerful instrument in the view economy. With availability of Micro finance self help groups (SHGs) and credit management groups also started in India. And thus the movement of Self Help Groups has spread over in India. In India, banks are the predominant agency for delivery of Micro Credit in 1970, Ilaben Bhat, founder member of 'SEWA (Self employed women's Association) in Ahmedabad, had developed a concept of women and Micro finance, the Annapurna Mahila Mandal in Maharashtra and working women's forum' in Tamilnadu and many National Bank for Agriculture and Rural Development (NABARD) - sponsored groups have followed the path laid down by 'SEWA' 'SEWA' is a trade union of poor self employed women workers. Since 1987 'Mysore Resettle-ment and Development Agency' (MYRADA) has promoted credit Management Groups (CMGs) CMGs are similar to self help groups.

THE ROLE OF MICROFINANCE INSTITUTION

Microfinance institution is defined as, "an organization that provides microfinance services to the poor". MFIs range from large commercial banks to small size non-profit organizations like NGOs, other financial cooperatives, credit unions and state owned development and postal savings banks. It is said that the increasing number of MFIs are organized as for-profit entities because it is one of the requirements to obtain a license from banking authorities to offer saving services. The microfinance service providers include institutions like Small Industries Development Bank of India, the National Bank for Agriculture and Rural Development and the Rashtriya Mahila Kosh. It is also stated that commercial banks, regional rural banks and co operative banks provide micro financial services. There are about 60,000 retail credit outlets of the formal banking sector in the rural areas therefore this can be considered as an unparalleled achievement of the Indian banking system in providing savings, credit and other banking services to the rural community.

The goal for MFIs should be:

- To improve the quality of life of the poor by providing access to financial and support services;
- To be a viable financial institution developing sustainable communities;

- To mobilize resources in order to provide financial and support services to the poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty;
- Learn and evaluate what helps people to move out of poverty faster;
- To create opportunities for self employment for the underprivileged;
- To train rural poor in simple skills and enable them to utilize the available resources and contribute to employment and income generation in rural areas.

MICRO FINANCE OPERATE THROUGH TWO MAIN CHANNELS IN INDIA

- Banking system through the SHGs under Self Help Group-Bank Linkage Programme (SHG- BLP) and joint liability group- JLG bank lending program
- Micro Finance Institutions (MFIs) lending through individual and group approach.

Each type of microfinance institution is different from the other in many ways but they work towards the same goal- financial inclusion. Due to their operational frameworks, some models have been less successful than the others in attaining this objective. In addition to the above, microfinance institutions can also be categorised into large, medium and small scale. These institutions differ in terms of geographical reach, infrastructure, manpower skills availability, funding and lending processes, revenues and success in operations.

2. REVIEW OF LITERATURE

KUMAR VIPIN ET. AL. (2015) study concluded that the SHG's and MFI's are playing a vital role in delivery of microfinance services which leads development of poor and low income people in India. However, slow progress of graduation of SHG members, poor quality of group functioning, dropout of members from groups etc., have also been reported various study findings in different parts of the country, which need to be taken into account while designing the road map for the next phase of the SHG programme

NIKITA (2014) study concludes that first time in the year 2012-13 after the launch of SHGs BLP there is a decline in the number of SHGs who's saving linked with banks. The study also finds out there was growth in the loan outstanding of SHG and which was responsible for increases in NPAs. At last it is found out that the major share belongs to commercial banks when the agency wise loan issued to MFI. He suggested that steps should be taken to improve the performances of programs launched under Microfinance time to time.

3. OBJECTIVES

- To study the role of micro finance institutions in Micro – finance.
- To assess the progress made under micro finance institutions – Bank Linkage Program.

4. METHODOLOGY

The study is descriptive in nature. The necessary data containing the present is collected from secondary sources of data. Secondary data are collected from micro finance institution related websites and NABARD Report from 2013-14 to 2017-18. The study analysed the bank loan disbursed by micro finance institutions with commercial Banks, RRBs, Co-operative Banks and bank loan outstanding against MFIs in India.

TABLE 1: PROGRESS UNDER MFI - BANK LINKAGE PROGRAM

PARTICULARS	2013-2014		2014-2015		2015-2016		2016-2017		2017-2018	
	NO.OF ACCOUNTS	AMOUNT	NO.OF ACCOUNTS	AMOUNT	NO.OF ACCOUNTS	AMOUNT	NO.OF ACCOUNTS	AMOUNT	NO.OF ACCOUNTS	AMOUNT
Loan Disbursed by Banks / FI to MFIs	545 (28.0)	10282 (31.2)	589 (8.1)	15190 (47.7)	647 (9.8)	20796 (36.9)	2314 (257.6)	19304 (-7.2)	1922 (16.9)	25515.23 (32.17)
Loan O/S Against MFIs on 31 st march	2422 (18.6)	16517 (14.5)	4662 (42.5)	22500 (36.2)	2020 (56.7)	25581 (13.7)	5357 (1652)	29225 (14.3)	5073 (5.3)	32305.92 (10.5)

SOURCE: NABARD , Status of Micro Finance in India Report , 2013 – 2014 to 2017- 2018.

