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SLUGGISH GROWTH OF NBFC-MFI IN NORTH INDIA – A NORM OR AN EXCEPTION

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Abstract

The present paper is an attempt to understand the growth of NBFC-MFI in India since 2010. The year 2010 has been chosen as that is the year when NBFC- MFI started to show its presence in India and even RBI considered to recognise and regulate them. In this paper an attempt has been made to understand the working of MFIs and their problems which have hindered their growth trajectory as even after years of functioning they are yet to prove their mark in India. For the purpose of understanding their day to day problems, primary data was collected with the help of a well structure questionnaire from the areas of Punjab and Rajasthan in India. I hope the insights from this paper can prove to be useful for the policymakers, government and MFIs.

Keywords: Growth, NBFC- MFI, Micro Finance, Problems, India, Disadvantaged, Poor, Sluggish, People, Loans.

Introduction

Microfinance is referred to as the process of lending money to lower income clients, so that they can have resources available at their end and can make judicious use of those resources.

The need for microfinance is felt even more today due to the income disparities and high levels of poverty in developing countries. The poor and the downtrodden face many roadblocks in the process of getting loans from banks mainly due to the lack of collateral. Thus there is a need of an efficient microfinance model so that overall development of the people can take place (Gert van Maanen, 2004). The formal banking system of India has failed miserably in the context of providing loans to lower income clients mainly because they concentrate on making profits rather than on fulfilling their social objective.

In India micro finance became a household name when SEWA initiative started in Gujrat led to an increase in the income of the clients. Many initiatives were also taken later on and states like Andhra Pradesh became a hub for micro finance activities. In the year 1992 an initiative was also taken by NABARD in the form of SHG-Bank linkage programme through which loans were easily accessible to rural and poor people.

GROWTH OF MICRO FINANCE IN INDIA

The government of India has taken various initiatives for the development of education, health, sanitation etc. which would ultimately promote the welfare of the poor and downtrodden. The government had also taken various measures for enhancing financial inclusion in the country and to fulfil this objective, various measures were undertaken (Robinson,2001). Various schemes were also launched, but none of them could achieve their desired result due to a number of reasons like corruption among government officials and also poor execution of schemes. Indian government also started a new programme in 1980 called the Integrated Rural Development Programme. But his could also not achieve much due to a substantial element of subsidies in the loan (25-50% of each family's project cost) and the bankers miserably failed to realise the loans. This initiative also affected the credibility of the borrowers and the confidence of formal sector of lending (Mehta,1996).

In private sector this initiative was taken in the year 1974 by Shri Mahila SEWA Sahakari Bank. Another NGO MYRADA (Mysore Rehabilitation and Development Agency) of Karnataka was also started in 1968 to help the rural poor. Initially it worked only in 1 district but due to its success it expanded its reach to other states. Today it has become a fine example of successful initiatives taken by NGOs. As the micro finance industry is developing in India there is an increase in the number of micro finance institutions. The reserve bank of India and the world bank group have also started to play an active role in the development of the micro finance sector. This can also be attributed to the massive client base of MFIs which is almost 130 million clients and counting, but this amounts to only 20% of the world's population.

A Micro Finance Institution (MFI) can be defined as an organization that offers financial support to lower income group of people. They give loans to their members and many offer many other services like insurance, deposit and related financial services. Micro finance has been accepted and is considered as one of the most effective tools in reducing poverty and disparity.

MFIs are the pivotal organizations working in each developing country and they mainly extend individual microcredit loans directly to villagers, micro entrepreneurs, underprivileged women and poor families. Many MFIs, both at global and national levels are creditworthy and run with proven records of success and operational self-sufficiency (Havers M.,1996).

All MFIs share the common element of providing financial services to its members who are poor and more vulnerable than the traditional bank clients. Microfinance institutions have proven that poor are "bankable". Formal banking institutions are slowly adapting themselves to cater to the needs of the so called un-bankable, poor and vulnerable sections of the society. Many of the new players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines and the ability to make significant investments in technology that could bring financial services closer to the poor clients. This increasing networking ability has brought good linkage among different types of service providers to offer a significant scope for extending access to credit (Armendariz, et al., 2010).

