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Study of NPA Management and its Impact on Banking Sector

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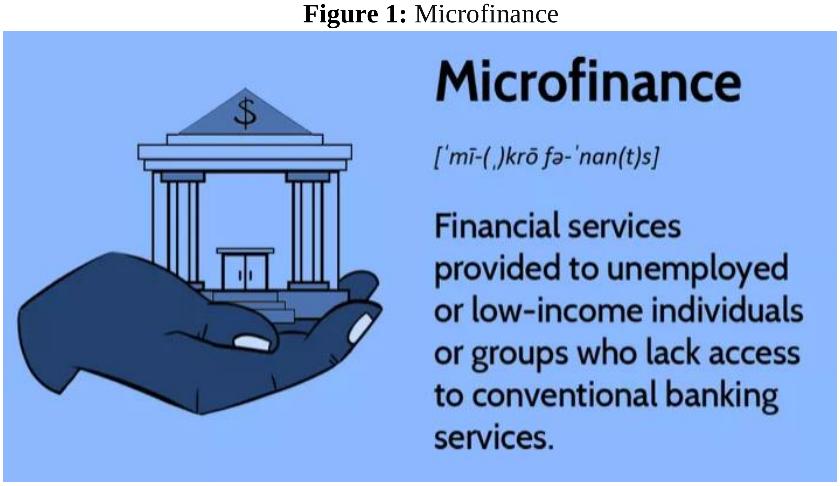
ABSTRACT
The goal of the study is to learn more about India's microfinance institutions' non-performing assets. non-performing assets of SHGs, women's SHGs, public sector banks, and private sector banks in relation to various microfinance programs and schemes, including Swarnim Rojgar Yojna. The ANNOVA approach has been used to test hypotheses. Conclusion: Private sector banks and cooperative banks are more effective at controlling non-performing assets (NPA) and keeping them at a minimum level than public sector banks. Furthermore, research shows that public sector banks perform better at supporting microfinance programs and providing financing for them than private sector banks or cooperative banks.

Keywords*: financial service, women empowerment, microfinance, banking sector, npa, annual reports*

I. INTRODUCTION

'Microfinance' was first established in India in 1980 with the express goal of reducing poverty there. Empowerment of women is another goal of microfinance. Although it has enormous potential, the microfinance industry in rural India confronts difficulties with accessibility.

Figure 1: Microfinance



Source: https://www.investopedia.com/terms/m/microfinance.asp

A sort of banking service called microfinance is offered to people who find it difficult to acquire traditional financial services. It is intended for the unemployed and low-income demographic segments. The organizations that promote microfinance provide products and services that include loans, opening bank accounts, and microinsurance. Microfinance can aid small-scale enterprises in flourishing by supplying better financial stability in emerging nations like India, where financial services through formal channels fall short of the needs of the rural poor.

Through the use of microfinance from banks or other financial institutions, the Indian government and other state governments have developed a number of programs to help the underprivileged in both rural and urban areas. Antyodaya Yojana of Swarojgar, National Rural Livelyhood Mission, National Urban Livelyhood Mission, etc. NABARD is one of the organizations that provides funds to different banks for use in microloan programs.

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To lessen the likelihood of non-performing assets, intensive post-disbursement monitoring is necessary for all microfinance programs. The bank is having trouble with non-performing assets under microfinance programs for a number of reasons.

Data from MFIN (Microfinance Institutions Network), the microfinance representative group, indicates that as of March 31, 2020, the gross loan portfolio (GLP) of the MFI sector was Rs 2,31,788 crore, up from Rs 1,79,314 crore as of March 31, 2019.

1.1 Microcredit Provided by NABARD

In order to help the less fortunate members of society, NABARD serves as a disbursing agency. Public, private, regional rural banks and cooperative banks are all given financial support by the NABARD. As a representative of the RBI, NABARD works to finance a number of rural and urban microfinance banks. Receiving money for microloans, NBARAD distributes it through cooperative banks, regional rural banks, public sector banks, and private sector banks.

Regional Rural Banks are created for the specific development of the rural area in which they are based. Regional rural banks play a key role in boosting the economy. The most efficient method of providing financial aid to deserving and needy people in rural areas is through the Regional Rural Bank. Through such a means, the genuine candidate is easily accessible. Regional rural banks' bank officials are familiar with the people who use the money from the government's numerous microfinance programs. When deciding whether to offer credit or not, these distinctive qualities of regional rural banks might be quite useful.

Banks in the public sector provide the largest amount of funding for the microfinance industry. Similar to how private sector banks' NPA situation is much better than public sector banks' is.

