Major Research Project on

A Study on the Performance of Microfinance Institution in India

Submitted by

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CERTIFICATE

This is to certify that **Tripti Kumari 2K21/DMBA/135** has submitted the project report titled **"A Study on the Performance of Microfinance Institution in India"** in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) from Delhi School of Management. Delhi Technological University, New Delhi during the academic year 2022-23.

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DECLARATION

I, **Tripti Kumari,** student of Delhi School of Management, Delhi Technological University hereby declare that the Project Dissertation report on **"A Study on the Performance of Microfinance Institution in India"** submitted in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) is the original work conducted by me. I also confirm that neither I nor any other person has submitted this project report to any other institution or university for any other degree or diploma. I further declare that the information collected from various sources has been duly acknowledged in this project.

Tripti Kumari

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ACKNOWLEDGEMENT

I would sincerely like to express my gratitude to my Summer Internship report supervisor **Dr.PK Suri** for his continuous guidance. Feedback and support throughout my report. H unwavering enthusiasm and support kept me constantly engaged with my report work and has resulted into completion of the report.

I would also like to express my deepest thanks and sincere appreciation to **Dr. Sikha Khera** and **Dr. Deepali Malhotra** for their academic direction and sharing the genuine concerns for the completion of the report. I am very thankful to our Head of Department **Dr. Archana Singh,** Delhi School of Management, Delhi Technological University for her guidance and encouragement for my internship report.

Further, I would like to gratefully acknowledge Delhi School of Management, Delhi Technological University (DTU) for including a summer internship project as a credit course for third semester providing all students with the opportunity to enhance their knowledge and competence. I would also like to thank the entire family of Delhi School of Management (DSM) for their support and cooperation throughout this venture.

Lastly, I take this opportunity to express my appreciation to all my friends, teachers, and classmates for their support, cooperation and motivation throughout this venture, without which the completion of my report would have been incomplete.

Tripti Kumari

EXECUTIVE SUMMARY

The present study is an attempt to study the importance of microfinance and to analyse the performance of microfinance institutions operating in India. Microfinance is a deep rooted financial system in India as a mechanism for disbursement and collection small scale funds. Due to inadequate banking channels in rural and remote areas, a large number of informal financial intermediaries particularly Microfinance have been mushroomed which are acting as a proxy to the banks. It emphasizes on rural economy and performs as mode of lifting people from the deprived section into the formal financial system, thereby it reduces the leakage of bogus financial services.

Research design is partly descriptive, partly exploratory .The data for the present study was collected from different sources. 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 2012-13 to 2016-17. Simple statistical tools like averages, percentage, etc were used to derive the inferences of the study.

The study aims to understand the concept and delivery models along with the role and importance of microfinance in India. It also tries to analyse the financial performance of MFIs like Return On Asset (ROA), Return On equity (ROE) etc. To rationalize the objectives of this study, hypothesis testing is applied among assessed variables. The study has been done based on exploratory research method by using five years data collected from various secondary sources.

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Chapter-1

INTRODUCTION

1.1 Background

Microfinance is not a novel concept. It was created in the 19th century. when moneylenders played the role, that professional financial institutions play today. Several groups, including non-governmental organisations, international development agencies, and policymakers, have developed several development strategies over the past 20 years with the goal of reducing poverty in developing nations. One of these tactics, which has gained popularity since the early 1990s, is microfinance programmes, which offer the working poor financial services in the form of savings and credit chances (Johnson and Rogaly, 1997). India is classified as having a low income, according to World Bank data. It is the world's second-most populous nation. Its rural areas are home to 70% of the population. A significant rate of underemployment results from the 60% dependence on agriculture. Rural residents have few little accesses to formalised credit (from commercial bank). At both the national and international levels of development, the fight against poverty has gained prominence during the 1990s. Government officials have launched several initiatives under this framework. As a powerful tool for reducing poverty and fostering socioeconomic development, microfinance has attracted attention. As a result, microfinance can significantly raise the standard of living for the impoverished. Self Help Group (SHG) - Bank Linkage Programme (SBLP), a pilot programme launched It is thought that the introduction of microfinance by NABARD in 1992 was what started the movement. Due to its overwhelming success, this programme has emerged as India's most widely used microfinance scheme. In India, there is no consistent regulatory framework for microfinance. Commercial banks, regional rural banks, SHGs, cooperative societies, and institutions (MFIs) that assume a variety of forms, including those of non-profit organisations and non-bank financial institutions (NBFIs), offer microloans. The Reserve Bank of India (RBI) regulates banks and non-bank financial institutions (NBFIs), while NABARD oversees SHG regulation, and the Registrar of Cooperative Societies (RCS) oversees cooperative regulation.

