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To Study about the Implications of Micro-Financing on the Lower Income Households in Mumbai

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Abstract: ***In the research conducted we are studying about the Implications of micro financing on the lower household income groups in Indian metropolitan cities. Our objective while carrying out this research is to study how Micro financing institutions like private operators and lending loans consider different factors while deciding to give the loan. Extensively we have researched to find out the demographic, social and other factors to analyses on what basis MFI gives loan and what they expect in return.***

Keywords: Microfinance, Approval of Loan, Rate of Interest

1. Introduction

Micro financing is a service to finance the operations of entrepreneurs or people with small business looking for financial services without engaging with the bank.

Normally this trend is prevalent in our society in rural area with lower household incomes.

We have conducted this research to study the effect of micro financing on population with lower income living in metropolitan cities in India.

Our objective while carrying out this research is to study how Micro financing institutions like private operators and lending loans consider different factors while deciding to give the loan.

Extensively we have researched to find out the demographic, social and other factors to analyse on what basis MFI gives loan and what they expect in return.

2. Literature Survey

A. Legal and Regulatory Framework for the Micro finance Institutions in India:

Societies Registration Act, 1860: NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organisations, their micro finance activities were also established under the same legal umbrella. Main purpose is:

- Relief of poverty
- Advancement of education
- Advancement of religion

Indian Trusts Act, 1882: Some MFIs are registered under the Indian Trust Act, 1882 either as public charitable trusts or as private, determinable trusts with specified beneficiaries/members. Micro-Finance as an Anti-Poverty Vaccine for Rural India 31 Not-For-Profit Companies Registered under Section 25 of Companies Act, 1956.

A. Profile of Rural India

- 350 million Below Poverty Line
- 95 % have no access to micro finance.
- 56 % people still borrow from informal sources.
- 70 % do not have any deposit account.
- 87 % no access to credit from formal sources.
- Annual credit demand is about Rs.70, 000 crores.
- 95 % of the households are without any kind of insurance.

Source of above information: Micro-Finance as an Anti-Poverty Vaccine for Rural India Manish Kumar1, Narendra Singh Bohra2 and Amar Johari3 1 Dean (Management

Program), 2 Assistant Professor and 3 Lecturer 1, 2, 3Graphic Era University 566/6, Bell Road, Clement Town Dehradun, Uttarakhand, India 1 E-mail: manishsingh12@rediffmail.com, 2 E-mail: thakur_bohra@rediffmail.com

B. Micro finance in India as a Tool for Poverty Reduction

- Micro finance revolution in India as a powerful tool for poverty alleviation.
- Where institutional finance, failed Micro finance delivered, but the outreach is too small. There is a question mark on the viability of the Micro finance Institutions.
- There is a need for an all round effort to help develop the fledgling Micro finance Industry while tackling the trade - off between outreach and sustainability.
- Recent events in India have brought a fresh focus upon the problem of regulation in the field of micro finance.
- It delineates the three distinct aspects where government needs to play a role.
- The first is to protect the rights of the micro – borrower, the consumer of micro - financial services.
- The second is that of prudential oversight of risk - taking by firms operating in micro finance, since this could have systemic implications.
- The third is a developmental role, emphasizing scale - up of the micro finance industry where the key issues are diversification of access to funds, innovations in distribution and product structure, and the use of new technologies such as credit bureaus and the UID.

Each of these roles needs to be placed in an existing or a new regulatory agency. There is a case for creating a new regulatory agency which unifies the consumer protection function across all financial products.

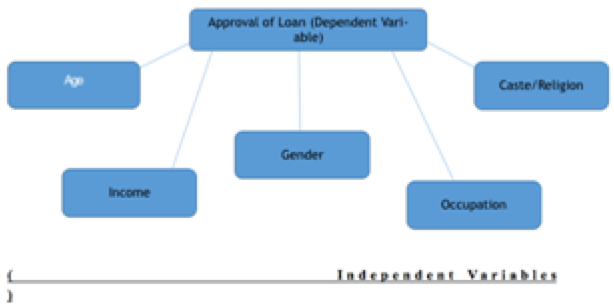
Source of above information: Micro finance in India - A Tool for Poverty Reduction* Deva raja T.S. Associate Professor Department of Commerce University of Mysore Hassan, India Tel: Mobile: +91 98807 61877: +91 – 8172 265100 Fax: +91- 8172 240674 Web: http://devaraja.me Email: mail@devaraja.me

