

Essays on Loan Disbursed to Microfinance Institutions by Financial Institutions: Insights From India.

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Abstract

The paper attempts to examine the trends of loan disbursed to Microfinance Institutions (MFIs) by various financial institutions over the past 15 years. To fulfil the objective, the study employs secondary data from NABARD and draws a comparative framework of the growth rate and percentage share of loan dispersed to Microfinance Institutions by different commercial and public banks and financial institutions. The findings of the study reveal that over the past 15 years, commercial banks dominated the disbursement shares with 50 percent loan disbursed to MFIs. Also, the growth rate of the loan disbursed by commercial banks was the highest with 26.58 percent. However, the analysis in the study revealed that COVID-19 registered a decline in the loan disbursements followed by a hike in post pandemic period, which is likely due to the demand for the financial services by various businesses or households, which suffered an economic blow during the pandemic.

Keywords: Microfinance institution- Commercial banking- Loan disbursement- NABARD- COVID-19

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Introduction

Access to financial services is a crucial factor in the economic development and poverty reduction of any country. Banking sector of India plays an important role in the development of the financial services to the business owners, enterprises, and the marginalised class of the society. Microfinance Institutions (MFIs) is no new term in the context of the developing nations. The role and importance of microfinance in the financial assistance to a large chunk of marginalised and female groups frames the financial services for the marginalised class (Kalpana, 2005). Microfinance Institutions offers a wide range of services, including savings, credit, insurance and money transfer, to the individuals and small businesses that do not have access to traditional banking services (Kharti, 2014).

Despite the popularity of microfinance over the past decades, its impact on financial inclusion and poverty reduction is still a topic of debate. However, the role of financial institutions and banks is another area of interest. Some banks have partnered with MFIs to expand their reach and offer microfinance services, while others have entered the microfinance market directly. However, the disbursement of loan and financial services by various financial institutions and banks to microfinance institutions offers leverage in the development of the MFIs in the rural areas and can expand its outreach to the more deprived population of the state.

The loan disbursement process is crucial to the growth and sustainability of microfinance institutions (Anduanbessa, 2009). Acknowledging, the importance of financial services by banks to MFIs our paper attempts to examine the growth rate of the loan disbursed to MFIs and also the percentage share of the loan dispersed by various financial institutions and banks

over the past 15 years. The rest of the study is organised as follows: Literature Review, Data and Methods, Three Essays on Loan Disbursement to Microfinance Institutions, followed by Results and Discussion, further section Concludes.

Literature Review:

The sustainability and outreach of the microfinance institutions are the two important aspects for its promotion as a tool in poverty reduction and financial inclusion in the developing world (Javed and Abrar, 2015). Despite, there is an existence of an urban-rural disparity in country like India. However, its impact in the macro level in the vast inclusion of both the urban-rural marginalised class cannot be over showed by narrowing its characteristics only to the rural regions (Saqfahait, 2019). With the uncollateralised small loans to micro-enterprises, it brings in a doubt on the outreach of the microfinance institutions (Swangwan & Nayak, 2020). (Lensink and Hermes, 2007) found out that the amount of loan disbursed to microfinance institutions and the financial strength of the microfinance institutions plays an important role in its sustainability. This further brings in the suggestion to formalise microfinance industry into a formal and more organised financial institutions to serve the marginalised class (Ghosh, 2013). However, the asset size and self-sufficiency of the microfinance institutions, are positively related (Bogan, 2012). Although, there has been a set of existing literatures conducted on microfinance institutions and its outreach. But, there has been little study conducted to study the trends of loan disbursed to microfinance institutions. Since, the asset size of MFIs plays an important role in its sustainability, which we find evidence from the existing literature study. Therefore, the amount of loan disbursed to MFIs defines the asset size of the institution. Studying and examining the

amount of loan disbursed and its trends over the time plays an important role in understanding the condition of MFIs in India over the past decade. Further, we have also tried to capture the dimension of growth rate using AAGR to examine the rate of growth annually. Alongside, we computed the percentage share of loan disbursed by various financial institutions and banks to MFI.

Data and Methods:

The study employs secondary data from NABARD to analyse the trends of the loan disbursed to microfinance institutions by financial institutions and banks over time. The same data is used to compute the growth rate and percentage share of the loan disbursed, to observe the highest and lowest share of loan disbursed by financial institutions. The growth dimension was captured using AAGR (Average Annual Growth Rate) method to comparatively observe the growth rate of the loan disbursed annual.

