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A Study Examining the Current Status of Microfinance in India

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Abstract

In a country like India, where 70 percent of the population resides in rural areas and 60 percent are dependent on agriculture, according to World Bank reports, microfinance emerges as a crucial instrument for providing financial services to the poor and low-income individuals. Microfinance encompasses various financial services tailored to the needs of economically disadvantaged segments of society, including loans, savings, credit, insurance, money transfer, and other basic financial services. Its delivery mechanisms are designed to ensure that these products reach remote and impoverished areas effectively.

Microfinance is widely recognized as an effective tool for poverty alleviation in India, offering credit and financial services to economically disadvantaged individuals in both urban and rural settings. Microfinance institutions in India comprise a diverse range of organizations, including NGOs, credit unions, NBFCs, cooperatives, and banks. The future of microfinance in India is largely dependent on self-help groups (SHGs), which play a significant role in facilitating access to financial services for underserved communities.

The primary focus of this paper is to examine the performance and role of microfinance institutions in the overall development of India, particularly in addressing the financial needs of marginalized populations.

Keywords: microfinance, MFI's, growth of microfinance, poverty, SHGs

Introduction

Microfinance is not a novel concept, tracing its roots back to the 19th century when informal moneylenders served roles akin to today's formal financial institutions. Over the last two decades, various development approaches have been devised by policymakers, international development agencies, NGOs, and others, aimed at reducing poverty in developing nations. One such strategy gaining popularity since the early 1990s involves microfinance schemes, providing financial services like savings and credit opportunities to the working poor (Johnson and Rogaly, 1997).

India, classified as a low-income country by the World Bank, stands as the world's second-most populous nation, with 70 percent of its populace residing in rural areas. Sixty percent of the population relies on agriculture, resulting in high rates of underemployment. Rural communities face limited access to institutionalized credit from commercial banks. Since the 1990s, poverty reduction has been a priority at both national and international levels of development. In this context, various government initiatives have been launched, with microfinance emerging as an effective tool for poverty alleviation and socioeconomic development, promising to enhance the living standards of the poor.
The Indian microfinance sector has experienced remarkable growth over the past two decades. The number of institutions offering microfinance services has surged from a few to several hundred. The volume of credit extended to the poor and financially excluded individuals has soared to ₹94,391 crore, benefiting over 43 million clients as of March 2019. The SHG-bank linkage program has also expanded significantly, impacting over 100 million individuals through more than 10 million SHGs, with an outstanding loan portfolio of ₹87,098 crore. Additionally, a diverse range of providers, including banks, small finance banks (SFBs), and non-banking financial companies (NBFCs), cater to microfinance customers. As of March 31, 2019, the collective micro-credit portfolio of 204 lenders has surpassed ₹1,78,531 crore through 865 lakh active loans.

