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INTRODUCTION
REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
APPENDIX/ANNEXURE

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MICRO FINANCE INSTITUTIONS (MFIs): AN ANALYSIS OF THEIR FUNCTIONING IN BELLARY DISTRICT

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ABSTRACT

Finance is the lifeblood of any activity, more to business activity. It is the nerve centre of an enterprise. Thus, availability of adequate finance and at the right time is essential. In the Indian context, where bulk of business activity comes within the fold of small and micro enterprises, the challenges faced by the financial institutions are many and complex. It is in this context micro finance and institutions catering to micro units assume more importance. Micro finance is the provision for savings, credit and financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their standard of living. Microfinance is the effective tool to reduce poverty and one of the ways of financial inclusion. The objective of the study is to know the current scenario of Micro Financial Institutions (MFI's) and the impact of MFI's on financial inclusion. The study is undertaken in Bellary District of Karnataka. Micro finance has achieved an immense importance in India and throughout the world in view of credit and reduction of poverty. The study also attempt at comparing the experience of Bellary district with the state in general.

KEYWORDS

Micro finance, Poverty alleviation, financial inclusion.

INTRODUCTION

Microfinance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then several microfinance institutions came up and have succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies with time for the fulfilment of their vision. These included the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent instalments. Borrowers are organized into groups and peer pressure among them, which reduced the risk of default.

Microfinance is now being considered as one of the most important and an effective mechanism for poverty alleviation. These are also effective mechanisms through which to disseminate precious information on ways to improve the health, education, legal rights, sanitation and other living standards, which are of relevant concerns for the poor. Above all, many micro-credit programs have targeted one of the most vulnerable groups in society – women, who live in households with little or almost no assets. By providing opportunities for self-employment, many studies have concluded that these programs have significantly improved women's security, autonomy, self confidence and status within the household.

The Task Force on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as .the provision of thrift, saving, credit and financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their standard of living.

In late 2009, CRISIL which is India's leading ratings, research and risk advisory company released its list of top 50 microfinance institutions in India. The report titled India's Top 50 Microfinance Institution presents an overview of leading players in India's Microfinance Institution (MFI) space. Currently launched CRISIL has assessed more than 140 MFI's, and is currently the most preferred rating agency in the Indian microfinance space. As per the CRISIL report of 2014, has rated top 25 MFI's in India.

THEORETICAL ASPECTS

HISTORY OF MICROFINANCE

The roots of microfinance can be found in many places, but the best-known story is that of Muhammad Yunus and the founding of Bangladesh's Grameen Bank. Muhammad Yunus, an economist trained at Vanderbilt University, was teaching at Chittagong University in southeast Bangladesh. The famine, though, brought him disillusionment with his career as an economics professor. In 1976, Yunus started a series of experiments lending to poor households in the nearby village of Jobra. Even the little money he could lend from his own pocket was enough for villagers to run simple business activities like rice husking and bamboo weaving. Yunus found that borrowers were not only profiting greatly by access to the loans but that they were also repaying reliably, even though the villagers could offer no collateral. Realizing that he could only go so far with his own resources, in 1976 Yunus convinced the Bangladesh Bank (the central bank of Bangladesh) to help him set up a special branch that catered to the poor of Jobra. That soon spawned another trial project, this time in Tangail in North-Central Bangladesh. Assured that the successes were not region-specific flukes, Grameen went nation-wide. One innovation that allowed Grameen to grow explosively was group lending; a mechanism that essentially allows the poor borrowers to act as guarantors for each other. With group lending in place, the bank could quickly grow village by village as funding permitted. And funding—supplied in the early years by the International Fund for Agriculture and Development, the Ford Foundation, and the governments of Bangladesh, Sweden, Norway, and the Netherlands—permitted rapid growth indeed. [1]

Economic theory also provided ample cautions against lending to low-income households that lack collateral to secure their loans. But Yunus vowed to one day make profits—and he argued that his poor clients would pay back the loans reliably. Today, Muhammad Yunus is recognized as a visionary in a movement that has spread globally, claiming over 65 million customers at the end of 2002. They are served by microfinance institutions that are providing small loans without collateral, collecting deposits, and, increasingly, selling insurance, all to customers who had been written off by commercial banks as being unprofitable.