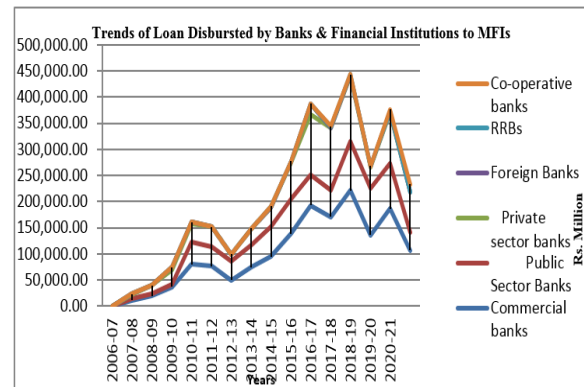
Three Essays on Loan Disbursement to Microfinance Institutions:

We framed three essays to examine the loan disbursement to microfinance institutions by various financial institutions and banks. In our first essay, we documented the trends of loan disbursed to microfinance institutions by financial institutions and banks. Second, we computed the growth rate of loan disbursed to MFIs using Average Annual Growth Rate (AAGR). Finally, we presented the percentage share of different banks and financial institutions who disbursed loans to MFIs.

Essay 1: Trends of Loan Disbursed to Microfinance Institutions by Financial Institutions and Banks

To analyse the trend change over time for the loan disbursement by financial institutions and banks to microfinance institutions we employ the data from NABARD.

Figure 1: Trends in Loan Disbursed by Banks and Financial Institutions to Microfinance Institutions



Source: Author's estimation using the data from NABARD

The above figure illustrates the trend changes over time of the loan disbursed by financial institutions and banks to microfinance institutions. It can be observed that there is an increasing trend of loan disbursed over time from 2006 to 2012. But in the year 2012-13 there is a dip in the loan disbursed which picked up again from 2013-14 onwards until registering a marginal decline in 2017-18. It picked up again before falling again in 2019-20, possibly aided by the outbreak of COVID-19. However, Post-Covide-19 witnessed an increase that might be the demand of the institutions to recover from the economic crises due to global pandemic.

Essay 2: Annual growth rate of loan disbursed by financial institutions and banks to microfinance institutions

In this section we will analyse the annual growth rate of the loan disbursed by different financial institutions to microfinance institutions over the past 15 years.

Table 1: Average Annual Growth Rate of Loan Disbursed by Financial Institutions and Banks to Microfinance Institutions

Year	Commercial banks	Public Sector banks	Private Sector Banks	Foreign banks	RRBs	Co-operative Banks
2007-08	70.98%	199.88%	0.03%	0.03%	285.44%	
2008-09	88.91%	134.68%	0.01%	13.30%	58.77%	0.00%
2009-10	116.15%	655.20%	0.00%	0.02%	1.34%	
2010-11	-5.44%	-1607.67%	0.00%	0.00%	0.07%	
2011-12	-34.86%	-285.39%	0.00%	0.00%	7.67%	
2012-13	49.92%	235.45%	0.02%		0.26%	15.43%
2013-14	27.57%	473.52%	0.00%		77.79%	2.80%
2014-15	46.36%	252.44%	0.01%	0.22%	0.02%	0.00%
2015-16	39.44%	219.76%	0.00%	0.59%	0.23%	
2016-17	-11.55%	-767.74%	0.00%	0.00%	0.14%	57.59%
2017-18	29.50%	625.43%	0.00%	0.24%	0.39%	0.01%
2018-19	-38.35%	-245.41%	0.00%	0.03%	0.02%	0.47%
2019-20	36.51%	268.21%	0.01%	0.06%	4.91%	0.99%
2020-21	-42.95%	-94.71%	0.00%	0.00%	1.13%	0.06%
AAGR	26.58%	4.55%	0.01%	1.21%	31.30%	8.60%

Source: Author's Estimates

Table 1 shows that the average annual growth rate with 31.30% was highest for the Regional Rural Banks followed by co-operative banks with 8.60%, Public Sector Commercial Banks with 4.55%, Foreign Commercial Banks with 1.21% and the Private Sector commercial banks with just 0.01%. When we take the aggregate of all the Commercial banks, we find that the average annual growth rate computed was 26.58%.

Essay 3: Percentage share of each Financial Institutions and Bank to Microfinance Institutions:

Table 2 presents the percentage share of loan disbursement by each financial institution and bank to microfinance institutions. The table shows that a larger share in the loan disbursed for the period 2006 to 2010 originated from the Commercial Banks. Examining this bank group wise, it has been observed that the private sector banks occupied a dominant share with an average of percent for the period under study.