Large-scale poverty reduction can be achieved with the help of microfinance. It offers very small loans, or microloans, to the disadvantaged, primarily women, for them to develop or little expansion and independence companies. Poor women can begin their path out of poverty via their own inventiveness and drive, as well as through the lending microfinance organisation (MFI).

Microfinance initiatives are supported by contributions from private philanthropists, social investors, neighbourhood banks, foundations, local governments, and worldwide organisations in the form of loans, grants, guarantees, and investments. For their beneficial economic effects and the idea that they empower women, microfinance programmes have received more and more support in India. In the context of South Asia, women's empowerment refers to a process in which they question cultural conventions and traditions to effectively increase their well-being. Most microfinance initiatives specifically target women with the intention of empowering them. They differ in their fundamental assumptions, though. Some contend that among the disadvantaged, women are among the most vulnerable and impoverished. Others contend that empowering women's capacities will enable them to make decisions that will lead to better expansion and development of the economy.

1.2 SIGNIFICANCE OF THE STUDY

There doesn't seem to be a working mechanism for evaluating the financial success and therefore maintaining microfinance institutions, at least not in India. The absence of a dedicated law governing the operation and management of microfinance institutions exacerbates this issue. Another factor contributing to the issue is the absence of a regulated framework for financial disclosures made by microfinance firms. The purpose of the current study is to examine the significance of microfinance and the effectiveness of the microfinance organisations functioning in India. I It becomes significance since it is essential that these institutions are run efficiently given that they use up limited and scarce resources and that their target benefactors are the socially disadvantaged. Through sound financial management, MFIs need to be able to sustain their financial viability. viability in order to continue pursuing their lofty goals.

1.3 OBJECTIVES OF THE STUDY

1. Researching the function and significance of microfinance in India.

2.Gaining knowledge of the larger contexts that support and explain the area of microfinance, such as how the existing credit market functions to meet the financial needs of microbusinesses.

3. To assess the present state and effectiveness of India's microfinance institutions.

4. To have a general concept of evaluating the outcomes and worth of specific microloans to businesses.

Chapter-2

LITERATURE REVIEW

Kumar, V., Chauhan, M., & Kumar, R. (2016). According to the findings of a study by SHGs and MFIs are essential to the provision of microfinance services, which promotes the development of low-income and underprivileged individuals in India. The road map for the SHG program's next phase must consider the slow graduation of SHG members, poor group functioning, dropout of members, and other study findings that have been recorded in various parts of the nation.

Nikita.(2015) study, there was a reduction in the number of SHGs with savings linked to banks for the first time in the years 2012–2013 following the introduction of SHGs BLP. The report also reveals that SHG's loan outstanding increased, which contributed to a rise in NPAs. Finally, it is discovered that commercial banks hold a significant portion of the MFI loan granted agency-by-agency. He recommended that actions be taken to periodically improve the results of initiatives implemented under microfinance.

Mahanta, P., & Panda, G. (2018). Study lending to the impoverished through microcredit is not the solution to the issue, but rather the start of a new one. If handled correctly, it has the potential to work wonders in the fight against poverty. However, it must be combined with initiatives to improve capacity. The government is obligated to promote the social and economic advancement of the underprivileged. The money is utilised to buy and consume non-productive assets because there are no special skills needed to work with microcredit clients. As a result, it is crucial to offer programmes that help people develop their abilities, such as those in handicrafts, weaving, carpentry, poultry, goat husbandry, masonry, beekeeping, vegetable gardening, and numerous more agricultural and non-agricultural specialties. In this situation, the government must take the initiative. In addition, according to the International Academic Journal of Accounting and Financial Management, post-loan technical and professional assistance should be provided to these clients to ensure the success of their microenterprises. Microcredit can be very effective at reducing poverty if the government and MFIs work cooperatively. We must expand on an effective model while one state leads the way. We shall gradually but inevitably change India by fostering the entrepreneurial talent of the underprivileged in ways we can only begin to imagine.

Maruthi, R. P., Smith, G., & Laxmi, K. S. (2019). did a study on the impact of microfinance on the emergency in India. The microfinance industry in India has entered the takeoff stage following the pioneering efforts of the government, banks, NGOs, etc. To strengthen the formation the effectiveness of Micro-Finance Institutions (MFIs) and maximise their contribution to the expansion of the sector and the eradication of poverty, an effort might be made to create a cadre of new generation microcredit leaders. Each Indian state should think about establishing a multi-party working committee to meet with leaders in the microfinance industry and discuss how to improve the policy climate and dispel misconceptions.

