

ANALYSIS OF MICROFINANCE INSTITUTION'S PERFORMANCE IN INDIA

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ABSTRACT

In the last few years and decades, Microfinance has been a powerful source of poverty alleviation in various parts of the world. It helps a region to become financially self-sustainable. Due to its features like reduction in poverty and providing sustainability to the people with respect to financial aspects, Microfinance has gained a lot of popularity among the various source of financing. It has helped in bridging the gap amongst the poorer section of the society by providing an adequate amount to start with a self-sustenance plan. It helps the poor and low-income clients deal with their basic needs. Anyone who has access to microfinance services is more resilient and better able to deal with everyday demands. Microfinance has evolved, over the period, as an economic development approach intended to benefit low-income women and men. Savings and Credit are the two popular financial services being provided by Microfinance organizations along with provisions for insurance and payment services. An associated term is also used which is called Microcredit which favors short-term loans to poor people specifically in developing or under-developed countries. The common borrowers are artisans, farmers, women, shopkeepers, small business owners, etc. In addition to financial intermediation, many microfinance institutions (MFIs) also provide social intermediation services such as group formation, development of self-confidence, and training in financial and management capabilities among members of the group. So Microfinance involves both the financial aspect as well as the social aspect for providing funding to the people rather than becoming a simple banking activity zone. It rather acts as a development tool for the region which covers majorly financial aspects for the people living in a particular region. Now the major question that arises is whether institutions which want to enter into Micro-financing activity should penetrate into the Indian market or not. It's a social activity rather than a full-fledged commercial activity, so should they invest in a particular region in India to derive maximum output for the investments? The current study tries to answer such questions and gives insights into the companies who want to enter into Micro-financial activities. There are 10 Micro-financial Institutions that have been studied that are working actively in India through the various Micro financing activities. Their performance has been evaluated using their working strength in the country, the workable branches in India, Amount disbursed till March 2014, Number of Borrowers, and Outstanding portfolio, Revenue Generation, Profit after Tax, Organization's Assets, and Their Net Worth. The results indicate that the Micro-financial institutions are doing well in terms of providing loans and credit facilities in the poor regions of the country and are eventually making a good profit out of it. Based on the data analysis, some recommendations for companies, adopting Micro financing activities for the first time, have been included.

KEYWORDS: Microfinance, Micro-financial Institutions, Funding Source, Rural India Development.

INTRODUCTION

Microfinance [1] [2] [3] refers to the financial services that are provided to the low-income group of the society with the goal of helping them become self-sufficient. In simpler words, microfinance is the concept of giving loans to the poor in order to help them open up small-scale income-generating enterprises. It comprises credit, savings, insurance, and money transfer.

