International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

THE INDIAN NBFC-MICROFINANCE INSTITUTIONS SECTOR: AN ELEMENTARY EMPIRICAL STUDY

[1*]Bhagirath Baria, [2]Priya Dubey

[1]Research Scholar, Department of Business Economics, Faculty of Commerce,
The Maharaja Sayajirao University of Baroda, Vadodara, Gujarat.

[2]UG Student, Department of Economics, Faculty of Arts,
The Maharaja Sayajirao University of Baroda, Vadodara, Gujarat

*Corresponding Author

ABSTRACT

There are many challenges faced by the poor, developing and emerging countries across the World. Along with the inequalities of wealth, expenditure, etc., a central problem affecting the welfare and well-being of the populations of these countries has been that of poverty. Poverty is a complex challenge for both policy makers and economic analysts. A major approach to addressing the problem of poverty, among others, has been that of enabling access to reliable financial resources for the poor through the divisibility of loans into small amounts which has roughly been called microfinance. This paper tries to understand the broad trends and patterns in the microfinance sector of India with a special emphasis on the Non-Banking Financial Companies-Microfinance Institutions. It has been found that this sector occupies a significant and noteworthy place in the Indian Microfinance and that the stock and flow movements underlying this segment have evolved considerably in the very recent time period. Further, the distribution of major micro-financial variables such as Average Clients, MFI Count, etc., across different spaces such as regions, states, kinds of MFIs, etc. has also shown good amount heterogeneity and seemingly some degree of skewness.

Keywords: Economics, Development Economics, Microfinance, NBFC-MFI.

1. INTRODUCTION

Development is a complex phenomenon. There are many theories that have been proposed to analyse the various observed development patterns across major developing and poor countries. The patterns of development observed across major emerging and poor economies show that the process of economic growth has generally produced unequal benefits and unequal costs across

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

different groups of economic agents, thus producing inequalities on various socio-economic parameters such as income, wealth, etc. Along with the inequalities of wealth, expenditure etc., a central problem affecting the welfare and well-being of the populations of these countries has been that of poverty.

Poverty is a complex challenge for both policy makers and economic analysts. While there is no consensus on the exact definition of poverty, there is a broad agreement as far as the basic characteristics of poverty are concerned. Among these characteristics, a basic fact that has been accepted by many development analysts is that, the lack of access to formal finance as supplied by the formal banking system of a country is either a primary symptom or the root cause of the observed poverty. There have been various strategies and policy tools via which the problem of poverty has been addressed in various countries. A major approach in addressing the problem of poverty, among others, has been that of enabling access to reliable financial resources for the poor through the divisibility of loans into smaller amounts to suit the small-scale financial demands of the poor. This kind of provision of finance by public, private and other sectors to the poor has been roughly called microfinance. In the Indian context, microfinance has emerged as an important element in the larger policy matrix to address various social ills including that of poverty.

Pursuing the above mentioned facts, this paper tries to understand the broad trends and patterns in the microfinance sector of India with a special emphasis on the segment of Non-Banking Financial Companies-Microfinance Institutions (NBFC-MFIs). This study primarily focuses on the Non-Banking Financial Companies-Microfinance Institution (NBFC-MFI) segment and the various financial stocks and flows that underlie its recent evolution at both aggregate and regional levels, along with some cursory discussion on the other major components of the Indian Microfinance sector as well. This has been done primarily to address the limited analysis on this issue in the Indian context. Moreover, the NBFC-MFI Sector has been emerging as an important institutional segment in itself in the Indian microfinance sector. Hence, this study has chosen to focus on this particular segment of the Microfinance sector of India.

2. OBJECTIVES

The major aims of this study can be stated as below:

I. To understand the broad recent behaviour of the major components of Microfinance sector in India.

II. To analyze the recent movements and patterns in the major indicators of the NBFC-MFI sector in India at aggregate and regional levels.

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

3. LITERATURE REVIEW

There are several studies that have analyzed various dimensions of microfinance sector in India. An important study that investigated the role of norms and values in the behaviour of microfinance institutions in India was Hudon (2008). The author found that the strict differentiation between norms and values does not always hold and both can inter-change when the underlying financial, economic, political, and cultural dynamics change. The author also found that among the new norms that have recently emerged in the Indian microfinance sector, financial independence from donors has been an important newly emerging norm in this sector. Moreover, with reference to the developments in South India, the author found that different organisational structures of Microfinance Institutions (MFIs) are required to exploit the full range of opportunities for success of this sector in India.