1.2 National Rural Livelihoods Mission

One of the key initiatives of the federal government is the National Rural Livelihood Mission, which aims to give inhabitants living conditions above the poverty line. Microfinance is required for such poor citizens on the one hand, but it may not be repaid in a timely manner on the other. In this instance, the borrower's ability to repay the loan is quite low. Therefore, we might infer that there is a very high likelihood of NPA in such circumstances.

Figure 2: Swarnjayanti Gram Swarozgar Yojana (SGSY)

Source: https://slideplayer.com/slide/6811163/

One of the Ministry of Rural Development's main programs was the Swarnjayanti Gram Swarozgar Yojana (SGSY). It was initiated in 1999 and reorganized for implementation as the National Rural Livelihoods Mission in FY 2010–11. The SGSY sought to lift rural BPL households out of poverty by providing them with sustained income through income-producing assets and economic activities.

A number of institutes, including the National Institute of Rural Development (NIRD), the Bankers Institute of Rural Development (BIRD), and others, evaluated the SGSY with varying degrees of success.

Only 22% of the projected 25 million SHG-organized households up until 2010 were successful in obtaining bank credit. The investigations revealed that the degree of impoverished SHGs' mobilization and the effectiveness of their operation varied significantly. The one-time association program that concentrated on a single source of income did not satisfy the poor people's needs for numerous sources of income. Without sufficient investment in social mobilization or group formation, the capital investment was frequently supplied upfront as a subsidy.

- Organizing low-income households into SHGs and associated federations that are functionally effective
- Improving access to bank loans as well as financial, technical, and marketing services
- Developing talents and skills for the development of profitable and sustainable livelihoods
- Combining different programs for the effective provision of social and economic support services to low-income households.

1.3 National Urban Livelihood Mission

Building strong grassroots-level institutions for the poor will help to reduce poverty and vulnerability among urban poor households by giving them access to opportunities for gainful self-employment and skilled wage work, which will significantly improve their quality of life over the long term. The purpose would be to gradually provide critical services and shelters to the homeless in urban areas. The mission would also help urban street sellers gain access to acceptable venues, institutional finance, social security, and skills for taking advantage of developing market opportunities, which would help them with their concerns about their ability to support themselves.

II. REVIEW LITERATURE

Singh and Singh 2017 in their study looked at the non-performing assets of the microloans offered in the state of Bihar. The state of Bihar has a lower GDP and a lower per capita income. Financial institutions and the state government have been seen to work well together to recover non-performing assets under the various programs. It has been noted that the microlending NPA displayed a negative tendency over the study period. The channeling of funds through microfinance has effectively reduced poverty and created jobs in rural areas.

Parekh and Bhatt (2016) Except for NBFC-MFIs, correctly noted that there was no one regulatory body overseeing all legal kinds of microfinance organizations. Because there is no single regulatory authority, there are many classification schemes for assets and provisioning. Researchers have also noted that the majority of women who receive financing through the microfinance program may not have a stable source of income. Hence, SGHs that focus on women have difficulty recovering loans. Further observation reveals that borrowers are from a lower socioeconomic class and lack much knowledge of financial management. Most of them did not place a high priority on saving money or did not plan their payback schedule when they took out microloans due to a lack of basic knowledge. They applied for the loan based only on the present requirements, which was all they were thinking about.

Nikade and Chakrabarty (2021) in the years following COVID-19, investigated the factors that contributed to the country's decreased microfinance effectiveness. I had come to the conclusion that the borrower's interest rate on the microloan was much higher. A reduction in interest rates may indirectly increase purchasing power. Furthermore, the researcher has correctly noted that farmers with lower purchasing power are directly impacted by the market mechanisms for agricultural products. Such a process may have given farmers a just return, and that return would have been helpful for timely principal and interest payments.

III. METHODOLOGY

3.1 Research Purpose

- To comprehend current trends in non-performing assets produced by microlending in various Indian regions.
- To offer several suggestions for lowering NPA in microfinance.
- Research Design In order to better understand and characterize the trend of non-performing assets, we used a descriptive research design in this study.
- Data Source and Data Type
- Our research focuses on trend analysis and non-performing assets. As a result, we must use published financial accounts. We only focus on NPA through microfinance. For the purpose of our research, we have employed secondary data.
- We collected information about non-performing assets from NABARD's annual reports.
- The purpose of the research

- Our research is limited to non-performing assets under the NABARD microfinance program from 2017 to 2020. We acquired annual reports from the NABARD website.

