

ARE NBFC-MFIS PAVING SUCCESS PATHWAYS FOR MICRO ENTREPRENEURS?

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ABSTRACT

Microfinance is a form of financial assistance that supports the economic development of weaker sections of society by providing fund generation services.. Micro credits provide financial services to this section in order to assist and encourage the women entrepreneurs to start up their own businesses. Microfinance aims to provide financial services to entrepreneurs in order to stimulate their growth low income customers greatly rely on microcredit to meet the financial requirements for their livelihood as well as for their entrepreneurial activities... The NBFC-MFIs are also burdened with challenges from borrowers, the Government and similar financial institutions related to policy procedures and other regulations relating to their operation and administration. NBFC-MFIs assist the Indian economy to reach its maximum potential and gain greater efficiency by performing their tasks more efficiently. Further, they do not limit their activities to micro lending only, but also educate the borrowers on how to utilize the funds effectively. The study attempts to learn more about the microfinance activities carried out by NBFC-MFIs to promote the micro entrepreneurs.

Keywords: NBFC, MFIs, Entrepreneurship, Microfinance, Micro entrepreneurs, Micro borrowers.

JEL codes: G21, I 31, L 26

INTRODUCTION

The NBFC-MFI category was introduced in 2011 as a new category in the NBFC sector, in order to reach the undeserved in Microfinance. The microfinance industry is composed of NBFC -MFIs, Banks, SFBs, NBFCs, and Non-profit MFIs (MFIN annual report 2020). Among NBFC-MFIs is playing an important role in providing financial assistance in the form of microfinance and enabling borrowers to build assets and acquire self-employment (Goel, & Aggarwal, 2020). These are the companies a diverse group of financial intermediaries that serve as an alternative channel of credit for the Indian economy amid the banking monopoly (Mohan, 2014) NBFCs are a significant player in the Indian financial system by providing credit to low-income people and solidarity lending groups for self-employment and wealth creation (Shah & Chacharkar, 2020). Small local borrowers and the unorganized sector benefit from the credit provided by these companies. Microfinance is a crucial component of the economic development of any country. There are many channels that provide microfinance credit to people, among them NBFC-MFI are very effective channels of giving small loans to the poor and underprivileged section of the society (Roy & Patro 2021). The NBFC-MFI's most important responsibility is empowering vulnerable sections of society. The mission of MFIs is to provide loans to individuals and small businesses from poor strata of society. Apart from supporting economic development, they also support societal uplift and autonomy (Manda & Rani 2019) NBFC-MFIs

are exclusively formatted to promote micro entrepreneurs; hence it is necessary to undertake a study to analyse the role in promoting micro entrepreneurs.

Microfinance and Entrepreneurship

Microfinance is the most important source of financing for the socially backward people to engage in self-employment and other activities to increase their standard of living. An NBFC-MFI Contributes significantly in empowering the underprivileged sections of the society and has a special focus on women entrepreneurs (Swati, 2018) NBFCs have a tremendous opportunity for growth in India. Non-Banking Financial companies playing a very important role in removing poverty in the rural sector and underprivileged sections of society by providing strong support in the form of Microcredit (Mohd, 2018). A microcredit program provides financial services to unemployed or low-income individuals or groups without other access to financial services (Hunt, 2013). A wide array of high-quality financial products and services are accessible to low-income and socially marginalized households, enabling them to achieve financial independence.

The need for Microfinance in the development of poor people stating that it is not a luxurious way of spending but daily consumption needs is achieved by way of Microfinance in most cases, (Singh, 2017). The importance and role of NBFCs in promoting credit to unorganized and small borrowers. The successful formation of the NBFCs sector is needed in the promotion of economic development of the country (Kshetrimayum & Singh, 2014) NBFCs is needed in strengthening the Indian economy and to make strong financial inclusion. NBFC-MFIs are considered as stress-free sectors to receive the fund generation, with simplified procedures and flexibility in operation. (Kaushal, 2016) performance based on outreach factors like branches operating, employee's strength, and client database, and loan portfolio that among different microfinance models NBFCs-MFI occupied a very important place among microfinance industry (Badrudin & Mohammed, 2018) The scheme covers under microfinance is for the promotion of women borrowers in the weaker and unprivileged sections of society. The impact of the scheme reflects on their standard of living and saving habits. (Manu, 2018) RBIs tightening norms for NBFCs Management for the effective operation to overcome crisis in NBFCs.