AP MICROFINANCE CRISIS

During the growth stage that is in the first decade of 21st century. There was limited protection and effective implementation of MFI's codes of conduct, regulatory and supervisory systems were not fully developed. This led to concentration of MFI's in the state of Andhra Pradesh and MFI's are involved in multiple lending, charging high rates of interests and to have engaged in unethical loan recovery practices.

Though Microfinance Bill was introduced in Indian Parliament in 2007, it was not yet been adopted by the laws. Enactment of Micro Finance Institutions (Development and Regulation) Bill, 2012, which is still pending with the Standing Committee on finance, has potential to catalyze the microfinance sector under the wise regulation of RBI.

The concentration of MFI's in AP and limited attention to Microfinance by government has lead to Microfinance Crisis in AP in 2010 and the growth of microfinance in India is reduced by 15% to 20%. Micro financial crisis in AP banks more cautious in lending credit to groups.

GRAMEEN BANK MODEL

Grameen Bank model is one of the oldest and most successful models of microfinance. This model was developed in Bangladesh. In this model microfinance programme participants are organised into groups of five members. They make mandatory contribution to group savings and insurance fund. Each member maintains her individual saving and loan account with the bank and after contributing to the savings fund for a fixed time the group members receive individual loans from the bank. But the group is not required to give any guarantee for the loan repayment by its member. Repayment responsibility solely rests on the individual borrower and there is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member. Loans are provided for six months to one year duration but repayments are made weekly. Bank staff makes periodic visits to the groups, maintain individual records of group members and facilitate all the financial transactions. This creates ease in working but hindrance in the empowerment of members.

THE RECENT DEVELOPMENT- INTRODUCTION OF MUDRA BY GOI

The setting of the MUDRA bank was a part of the 2015-16 Union budget proposals made by finance minister Arun Jaitely. MUDRA stands for Micro Units Development and Refinance Agency. The goal of the government is to use MUDRA as a tool to fund the unfunded. MUDRA will be a refinancer; it means that it will finance the MFI's, which provide credit to the end users in the rural hinterland- the micro manufacturer, the artisan, the small businessman, and the small time trader.

At present, MFI's lend to their customers at around 23-24% after borrowing funds from banks in the 13-14% range. With MUDRA entering the field, MFI's are expected to get finance at a much lower rate, and in turn, pass on the benefit to their customers. MUDRA, however, won't just be a financier. It will also be tasked with regulation of the sector – lay down guidelines and code of conduct, rate the MFI's, evolve methods of recovery, ensure clients protection, and spread the use of technology.

An interesting aspect of MUDRA's funding is that it will have budgetary support only to the extent of Rs 3,000 crore for its credit guarantee corpus. The Rs 20,000 crore capital will be made available to MUDRA from the shortfalls in the 40% priority sector lending targets of the banks. Therefore, it is even more imperative that MUDRA bank begins on a sound footing so that it can ensure that much- needed funds reach the country's 5.8 crore small businesses, just 4% of which have access to bank loans, even though they collectively employ 12 crore people. The task of providing formal finance to the informal sector at an unprecedented scale is challenging. Even more reason why it should be attempted.

OBJECTIVES OF THE STUDY

1. To study the current scenario of MFI's in Bellary district.
2. To study the impact of MFI's on financial inclusion.
3. To know how MFI's effect on poverty alleviation.
4. To study the concept of Microfinance.

DATA COLLECTION

Data regarding study was collected from the Shri Kshethra Dharmasthala Rural Development Project and Spandana Sphoorty Financial Limited branches located in Bellary district. Details were asked to the staff of these branches ,details regarding the following were asked;

- Loans provided
- Tenure of loans
- Maximum amount of loans
- Purpose of borrowing loans
- How MFI acts as a poverty alleviation and financial inclusion
- What are the interest rates charged for different loans
- How micro finance helps in financial sustainability and welfare impact
- Flexibility of repayment of loans
- Effect of lending loans
- About the establishment of the institutions

ANALYSIS OF THE STUDY

BACKGROUND AREA OF THE STUDY

Ballari comes under the administrative control of Gulbarga division and development jurisdiction of H.K.D.B, Gulbarga. It has 2 revenue sub divisions, Ballari subdivision and Hosapete subdivision, which in all have seven taluks. The Ballari subdivision has 3 taluks, while there are four taluks in Hosapete subdivision. There are 27 hoblies, one Corporation, one City Municipal Council, two town municipality, six town panchayats, 542 revenue villages, and 436 thandas/habitations.

