

A Review on Existence of Nonperforming Assets of Microfinance Institutions in India

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Abstract

Micro finance institutions are working towards for alleviation poverty and women empowerment by providing the micro credit the poor and rural people. The basic purpose of the study is to investigate major trends nonperforming assets of microfinance institutions in India. The trends of NPAs of Micro finance institutions are analysed in different segment like NPAs under women SHGs & NPAs under NRLM/SGSY. SIDBI Annual Reports on micro finance institutions for the last three years are collected and analysed and found the trends in non-performing assets of public sector commercial banks, Private Banks, regional banks and Cooperative banks. Regional rural banks play a vital role in fulfilling the financial needs of the rural people. This paper also made an attempt to identify is there any difference in average NPA's percentage in total advance by regional rural banks among the different regions of the country. Micro finance institutions need to come up with new financial products and services in this competitive era to fulfil the need of rural and poor people who can't afford the services from the other financial organizations. Therefore it is required to study the progress of such micro finance institutions in India.

Key words: Non-Performing Assets, Micro finance institutions, Small helping groups (SHG), National rural livelihoods mission (NRLM), Swarnajayanti Gram Swarozgar yozana (SGSY)

Introduction

Microfinance is used as an economic development approach to benefit the women and men who have low income levels. MFI provides financial services like savings, credit services, insurance and payment services also provided by some Microfinance institutions. Many Micro financial institutions provide group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group.. Microfinance is not simply banking, it is a development tool. Microfinance activities usually involve

1. Short term loans or working capital loans
2. Informal evaluation of borrowers & Investment
3. Collateral substitutes, such as SHG guarantees or Mandatory savings
4. Depending on repayment performance ,availing of large loans
5. Systematic loan disbursement & monitoring.
6. Savings products.

Although some Microfinance institutions provide enterprise development services, such as skills training and marketing, and social services, such as literacy training and health care, these are not generally included in the definition of microfinance. Nonperforming Assets are the biggest challenge for both commercial banks and NBFC. Micro finance industry also facing problem of NPA's. It has a significant impact on financial performance MFI. SHG's. Small helping groups concept encourages savings and promote group lending and systematic credit payment system. But still NPA's are increasing. As our economy depends upon commercial banks .Commercial, regional and cooperative banks are playing key role in micro finance lending. So it is high time to focus on the issue of NPA's. otherwise it have a huge adverse impact on micro finance industry to great extent.

Micro Finance and self-helping groups

SHG is defined as a voluntary group valuing personal interactions and mutual aid as a means of altering or ameliorating the problems perceived as alterable, pressing and personal by most of its participants. These groups are voluntary associations of people formed to attain certain collective goals that could be economic, social or both. The origin of SHGs is from the Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHGs were started and formed in 1975. In India NABARD had initiated in 1986-87. But the real effort was taken after 1991-92 from the linkage of SHGs with the banks. A SHG is a small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amount regularly, which are deposited in a common fund to meet members emergency needs and to provide collateral free loans decided by the group. They have been recognized as useful tool to help the poor and as an alternative mechanism to meet the urgent credit needs of poor through thrift. SHGs enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life. The basic principles of the SHGs are group approach, mutual trust, organization of small and manageable groups, group cohesiveness, spirit of thrift, demand based lending, collateral free, women friendly loan, peer group pressure in repayment, skill training capacity building and empowerment.

National rural livelihoods mission (NRLM) & Swarnajayanti Gram Swarozgar yozana (SGSY):

SGSY scheme was introduced by the minister of rural development to help the poor families living below the poverty line in rural areas .This scheme main purpose is to create self-employment in rural areas.NRLM was introduced by the minister of rural development government of India in 2011 as a restructured version of SJSY.

Objectives of the Study

1. To find the relative change of Public, Private, Regional, Cooperative banks NPA's against to SHG's in total advances

2. To find the relative change of NPA's of women SHG's of Public, Private, Regional, Cooperative banks NPA's against to SHG's in total advances.
3. To know relative change of NPA's under national rural livelihood mission scheme/Swarna jyanthi swarozgar yozana of Public, Private, Regional, Cooperative banks against to SHG's in total advances.
4. To suggest different ways to reduce non-performing assets.