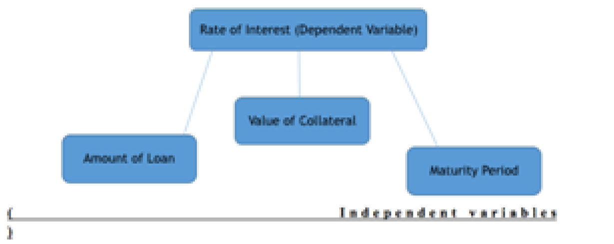
C. Performance of Micro finance Institutions in India

Micro finance can be described as an umbrella under which financial services including micro credit are provided to the low income group. The need for the unfolding of micro finance began in the developing nations more than thirty years ago. Micro finance refers to small scale financial services for both credits and deposits that are provided to people, who farm, operate small or micro enterprise where goods are produced, recycled, repaired, or traded. Micro finance playing an important role in developing the rural areas by providing loans to people at lower interest. The present research paper describes the role of Micro finance institutions in developing the conditions of people who are living in rural areas.

Source of above information: Performance of Micro finance Institutions in India M. Radhakrishna Adhoc faculty School of Management, NIT Warangal.

3. Research Methodology





4. Analysis and Findings

What Factors Are Seen While Giving Loans To Persons?

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.881446							
R Square	0.776947							
Adjusted R	0.734052							
Standard E	0.587398							
Observatio	32							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	5	31.24782	6.249564	18.1128	9.66E-08			
Residual	26	8.970932	0.345036					
Total	31	40.21875						
	Coefficients	*Standard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 90.0%*	*Upper 90.0%*
Intercept	1.74565	0.696672	2.505699	0.018813	0.31362	3.17768	0.557394	2.933906
Age	0.466216	0.134921	3.45548	0.001899	0.188882	0.74355	0.236093	0.696339
Gender	-0.49195	0.171092	-2.87535	0.007948	-0.84363	-0.14026	-0.78376	-0.20013
Caste	0.007827	0.186126	0.042053	0.966778	-0.37476	0.390415	-0.30963	0.325287
Income	0.231011	0.126748	1.822605	0.079884	-0.02952	0.491544	0.014828	0.447194
Occupation	0.136004	0.119082	1.142101	0.263821	-0.10877	0.380781	-0.0671	0.339113

- From this we can find out that the value of R square is 0.776947 which gives that the goodness of fit is around 77.69%.
- This means that in future the model built by the regression will give the correct values 77.69 times for every 100 dataset values.
- Also to know whether the factors taken by us for determining if the lender gives loan or not are significant in the process we look at the P-Value of the factors.
- Here also the P-value of factors like Age, Gender, Income are less than 0.10 which is our Significance level (10%)
- Hence these three factors are highly significant while deciding whether to give loan to a person or not by a private lender.
- Whereas the P value of factors like Caste and Occupation is greater than 0.10 significance level (10%).

Therefore these factors are not significant while tendering loans to the party.

How does rate of interest depend on factors like Loan Amount, Maturity Period and Value of Collateral?

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SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.8325271
R Square	0.6931013
Adjusted R Square	0.6602193
Standard Error	0.663946
Observations	32

ANOVA

	df	SS	MS	F	Significance F
Regression	3	27.87566949	9.29189	21.07844269	2.40707E-07
Residual	28	12.34308051	0.440824		
Total	31	40.21875			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	3.5633931	0.745814536	4.777854	5.0906E-05	2.035661316	5.091124961	2.035661316	5.091124961
loan	-0.061662	0.129760032	-0.4752	0.638332702	-0.327462938	0.204139816	-0.32746294	0.204139816
maturity period	-0.480207	0.135208502	-3.5516	0.001378129	-0.757168909	-0.203244787	-0.75716891	-0.20324479
value of collateral	0.5084414	0.13477442	3.772537	0.000770624	0.232368555	0.784514324	0.232368555	0.784514324

- From this we can find out that the value of R square is 0.6931 which gives that the goodness of fit is around 69.31%.
- This means that in future the model built by the regression will give the correct values 69.31 times for every 100 dataset values.
- Also to know whether the factors taken by us for determining the interest percentage on loan are significant or not in the process we look at the P-Value of the factors.
- Here also the P-value of factors like Maturity Period, Value of Collateral is less than 0.05 which is our Significance level (5%)
- Hence these three factors are highly significant while deciding Interest percentages on loans.
- Whereas the P value of factors like Amount of Loan asked is greater than 0.05 significance level (5%).

Therefore this factor is not significant while deciding loans interest percentages.

What social needs are fulfilled through the money from the loans granted by MFIs.