As per 2003 census the population of the district stood at 2,245,000. The rural population constitute 70%. The density of population is 196 per km^2., which is much lower than the state average of 235 per km^2. However the decimal growth rate for 1981-91 was 26.92% which is higher than the state growth rate of 21.12% The scheduled caste/scheduled tribe population constitute 28% of the total population. The sex-ratio was 965, which is slightly higher than the state average of 960.

ECONOMY: The major occupation of this district is agriculture and 75% total labour force is dependent on agriculture for its livelihood. The important crops grown are cotton, jowar, groundnut, rice, sunflower and cereals. The net irrigated area is 37% to the net area sown. The pattern of land utilization in the district is as under (1997–1998). The main source of irrigation is Tungabhadra Dam. The Canal network accounts for 64% of irrigated area. The important rivers are Tungabhadra, Hagari and Chikkahagari. The western taluks of the district are dogged with scarcity conditions with the failure of rains during successive years. However during the current year and preceding year heavy rains have created havoc in the district leaving many in lurch.

INDUSTRIES: Bellary district is rich in natural resources, which need to be tapped to a great extent for overall development of the district. This district is endowed with rich mineral resources. It has both metallic and non-metallic minerals. The metallic minerals include iron ore, manganese ore,redoxide, gold, copper and lead.

The non-metallic mineral include andalusite, asbestos, corundum, clay, dolomite, limestone, limekankan, moulding sand, quartz, soap stone, granite and red ochre. The metallic minerals are abundant is only three talukas, Sanduru, Hosapete and Bellary in the order of mining activity intensity. The annual production of Iron ore is anywhere between 2.75 to 4.5 million tonnes, and manganese ore between 0.13 million tonnes to 0.3 million tonnes (1991). Bellary presently is the second fastest growing city in the state of Karnataka after Bengaluru. The real estate prices have already started to shoot as more and more industries are finding their way into this city. Bellary to its credit has the second largest single rock mountain in the world.

At, present there are two leading micro finance institutions operating in Bellary district

- Shri Kshethra Dharmasthala Rural Development Project
- Spandana Sphoorty Financial Limited

TABLE 1

Name	Shri Kshetra Dharmasthala Rural Development Project	Spandana Sphoorty Financial Ltd
	SHRI KSHETRA DHARMASTHALA RURAL DEVELOPMENT PROJECT® SKDRDP®	SPANDANA
Headquarter	Dharmasthala, Karnataka	Hyderabad, Andhra Pradesh
Legal Status	Trust	Public Ltd. Company (NBFC)
Lending Model	SHG	JLG, Individual
Number of Branches	22	696
Loan Outstanding (Million)	4,060	11,987
Borrowers	612,482	1,668,807
Net Worth (Million)	157	1,225
Portfolio Yield (%)	12.02	27.43
OSS (%)	100.46	132.02
Current Portfolio (%)	99.68	98.88
Debt to Net Worth (Times)	29.81	7.04

SHRI KSHETRA DHARMASTHALA RURAL DEVELOPMENT PROJECT

The SKDRDP was founded with single important purpose of "Inclusive Rural Development". To achieve this we created three main things for Individuals. They were **Loans, Insurance & Pensions** that provides Financial Stability.Pragathi Nidhi Loans, Sampoorna Suksha Health Insurance, Jeevan Madhura Life Insurance, National Pension Scheme

