

**“THE ROLE OF PUBLIC SECTOR COMMERCIAL BANKS IN MICROFINANCE:
A COMPREHENSIVE STUDY ON NORTH EAST REGION”**

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ABSTRACT

Numerous studies have shown that microfinance, like many other developing nations worldwide, has become a useful instrument in the fight against poverty in India. In India, traditionally, Microfinance Institutions (MFIs) offer microloans to low-income, disadvantaged people with the goal of reducing poverty and giving the poor more power. In addition to MFIs, Indian commercial banks are tasked with providing microfinance services as well. Considering the availability and nationwide branch network Commercial banks have a huge opportunity to offer microloans to the underprivileged if they have access to sufficient funding. Commercial banks now have more opportunities for diversification thanks to microfinance initiatives. Deployment of cash and increased participation in the nation's effort to increase financial inclusion. This paper focuses on draw a comparison of Loan Distribution, Loan Outstanding, Non Performing Asset(NPA) relating with micro finance of the public sector commercial banks in North-East region of Assam over the years i.e., from 2017-2021 based on secondary data collected from RBI Websites, NABARD Annual Reports, GOI websites, various journals, Magazines and Articles .

KEYWORDS –Micro Finance, Non-Performing Assets, Micro Loan

1. INTRODUCTION

Microfinance which refers to the provision of banking services to lower-income people, especially the poor is the newest silver bullet for poverty alleviation. Nobel Laureate Muhammad Yunus declared microcredit as an important instrument to fight against the poverty, and the United Nations designated 2005 as the International Year of Microcredit, it

has attracted billions of dollars; the “Grameen” banks alone disbursed a large amount in microloans over the past years (Das & Patnaik, 2015). By giving small loans to underprivileged households without access to regular financial institutions, microfinance enables them to expand their small business. It has been crucial to establishing a formal organization that would offer microloans. The zeal argues that microfinance should aid the underprivileged and accomplish the goal of eradicating poverty through evaluation (Satish, 2005). Poverty has many different facets and Microfinance is crucial for facilitating access to financial services and minimizing the effects of poverty.

Numerous and dispersed in remote locations with extremely small transaction quantities are the microfinance customers. Millions of potential microfinance beneficiaries cannot be reached by the government or state banks alone; instead, a vast, tightly knit network with practically doorstep reach is needed. This is made possible when commercial banks get involved in microfinance.

One argument against integrating commercial banks in microfinance is that they will raise interest rates, further depress living standards, and take advantage of the public. The actual situation is quite different; empirical data shows that participants in microfinance programmes have raised their living standards at both the individual and household levels, which has expanded children's prospects for educational opportunities.

In terms of their main goal, profitability, commercial banks getting involved in microfinance would be making the incorrect choice. Sure, it can. According to data from the Micro Banking Bulletin, the average rate of return for 63 of the top MFIs in the globe was roughly 2.5 per cent of total assets after accounting for inflation and potential programme subsidies. This is in line with returns in the commercial banking industry and supports the belief of many that microfinance may be made to appear mainstream in the retail banking industry. Many believe that once microfinance is accepted as a mainstream practice, client numbers may expand dramatically.

Commercial banks' participation in microfinance is crucial because all microfinance initiatives that were directly managed by or supported by the government met with utter failure. When evaluated based on achieving both high portfolio quality and a significant scale of outreach to the poor, the majority of the commercial bank microfinance programmes that were mandated by governments can only be considered failures. Scale and sustainability in microfinance by commercial banks were only found in market-based programmes. The programmes that charged a commercial rate of interest were the exceptions. They were still not profitable despite having a higher portfolio quality than other programmes. The many policy contexts across the Asia-Pacific region cannot account for this nearly uniform failure. Government mandates have also failed to persuade commercial banks to participate in microfinance because the industry hasn't proven to be lucrative. The banks must be motivated to create better, more lucrative products for micro business owners.

2. OBJECTIVE OF THE STUDY

To draw a comparison of Loan Distribution, Loan Outstanding, Non Performing Asset(NPA) of the public sector commercial banks over the years i.e., from 2017-2021.