Literature Review

1.Yasmeen khan , "K.S.Thakur(2022) Explored different factors causing the the demand of micro finance in Covid period.This study critically examines the public sector NPA in post and pre covid period.Lawrence kryzanowski ,jinjingliu ,jie Zhang (2023) conducted to research to analyse impact of COVID-19 on non performing loan by using NPL ratios.in this study it is observed that big five banks all have lower NPL ratios in covid-19 crisis.

Shanu singh ,Pr.Chanramma Singh(2017) : This study explored the major trends in NPA's of micro Finance institutiins working in Bihar region. It identified growth in NPA of MFI in Bihar state.Used t test to identify the growth in NPA's of Micro finance institutions.

Nitya garg (2021) emphasized on factors affecting NPA's in Banking sector.in this study multiple regression model is used to predict the future NPA'S in commercial banks.

Research Methodology

Research is defined as the activities which find out all the research in the systematic way. The researcher finds solution for the problems. Research Methodology is a philosophical framework where the research is conducted on the basis of its foundation. Research methodology is the science of the study in solving the research problems.

Data Collection:

This study completely based on secondary data.NABARD annual micro finance reports from 2020 to 2022 are used in data analysis. Statistical tools also used to test hypothesis..Anova test is used to test hypothesis .For comparison of NPA's tables, bar, pie charts are used.

Hypothesis

Null Hypothesis (Ho):

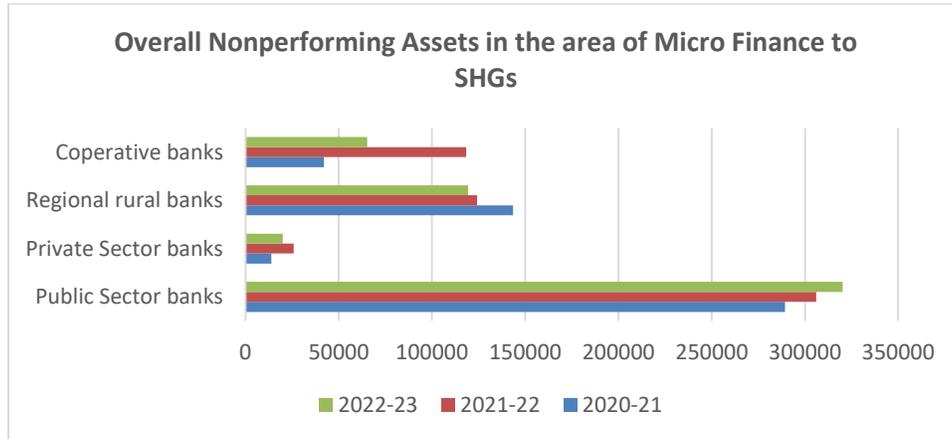
There is no significance difference in Average NPA's percentage in total advance by regional rural banks among the different regions of country.

Alternative hypothesis (H₁):There is significance difference in Average NPA's percentage in total advance by regional rural banks among the different regions of country

Data Analysis:

Comparison of Public Sector, Private Sector commercial banks, Regional Banks & Cooperative banks NPA's as percentage in total NPA Microfinance NPA's

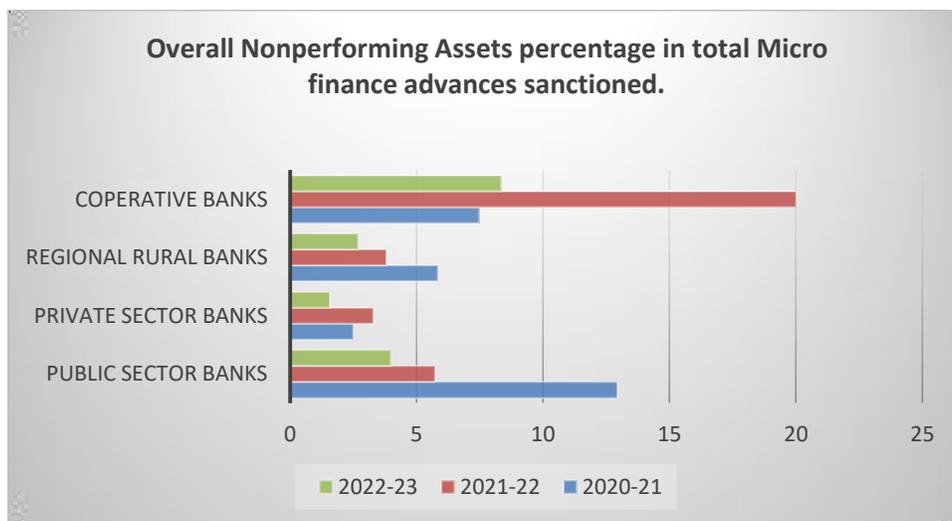
Graph-1-Overall Nonperforming Assets in the area of Micro Finance to SHGs