In terms of the impact of microfinance sector in economic development, Brune (2009) found that the statistical evidence on differences in the marginal impact of MFIs across African and Asian regions was negligible. The study also found evidence of positive impact of MFIs on the economic development of major African and Asian regions. The authors then found that savings was the best estimator for recent development patterns in microfinance sectors of the chosen regions. Another study that focused on the nexus between microfinance sector and development was Copestake (2010). The author focused on, among many other issues, the inter-connections between development and microfinance interventions with reference to the goal of maximizing the well-being of a country such as India. The well-being regime framework that was developed in this study showed that the research in microfinance must widen its scope beyond the financial effects of microfinance access and must also take into account various non-financial impacts of microfinance into consideration. Other studies that researched on the lines of above mentioned works included Kasat (2010), Sil & Guha (2010), and Saeed (2014), among others.

Among the studies that focused on the gender dimensions of microfinance sector and the ways in which the evolution of microfinance sector affected women and their welfare included Marban (2010), Nilakantan, Datta, Sinha & Datta (2013) among others. Furthermore, some studies focused on the evolution of and patterns in the Self-Help Groups (SHGs)-model based microfinance sector in India which included, among others, Das (2012) who found that microfinance sector had considerable potential to contribute to poverty eradication attempts by the Indian government by striking a proper balance between the supply and demand of credit needs of low income borrowers in India.

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

4. METHODOLOGY AND DATA

This paper uses secondary data for all-India levels and different disaggregated levels for the period 2015-16 up to 2017-18 for the following variables. The data on the total stock of outstanding loan across different categories of microfinance suppliers such as NBFC-MFIs, Banks, Small Finance Banks (SFB), etc, were collected from the March 2018 issue of Micrometer published on the official website of MFIN (Microfinance Institutions Network) India. This variable has been measured in Rs. Crores. The data on the number of branches of NBFC-MFIs were collected from various volumes of Micrometer. Similarly, the data on aggregate employment by NBFC-MFI, aggregate number of loan officers, average clients per loan officer, average MFI count, average clients (in lakhs), average number of branches and lastly average of the average loan disbursed across regions (in rupees) were collected from various volumes of Micrometer.

5. MAJOR RESULTS AND DISCUSSION

5.1. Recent Aggregate and Disaggregate Composition and evolution of the Indian Micro-credit industry

Table 1: Financial Stocks for the major players in the Micro-credit Industry during 2015-16 to 2017-18

Key Institutional player	Total Loan Outstanding as on 31st March 2016 (Rs. Crores)	Total Loan Outstanding as on 31st March 2017 (Rs. Crores)	Total Loan Outstanding as on 31st March 2018 (Rs. Crores)
NBFC-MFIs	35,565	44,519	44,892
Banks	30,861	40,993	50,418
Small Finance Banks (SFBs)	13,065	14,477	30,019
NBFCs	4,247	6,026	8198
Non-Profit MFIs	978	901	3016
Industry total	**84,671**	**106,916**	**1,36,633**

Source: Various volumes of Micrometre and Authors' Calculations.

Table 1 above depicts the distribution of total loan outstanding across major segments of the Indian microfinance sector that excludes the Self Help Group (SHG) segment. As the focus here is on MFIs and their broad evolution, SHGs have not been taken into account because they are not purely MFIs, but rather complex embodiments of both public and private sector participations. The total stock of loan outstanding has increased in the recent past and the Small Finance Banks (SFBs) have shown a sizeable jump from a loan portfolio of rupees 14,477 cores as on 31st march 2017 to rupees 30,019 cores as on 31st march 2018. As shown in the Table 2, the recent growth rate of SFBs on this account is more than 100%. Similarly, the Non-Profit

MFIs (NPMFIs) have also shown a sizeable jump from 2016-17 to 2017-18 with their growth rate for this period being 235% approximately. All other segments have increased broadly as per their past trend. It is quite clear by looking at Tables 1 and 2 that the SFBs and NPMFIs have increasingly occupied an important place in the total outstanding loan portfolio in the Indian Microfinance sector. However, NBFC-MFI and the Banking segments continue to dominate on this account.