3. LITERATURE REVIEW

With an objective of understanding the concepts, the studies undertaken by various scholars have been reviewed and a few selected reviews have been presented here:

Delfiner, M., & Peron, S. (2007) In their study, which aims to explore the key factors related to commercial banks' provision of microfinance services and the future prospects for this activity, the authors discovered that there is a significant unmet need for microfinance services, which could be satisfied by a swift expansion of the operations of current MFIs. The size of that demand, though, might necessitate the complementing venture of additional banks in this market. Commercial banks could utilise their wealth of branch locations, financial services expertise, and technical capabilities to best serve the MF segment.

Das, S., Patnaik, B.C.M. , (2015) conducted a study on Microfinance in Eastern India: The Role Played by Regional Rural Banks, which included the states of Bihar, Jharkhand, Odisha, and West Bengal for 3 years based on secondary data to make a comparative analysis concerning the number of self-help groups, savings amount of the SHGs, total loan disbursed by SHGs, outstanding loan and NPAs of the SHGs for SHG scheme, SHG under SGSY scheme, and WSHG scheme. Lastly, the study also attempted to analyze and interpret the reasons for the differences.

P. K., M. (2015) the study, titled "Financial Inclusion Through Microfinance: A Study With a Focus On The Exposure Of Commercial Banks in Kerala," aims to make a detailed analysis of the trend and pattern of microfinance exposure by formal sector institutions in India with a focus on Kerala. As Commercial Banks (CBs) represent the largest group with a share of 72.48 per cent (2014) of the total microfinance exposure by all intermediaries, the case of CBs is studied in detail Within CBs, a comparison between public and private sector banks is also conducted. Strategies for utilising microfinance effectively for inclusive growth are recommended in light of the study's findings.

Bounouala, R., & Rihane, C. (2019) in their study "Commercial banks in microfinance: entry strategies and keys of success" aim to examine entry strategies used by commercial banks in microfinance, identify the keys to success, and demonstrate how a "win-win" scenario between commercial banks and microfinance can be achieved. The entry of banks into the microfinance market is significant for banks to diversify their activity portfolios, increase their revenues, and improve their reputation in society as well as for microfinance as a whole, because banks are able to develop microfinance services relatively, at little cost, given their physical, financial, and human resources.

Abrar, A., Hasan, I., & Kabir, R. (2021) this study examines the relative significance of microfinance institutions (MFIs) at the macro (financial development, economic growth, income inequality, and poverty) and micro (efficiency of traditional commercial banks) levels and finds that they have a significant impact on the majority of these fronts. With MFIs involved, the economy as a whole saves more (total bank deposits) and allocates more credit (loans to the private sector). By lowering poverty and income disparity, their participation improves economic welfare. Additionally, by submitting them to greater competition and encouraging greater efficiency, their active presence helps Journal Pre-proof iii discipline the conventional commercial banks.

3. RESEARCH METHODOLOGY

The research methodology adopted for the study is explained below:-

The paper is based on the secondary data. The sources of data are RBI Websites, NABARD Annual Reports, GOI websites, various journals, Magazines and Articles. India's North Eastern region consists of seven states viz., Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Tripura and Nagaland (excluding Sikkim). Assam is the highest support receiver from the government among the rest of the state in North east. For this study the performance of Public Sector Commercial Banks of Assam has been considered from the year 2017-2021 because Assam is the highest support receiver from the government among the rest of the state in North east. A four factors comparison has been conducted i.e., (a) Progress under microfinance –savings of SHGs with Public Sector Commercial Banks (b) Public Sector Commercial Banks loan disbursed to SHG's (c) Public Sector Commercial Banks loans outstanding against SHG's (d) NPA's against bank loan to SHG's. In the present study 2017-18 has been taken as a base year. An effort has been made to analyze the percentage changes with base year. For percentage calculation of all the four factors the used formula is

$$\text{Current year/Base year} \times 100$$

5. DATA ANALYSIS AND INTERPRETATION

In the year 2018-19 SHG's savings linked with bank was 138.79% which was gradually increases to 177.12% and 358.95% by the year 2019-20 and 2020-21. Under the exclusive women scheme in 2018-19 amounts of savings was 5637.33L which increases to 188.55% by the year 2019-20. The amount of savings in exclusive women scheme also increases to 14761.4 cr by the year 2020-21 which was 377.25%. It indicates that there is a increasing trend in savings amount. Under the SGSY Scheme it is noticed that in 2018-19 amount of savings was 4923.68L which increases to 532.79% by the year 2020-21 (refer table 1).