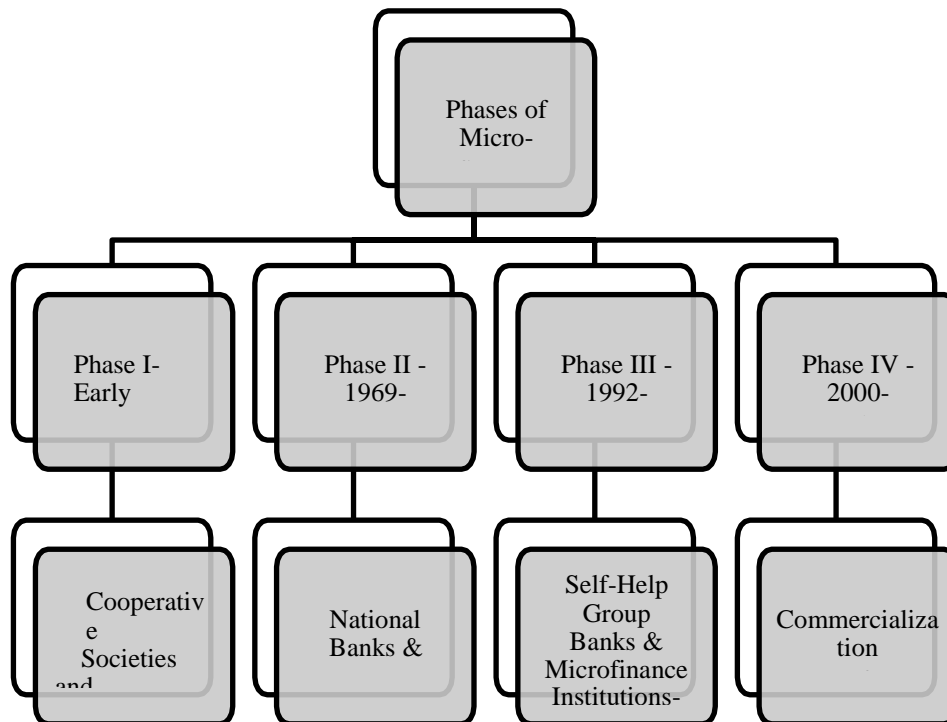


Figure 1 Historical Developments of Microfinance in India

Microfinance as a concept has been in existence for a long time i.e., somewhere around the early 1900s, in this phase the concept of cooperative societies was introduced and an act was set up Cooperative Societies Act 1904 to provide loans in Indian villages under the surveillance of government. But these societies were not able to solve the problem as due to non-repayment the assets were blocked. The survey of the All-India Rural Credit Survey says that only 7.3% of the rural household was financed by the banks and societies in 1951-52 which was much lower than the private lenders. In the 1970s, Mr. Muhammad Yunus, a Bangladeshi economist trained at Vanderbilt University, based on a series of experiments conducted by him, concluded that lending even small amounts of money to the villagers was sufficient for them to run small and simple businesses. He also observed that the villagers were profiting well and repaying reliably even when no collateral was involved. So, he convinced the Bank of Bangladesh to open a new branch with a special emphasis on helping the poor. Thus, Grameen Bank was born. Grameen Bank soon became a national phenomenon. It changed the conventionally held beliefs of loan lending by providing credit loans even in the absence of collateral. It fabricated an innovative banking system based on mutual trust, accountability, participation, and creativity [4]. A large part of Grameen Bank's success lies in the fact that it provided group loans.

The requirement for microfinance arises from the fact that loans from commercial banks

are less favorable or advantageous. The business models followed by the commercial banks are highly unsuitable for a microfinance business. Also, the lending offered through such banks is in a traditional manner based on collateral requirements and high screening and monitoring costs [5]. It is a known fact that more often than not, the target people of these Micro-financial schemes, the poor, do not own much property to provide as collateral. Besides, the banks are reluctant to provide loans based on the unfair assumption that their loan won't be paid back. Also, the rate of interest charged by commercial banks (19.75%) is higher than microfinance institutions (14.75%).

The main objectives of microfinance focus on economic development and community-wide benefits, which include providing poor with the access to funds, encouraging entrepreneurship among them, managing risks, empowering women, and poverty alleviation. Its significance lies in the fact that it presents answers to the problems that largely hinge on market failures that stem from poor information, high transaction costs, and difficulties enforcing contracts. It introduces prospective for innovative enterprises and aims at improving the conditions of the poor.

The impact of microfinance can be largely related to the impact of microcredit on an economy. It has been a subject of much dispute. Supporters of the model believe that it has played a significant

Part in poverty reduction and women empowerment among others. But the critics are convinced that instead of increasing income and employment, microcredit has driven poor households into a debt trap.

Existing proof indicates that in many cases microcredit has helped in creating new enterprises. It has often generated self-employment, but it has not necessarily increased incomes after interest payments. There is no substantial proof that microcredit has helped in women's empowerment. It can be concluded that the microfinance model has attained much less than what it was aiming for but it is also observed that its negative impacts are not that catastrophic as well. Some of its prominent potential areas of improvement are as follows.

The present study is aimed at finding out the impactful regions in the country with respect to Microfinance activities. The rest of the paper will discuss the Literature Review, Research Methodology, Analysis & Discussion, Conclusion, and Future scope of the study.

LITERATURE REVIEW

Microfinance as a financial model has seen its most successful cases in South Asia, including Bangladesh, Pakistan, and India. A review of studies about microfinance and its impact on various sectors has been added with special attention to the South Asian subcontinent. There were many studies conducted in the past related to Microfinance in India and the Asian region. Some of the prominent ones are discussed in this section.