Importance of Microfinance

In general, low-income individuals cannot access conventional financial services due to the lack of collateral and sufficient income to qualify for loans, save money, and insure their families. There is still a perception among some financial institutions that women are not creditworthy to start business and repay the loan amount (Menon & Menon, 2018). The only alternative that most low-income individuals have is to borrow money from local private finance lenders, who charge immoderate interest rates that make it impossible for them to repay the loans. The Importance of microfinance in India is that it provides access to working capital to micro entrepreneurs (Chauhan, 2021). Borrowers who take out microfinance receive economic growth, security, and the opportunity to succeed (Esampally & Joshi 2016).

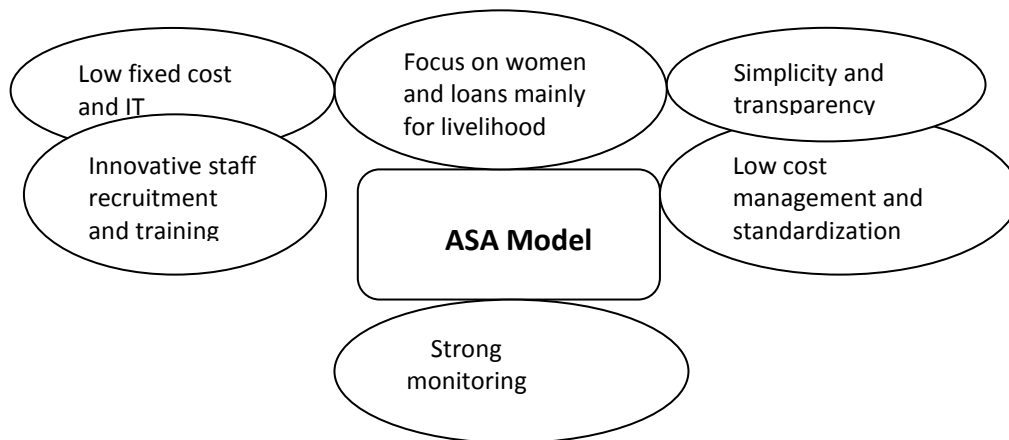
The theory of microcredit emphasizes on women also by supporting to standardize their life through loans. In addition to empowering poor women, it enables them to aiding directly to the well-being of their families, and combats all the gender inequalities in society (Budampati, 2022). A major target of microfinance is poor rural and urban households as well as women. It is important for the weaker sections of the population to have access to credit in order to maintain

the common imbalance between their incomes and their expenses. In addition to that, it is important for the poor to have access to it for activities that generate income such as marginal farm investments and other forms of small-scale self-employment (Akanji, 2001). Their access to formal banking channels is low due to the non-availability of collateral security and lot of legal formalities to obtain formal credit. As a result, Self-help organizations and microfinance in India are increasing the use of traditional banking channels to provide credit to poor people (Status of microfinance NABARD 2021-2022).

ASA Model - An innovative and sustainable microfinance model

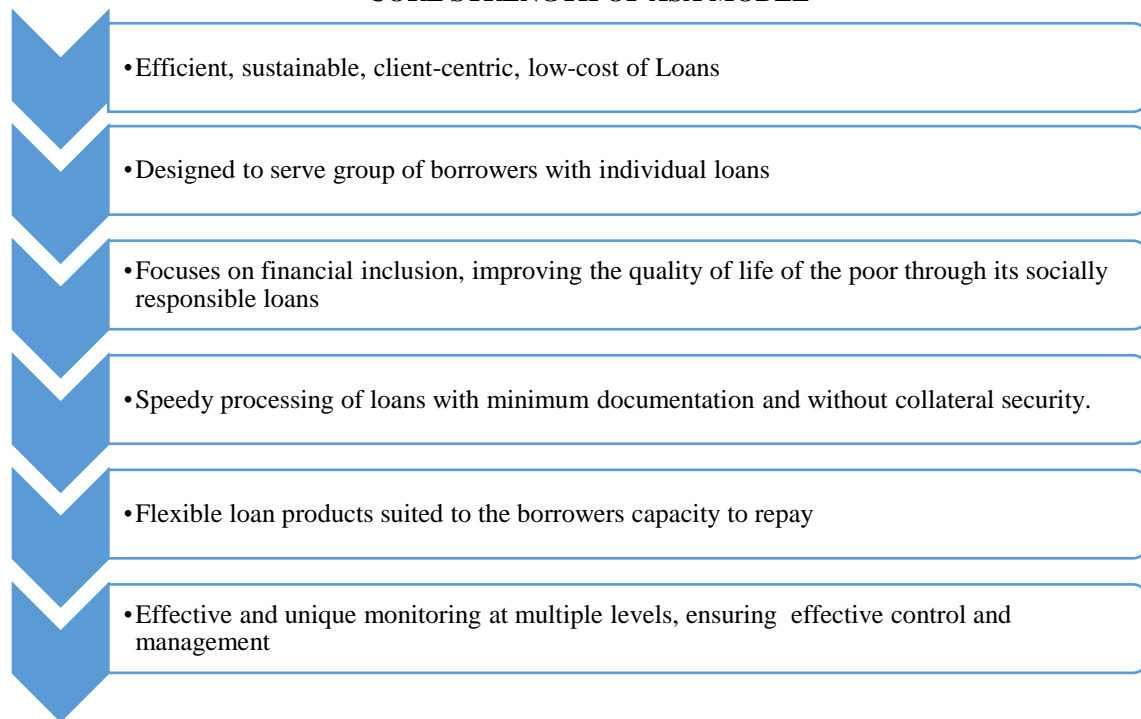
Microfinance is an effective tool for alleviating poverty according to the ASA model. It was founded in Bangladesh with the vision of creating a world free from poverty (Figure 1). There have been numerous microfinance institutions and banks throughout the world adopting the ASA model with great success (Figure 2).