TYPES OF MICRO FINANCE INSTITUTIONS IN INDIA

Initially microfinance institutions in India were non-profit organisations with a objective of alleviation of poverty and helping the poor in developing their skills. They generally provided with small loans. They were involved in developing SHGs or help in linking banks with SHGs.

Then there are also MFIs which borrow funds from banks and are themselves involved in providing loans to the SHGs.

There are also certain MFIs working as not for-profit companies and are named as Sec.25 companies under Companies Act 1956 in India. These companies plough back the profit earned through micro finance venture into the business. The Sec.25 companies do not divide the profit into dividend among the investors.

Over the years, MFIs have grown significantly and have transformed into for profit non-banking finance companies (NBFCs) and thus moving towards a more regulated legal setup. Between financial years 2004-05 and 2005-06, the combined loan portfolio of Share Microfin Ltd., Swayam Krishi Sangam (SKS) Microfinance Pvt Ltd and Spandana Sphoorty Innovative Financial Services Ltd., three of the largest NBFC-MFIs, registered a growth rate of 102%. Their combined outreach that is the number of active borrowers showed a growth rate of 114% during this period. All the three MFIs mentioned above have much more than a million active borrowers each. While there are around half a dozen large MFIs in the country, there are close to a thousand other MFIs that can be categorized as tier-2, tier-3 and new-age MFIs; the most are under tier-3.

BACKGROUND OF STATES UNDER STUDY

Rajasthan is one of the major states of north west India. In spite of being the largest state and occupying about 1/10th of the territory of the country, the state is lagging far behind in achieving rate of growth and industrial development in comparison to other states of India. Because out of this 1/10th, only 40 percent area i.e. 1.64 lakh Sq Km. hectares is under cultivation and remaining 60 percent is uncultivated due to non-availability of water. The population of Rajasthan according to the 2011 census is 6, 86, 21,012 out of which 5, 15, 40,236 i.e. 75 percent resides in rural areas, and remaining 1,70,80,776 constituting around 25 percent of the total population is in urban area. The sex ratio in state of Rajasthan is in very deplorable state in comparison to other developed states and is only 926 females for every 1000 males.

Proper access to financial services plays a very vital role in economic and social development of people. Microfinance is one of the better ways of providing finance. In state of Rajasthan the microfinance sector is broadly classified into two main classes-Self-Help Group Bank Linkage Programme and Microfinance Institutions. Self-help group bank linkage programme is a saving led model and MFIs is credit led model, which includes NBFC-MFIs, trusts, societies, etc. This NBFC-MFIs model holds more than 80 percent of the outstanding loan portfolio. Therefore a study is conducted on micro finance institutions working in Rajasthan.

On the other hand despite being termed as a prosperous and self reliant state, Punjab is confronting plenty of social and economic problems. Social issues like alcoholism, dowry system and above all female foeticide are on the rise. Declining Sex ratio has also become a burning issue in the state. According to 2011 census, sex ratio of Punjab is 893 females per 1000 males. The financial crises faced by farmers and marginal land holders is also known across the globe. Due to heavy indebtedness, farmer suicides are mounting high leaving their families in poverty. A 10-year study (1986-96) by Chandigarh's Institute for Development and Communication (IDC) found that the rapid modernisation of agriculture in the state had resulted in a considerably higher expenditure. Farmers have to borrow considerable sums of money from informal-sector moneylenders and that too at a high rate of interest. With the spread of MFI movement in the state, the social and economic issues of the state can be resolved to a great extent. Present study aims to see the penetration of MFIs in Punjab by assessing their outreach, social role and sustainability.

According to (Srinivasan, 2008), Punjab is among the last five states in terms of microfinance penetration. This indicates that Punjab is having low penetration of microfinance which in turn is a researchable issue.

Hence this study is being undertaken to study the reasons for slow penetration of microfinance in Punjab and Rajasthan and suggest measures to enhance the growth of MFIs in the state.

REVIEW OF LITERATURE

- Muhammad Sajid Saeeda (2014) has conducted a cross country analysis to discover the true impact of micro finance institutions in developed and developing countries and to conduct the research the progress in UK and USA was compared to the progress in developing countries like Bangladesh, India and Pakistan. From the results it is clear that the progress made in developing countries is far more as the concept of micro finance in relatively new to the counties like USA and UK. It is also suggested that awareness campaigns should be started so that people know and understand about the concept of micro finance.