Factor Analysis

Factor Analysis - Communalities - Mai

Communalities

	Initial	Extraction
housing	1.000	.413
education	1.000	.712
marriage	1.000	.448
healthemer	1.000	.746
naturalemer	1.000	.662

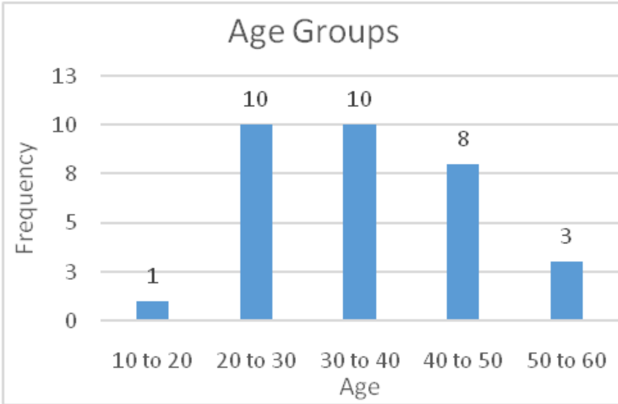
Extraction Method: Principal Component Analysis.

The social needs like Education, Health emergencies and Occurrence of Natural disasters have extraction values greater than 0.5 hence we can accept that they are significant social needs fulfilled by micro financing.

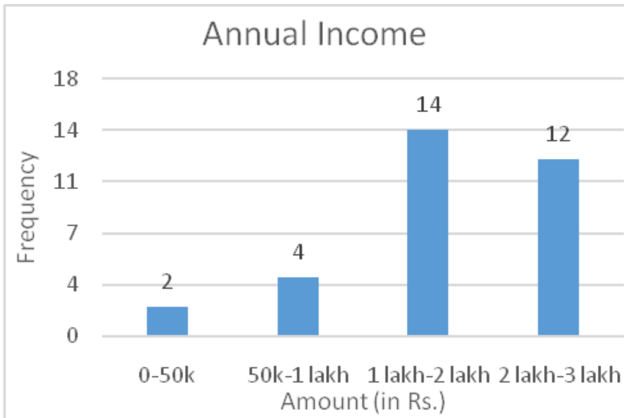
The extraction values for factors like housing and marriages are less than 0.5 therefore we can say that they are not significant social needs fulfilled by micro financing.

4.1 Graphical Analysis

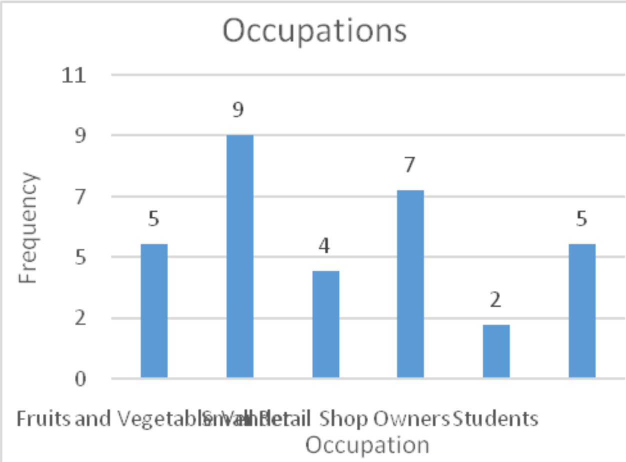
1. From the data we have inferred that approximately around 3.125% loans are given to the age bracket 10 to 20 Years, 31.25% loans are given to the age bracket 20 to 30 Years, 31.25% loans are given to the age bracket 30 to 40 Years, 25% loans are given to people of age in 40 to 50 and only 9.375% loans age given to people of age 50 to 60 years.



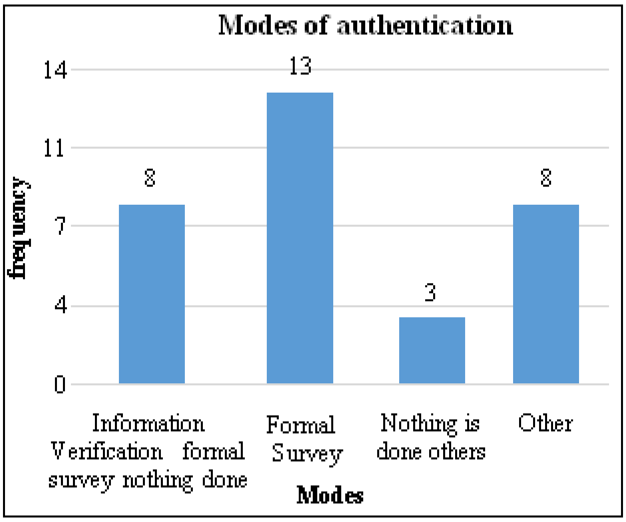
2. According to the data we have received we can we can infer that the higher the annual income of the person the more likely is he to receive loan. Because around 80 % of the loans are given to the people who have income more than 1 lakh.