Source: NABARD annual micro finance reports from 2020 to 2022

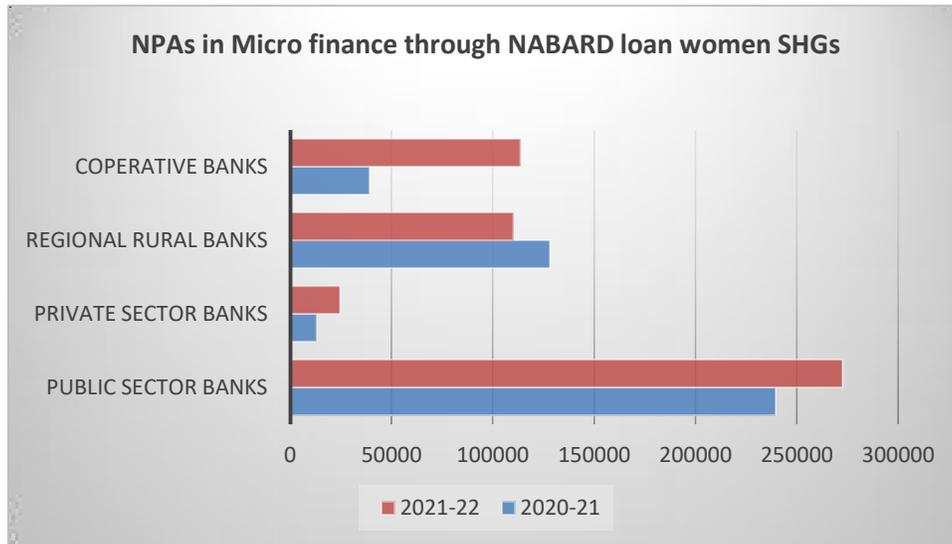
NPA's of public sector commercial banks are increased during the study period. Private sector NPAs are decreased from Rs.25830 lakhs to Rs.20020 .While comparing to other banks the least NPAs are observed lakhs Regional banks NPA's are followed by next. Public sector commercial banks NPA's after 2020 slightly started decreasing. It is good sign for commercial banks. Compare to the entire years cooperative bank NPA's are increased drastically.

Graph-2 -Overall Nonperforming Assets percentage in total Micro finance advances sanctioned.



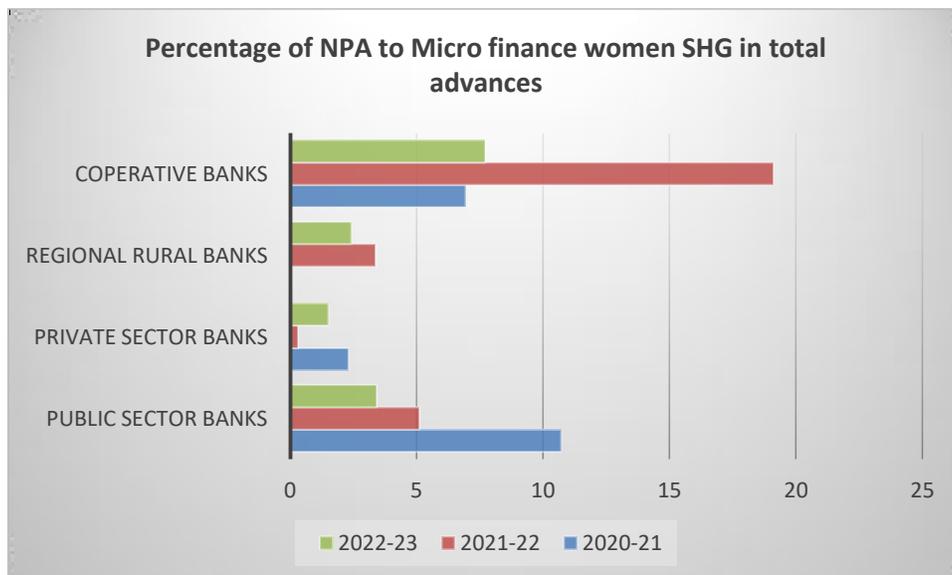
The above graph shows that the percentage of NPAs of public sector commercial banks ,Private banks, regional rural banks and Cooperative banks. Public sector banks were able to reduce the NPAs in 2022-23 compare to remaining two years.3.98% is the least percentage observed in the last three years. Cooperative banks NPAs are very high percentage is observed in 2021-22 year.

