Financial Performance of Microfinance Institutions in Telangana

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ABSTRACT
In India, microfinance is ingrained in the financial system and serves as a means of distributing and gathering modest amounts of money. Numerous unofficial financial intermediaries exist because there are insufficient banking channels in rural and isolated locations. In particular Microfinance has proliferated and is becoming a stand-in for banks. It emphasizes on rural economy and performs as mode of lifting people from the deprived section into the formal financial system, thereby it reduces the leakage ofbogus financial services. Microfinance was first offered to the majority of the impoverished population as a volunteer service. Nowadays, nevertheless, it serves as a market-based means of reducing poverty and promotes economic growth and financial inclusion in India.

Keywords: Financial Performance, Growth, Microfinance Institutions (MFIs), ROA, ROE.

INTRODUCTION
The global microfinance industry has built a comprehensive information infrastructure in the absence, originally, of distinct infrastructures for each countryDespite the fact that the microfinance business presently has a complete set of standards, the MFI is primarily responsible for putting these standards into practice.

Microfinance is an economic activity which deals with disbursement and collection of smallscale investment particularly to unbaked people. Microfinance institutions (MFIs) have demonstrated commendable growth rate in Indian finance sector especially in south regions. Consistent monitoring and emergence of new regulatory bodies like MFIN, the confidence of stakeholders has been enhanced in this sector. Although MFIs sufficiently capitalized for their present operations, the ability to procurement of capital properly still is critical to maintain the growth momentum. Finance is an extraordinary effective tool in spreading economic opportunity and fighting against poverty. Access to finance allows the poor to use their rich talents or open avenues for greater opportunities. Providing sustained credit services is one of the means to increase income and productivity of poor.
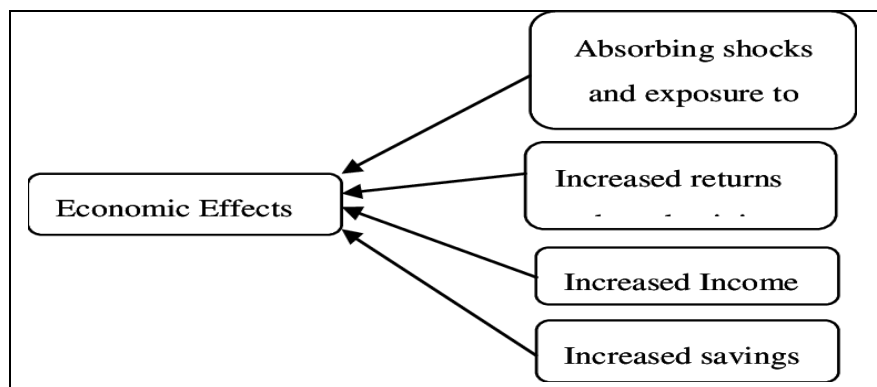
Financial Institutions' Hierarchy Of Needs During Crisis
Three channels are really important when it comes to liquidity: paying creditors, honoring deposit withdrawals, and funding operations (mostly personnel). These also have a priority hierarchy. Nothing

else matters if an FSP is unable to pay its employees. Not being able to pay depositors who want to withdraw is close behind in terms of importance; nothing destroys a financial organization more quickly than a bank run. The issue of liquidity with respect to creditors is, nevertheless, far more nuanced.

Creditors typically agree to reschedule or modify obligations for institutions that are having liquidity issues. In many ways, keeping the trust of creditors is more important than having enough cash on hand to pay them back, which naturally entails adhering to any commitments made. This document offers a framework for considering potential crisis situations, but it is not comprehensive enough to cover every scenario or offer enough information to serve as a guidebook. Put simply, experience cannot be replaced. Do not hesitate to seek advice from someone who has experienced a crisis firsthand if you or a partner institution is going through your first one and has the opportunity to do so. Time and money invested will more than pay for itself. This could refer to an investor, a board member, a coworker, or even an outside consultant.