Table 2: Percentage Share of Loan Disbursement by Financial Institutions and Banks to Microfinance Institutions

Year	Commercial Banks (% Share)	Public Sector Banks (% Share)	Private Sector Banks (% Share)	Foreign Banks (% Share)	RRBs (% Share)	Cooperative Banks (% Share)	Total
2006-07	50.00	14.36	32.10	3.53	0.01	0	100.00
2007-08	49.98	11.91	37.60	0.47	0.04	0	100.00
2008-09	49.91	7.54	36.36	6.01	0.18	0	100.00
2009-10	49.93	26.56	20.88	2.48	0.15	0	100.00
2010-11	49.99	24.61	25.27	0.10	0.03	0	100.00
2011-12	49.92	37.55	12.37	0	0.13	0.02	100.00
2012-13	49.97	29.47	20.50	0	0.03	0.03	100.00
2013-14	49.56	29.91	19.18	0.47	0.85	0.02	100.00
2014-15	49.91	24.08	25.18	0.65	0.17	0	100.00
2015-16	49.92	14.97	30.02	4.93	0.14	0.02	100.00
2016-17	49.64	14.93	34.43	0.28	0.11	0.60	100.00
2017-18	49.89	21.38	28.00	0.51	0.13	0.09	100.00
2018-19	50.97	33.35	14.83	0.57	0.02	0.26	100.00
2019-20	49.42	23.20	25.67	0.37	0.03	1.31	100.00
2020-21	45.50	15.23	32.70	0	0.08	6.49	100.00
Average %	49.63	21.94	26.34	1.36	0.14	0.59	100.00
Max % Share	50.97	37.55	37.60	6.01	0.85	6.49	100.00
Min % Share	45.50	7.54	12.37	0.00	0.01	0.00	100.00

Source: Author's Estimates

Table 2 shows the percentage share of each financial institutions and banks to microfinance institutions. Over, the past fifteen years the average annual percentage share of loan disbursed to microfinance institutions were highest by the commercial banks with 49.63 percent, while the lowest share of loan disbursed to microfinance institutions was by the regional rural banks (RRBs) with 0.14 percent. This also finds support from the literature review, which argues that due to profit driven motive, the

commercial banks somehow dominate the microfinance sector. Therefore, the highest percentage share of the commercial banks in the loan disbursement to microfinance institutions is no surprise in the study.

Results and Discussion:

The results from the above three essays reveals that over the past decades there has been an increase in the trends of the loan disbursed to microfinance intuitions from 2006 to 2012. However, during

pandemic it has registered a decline in the disbursement of loans to MFIs, which is quite relevant with a declining growth rate in the years 2018-19 to 2019-20 from Table 1. Further, analysing the growth rate it was revealed that Regional Rural Banks with 31.30% was highest followed by co-operative banks with 8.60%, and the Private Sector commercial banks were the lowest with just 0.01%. However, when we take the aggregate of all the Commercial banks, we find that the average annual growth rate computed was 26.58%. which is the highest from all the financial institutions and banks. The percentage share of loan disbursed to microfinance institutions revealed that commercial banks with 49.63 percent dominated the share, while regional rural banks (RRBs) with 0.14 percent was the lowest percentage share to disburse loan to microfinance institutions. This also finds support from the literature review, which argues that due to profit driven motive, the commercial banks somehow dominate the microfinance sector. Therefore, the highest percentage share of the commercial banks in the loan disbursement to microfinance institutions is no surprise in the study. But, it also highlights the lack of policy implications for the improvement and barriers to stop profit driven players to exploit the already exploited and down trodden class of the society.

Conclusion and Policy Suggestion:

In this paper, we carefully examine the trend changes of the loan disbursed to microfinance institutions over time by the financial institutions and banks. Further, we draw the growth rate of the loan disbursed by financial institutions and analyse the percentage share of various financial institutions and banks in loan disbursement. Our findings reveal there has been an increase in the loan disbursement over the years with

commercial banks contributing around half of the total loans to microfinance institutions (around 50%) and the share is consistent since 2006-07 till date. There has been an increase in the disbursement of loan to the microfinance institutions by various financial institutions and banks post Covid-19, probably due to the economic and financial crisis the businesses and households suffer. In the light of policy suggestion, the Government of India should focus more in the infrastructural and financial development of the MFIs in both rural and urban areas, to avoid the entry of profit driven commercial banks in the microfinance market. The low share of Regional Rural Banks shows the poor financial condition of the RRBs. Therefore, the policy makers should shed light for the development of the RRBs in the country.

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