Graph:3-NPAs in Micro finance through NABARD loan women SHGs



Micro finance is the holistic program that intends to empower the women .From the above chart public sector NPAs are slightly increased from Rs.239475 lakhs to Rs.274230 lakhs in women SHGs segment. Regional banks efficiently reduced the NPAs in the same segment from 128077 to 106783.

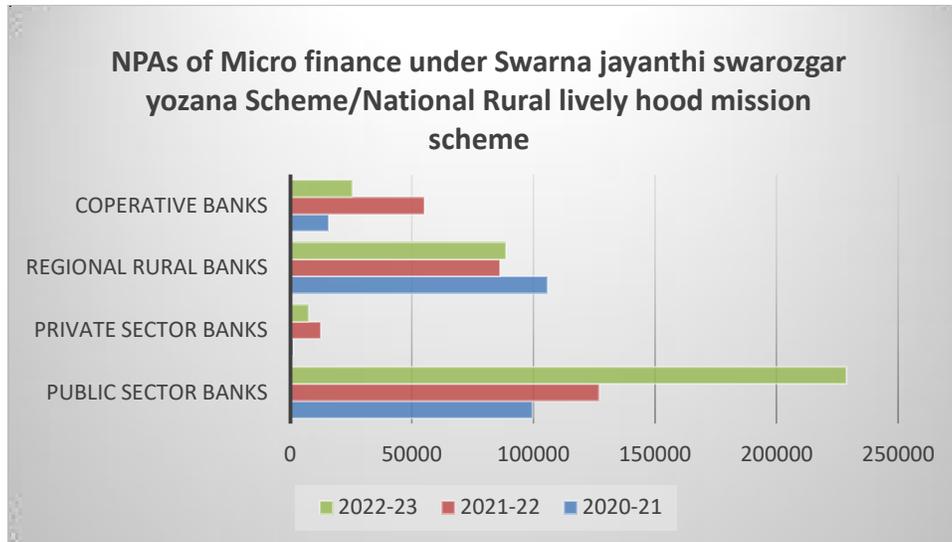
Graph: 4 -Percentage of NPA to Micro finance women SHG in total advances



This graph shows that percentage of Women SHGs NPAs in total advances sanctioned. The public sector banks are efficiently reduced the NPAs percentage by 7.3% for the last 3 years. Regional rural banks NPAs are

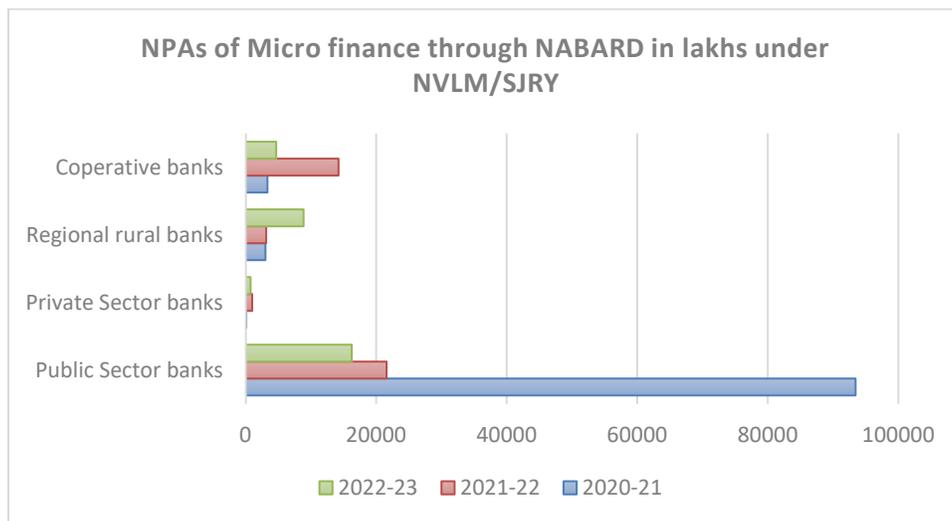
fluctuated during the study period. Worst NPAs percentage is observed in cooperative banks in the year 2021-22.