Christopher, I. F. (2017). conducted a study to find out how microfinance affected Nigeria's small and medium-sized enterprises. This study's primary objective is to evaluate how microfinance affects Small and Medium Businesses (SMEs) in Nigeria. A straightforward random sampling process was used to choose the 100 SMEs that made up the research's sample size. To make the process of gathering relevant data for analysis simpler, a structured questionnaire was developed. Descriptive statistics, which employ simple percentage graphs and visuals, are strategically utilised in data displays and analysis. The study's findings show that many SMEs benefited from MFI loans even though only a small fraction of them were able to raise the necessary funds. It's interesting to note that most SMEs credit MFI loans with helping them increase their market share, achieve market leadership through product innovation, and maintain a competitive edge across the board for their businesses. In addition to tax advantages and financial assistance, it is urged that the government work to provide enough infrastructure, such as a first-rate road network, energy sources, and training facilities, to encourage SMEs in Nigeria.

Chapter-3

RESEARCH AND METHODOLOGY

3.1 Microfinance Concept

Through microfinance, the less fortunate and marginalised segments of society who lack access to traditional banking can diversify their income streams, build up their assets, and improve their standard of life while being less vulnerable to financial stress. It has been emphasised in the past that offering financial products and services to the underprivileged by MFIs is feasible and sustainable if MFIs are able to recoup all their costs through adequate interest spreads and by operating efficiently. None of the clients of microfinance can be helped by a miracle solution to end their poverty. However, multiple impact studies have demonstrated that microfinance genuinely benefits low-income households (Littlefield and Rosenberg, 2004). According to the Asian Development Bank's definition of microfinance from 2000, it refers to the provision of a range of services, such as savings, deposits, loans, payment services, money transfers, and insurance, to low-income people and their microbusinesses. In addition to people who are in poverty, this definition of microfinance includes people with modest earnings as well. The taskforce NABARD established on a conducive legislative and regulatory environment for microfinance, microfinance was characterised as "the provision of thrift, saving, credit and financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income level and improve their standard of living." (Sen, 2008).

To help the very or exceptionally poor start or grow their enterprises, microfinance is characterised as a tool for development that grants or provides financial services and goods such very modest loans, savings, microlensing, microinsurance, and money transfers (Robinson, 1998). In addition to financial intermediation, some MFIs provide social intermediation services, such as group formation, confidence-building, and teaching in money management and financial literacy for group members (Ledgerwood, 1999). A few of the organisations that provide microfinance (MF) services include non-governmental organisations (NGOs), credit unions, government banks, savings and loan cooperatives, and non-banking financial institutions. MFIs target low-income, self-employed business owners such traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, painters, and blacksmiths (Ledgerwood, 1999).

Features of microfinance

It includes its importance to rural finance and its focus on short-term loans.

Most of its clients are low-income households.

This is among the most reliable and appropriate ways to end poverty.

This promotes women's use of technology.

It encourages individuals to utilise their opportunities for independent work.

It is more service-oriented than profit-oriented and created to support small business owners and producers.

Poor borrowers rarely miss loan repayments because they are simple and devoted to God. Microcredit falls within the broad group of services known as microfinance. Giving credit services to underprivileged customers is known as microcredit. Both microcredit and microfinance are distinct. Even though the term "micro-finance" refers to a range of services provided to the poor, including loans, savings accounts, insurance, transfer services, and microcredit loans, the term "microcredit" refers to a relatively less amount of money borrowed from a bank or other legally recognised institution.

3.2 INDIA'S MICROFINANCE EVOLUTION

There are four major phases that the development of the Indian microfinance industry may be broadly divided into:

The Cooperative Movement, in Phase 1 (1900-1960) Credit cooperatives served as channels for providing subsidised credit to villages with government backing during this time.

Phase 2: Social Banking with Subsidies (1960s - 1990) As a result of the failure of cooperatives, the government focused on measures such as nationalising banks, expanding rural branch networks, establishing regional rural banks (RRBs), and establishing apex organisations like the National Bank for Agriculture and Rural Development (NABARD) and the Small-Scale Industries Development Bank of India (SIDBI). It also launched an integrated rural development programme that was funded by the government (IRDP). Although these actions helped a huge population, the period was also marked by widespread credit misuse, which left bankers with a poor impression of micro borrowers and made it harder for low-income people to acquire banking services.

Phase 3: Development of NGO-MFIs and the SHG-Bank Linkage Program (1990 - 2000) A paradigm shift in how rural credit is given resulted from the failure of subsidised social banking, and as a result, NABARD developed the Self-Help Group (SHG) Bank Linkage Programme (SBLP), which aims to connect unofficial women's organisations with commercial banks. By means of the initiative, the banking industry was able to contact hitherto untapped groups and started to view low-income households less as "beneficiaries" and more as "clients." As a result, the provision of credit at market rates served to define this period. The early 1990s macroeconomic crisis, which also boosted the dominance of the banking sector, was what led to the Economic Reforms of 1991. Because of this, new generation private sector banks that would ultimately play a big role in the microfinance industry also arose.

