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ANALYZING HOW BORROWERS' CHARACTERISTICS INFLUENCE REPAYMENT PERFORMANCE IN MICRO-FINANCE INSTITUTIONS IN BANGALORE

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ABSTRACT

The microfinance sector has experienced rapid growth over recent decades, with Nobel Laureate Mohammad Yunus pioneering modern MFIs through the establishment of Grameen Bank in Bangladesh in 1976. Today, it has evolved into a dynamic industry with various business models. In India, Microfinance Institutions (MFIs) have existed in the form of NGOs (registered as societies or trusts), Section 25 Companies, and Non-Banking Financial Companies (NBFCs). Commercial banks, Regional Rural Banks (RRBs), cooperative societies, and other major lenders have played a significant role in providing refinancing facilities to MFIs. Banks have also utilized the Self-Help Groups (SHGs) channel to extend direct credit to group borrowers. However, at times, individuals borrow from multiple sources, impacting their repayment capacity. This study aims to examine the impact of taking multiple loans on borrowers' default rates.

Key Words: Microfinance, Loan default, Credit

INTRODUCTION

With financial inclusion emerging as a key policy objective in the country, microfinance has become the focus for extending financial services to unbanked segments of the population. However, practices adopted by certain lenders have subjected the sector to greater scrutiny and the need for stricter regulation.

Despite the healthy growth rate of the microfinance sector, various concerns persist, such as ambiguous regulatory frameworks, opaque pricing, low financial literacy, and more. In addition to these concerns, emerging issues like group lending, inadequate funds, multiple borrowing, and over-indebtedness are arising due to increased competition among MFIs. Nationally, there have

been efforts to strengthen microfinance regulation, including the introduction of a microfinance regulation bill by the Government of Andhra Pradesh, the implementation of sector-specific regulation by the Reserve Bank of India, and most recently, the release of the Draft Microfinance Institutions (Development and Regulation) Bill, 2011.

An increasing number of microfinance programs provide consumer loans to low-income salaried workers. Often, these workers use their employment status to secure loans on behalf of vulnerable family members or to address family emergencies. These loans involve monthly deductions from salary accounts maintained with financial institutions, or payments are made through payroll deductions by the employer, with the balance sent to the lender.

This raises questions about the role MFIs play in improving the living standards of their target beneficiaries by facilitating better access to finances.

Currently, there is limited empirical data on the impact of MFI lending on private sector workers in Bangalore, as there have been few studies conducted in this area. It is within this context that this study will be conducted.

OBJECTIVE OF STUDY:

To investigate the impact of multiple microfinance loans based on salary on repayment default among private-sector workers in selected companies in Bangalore.

LITERATURE REVIEW

The literature review will explore existing research and writings concerning the effects of salary-based microfinance lending on private sector workers. It will provide a background and framework for this study by summarizing previous research on microfinance lending to private sector workers based on their salaries.

In recent years, the Indian microfinance sector has experienced remarkable growth. For instance, in 2005, leading Indian MFIs increased their number of active borrowers by approximately 110%, from 3,288,000 to 6,798,000 (Sa-Dhan, 2006), marking one of the fastest growth rates globally. Outstanding loans nearly doubled from Rs. 1095.1 crore to Rs. 2070.2 crore during 2006. In fact, five Indian MFIs ranked among the top twenty fastest-growing MFIs in 2005 (Microfinance Information Exchange Report, 2006). This trend is reinforced by and accelerates the commercialization of the industry, characterized by increased competition among MFIs for clients and a focus on profitability. A majority of the top twenty-five MFIs in the country consist of firms that are profit-oriented Non-Banking Financial Company (NBFC) - MFIs or those aspiring to become one.