IV. DATA ANALYSIS

4.1 The total amount of non-performing assets in the microfinance for SHGs sector

Table 1

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	471	421	417
2	Regional Bank	2805	652	1288
3	Private Sector Bank	447	353	329
4	Public Sector Bank	1542	1533	1668

NPA through the Public Sector Bank increased from Rs. 1542 lakhs to Rs. 1668 lakhs in a three-year period. However, the NPA in microfinance through the Public Sector Bank has decreased from Rs. 447 lakhs to Rs. 329 lakhs. This demonstrates the ability of private sector banks to restore the most important sector.

The Regional Rural Bank's NPA level, which is Rs. 2805 lakh, was much higher during the first year of research. However, it has been noted that businesses recovered a sizable sum in the next year of study, bringing the total down to Rs. 652 lakh. Regional Rural Banks have reduced NPA by 75% over the course of a year. In the final year of studies, NPA increased by two times as of 2018–19.

The initiatives of cooperative banks are in the right direction. In just three years, cooperative banks have demonstrated their effectiveness in lowering NPAs. Microloan NPA dropped from Rs. 471 lakhs to Rs. 417 lakhs through cooperative banks.

The largest amount of financing for the microfinance industry comes from public-sector banks. The NPA status of private sector banks is also far better than that of public sector banks.

4.2 Comparing the percentage of all non-performing assets to the total amount of microloans approved

Table 2

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	33	27	25
2	Regional Bank	14	11	21
3	Private Sector Bank	10	8	7
4	Public Sector Bank	12	11	10

The ratio of NPA to the total advances made to the microfinance industry by all banks over the course of the previous three years demonstrates that public sector banks have reasonable control over the problem and have decreased overall NPA by 2%. In that regard, private sector banks are more effective than state ones. The NPA of private sector banks as a percentage of all microfinance lending has dropped from 10% to 7%.

In terms of the overall amount of financing provided to microfinance, regional rural banks have failed to control NPAs at low levels. NPA levels are rising from 14% to 21%. It displays a 50% increase. This scenario is really concerning.
The cooperative banks' attempts to control NPAs are the worst. In the first year of study, one-third of the total amount of money provided in the microfinance sector was non-performing. They have cut it down to one-fourth over the course of three years.

4.3 NPA in women's SHG microfinance

Table 3

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	2801	589	1219
2	Regional Bank	272	259	226
3	Private Sector Bank	447	353	329
4	Public Sector Bank	1357	1330	1606

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A tool the central government uses to empower women is microfinance. So, women's microloans have been given precedence. The NPA for public sector banks in this industry has slightly increased from Rs. 1357 lakhs to Rs. 1606 lakhs. For private sector banks, the NPA level has fallen from Rs. 447 lakhs to Rs. 339 lakhs. The Regional Rural Bank is on a similar path and has decreased its NPA burden from Rs. 272 lakhs to Rs. 226 lakhs.

In the case of cooperative banks, there has been a significant reduction in NPAs from the financial sector to the microfinance sector for women. It is now worth Rs. 1219 lakh instead of Rs. 2801 lakh.

4.4 Percentage of NPA to microfinance women's SHG advances

Table 4

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	14	10	24
2	Regional Bank	23	19	17
3	Private Sector Bank	10	8	7
4	Public Sector Bank	13	12	11

The volume of NPA is significantly higher in the case of microloans provided by a public sector bank. However, the amount of NPA is between 11% and 13% of the total amount of microloans given by public sector banks. Over the course of three years, public sector banks will closely monitor and control non-performing assets. While maintaining their customary efficiency, private sector banks are only able to cut their NPA amount by 7% of the total microfinance advance.

The NPA of regional rural banks is comparatively higher. In 2017–18, it made up 23% of all microfinance advances; by 2019–2020, it had dropped to 17%. In the case of cooperative banks, a control over the NPA of microfinance has been observed that is extremely unique. Nearly one-fourth of the entire loan amount disbursed to the microfinance section in 2019–20 is NPA.

4.5 NPA under the Swarna Jyanti Swarozgar Yojana and the National Rural Livelihoods Mission

Table 5

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	60	25	35
2	Regional Bank	78	451	1286
3	Private Sector Bank	0	344	315
4	Public Sector Bank	1061	1069	651

The biggest NPA sum for the NRLM/SGSSY scheme in 2017–18 belongs to a public sector bank. In the last three years, the PSU bank has cut down on such NPAs by 40%. However, this level is Rs. 315 lakhs for private sector banks in 2019–20, which is almost twice as much as for public sector banks.

Over the course of three years, Regional Rural Bank has had a significant level of NPA. The amount of non-performing loans through Co-operative Bank in NRLM/SGSSY in the final academic year is Rs. 1286 lakhs.