Phase 4: Commercialization of Microfinance The fourth phase is when microfinance is commercialised. The Millennium's First Decade Following reforms, rural markets replaced urban markets as the primary drivers of development for MFIs and banks, the latter of which were interested in the sector as a new area of business and as part of their CSR initiatives. To draw in commercial investment, NGO-MFIs gradually started reorganising themselves into more regulated legal entities, such as Non-Banking Finance Companies (NBFCs). Currently, the two primary categories of microfinance organisations are SBLPs and MFIs. Women make up four out of every five microloan borrowers in India.

3.3 Methodology and Data

The design of the study is both exploratory and descriptive.

The data used in this study came from a variety of sources. The State of Micro Finance in India, NABARD report serves as a benchmark for measuring the efficiency of India's microfinance institutions (different issues), Other relevant sources are The Bharat Microfinance Report (several topics). were used to compile the pertinent data regarding loans given, loans outstanding, customer outreach, assets, etc. for the years 2012–2013 to 2016–17. To draw the study's inferences, straightforward statistical techniques such as averages, percentages, etc. were applied.

The analysis of MFIs' financial performance has considered Loan portfolio, Return on Asset (ROA), and Return on Equity (ROE) penetration. With the use of hypothesis testing among examined variables was carried out to justify the study's goals. Regardless of the variables employed in inferential testing, they are all metric. Correlation has therefore been used to test the link.

3.4 Microfinance: its importance and role

Almost one third of the world's impoverished live in India, according to surveys by the World Bank (surviving on an equivalent of one dollar a day). Although though India has several federal and state programmes in place to combat poverty, microfinance is a crucial part of financial inclusion. In recent years, it has significantly aided in the eradication of poverty. Those who have used microlending, it seems, have been able to improve their standard of living by increasing their income. The following are some ways that microfinance greatly helps the Indian economy:

Credit for Rural Poor: The non-institutional organisations are often the source of funding for the rural sector. The effectiveness of microfinance in bringing organised credit to the doorsteps of the underprivileged has helped to improve their economic and social standing.

Poverty Alleviation: Poor people who use microfinance get work. Additionally, it encourages students to take advantage of business possibilities and helps them develop their entrepreneurial abilities. Poverty is decreased because of employment-related income growth.

Female Entrepreneurship: Women often start more than 50% of SHGs. Accessing economic and financial resources is now easier for them. It signifies a step in the right direction for enhancing women's security. Therefore, microfinance increases the economic and social impact of low-income women.

Economic Growth: Finance is essential for promoting steady economic growth. The growth of the economy is supported by microfinance by increasing the production of products and services, which raises GDP.

Mobilisation of Savings: Microfinance encourages people to save money. Now that they have a small income, the impoverished can save money and qualify for loans. With the assistance of funds generated through savings and microcredit obtained from banks, loans and advances are offered to the group's members. The mobilisation of savings is aided by microfinance as a result.

Skills Development: Microfinancing has helped aspiring rural business owners. SHGs encourage their members to launch either group-wide or solitary business units. They gain leadership skills and receive training from organisations that help them. Thus, skill development is indirectly influenced by microfinance.

Mutual Assistance and Cooperation: Microfinance encourages members to work together and help one another. The group's combined efforts aim to achieve socioeconomic transformation and promote economic interest.

Social Welfare: The level of income for people rises as jobs are created. They might move for improved family welfare, health, education, and other factors. In this way, microfinance advances society or fosters social wellbeing.

3.5 Outreach of MFIS in India

India, which consists of 28 States and 5 Union Territories, saw the emergence of microfinance institutions as a widely dispersed financial system. This study largely focused on branch penetration, client penetration, and loan disbursement to evaluate the microfinance industry's reach. Analyses of a few outreach components have been done in this area, initially in a short fashion and then in more detail.

Outreach Components of Microfinance Institutions over the years (2015-11)

Outreach Components	*2015*	*2014*	*2013*	*2012*	*2011*
Client outreach (In Lakh)	371	330	275	268	317
Number of Branches	12221	11687	10697	11459	13562
Number of Borrowers (In lakh)	371	330	275	275	317
Loan per Borrower (Rs)	13162	10079	8112	7725	7481
Loan Disbursement (In crore)	56860	38558	25796	22635	35176
Gross Loan Portfolio (In crore)	48882	33517	25699	24607	24332
Total Asset (In crore)	51564	36125	28051	25240	22736

Source: Consolidated data from different Microfinance Reports of Sa-dhan 2010-2015

From table, client outreach increased by 12.52% in 2015 compared to 2014. At only 268 lakhs, 2012 was the lowest client outreach total over the previous five years.

The data also suggests that there are rising trends for all measured MFI outreach components. In a five-year analysis of data from 2011 to 2015, the greatest values were seen in the year 2015 in terms of customer outreach, borrower numbers, loan disbursements, loans per borrower, and gross loan portfolio. The components have each been given a thorough description in the sections that follow.