Despite this growth, there remains significant unmet demand in India. According to the World Bank (2008), only 9% of poor families in India have access to microfinance, and of the estimated credit requirement of USD 10909 million, only USD 1050 million is met by microfinance. While

the demand is widespread, the geographic distribution of MFIs is uneven. MFIs are primarily clustered in South India, with two-thirds of all MFI clients located in Andhra Pradesh (AP), Tamil Nadu (TN), and Karnataka. Rapidly expanding MFIs tend to extend to areas where there is already an incumbent MFI. This strategy aims to leverage the training and screening of clients by the incumbent MFI and the general awareness of microfinance in the region. Overall, MFIs in India do not distinguish themselves by geographic regions or by offering differentiated products to different customer segments. These trends have led to competition for the same clients in many parts of the country, including AP, Karnataka, Madhya Pradesh, West Bengal, Uttar Pradesh, Orissa, TN, and Chattisgarh.

RESEARCH METHODOLOGY

Research Design

This research will employ a cross-sectional design. This approach involves collecting and analysing data at a single point in time, offering a snapshot of the effects of salary-based microfinance lending on private sector workers in selected Bangalore companies. The cross-sectional method is advantageous in this study due to its cost-effectiveness and time-efficiency compared to longitudinal studies that track participants over extended periods.

Justification for Cross-Sectional Design

Creswell (1994) highlights the utility of cross-sectional studies in uncovering relationships between variables at a specific time point. This design is particularly suited for this research as it aims to understand the current state of affairs regarding the impact of salary-based microfinance lending on private sector employees in Bangalore. Additionally, cross-sectional studies excel in disseminating information and exploring issues based on prevailing norms, making them a popular choice for studies like this one.

Study Area: The study will target private sector workers employed by a selection of private companies within Bangalore city.

Sampling Design –

Target Population: Private sector workers in selected companies located in Bangalore.

Sampling Frame: A list of employees from these companies that includes relevant information for identifying and contacting potential participants (e.g., names, contact details).

Stratification: Divide the population into subgroups (strata) based on pre-defined characteristics like age, gender, religion, etc.

Random Sampling: Within each stratum, randomly select participants to ensure everyone has a fair chance of being included.

Quotas: Set a target number of participants for each stratum to achieve a sample that reflects the proportional makeup of the entire population.

Sample Size: Aim for approximately 100-200 participants, but the final size will be determined using a scientific formula that considers factors like desired confidence level and margin of error.

Inclusion Criteria
Private sector workers employed by companies located in Bangalore, India.
Eligibility Criteria:
Age: 18 to 55 years old
Location: Physically based and working in Bangalore
Consent: Willing to participate in the research study

By focusing on private sector workers within Bangalore companies, the research gains clarity and avoids ambiguity. This targeted group allows for:
Increased Relevance: Findings will be more applicable to private sector employees in Bangalore's business environment.
Improved Generalizability: Results may be cautiously extrapolated to similar populations in the future, considering Bangalore's dynamic growth.
Enhanced Data Quality: Focusing on a specific location and industry streamlines data collection and reduces potential biases.

Data Collection –
To conduct comprehensive research, two data collection methods will be employed: qualitative and quantitative.
Qualitative Data: This research will utilize qualitative data obtained through literature review to trace the historical development and underlying philosophies shaping current concepts in finance management, behavioral finance, economics, and business research. The aim is to propose alternative perspectives that could enhance understanding of behavioral finance and decision-making processes.
Quantitative Method: For the quantitative aspect, a self-completion questionnaire will be used to conduct unrestricted, self-selected surveys among private sector workers. The questionnaire will be distributed both manually and online, and responses will be collected. Structured questionnaires will facilitate direct responses from respondents, ensuring consistency and reliability in data collection.

Statistical Tools and Techniques:
For analyzing the primary data, statistical tools will be used in the research project, which included the following:

Types of measurement scales:
Following measurement scale will be used as per the information required through the questionnaire.
Nominal or classificatory scale Ordinal or ranking scale Interval scale Ratio scale
Statistical techniques:
The study will use verity of statistical techniques to analyze and present the data which mainly include:

- Tabulation and cross tabulation of data

- Frequency Tables
- Chi Square test
- Central tendency
- Coefficient of correlation and variances

The SPSS software package will be used for the purpose of analysis.

