CHAPTER: IV

INDUSTRY PROFILE

4.1 Brief Introduction:

NABARD which began its operations in 1982, started with the Self Help Group-Bank linkage programme. At that time SEWA Bank was already established in Gujarat and was helping poor women in setting up their small business. There were other organized as well as unorganized sectors of Microfinance such as MYRADA which catering to the needs of the women in the urban and rural sectors. Gradually the Reserve Bank of India, gave its sanctions to the organized as well as the unorganized sector to branch out to all areas of the country. Thus, the SHG-Bank Linkage Programme became the popular mode of Microfinancing in India.

Before the microfinance revolution took place in India, the Grameen Bank in Bangladesh was established in helping women to become financially independent. The Indian Microfinance Industry took the example of Grameen Bank in running the various schemes especially in relation to the credit schemes. The other area where the microfinancing was being implemented in India was through the NGOs. The NGOs were formed as trusts and were already working as social service agents. The NGOs and their trust members had been helping women to become financially independent. The NGOs have also taken on the responsibility of also training members of the new group members. SIDBI was at the same time giving support to the microfinance sector from the year 1999.

4.2 Evolution of MFIs:

There is no doubt that the NGOs, NABARD, and other Non-Banking Financial Institutions were going out of their way in helping the women through various microfinance schemes but their responsibilities were also concerned about the sustainability of their own business. To call themselves as profitable financial Institutions was not easy. They had to be funded by RBI and other Government Institutions. As per the company’s Act of 1956, RBI ensured that Banking as well as non-Banking Institutions had the capital structure which suited the requirements of
the Institutions. At the same time, they were allowed to charge interest at a higher rate so as to make sufficient profits. India.

At the state level, there were institutions such as the Mutually aided Cooperative Societies (MACS) which also took on the role of microfinancing. These state level microfinance institutions were given complete freedom to operate their business at the state level. Unfortunately, some of the Institutions started misusing the freedom given to them and hence the Reserve bank of India. After the committee gave its recommendations, the Reserve Bank of India made such guidelines that all the microfinance Institutions could work in a smooth manner. At the same time the interests of the clients of the MFI s could be taken care of. The main outcome of the recommendations was the Non-banking financial institutions called as the NBFC-MFI. Once the norms of Reserve Bank of India are fulfilled, it would approve a non-banking financial corporation to undertake microfinance business under the name of NBFC-MFI.

There was then the doubt on the exact numbers of microfinance institutions operating in India. Sa-Dhan was a pioneer in microfinance and this institution brought out a directory from 2014 onwards. This directory gave authentic updated information on the latest microfinance Institutions. There has been a rapid growth in the sector of microfinance mainly because of the easy access to loans and deposits. Granting of loans by the banks were a cumbersome process for the clients especially those who live in the rural areas. Hence, the people started to prefer the microfinance institutions in all parts of India where the loans were more easily available. At the same time these Institutions ensured that they followed the norms of Reserve Bank of India.

It is not that the microfinance institutions in India follow the rules of the central bank but all over the world, the MFI s have to follow the norms of their respective Central Bank. For example, in Bangladesh, the Grameen Bank follows the rules laid by the central Bank of Bangladesh.

Various regulations were brought in by the Reserve Bank of India as the growth of microfinance institutions took place. For example, the task force on the regulations were of the view that MFI s should cater to the demands of the customers by letting them save in MFI s. For the deposits being made by the customers, the RBI made
certain regulations. NABARD had taken these rules and regulations to the next level by organizing the self-regulatory organizations. The MFIs could tie up with commercial banks to give micro-credit. This was again regulated by Vyas committee which made recommendations. Various models were worked by individual microfinance institutions such that each one could follow that model that suited them. The rural poor had to be given the priority he microfinance institutions can follow their own model because there continues to be lack of awareness at the grassroots level.