3.6 Return on Assets and Equity

This section focused on investor return and return on asset to help readers comprehend profitability. The percentage of income gained from the assets used in a microfinance institution is known as the return on asset (ROA) of MFIs.

ROE andROA of Different Formsof MFIs over the Years (2015-11)

Forms of MFIs	*Return onAsset*					*Return on Equity*				
	2015	*2014*	*2013*	*2012*	*2011*	*2015*	*2014*	*2013*	*2012*	*2011*
NBFC	1.73	1.95	0.6	1.5	3.01	7.36	7.94	2.7	4.20	3.01
Section-25Company Act	1.81	2.36	5.3	2.9	1.11	7.10	12.00	53.3	13.88	1.11
Cooperatives	0.70	0.54	1.8	3.1	5.2	11.67	9.21	16.3	14.00	5.2
Trust andsociety act	1.75	1.94	1.6	2.8	1.2	10.49	12.89	43.6	14.00	1.2
Total%*	1.73	1.94	1.0	2.61	2.31	8.19	9.25	4.8	7.64	2.31

Source: Compileddata from Sa-DhanMicrofinance report 2015-2011

During a specific time. In contrast, return on equity (ROE) measures the net profit on shareholders' equity held by MFIs during a specific period. Investors favour ROA and ROE over other profitability indicators when assessing the feasibility and profitability of MFIs. According to data from the previous five years, the table below displays the ROA and ROE of various types of MFIs (2015-11). The ROE and ROA achieved appropriate rates in 2015, indicating future profitability even though both have slightly decreased from 1.94% and 9.25%, respectively, from the year of 2014. Additionally, both measures have increased investment rates over the past five years, even if ROE and ROA are still at 8.19% and 1.73%, respectively, for the fiscal year 2014–15.

3.7 Hypotheses Testing

A hypothesis is an inferential statistic that makes a tentative statement regarding the relationship between two or more variables. Based on the profitability ratios previously described and client outreach, two hypotheses have been constructed to examine the relationship between profitability and client outreach, and they are provided below.

1. H01: Client outreach and Return on Equity do not significantly correlate with one another.

2. H02: Client outreach and Return on Asset do not significantly correlate.

In this case, both variables' values are measured, and the goal of the hypotheses is to evaluate the significant association to determine the impact of the specified variables. The correlation test results are listed below. Table 7 displays the results of two hypotheses being tested using the bivariate correlation approach. Return on asset and client outreach have a negative association (value -0.5) according to Karl Pearson's coefficient of correlation, and the significant value is 0.936. The conclusion that follows is that there is no relationship between return on asset and client outreach. It therefore acknowledges the null hypothesis.

Result of Correlation Coefficients and Significant values of Hypotheses

	Correlations	*Client Outreach*
Return on Asset	Pearson Correlation	-.050
	Sig. (2-tailed)	.936
	N	5
Return on Equity	Pearson Correlation	.295
	Sig. (2-tailed)	.630
	N	5

Source: SPSS output table

Correlation Coefficient of ROLP and Number of Borrowers and Significant value

	Correlation	*Number of Borrowers*	*Return on Loan Portfolio*
Number of Borrowers	Pearson Correlation	1	.657
	Sig. (2-tailed)		.229
	N	5	5

Source: SPSS output table

The Pearson correlation coefficient result for the second hypothesis test on return on equity and client outreach is positive, at 0.295, and the significance level is 0.63. This accepts the null hypothesis, according to which there is no relationship between return on equity and client outreach, that there is a positive association between return on equity and client outreach. Even though there is a correlation between the two variables, the test results show that the link is not statistically significant.

3. H03: The number of borrowers and the return on the loan portfolio are not significantly correlated (ROLP). The values of the two variables (ROLP and Number of Borrowers) are also metrics in this case, and the goal is to examine the relationship between the two to see how one variable affects the other. So, in line

with earlier hypotheses, the correlation test has been run.

The above result table for the correlation test between the number of borrowers and return on portfolio demonstrates that the two variables exhibit a strong association, with a value of 0.657. Its significance level is 0.229, which is greater than 0.05's p-value. Adopt the null theory. hence in this situation. In conclusion, it can be stated that although There is a link between the quantity of debtors and return on loan portfolio, the correlation is not statistically significant.

Chapter-4
DATA ANALYSIS

4.1 Data Analysis and Discussion

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

Year / Particular	2012-13		2013-14		2014-15		2015-16		2016-17	
	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.
Loan Disbursed by Banks/FI to MFIs	426 (-8.4)	7840 (50.6)	545 (28.0)	10282 (31.2)	589 (8.1)	15190 (47.7)	647 (9.8)	20796 (36.9)	2314 (257.6)	19304 (-7.2)
Loan O/S against MFIs on 31st March	2042 (4.2)	14426 (26.0)	2422 (18.6)	16517 (14.5)	4662 (42.5)	22500 (36.2)	2020 (56.7)	25581 (13.7)	5357 (165.2)	29225 (14.3)
Fresh Loans as % to loans O/S		54.3		62.3		148.13		123.0		151.4

The NABARD Report on the Between 2012 and 2017, the state of microfinance in India.