Table 2: Flow movements of the major stock variables for the Micro-credit Industry during the sample period

Annual Flows of Loans Outstanding (Rs. Crores)			*Annual Growth rates of Loans outstanding (%)*	
As on 31st March	**NBFC-MFI**	**Banks**	**NBFC-MFI**	**Banks**
2016-17	8,954	10,132	25.18	32.83
2017-18	373	9,425	0.84	22.99
As on 31st March	**SFB**	**NBFC**	**SFB**	**NBFC**
2016-17	1,412	1,779	10.81	41.89
2017-18	15,542	2,172	107.36	36.04
As on 31st March	**NPMFI**	**Industry Total**	**NPMFI**	**Industry Total**
2016-17	-77	22,245	-7.87	26.27
2017-18	2,115	29,717	234.74	27.79

Source: Authors' Estimation.

In terms of the flow dynamics of the portfolio of total loan outstanding, the Indian Microfinance sector (excluding the SHG segment) is dominated by movements in the Non-Profit MFI (NPMFI) and the SFB segments. These two have experienced growth rates far above the mean growth rate for the sector as a whole (mean for the whole sector measured by excluding these two sectors). Clearly, they are outliers, though as shown in Table 1, in terms of the stock dynamics, these two segments are not as dominant as the other segments are in the Indian Microfinance sector.

The NBFC-MFI segment collapsed in terms of its annual growth rate from 25.18% to a mere 0.84% 2017-18. Except this segment, all the other segments have shown (excluding NPMFI and SFB) broadly stable growth rates. Looking at the growth rate of the industry as a whole as shown in Table 2, it seems that the net effect of the growth rates of the underlying segments of the industry broadly cancel each other out so as to produce a very moderate change in the growth rate of the whole industry from 26.27% (2016-17) to a mere 27.79% (2017-18). In terms of the new flows generated annually, NBFC-MFI and Banks have both seen a falling trend with NBFC-

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

MFI experiencing the largest fall on this account as shown in Table 2. Given that this data is not adequate in terms of the time dimension, deriving strong and reliable conclusions from such observation on trends does not seem fully reliable. However, one can research more into this recent fall in the new annual flows of the NBFC-MFI segment.

5.2. Aggregate and Disaggregate Insights across major stock variables and their flows for the NBFC-MFI sector

This section attempts to analyze the recent movements and patterns in the four major micro-financial stocks and their flows pertaining to the Indian microfinance sector namely, the number of branches, employment, number of loan officers and average clients per loan officer, across four major kinds of NBFC-MFIs namely, small, medium, large and all. The definition of these categories has been elaborated in various issues of Micrometre published on the MFIN India's official website. These four variables together give good amount of insights into the underlying dynamics and patterns of stock and flow movements within the NBFC-MFI sector.

Table 3: Recent trends and patterns in the Number of Branches in the NBFC-MFI sector

Type of Microfinance Institution	2015-16	2016-17	2017-18	Growth Rate (2016-17)	Growth Rate (2017-18)
All	6,041	8,032	10,077	33%	25%
Small	96	217	296	126%	36%
Medium	729	1,014	1,258	39%	24%
Large	5,216	6,801	8,523	30%	25%

Source: Various volumes of Micrometre and Authors' estimation.

As Table 3 shows, the small NBFC-MFIs dominated on account of the annual growth in the number of branches not only in 2016-17 but also in 2017-18, but there was a large fall in the growth rate of this segment from 126% in 2016-17 to 36% in 2017-18. Other categories on this account also experienced a fall in their growth rates. It is also quite clear that this data has already been treated for outliers because the growth rate for the category "all" is not affected by the higher values of growth rate of the small-NBFC-MFI segment.

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

Table 4: Recent trends and patterns in the aggregate Employment in the NBFC-MFI sector

Type of Microfinance Institution	2015-16	2016-17	2017-18	Growth Rate (2016-17)	Growth Rate (2017-18)
All	46,118	65,839	82,004	43%	25%
Small	896	1,466	1,877	64%	28%
Medium	5,525	7,778	9,834	41%	26%
Large	39,697	56,595	70,293	43%	24%

Source: Various volumes of Micrometre and Authors' estimation.

The employment scenario of the NBFC-MFI sector has been dominated by the large segment in terms of the annual absolute level of growth in employment. All the other segments have seen a fall in their annual growth rates with the small segment having the highest fall from 64% to 28% as in 2017-18. Interestingly, the growth rates in employment in 2017-18 are more aligned and closer to each other compared to the period of 2016-17 across different types of MFIs.

