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Original Research Paper

Commerce

A STUDY ON SELECT MICROFINANCE INSTITUTIONS IN TELANGANA STATE

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ABSTRACT Microfinance institutes products and services have been explained in this paper. Secondary data had been used for collecting for conducting this survey. It found that repayment frequency is weekly for most of the microfinance institutes. Some suggestions for better microfinance performance have been explained in this paper.

KEYWORDS : Microfinance, microcredit, repayment frequency, self help groups, loans.

Introduction

Microfinance is about helping poor people to meet their financial requirements. Microfinance institutions provide loans for both groups and individual. Self help groups (SHG) have been formed to access loans from microfinance institutions. Microfinance institutes are different from banks but still they need permission from Reserve Bank of India (RBI) to conduct financial operations. This present study had been conducted to know about microfinance sector by analyzing selected microfinance institutes.

Research Objectives

1. To know types of loans and polices of microfinance institutes.
2. To analyze the performance of microfinance institutes.
3. To provide suggestions for microfinance sector.

Research Methodology

Secondary data had been used for conducting this study. The data had been collected from journals, books and electronic sources. There are many microfinance institutes but only four of them have been selected for this study. Further these four institutes belong to Hyderabad region of Telangana State. However microfinance institutes operates in various states by establishing branches. The information related to products, services and policy of selected microfinance organizations.

Literature Review

According to Pawar (2016) microfinance system did not met expectations in resolving the financial issues of weaker sections in tribal development of Telangana. Women empowerment through microfinance is possible in three dimensions which are social, psychological and economical (Khandare & Gajanan, 2016). Microfinance provides financial services to low-income people who don't have access to formal banking system. Through microfinance operations self help groups (SHG) are formed and there by loan is accessed by poor people. Microfinance institutions (MFIs) broadly refers to a wide range of organizations dedicated to providing these services through Self-Help Groups (SHGs), NGOs, credit co-operatives, commercial banks, NBFCs and parts of State-owned banks (Bhattacharyya, 2018).

According to Reddy (2015) women SHGs and their federations gained considerable visibility and are managing a large amount of funds in the rural and urban areas. The microfinance schemes in Andhra Pradesh were introduced through names like 'Pavala Vaddi' and 'Vaddi Leni Runaalu'. Demonetization had negatively impacted microfinance sector because poor people may not knowledge on digital transactions. Members of self help groups had received cash before demonetization but they are getting through cheques after demonetization.

Vachya (2015) considered socio economic variables like age, income and land size for analyzing the microfinance likelihood initiatives on women entrepreneurship in selected villages of Andhra Pradesh. Hundekar (2016) had explained that people from financially underserved sections had been covered through formal financial system in microfinance sector. Chakrabarthi and Sanyal (2016) had explained that mirco credit system fulfill the gap between present formal banking system and poor people who are not covered by financial inclusion.

Bi and Pandey (2011) had compared the performance of microfinance institutions and commercial banks in India and stated that there are various issues for microfinance issues and they need to be solved for eradication of poverty in India. Microfinance institutions have adopted business models for attaining success and their performance had been measured by Agarwal and Sinha (2010) by using factors like financial structure, revenue, expenses, efficiency, productivity and risk. According to Barman et al (2009) microfinance interventions are essential for protecting poor segments of the society. Kumar (2012) had conducted primary survey 10 villages covering 106 self-help groups and 318 members in Karnataka, India and found that progressive lending amount increased up to 698% of the initial loan of the self-help groups.

About selected Microfinance Institutions

1. Share Microfin Ltd

SHARE Microfin Limited (SHARE) is a Non Banking Financial Company - Micro Finance Institution (NBFC-MFI), dedicated to providing financial and support services to marginalized sections of the society, particularly to women belonging to rural and semi urban areas across India. Through its income generating loans and business development services, SHARE reaches out to help these underserved women populace build productive microenterprises, thereby contributing to the development of sustainable communities (SHARE, n.d.).

2. Asmitha Microfin Limited

Established in the year 2002, Asmitha Microfin Limited is a Non Banking Financial Company-Microfinance Institution(NBFC-MFI), that provides rural poor women access to financial resources in the form of collateral free small loans for income generation and livelihood promotion. This enables them to start small start up businesses, which soon translates into adequate nutrition, medical aid and education (ASMITHA, n.d.).

