
MICROFINANCE INSTITUTIONS: AN EMPIRICAL STUDY BASED ON THE STATE OF MAHARASHTRA

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Introduction

There are small entities / MSME enterprises who find institutional finance difficult to come by. In order to get finance, they look towards financial institutions for help, but the existing financial institutions are reluctant to offer help stating that giving finance to them is more riskier on account of the uncertainty surrounding their business which is new and often dependent on the rural economy. Financial institutions fail to appreciate the fact that these organizations create social value as are labour intensive and thus create employment opportunities in the rural areas and increase their livelihood of the rural population by providing the capital to micro-enterprises & by providing insurance that saves their lives and all this increases their standard of living. In order to offer help to such entities, microfinance institutions (MFI) have been started. Today many big celebrities help these micro-finance institutions in India, to offer their products to entities that require financial help & support offering a wide range of microfinance modes. The Government has started many programs under micro-financing that includes group lending, individual lending and helps in saving the money of the rural customers.

1.1 Micro finance defined

Microfinance is defined as a financial activity that includes provision of financial service to rural population in the form of business and individual credit facilities, savings and insurance to low income individuals who fall just above the nationally defined poverty line and poor individuals who fall below the poverty line with the goal of creating social value and insurance, capacity building and agricultural business development services that constitute the lifeline of the rural economy.

According to International Labor Organization, "Microfinance is an economic & financial development approach that involves providing financial services through institutions to low income clients/ rural clients, thus providing upliftment opportunities to a section that was denied such facilities in the past."

In India, Microfinance has been defined by The National Microfinance Taskforce, 1999 as "Microfinance institutions get involved in the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards by entering into different types of commercial activities related to the agricultural sector".

1.2 What does Microfinance institution do?

Microfinance focuses on providing a very standardized credit product to the rural poor population / entrepreneur and MSME usually requiring a wide range of financial instruments to build long term capital to consume, earn and protect them against different types of risks. Thus, a concept called micro-finance was seen as a big challenge so that better & richer ways of micro-finance products were desired. It is simply defined as survival of their businesses, the clients of institutions and credit facilities. These are basically self-employed entrepreneurs operating in rural and semi-urban areas. They are usually small farmers and other small income people who are engaged in small trade and food processing and other agricultural related activities. In Urban areas it includes small shopkeepers, other service providers, small vendors, and artisans and also includes farmers. Provision of credit of micro-finance without collaterals. The purpose was to reduce poverty and providing the needy enough financial.

1.3 Micro-Finance Bill' 2007

The Indian government announced that the Microfinance (MFI) Bill in 2007 budget session of Parliament. It sought regulator and finance provider for the rural poor, who were so far being deprived of any type of financial assistance, even though they felt a need for some type of assistance. The proposed bill sector and it was decided that its norms as described by the RBI.society especially the deprived sections. The bill also aimed at organizing poster4competition, which would result in lower interest rates, even among thetraditional sources of micro-finance, i.e. the moneylenders. The bill would also had a provision for private money lenders to register themselves as small credit lending entity.

1.4 Role of Microfinance

Microfinance helps poor households meet basic needs by getting involved in agriculture related productive activities and offering to protect the rural populationand also lead to the stability and growth of small and medium enterprises. Microfinance empowers women and promotes gender equality which results in improving the household well being of the rural sector. This was a prominent way of making the population especially the females self-reliant and independent.

2.REVIEW OF LITERATURE

(1) Anand Kumar, T.S.;

Praseeda, S.and Jeyanth K. N.(2008): This research paper titled "Operational guidelines for sustainable housing micro-finance in India stated that housing micro-finance entities were emerging globally as an important financial players and were helping to alleviate the housing needs of economically vulnerable population. For this it was decided that Micro-finance institutions (MFIs) planning to provide housing finance related products must carefully assess whether the micro-finance institutions have adequate management and technical capacity to do so. The purpose of this paper was to give practical guidance to MFIs in adopting the housing finance program, in addition to their existing line of micro-finance services. The

paper found that MFIs should also ensure that housing micro-finance suits their strategy from the institutional and financial perspectives.

(2) Gordon, A.N. and others (2011):

This paper aims to examine the links between women's access to micro-finance and how they use maternal healthcare services in sub-Saharan Africa (SSA).It is found that improved access to micro-finance by women, combined with education enhances their maternal health service up-take.