- In a paper published by Dr Ritu Chandna(2014) named Issues in microfinance sector in India she states that micro finance has certainly helped in lifting people out of poverty, providing self employment opportunities and making them financially stable. It also states that micro finance in India needs to adopt different models if it aims to include people who are till now excluded from it.

- In a paper- Microfinance in India: A Regulatory Structure by Ms. Meenu Rani and Ms. Rimmi Jain(2014), they have discussed the present regulatory structure of micro finance in the aftermath of the crisis in Andhra Pradesh. They have also made various suggestions in the regulatory structure so that a crisis of such intensity does not occur in the future.

- Dr. Gunindra Nath Sarmah(2014) has studied the impact of micro finance and SHGs on the income generation and employment generation in the Lakhimpur district of Assam and has inferred that micro finance through SHGs is the only measure which can help to lift people out of poverty in a difficult terrain like this. Therefore it can be concluded that micro finance can be of great help in providing regular source of income to its clients but it can only be possible if all the stake holders are involved in this objective of fighting against poverty.

- MEHVISH MEHMOOD(2017) has studied the impact of micro finance institution in poverty alleviation in Uttar Pradesh. The findings of the study are based on some of the districts of Uttar Pradesh and results were computed using simple linear regression. Through this study it is evident that micro finance is the most important tool for alleviation of poverty and has certainly helped in increasing the incomes of the poor and the downtrodden. It has also helped in increasing their standard of living and the study has also shown that with increased efforts it can certainly help in reduction of poverty over time.

- Mathilde Maîtrot and Miguel Niño-Zarazúa (2017) have carried out a systematic review of the available literature in order to understand the impact of micro finance on the poverty alleviation and well being of people worldwide and have concluded that it has helped in improving only the short term financial condition of the borrowers and there is no evidence which shows that it has helped in alleviating poverty. Thus the study concludes that micro finance alone cannot help in solving the problem of poverty and urges the government to use other measures along with micro finance to fight poverty.

- Tony. C. Mathew(2017) has conducted a study on ESAF Microfin in order to understand its impact on its new and old borrowers in Kerela. Through this study an attempt is made to understand the vulnerability and poverty reduction of its clients. He has concluded that the standard of living of the older clients have definitely increased but the results are not yet promising for the newer clients. The results also indicate that the saving of clients is not up to the mark which can cause a major problem in the coming years and thus concludes that micro finance institutions should regularly monitor their clients so that any discrepancy can be noticed as early as possible and effective measures could be taken.

OBJECTIVES TO BE ACHIEVED

1. To describe the growth of NBFC-MFI in Rajasthan and Punjab.

2. To understand the major problems faced by NBFC-MFIs in these regions.

RESEARCH METHODOLOGY

In order to understand the problems faced by NBFC-MFI, the state of Rajasthan was chosen because it is the largest state in North India and also it is the state where most of the NBFC-MFI are working where as the state of Punjab was chosen because least number of NBFC-MFIs are working here when compared with other states of North India. Therefore a total of 8 NBFC-MFI were chosen which are working in Rajasthan or Punjab or both of the states and 5 employees were chosen from each of these NBFCs. A well structured questionnaire was personally filled by them for the purpose of further analysis. Most of the data collected is of primary nature but secondary data was also used from various journals, reports, magazines etc.

For the purpose of data analysis tools like mean, standard deviation and T-test were used in order to study the magnitude of various problems.

DATA ANALYSIS AND INTERPRETATION

The table below gives a description of respondents from both the states

TABLE - 1

State wise respondents				
	Frequency	Percent	Valid Percent	Cumulative Percent
Punjab	15	37.5	37.5	37.5
Rajasthan	25	62.5	62.5	100.0
Total	40	100.0	100.0	

Source – data collected from questionnaire

Table 2 below gives a description of all the problems faced by NBFC-MFI along with their mean scores and standard deviation. A total of 30 problems have been identified and the results are studied to understand the major problems faced by them.