The history behind the success of Self-help group-bank linkage programme goes back to 1980s when NABARD started its pilot project with just 500 self-help groups, and by 1990s the number rose to 7.4 million. SHG, groups-bank linkage programme (SHG-BLP). In this regard, NABARD started a pilot project little more than two decades ago from 500 SHGs. In 1992, it covered about 7.4 million SHGs and nearly 90 million poor families in country. The unbankable population prior to SHG-BLP epoch, has now become a domain of more than 4 million SHGs having savings deposits with banks to tune of Rs. 9,987 crore and credit outstanding of more than Rs. 42,927 crores with the formal lending institutions. As many as 1.4 lakh SHGs have received credit support to tune of Rs. 24.017 crore from various banks during the year 2013-14, at an average of Rs. 1.76 lakh per SHG (NABARD 2014). Credit disbursement to SHGs during 2013-14 grew by Rs. 3,432 crores (16%) as compared to previous year confirming existence of strength in movement of SHG–BLP. The Indian rural poor households have been able to keep themselves away from the usurious informal lenders due to the Institutional credit support from NABARD. NABARD has also facilitated the underprivileged communities in less development regions with income generating opportunities which has contributed to reduce the rural poverty. The Swarnajayanti Gram Swarojgar Yojana (SGSY) was launched in 1999 with a mission to eradicate the poverty and was engaged in primarily taking care of the needs of SHG and BPL members by providing activity based subsided credit support. The SGSY later become a part of the microfinance movement which facilitated the scheme of financial inclusion. This scheme has been able to lead the self-help group-bank linkage programme to make savings a part of every household in rural India. This way the rural poor have become financially literate too. Today, a number of
microfinance innovative schemes have been introduced to cater to the requirements of the rural Indians.

As a subsidiary of Reserve Bank of India, NABARD has been instrumental in playing the most important development financial institution. In the early years, NABARD had been the sole institution which took up the development function of rural India. The bringing in the inclusion of NGOs to support the micro credit took place much later.

There is no doubt that NABARD has played a pioneering role in setting up new small financing companies in granting micro-credit. The not for profit MFIs needed handholding which was given by none other than NABARD. As a subsidiary of RBI, NABARD has been able to reach the unbankable sections of Indian society.

It has been seen that in the latest years, the self-help group and its linkage to banks is one of the best ways for the rural people to get micro credit. The regional rural banks on their part are also ensuring that the rural sector’s financial needs are met. The microfinance has under its portfolio several functions such as microcredit, micro insurance, small deposits and savings etc. The idea behind the functions of microfinance is mainly to work on the concept of joint liability groups. All members of the group need to work in partnership with the other group members such that if any one member defaults, the others in the group should stand by the defaulter. This concept has brought the microfinance to reach great heights particularly in the case of women entrepreneurs in the rural sectors. The fact that the rural public need to have bank accounts has become the order of the day. As the banking habits increase among the Indians, we will see more and more women using the financial services of the banks. Microfinance Institutions in India emerged in the late 1980s in response to the gap in availability of banking services for the unserved and underserved rural population. Their business proliferated in 1990s under the open economy regime. Most of the institutions that entered the field were from the social sector and hence they took the legal form of trusts or Societies. However, not-for-profit status of those institutions started becoming a limitation for the sustainability and scalability forcing them to morph as MFIs with the business growth. However, due to specificity of the business they were pursuing, these institutions were then registered as NBFC-MFIs under the category created by RBI based on Malegam committee recommendations.
Despite the positive trend being exhibited there is a lurking fear regarding overheating of the sector, multiple financing to the poor clients, poor financial literacy and some grey areas in regulation.

**4.3: Recent trends in Microfinance:**

The Bharat Microfinance Report 2017 – 2018

The last two decades has seen the microfinance industry grow by leaps and bounds around the world. India is no exception, the number of non-banking finance companies providing credit and savings products has gone from a few dozens to several hundreds. It is estimated by Sa-Dhan, a self-regulatory organization that the total number of microfinance clients in India touched the figure of 30 million in mid-2017. Sa-Dhan has released the latest version of its Bharat Microfinance Report 2017.