Review of literature

Maruthi Ram Prasad, Sunitha, and Laxmi Sunitha (2011) conducted a study on the Emergency and Impact of Microfinance on the Indian Scenario. After notable efforts by government bodies, banks, NGOs, etc., the microfinance landscape in India has entered a take-off stage. There is a suggestion to cultivate a new generation of micro-credit leaders to bolster the emergence of Micro-Finance Institutions (MFIs) and enhance their contribution to sector growth and poverty alleviation. Each Indian state could contemplate forming multi-party working groups to engage with microfinance leaders and address policy-related challenges while dispelling any misconceptions. Building upon successful models from one state, efforts should aim to harness the entrepreneurial potential of the economically disadvantaged, gradually transforming India in significant ways.
Idowu Friday Christopher (2010) conducted a study to assess the Impact of Microfinance on Small and Medium-Sized Enterprises (SMEs) in Nigeria. The study utilized a simple random sampling technique to select 100 SMEs as the research sample. Structured questionnaires were employed to gather relevant data for analysis. Descriptive statistics, including simple percentages, graphical charts, and illustrations, were employed for data presentation and analysis. The findings indicated that a significant number of SMEs benefited from MFIs loans, although only a few could secure the required amount. Nonetheless, the majority of SMEs recognized the positive contributions of MFIs loans in enhancing market share, product innovation, achieving market excellence, and overall economic competitiveness. In addition to tax incentives and financial support, the government is advised to provide adequate infrastructural facilities such as electricity, good road networks, and training institutions to support SMEs in Nigeria.
Brijesh Rupapara and Jitendra Patoliya (2012) authored a book titled 'Problems Faced by Microfinance Institutions and Measures to Solve It', divided into seven chapters covering various aspects of microfinance. The book delves into the history and meaning of microfinance and its related terms, aiming to study the current activities, limitations, and scope of microfinance institutions in India while proposing a business model for MFIs. The authors suggested that the rural economy should focus on rural infrastructure and economy to ensure the existence of activities necessary for financial assistance.
Mahanta et al. (2012) revealed through their study that lending to the poor through microcredit marks the beginning of a new era rather than the end of the problem. They emphasized the necessity of bundling microcredit with capacity-building programs, asserting that government responsibility for social and economic development of the poor cannot be abdicated. Additionally, they highlighted the challenge of funds being used for consumption and non-productive assets due to the absence of special skills among microcredit clients.
Nikita (2014) concluded that, for the first time in 2012-13 after the launch of SHG BLP, there was a decrease in the number of SHGs saving with banks. The study also noted an increase in existing SHG loans, leading to an increase in Non-Performing Assets (NPA). Recommendations were made to improve the performance of microfinance programs periodically.
Kumar Vipin et al. (2015) emphasized the vital role played by SHGs and IFMs in providing microfinance services for the development of poor and low-income individuals in India. However, challenges such as slow progress in SHG member graduation and poor group functioning were reported across various studies, highlighting the need for careful planning in the next phase of the SHG program.

Research methodology

The present study is a descriptive study. This study is mainly based on secondary data only. Secondary data is collected from various sources like journals, magazines and reports. To assess the performance of the microfinance institutions in India, The relevant information relating to loans disbursed, loans outstanding, client outreach, assets, etc. were collected from Status of Micro Finance in India, NABARD report (various issues), The Bharat Microfinance Report (various issues) and other relevant sources for the period 2015-16 to 2019-20. Simple statistical tools like averages, percentage, etc were used to derive the inferences of the study.

Objectives of the study

1. To understand the concept and delivery models of microfinance in India.
2. To study the role and importance of microfinance in India.
3. To study the performance of microfinance in India.

Concept of Microfinance

Microfinance enables the poor and excluded section of people in the society who do not have an access to formal banking to build assets, diversity livelihood options and increase income, and reduce their vulnerability to economic stress. In the past, it has been experienced that the provision for financial products and services to poor people by MFIs can be practicable and sustainable as MFIs can cover their full costs through adequate interest spreads and by operating efficiently and effectively. Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impact studies have demonstrated that microfinance is really benefiting the poor households (Littlefield and Rosenberg, 2004) [8]. The Asian Development Bank (2000) defines microfinance as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises. This definition of microfinance is not restricted to the below poverty line people but it includes low income households also. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as " the provision of thrift, saving, credit and financial services and products of very small as very small loans, savings, micro-leasing, microinsurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998) amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living." (Sen, 2008). Microfinance is defined as a development tool that grants or provides financial services and products such

In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999) [4]. There are different providers of microfinance (MF) services and some of them are; Non-Governmental Organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non-banking financial institutions. The target group of MFIs are Self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999) [5].

Features of Microfinance

- It is an essential part of rural finance.
- It deals in small loans.
- It basically caters to the poor households.
- It is one of the most effective and warranted Poverty Alleviation Strategies.
- It supports women participation in electronic activity.
- It provides an incentive to grab the self-employment opportunities.
- It is more service-oriented and less profit oriented.
- It is meant to assist small entrepreneur and producers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Micro-finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. for poor people.