The cooperative bank's involvement in this program is relatively minimal. As a result, its NPA is also very low. However, the NPA for Co-operative Bank has dropped from Rs. 60 lakh to Rs. 35 lakh.

4.6 NPA as a percentage of all advances made under the National Urban Livelihood Mission/Swara Jyanti Swarozgar Yojana

Table 6

SN	Bank Name	2017-18	2018-19	2019-20
1	Co-operative Bank	0	69	0.09
3	Private Sector Bank	0.00	2.96	4.91
4	Public Sector Bank	89	86	87

Funding for the National Urban Livelihood Objective is allocated at a much lower rate. In the past three years, a public sector bank has accrued NPAs in the amount of Rs. 87–89 lakhs. The Public Sector Bank's NPA under this program has climbed to Rs. 4.91 lakh. Cooperative Bank's NPA for the 2018–19 fiscal year is 69 lakh rupees. Later, it was cut to Rs 0.09 lakh for 2019–20.

The development over the previous three years shows the efficiency of private sector banks. However, the sum is stagnant in the case of public-sector banks. Therefore, we might draw the conclusion that the Public Sector Bank is making less effort to collect funds.

4.7 NPA of microfinance from public sector banks in various Indian regions

Table 7

SN	Public Sector Commercial Bank	2017-18	2018-19	2019-20
1	Western Region	21.98	20.14	15.72
3	South Region	5.21	4.06	4.61
4	North Region	36.50	21.27	16.26
5	Eastern Region	9.30	5.70	4.07
6	Central Region	23.52	31.28	29.26
7	North Eastern Region	18.72	24.56	22.70
8	All India	6.65	5.37	5.34

Comparing regions reveals the effectiveness of various regions in raising funds. In terms of the amount of money used for microfinance, the Central Region has the greatest NPA percentage, followed by the North Eastern and Western regions. However, we can see that the Western Region's NPA has decreased during a three-year period, falling from 21.98% of total finance to 15.72%.

As both regions have controlled NPA at a little under 5% of total advances to microfinance, the eastern and southern regions are doing well in recovering NPA in microfinance.

The trend study indicates that the North area is the most effective since it has decreased NPA from 36.50% of the entire amount to 16.26% of the total amount of microfinance delivered.

NPA levels are substantially lower and under control at the micro level, i.e., the level of India, when compared to the total amount of funding granted for microfinance.

4.8 In several parts of India, private sector banks' NPAs on microloans

Table 8

SN	Private Sector Bank	2017-18	2018-19	2019-20
1	Western Region	1.87	1.36	3.61
3	South Region	3.63	3.64	1.85
4	North Region	2.60	1.40	1.22
5	Eastern Region	0.08	6.85	13.30
6	Central Region	23.52	31.28	29.26
7	North Eastern Region	1.13	4.51	12.17
8	All India	3.19	3.04	2.59

The amount of NPA in the Central Region increased throughout the course of the study's final year, reaching 23.88% of the overall amount of microfinance offered. In the past three years, it has expanded by 300%. The Eastern Region NPA and the North Eastern Region NPA both share a similar condition.

The North and South regions have done a great job of controlling the situation and have prevented the NPA from rising above 4% of the total microfinance given during the three studies.

The NPA for microloans offered by public sector banks has decreased on a macro level. As a result, banks are effectively and correctly employing their equipment.

Private sector banks are offering financing through microfinance programs in accordance with government directives. They are also more effective at recovering, though. Therefore, the NPA level is lower as compared to the overall amount of granted microfinance.

V. TESTING A HYPOTHESIS

5.1 Public Sector Bank
H0: There are no regional differences in the average NPA percentage or the overall NPA for public sector bank financing.
H1: There are considerable regional differences in the average NPA percentage as well as the overall NPA for public sector bank financing.

NPA As% of the total micro finance advances made by public sector commercial banks through NABARD to SHGs

Table 9

Year	Central Region	Eastern Region	North Eastern Region	North Region	South Region	Western Region
2017-18	23.52	9.30	18.72	36.50	5.21	21.98
2018-19	31.28	5.70	24.56	21.27	4.06	20.14
2019-20	29.26	4.07	22.70	16.26	4.61	15.72

Interpretation: We may infer that there is a significant difference in the average NPA% as compared to the total NPA among the various regions of the country because the P value of the ANOVA test is less than 0.05. So, we reject H0 here.

5.2 Private Sector Bank
H0: There are no regional differences in the average NPA percentage or the overall NPA for private sector bank financing. H1: There is a considerable variance in the average NPA percentage as compared to the total NPA for financing from private sector banks in various regions of the country.