FINDINGS

MODEL

The study utilizes an Ordinary Least Squares (OLS) multiple regression model to examine how borrower characteristics and credit conditions influence loan refund performance in MFIs. Since the dependent variable (loan refund performance) is continuous (likely a percentage or rupee amount repaid), employing OLS avoids the potential bias that can arise when using OLS with binary dependent variables.

Chi-Square Test

Particulars	**Value**	**df**	**Asymp. Sig. 2 sided**
Pearson Chi-Square	9.1017	1	0.00255
Likelihood Ratio	8.758	1	0.0030
Linear by Linear Association	6,521	1	0.01
No. of Valid Cases	90		---

(Source: Upon data collected for questionnaire appendix – I, test run on SPPS 21)

This cross-tabulation analysis examines the correlation between late refund/default incidents by respondents and their participation in multiple loans borrowing.

Hypothesis Ha1 was tested to determine if there's an association between respondents' educational qualifications and their inclination to obtain multiple loans. A Chi-square test was employed, with a p-value of 5.991 for 5 degrees of freedom at a significance level of 0.05. The null hypothesis H06 is rejected when the calculated chi-square value exceeds 5.991, and accepted when it is below.

The calculated chi-square statistic of 9.1017 exceeds the p-value, leading to the rejection of the null hypothesis (H06). This indicates a significant relationship between borrowers' educational qualifications and the number of loans taken from MFIs.

Hypothesis H01: There is no significant relationship between multiple loan participation by borrowers and the incidence of late refund/default ($\chi^2(1, n = 90) = 9.1017$, $p = 0.00255$).

Since the null hypothesis was rejected, it implies that there is a significant relationship between multiple loan participation and the incidence of late refund/default. Conversely, Ha1, suggesting a significant relationship between multiple loan participation and late refund/default incidents, is accepted.

DISCUSSION

The microfinance industry in India is facing a serious issue of multiple borrowing, as highlighted by Chaudhury and Matin (2002). This problem has a mixed effect on loan repayment and the sustainability of MFIs, making it a major motivating factor for this research.

This study contributes to the field by addressing the issue of multiple borrowing and its impact on loan repayment and MFI sustainability. H. (2009) found that the number of EMIs negatively affected refunds, and respondents in this study also feel that their refund schedules suggested by the MFI limit their ability to repay on time. While MFIs often collect weekly or biweekly EMIs to minimize default risks, borrowers may struggle to repay unless the MFI offers flexible refund plans tailored to customer preferences.

Kohansal MR and Mansoori H. (2009) emphasize that microfinance institutions, through effective supervision of borrower funds, can reduce the risk of default or delay in repayment. This research underscores the importance of providing financial literacy training to microfinance borrowers. Without such knowledge, MFIs cannot expect timely loan repayment. Therefore, it is recommended that MFIs conduct training sessions, workshops, and other programs to help borrowers manage their loan funds effectively and minimize default or delay risks.

CONCLUSION

Based on this research, it is evident that multiple borrowing practices among private sector workers in Bangalore and India are alarming. These workers have become accustomed to multiple borrowing, often citing the inadequacy of individual loans to meet their needs. They resort to multiple borrowing to fulfil family responsibilities and due to peer influence, leading to default or delayed repayments.

A significant portion of private sector workers acknowledges the likelihood of default or delay in repayments, attributing it primarily to the burden of multiple loans. To address this issue and alleviate the multiple borrowing predicament in Bangalore and India, coordination among MFIs is crucial. Rather than competing, MFIs should collaborate and acknowledge the inadequacy of loan sizes.

Additionally, implementing centralized tracking systems akin to CIBIL to monitor multiple borrowing attempts from private lenders by borrowers could be beneficial. The microfinance regulatory authority in India, along with the RBI-regulated SRO for NBFCs MFIs, can encourage lenders to provide consultancy services to borrowers and ensure the appropriate utilization of credit provided.

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