Figure 1
ASA MODEL



Source: The Bharath Microfinance Report 2021.

Figure 2
CORE STRENGTH OF ASA MODEL



RESULT AND DISCUSSION

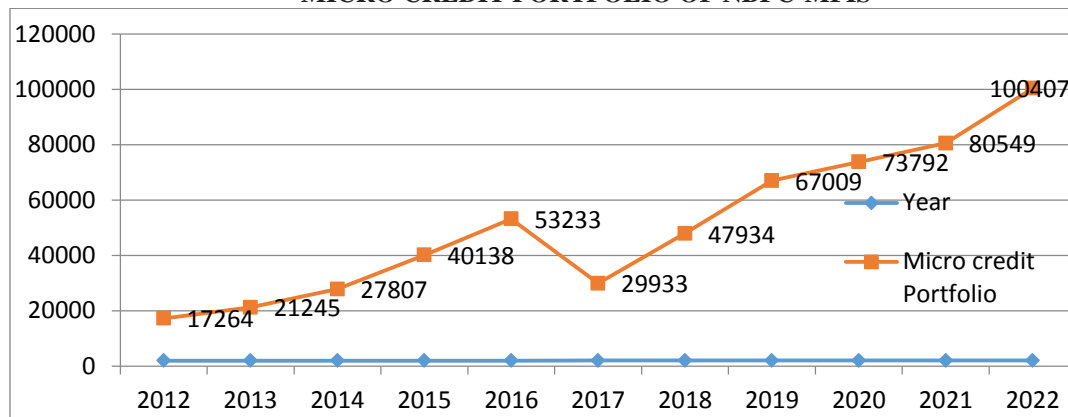
Microfinance is not just about giving microcredit to the poor and low-income people; it is also an economic-development tool aimed at assisting the poor to get out of poverty. Microfinance institutions enable borrowers to gain access to a wide array of financial services like microloans, micro insurance, micro savings, money transfers, training, counseling, etc. Microfinance institutions serve as supplements to banks as a convenient and easy way for borrowers to borrow. NBFCs-MFIs play a dominant role in the microfinance industry by providing better and timely credit solutions to the poor in semi-rural, urban, and rural settings.

The Indian banking sector has faced a lot of problems over the last few years as a result of non-performing assets (NPAs), despite the laws and regulations that are followed by the government, the Reserve Bank of India, etc. In this scenario, NBFCs have received a new gateway to growth and development. NBFC-MFIs play a greater role in the banking system and contribute to the economic development of the country by way of promoting entrepreneurs for fund generation to promote their entrepreneurship activities. The government is strongly promoting entrepreneurship among low-income people through micro lending and other microfinance activities and therefore can assist the NBFC sector in India in achieving greater efficiency and realizing their full potential, and attain greater efficiency while performing the duties. The main advantages of NBFC-MFIs in India are instant access to credit, flexible repayment schedules, and ground-level understanding of their customers.