3. Spandana Spoorthy Financial Ltd

Spandana is a public limited company registered with Reserve Bank of India (RBI) as an NBFC MFI. Started in 1998, within five years, by 2003, it grew to the largest Micro finance Institution in India and 6th largest across globe. In its peak, Spandana had 1,856 Branches with presence in 10 states and work force of over 13,500 employees (SPANDANA, n.d.).

4. VAYA Finserv Private Ltd

Vaya was established in 2014 by a team of seasoned MFI professionals. Vaya is a next generation microfinance company. The core management team has a deep understanding of rural poverty. Currently VAYA operates in 7 states with a strong employee base of 1600 and growing. Vaya uses the peer group lending model to offer unsecured, income-generating loans. Over the years, Vaya has pioneered tab-banking, and with the adoption of the government's UIDAI public infrastructure scheme, VAYA also have made its services more efficient and secure by adopting modern technology (VAYA, n.d.)

Table 1: Products of Microfinance Institutions

S.No	Institutions	Products	Max Loan	Repayment Frequency
1	Share Microfin Limited	• General Loans • Micro Enterprise Loans	• 80,000 INR for General Loan • 250,000 INR for Micro Enterprise Loans	• Weekly/ Monthly
2	Spandana Spoorthy Financial Ltd	• Abhilasha • Loans against property • Phinix Loans • Shree Loans • Keerthana • Interim Loans	• Up to 65,000 INR for Abhilasha • Up to 50,00,000 INR for Loans against property. • Up to 52,000 INR for Phinix Loans • Up to 52,000 INR for Shree. • Up to 50,00,000 INR for Keerthana. • Up to 18,000 INR for Interim Loans	• Weekly/Bi-weekly/ Monthly
3	Asmitha Microfin Limited	• General Loans • Micro Enterprise Loans	---------------	• Weekly/ Fortnightly/ Monthly
4	VAYA Finserv Private Limited	• BC-YBL • BC-RBL • BC-RCL • NBFC	• Upto 35,000 INR	• Bi-weekly

(Source: Compiled by researcher for this study)

Discussion

People from low income groups can form groups popularly referred as self help groups (SHG). Either individual or groups can access loans from microfinance institutes. Demonetization had negatively influenced microfinance sector because poor people cannot make digital transaction. However with various government schemes most of people have opened bank accounts and entered into formal banking sector. For repayment of loans the microfinance institutes are providing options like weekly, biweekly, fortnightly and monthly. The loan amount varies from 2000 INR to 50,00,000 INR. Microfinance organizations are also giving loans against property in the form of gold loans.

People from weaker sections can get released from stress when they meet financial requirements. Earlier people use to approach greedy money lenders and pawn brokers for short term and long term financial needs but presently with support of microfinance institutes they are able to resolve financial issues. There is also good feedback from clients of microfinance institutes. Women empowerment had become possible through microfinance and poverty can be eradicated with microfinance.

There is also an issue of credibility while formation of groups therefore some individuals who are actually need financial resources may not get loan if they don't have social circle. In rural areas people live together whereas in urban areas people are more individualistic in nature therefore it would be tough for urban people to form groups and access the microfinance benefits. The lack of competition among microfinance institutes is also drawback because interest rates are still decided by lending agencies rather than clients.

Conclusion

Microfinance institutions are influenced by external business environment like demonetization, climatic and economy. Microfinance institutions have helped poor to meet their financial needs but at the same time the repayment policy is very stringent. It may not be possible for poor people to pay the loan without fail because they don't get fixed income. There are two major categories of loans which are general loans and micro enterprise loans. Due to microfinance institutes many people have entered into formal banking sector. If poor people take loans from microfinance for no reason they it will make their financial condition worst.

Suggestions

It is also important for microfinance institutes to check the income source of clients to assess their repayment capability. The interest rate can be reduced so that more number of people shows interest for accessing loan facilities. Since rural people may not have capability to perform mobile based or computer based financial transaction only cash transaction should be encouraged. It is also responsibility of individual, groups and microfinance institutions to think whether money is really need else it would create further problems for all the stakeholders of the business. The purpose of loan should also be collected either from individual or groups so that they can be monitored if there are any issues with repayment.

Future Research

The consumer satisfaction towards microfinance system needs to be studied by collecting primary data from the clients. The usage of loans for various purposes needs to be analyzed so that it can be known the causes for financial issues among the poor are. It is also important to know whether actually poor people are accessing the loans because microfinance institutes are giving priority to self help groups rather than individual clients. Sometimes an individual may face a financial issue but at the same formation of group consumes time and therefore financial services cannot be accessed at the right time.

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