The problems which were ranked higher by employees of Rajasthan region include cumbersome RBI guidelines, lack of trust between MFI and clients, interest charged by MFI and ambience of MFI as the mean score of these problems is 3.9 or greater than this. Among the 30 problems discussed some of these problems were not given much weightage by the employees of MFI, these include poor complaints handling mechanism, low income of clients, lots of legal formalities, poor quality of services and decreasing repayment capacity of clients.

Likewise some of the problems ranked higher by employees of Punjab region include interest charged by an MFI, less variety of services as compared to banks, service fee charged by MFI, poor complaints handling mechanism, lack of equity capital to increase operations, lack of experienced staff, literacy level of clients and rural or backward areas of operations as their mean score was 3.8 or greater than this. Some of the problems with low mean score include lots of legal formalities, poor quality of services, decreasing repayment capacity of clients and competition from commercial banks.

TABLE - 2

Comparison of Problems/challenges with respect to states					
Group Statistics					
State		N	Mean	Std. Deviation	Std. Error Mean
lots of legal formalities to be fulfilled by the customer.	Punjab	15	2.6000	.63246	.16330
	Rajasthan	25	3.1200	.66583	.13317
decreasing repayment capacity of clients.	Punjab	15	3.2667	.70373	.18170
	Rajasthan	25	3.2400	.72342	.14468
interest rate of banks is high compared to MFI.	Punjab	15	3.4667	.51640	.13333
	Rajasthan	25	3.7600	.43589	.08718
cumbersome RBI guidelines.	Punjab	15	3.4667	1.06010	.27372
	Rajasthan	25	4.1600	.37417	.07483
communication gap between MFI and client.	Punjab	15	3.7333	.70373	.18170
	Rajasthan	25	3.7600	.59722	.11944
literacy level of client.	Punjab	15	3.8000	.41404	.10690
	Rajasthan	25	3.6000	.64550	.12910

low income of clients.	Punjab	15	3.5333	.51640	.13333
	Rajasthan	25	3.1200	.66583	.13317
competition from commercial banks.	Punjab	15	3.2667	.70373	.18170
	Rajasthan	25	3.7600	.43589	.08718
competition from money lenders.	Punjab	15	3.5333	.63994	.16523
	Rajasthan	25	3.7200	.73711	.14742
lack of collateral giving capacity of clients.	Punjab	15	3.6667	.81650	.21082
	Rajasthan	25	3.8400	.47258	.09452
lack of e-literacy among staff.	Punjab	15	3.6667	.48795	.12599
	Rajasthan	25	3.6000	.57735	.11547
rural/backward area of operations.	Punjab	15	3.8667	.35187	.09085
	Rajasthan	25	3.6800	.69041	.13808
lack of basic amenities at office.	Punjab	15	3.6000	.50709	.13093
	Rajasthan	25	3.5600	.71181	.14236
lack of government support.	Punjab	15	3.6000	.63246	.16330
	Rajasthan	25	3.6400	.56862	.11372
limited management capacity of MFI.	Punjab	15	3.6667	.48795	.12599
	Rajasthan	25	3.7200	.45826	.09165
lack of equity capital to increase operations.	Punjab	15	3.8000	.56061	.14475
	Rajasthan	25	3.5600	.65064	.13013
less number of branches.	Punjab	15	3.5333	.74322	.19190
	Rajasthan	25	3.3200	.74833	.14967
long working hours.	Punjab	15	3.4667	.91548	.23637
	Rajasthan	25	3.8000	.64550	.12910
location of the MFI is inconvenient.	Punjab	15	3.6000	.73679	.19024
	Rajasthan	25	3.8800	.33166	.06633
ambience of the MFI.	Punjab	15	3.7333	.70373	.18170
	Rajasthan	25	4.0000	.28868	.05774
interest charged by MFI.	Punjab	15	3.9333	.59362	.15327
	Rajasthan	25	3.9200	.40000	.08000
service fee charged by MFI.	Punjab	15	3.8000	.67612	.17457
	Rajasthan	25	3.8800	.66583	.13317
complaints handling mechanism is	Punjab	15	3.8000	.41404	.10690

