ROLE OF MICRO FINANCE INSTITUTIONS IN INDIA DURING THE C.O.V.I.D.-19 PANDEMIC

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Abstract- **Micro Financial Institutions refer to the institutions engaged in the task of disbursal of micro credit to the poor and marginalized sections of society. M.F.I.'s at institutional level and the Self Help Groups at non-institutional level have been playing a pivotal role in financial inclusion of the poor and rural India. An emergent situation like the C.O.V.I.D.-19 which created havoc in realms of life, property and business all over the world, the micro finance sector sustained not only themselves but also kept small business afloat through timely disbursal of small loans i.e. the micro credit, thereby ensuring economic stability in a huge nation like India. The research is based upon literature collected from various secondary sources like reports of committees on micro finance etc. The paper focuses on the regional extension, employee retention and returns during the period covering 2020-21 and 2021-22 that was marked by two deadly waves of the corona virus and massive lockdowns across the country. The data shows huge resilience in the micro finance sector as a whole during the pandemic with existence of intra institutional differences in returns. The paper further suggests suitable measures that can be adopted to strengthen and revitalize the position of micro finance institutions in India to ensure greater financial inclusion of the economically deprived sectors.**

Keywords: **Micro Finance Institutions, Financial Inclusion, Marginalized Sectors, Self Help Groups, Sustenance**

INTRODUCTION:

Micro Finance as a synonym for micro credit refers to a loan of extremely low nominal value which is mainly granted to the low income groups. It is an age old concept in India, but during the last decade of the 20th century , the concept gained much acceptance as it meant integration of the financial needs of the poor in our country with the main financial system. With increasing unemployment and rising inflation , it became imperative for developing countries like ours to generate self employment opportunities for which availability of easy and cheap finance was inevitable. With efforts to institutionalize the micro finance, the first Micro Financial Institution (M.F.I.) was established in the year 1996 in India. Since then the M.F.I.'s have played an important role in channelizing the small finance of the rural sector and the urban poor. These aimed at providing financial services to the poor in the form of mobilizing their savings and providing short term small scale credit to the poor, Johnson and Rogaly, (1997). Since their inception M.F.I's like the Bandhan Bank , Aadhar etc. have been playing a pioneering role in facilitating micro credit to the needy for setting up and running their micro businesses.

However, the year 2020-21 has been exceptional for all of us alive on this planet due to the onslaught of COVID-19 that took a massive toll on life and property. Imposition of lockdowns closed the businesses with people rendered job less and penniless with rising medical and household expenditure. Lack of open markets discouraged those desirous of re opening of their small businesses. Though the beginning of 2021 saw some respite from the deadly virus with small entrepreneurs hopeful of returning back to normal livelihoods, the re outbreak of the virus during April –May 2021 brought massive losses of both lives and work. The growing uncertainty caused due to it made people realize the economic importance of savings. Many households and people who did not work previously, wished to enter the main stream economy by opening up of self owned micro enterprises , so that they could augment their family incomes with many women and the elderly starting home run ventures like supplying home knitted an weaved clothes, book binding, home cooked food etc. All this required the Micro Financial Institutions to come forward and lead by increasing the frequency and quantum of micro credit. The pandemic also saw closure or downsizing of many industries, rendering many people out of formal employment sector. The employment scenario was so uncertain that many people moved from formal employment sector to starting up their own small businesses further pushing up the demand for micro finance, making the role of micro financial institutions all the more challenging. M.F.I.'s played an important role during the pandemic and after it in re stabilizing the economy . Majorly dependent on the grants supported by the center and state governments, M.F.I.'s were able to pump in much needed micro capital into the economy.

REVIEW OF LITERATURE:

According to Nikita (2014), there has been a reduction in number of self help groups which had their savings linked with banks. The study also stated that there was an increase in the amount of outstanding loans with S.H.G's that lead to the building up of their non performing assets, and suggested that measures should be initiated at governmental level so that these organizations could sustain. This can be seen in the increased government support to M.F.I.'s in the form of grants.

Mahanta et. Al.(2012) studied that channelizing micro credit to the poor will not mean just a solution to the problem of poverty, but actually act as a boon to the economy by alleviating poverty. It suggested government intervention through launch of capacity building programmes through the M.F.I.'s, the capital so generated will be better utilized. Hence, it is extremely important to impart skills to people like sheep rearing, fishing, stitching, knitting, weaving and other handicrafts, masonry etc. so that sustenance of the start up can be ensured.

Maruthi R. et. Al, (2011) conducted survey on emergency situation and its impact on micro finance in India. It suggested formation of multi party work group and alliance with leaders of micro finance to develop strategies to unleash the entrepreneurial talent of the poor. It would go a long way in transforming our country.