Table 5: Recent trends and patterns in the aggregate number of Loan Officers in the NBFC-MFI sector

Type of Microfinance Institution	2015-16	2016-17	2017-18	Growth Rate (2016-17)	Growth Rate (2017-18)
All	28,665	40,048	52,559	40%	31%
Small	501	738	1,019	47%	38%
Medium	3,148	4,535	5,735	44%	26%
Large	25,016	34,775	45,805	39%	32%

Source: Various volumes of Micrometre and Authors' estimation.

In terms of the stock of total number of loan officers and the growth rate on this account for the major categories of NBFC-MFIs, both in 2016-17 and 2017-18, the growth rates of all the categories are quite closer to each other and also are closer to the growth rate for the whole sector as depicted in Table 5 above. Compared with the behaviour of these sub-segments of the NBFC-MFI sector on account of the number of branches and aggregate employment, there is considerably less distance among the growth rates of these sub-segments as far as the number of loan officers is concerned. Interestingly, small NBFC-MFIs have experienced a moderate rise in the number of loan officers while the large ones have seen a considerable rise in terms of the flow of new loan officers annually for the sample period.

Table 6: Recent trends and patterns in the aggregate number of Average Clients per Loan Officer in the NBFC-MFI sector

Type of Microfinance Institution	2015-16	2016-17	2017-18	Growth Rate (2016-17)	Growth Rate (2017-18)
All	551	503	481	-9%	-4%
Small	470	470	407	0%	-13%
Medium	474	411	451	-13%	10%
Large	562	516	486	-8%	-6%

Source: Various volumes of Micrometre and Authors' estimation.

Table 6 exemplifies the fact that the whole sector and its components on account of the behaviour of average client per loan officer have shown considerable variability compared to the other three parameters as analysed above in Tables 3 to 5. There was hardly any growth in this variable for the small NBFC-MFIs in 2016-17, while there was a fall in the average clients per loan officer in this segment for the year 2017-18. The medium NBFC-MFIs have seen positive change in their growth from a negative 13% to a positive 10%. The data in the table above very roughly captures the productivity of NBFC-MFI sector and it seems that this sector has not performed well on this parameter in the recent past.

5.3. Insights into the behaviour of mean values of major Microfinance variables across chosen regions

The distribution of the mean values of the average MFI count, average clients per region, average number of branches per region and the average amount of loan disbursed per account per region, have been presented below in the Table 7. These data have been estimated using the information on 18 states as contained in the March 2018 issue of Micrometre across three different time periods namely, 2015-16, 2016-17 and 2017-18. Data for these three years were averaged for each state using arithmetic mean, and then these estimated averages for each state were again averaged using arithmetic mean to produce regional estimates of the variables contained in Table 7 below. The full form of the short forms used in Tables 7 and 8 are as mentioned here. AMC is Average MFI Count; AC is the Average No. of Clients (in Lakhs); ANB is the Average Number of Branches and AALD is Average of the Average amount of Loan Disbursed (Rs.).

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

Table 7: Regional estimates of the mean values of major financial variables pertaining to the NBFC-MFI segment as on 31st March 2018

Regional Mean Values					
Sr. No.	**Region**	**AMC**	**AC (Lakhs)**	**ANB**	**AALD (Rs.)**
1	East	12.67	10.60	417.54	19924.07
2	Central	19.33	20.67	832.67	21295.67
3	North	12.06	10.00	346.22	23183.61
4	South	10.55	17.89	647.22	19780.78
5	West	17.00	11.00	433.78	21231.67
	All-India	**13.20**	**12.24**	**457.82**	**21280.83**

Source: Authors' Estimation.

A close look at the table shown above illustrates that the distribution of the major variables across different regions is quite skewed towards the Central region except in case of AALD, where the Northern region dominates. As a proportion of the all-India values, the Central Region plays a pre-dominant role across all variables, while the Western region is the second-most important one for AMC; Southern region for AC and ANB, and lastly the Central region itself for AALD, where as noted above, the Northern region is the dominant one.

Table 8: Correlations among major variables at regional and state levels

Regional Correlations				State-wide Correlations			
	AMC	**AC (Lakhs)**	**ANB**		**AMC**	**AC (Lakhs)**	**ANB**
AC (Lakhs)	0.35			**AC (Lakhs)**	0.61		
P-value	*0.56*			***P-value***	*0.00*		
ANB	0.48	0.99		**ANB**	0.70	0.93	
P-value	*0.41*	*0.002*		***P-value***	*0.00*	*0.00*	
AALD	0.18	-0.32	-0.33	**AALD**	-0.18	-0.32	-0.28
P-value	*0.78*	*0.60*	*0.60*	***P-value***	*0.19*	*0.02*	*0.04*
Observations: 5				Observations: 55			

Source: Authors' Estimation.