Graph5: NPAs of Micro finance under Swarna jayanthi swarozgar yozana Scheme/National Rural lively hood mission scheme.



From the above graph Public sector banks NPAs under SJSY/NRLM is increased from Rs.99505 lakhs to Rs.228647 lakhs. Private sector bank is reduced the 2022-23 year NPAs compare to last year. Regional Banks NPAs also fluctuated during study period.

Graph 6-NPAs of Micro finance through NABARD in lakhs under NVLM/SJRY



From the above graph Public sector banks efficiently reduced the NPAs under NVLM/SJRY. Private sector bank is reduced the 2022-23 year NPAs to least i.e. 793.08 lakhs .Regional Banks NPAs are increased continuously.

Hypothesis Testing

Null Hypothesis (Ho):

There is no significance difference in Average NPA's percentage in total advance by regional rural banks among the different regions of country.

Alternative hypothesis (H₁): There is significance difference in Average NPA's percentage in total advance by regional rural banks among the different regions of country

Non-performing assets percentage in total advances sanctioned to SHGs by regional rural banks

Year	Central Region	Eastern Region	North Eastern Region	North Region	South Region	Western Region
2020-21	36.50	6.00	29.33	13.89	3.08	13.44
2021-22	15.65	24.97	13.53	21.21	2.25	20.04
2022-23	5.78	2.02	6.65	5.28	2.13	15.64

Average and Variance of the data

Groups	Count	Total sum	Mean	Variance
Column1	3	57.94	19.31	491.98
Column2	3	32.99	11.00	300.8
Column3	3	49.51	16.50	270.46
Column4	3	40.38	13.46	132.3
Column5	3	7.46	2.49	0.54
Column6	3	49.12	16.37	22.61

ANOVA

Source of variation	Sum of squares	Degree of freedom	Mean squares	F ratio	P value	F critical value
Sum of squares with in groups	1218.19	5	2436	4.37	0.01693	3.10588
Sum of squares with in groups	667.85	12	55.65			
Total	1886.04	17				

Interpretation: From ANOVA test it is observed that P value is lesser than F critical value .therefore it is concluded that there is significant difference between in average NPA percentage in total advance by regional rural banks among the different regions of country.

Findings:

1. From 2020 to 2022 it is observed that the private sector banks efficiently reduced the Micro finance NPA's.
2. During the study period Public sector NPA's are decreased from 2020 to 2022.
3. The private sector banks micro finance NPA's are very less compared remaining banks.
4. The private banks have least percentage of NPAs in total advances in the segment of Women SHGs.
5. The public sector banks shown downward trend in NPAs. The efforts of Public Sector banks are in the right direction.
6. Nonperforming assets in NULM scheme is relatively less compared to SJSY/NRLM scheme
7. There is a significant difference in average NPA percentage in total advance by regional rural banks among the different regions of country.

Suggestions:

1. Restriction should put on banks whose NPAs are higher than 20%.
2. Close controlling Measures to be taken for government finance schemes.
3. Mechanism of rating to women SHGs should be given for inducing the Women SHGs for Zero NPAs in their segment.
4. NABARD Involvement in financial assistance through bank is one of the best way to reach the right people.
5. NABARD Involvement in controlling NPAs through bank is best collective effort to reduce NPAs.
6. Reward system to Women SHGs who are not having NPAs for last 5 years is a better way to motivate women SHGs to reduce NPAs.

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