It is highly advised that the industry's leadership in microfinance. The Financial Inclusion Equity Council, Inclusive Finance signatories, and others) uphold standards by mandating that MFIs obtain a social and financial rating every two to three years, as well as regular certifications or assessments of client protection and the publication of pricing data on a public platform (once it is restored).

Statement Of The Problem

India is a developing nation with a high rate of poverty. Developing societies require the formulation of special situational policies and programs for poverty alleviation in order to generate a minimum level of income for the rural poor, who make up a significant portion of the national population. One solution to the issue of poverty is microfinance. In India, the microfinance sector began in the early 1980s with unofficial Self Help Groups (SHG) to provide much-needed savings and credit services. Since then, it has grown into a thriving sector with a wide range of business models.

The COVID-19 pandemic has brought attention to how crucial financial services are in assisting low-income individuals in coping with uncertainty and financial shocks. Microfinance institutions (MFIs) are the primary source of financial services for a large number of low-income clients. Nevertheless, the pandemic has also caused some MFIs to confront severe solvency issues. What happens if MFIs have trouble making ends meet?

When MFIs' ability to continue operating is in jeopardy and they might not be able to continue serving their clients, what can they do? What factors should leadership take into account while discussing possibilities if an MFI is forced to consolidate with another organization?

MFIs need to be able to endure for a considerable amount of time in order to offer microlending and other support services.operating expenses and, frequently, use earnings to increase institutional capital. In MFI governance, financial success becomes a key performance indicator. In order to evaluate the financial performance of microfinance institutions functioning in India from 2013 to 2023 (2013–14 to 2022-23), the current study was conducted.

REVIEW OF LITERATURE

In the literature, there are two primary methods of approaching microfinance. The first strategy, which is supported by the Welfarists' School, focuses on the social necessity of reducing poverty (Morduch, 2000; Dunford, 1998; Woller et al., 1999 and Brody et al. 2003). This method judges performance by how well improves the immediate wellbeing of clients. The second focuses on the economic urgency of institution viability (defended by the Institutionalists' School: Gonzalez- Vega, 1993; De Briey, 2005). This method gauges achievement by tracking the institution's advancement toward financial independence.These small finance companies earn a lot of money while achieving good results. . As part of the MFI's equity, the MFI can also increase its lending through debt or by accepting more deposits from customers. This benefit contributes to the further expansion of its work in terms of business and financial sustainability. Therefore, to ensure financial sustainability, MFIs must set interest rates high enough to cover their debt. finance. Carr et al. (2007) noted that group lending has a positive impact on the quality of MFIs' loans. In fact, they show that business risk increases interest rates of financial institutions used mainly for individual loans and that above the 60% threshold these interest rates are not associated with future Long-term benefits for example for dependents.

The joint lending group approach is not for financial institutions.As a result, many microfinance institutions are undergoing reforms to ensure financial sustainability and finance their growth. Indeed, telangana microfinance institutions need to have financial stability to ensure the delivery of large-scale assistance to the poor in the long term. There is currently no evidence on the key determinants of financial performance of Telangana MFIs. Therefore, this study aims to fill this gap in the literature by examining the main drivers of financial stability in the Telangana microfinance industry. National information. The

results showed that credit volume, productivity and equity/asset ratio improve financial performance. However, the data was spread over 30 days and the percentage of female borrowers decreased steadily.
The only way to make financial services inaccessible to the majority of the poor3 is to integrate microfinance into the financial system. One indicator of financial performance is return on assets (ROA), which reflects the profitability and performance of the organization (Bruett, 2005; Cull et al., 2007; Hartarska, 2005; Lafourcade et al., 2006; Moslan and Stella Mu, 2009). Small finance companies offer loans at interest rates (below market rates) to reduce the financial burden and hence increase profits.
Several factors influence the performance of microfinance institutions (MFIs) in India, such as:

- Financial performance is determined by how well clients cover the costs of the services they obtain. Financial performance analysis aids in forecasting both in the short and long term and helps to highlight strengths and shortcomings.
- Variables influencing performance: These include of the MFI's age, size, profitability, productivity, efficiency, and caliber of portfolio.
- sources of funding: An MFI's performance is influenced by the sources of its funding. Organizational governance: An MFI's performance is influenced by the caliber of its governance.
- External context: An MFI's success may be impacted by the institutional, political, and economical environments in which it operates.