The above table shows that the progress under MFI-Bank linkages programme. The number of MFIs availing loans from banks during the year 2013-14 has increased from the previous year 2012 - 2013. The number of MFIs availing loans from the banks during the year 2014-15 increased by 8.1 per cent, 2015-16 increased by 9.8 per cent and 2017-18 increased by 16.9 per cent as compared to the previous year . The number of MFIs availing loans from banks during the year 2016-17 is transcendence increase from 9.8 per cent to 257.6 per cent as compared to the previous year. The total loans to MFIs by banks increased during 2013-14, 2014-15 2015-16 and 2018-19 over the previous year respectively. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year. The total amount of loans outstanding 2422 MFIs as on 31st March 2014 amounted to Rs. 16517.43 Crores and the same has been increased to Rs. 32305.92 Crores against 5073 MFIs as on 31st March 2018.

Table 2 : Loans to MFIs by Commercial Banks

YEARS	LOANS DISBURSED TO MFIS				LOAN O/S AGAINST MFIS			
	NO. OF LOAN ACCO UNTS	ANNUA L GROW TH	AMT (RS IN. CROR ES)	ANNU AL GROW TH	NO. OF LOAN ACCOU NTS	ANNU AL GRO WTH	AMT (RS IN. CROR ES)	ANNUA L GROWT H
2013 - 2014	484	-	9468.83	-	2197	-	14307.57	-
2014 - 2015	441	11.78	13858.64	46.36	4445	102.32	18720.61	30.84
2015 - 2016	564	4.24	19324.14	39.44	1561	- 64.88	22682.85	21.17
2016 - 2017	1430	153.55	17091.33	-11.55	3328	113.2	25089.18	10.61
2017 - 2018	641	- 55.17	22133.60	29.5	1962	- 41.05	26039.52	3.79

Source : NABARD , Status of Micro Finance in India Report , 2013 – 2014 to 2017- 2018

The growth rate of number of MFIs which obtained loan from commercial Bank in 2014- 2015 is 11.78 percent which decreases by 4.24 percent in the next year. It was found that there is a tremendous growth which goes up to 153.33 percent in 2016-2017. There is negative growth of MFIs (-55.17 percent) in 2017-2018 those which availed loan. The growth rate of amount of bank loan disbursed to MFIs of India in 2014-2015 is 46.36 percent. It declines to 39.44 percent in 2015-2016 which becomes negative (- 11.55%) in 2016-2017. It increases to 29.5 percent in 2017-2018. The growth rate of loan outstanding against MFIs in India (2014-2015) is 30.84 percent. The growth rate came down during next two years and it shows 3.79 percent in the year 2017 – 2018.

TABLE 3 : LOANS TO MFIS BY REGIONAL RURAL BANKS

YEARS	LOANS DISBURSED TO MFIS				LOAN O/S AGAINST MFIS			
	NO. OF LOAN ACCOUNTS	ANNUAL GROWTH	AMT (RS IN. CRORES)	ANNUAL GROWTH	NO. OF LOAN ACCOUNTS	ANNUAL GROWTH	AMT (RS IN. CRORES)	ANNUAL GROWTH
2013 - 2014	16	-	163.18	-	124	-	222.00	-
2014 - 2015	15	- 6.25	47.69	- 70.77	131	5.65	1186.62	434.51
2015 - 2016	31	106.67	52.42	9.92	344	162.6	210.23	- 82.28
2016 - 2017	13	- 58.06	37.83	- 27.83	250	- 27.33	78.75	- 62.54
2017 - 2018	13	-	55.93	47.85	358	43.2	64.16	- 18.53

Source : NABARD , Status of Micro Finance in India Report , 2013 – 2014 to 2017- 2018.

The growth rate of number of MFIs which obtained loan from Regional Rural Banks in 2014- 2015 is - 6.25 percent which increases by 106.67 percent in 2015-2016. It declines to 58.06 percent in 2016-2017 which becomes nil in 2017-2018. The growth rate of amount of bank loan disbursed to MFIs of India in 2014-2015 is -70.77 percent. It declines to 9.92 percent in 2015-2016 which becomes negative (- 27.83%) in 2016-2017. It increases to 47.85 percent in 2017-2018. The growth rate of loan outstanding against MFIs in India (2014-2015) is 434.51 percent as compared to the previous year. The growth rate came down during next two years and it shows -18.53 percent in the year 2017 – 2018.