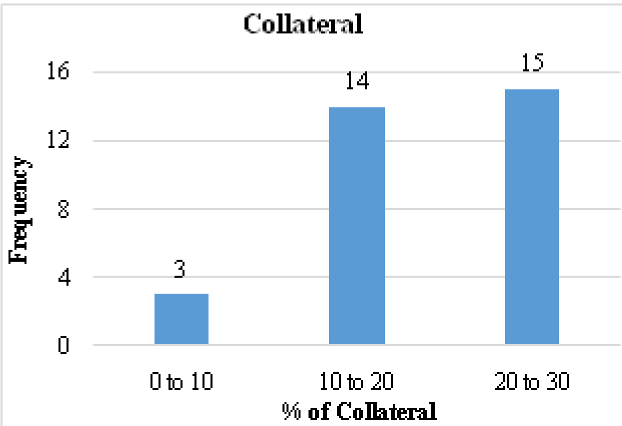
3. Form the data it is visible that almost all occupations have same opportunity to get loans except students as they have the lowest chances to get loan i.e. 6.25% and the highest probability to get loans are labourers of approximately 28.125%.



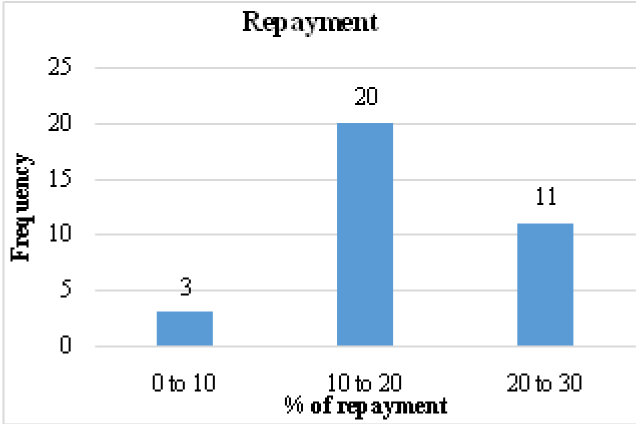
4. The data shows that around 40% of the MFIs carry out formal survey to authenticate people.



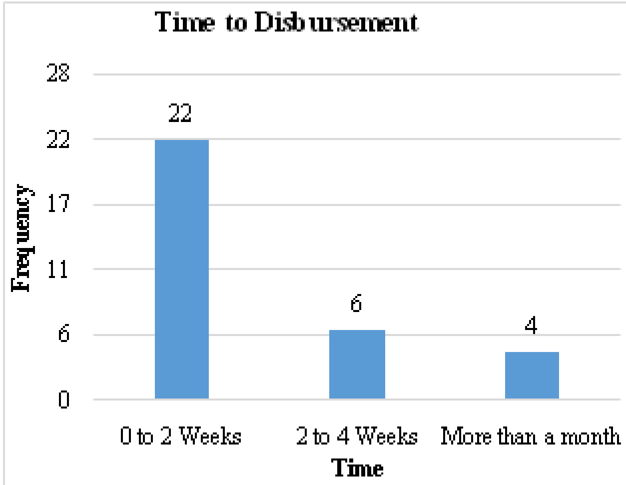
5. From the data we can see that the percentage of the collateral is on the higher side because around 46% of MFIs ask for collateral of around 20 to 30 % of the loan.



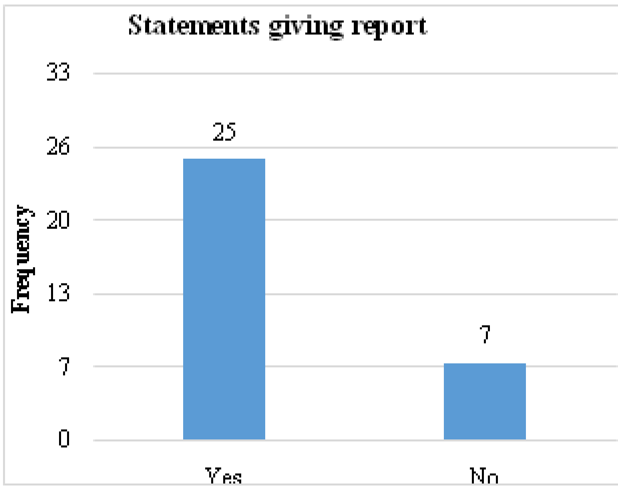
6. The data shows that around 10 to 20 % of the loan amount is returned monthly therefore average loan period is for around 7 months.