To enable people to inculcate the habit of "helping others", we started organising **SHG's** which are called as Pragathi Bandhu(PBG). Its lending and Training programs are geared towards members and their families. As every family has 3 types of people, we have special programs focussed these 3 focus groups. SKDRDP undertakes most of its development interventions through the Self Help Groups (SHGs) in the villages. These SHGs are also used to deliver savings, credit and insurance services to the clients. While the men's SHGs have 5-8 members, women's SHGs have 10-20 members. SHGs elect their office bearers and are provided training on book-keeping and conducting affairs of the group. About 20 SHGs in the village form a federation of SHGs. SHGs meet weekly for savings, repayment of installments and discussing other issues. The Shri Ksherta Dharmasthala Rural Development Project encompasses all aspects of enriching the rural life. It is currently engaged in developmental activities in Dakshina Kannada, Udupi, Uttara Kannada, Bellary, Coorg, Shimoga, Chickmagalur, Dharwad, Haveri, Gadag, Tumkur, Belgaum, Mysore, Chamarajnagar, Koppal, Davangere and Chitradurga districts operating in 20,000 villages covering more than 19,92,000 families. It has two branches in Bellary

1. Sandur, Bellary
2. Cantonment Bellary, Bellary

DETAILS OF LOAN PRODUCTS

1. First loan is available to the individual after completion of mandatory savings. Maximum loan term is 3 years. Maximum loan is Rs 1,00,000
2. Repayments are weekly and interest charged is 9% pa flat with processing fee of 1% of loan.
3. Purpose of loan –Education, Consumer goods, Medical expenses, Repaying other loans. Maximum loan is Rs 25,000
4. Loan is given for income generating activities such as agriculture and allied activities and business. Maximum loan is Rs 50,000
5. Loan is also given for assets building for productive purpose such as purchase of pumps ,equipment , machinery, construction of wells, tanks, cattle sheds, land improvements , fencing etc., or utilites such as toilets, solar electricity, gobar gas etc., -maximum term of loan is 5 years. Maximum loan is Rs 50,000
6. Loan can be used for repairs or construction of house –maximum term of loan is 10 years. Maximum loan is Rs 1,00,000
7. A client can avail more than one loan simultaneously. However, total outstanding under all products taken together cannot exceed maximum of 40 times of the individual's savings (except in case of the first loan). Total outstanding of a client cannot exceed Rs1,00,000.

DETAILS OF INSURANCE PRODUCTS

Life insurance: The life insurance is provided in collaboration with LIC and the product offered is *Jeevan Madhur.* It is an endowment product for 15 years. Sum assured ranges between Rs5,000 and Rs30,000 depending on the premium paid.

Health insurance: The health insurance scheme is called *Sampoorna Suraksha.* This scheme is being offered in association with public sector insurance companies. The premium varies from Rs220 to Rs1,525 per household per annum for above poverty line members and between Rs200 to Rs1,190 per household per annum for below poverty line members. The premium varies on account of the number of members in the household. The insurance covers hospitalization expenses, maternity related expenses and domiciliary treatment. The cashless facility in the network hospitals is also available.

DETAILS OF SAVINGS PRODUCTS

SKDRDP collects savings from its members. The savings are compulsory for the members and at least Rs10 per week must be saved by each member. The savings cannot be withdrawn by client unless she/he wants to drop out. SKDRDP pays 6% interest on the savings.

LOAN PRICING (LP) OBSERVED SCORE 53%

1. Loan pricing is low because it accounts for and communicates interest on a flat rate basis.
2. Annualized Percentage Rate (APR) on the loan products of SKDRDP is between 16.33% and 17.25% which is among the lowest for the MFIs in India.
3. Upfront fees and deposits -- SKDRDP charges upfront fees of 1% on the total loan amount. There are no upfront security deposit requirements but maximum loan size is linked to the savings of the clients.
4. Late payment charges and penalties -- SKDRDP does not charge any late payment fees or penalties. Total amount to be paid by the client remains the same even if there is delay in payment. No additional interest is charged in case the actual loan duration exceeds the contracted loan duration. No penalty is charged for late payment or for overdue.
5. Prepayment charges -- The organization does not have any prepayment penalty. In fact, the APR actually decreases in case the client decides to prepay her loan.