TABLE 4: LOANS TO MFIS BY COOPERATIVE BANKS

YEARS	LOANS DISBURSED TO MFIS				LOAN OS AGAINST MFIS			
	NO. OF LOAN ACCOUNTS	ANNUAL GROWTH	AMT (RS IN. CRORES)	ANNUAL GROWTH	NO. OF LOAN ACCOUNTS	ANNUAL GROWTH	AMT (RS IN. CRORES)	ANNUAL GROWTH
2013 - 2014	4	-	4.48	-	17	-	7.97	-
2014 - 2015	0	- 100	0	-100	0	-100	0	-100
2015 - 2016	3	-	6.00	-	17	-	11.76	-
2016 - 2017	834	27700	207.33	3355	1682	9794.12	261.54	2123.98

2017 - 2018	1248	49.64	38.70	-81.33	2653	57.73	68.51	-73.81
--------------------	-------------	--------------	--------------	---------------	-------------	--------------	--------------	---------------

Source : NABARD , Status of Micro Finance in India Report , 2013 – 2014 to 2017- 2018.

Cooperative banks are not actively involved in providing loans to the Microfinance Institutions. Data in the above table shows that the accounts in the year 2014- 15 were nil. The growth rate of number of MFIs which obtained loan from Cooperative Banks in 2016 - 2017 is 277 percent which increases by 49.64 percent in 2017-2018. The growth rate of amount of bank loan disbursed to MFIs of India in 2017-2018 is -81.33percent. The growth rate of loan outstanding against MFIs in India (2017-2018) is -73.81 percent as compared to the previous year.

TABLE 5 : LOANS TO MFIS BY SIDBI

YEARS	LOANS DISBURSED TO MFIS				LOAN O/S AGAINST MFIS			
	NO.OF LOAN ACCO UNTS	ANN UAL GRO WTH	AMT (RS IN. CROR ES)	ANNU AL GRO WTH	NO.OF LOAN ACCO UNTS	ANN UAL GRO WTH	AMT (RS IN. CROR ES)	ANNU AL GRO WTH
2013 - 2014	41	-	646.01	-	84	-	1979.90	-
2014 - 2015	33	-19.51	1283.80	98.73	86	2.38	2593.23	30.98
2015 - 2016	49	48.48	1413.01	10.06	98	13.95	2676.00	3.19
2016 - 2017	2314	4622.45	19304.38	1266.19	5357	5366.33	29225.45	992.132
2017 - 2018	1922	-16.94	25515.23	32.17	5073	- 5.3	32305.93	10.54

Source : NABARD , Status of Micro Finance in India Report , 2013 – 2014 to 2017- 2018.

The growth rate of number of MFIs which obtained loan from SIDBI in 2014- 2015 is - 19.51 percent which increases by 48.48 percent in the next year. It was found that there is a tremendous growth which goes up in the year 2016-2017. There is negative growth of MFIs (- 16.94 percent) in 2017-2018 those which availed loan. The growth rate of amount of bank loan disbursed to MFIs of India in 2014-2015 is 98.73 percent. It declines to 10.06 percent in 2015-2016. It increases to 32.17 percent in 2017-2018. The growth rate of loan outstanding against MFIs in India (2014-2015) is 30.98 percent. The growth rate came down during next year and it shows 10.54 percent in the year 2017 – 2018.

5. CONCLUSION

The functioning of Microfinance institutions in India is playing an important role in rural areas since last two decades. The bank linkage program is important for poverty alleviation and growth of the economy. The contribution of Cooperative banks and SIDBI is relatively low as compared to Commercial and Regional Rural Banks up to 2015-16. In the year 2016-17, it has increased by a

good percentage with the adoption of technology and liberalization of regulatory policies & new business activities. Financial system in India operating highly inclusive growth of rural development preferred social activities of women sector. The banks has played an important role in financial inclusion of rural women by facilitating the micro finance.

6. REFERENCES

1. Anuradha, P.S. and Ganesan, G. (2010), “Sustainable Development and Fostering Inclusive Growth through Microfinance in the Indian economy”, Indian journal of Finance, Vol.4 No.10, pp. 3-7.
2. Bright, A. et al. (2011), “A study on the annual micro credit plan of banks and financial institutions in Kanyakumari district”, International Journal of Microfinance, Vol. 1 No.1, pp.78-89.
3. Manoharan, P. et al. (2011), “micro finance institutions in India-A study on financial performance”, International Journal of Micro Finance, Vol. 1, No. 1, 2011, pp. 57-69,
4. Nikita (2014) An Analysis of Performance of Micro Finance in India, International Journal of Management Research & Review Volume 4, Issue 7, pp. 715-721.
5. Vichore, S. and Deshpande, S. (2012), “Microfinance in India-A comprehensive analysis of the growth and performance MFIs”, Research Journal of Social Science and Management, Vol. 2, No. 1, 2012, pp. 51-56, ISSN: 2251-1571.

WEBSITES

1. Status of microfinance, NABARD for the period from 2013-14 to 2017-18.
2. Status of microfinance in india, <https://www.nabard.org>.
3. <https://www.indiamicrofinance.com>
4. <https://www.rbi.org.in>