(3) Kamath, R. and Srinivasan, R. (2009):

This paper made an attemptto link Grameen bank model in India, using a not for-profit Non Banking Finance Company (NBFC)format, which have grown rapidly in terms of the client numbers. The loan sizes though have been relatively small compared to the per capita income of the rural population, while the portfolio quality was until recently very high. There is evidence in field of multiple borrowing, wherethe customers borrow simultaneously from multiple sources including micro-finance institutions. They built a model of the microfinance sector that explained why such multiple borrowings result optimally in small loan sizes and high portfolio quality.

(4) Fields, G.S. (2010)this article is based on Fields (forthcoming) and on NCEUS (2009):

The paper was presented in two parts. The first part of the paper deals with the issue of global poverty and how the global poor work for their survival. The research concluded that as many as 6 1/2 times the number of the unemployed constituted of working poor, which indicated that the world had a major unemployment problem. This was true for India too. The second part of this research dealtwith the manners to be adopted for combating poverty in India and internationally. The policies discussed here includedeffective workplace protections norms, harnessing the energies of the private sector, pursuing sustained and planned economic growth, introducing effective labour market policies for generating more paid employment, and also for raising self-employment earnings.

(5) Fe Bureau (2009):

This paper concluded that the population living in abject poverty could fall to a mere 6% by 2025 if aggressive reforms are implemented globally. It states that most countries need an effective transitional process to change the prevailing labour markets and speed up the poverty removal programs. This transition process includes focus on farm to non-farm sector, from the rural to urban sector, from unorganized to organized sector and from subsistence to self employment with a decent wage rate. The report further added that 60% of country's workforce is engaged in agriculture activities and was generating 18% of the gross domestic product. Agriculture has been responsible for pushing many Indian farmers to abject poverty because of low farm and related labour productivity. The key step that the country should take to enable the transition from farm to non-farm employment is to move public expenditure from input subsidies like fertilizers, seeds, power and water that benefit only large farmers to rural infrastructure that is extremely critical for a continuous and stable growth of the rural sector.

(6) Nedumaran et al. (2001):

They did an empirical study on the impacts of SHGs in Tamil Nadu, India. For this, study two districts of Tamil Nadu, namely Erode and Tiruchirappalli were selected. One hundred and fifty members from 30 SHGs promoted by two NGOs – MYRADA and LEAD were surveyed. Primary data was collected through personal interview method during March-April 2001. The study showed that the average amount of group loans availed was positively associated with the group age of the borrowers. The study indicated that the annual net family income of the members in post-SHG situation increased by 23 per cent over the pre-SHG situation. The study also indicated a considerable improvement in the social and economic conditions of SHG participants after joining the related group activities. The researchers then recommended the promotion of SHGs in rural areas, giving training to members and involvement of local NGOs in building SHGs is the key for the overall improvement of the household.

(7) Puhazhendhi and Badatya (2002) B.:

The study concluded that institutional credit had deepened and widened among the rural poor, while there had been substantial reduction of loans from local money-lenders and other informal sources. The findings of this study showed that 52 per cent of sample households registered 23 per cent rise in annual income and 30 per cent increase in asset ownership in post-SHG situation. It was concluded that 72 per cent of the bank loan was used for income generating purpose, termed as productive and the remaining 28 per cent was for consumption or unproductive and other social functions and contingency purposes. The estimated employment days per household worked out to 405 person days during post-SHG situation that had registered an increase of 34 per cent between pre- and post-SHG situations. Activity-wise, per cent increase was higher for non-farm activities (121 per cent) followed by off-farm activities (21 per cent) and farm activities (19 per cent). The social empowerment of sample SHG members in terms of self-confidence, involvement in decision-making, better communication, etc. improved in a significant way. It was also found that members in the older groups of five years and above were more socio-economically benefited as compared to the members in newly formed groups.

(8) Develtere and Huybrechts (2002):

In their paper focused on the economic and social impact of the activities of micro-finance institutions on the clients of Grameen Bank and BRAC in Bangladesh. The authors overviewed different studies conducted in Bangladesh by different researchers. The study revealed that Grameen Bank and BRAC had succeeded in reducing their members' economic vulnerability of their clients by controlling consumption and income variability and had prevented them from falling further into abject poverty. However, there was no consensus on whether the two institutions reduced poverty as per se. Most of the poorest (bottom poor) people in Bangladesh had not been able to take part in a micro-credit program due to various client-related

and program-related barriers. While assessing the social impact of the program it was found that the program had a positive effect on women participants with regard to women's status, their involvement in family decisions, expanding knowledge and awareness, and the improved situation for their children. These changes were momentous keeping in mind the participants belonged to the lower income group. It was also found that the micro-finance program not only affected its members but also the non-members in the program villages and their surrounding villages through a positive spill-over effect in different spheres of their social and economic life in the form of increased awareness, better practices of health, improved sanitation, increased family planning, reduced rate of interest and increased wages. Thus affecting the economic and social status of the population observed.