Micro finance delivery models

India is a home of the largest microfinance system in the world. There are several models of delivering microfinance services. Some of the important and largely practiced delivering models are:

Association Model

Under this model "the target community initiates and forms an association, which carries out various microfinance activities. This model of delivering services is also known as group model". Association or group is composed of youth, men, women formed on socio-religious-cultural issues. The association model turns to a legal entity in many countries and our Indian SHG model is stemmed from this model.

Community Banking Model□

This model treats whole community as one unit. The community banking is a formal or semi-formal institution through which microfinance services are provided to the members. The community banks are initiated and capacitated by intermediaries like NGO and other organizations who engaged in capacity building of the community members to make them expert in performing various financial activities of bank.

Co-Operative Model□

The co-operative model is an autonomous association of people who are the members of cooperatives. These members are united voluntarily to meet their socio-economic and cultural needs. It is a democratic member controlled institution. This includes member financing and saving activities. These financial cooperatives have the characteristics of self-generating capital, self-governed, middle and lower income group clients with financial services.

Credit Union Model□

The credit union is a formal financial institution formed by a particular group, institution or organization with a motive of saving their money together and rented to members with a democratically pre-determined rate of interest. The credit union model is based on two major facts i.e. self-help and member driven nature. Credit unions are known as "not for profit financial cooperatives" or "saving and loan cooperatives" as this model works on principle of co-operatives.

Individual Banking Model□

This is a straight forward credit lending model where micro loans are given directly to the borrower. This model does not include formation of group or generating to ensure payment.

Grameen Joint Liability Group Models□

This model was derived from grass root level organization Grameen bank, Bangladesh. Under this system, the bank unit itself with field manager and bank workers, covers areas of about 15-20 villages. The field manager with assistant visits the village in order to develop acquaintance for working. Group of five perspective borrowers are formed in the first stage in which only two of them are eligible for and receive a loan. Only when the first two borrowers repay the principal with the interest over fifty weeks, the other member becomes eligible for loan. This restriction helps in maintaining clear records and responsibility to serve as collateral on loan.

SHG Model□

Self-help group model dominates microfinance in India. Under this model, group of 10-20 members are formed basically from same gender or caste, to resolve various socio-economic and other issues. The SHG encourages saving among members and use pooled resource to meet the emergent needs of their members. After maturity of 6 months to 1 year the group becomes collateral for loan. These groups are either supported by government, NGOs, MFIs or other formal and informal agencies. This model gives scope to the members of SHG to participating in decision making process, with four standing pillars of "self-help is the best help", "unity is strength", "united we stand and divided we fall" and finally "we can make our own bank". The group members use collective wisdom and peer pressure to ensure proper end use of credit and timely repayment thereof.

Vllage Banking Model□

This model was developed by FINCA International. The "village banks" are formed by 25- 30 low income individuals, primarily women‟s from villages. These banks perform community based thrift and credit association with a motive to improve the socioeconomic and living standard of the members through promotion of self-employment activities. This model is operative at micro level village based bank, which pooled the initial fund from external sources. No financial collateral is required against the loan as they are backed by moral and social collaterals. Market rate of interest is charged from members with the guarantee of repayment.

Rotating Saving and Credit Association (ROSCA)

Rotating saving and credit association is a type of democratic association formed by 5-50 members for making a regular cyclical contribution to a common fund. Further this fund is again relented to the member in each cycle in the form of loan. Outside financial agencies are not allowed to involve in ROSCA and all organizational activities are carried by members. The major differentiation and the major fault of this model are of having implicit interest rate with level of defaulters, fraud and dropouts.

Kisan Credit Card Model

Kisan credit card scheme was launched in 1998-99 by NABARD. KCC also provides microfinance facility to poor farmers for agriculture purpose. The scheme has been launched to provide timely and adequate credit support to the farmers for their production needs in a flexible and cost effective manner. In order to increase the production and productivity of agriculture sector, there is an urgent need of making loans and advances by different periods. It is an innovative scheme. It facilitates short term credit to farmers. The scheme has gained popularity among the cultivators.

