International Journal of Academic Research
ISSN: 2348-7666; Vol.7, Issue-2(2), February, 2020
Impact Factor: 6.023; Email: drtvramana@yahoo.co.in

Financial inclusion – The role of Microfinance institutions

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Abstract: Many of the MFIs downsized the work force and also either closed down and/or merged branches to reduce the cost of operation. For example, PWMACS reduce the staff strength to one third of the original strength and has merged their branches to have only four branches post crisis. Similarly CRESA staff strength got reduced to 42 from 206 and the MFIs closed 12 branches besides slashing the staff salaries by 25 per cent for all employees. Another example is Saadhana where the staff strength has been reduced to 19 now from 258 earlier. The financing banks, besides stopping the credit support, initiated legal action against MFIs for recovery of loans.

INTRODUCTION

The Microfinance sector in India is considered to be one of the main contributors to financial inclusion in the country. There are two major models for delivery of microfinance services the SHG Bank Linkage Programme (SBLP) and the MFI model. Under the SBLP model, NABARD has been refinancing bank loans to SHG through commercial banks, but the credit risk is carried by the banks. The MFI model uses a variety of methodologies ranging from the very popular SHG methodology traditionally pursued in the country to Grameen and Joint Liability Groups (JLG), as well as individual banking arrangements. The MFIs use their own equity and external borrowings from commercial sources (apex financial institutions including NABARD and SIDBI, commercial banks and other financial institutions) for on-lending to their micro-borrowers.

Microfinance institutions in India have made significant progress during the last two decades in terms of outreach and penetration in unbanked areas through several innovations in credit delivery and terms of lending, thereby emerging as a structural addition to the financial system. However, high growth MFIs has encountered serious setbacks in their development due to adverse consequences of the Andhra Pradesh crisis and its dark shadow over the entire sector across the country. The negative growth in terms of outreach and loan portfolio form the second half of the crisis year 2010-2012. Despite the stagnating top line, the sector has been cautiously optimistic on account of strong regulatory initiatives, greater emphasis on client protection and improving governance with a social focus.

The Indian MFIs that began the journey essentially as a single credit product programme have now moved onto a different realm with MFIs trying to understand their clients' financial needs in a more meaningful way and scope of regulatory

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restrictions. The period 2005-10 witnessed intense growth at the cost of innovation as it was easier to increase outreach with a standard product. The relative position of the Indian microfinance sector in the global context has shown a significant downfall during the last three years, which needs to be taken note of.

PROGRESS AND PERFOMANCE OF MFIs

The progress and performance of the MFIs have been analyzed using data from multiple sources. The overall industry outreach was analyzed using the data collect from "The Bharat Microfinance Quick Report-2012' published by Sa-Dhan comprising information from 167 MFIs. The individual MFI data were sourced from the MIX Market that included a data set of 61 MFIs.

Table-1 : Progress of MFIs

	2010	2011	Growth rate (%)	2012	Growth rate (%)
No. of MFIs Reporting	264	170		167	
Customer Outreach (Million)	26.7	31.8	19.1	26.8	-15.7
Outstanding Loans (Rs. billion)	183.44	215.56	17.5	209.13	-3.0

While the year 2011-2012 was the year when a number of developments took place to pull the MFI sector out of the crisis, it tested the MFIs' ability to survive in the worst times. The impact of the crisis on MFI's performance was more prominent in the year 2011-12 as compared to the previous year. As against 264 MFIs that reported information during the year 2010, only 167 MFIs (two thirds of the 264 that reported in 2010) shared information with Sa-Dhan, which at best indicated the lack of motivation among MFIs and at worst the closure/dormancy of the rest . Though the regulatory environment is becoming clear, the lack of funding to the MFIs has resulted in a negative growth of the MFIs. As per the data made available by Sa-Dhan, the total client outreach of MFIs was recorded at 26.8 million with a gross loan portfolio of 209.13 billion (Table-1). Both the client outreach and loan and loan portfolio registered negative growth in this year. There was negative growth in client outreach; the number of clients declining by 15.7 per cent in the year 2011-2012. However, the gross loan portfolio fared marginally better with a smaller decline of 3cent. Customer outreach has recorded a relatively higher deceleration in growth rate as compared to the loan outstanding the MFIs been unable to retain their customers on account of the liquidity crisis, which affected the MFIs during the second half of the year 2010-11, but remained almost unchanged for the entire year 2011-12. A further problem is the loss of clients in AP who cannot be substituted easily by the MFIs. This can also be an indication that MFIs are adhering to 'the maximum two loans per borrower guideline'. This might have resulted in a lesser number of loans per borrower and thus a steeper decline in the industry outreach since the consolidation of clients reduces the overlap of clients i.e., since the client being counted as an active borrower form multiple MFIs.

This could also be considered a healthy sign in the direction of reducing multipl3e lending within the sector.

Among the MFIs operating in India, the list of top ten MFIs according to client outreach is provided in Table-2. The MFIs in the 10 ranking remained unchanged but for the new entrant CASHPOR into the list (Table-2) SKS retained first place in terms of client outreach, and Bandhan moved up to second place. However, in terms of gross loan portfolio Bandhan has emerged as the largest MFI in India. BASIX that occupied fifth place last year has dropped down to ninth place in the list. Both Equitas and Ujjivan have moved up by three places and stood at fifth and seventh place respectively. The outreach and portfolio data reported by AP based MFIs have to be adjusted with the default numbers so as to arrive at a truly comparable national position of MFIs.