3.0 RESEARCH METHODOLOGY OF THE STUDY:-

3.1 OBJECTIVES OF THE STUDY

- To analyze the prevailing condition of micro-finance in India with reference to what is seen in the state of Maharashtra.
- To know the detailed procedure of how the micro-finance institutions sanction loans to SME's and at what rate of interest.
- To know the future prospects of micro-finance in Maharashtra and in a larger perspective in India as a nation, that is striving hard to develop its SMSE sector.

3.2 DATA COLLECTION

Both primary and secondary data were used to conduct the required study.

3.3 SAMPLE SIZE

Sample size for this study was 50, covering the different district in the State of Maharashtra.

3.4 SAMPLE TECHNIQUES

Convenience Sampling is a Non-Random sampling which is used in this study.

3.5 RESEARCH DESIGN

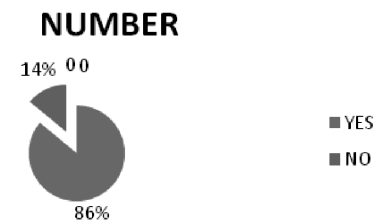
For this paper, exploratory research was used to conduct this study; the questionnaire was filled up by different background people.

4.0 DATA ANALYSIS

Awareness level of respondent:

1. Did you hear about Microfinance?

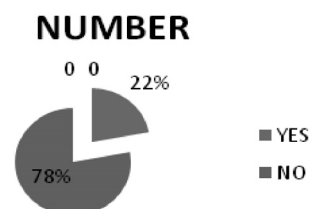
RESPONSE	NUMBER	PERCENTAGE
YES	43	86
NO	7	14



From The above Pie Chart, It Is Clear that 86% Of People living in Maharashtra have heard About Microfinance institutions.

2. Did you know about the benefits and the services which are offered by the microfinance?

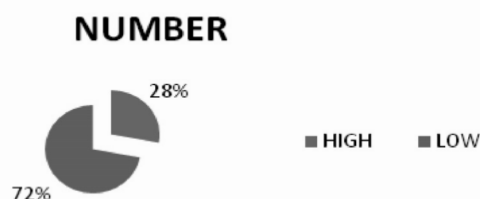
RESPO NSE	NUMB ERS	PERCENT AGE
YES	11	22
NO	39	78



From the above pie chart, it is clear that people that 22% of the people have heard about microfinance but are not aware of its products. A total of 78% are not aware of their existence. This means microfinance institutions are unable to reach the masses with information on their activities.

3. Interest rate charged by the microfinance is high or low?

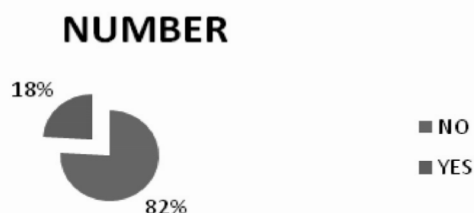
RESPONSE	NUMBER	PERCENTAGE
HIGH	14	28
LOW	36	72
TOTAL	50	100



28% People agrees with the interest charged by the microfinance institutions. Another 78% feel the rates are not appropriate to encourage borrowings from the.,

4. Microfinance has good scope over banks?

RESPONSE	NUMBER	PERCENTAGE
NO	41	82
YES	9	18
TOTAL	50	100

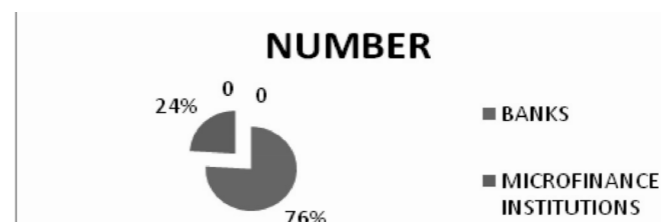


From the above pie chart it is clear that 82% people assume that banks have good scope through micro-finance. They can reach a larger population if they are offer facilities to microfinance activities.

5. As a customer from where would you like to take a loan:

a) Banks b) Microfinance institutions

RESPONSE	NUMBER	PERCENTAGE
BANKS	38	76
MICROFINANCE	12	24
TOTAL	50	100



It is clear from the above pie chart that 24% people would prefer to take loan from MFI's.