Yadav [6], through an empirical study, made an effort to investigate the role of

microfinance in rural development, especially through Micro financial schemes. The importance of microfinance in today's times is justified by the fact that it gives crucial knowledge and experience for development in terms of the most efficient methods and practices to be performed and how to ensure changes are felt on a larger scale by small improvements at the base level.

India is one of the fastest-growing economies, it is the most plausible to have an enormous demand for microfinance in the near future, thus making it a requisite for using microfinance for the development of rural areas in India. Due to its large size and population of around 1000 million, India's GDP ranks among the top 20 economies of the world. However, around 400 million people, or about 60 million households, are living under the poverty line out of which only about 20 percent have access to credit from the formal sector [6].

A meticulous analysis of the present banking policies, systems, procedures, and products resulted in the observation that these were probably not well matched to meet the express necessities of the poor thus rendering them useless. A requirement for alternative policies, procedures, and products along with new delivery mechanisms was felt in order to fulfill the instant needs of the poor with an increasing emphasis on Microfinance being made for the same.

The different microfinance products used in rural areas for various areas include ensuring plans, pension plans, long-term deposits, term deposits, fund transfers, emergency loans, short-term loans, and long-term loans among others.

The institutions involved in microfinance have a significant role in reducing inequality and contributing to rural development for overall growth that has developed to increasing globalization and liberalization [7][8]. Another important factor in developing economies that came to the front was that traditional financial institutions like formal banks rarely give money to help raise the financial level of the poor families, and when they do, they expect security which low-income households are unable to provide.

Women play an indispensable and vital part in society. Micro financial institutions are increasing women's participation in economic activities and decision-making these days. Women empowerment is a critical factor in the eradication of poverty, as women are the key contributors to the economy and to fighting poverty through both remunerative and unremunerative work at home, in the community, and in the workplace.

It was finally concluded that poor people in rural areas in developing economies are in great need of microfinance programs in order to stimulate wherein the lower strata are improving their standard of living. Also, another key conclusion of this study, among others, was that microfinance is

Capable of solving the problem of insufficient housing and rural services as an integral part of poverty alleviation programs and empowers women to play a vital role in society.

To complement the same, Agarwal [9] studied the growth of micro-financial ventures, and

their potential for the future is ever-growing in developing economies like India. She tried to analyze the impact of microfinance and its progress on NGOs and SHGs.

India, being the second most populated country, still falls under the low-income class according to World Bank. 70 % of its population lives in the rural area whereas 60% of the people depend on agriculture. As a result, there is chronic underemployment and per capita income is only \$3262 [9]. The author assesses the need for microfinance and gives pointers as to why microfinance is so essential.

It is further explained that the requirement of microfinance arises because finance is needed for poverty alleviation and it can help the poor sections of the society pay their debts. It is further discussed that microfinance can also be used as a tool to make agriculture more profitable.

The main objectives of the study conducted were to analyze the growth of the microfinance sector and find out its prospects for microfinance institutions like NGOs and SHGs. It also aimed to examine the structure and pattern of microfinance programs [9] and schemes in rural India. The study also focused on comprehending the importance of microfinance in poverty alleviation and the marketing of its products.

The analysis is done on secondary data collected from different websites. The key findings of the study concentrated on the fact that there exists a substantial difference in the demand and supply requirements of the financial services wherein the majority of the poor are excluded from financial services. This happens because of high transaction costs and reluctance on the part of banks to finance the destitute. The study concluded that the prospective demand for micro-financial institutions in India is very high and is ever-growing. It also stressed the point that maximum benefit can be harnessed only if this sector grows at its fastest in the next half-decade. The loan outstanding's will spread and a high annual growth rate is also achievable.

Sarumathi and Mohan [10] studied how Microfinance is turning out to be the most viable and internationally accepted method to reduce poverty and empower women. They studied the role that microfinance plays in the lives of women these days based on the three basic dimensions of psychological, social, and economic empowerment. The basic objectives of the research conducted revolved around the performance of SHGs (Self Help Groups) in the Pondicherry region, women's empowerment through them, and the participation, struggle, and independence of women in such groups.