7. Most MFIs give loan to people in less then 2 weeks because the data shows that around 70% of the loans are sanctioned in less then 2 weeks.



8. From the data we can say that almost 80 % of MFIs give an acknowledgement of the loans they have given to people.



5. Summary and Conclusions

5.1 Restatement of the Problem

To study the impact of various factors that Micro financing institutions like private lenders taken into consideration while lending loans to the public and factors affecting the rate of interest.

5.2 Major Findings

We have found out the following major findings:
1) Factors like age, gender, income are primarily considered for disbursing loans by MFIs.
2) Factors like Maturity period and Collateral Value are primarily considered for deciding the interest rates by MFIs.
3) People often need Micro financing to fund up their social needs such as Education, Health and Natural Disasters.
4) 80 % of the loans are given to the people who have income more than 1 lakh.
5) Highest probability to get loans are of labourers of approximately 28.125%.
6) Around 40% of the MFIs carry out formal survey to authenticate people.
7) Around 46% of MFIs ask for collateral of around 20 to 30 % of the loan.
8) Around 20 to 30 % of the loan amount is returned monthly therefore average loan period is for around 4 months.
9) That around 70% of the loans are sanctioned in less than 2 weeks.
10) 80 % of MFIs give an acknowledgement of the loans they have given to people.

5.3 Conclusions and Implications

Micro financing is majorly carried out through private operators in India catering to the lower household income groups. These lenders primarily see demographic factors such as age, income, occupation type while lending money. Apart from some irregularities the sector needs to get more transparent and borrower friendly as it is still MFI charge heavy interest rates.

5.4 Limitations of the Study

The scope of research conducted was limited since it was carried out in the regions of Andheri and Vile Parle in Mumbai. So, the sample size was not very large.

There are certain factors such as caste and religion which might have hold much more significance than the data received through the informal interviews. Some of the respondents might have been untruthful in disclosing the fact that they are biased in disbursing loans to the people belonging to a particular caste or religion.

The answers to the questions asked during informal interviews may not be reliable as they are not backed by data. Some of the respondents denied giving proofs of exact figures in spite of repeated persuasion.

Some lenders might ask for a larger collateral value for the loans they grant and due to the fear of being targeted as exploiters of the poor, they were being untruthful in mentioning the exact values.

The data was accumulated only from the private money lenders functioning in a rather unregulated sector. Data has not been collected from established MFIs in the NBFI sector.

5.5 Scope for future research

Future research would involve reaching out to not only other regions of Mumbai but also to other metropolitan cities. Impact of micro financing can be best studied in rural areas and also places where poverty level is higher than the national average. The research would also help in making the NBFI and the Micro-financing sector more organised and transparent. Further comparative research can be carried out on the amount of loans disbursed to women as compared to men.

References

[1] STATUS OF MICRO FINANCE IN INDIA - A REVIEW PADMALOCHAN MAHANTA*; GITANJALI PANDA**; SREEKUMAR*** * Research Scholar Fakir Mohan University Balasore, Orissa. ** Lecturer in Economics, Dept. of Social Science, Fakir Mohan University, Balasore, Orissa. *** Associate Professor Rourkela Institute of Management Studies, Rourkela.
[2] Micro-Finance as an Anti-Poverty Vaccine for Rural India Manish Kumar1, Narendra Singh Bohra2 and Amar Johari3 1 Dean (Management Program), 2 Assistant Professor and 3 Lecturer 1, 2, 3Graphic Era University 566/6, Bell Road, Clement Town Dehradun, Uttarakhand, India 1 E-mail: manishsingh12@rediffmail.com, 2 E-mail: thakur_bohra@rediffmail.com and 3 E-mail: johriamar@yahoo.co.in
[3] Micro-Finance as an Anti-Poverty Vaccine for Rural India Manish Kumar1, Narendra Singh Bohra2 and Amar Johari3 1 Dean (Management Program), 2 Assistant Professor and 3 Lecturer 1, 2, 3Graphic Era University 566/6, Bell Road, Clement Town Dehradun, Uttarakhand, India 1 E-mail: manishsingh12@rediffmail.com, 2 E-mail: thakur_bohra@rediffmail.com and 3 E-mail: johriamar@yahoo.co.in
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[5] Performance of Micro finance Institutions in India M. Radhakrishna Adhoc faculty School of Management, NIT Warangal
[6] Research Methodology by Uma Sekaran

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