TABLE 1: STATEMENT OF SAVINGS OF SHG'S WITH PUBLIC SECTOR COMMERCIAL BANK-

State/ Year	Details of SHG's -saving linked with bank			out of total SHG's exclusive women SHG's			out of total SHG's under SGSY scheme		
	No of SHG's	Amount of Saving's(₹in)	Percentage (+) or (-)	No of SHG's	Amount of Saving's(₹in)	Percentage (+) or (-)	No of SHG's	Amount of Saving's(₹in)	Percentage (+) or (-)
<u>Assam</u>									
2017-18									
2018-19	92012	5838.77	Base Year	62730	3912.9	Base Year	51573	3109.17	Base Year
2019-20	113446	8103.94	138.795	79418	5637.33	144.07	68740	4923.68	158.36
	129846	10342	177.127	94424	7377.9	188.553	77615	6178.08	198.705
2020-21	162103	20958.6	358.955	119526	14761.4	377.25	108893	16565.5	532.794

Source: Data compiled from NABARD Annual Reports

In case of loan disbursement for the savings linked with bank in the year 2018-19 the loan disbursed was 96.97% which increases to 155.69% and 258.58% by the year 2019-2020 and 2020-2021. For the scheme of exclusive women SHG's it was shown the loan disbursed amount in the year 2018-19 was 7997.51L which increases to 160.14% and 241.33% by the year 2019-20 and 2020-21 respectively. For the scheme SGSY the amount of loan disbursed in the year 2018-19 was 7220.41L which was shown increasing trend by the subsequent year i.e., 309.16% and 327.64% by the year 2019-20 and 2020-21(refer table 2).

TABLE 2: STATEMENT OF LOAN DISBURSED AMOUNT OF SHG'S WITH PUBLIC SECTOR COMMERCIAL BANK

State/ Year	Details of SHG's -saving linked with bank			out of total SHG's exclusive women SHG's			out of total SHG's under SGSY scheme		
	No of SHG's	Total Loan Disbursed (in lacs)	Percentage (+) or (-)	No of SHG's	Total Loan Disbursed(i n lacs)	Percentage (+) or (-)	No of SHG's	Total Loan Disbursed(i n lacs)	Percentage (+) or (-)
Assam									
2017- 18									
2018- 19	9537	11309.6	Base Year	7553	9858.95	Base Year	5448	4862.59	Base Year
2019- 20	10781	10968	96.9792	7495	7997.51	81.1193	7953	7220.41	148.489
	13523	17608.7	155.697	11915	15788.1	160.14	10375	15033.4	309.165
2020- 21	24859	29244.8	258.584	19816	23792.8	241.332	13510	15931.8	327.64

Source: Data compiled from NABARD Annual Reports

In case of savings linked to bank for loan outstanding in the year 2018-19 was 104.67% which gradually increases to 116.08% and 143.51% by the year 2019-2020 and 2020-2021 respectively. For the SHG's Exclusive women scheme loan outstanding in the year 2018-19 was 22100L which was 93.96%. By the year 2019-20 and 2020-21 amount of savings increases to 114.21% and 133.75%. Loan outstanding for the SGSY scheme in the year 2018-19 was 18792.4L which increases to 133.27% in the year 2019-20 and 135.72% in the year 2020-21.(refer table 3).

TABLE 3: STATEMENT OF LOAN OUTSTANDING AMOUNT OF SHG'S WITH PUBLIC SECTOR COMMERCIAL BANKS

State/ Year	Details of SHG's -saving linked with bank			out of total SHG's exclusive women SHG's			out of total SHG's under SGSY scheme		
	No of SHG's	Total Loan Outstandin g(in lacs)	Percentage (+) or (-)	No of SHG's	Total Loan Outstandin g(in lacs)	Percentage (+) or (-)	No of SHG's	Total Loan Outstandin g(in lacs)	Percentage (+) or (-)
Assam									
2017- 18									
2018- 19	35355	26929.7	Base Year	30881	23519	Base Year	25112	16572.9	Base Year
2019- 20	29617	28189.5	104.678	22471	22100	93.9667	21427	18792.4	113.392
	35223	31262.2	116.088	30359	26861.1	114.21	26064	22087.7	133.276

20									
2020-21	50461	38648.9	143.518	42994	31457.6	133.754	24530	22494	135.727