Idowu F. Christopher (2010) in his study found the impact of availability of micro finance on M.S.M.E. sector in Nigeria. The sample size comprised of 100 S.M.E.'s that were collected on the basis of simple random sampling, and data was collected through structured interviews. The study revealed that though the number of S.M.E.'s that were able to secure finance through the M.F.I.'s was less, but all those who did secure money used it well to promote their market share, product innovation etc. and gained competitive advantage.

The Asian Development Bank (2000) defines microfinance as "the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises". The scope of this definition extends to low income households also and is not limited to the people lying below the poverty line. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by N.A.B.A.R.D. defined microfinance as " the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living."

As per research conducted by Ledgerwood (1999), the M.F.I.'s also play a role of social intermediation along with financial intermediation. It is done through formation of groups, imparting skill based knowledge and training of members in field of financial literacy, management etc.

METHODOLOGY:

The study is descriptive in nature and the data has been collected from various secondary sources. Literature available on the subject was studied at length and latest reports compiled by Bharat Finance were considered. Micro finance has been playing an important role in poverty alleviation for over three decades in our country, but the emergency situation created globally due to the C.O.V.I.D. -19 is different as many businesses collapsed and were not able to recover till long. Many M.F.I.'s tried to increase their outreach , both personal and geographical.

DATA ANALYSIS AND INTERPRETATION:

As per the data collected from various sources it was observed that the clients outreach of various M.F.I.'s during the pandemic reduced from 423 lakhs in year 2020 to 422 lakhs in year 2021, signifying that the micro finance required for start ups and expansion programmes was thwarted. Similar declining numbers are shown in rural clients of these institutions during this period, which show that the major loss of clientele happened in the rural sector. However, the number of female clients remain unchanged which further explains that though many working women got rendered unemployed, yet women new to economic sector increased by an equivalent proportion further explaining the fact that many people especially women home makers who were not working initially entered the formal economic sector to support their families economically. However, as per the data collected, the number of women employed with the M.F.I.'s declined which may be attributed to downsizing by the M.F.I.'s as is revealed from the dwindling R.O.E. of these enterprises. The figures show that the return on equity reduced from round 5.9% to 2.8% Y.O.Y. 2020-21 and 2021-22. This implies that economic slowdown during the pandemic affected the micro credit sector adversely. Due to close down of many business and declining revenues due to less customers due to the lockdown, the amount of bad debts with the M.F.I.'s piled up increasing the percentage of non performing assets from 0.69% to almost a triple figure of 1.83%. Surmounting outstanding loan amounts explain the reduced R.O.E. figures of these enterprises. This further highlights the grim fact that the pandemic not only affected the industrial sector but also, its ripple effect was witnessed in micro financial sector which themselves are engaged in tackling poverty furthered by the virus.

Table 1: Table showing various M.F.I. model indicators

Indicators	2020	2021
Client Outreach	423 lakhs	422 lakhs
Women Client Outreach	98%	98%
Rural Clients	77%	75%
Return on Equity (R.O.E.)	5.94%	2.83%
Non Performing Assets (N.P.A.)	0.69%	1.83%

Source: The Bharat Micro Finance Report 2021

As per the data revealed by the Bharat Finance Report 2021, the R.B.I. had extended funds amounting to Rs. 25,000 Cr. to N.A.B.A.R.D. (Rs. 15,000 Cr.) and S.I.D.B.I. (Rs. 10,000 Cr.) especially for strengthening their refinancing capabilities. These funds were further extended to numerous micro financial institutions in view of their contribution to livelihood of around 50,000 marginalized families. In order to re vitalize our economy, it became important to safeguard the functioning of M.F.I.'s. With this in view, the R.B.I. came up with policy changes regarding M.F.I.'s according to which many charges/ fees for loan application from M.F.I.'s etc. and other fines were either reduced or done away with. This enabled the poor clients to reach the credit . it was also proposed that the institutions show a detailed fact sheet of the loan the clients disclosing clearly the interest rates etc. which ensured greater transparency. In order to strengthen the financial position of M.F.I.'s and to mitigate their losses, the institutions have been allowed to design and introduce new and diverse products that would ensure their sustainable returns and performance rate.

As per the data collected on geographical expanse of M.F.I.'s in 2020-21, they are spread in 28 States, 5 Union Territories, and around 595 Districts across India that signifies the massive reach of these institutes.