CLIENT ORIGINATION AND TARGETING (COT)

1. SKDRDP's COT is moderate mainly because the organization does not collect documentary evidence to ensure identity and address of the clients. The organization also does not have a policy on avoidance of unauthorized agents.
2. Each village where SKDRDP works has an office headed by the field staff.

3. The SHGs are required to conduct weekly meetings and undertake compulsory savings for a minimum period of three months before they become eligible to undergo the process of grading.
4. Only SHGs receiving satisfactory performance grades are eligible for applying for loans.
5. SKDRDP provides moderate targets for group formation (20-30 SHGs per year).
6. One of the weaknesses of the client origination process of the SKDRDP is that it does not collect proof of identity and address (Know Your Client – KYC documents) from the clients. This increases the possibility of enrolment of fake/undeserving clients.
7. SKDRDP mostly operates in areas where other MFIs are not operating but as the organization expands to newer areas.

LOAN APPRAISAL (LA)

1. Loan applications up to Rs200,000 are sanctioned by the Project Officers. Loan applications of higher sizes are sent to the Head Office for sanction.
2. Formal analysis of repayment capacity is carried out only when the total outstanding of the client exceeds Rs45,000.
3. SKDRDP calculates repayment capacity of its clients on the basis of the following factors.

- Income of the client
- Indebtedness of the clients
- Age of the SHG
- Grade of the SHG

One of the limitations of this system is that the expenses of the client are not taken in to account while computing repayment capacity. Also, repayment capacity does not take into account variations in repayment terms across various loan products.

LOAN RECOVERY PRACTICES

Weekly installments are collected by the SHG in their regular group meetings. Each village office earmarks one day of the week as the collection day. On the scheduled collection day, one member of each SHG visits the village office and deposits installments for all the group members.

In case one or more group members do not repay on the scheduled date, the field staff/supervisor visits the SHG in its next meeting and tries to find out the reasons for delinquency. He tries to persuade the SHG to pay and takes help of the concerned federation in recovery efforts. If required, the field staff visits the house of the clients along with the SHG's/federation's representatives. A member of the SHG has to come to the village office on the scheduled day to repay the installments.

SKDRDP undertakes several developmental activities in the areas of health, education, agriculture and livelihood, which helps it to maintain good relationship with its clients. In fact, in most of the areas where the organization starts interventions, other developmental activities precede microfinance activities.

SPANDANA SPHOORTY FINANCIAL LIMITED

Spandana Sphoorty Financial Limited is a Non Banking Finance Company (NBFC) established in March 2003. Spandana's mission is "to be one of the most significant microfinance service provider by offering a range of financial and non financial products and
services to low income households and individuals to improve the quality of life".

Spandana started its operations as an NGO in Guntur District of Andhra Pradesh in the year 1997-98. In 2001-2002, M-Cril rating benchmarked Spandana as the most cost-efficient MFI in the World. Promoter, Mrs. G Padmaja Reddy has 30% shareholding in the Company and around 35 Banks hold preference shares in the Company.

Its head office is located at Hyderabad, Andhra Pradesh. Spandana offers four types of loan products – General Loan (Abhilasha) for women engaged in business, Enterprise Loan (Pragathi) for mature microfinance clients (both are group lending products), Farm Equipment Loan (Karshak) and Loan against Gold (Keertana) are for men and women and are individual lending products.

Spandana currently operating with 41.77 lakh borrowers with Rs3435.92 crores as loans outstanding through 1,731 different branches in 182 districts of 12 states i.e. Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Orissa, Madhya Pradesh, Uttar Pradesh, Gujarath, Goa, Jharkhand, Chattisgarh and Maharashtra. While Andhra Pradesh and Tamil Nadu are the withdrawal states for Spandana, Karnataka, Goa, Gujarat and Jharkhand are the high focus states.