The rural areas of the Pondicherry region like Suthukeni, Lingareddipalayam, Thirukanur, Solai- Nagar, Kakilapatu, and Chettipet were covered. Both primary and secondary data were used. Primary data was collected from a field survey in the region under study whereas the secondary data was collected from NGOs' reports. 181 samples were collected and cluster sampling was done. Statistical tools like simple correlation coefficient, paired t-test, cross-tabulation, and percentage analysis were then used to perform data analysis.

The analysis results showed that 92% of the women confirmed that microfinance has

reduced their poverty level to a greater extent. Almost all the respondents 99% agreed that they were able to express their opinions freely and about 97.2 % agreed that they play a vital role in decision-making in their houses. About 90% of the respondents are moving without the help of family members indicating growth in social mobility. Around half of the respondents got microfinance to start a new income-generating business. It was also found that microfinance has led to an increase in the psychological well-being of rural women, especially for women in the age group of 20–30 years.

Though the study had a few limitations like it being confined to the rural areas of Pondicherry and the data being collected only from the ones who engaged in activities that lead to income generation, the study found substantial results. The key findings of the study were that microfinance has indeed brought self-confidence, literacy, awareness, skill improvement, and self-worthiness among the women. They are economically and socially more emancipated after joining SHG and are given full freedom to express their opinions. There is a significant improvement in the income as well. An absolute improvement in psychological well-being and social empowerment can be observed as well.

It can be concluded from these studies that rural areas under the SHG are responding well to micro-financial ventures. The ventures are improving the psychological and social state of the rural areas as well. Microfinance is bringing confidence, skill development, and empowerment. All the respondents now need is training programs to further enhance their skills.

Contrary to the conventional and widely accepted belief, Bateman and Chang [11] argued that microfinance is nothing more than a highly promoted and lavishly funded high-profile poverty reduction scheme. The authors believed that the massively exhilarating charm that microfinance holds is largely based on the mere assumption that lending microcredits to the poor strata of the society will help improve the social and economic development of the economy.

Similar studies were conducted by Leatherman [12], Noreen [5], and Kumar [4]. All the studies gave an introduction to Microfinance in a particular region and identified its role in the development of a region. But what type of Microfinancing activities are going on in the country and what level of consistency is maintained in the results are studied in the paper. This will be helpful in identifying regions where Microfinance has been less effective and thus how various strategies can be used to strengthen the area.

METHODOLOGY

The research is exploratory in nature with Quantitative methods of Research being used. For the research methods, secondary data has been collected from different sources. The source for secondary data has been Journal/Research Articles, Newspaper articles, Books, Blogs, Magazines, News clippings, Reports, and Surveys. A total of 10 Micro-financial Institution's data has been recorded for analysis purposes. The mode of data collection has been online. And the data analysis has been done using SPSS Software. Statistical

techniques like correlation and t-test have been used for the Hypothesis testing purpose.

FINDINGS

A total of 10 Micro financing institutions were studied and their performance has been evaluated on various parameters. Figure 2 provides the list of parameters being used for the analysis purpose.