Scope Of The Study
The study focuses on Indian microfinance institutions. The study will employ the full financial performance indicators methodology that Microfinance Information Exchange (MIX) uses. In order to examine the financial performance, a number of criteria have been taken into consideration, including institutional characteristics, financing structure, , overall financial performance indicators, income and expenses, efficiency, risk, and liquidity. There are no macroeconomic indicators in this study.

Hypotheses
Hypothesis1:A major factor in achieving MFIs' financial viability should be the application of interest rates that raise equity. We anticipate that the financial performance and the equity stake in as-sets will be positively correlated.
Hypothesis 2:MFIs' financial performance would benefit from a reduction in risk throughout their entire portfolio, which would yield more significant profits. We anticipate that portfolio risk and financial performance will be negatively correlated.

Methodology and Data
Seven independent variables are included, which are frequently employed in studies on the financial performance of rural microfinance. The portfolio at risk over a 30-day period (PAR> 30) is the first variable. The percentage of the entire loan portfolio with at least one payment past due by more than 30 days is calculated. Remember that the logic of revolving credits that is, the nearly full restoration of loanable funds via credits that defines how MFIs operate. The equity-to-asset ratio, which evaluates MFIs' solvency, is the second variable. To make sure the MFI is adequately capitalized for any shocks, it calculates the amount of capital needed to cover extra unforeseen losses. The third indicator is the productivity ratio, which measures the number of active clients

Based on the above discussion, a model of MFI financial performance can be estimated following the two specifications (1and2):

$$ROA_{it}=f(Ratioass_{it}+Lncredit_{it}+Lnclient_{it}+Pfem_{it}+Empr\_Ef_{it}+Mature_{it}+Par30_{it})$$

$$ROE_{it}=g(Ratioass_{it}+Lncredit_{it}+Lnclient_{it}+Pfem_{it}+Empr\_Ef_{it}+Mature_{it}+Par30_{it})$$

Where i = 1,…; N for each MFI in the panel and t = 1,…; T refers to the timeperiod.

Table 1. presents the variables.

Variables	Definitions
Dependant variables	
ROA	Return on assetratio= net operating income/total assets
ROE	Return on equity ratio = Net Income /Average equity
Independen tvariables	
Ratioass	Equity-to-asset ratio = Totalequity/total asset
Lncredit	Number of Loans in natural logarithm

Lnclient	NumberofActive Borrowersinnatural logarithm
Pfem	Percent of female Borrowers= Number of active female borrowers/ Adjusted Number of Active Borrowers
Empr_Ef	Productivityratio=totalnumberofactiveborrowers/total numberofstaff
Mature	AgeofMFIs=numberofyearsfunctioningasanMFI
Par30	Portfolioatrisk>30days=(Outstanding balance on arrears over 30days+totalgrossout Standing refinanced(restructured)portfolio)/total gross portfolio.

The technique of determining the firm's financial strengths and weaknesses through accurate relationship-building between the elements in statements is known as financial performance analysis. Both long-term and short-term forecasts benefit from it as well. Financial performance analysis can be used to identify growth. Gaining insight into the financial performance of MFIs contributes to increased sustainability and profitability.

Empirical results and discussion
Table 2 summarizes the results of panel regression for the whole sampleperiod 2013-2023.

Table 2: Macroeconomic Indicators of Telangana

Indicators	2013	2018	2019	2023
Population (Lakhs)	350	367	374	385.10
GDP percapita,PPP	91	124	257	312
Population below national poverty line	13.18	9.57	5.88	3.76
Number of MFIs	7	6	9	8
Number of active borrowers	19224	20256	22,304	25,995

Source Sadhana Reports bharat microfinance reports from 2013-2024

The coefficient of the riskiest portfolio during a 30-day period is equal to the regression's highest absolute value coefficient (4.65). This suggests that the primary factor influencing the MFIs' financial viability is the portfolio that is at risk. Therefore, to be financially self-sufficient, MFIs should concentrate on preventive risk management for a portfolio of credit quality. It seems that MFIs should prioritize proactive risk management in order to boost their financial viability. This involves taking into account their capacity to foresee credit recovery issues and stop bad debt from spreading among borrowers.