Table 1 displays the initiative's progress regarding MFI-Bank linkages. Less MFIs asked banks for loans during the 2012–2013 fiscal year than they did the year before. In 2013–14 as compared to 2012–13, there were 28% more MFIs asking banks for loans.

But compared to the previous year, the number of MFIs obtaining loans from banks increased significantly in the years 2015–16 and 2016–17. The percentage climbed from 9.8% to 257.6%. Banks raised their overall MFI loans throughout the years 2012–13, 2013–14, 2014–15, and 2015–16 relative to the prior year. It went up by around 50.6, 31.2, 47.7, and 36.9 percent. Bank loans to MFIs declined overall in 2016–17 by 7.2% compared to the prior year. Every year after that, compared to the year before, the amount of loans owed to MFIs grew. In 2015–16 and 2016–17, it rose by 13.7 and 14.3 percent compared to the prior year. Every year after the first, the fresh loan as a percentage of the total loan outstanding has climbed. Thus, it is evident that MFIs are winning over both clients and lending institutions.

Table 2: Outreach of MFIs across States/UTs (in lakh)

States/UT	2017	2016	Growth in %
Karnataka	68.33	75.28	-9 %
Tamil Nadu	32.25	57.22	-44%
Uttar Pradesh	29.82	39.36	-24%
Odisha	22.94	23.52	-2%
Bihar	22.57	23.93	-6%
Maharashtra	21.33	38.57	-45%
West Bengal	21.16	24.91	-15%
Madhya Pradesh	20.53	28.19	-27%
Assam	7.73	6.84	13%
Kerala	7.42	12.23	-39%
Rajasthan	6.28	8.20	-23%
Jharkhand	6.21	6.75	-8%
Punjab	5.46	6.26	-13%
Chhattisgarh	5.35	8.36	-36%
Gujarat	4.6	12.63	-64%
Haryana	3.83	5.98	-36%
Telangana	2.59	2.95	-12%
Uttarakhand	1.92	3.22	-40%
Delhi	1.15	2.52	-54%
Andhra Pradesh	1.04	7.27	-86%
Manipur	0.73	0.88	-16%
Mizoram	0.57	0.65	-12%
Tripura	0.43	1	-58%
Puducherry	0.28	1.27	-78%
Arunachal Pradesh	0.19	0.17	9%
Himachal Pradesh	0.13	0.49	-73%
Meghalaya	0.12	0.19	-36%
Sikkim	0.11	0.28	-59%
Goa	0.07	0.13	-47%
Nagaland	0.04	0.04	10%
Jammu & Kashmir	0.03	0.02	17%
Chandigarh	0.02	0.13	-82%
Andaman	0.02	0.01	267%
Total	295	399	

Bharat Microfinance Report 2016–2017,

Client outreach in different states is shown in Table 2. Karnataka State provided the most customers out of a total of 295 lakh in 2017, followed by Tamil Nadu (10.92%). West Bengal (7.18%), M.P. (7.55%), and Bihar (7.55%). (69.6%), Odisha (0.78%), and Uttar Pradesh (10.11%) are just a few examples. The three countries with the smallest contributions were Chandigarh, Jammu & Kashmir, and the Andaman Islands (0.01%). In most states and UTs, the number of customers has fallen compared to 2016 except for Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir, and Andaman. Above-average growth was seen in Arunachal Pradesh (9%), Jammu & Kashmir (17%), Assam (13%), Nagaland (10%), and Andaman (267%). Gujarat (64%), Chandigarh (82%), Puducherry (78%) and Andhra Pradesh (86%) also saw significant drops in their populations. among other states. Odisha saw the smallest decline (2%). In most states, the reduction in client outreach is due to the exclusion of six small finance banks (SFBs).