Role and Importance of Microfinance

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living. Thus Microfinance plays a major role in upliftment of Indian economy in following ways:- According to the research done by the World Bank, India is home to almost one third of the world's poor

1. **It allows people to provide for their families.** Through microfinance, more households are able to expand their current opportunities so that more income accumulation may occur, says Vitanna.org, a financial services website.
2. **It gives people access to credit.** "By extending microfinance opportunities, people have access to small amounts of credit, which can then stop poverty at a rapid pace," says Vitanna.org. Plan International, a global organization dedicated to advancing children's rights and equality for women, agrees, stating: "Banks simply won't extend loans to those with little or no assets, and generally don't engage in the small size of loans typically associated with microfinancing. Microfinancing is based on the philosophy that even small amounts of credit can help end the cycle of poverty."
3. **It serves those who are often overlooked in society.** About 95 percent of some loan products extended by *microfinance institutions* are given to women, as well as those with disabilities, those who are unemployed, and even those who simply beg to meet their basic needs, Vitanna notes. Microfinance services can help recipients take control of their own lives.
4. **It creates the possibility of future investments.** Microfinance disrupts the cycle of poverty by making more money available. When basic needs are met, families can then invest in better housing, health care, and even, eventually, small business opportunities.
5. **It is sustainable.** There's little risk with a $100 or loan, says Vitanna, adding: "Yet $100 could be enough for an entrepreneur in a developing country to pull themselves out of poverty." Plan International agrees, stating that a $100 loan can be enough to launch a small business in a developing country that could help the benefactor pull herself and her family out of poverty.
6. **It can create jobs.** Microfinance is also able to let entrepreneurs in impoverished communities and developing countries create new employment opportunities for others.
7. **It encourages people to save.** "When people have their basic needs met, the natural inclination is for them to save the leftover earnings for a future emergency," says Vitanna.
8. **It offers significant economic gains even if income levels remain the same.** The gains from participation in a microfinance program including access to better nutrition, higher levels of consumption, and eventually, growing economies, even in small and impoverished communities.

9. **It leads to better loan repayment rates.**
"Microfinance tends to target women borrowers, who are statistically less likely to default on their loans than men. So these loans help empower women, and they are often safer investments for those loaning the funds," says Plan
International.
10. **It extends education.** Families receiving microfinance services are less likely to pull their children out of school for economic reasons, says Plan International.

Microfinance, then, may involve very small loans and financial services, but it has a worldwide impact over the last four-plus decades. For a small business that needs just a bit of extra cash or credit to secure a new opportunity, microfinance may be just the ticket. And for a small lending or banking business looking for new opportunities, microfinance literally offers a world of opportunities – one small loan or financial service at a time.

Data Analysis and Discussion

Table 1: Progress under MFI-bank linkage Programme (Amount in crore)

year	2014-15		2015-16		2016-17		2017-18		2018-19	
	No. of MFIs	**amount**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**
Loan Disbursed By Banks/FI to MFIs	589 8.07%	15190 47.73%	647 9.84%	20795 36.9%	2314 257.65%	-7.1%	1922 -16.9%	25515 32.17%	1933 0.57%	14625 -42.02%
Loan O/S against MFIs on 31st March	4662 92.48%	22500 36.22%	2020 - 56.67%	25580 13.69%	5357 165.19%	29225 14.25%	5073 -5.3%	10.53%	5488 8.18%	17760 -45.0%

Table 1 presented progress under MFI-Bank linkages programme. The number of MFIs availing loans from banks during the year 2017-18 decreased over the respective previous year. The number of MFIs availing loans from the banks during the year 2015-16 increased by 9.84% per cent over the year 201415. However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17
over the previous year.it increased from 9.8 per cent to 257.6 per cent. The total loans to MFIs by banks increased during 2014-15, 2015-16, 2017-18 and 2018-19 over the previous year respectively. It increased by about 47.7, 36.9, 32.17 and 42.02 per cent. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year. The loan outstanding against MFIs increased in the subsequent years over their previous years except 2018-19. It increased by 36.22, 13.7, 14.3 and 10.53 per cent in 2014-15, 2015-16, 2016-17 and 2017-18 over the previous year. The loan outstanding against MFIs decreased by -45.02% in 2018-19.