Table-2 : Top 10 MFIs by outreach

Year	Outreach (million)		Outreach growth %	Loans o/s (Rs. billion)		Loans growth %
	2011	2012		2011	2012	
SKS	6.24	4.26	-32	41.11	16.69	-59
Bandhan	3.25	3.62	11	25.07	37.30	49
Spandana	4.19	3.44	-18	34.58	27.15	-21
Share	2.84	2.16	-24	20.65	21.10	2
Equitas	1.53	1.19	-22	7.94	7.24	-9
SKDRDP	1.38	1.02	-26	9.58	6.01	-37
Ujjivan	0.84	0.82	-2	6.25	7.03	13
Grama						
Vidiyal	0.93	0.82	-12	5.2	5.20	0
BASIX	1.53	0.57	-63	12.49	2.92	-77
CASHPOR	0.43	0.46	7	2.38	3.23	36

Source : Data from MIX.org

REGIONAL DISTRIBUTION

The regional distribution of outreach and loan portfolio estimates based on the Sa-Dhan Bharat Microfinance Quick Report-2012, revealed that the dominance of the southern region still continues. The Southern region accounts for almost 50 per cent in both outreach and portfolio followed by the Eastern region (25 per cent). The outreach share of the Northern region remains below 5 per cent.

POST-CRISIS PERFORMANCE OF MFIs IN ANDHRA PRADESH

The state law enforced by the Andhra Pradesh government on microfinance on during the year 2012 has almost halted the MFI activities in the state. The well-indented law has had many unintended consequences, which in turn had serious adverse impacts on clients, MFIs, banks and the microfinance sector in general. As a result, the credit discipline of MFI clients got vitiated resulting in mass default. The

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very existence of many of the smaller MFIs' existence has become a big challenge. The MFIs have been forced to adopt several measures to reduce the operational cost, besides they have to honour their repayment commitment to the banks. Stoppage of operation of MFIs in the state due to the stringent government norm led to repayment default from the clients and non-availability of bank fund. As a result, many of the MFIs downsized the work force and also either closed down and/or merged branches to reduce the cost of operation. For example, PWMACS reduce the staff strength to one third of the original strength and has merged their branches to have only four branches post crisis. Similarly CRESA staff strength got reduced to 42 from 206 and the MFIs closed 12 branches besides slashing the staff salaries by 25 per cent for all employees. Another example is Saadhana where the staff strength has been reduced to 19 now from 258 earlier. The financing banks, besides stopping the credit support, initiated legal action against MFIs for recovery of loans. The 2012 Quick Data collected by Sa-Dhan from AP-based MFIs reveal the adverse impact of crisis on the operational and financial performance of MFIs during 2011-12. Overall the AP-based MFIs had reduced their branch infrastructure, and client and portfolio base resulting in a lower yield and profit.

In the mean time, a few banks have come forward to take over the debt owed by SHGs to MFIs by offering fresh loans to SHGs to repay their MFI loans. The Debt Swapping attempt was adopted by an Indian Bank branch where the bank branch disbursed 10 million to nearly 20 SHG's to the maximum of 0.5 million for each group. The field officers of the branch are recovering through weekly installments on an experimental basis, which seems to be working well, and there is scope for greater expansion in the near future.

Table-3 : AP MFIs operational and financial performance

AP based MFIs	2001	2012	Decline (%)
No. of Branch	6426	5227	19
No. of Staff	55512	39067	30
Active Clients (million)	16	12	25
Loan Portfolio (Rs.million)	139430	79120	43
Disbursement (Rs. million)	191800	62900	67
PAR 60%	30	31	
Total Asset (Rs. million)	135210	91730	32
Net Owned Fund (NoF) (Rs. million)	31490	25380	19
Yield (9%)	22	10	
Operating Expense (%)	10	6	
Operational Sufficiency – OSS (%)	111	55	
Return on Asset (RoA)-(%)	2	-8	
Return on Equity (RoE)-(%)	2	-35	

Source : Sa-Dhan Bharat Microfinance Quick Report 2012

A quick study conducted by Sa-Dhan to understand the impact of AP crisis on clients brought out that many of the MFI clients have stopped microenterprise activities and have started doing wage labour for their livelihoods. Some are managing their liquidity problem through selling their valuables like gold, cattle, etc. Since they were not able to borrow form any sources. Further, this situation is forcing the MFI clients to revert back to informal sources with very high interest rate. In the same line the study conducted by MicroSave has brought our a similar observation of overdependence on informal sources of credit in the absence of MFI loan. About 56 per cent of the respondents had either postponed their expansion or reduced their operations due to the reason that access to credit had become difficult and 90 per cent of the clients expressed their willingness to repay the loan if MFI's disbursing them fresh loan.

CONCLUSION

Ever since the process of bringing the sector under a regulatory regime and tabling the Microfinance Bill in May 2012, MFIs have been reasonably assured of future stability. As a result, the part that many leading MFIs may take under the regulated environment is likely to earn them lower margins than before. This needs to be viewed as an opportunity for MFIs to reinvent themselves and search for new avenues to serve customers. Although MFIs have been reluctant to move away from their specialization of financial services delivery to the unbanked, it would be useful to explore the provision of other services, which are crucial to their operational area, especially to their key client segments. With severe controls and restrictions on uncollateralized lending, MFIshave begun to explore other routes for extending loans such as gold loans, SME sector loans, asset loans and loans without group guarantee. The way forward in product development is likely to be highly client-centric, as MFIs strive to avoid future crises. MFIs need to actively engage themselves as partners in the financial inclusion programme and integrate theit vision and mission with the state and central government to achieve a prosperous future for the customers. In achieving a higher standard of excellence of customers. In achieving a higher standard of excellence of customer centric services, MFIs need all possible support, no tonly form policy and regulation, but also from the other stakeholders.

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