In order to test our hypothesis of possible correlations among the variables chosen in this study, an elementary correlation analysis was undertaken and the results have been reported in the Table 8 above. It is quite evident that the variables AC and ANB are acting quite similarly and possibly there might be some degree of linear correlation between both. The results in Table 8 provide some statistical evidence on the possibly meaningful correlation between AC and ANB.

It might be suggested that if the number of branches is higher, the NBFC-MFIs would cater to more clients probably due to increases in their reach and scale. However, this insight is only applicable to a static framework of analysis and more sophisticated quantitative approaches are needed in order to derive much more reliable insights into the issues examined here. The correlations across regional and state-levels among the variables contained in Table 7 have also been estimated and presented in the Table 8 above. It is quite evident that the regional and state-level information are heterogeneous and throw quite different lights as far as the strength and significance of the linear associations between the various variables are concerned. The significance of the variables changes and the strength of their association undergo a change when seen at regional versus state levels. However, the linear association among ANB and AC still remains strong and significant irrespective of the level of aggregation at which they are analyzed. Other correlations do change, however, when analyzed using the State level information.

6. LIMITATIONS AND CONCLUSION

This study has not gone deeper into the theoretical underpinnings of the observed movements and co-movements among the chosen variables. Moreover, the time dimension in this study is quite limited. More intense quantitative frameworks along with more detailed data sets can be used for much more in-depth investigation of the issues only touched upon here.

It can be broadly concluded that the Indian NBFC-MFI sector occupies an important and noteworthy place in the Indian Microfinance sector and that the stock and flow movements underlying this segment have evolved considerably in the very recent time period and that the distribution of major micro-financial variables such as Average Clients, MFI Count, etc., across different spaces such as regions, states, kinds of MFIs, etc. shows good amount of heterogeneity and probably some degree of skewness. This might signify the fact that the growth and evolution of the NBFC-MFI sector is not equally spread across the country but is rather concentrated in some regions compared to others and probably some states compared to others. There is thus a need for a more equitable and efficient distribution of the growth of this segment across different states and regions, as well as across different parameters such as employment, number of branches, etc. so as to achieve a more holistic spread of the fruits of microfinance intervention and access for all the stakeholders concerned and for all the possible final beneficiaries across the country.

ACKNOWLEDGEMENT

The authors would like to thank Mr. Prakash Mishra and Miss Vaishnavi Dave, PG Students, Department of Economics, Faculty of Arts, The M. S. University of Baroda, for their secretarial assistance. The usual disclaimer applies.

ISSN: 2455-8834

Volume:03, Issue:08 "August 2018"

REFERENCES

1. Brune, A. (2009). An empirical study on the impact of microfinance institutions on development. Institute for Empirical Research in Economics (IEW) at the University of Zurich Bachelor Thesis.
2. Copestake, J. (2010). Microfinance and development finance in India: research implications. Centre Emile Bernheim Working Paper Number 10/028, February 2010.
3. Das, L. (2012). Microfinance in India: self help groups-bank linkage model. MPRA Paper No. 38755, Accessed from: http://mpra.ub.uni-muenchen.de/38755/
4. Hudon, M. (2008). Norms and Values of the Various Microfinance Institutions. Centre Emile Bernheim Working Paper Number 08/006, February 2008.
5. Kasat, P. (2010). Innovative Approaches to Developmental Microfinance in India. Project Thesis for the Degree of Masters of Business Administration (2008-10), at the Faculty of Management Studies, University of Delhi.
6. Marban, R. (2010). The Microfinance Institutions –an Alternative to Improve Women Quality Life in South India Rural Environment, Economic Alternatives, Issue 2.
7. Nilakantan, R., Datta, S. C., Sinha, P. & Datta, S. K. (2013). The Impact of Microfinance on Women Empowerment: Evidence from Eastern India. International Journal of Development and Conflict, 3(2013), 27–40.
8. Saeed, M. S. (2014). Microfinance Activities and Factors Affecting the Growth of Microfinance in Developed & Developing Countries. International Finance and Banking, 1(1), 39-50.
9. Sil, M. & Guha, S. (2010). Remittances and microfinance in India: Opportunities and challenges for development finance. MPRA Paper No. 47815. Accessed from: http://mpra.ub.uni-muenchen.de/47815