2 State-wise Client Outreach

Client outreach in various states is mapped in Table 2.3. It is observed that all states/UTs except for four states in Northeast region, the outreach has increased. Manipur, Mizoram, Nagaland, Arunachal Pradesh have seen a decline in client outreach. Exclusion of a region based SFB is the reason for the fall in client outreach in these states.

Table 2: Outreach (in lakh) of MFIs across States/UTs – 2019 & 2018 (decreasing order)

State	2019	2018	Growth (%)
Karnataka	74.12	69.17	7%
Bihar	45.24	31.23	45%
Tamil Nadu	45.03	37.36	21%
Uttar Pradesh	39.28	32.75	20%
Odisha	37.21	31.16	19%

West Bengal	35.68	29.19	22%
Maharashtra	28.61	25.25	13%
Madhya Pradesh	25.99	24.14	8%
Rajasthan	16.96	10.86	56%
Assam	15.11	8.02	88%
Kerala	11.64	10.20	14%
Jharkhand	10.98	8.61	27%
Chhattisgarh	9.34	7.70	21%
Gujarat	8.43	5.30	59%
Punjab	8.40	6.75	25%
Haryana	6.89	5.28	30%
Tripura	2.29	1.44	60%
Puducherry	2.11	0.76	178%
Uttarakhand	2.09	2.10	0%
Andhra Pradesh	1.33	1.28	4%
Delhi	0.95	0.46	109%
Manipur	0.43	0.84	-48%
Goa	0.29	0.15	91%
Mizoram	0.20	0.62	-68%
Meghalaya	0.17	0.13	30%
Himachal Pradesh	0.16	0.13	30%
Telangana	0.08	0.08	4%
Andaman & Nicobar Islands	0.06	0.04	44%
Jammu & Kashmir	0.05	0.02	148%
Sikkim	0.05	0.01	288%
Chandigarh	0.02	0.02	10%
Daman & Diu	0.0	0.00	0%
Nagaland	0.02	0.02	-35%
Arunachal Pradesh	0.01	0.15	-92%
Total	429	351	

***Source*:** Bharat Microfinance Report 2018-19

Client outreach in various states is presented in Table 2. Out of total client's base of 429 lakh in 2019, sikkim state contributed highest number of clients base (288%) followed by puducherry (178 %),jammu kashmir (148%), assam (88%), goa (91%), West Bengal (7.17%), M.P. (6.96%) etc. The Contribution of Daman & Diu (0.0%), uttarakand (0.0%), telangana (4%), Andhra Pradesh (4%), Karnataka (7%) and Madhya Pradesh (8%) was least.

Comparison of client's base of different states/UTs in 2019 with 2018 has increased, except Manipur (-48%), Mizoram (-68%), Nagaland (-35%), Arunachal Pradesh (-92%).

Rural – Urban Share of MFIs Borrowers

2014-15 can described as watershed year as far as the rural-urban divide in Indian microfinance is concerned. Hitherto Indian microfinance was touted as basically a rural phenomenon as compared to microfinance in Latin America as also in large parts of Africa and Asia. But that statement is no longer valid. A very interesting trend is seen in the rural-urban focus of MFIs. The share of rural clientele which was 69 % in 2012 decreased to 56 % in 2014 and has drastically come down to 33 %. The proportion of rural to urban clients for the year 2014-15 was 33% to 67%. In the year 2015-16, there was a slight improvement in the share of rural clientele which increased to 38% because of exclusion of Bandhan. In 2016-17, the trend of rural to urban is the reverse of trend of 2015-16 because of exclusion of 6 SFBs. In 2017-18 and 2018-19, the trend of rural over urban is continuing although there is decline in share of rural clients. One of the key findings from our research shows that small sized of MFIs are rural centric.