6. Do you think Microfinance institutions helped unemployed women?

a) Yes b) No

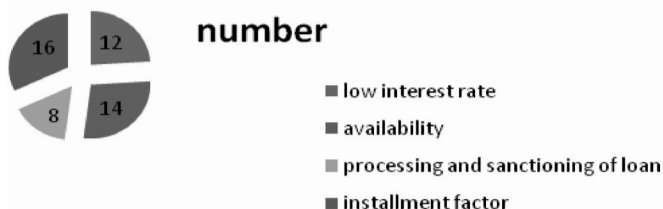
RESPONSE	NUMBER	PERCENTAGE
YES	42	84
NO	8	16
TOTAL	50	100



Above graph depicts, microfinance institutions have a key role to alleviate unemployment, especially amongst women providing them with an opportunity to earn their livelihood and support their families .

7. According to you, factors are more crucial for rapid growth of microfinance institutions?

RESPONSE	NUMBER
Low interest rate	12
Availability	14
Processing and sanctioning of loan	8
Installment factor	16



According above graph analysis, the most crucial factors for rapid growth of microfinance institutions is installment factor.

8. Do you think microfinance in reducing the poverty?

RESPONSE	NUMBER	PERCENTAGE
YES	42	84%
NO	8	16%

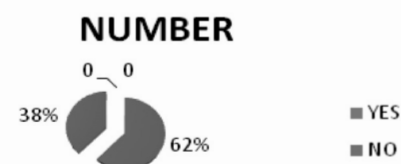


From the above graph, it is clear that microfinance eradicate poverty.

9. Do you think microfinance is in the direction of public welfare?

Yes No

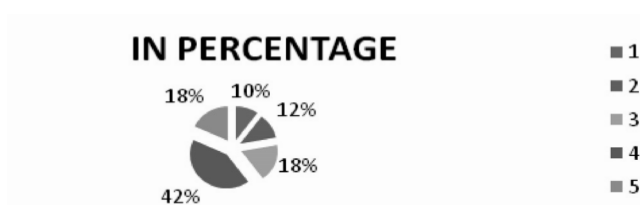
RESPONSE	NUMBER	PERCENTAGE
YES	31	62
NO	19	38



From the above diagram, it is clear that only 62% of people think that microfinance is in direction of public welfare.

10. How do you anticipate the future of microfinance; rate on the scale between 1-5?

RESPONSE	NUMBER	PERCENTAGE
1 (POOR)	5	10
2 (AVERAGE)	6	12
3 (GOOD)	9	18
4 (VERY GOOD)	21	42
5 (EXCELLENT)	9	18



The graph depicts future of microfinance is glorious.

5.0 KEY FINDINGS

- The formal sources of microfinance are still new in India. Not many people are aware of microfinance industry in Mumbai.
- Microfinance charges (13-15)% interest rate for loans whereas banks charges only (9-10)%. As huge difference is there between the interest rates of both (i.e. banks and microfinance institutions), people prefer to take loan from banks rather than microfinance institutions.
- Micro-finance institutions provide employment opportunity.
- Micro-finance institutions help in decreasing the poverty rate.
- Bandhan micro-finance has many products for their customers.
- All micro-finance gives loans to women's as to increase women entrepreneurs.
- Micro-finance institution while giving loans they make the group of minimum 5 known women's to each other and then disbursed the loan amount, this is done to decrease the risk.
- Bandhan micro-finance is the best for women's to take loan as they have different products for different customer with minimum documentation and less time for sanction.
- Documentation needed are voter id card/pan card/passport/driving license/aadhar card with this address proof and any id proof of their husband is compulsory.

5.1 LIMITATIONS

- This research has been conducted by conveniencesurvey technique; therefore There might be some biasness.

- As the survey was conducted under selected areas of Mumbai hence the results of this survey was not generalize.
- It is difficult to say that the secondary data which has been taken from different sources are up to date or not.
- It was difficult to find good response from the bank managers they were busy in their schedule, and collection of data was very difficult. Therefore, the study had to be carried out based on the availability of response.

5.2 CONCLUSION FOR THE STUDY:

The entire analysis indicates the following facts about Microfinance institutions:

1. The level of awareness in the people of Maharashtra is very low.
2. Micro finance institutions find it difficult to raise money from the market.
3. The government needs to support these institutions if it intends to remove social disparities
4. As compare to bank microfinance charges a very high interest rate
5. The growth of this sector can change the fortune of the Indian Economy.

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