Table 3: Rural and Urban Share of MFI Borrowers

Year	Rural	Urban	Total
2013	184 (67)	91 (33)	275 (100)
2014	185 (56)	145 (44)	330 (100)
2015	122 (33)	249 (67)	371 (100)
2016	152 (38)	247 (62)	399 (100)
2017	180 (61)	115 (39)	295 (100)

Source: Bharat Microfinance Report 2016-17

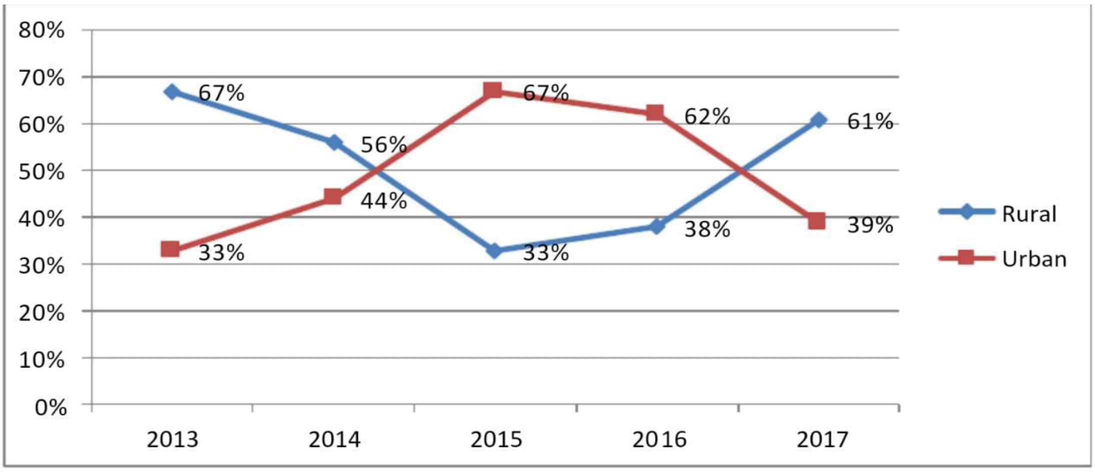


Figure 1: Trends in Rural and Urban Share of MFI Borrowers

Figure 1: Trends in Rural and Urban Share of MFI Borrowers

The distribution of MFI borrowers by rural and urban areas is shown in Table 3 and Image 1. In India, microfinance was primarily associated with rural areas. Rural clients made up 67% of all customers in 2013, although that number dropped to 56% in 2014. then fell precipitously to 33% in 2015. The share of rural clients marginally grew to 38% in the following year, or in 2016. For the first time, urban clientele outnumbers rural clientele. The share of rural clients climbed to 61% in the next year, or in 2017, however there was a noticeable improvement. Because six SFBs were excluded in 2017, the shift from rural to urban is the opposite of the trend from 2016. This study's major finding demonstrates that small-sized MFIs are predominantly focused on rural areas.

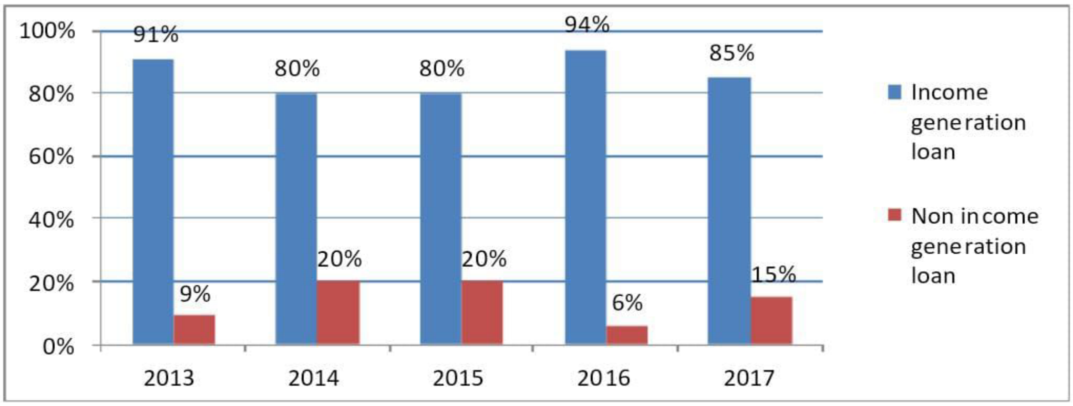
Goal of the Loan

In the past, MFIs have offered loans for both consumer and business needs. It is believed that poor people use their loans more for emergency needs and consumption than for preserving their livelihoods. According to RBI regulations from 2015, MFI loans were to be used to generate income for at least 50% of the time.

Table 4: Income generation loans and non- income generation loans (Rs crore)

Year	Income generation loan	Non income generation loan	Total
2013	23474.36 (91)	2321.64 (9)	25796 (100)
2014	30846.4 (80)	7711.6 (20)	38558 (100)
2015	47129.6 (80)	11782.4 (20)	58912 (100)
2016	68004.3 (94)	4340.7 (6)	72345 (100)
2017	44579.95 (85)	7867.05 (15)	52447 (100)

Source: Bharat Microfinance Report 2016-17



Figrue 2: Income generation loans and non- income generation loans

Table 4 and figure 2 demonstrate that in 2013, income generating loans accounted for 90% of all loans, but in 2014, that percentage dropped to 80%. In the following year, 2015, the percentage of revenue generation loans remained unchanged. It rose by up to 94% in 2016 alone. In 2017, the ratio of income-generating loans to non-income-generating loans was 85:15. Three significant subsectors that use revenue-generating loans are trade, animal husbandry, and agriculture. Health, housing, education, water & sanitation, and consumption are just a few of the uses for non-income generating loans. Agriculture (30%), animal husbandry (22%), and trading and small companies together received up to 31% of the total income-generating loan. Transportation, cottage, handicraft, and other companies received the remainder of the loan utilised to create income. other businesses.