poor.	Rajasthan	25	3.2400	1.09087	.21817
less variety of services compared to banks.	Punjab	15	3.9333	.59362	.15327
	Rajasthan	25	3.8000	.50000	.10000
poor quality of services.	Punjab	15	2.8000	.77460	.20000
	Rajasthan	25	3.1600	.80000	.16000
less staff.	Punjab	15	3.7333	.70373	.18170
	Rajasthan	25	3.7200	.45826	.09165
slow operations	Punjab	15	3.3333	.89974	.23231
	Rajasthan	25	3.5600	.65064	.13013
poor response to customer queries.	Punjab	15	3.6667	.61721	.15936
	Rajasthan	25	3.8400	.37417	.07483
lack of trust between MFI and clients.	Punjab	15	3.6000	.91026	.23503
	Rajasthan	25	3.9200	.27689	.05538
lack of experienced staff.	Punjab	15	3.8000	.67612	.17457
	Rajasthan	25	3.8000	.50000	.10000

Source – data collected from questionnaire

Now I would like to discuss those problems where there is significant difference in the opinion of employees of Rajasthan and Punjab region.

The first major problem is of cumbersome RBI guidelines but from the table we can see that the mean value of employees in Rajasthan is greater than the mean value of employees in Punjab and when we conduct a T-test to check whether the difference is significant, it can be said that as the p value is less than .05 at 5% level of significance we can conclude that the opinion of employees in Rajasthan significantly differs from the opinion of employees in Punjab.

The next problem is of competition from commercial banks and the means of opinion of employees of Rajasthan and Punjab are not similar to each other, therefore a t-test was conducted to understand if their means significantly differ from each other. The results of t-test showed a p-value of less than .05 and from this we can draw the inference that the opinion of employees of Rajasthan region significantly differs from the opinion of employees of Punjab region. On further exploration we can say that the employees of Rajasthan region give this problem more consideration than employees of Punjab region.

The problem of poor complaints handling mechanism also shows visible difference in the means of opinion of employees of Rajasthan and Punjab region, therefore a t-test was conducted to understand it further. As the results of t-test were significant we can say that there is significant difference in the opinion of employees of Rajasthan and Punjab region and it can also be said that the employees of Punjab region give it more consideration than employees of Rajasthan.

The next problem relates to low income of clients and as their means are visibly not similar a t-test was conducted to know if the difference is significant or not. The p value was less than .05 which signify that there is significant difference in the opinion of employees of Rajasthan and Punjab region and from their mean score we can infer that the employees of Punjab region give it more significance than the employees of Rajasthan region.

When it comes to other problems like lack of e-literacy among staff, lack of basic amenities, lack of government support, competition from money lenders, limited management capacity, less no of branches and interest and service fee charged by MFI their means are almost equal for both employees of Rajasthan and Punjab region and their p value is also greater than .05 which signify that there is no significant difference in their opinion.

The next problem relates to the legal formalities to be fulfilled by the client and from the table below we can infer that the mean score of employees is higher than the mean score of employees in Punjab, therefore a T-test is conducted to know if the difference is significant at 5% level of significance. As the p value is less than .05 we can conclude that there is significant difference in the opinion of employees of Rajasthan and of Punjab.

TABLE-3

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
lots of legal formalities to be fulfilled by the customer.	Equal variances assumed	.099	.755	-2.435	38	.020	-.52000	.21351	-.95223	-.08777
	Equal variances not assumed			-2.468	30.852	.019	-.52000	.21071	-.94984	-.09016
cumbersome RBI guidelines.	Equal variances assumed	29.245	.000	-2.995	38	.005	-.69333	.23151	-1.16199	-.22467
	Equal variances not assumed			-2.443	16.119	.026	-.69333	.28376	-1.29452	-.09215
low income of clients.	Equal variances assumed	.002	.965	2.058	38	.047	.41333	.20086	.00671	.81996
	Equal variances not assumed			2.193	35.345	.035	.41333	.18844	.03091	.79576
competition from commercial banks.	Equal variances assumed	5.838	.021	-2.747	38	.009	-.49333	.17962	-.85695	-.12972
	Equal variances not assumed			-2.448	20.552	.023	-.49333	.20153	-.91300	-.07366

complaints handling mechanism is poor.	Equal variances assumed	14.467	.001	1.900	38	.065	.56000	.29480	-.03679	1.15679
	Equal variances not assumed			2.305	33.589	.027	.56000	.24296	.06603	1.05397

Source – data collected from questionnaire

GROWTH OF NBFC-MFI IN RAJASTHAN AND PUNJAB

The growth of NBFC – MFIs in India was never up to the mark in India. Even in states like Andhra Pradesh where the micro finance sector was believed to flourish it has faced certain problems in the recent past which has hindered their growth.