The microfinance industry provides an important source of funds that enable downtrodden people to engage in self-employment and other activities that can lead to standardizing their lives. Women are the majority of borrowers, and their inability to commit to work due to family issues poses a serious problem to NBFCs. In this regard, the NBFC-MFI is in

a unique position to monitor the vulnerable groups and assist them through their privileged position. A NBFC-MFI's most important responsibility is empowering vulnerable sections of society. Government has offered liberalized procedures to reach out to untouched populations. It is vital to be able to survey the activities of NBFC-MFI from a bird's eye view. In this regard, a study has been proposed that will examine NBFCs' role in microfinance activities.

Figure 3
MICRO CREDIT PORTFOLIO OF NBFC-MFIS



Source: India Microfinance review 2020-2022.

Figure 3 exhibits the Micro credit Portfolio of NBFC-MFIs from 2012 to 2022, the analysis shows that the status of NBFC-MFIs credit Portfolio is in an increasing trend of 17264 crore in the 2012 and goes up by 100407 in the year 2022. NBFC-MFIs contribute more credit portfolio to micro borrowers every year, as evidenced by this report.

Table 1
PERFORMANCE OF NBFC-MFIS IN MICRO LENDING ACTIVITIES

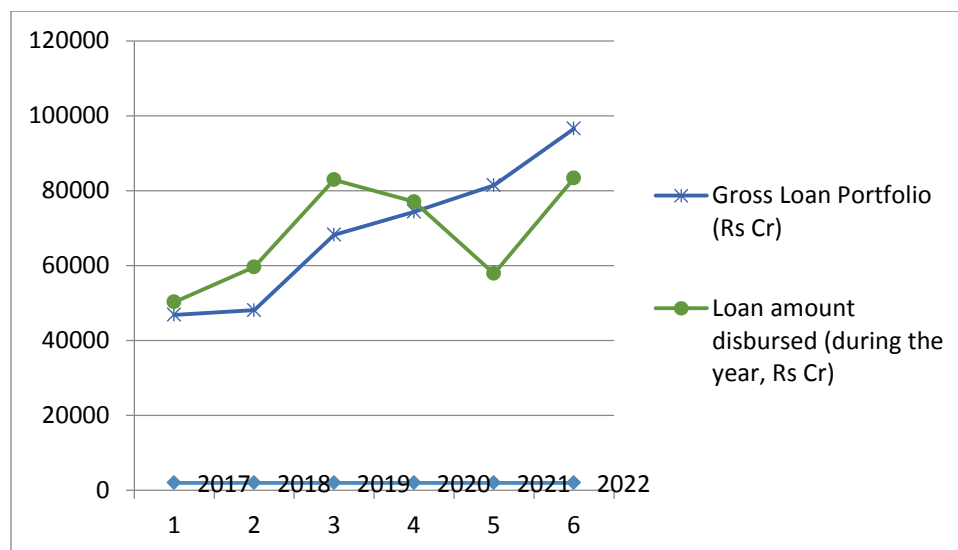
Indicator	As of 31 st MARCH 2017	As of 31 st MARCH 2018	As of 31 st MARCH 2019	As of 31 st MARCH 2020	As of 31 st MARCH 2021	As of 31 st MARCH 2022
Branches	9012	10,077	12,277	14,275	14,673	16890
Clients (In crore)	2.75	2.53	3.17	3.22	3.13	3.4
Gross Loan Portfolio (Rupees in crore)	46,847	48,094	68207	74,371	81,475	96561
Loan accounts	3.07	2.84	3.88	3.91	3.77	3.9
Loans disbursed (during the year, Rupees in crore)	2.83	2.68	3.25	2.78	1.7	2.3
Loan amount disbursed during the year (Rupees in crore)	50,266	59,629	82,928	77,072	57,891	83354

Source: MFIN Annual report from 2017 to 2022.

Table 1 exhibits the performance of NBFC-MFIs in micro lending shows there is overall growth in the year 2019 in terms of clients outreach (3.17) Gross loan portfolio (68207) Loan amount disbursed is (82928) when compared to the years 2017 and 2018, during the year 2020

and 2021 Gross Loan Portfolio shows an increasing trend of 74,371 in 2020 and 81,475 in 2021. But the loan amount disbursed and client outreach shows a decreasing trend in 2021 of 3.13 and 57,891 respectively due to impact on Covid Pandemic exist in the microfinance sector. And during the year 2022 the Gross loan portfolio is 96561 crore and loan amount disbursed is 83354 crore, shows strong financial stability and recover from covid pandemic.