Chapter-5
CONCLUSION

5.1 Major Findings

From the years 2012–13 to 2013–14, the amount of money that MFIs borrowed from banks increased by 28%. But in the years 2015–16 and 2016–17, the number of MFIs obtaining loans from banks climbed dramatically in comparison to the prior year. The percentage increased from 9.9% to 257.75%.

Banks raised their overall MFI loans throughout the years 2012–13, 2013–14, 2014–15, and 2015–16 relative to the prior year. It went up by around 50.6, 31.2, 47.7, and 36.9%. Bank loans to MFIs declined overall in 2016–17 by 7.2% compared to the prior year.

In comparison to the previous years, the quantity of loans outstanding to MFIs increased each year that followed. When compared to the previous year, it increased by 13.7 and 14.3 percent in 2015–16 and 2016–17, respectively. The fresh loan has increased during the subsequent years as a share of the overall loan outstanding.

Jammu & Kashmir, the Andaman Islands, Nagaland, Assam, Arunachal Pradesh, and Assam are the only exceptions. most states and UTs have seen a decline in their populations compared to 2016. Andaman (267%) was followed by the states with the biggest increases: Jammu & Kashmir (17%), Assam (13%), Nagaland (10%), and Arunachal Pradesh (9%). The lowest decline (2% in Odisha) was seen. Because six minor finance institutions are excluded, client outreach has decreased in most states (SFBs).

The percentage of rural customers was 67% in 2013, fell to 57% in 2015, and then fell precipitously to 34% in 2016. The share of rural clients marginally grew to 38% in the following year, or in 2016. Due to the removal of 6 SFBs, the shift from rural to urban is the opposite of what it was in 2016. One of the study's major conclusions demonstrates the rural focus of small-sized MFIs.

During the following year, 2015, the percentage of revenue creation loans remained unchanged. It grew by up to 94% in 2016. The ratio of income-generating loans to non-income-generating loans in 2017 is 85:15.

In 2011, the full asset base held by MFIs were Rs. 22,735 crores, but over time, they grew steadily and reached Rs. 58621 cores in 2016. Over the past six years, from 2011 to 2016, the total assets of MFIs have grown steadily, but the year 2016–17 has seen a steep fall of 21%.

Over this time, the measures of the entire financial structure, such as the capital adequacy ratio also increased, as has return on equity. Indian MFIs' normal operating surplus (OSS) grew, going from 113% in 2016 to 114% in 2017. An MFI's capacity to cover all of its monetary and operational expenses out of operating income is measured by its operational self-sufficiency. The profit margin also dropped from 10% in 2016 to 8.09% in 2017, a reduction. The proportion of underperforming assets rose from 0.16 to 0.70 over this time.

5.2 Conclusion

The study explored that Microfinance Institutions have shown decent performance in terms of outreach andloan portfolio. There is a drastic augmentation in Loan per Borrower (Rs 13162), Loan Disbursement (56860crore) and Gross Loan Portfolio (48882 crore) in the year of 2015 with respect to previous years. The total outreachgrew by 13% and loan outstanding also grew by 33% over the last year. The south region still continues to dominateas highest region in terms of both outreach and loans outstanding followed by East region.

The correlation test on Return on equity and Client outreach resulted in a positive value of coefficient of correlation i.e 0295, but value is not indicating strong dependability among those variables. Whereas, the test on Number of borrowers and return on portfolio shows that there is a good relationship between both variables 229 with the value of 0.657. But the entire hypothesis test employed to check the statistical significance of relationships, all are rejecting the significance of correlation. Hence, it can be concluded that profitability of MFIs are not effect on client outreach and penetration number of borrowers not relate to return on loan portfolio.

The challenging issue of microfinance helps to reduce the financial problems faced by poor people. The inability of MFIs to get sufficient funds is a major challenge for the microfinance industry's growth, so these institutions should look for alternative sources of funding. Microfinance has a significant impact on poor people's confidence, courage, and skill development. Thus, external factors such as microfinance institutions are needed to help fix these problems.

MFIs need to focus on creating a sustainable and scalable microfinance model with a mandate that is unequivocal about both economic and social good.

MFIs should ensure that the 'stated purpose of the loan' that is often asked from customers at the loan-application stage is verified at the end of the tenure of the loan.

RBI should encourage all institutions to monitor their impact on society by means of a 'social impact scorecard'.

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