It has three branches in Bellary

1. Kampli Bellary
2. Vishal Nagar, Anantpur Road Bellary, Bellary
3. Venkateswaranagar, Anantpur Road ,Bellary

LOAN PRODUCTS

	General loan (Abhilasha)	Micro enterprise Loan (Pragathi)	Farm equipment Loan (Karshak)	Loan against Gold (Keertana)
Client	Women	Women & men	Women & men	Women & men
Utilisation	Small ventures	Income generation activities	Farm equipment	Emergency, working capital, business, home repairs etc.,
Loan tenure	1-2 years	1-2 years	3 years	6 months
Loan size	Rs2,000-30,000	Rs8,000- 15,000	Rs50,000-3,00,000	Rs1,000-1,00,000
Collateral requirements	Group (5-10 Members)	Group (5-10 Members)	Hypothecation -farm equipment	Gold jewellery / Gold coins
Repayment	Weekly, Fortnightly, Monthly.	Monthly	Tailored Repayment	Varied Repayment Options
Interest rate	12,5% Flat	26% Reducing	19-25% Reducing	12-26% Reducing
Other charges (Insurance)	1%(for client &spouse)	1%	1%	
Processing fee	1%	1%	1-2%	Nil
Security deposit /risk contribution	Nil	Nil	Nil	Nil

OTHER LOAN PRODUCTS

- **SHORT TERM LOAN (SAMRUDDHI)**

Samruddhi stands for "prosperity". For all group clients who have gainfully employed, Abhilasha loan provides higher amount of funds to meet working capital needs, emergency needs unbudgeted requirements particularly in case of seasonal businesses.

This loan offers an avenue to our microfinance clients to get flexibility of an interim loan.

This loan is also useful for temporary cash requirements like education, health emergencies etc. The interest rates for this product is 11.55% flat, this translates into approximately 27.6% on annual declining basis. 1% is charged towards Processing Fees. Loan tenure is 12-24 months and loan size is Rs 15000 to30000. Repayment of loan is monthly.

- **SHREE LOAN**

Shree stands for "Good Beginning". This loan is offered in AP and Telangana after a gap of three years post AP Crisis. This is a non-micro finance loan given to middle income households. interest rates for this product is 29.4% on annual declining basis. An additional 1% is upfront up front as Processing Fees. Loan tenure is 35 weeks and loan size is Rs 5000 to 10000. Repayment of loan is weekly.

- **EXCEL LOAN (SPHOORTY)**

Sphoorty stands for "Inspiration". This loan is offered to low/lower-middle-income people running micro-enterprises or having any other stable income source. This loan is delivered to individuals. This loan product helps us go up the value chain and also to provide support to our existing clients who have moved up the economic ladder. Interest rates for this product is 27% on annual declining basis. 1% processing Fees is charged upfront. This loan is given to small and medium enterprises , loan tenure is 6-24 months and loan size is Rs 6000 to 60000. Repayment of loan is monthly.

- **MORTGAGE LOAN**

Mortgage Loans are offered to clients who need higher ticket loan size. These Loans are given to non BPL and Non Micro Finance clients against security. Asset is mortgaged for the tenure of the loan Interest rate charged on this product is 24% to 26% per annum declining basis. Loan are given to acquire Assets and Business Expansion. This loan is given to agriculture and commercial activities, loan tenure is 18-24 months and loan size is Rs 50000 to 200000. Repayment of loan is tailored.

COMPLIANCE TO RBI GUIDELINES

The major aspects of the RBI guidelines and its compliances by Spandana are mentioned below:

a) Interest cap on loans at 26 percent per annum: Interest rate charged by Spandana for its main product Abhilasha is 12.5% flat for a tenure of 50 weeks which translates into 24.6% on declining balance basis. For the remaining products, Pragathi, Karshak and Keertana, the rate of interest on declining balance is 26%, 19-25% and 12-26% respectively.

b) Loan pricing to include processing fee (not exceeding 1 percent of the gross loan) interest charge and insurance premium (to be paid directly to the insurance provider): Spandana is currently charging 1% loan processing fees as per the RBI guidelines issued. Moreover, the insurance charges recovered from the clients are paid directly to Insurance companies.

c) No penalties for delayed payments, security deposit or margin money to be taken upfront: Spandana is not collecting any prepayment charges. They collect interest for that week during which prepayment is being made. Spandana is not collecting any security deposit for the loans.

d) 85 percent of MFI assets being under agriculture, micro and small enterprises: 100% of their portfolio is under micro, small and medium enterprises.