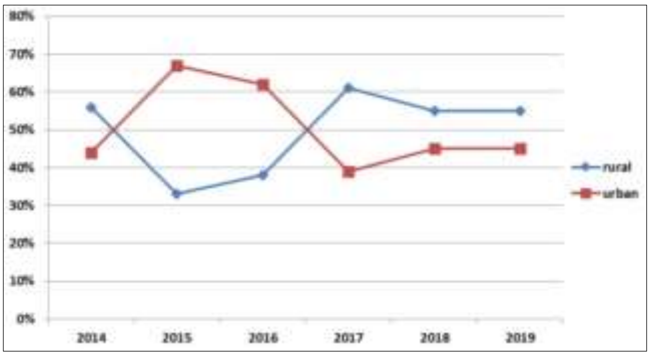

Fig 1: Trends in Rural - Urban Share of MFI Borrowers

Rural-urban distribution of MFI borrowers is shown in Table 3 and figure 1. Indian microfinance was basically considered as a rural phenomenon. The share of rural clientele was 56% per cent in 2014 which decreased to 33 per cent in 2015. During the next year i.e. in 2016 the share of rural client slightly increased to 38 per cent. After that in 2017 (61%), 2018 (55%) and in 2019 (55%). It is first time that urban client base outpaced rural client base.

Purpose of Loan

Traditionally, MFIs have been lending for both consumption and productive purposes. It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. In 2015, RBI regulation stipulated that a minimum of 50% of the MFI loans are to be deployed for income generating activities. Analysis of the loan portfolio held by reporting MFIs for 2018-19 shows that the proportion of income generation loans to non-income generation loans is 89:11. Loan usage under different sub sectors is presented in Figure 2.20 for both income generation and non-income generation loans. Agriculture, animal husbandry and trading are major sub-sectors where income generation loans are deployed. Non income generation loans are used for consumption, housing, education, water & sanitation, health etc.

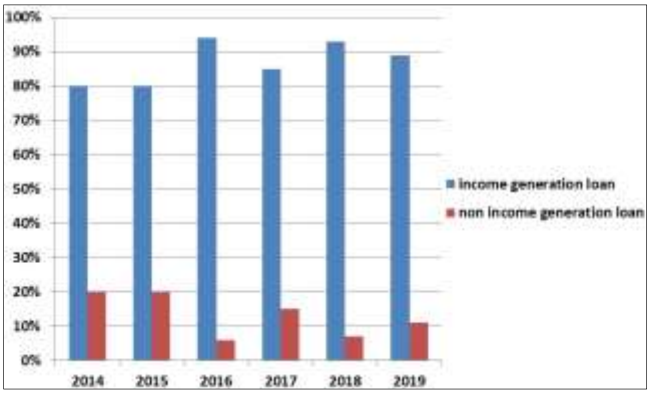

Fig 2: Share of MFIs Income Generation Loans under Different Subsectors as of March 2019

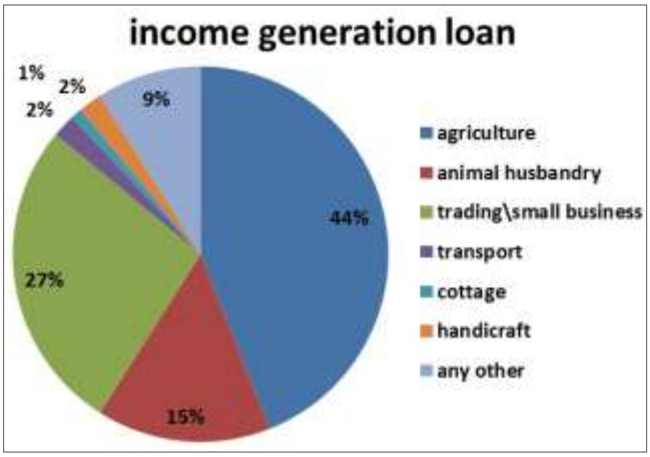

Fig 3

Purpose of MFIs' loans has assumed significant importance after the RBI regulation which stipulates that aggregate amount of loans, given for income generation, should not be less than 50 per cent of the total loans given by the MFIs. An analysis of the loan portfolio held by reporting MFIs under different sub-sectors of income generation loans is portrayed in Figure 2.