Source: Data compiled from NABARD Annual Reports

In Assam, NPA for savings linked with bank in the year 2017-18 was 19.51% to the loan outstanding which was increased to 26.57% in the year 2018-19. After that by the subsequent two years number of NPA was declined by 21.98% and 19.04% by the year 2019-20 and 2020-21 respectively. In case of exclusive women SHG's scheme NPA in the 2017-18 was 18.95% to the loan outstanding which was increased to 27.23% in the year 2018-19. After that in the year 2019-20 NPA was declined to 21.84%. Again in the year 2020-21 NPA was increased by 20.15%. For the SGSY scheme NPA in the year 2017-18 was 3810.91L to the loan outstanding which was increased to 18.06% in the year 2018-19. In the subsequent year the percentage of NPA increases to 22.54%. In the year 2020-21 NPA decreases to 3734.8L which was 16.6 % (refer table 4).

TABLE 4: STATEMENT OF NPA AMOUNT AND PERCENTAGE OF SHG'S WITH PUBLIC SECTOR COMMERCIAL BANKS

state/ year	Details of SHG's - saving linked with bank		out of total SHG's exclusive women SHG's		Out of total SHG's under SGSY scheme	
	Amount of NPA's	NPA as %age to Total Loan O/s	Amount of NPA's	NPA as %age to Total Loan O/s	Amount of NPA's	NPA as %age to Total Loan O/s
<u>Assam</u>						
2017-18	5254.55	19.51	4457	18.95	3810.91	22.99
2018-19	7488.88	26.57	6018	27.23	3393.65	18.06
2019-20	6872.14	21.98	5866.7	21.84	4978.5	22.54
2020-21	7359.73	19.04	6338.36	20.15	3734.8	16.6

Source: Data compiled from NABARD Annual Reports

6. FINDINGS OF THE STUDY

- The savings amount of the SHG's with commercial banks for the three schemes was satisfactory. We can observe from the data as the amount has an increasing trend in all the respected year.
- From the data we can observe as compared to the other schemes SGSY Scheme enjoyed a preference as in the three year this scheme found to have maximum growth percentage. The amount of loan disbursed in the year 2018-19 was 7220.41L which was shown increasing trend by the subsequent year i.e., 309.16% and 327.64% by the year 2019-20 and 2020-21. In comparison to growth the total loan disbursed for the three schemes had a overall satisfactory outcome.
- It is observed that outstanding amount percentage had an increasing trend which may turn lead the financial institutions towards contraction of their business. Due to increase outstanding the rate of NPA had an increases trend till 2020. But in the year 2020-21 it is found to decrease for all the three schemes

After analyzing the status of microfinance it is found that the scope of microfinance in Assam is very wide as there is huge percentage of poor in the area. It would have a greater clarity if banks in terms of credit deposit ratio made a contribution.

7. LIMITATIONS AND SCOPE OF THE STUDY

The present study is based on Public sector commercial banks performance in Assam for the three schemes that are savings linked with banks of SHG's, Exclusive women's SHG's and SGSY scheme. Moreover the study considered only four years of data. These aforesaid limitations can be use by the future researcher as a scope of the study in this area.

8. CONCLUSION

MFI's were the first to see the frantic need for microcredit and to create strategies for offering low-income people credit and other financial services. Microcredit has developed into microfinance within its comparatively brief history, indicating the radical shift in the strategy for reducing poverty worldwide. "Microfinance positions itself as a new market-based approach to reducing poverty." Future plans for microfinance include being a regulated and transparent sector of the economy. In this regard, the most crucial development that must be made in order to meet the expanding demands of this industry's customers is the integration of microfinance with the commercial capital market.

So, in addition to its non-profit function, microfinance can also be a commercial enterprise. However, this enterprise is distinct from consumer financing and should not be viewed as such. Commercial banks must first and foremost have a wide network of branches, an awareness of regional cultures, be able to take advantage of economies of scale, and have trained their credit agents for effective loan monitoring in order to participate in microfinance. However, a commercial bank's direct involvement in microfinance without prior experience might be expensive. In this regard, collaboration with a microfinance organization or an indirect involvement may be desirable. In any event, we may anticipate more commercial banks getting involved in microfinance in the near future. This involvement will most likely take the form of securitization using microfinance bonds and funds, for example. In fact, this indicates that the microfinance sector is moving in the correct direction, forging links with the established financial system to achieve the necessary scale and bring about the essential reforms for the world's economically disadvantaged people.

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