NPA As% of the total micro finance advances made by private sector commercial banks through NABARD to SHGs

Table 10

Year	Central Region	Eastern Region	North Eastern Region	North Region	South Region	Western Region
2017-18	7.09	0.08	1.13	2.60	3.63	1.87
2018-19	3.53	6.85	4.51	1.40	3.64	1.36
2019-20	23.88	13.30	12.17	1.22	1.85	3.61

Interpretation: Because the ANOVA test's P value was higher than 0.05, we may infer that there is a significant difference between the average NPA% and the total NPA for private sector bank financing in various regions of the country. So, we acknowledge H0.

VI. FINDINGS

- The Public Sector Bank has been shown to be the least effective of the four agencies of microfinance distribution and recovery in recovering microfinance loans.
- The most effective organizations for reducing NPAs are cooperative societies and private banks. Both agencies have decreased the amount of non-performing assets during a three-year period.
- The performance of the Regional Rural Bank is also satisfactory due to their 50% reduction in NPA.
- Cooperative and private sector banks have a stringent strategy for recovering funds from unreliable and non-performing assets.
- Through NABARD, the Reserve Bank assigns public sector banks and other agency banks the task of providing microfinance. Only the public sector bank met its distribution goals, not recovery goals.
- Public-sector banks make up the largest portion of NPAs overall, but their share of NPAs compared to advances is substantially lower.
- Only private sector banks were able to keep NPAs below 10 over the course of the study's three years.

- Regional rural banks or cooperative banks do not keep an eye on the post-disbursement phase of microfinance.
- The worst-case scenario is if the cooperative bank controls the NPA. In light of the current situation, one-fourth of the money disbursed under the microfinance program cannot be retrieved, and its ability to earn interest is also negatively impacted.
- Microfinance for women is regarded as essential for the economic advancement of society's most vulnerable groups.
- Microcredit for women is seen as secure.
- Women generally manage their finances more prudently and pay back both principal and interest on a regular basis. However, regional rural banks and cooperative banks are the ones with NPAs in women's SHGs that are somewhat higher.
- Public sector banks and private sector banks' microloans to women's SHGs have shown a declining trend. The bank is making the proper efforts to improve the financial system.
- Compared to NULM/SJSRY, non-performing assets in NRLM/SGSYY are comparatively higher. With public sector banks, the NPA under NRLM/SGSYY has been much greater. Banks in the private sector have very little NPA under this program.
- The public sector banks have generally performed satisfactorily in reducing NPAs in the microfinance industry. Public-sector banks have taken control of NPAs during the past three years in every sector.
- The importance of regional rural banks in delivering microloans cannot be overstated. However, under several microfinance programs, the bank is unable to control NPAs.
- Comparing cooperative banks to public and private sector banks, the financial strength of cooperative banks is weaker. As a result, these banks have not significantly increased their financing of the socially disadvantaged under the programs.
- The performance of private sector banks in recovering non-performing assets at various regional levels throughout India is also superior to that of public sector banks.
- Different methods for recovering NPA for microfinance amounts are used regionally.
- Across all of India, public sector banks have lower microfinance NPAs than private sector banks.

VII. CONCLUSION & SUGGESTIONS

1. For improved post-disbursement management, microfinance companies or NGOs of SHGs should design supervision schedules for every quarter.
2. One of the most efficient and cost-effective ways to reduce NPA is to closely monitor both government and non-government scheme funds.
3. The most efficient way for NBARD to improve opportunities for those at the bottom of the economic pyramid is to participate in financial assistance through banks. In a similar vein, it is anticipated that NABRD involvement in NPA management will make such collection effective.
4. Clean finance includes microfinance. Therefore, the institution responsible for disbursing funds should do so only after evaluating a neighbor or relative as a surety for retrieving non-performing assets.
5. Strict regulations should be put in place to prevent the misuse of funds distributed through microfinance programs.
6. SHG needs to be held responsible for NPA. As a result, SHG might exert pressure on interest and principal to be repaid on time.
7. Providing technical training to SHG members or staff or overseeing the flow of funds and the recovery of interest
8. To allow for preventive measures to be taken prior to the transfer of funds, a consortium for the credit rating of microfinance to individuals under any government scheme as well as non-government schemes must be established.
9. NBARD and the relevant bank should be the only parties in control of various microfinance programs, with government involvement reduced.
10. When the NPA of a particular microloan through a certain bank is higher than 20% of advances, NABARD should impose limits on further disbursements to the bank.
11. Various regional-level methods should be developed to lower the NPA produced by microfinance.

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