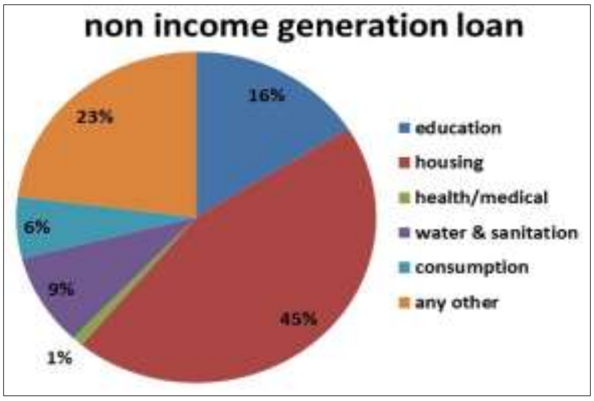

Fig 4

The Figure 3: confirms that among the non-income generation loans, Housing loans are predominent with 45%. It may be noted that even amongst non-income generating loans 71% are towards purposes like education, housing, health/medical, watersanitation which life enhancing investments and generally contribute to family well-being and strengthen the income earning capabilities of the households in long term.

Table 3: Performance indicator of MFIs Model in India

Particulars	**2015**	**2016**	**2017**	**2018**	**2019**
Client outreach	371	399 ↑	295↓	351↑	429↑
Women client (%)	95%	97%	96%	96%	99%
Gross o/s portfolio(cr.)	48882	63853	46842	68789	94391
Average loan per borrower(cr.)	13162	11425	12751	14700	16576
Income generation loan (%)	80%	94%	85%	93%	89%
Margin (%)	10.20%	10.0%	8.8%	9.55%	9.72%
ROA (%)	1.73%	2.2%	2.41%	1.63%	2.06%
ROE (%)	8.19%	11.6%	13.31%	7.48%	11.49%
OSS (%)	113%	113%	114%	110%	114%
CAR (%)	19.10%	19.39%	21.1%	22.1%	23.09%
NPA (%)	0.21%	0.15%	1.73%	1.48%	0.68%

Table 6 presented an overall performance of microfinance institutions during the year 2015 to 2019. The table shows that the client outreach increased all the years except 2017 decreased by 26.06% per cent in 2017, over 2016. However, the percentage of women's outreach also decreased from 97 per cent to 96 per cent in 2017 over 2016. The gross outstanding portfolio has decreased from Rs. 63,853, crore to Rs. 46,842, crore, i.e. by about 27 per cent during this period in 2017 over 2016. whereas average loan per borrower has shown upward movement during this period, i.e. average loan per borrower has increased by 11.60 per cent during this period except downword movement shown by 13.19% in 2016 over the previous year 2015. Out of total loans the proportion of income generating loan was 94 per cent in 2016 which decreased to 85 per cent in 2017 and 93% in 2018 which is decreased to 89% in 2019. The indicators relating to overall financial structure such as Return on assets is highest in 2017 (2.41%) and Return on equity is also highest in 2017 (13.31%), capital adequacy ratio have increased over this period 2015-19. The average OSS of the Indian MFIs has increased from 113 per cent in 2015 to 113 per cent in 2016, 114% in 2017, 110% in 2018 and 114% in 2019. Operational self-sufficiency measures the ability of an MFI to me*et al*l its operational and financial costs out of its income from operations. The profit margin has also declined from 10 per cent in 2016 to 8.08 per cent in 2017. Nonperforming assets increased during this period from 0.15 per cent to 0.69 per cent in 2019.