e) Lending to borrowers whose household income does not exceed Rs. 60,000 (in rural areas) and Rs120,000 (in urban areas):. Calculating the household income is rural and urban areas is debatable since they do not have fixed monthly income. Their income is seasonal and is dependant on several factors. However, Spandana collects a declaration from the applicants on their income levels. The household income of the clients visited under the study was mixed. Around 10-15% of the client households had an income more than the amount stipulated by RBI.

f) Total indebtedness of borrower not exceeding Rs50,000: Spandana strictly follows this guideline and does not lend to members who have a loans from 2 or more MFIs and Rs50,000 as the total loan outstanding. This is evident from their inclusion of Credit Bureau checks in their appraisal process. This is also mentioned in their Code of Conduct and followed across all levels.

g) Tenure of loan not being less than 24 months: It was observed that the tenure of the main loan product, Abhilasha is 50 weeks for a loan size upto Rs15,000. For loans of Rs20,000 and above, the tenure has been changed to 104 weeks post RBI guidelines. However, many of the clients were found to be asking for roll back of the tenure to 50 weeks

APPRAISAL SYSTEM

- **CLIENT DATA COLLECTION**

In Spandana, once the interested members' meeting is conducted by the authority, they fill the individual loan application form for evaluation, followed by a 4-day Compulsory Group Training (CGT) by the authority. Group Recognition Test (GRT) is conducted by the ABM / BM. There is use of peer verification across groups, information collection from neighbours / household members. However, only primary information about the member is captured in the database along with the KYC documents. Cross-verification from group members is also done.

- **REPAYMENT CAPACITY**

Repayment Capacity is assessed during the individual primary evaluation & CGT by CA; critically evaluated during GRT by ABM/BM on door-to-door basis; information collection on household incomes, expenditures, assets and liabilities.

- **DEBTS**

Loans to clients are given based on the loan cycle, minimum loan size and also the repayment capacity. However, it was observed in the field that there were clients who were given a loan of Rs20,000 in the first cycle itself, deviating from this principle. It was also observed that under normal circumstances, the loan size for the entire group is the same.

- **LOAN HISTORY**

Loan history of the client also captured in the loan application form and it is checked and kept available during and throughout the appraisal process (CGT and GRT), if the client had long term relation with Spandana. If the client has any outstanding loans of other MFIs, which is shared by the credit bureau, they visit the client to recheck.

- **APPROVAL**

Loans are approved by the BM (within the overall threshold of the loan cycles), subject to the approval by HO based on the credit bureau check. Approval of RM / DM is needed in branch offices rated as 'risky' and State Incharge / MD approves loans in branch offices rated as 'very risky'. There is limited credit committee or board involvement while approving loans.

- **VERIFICATION**

Separate Audit team exist in the organization who conducts audit of all the branch offices in their area, on a surprise basis. Audit team verify loan documents, all client enrolment documents, transaction related documents, bank documents and conducts the field audit by attending centre meetings. Audit team submits their compliance report to concerned branch office with copies to all concerned in the head office. In respect of appraisal and application process, the IA team checks the loan application form and appraisals of clients on a random basis.

PRICING

- **COMPETITION**

Pricing of the loan product of Spandana is very competitive, and the institution has occasionally reduced interest rates to remain competitive and to adhere with the norms of RBI. The product features are uniform from the start of operations.

- **TRANSPARENCY**

Spandana's pricing is highly transparent. The pricing information is displayed in all the branch offices and the individual loan cards. Further, pricing information is made available to the client in the form of total interest amount, price in fixed flat rate, price in declining interest rate and also in terms of rate per 100 rupees.

- **FEES**

Spandana charges two types of fee i.e. processing fee of 1% and insurance fee of 1% to all clients.

- **SECURITY DEPOSIT**

Spandana has not collected any security deposit from their client against their loan.

- **PREPAYMENT**

There is no prepayment penalty. Only interest for that week is collected and the clients can prepay their loans at any given point of time.

- **DEFAULT**

There is no description of the penalties for default. Board has approved the recovery practices in case of default, but as per the discussions with the clients and staff, in case of default, the peer pressure and group guarantee mechanisms will be implemented and if the entire group has defaulted, then the persuasion and discussions with the clients are conducted and there is no subsequent loan for those clients / groups.