Figure 4
GROSS LOAN PORTFOLIO AND LOAN AMOUNT DISBURSED



Source: MFIN annual report from 2017-2022.

Figure 4 exhibits the contribution of NBFC-MFIs in Gross Loan Portfolio and loan disbursement to the borrowers. Every year the loan disbursed is increasing except during the year 2021 Rs 57891 crore due to covid pandemic and national wide lockdown and it is recovered in 2022 shows increasing amount of Rs 83354 crore.

Table 2 PERFORMANCE OF MICROFINANCE INDUSTRY LENDERS										
Year	2019-2020		2020-2021		2021-2022		Growth (%) (2019-2020 to 2020-2021)		Growth (%) (2020-2021 to 2021 to2022)	
	No of Active Loans (Lakh)	O/S Balances (crore)	No of Active Loans (Lakh)	O/S Balanc crore)	No of Active Loans (Lakh)	O/S Balances (crore)	No of Active Loans	O/S Balance	No of Active Loans	O/S Balance
NBFC-MFI	356	72,110	359	79,115	412.89	94096	0.9%	9.7%	15%	19%
BANKS	303	81,001	416	1,10,122	405.29	102527	37.1%	36.0%	-3%	-7%
SFB	168	38,986	163	37,724	171.94	44154	-3.0%	-3.2%	-4%	9%
NBFC	84	18,073	78	18,765	77.68	19076	-6.7%	3.8%	-1%	0.3%
NON PROFIT MFI	8	1,679	11	2,113	13.42	2745	42.8%	25.8%	20%	30%
Total	919	2,11,849	1,028	2,47,839	1081	262599	11.8%	17.0%	4%	5 %

Source: NABARD status of Microfinance in India 2019 to 2022.

Table 2 exhibits types of Lenders and Loan Outstanding in Microfinance Sector, by studying the lending habits of various sectors, NBFC- MFI registered a growth rate of 15 percent, which is higher than all other sectors, even banking sector showed a negative growth rate of 3 percent. But while looking into the outstanding balances, when compare to 2020-2021 to 2021-22, it was high which reflects the impact of COVID pandemic.

Present scenario of NBFC-MFIs

In present scenario Microfinance serve as a primary tool to reduce poverty alleviation among the entrepreneurs and to create higher status in the society. Moreover the microcredit from NBFC-MFIs provides strong basement for entrepreneurs to obtain fund without collateral security. The analysis is made-up sustainability of the NBFC-MFIs to manage their operating expenses and the outreach is based on their research (Swathi, 2018).

Reach ability and the growth of Micro borrowers. NBFC-MFIs are the second-largest microcredit providers, making up 35.2% of the industry's overall portfolio with loans outstanding of Rs 1, 00,407 crore (MFIN annual report 2022). There was an increase of 18.1% in total debt funding received by NBFC-MFIs in FY21-22, which is a total of Rs 47,931 crore. As of March 31, 2022, the NBFC-MFIs' aggregate equity increased by 15.2% YoY to Rs 21,419 crore (MFIN annual report 2022).

All this made it essential to evaluate the Microcredit practices of NBFC-MFIs. In India, the NBFC-MFI s segment has a tremendous chance for growth. In view of their economic importance, these organizations receive a great deal of attention from the government and regulators. The substantial credit gap in the social-economic group at the bottom of the pyramid is filled by NBFC-MFIs.

CONCLUSION

A country's financial institutions are integral to its economic development, which is why they are considered crucial. India has excellent financial institutions and inclusion tools, but our operations and ramifications are still weak. Microfinance has been a key factor in reducing poverty and raising the economic standing of disadvantaged members of society. Many public and private sector banks have been lending funds to microfinance institutions, which work for women's empowerment and alleviation of poverty. NBFCs is an ancillary for commercial banks for microfinance and other lending practices. A special category of NBFCs –MFI was started to promote exclusively microfinance activities. And the majority of loans are disbursed to women borrowers for their self-employment. Many NBFCs are faced with many challenging problems due to poor appraisal systems, difficulties in identifying income-generating activities, ineffective corporate governance practices, Lack of technological issues and a less attention in collection strategies from borrowers etc. By providing credit to low-income people and solidarity lending groups for self-employment and wealth creation the NBFC-MFIs makes strong pillar in entrepreneurial activities. The aim is to assist economically excluded communities in creating assets and securing incomes at the household and community levels. NBFC-MFIs have proven to be a vital platform for the Microfinance Loan market.

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