In the year 2012 the total client base of MFIs in Punjab stood at 100,000 and by the year 2013 it grew to almost 300,000. But the year 2014 witnessed a decline in growth rate and the client base came to 200,000. In 2015 again the clients increased to 300,000(Micro finance reports).

After 2015 there was no looking back as the outreach reached to 6.26 lakhs in 2016. In the year 2017 there was a slight decrease in client base and by the year 2018 the outreach of MFIs reached to 7 lakh clients.

As compared to Punjab the story of NBFC-MFIs in Rajasthan is quite different as in 2010 itself the client base of MFIs was almost 4.6 lakhs which reached 7 lakhs in 2015 and more than 9 lakhs in 2018.

Thus from the entire discussion of growth rates of MFI in Rajasthan and in Punjab we can conclude that though the growth rate in Punjab was not so well in the initial years but from the year 2014 its client base is increasing at a rapid rate and it will soon reach around 10 lakhs to match the client base of other states.

REASONS FOR SLOW GROWTH OF NBFC-MFI

1. The first problem NBFC-MFI face is of financing that is of obtaining resources. On the contrary banks have multiple refinancing options and NBFC-MFIs have to entirely depend upon capital market or banks for obtaining resources which acta as a resistance in their growth.

2. The process of obtaining NBFC license is quite complicated and cumbersome as compared to getting other licenses. The process involves tedious and complex documentation processes and approval from RBI as it regulates the process which requires to be followed by the applicant to avail the benefits of registration.

3. Even after its incorporation several compliances are needed to be followed which differs from one company type to another and it becomes very tedious to address all the aspects of consolidation and that is why it is one of the major challenges faced by all NBFC-MFI in India.

4. There is also no adequate statutory recovery tool available to NBFC-MFIs which has hindered their growth over time.

5. Today various representative bodies govern the activities of NBFC-MFIs in the country, but they are still in the initial phase and therefore it would be favourable for them if there is a single body which can ensure the seamless growth of NBFC-MFIs.

6. There are also certain issues on the taxation front like TDS, double taxation on lease or hire purchase etc. therefore these need to be addressed immediately.

7. There is an absence of defaulter database and NBFCs are more vulnerable to credit risk under the influence of inadequate information. In addition to this there is a requirement of vital legislative changes to leverage the utility payments database in the process of the credit assessment.

8. Another important problem which NBFCs face is removing of priority sector status to bank lending to NBFCs which should be restored as it will empower the NBFCs to create wealth and assets for the unprivileged

section of the society and also for the rural parts of India.

SOLUTIONS TO THE PROBLEMS FACED BY NBFC-MFI

1. NBFC-MFIs should use new technology, IT tools and applications to reduce operational costs. Further they must be encouraged to reduce their operational expenses by using cost-cutting expenses.

2. NBFC-MFIs should provide a wide range of products and services for credit, savings, remittance, financial advice etc so that it becomes easier for consumers to move away from commercial banks and choose them.

3. In the absence of sufficient financial sources for NBFCs, they face several problems in their expansion and client reach and therefore they should look for additional funding sources for their loan portfolio.

4. For a proper regulation of NBFC-MFIs field visits can also be used to monitor the conditions on ground and remedial action can be taken if necessary.

5. A team of subject matter experts consisting of professionals should be appointed for NBFC license, documentation work and compliances as it can help to overcome problems through a holistic approach.

CONCLUSION

The growth and the functioning of NBFC-MFIs in India has not been smooth which we can infer from the problems encountered by them till date. Though their problems cannot be solved by a single solution as a one size fits all approach will not work in this case we need to focus on multiple solutions and apply them in a holistic manner so that NBFC-MFIs do get a chance to function effectively and efficiently. On the positive side we can say that NBFC-MFIs have played a role in uplifting the lives of the poor and the downtrodden and they have also helped in expanding the banking function to the rural areas but they can function in an optimised manner only when the minor problems they are facing currently are reduced or eliminated so that they can act as a catalyst to change which is long overdue.

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