PRODUCTS AND SERVICES

- **DESIGN AND APPROPRIATENESS**

Earlier both the products were designed on the basis of clients' needs and requirements. They have now been modified as per guidelines issued by RBI with slight modifications based on clients need. Even though Spandana has 4 loan products, majority of the portfolio is Group loan which is a generic product.

- **REVIEW**

To comply with RBI guidelines, loan sizes of Rs15,000 and above are offered for 24 months. For the general loan, change in fee / interest rates is made. New products like Krishak, Pragathi and Keertana were developed based on the feedback / requirement of clients.

- **DIVERSITY**

Spandana has four loan products which can be broadly classified into two (Group Loan and Individual Loan). The main differentiating factors are the loan size, repayment frequency and loan tenor in respect of group loans and in respect of individual loans, it is the collateral, loan size and repayment tenor.

- **CONVENIENCE**

Spandana's loans are highly convenient which was also shared by clients during the client visits. The clients need to attend weekly group meetings which are held for 5-10 minutes and recoveries take place in the group meetings. However, client has to visit the Branch office along with the spouse while disbursement of the loan.

- **LINKAGES**

There is only one linked products with the loan to client i.e., credit life insurance provided to the client. However, if the client does not want to avail this service, he / she is rejected the loan.

FINDINGS OF THE STUDY

Sl.no	*Shri Kshethra Dharmasthala Rural Development Project*	*Spandana Sphoorty Financial Limited*
1	Interest rate is 9% pa flat for SKDRDP and processing fee charged is 1%	Interest rate charged on loan varies from one loan product to another.
2	Loans are given without any security and based on income generating capacity	Each loan product has collateral requirement.
3	Loans are given for productive purposes such as dairy, farming, agricultural activities and for consumption purposes & for construction of houses and for renovation.	Products like Karshak(farm equipment) requires hypothecation of farm equipment & loan against gold (Keertana) requires gold jewellery or coins as hypothecation.
4	Life insurance and health insurance is provide to the clients	Products like Abhilasha & Pragathi requires 5-10 members in-group.
5	Interest charged on loans are very low	No penalty for delay in payments.
6	Does not charge any fee for late payment Alternatively, any interest.	Loan is provided for MSE, farming, working capital needs, education, health.
7	Does not collect documentary evidences of the clients.	Loan pricing include processing fee & insurance fee at 1% of total gross loan.
8	Most of the SKDRDP operates in areas where other MFI's are not operating.	Loan provided depends on household income of rural and urban areas.
9	Loan appraisal i.e., computing repayment does not take variation terms.	Mortgage loan is provided against assets.
10	Loan recovery is done once in very scheduled day of the week.	Pricing of the loan in Spandana is very competitive and occasionally it reduces interest rates to remain competitive.
11	SKDRDP also provides National Pension Scheme to the clients.	Spandana has to comply as per the guide lines issued by the RBI.

CONCLUSION

After observing the above findings and analysis of the study, it is observed that Shri Kshethra Dharmasthala Rural Development Project is providing better financial support to rural areas than Spandana Sphoorty Financial Limited.

Shri Kshethra Dharmasthala Rural Development Project is contributing more to financial inclusion and better poverty alleviation than Spandana Sphoorty Financial Limited ,because it provides loans to dairy , farming, agricultural activities and for consumption purposes & for construction of houses and for renovation, which is more important to rural people than providing loans against asset and gold. Because most of the people living in Bellary district their main occupation consists of agriculture, raising cattle, agriculture and allied activities.

However, both MFI's are providing loans they are not concentrating on loan recovery activities and about delay in payment of loans. Loans provided by Shri Kshethra Dharmasthala Rural Development Project usually meet the needs of low and middle income group and also to the people below the poverty line ,but whereas loans provide by Spandana Sphoorty Financial Limited usually meets needs of only middle income group of people because they should hypothecate equipment. Low-income group people cannot be benefited with this kind of loans provided.

However, both the Micro Financial institutions play an important role in reducing poverty in Bellary district and as a financial inclusion.

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