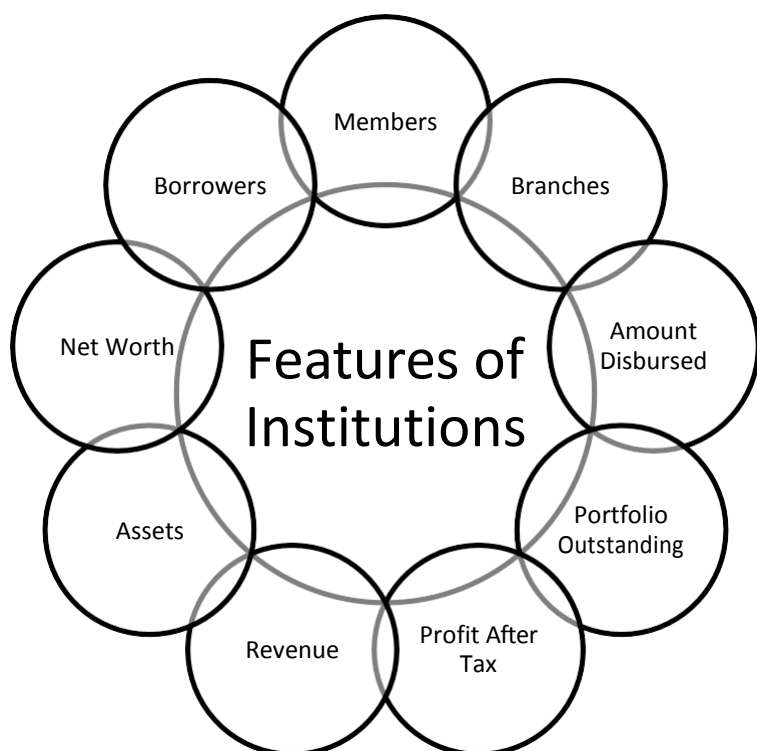


Figure 2 Various Features studied for the Micro-financial Institutions in India

The 10 institutions and their strengths and branches in India are shown in Figure 3. Most of the prominent Microfinance institutions are operational in southern regions of India.

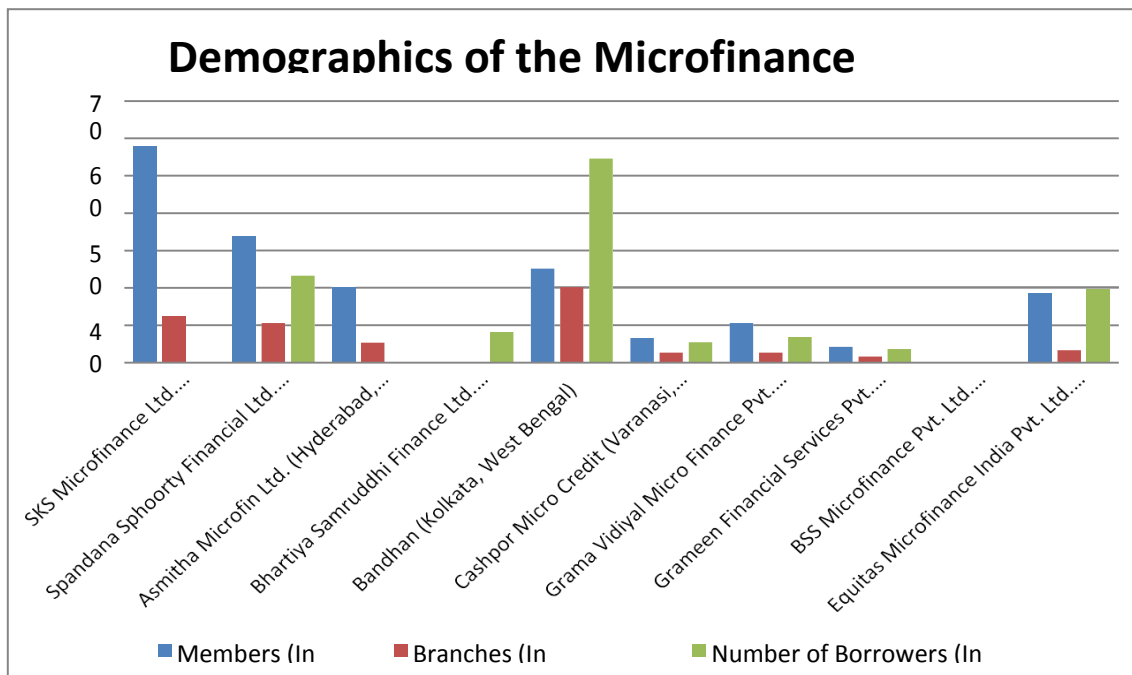


Figure 3 Demographics of the Microfinance Institutions in India

The various institutions had varied levels of branches in the country along with a good member strength working in those branches. SKS Microfinance was found to have a maximum number of members operating in India while Bandhan, Kolkata was found to have the maximum branches in the country. The highest number of borrowers were recorded against the Bandhan Institution only which has served more than 50 lacs of the poor people in the country. The various hypotheses tested are as below.