Major Findings

- MFIs availing loans from the banks during the year 2013-14 increased by 28 per cent over the year 2012-13. However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 over the previous year.it increased from 9.8 per cent to 257.6 per cent.
- Client outreach in various states is presented in Table 2. Out of total client’s base of 429 lakh in 2019, sikkim state contributed highest number of clients base (288%) followed
by puducherry (178 %),jammu kashmir (148%), assam (88%), goa (91%), West Bengal (7.17%), M.P. (6.96%) etc.
- The contribution of Daman & Diu (0.0%), uttarakand (0.0%), telangana (4%), Andhra Pradesh (4%), Karnataka (7%) and Madhya Pradesh (8%) was least.
- Comparison of client’s base of different states/UTs in 2019 with 2018 has increased, except Manipur (-48%), Mizoram (-68%), Nagaland (-35%), Arunachal Pradesh (-92%).
- The total loans to MFIs by banks increased during 2014-15, 2015-16, 2017-18 and 2018-19 over the previous year respectively. It increased by about 47.7, 36.9, 32.17 and 42.02 per cent.
- The loan outstanding against MFIs increased in the subsequent years over their previous years except 2018-19. It increased by 36.22, 13.7, 14.3 and 10.53 per cent in 201415, 2015-16, 2016-17 and 2017-18 over the previous year. The loan outstanding against MFIs decreased by -45.02% in 2018-19.
- Presented an overall performance of microfinance institutions during the year 2015 to 2019. The table shows that the client outreach increased all the years except 2017 decreased by 26.06% per cent in 2017, over 2016. However, the percentage of women's outreach also decreased from 97 per cent to 96 per cent in 2017 over 2016. The gross outstanding portfolio has decreased from Rs. 63,853, crore to Rs. 46,842, crore, i.e. by about 27 per cent during this period in 2017 over 2016. Whereas average loan per borrower has shown upward movement during this period, i.e. average loan per borrower has increased by 11.60 per cent during this period except downword movement shown by 13.19% in 2016 over the previous year 2015. Out of total loans the proportion of income generating loan was 94 per cent in 2016 which decreased to 85 per cent in 2017 and 93% in 2018 which is decreased to 89% in 2019. The indicators relating to overall financial structure such as Return on assets is highest in 2017 (2.41%) and Return on equity is also highest in 2017 (13.31%), capital adequacy ratio have increased over this period 2015-19. The average OSS of the Indian MFIs has increased from 113 per cent in 2015 to 113 per cent in 2016, 114% in 2017, 110% in 2018 and 114% in 2019. Operational self-sufficiency measures the ability of an MFI to me*et al*l its operational and financial costs out of its income from operations. The profit margin has also declined from 10 per cent in 2016 to 8.08 per cent in 2017. Nonperforming assets increased during this period from 0.15 per cent to 0.69 per cent in 2019.

Conclusion

The significance of microfinance in developing countries like India cannot be overstated, as it plays a crucial role in the socio-economic upliftment of poor and low-income individuals. Since the 1990s, poverty reduction has been a priority at both national and international levels of development, leading to various government initiatives in this regard. Microfinance has emerged as an effective tool for poverty reduction and socio-economic development.

Microfinance can significantly contribute to improving the standard of living of the poor. The economic development of any country is heavily influenced by the availability of financial services, and microfinance encompasses a broad range of such services tailored to the needs of the poor, including deposits, loans, payment services, money transfers, insurance, savings, and micro-credit. A well-developed financial system promotes investment opportunities and fosters economic growth. Therefore, it is imperative for the government of India to focus on extending financial services to both rural and urban areas to ensure sustainable and inclusive growth.

Microfinance institutions have been playing an important role in rural areas of India for the past two decades. It is essential for the central government and the Reserve Bank of India (RBI) to implement necessary measures to sustain the growth of the microfinance sector in India. Additionally, state governments should take proactive measures to raise awareness among people about utilizing the services of microfinance institutions to enhance their economic status and improve their livelihoods.

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