**Notable Highlights from the report are as follows:**

- Microfinance companies have operations in 29 states, 4 UT’s and 563 districts of India.
- The loan outstanding for FY17 grew by 26% compared to FY16.
- The total outstanding loan portfolio of Indian microfinance companies stood roughly at Rs 47,000 Crores.
- The average loan outstanding per borrower stands at Rs 12,500.
- Women borrowers account for 96% of the borrowers.
- The microfinance sector employs close to 90,000 personnel. Field staff comprise 60% of this workforce.
- The proportion of urban clients has shown a decreasing trend.
- SC / ST borrowers constitute 20% of borrowers followed by minorities at 10%.
- SHG’s increased during the year and the number of families linked to the SHG-BL program crossed 112 million.
- The loan portfolio outstanding of SHG’s stands at Rs 61,500 Crore.
Currently MFIN member organizations consist of 48 of the leading NBFC-MFIs whose combined business constitutes over 90% of the Indian microfinance sector (excluding SHGs). Operating across the country’s length and breadth of, the outreach of MFIN member institutions is present in 595 of the 664 districts in India, covering 35 States and UTs.

EASTERN INDIAN MFIs:

a. Adhikar Micro Finance Pvt. Ltd. is a Bhubaneswar based NBFC-MFI with a gross loan portfolio of Rs. 179 cr. as on 30th June, 2018. The organization’s operation spreads over the states of Assam, Odisha, Chhattisgarh & Gujarat with 76 branches reaching out 1.2 (lk) clients.

b. Jagaran Microfin Pvt. Ltd. is a Kolkata based NBFC-MFI with gross loan portfolio Rs. 279 cr. as on 30th June, 2018. The organization’s operation spreads over 5 states with 108 branches reaching out 2.4(lk) clients.

WESTERN INDIA MFIs:

a. Hindusthan Microfinance Private Limited (HMPL) is a Mumbai based NBFC-MFI which was established in 2008. It has a gross loan portfolio of Rs. 33 cr. as of 30th June, 2018. The organization’s operation spreads over 3 states with 25 branches reaching out 0.21(lk) clients.

b. Svatantra Microfin Pvt. Ltd. is a Mumbai based NBFC-MFI with a gross loan portfolio of Rs. 652 cr. as on 30th June, 2018. The organization’s operations are spread over 9 states with 173 branches reaching out 3.1(lk) clients.

NORTHERN INDIA MFIs:

a. Sonata Finance (P) Ltd. is a NBFC-MFI headquartered in Lucknow with a gross loan portfolio of Rs. 1,320 cr. as on 30th June, 2018. The organization’s operation spreads over 8 states with 427 branches reaching out 7.2 (lk) clients.
b. Shikhar Microfinance Pvt. Ltd. is a Delhi based NBFC-MFI with gross loan portfolio of Rs. 68 cr. as on 30th June,2018. The organization’s operation spreads over 6 states with 36 branches reaching out 0.4(lk) clients.

SOUTHERN INDIA MFIs:

Bharat Financial Inclusion Ltd. (BFIL) is a Hyderabad based NBFC-MFI with gross loan portfolio of Rs. 13,832 cr. as on 30th June,2018. The organization’s operation spreads over 18 states with 1,506 branches reaching out 64(lk) clients.

b.Muthoot Microfin Limited is a Cochin based NBFC with gross loan portfolio of Rs. 2,920 cr. as on 30th June,2018. The organization’s operation spreads over 14 states with 467 branches reaching out 12(lk) clients.

4.4: Conclusion:

It is seen that the SHG model and the Microfinancing model have been able to reach a large set customers thereby building a client base which is serving a majority of women in all areas of India. The models of Microfinance as well as the financial inclusion schemes have helped women to upgrade their banking habits. The role of commercial banks cannot be ruled out in this regard as they too have been assigned the role of helping the economically weaker sections of India. The commercial banks have also contributed to the developing of the microfinance sector. The microfinance sector has been catering to the needs of the people when it comes to unsecured credit products of small volumes. This coexistence between non-banking financial institutions and microfinance institutions have proved to be a huge success not only in India but also in advanced economies like USA and Europe. Now the main area which requires attention is the technology driven schemes such as digitalization of self - help group accounts.

As it is a known fact that India is one of the fastest growing economies in the world and has a rural and urban divide which is huge. The role of financial services sector and technology driven devices is very important at this juncture. The financial institutions including the microfinance institutions are playing their best shot in reaching the masses across the country.