1.) HO: THERE IS NO SIGNIFICANT RELATIONSHIP BETWEEN VARIOUS VARIABLES OF MICROFINANCE INSTITUTIONS

Table 1 Correlation amongst the various variables of Microfinance Institutions

	Amount Disbursement	Loan Outstanding	Profit After tax	Revenue	Assets	Net Worth
Amount Disbursement	1	-	-	-	-	-
Loan Outstanding	0.113981548	1	-	-	-	-
Profit	0.443322893	0.757490975	1	-	-	-
Revenue	-0.121221756	0.932908589	0.772141933	1	-	-
Assets	0.074842688	0.914599977	0.897397013	0.971274944	1	-
Net Worth	-0.089374897	0.93471824	0.793205465	0.998036681	0.979148559	1

As evident from Table 1, the Profit of any institution is strongly related to Loan Outstanding, Revenue of the institutions, Assets, and Net Worth of the Organizations. The total amount disbursement of any institution is not correlated to the Profit, Revenue, or any other variable. Loan Outstanding was found to have a very strong positive correlation with the Profit and Revenue earnings of the institutions.

2.) HO: THE INSTITUTIONS WITH MORE THAN 1000 BRANCHES IN INDIA ARE MORE PROFITABLE THAN INSTITUTIONS WITH LESS THAN 1000 BRANCHES IN INDIA

Table 2 t-test for Profit level amongst Microfinance Institutions with 1000 branches

	Mean	Variance	t-test statistic	Significant Value (.05)	Hypothesis Status
Institutions with more than 1000 Branches	186.73	26437.61	-2.069	0.036	Reject
Institutions with less than 1000 Branches	771.59	214920			

The test in Table 2 suggests that the Null hypothesis is rejected. It implies that Microfinance Institutions in India with less than 1000 branches are more profitable as compared to the institutions with more than 1000 branches.

3.) HO: THE INSTITUTIONS WITH MORE THAN 15 LAC BORROWERS IN INDIA ARE MORE PROFITABLE THAN INSTITUTIONS WITH LESS THAN 15 LAC BORROWERS IN INDIA

Table 3 t-test for Profit level amongst Microfinance Institutions with 15 Lac Borrowers

	Mean	Variance	t-test statistic	Significant Value (.05)	Hypothesis
Institutions with more than 15 lacs borrowers	145.35	27774.89	-1.566	0.107	Accept
Institutions with less than 15 lacs borrowers	7.56	44.82			

The test in Table 3 suggests that the Null Hypothesis is accepted. It implies that Microfinance institutions in India with more than 15 laces borrowers are more profitable than those with a smaller number of borrowers.

DISCUSSION & RECOMMENDATIONS

The performances of various Microfinance Institutions in India are evaluated. Although the major institutions have their operations all around the country, the investment and revenue

pattern must be studied so that new Institutions can enter this service area.

The study revealed that Loans outstanding for any institution should not be a negative criterion for the organization to change its approach toward negative implications. The Outstanding loan amount has been shown as a positive sign for the institutions and the more the loan outstanding, the better is the revenue generation and profit returns.

Similarly, a greater number of branches for the institutions should not be considered always good in terms of profit returns. The institutions with lesser branches across the countries were found to be more profitable as compared to institutions with a greater number of branches. The new institutions should not focus on the extensive elaboration of the various branches in the country. Rather finding an accurate target audience should be the prime purpose of institutions.

Also, the number of borrowers is a good indicator of profit returns. More the number of borrowers better are the profit returns for the institutions. So, any Microfinance institution must not shy away from lending money in fear of protecting their deposit amount. The expansion with a number of borrowers is an indicative number of better profits rather than expansion in terms of branches.

CONCLUSION

Microfinance Institutions are growing very fast in developing countries like India. With so much funding available, the rural region development and upliftment of poor people make it an attractive option for the country officials too. Based on the performance of existing institutions in India related to Microfinance, it was found that outstanding loans and the Number of Borrowers have a positive impact on the returns for the Institutions, whereas an excessive number of branches for the Microfinance Institutions is not considered to be a profitable option. The study will be helpful for the owners of the various Microfinance Institutions and those who are planning to get into it.

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