Table 2: Number of M.F.I.'s across the country

	Number of M.F.I.'s	
Number of States/ Union Territories	**2020-21**	**2019-20**
Upto 5	161	164
6 to 10	31	22
11 to 15	3	4
More than 15	13	12

Source: The Bharat Micro Finance Report 2021

Table 3: List of Top 10 M.F.I.'s operational in various States/ Union Territories (U.T.'s)

S. No.	Name of the M.F.I.	No. of States/ U.T.'s where operational
1	Asirwad	24
2	Satin Creditcare	23
3	Satya Micro Capital	21
4	Spandan, R.M.L., Fusion, Belstar, Annapurna	18
5	Swatantra, Muthoot Microfin,I.I.F.L. Samasta	17
6	N.A.B.F.I.N.S. Ltd., Arohan	16
7	Credit Access	14
8	Village Financial	13
9	N.O.C.P.L.	12
10	Capital Trust	10

Source: The Bharat Micro Finance Report 2021

The data reveals that the number of M.F.I.'s operational in less than 5 States/ U.T. declined marginal during 2020-21, which explains the increase in number of M.F.I. 's which had become operational in 6-8 States/ U.T. which implies their increased regional expanse, which further implies increasing role of M.F.I.'s across the nation. This also highlights the fact that micro credit is reaching out to the poor in areas of lack of finance, which is an good indicator for our poverty alleviation and growth, especially post pandemic. Though the number of M.F.I.'s operational in more than 10 and 15 States and Union Territories has increased only marginally, it is still a respite as it indicates that M.F.I.'s were able to recover from their high N.P.A.'s and were moving towards their financial sustainability. It also highlights the fact that funds diverted from the R.B.I. for disbursal to the marginalized families through the M.F.I.'s and other policy initiatives taken by the head banker for survival and sustenance of micro credit sector have been successful.

RECOMMENDATIONS:

Micro Finance Institutions are indispensible for not just alleviation of poverty in our country but also our economic growth. M.F.I.'s channelize short term micro credit to the poor and marginalized sections of our society thereby generating human capital, which contributes towards financial development of our country. On the basis of analysis of data studied under the literature that was reviewed, it is understood that M.F.I's being pillars of our growth are here to stay and need to be strengthened further to empower them to contribute towards financial development of our country. Thus, it is recommended that the cooperatives and linkages of S.H.G.'s with banks need to be reinforced, so that more liquidity and finance flows to and through the M.F.I.'s. The financial turmoil caused declining returns for the micro finance sector, so it becomes necessary to safeguard their interests. Hence it is recommended that the credit limit should be revised regularly as per the inflation , so that the M.F.I.'s can sustain themselves financially. This also calls for increased grants to various Micro Financial Institutions by the R.B.I. as per the requirement so that they can continue the process of growth and expansion in various districts and rural areas. This will lead to financial inclusion of many poor who were not able to reap benefits of easy credit. To facilitate expansion it is further suggested that M.F.I.'s be granted greater autonomy in designing various financial products to maximize their reach and earn sustainable revenue. Based upon the findings of the Sa-Dhan's committee, this paper also suggests regulations of high ticket sized loans to the graduating low income segment matured borrowers so as to finance their entrepreneurial ventures, which are definitely more sound than others. It is strongly recommended that all charges hidden and otherwise related to funds borrowed in any contingent form must be communicated to the borrowers in layman's terms at the time of borrowing itself. This is important for borrowers to know so that they take realistic loans and are aware of all the charges they might be imposed. In today's digital world, the A.I. has reached the rural and backward sectors also, due to which it is good for the M.F.I.'s to connect with their clients electronically. Thus, it is recommended that these institutions opt for e- K.Y.C. of their customers and maximize their reach to deserving borrowers in areas where physical branching out of M.F.I.'s is not financially feasible. Last but not least, it is suggested that top management of the M.F.I.'s take initiatives to motivate and retain the staff, which has shown to decline especially during the pandemic. It has been observed that major attention of the management has always been centered towards procuring and disbursement of loans and they are lacking in human matters. If the employees which are the most important asset of any organization are happy and motivated, it goes a long way in ensuring superior financial performance.

CONCLUSION:

The last two years have shown that there are millions of poor people across our country who need micro finance now more than ever to either earn or sustain their livelihoods. The M.F.I.'s have un doubtedly contributed a lot to expand the reach and quantum of micro finance, a lot more needs to be done in the sphere of management of their employees and customers. The micro finance industry has shown great resilience at the time of emergent situation like COVID-19 , where many have seen tragic loss of life and business, which highlights that this sector can withstand many challenges. But, never the less, this sector needs more financial support from the R.B.I. with more adaptable regulations which is to be revised regularly as per the need. It is important since the top big M.F.I.'s were able to sustain and even flourish during the C.O.V.I.D.- 19, the small micro financial institutions suffered a lot to keep themselves afloat and incurred down spiraled returns. Greater autonomy flexibility needs to be granted to the M.F.I.s in product designing so as to widen up their reach. The institutions also need to be monitored for irregularities and transparency of operations should be ensured. The main motive of the micro finance industry is to convert human beings into human capital through provision of micro credit, so it becomes imperative for them to take utmost care of their human assets i.e. their employee's job satisfaction and retention which will further ensure better and efficient financial performance. Thus, it can be said that the micro financial institution have always been a pillar of financial strength for our poor sector , and will always remain so, and it is but important to ensure adequate cash grant flows , autonomy in operations, regular monitoring and policy revision to keep in tune with the trying times such as the C.O.V.I.D. -19.

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