Table 3. Econometric results, period 2013-2024

20013-2018(before covid)			2019-2023 (After covid)	
Variables	ROE	ROA	ROE	ROA
Equity-to-asset ratio	-0.91(3.61)	0.32(1.24)	-0.86(11.26)	**6.94**(2.83)**
Number of Loans	-0.72(2.02)	-1.21(0.85)	2.02(1.46)	**0.59**(0.36)**
Number of Active Borrowers	**5.98**(4.05)**	**4.03**(1.34)**	**-6.32**(2.48)**	**-1.55**(0.53)**
Percent of female Borrowers	0.09(0.24)	**0.18**(0.145)**	**-0.005**(0.002)**	-0.005(0.004)
Productivity ratio	-0.02(0.01)	-0.03(0.05)	**0.36***(0.09)**	**0.08***(0.018)**
Mature	-2.32(8.75)	-0.57(2.37)	17.46(12.43)	**3.89**(2.26)**
Par30	0.28(1.2 0)	-0.52(0.30)	**1.03**(0.63)**	-0.16(0.18)
Constant	-42.92(29.93)	-7.23(9.21)	-29.46(25.45)	-7.99(7.07)
Number of MFIs	10	8	9	8
Number of observations	42	58	46	54
R-sq:within	0.17	0.01	0.42	0.55
Hausman test (Prob>chi2)	0.2305	0.2250	0.1253	0.3561

The results show that, for the years 2013–2023, the coefficient of equity–to–asset ratio is positive and significant at 5%. This finding emphasizes how MFIs' funding structures have changed to include a larger equity stake in assets, indicating an improvement in MFIs' ability to finance projects.

FINDINGS

1. Since the coefficient on ratio of asset to equity is not significant in any of the two specifications, the results do not support hypothesis 1, which states that the proportion of equity in the assets ratio determines the financial performance of Telangana MFIs.
2. This result might be explained by the fact that, during the first years of the study period, the amount of MFIs' equity was not significant enough.
3. The findings show that age and the productivity ratio had no effect on the ROA and ROE of MFIs.
4. The reasons behind these results are the incompetence of loan officers and the immaturity of MFI, respectively.
5. In fact, during the early stages, loan officers were unable to obtain a verified technical expert- ise in the field since technology management and management personnel had not sufficiently evolved.
6. The study's greatest finding is that it confirms Hypothesis 2, which states that MFIs with greater risk portfolios have less sustainable practices.
7. The anticipated co-efficients for the ROE and ROA specifications are, respectively, -4.65 and -0.327.
8. These findings suggest that ROE and ROA are reduced by 4.65% and 0.327%, respectively, with a 1% rise in the PAR30.
9. The fact that credits disbursed in the early years are mostly from the equity of MFIs, which originate from donors, explains the significant influence on ROE. This research suggests that MFIs with high-risk portfolios will limit their microcredit income and, as a result, have less money available for loans.

MFIs frequently alter their interactions with their users, replacing the beneficiary approach with the customer strategy and placing more emphasis on the creation of precise guidelines for organizing a stable and effective market.

CONCLUSION

This research aims to investigate the factors that influence the financial performance of Telangana microfinance institutions. In fact, the financial performance is critical since the sustainability of MFIs makes financial services more accessible to the underprivileged and to everyone shut out of the regular banking system. The age of the MFI and the portfolio at risk throughout a 30-day period are the primary predictors of financial performance, according to our estimation results. Additionally, they demonstrate how financial self-sufficiency is positively impacted by MFIs' programs' outreach. Furthermore, we discover that the number of female clients, personal productivity, and the equity-to-asset ratio all have a major effect on the financial performance of MFIs.

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