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Loan Portfolio of a Faith-based Microfinance Institution: An Empirical Analysis

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Abstract

An effective tool of economic development is found in microfinance and is believed to provide sustainable mechanism for poverty alleviation. The microfinance institutions across the world operate on a few established models and have been able to make a considerable impact in the areas of financial inclusion and poverty alleviation. However, the industry also needs innovative models and products to attain the targets set under the Millennium Development Goals. In addition to this, there is a need for client-centered models in order to overcome the problems of client dissatisfaction and loan defaults that have been reported in the recent past. This study focuses on the faith-based model of microfinance that differs from mainstream microfinance basically in terms of the underlying values. Faith-based organizations have a long history of participation in the areas of human development. Apart from charity-based lending, many such organizations are also functioning as microfinance institutions that are successfully delivering financial services to the poor. There is a need to study the procedures and performance of these institutions in order to ascertain their distinctive features and potential. Along with other indicators like outreach, impact, and financial sustainability, loan portfolio of a microfinance institution is also a good indicator of sustainability and throws light upon other important features. The main objective of this study is to understand the loan portfolio of faith-based microfinance institutions. A sample of 100 loan clients was purposively selected from one faith-based microfinance institution. This microfinance institution was selected from the list of faith based institutions generated after the literature review. The factors studied were the loan repayment cycles, general demographics and, the relationship between various factors involved in loan repayment. The study also tries to understand if such institutions have any discriminatory lending policies towards clients of other faith.

Keywords:

Microfinance, Faith-based, Development, Poverty-alleviation, Religion;

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1. Introduction

Microfinance has emerged as a key tool in the provision of financial services and alleviation of poverty. It is widely believed to be a key strategy in reaching the Millennium Development Goals (MDGs) and building global financial systems that can meet the needs of the poorest. A majority of microfinance institutions work on the same or an altered method of group-lending having the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. However, the enormity of the required efforts and reported shortcomings in the mainstream models has led to the search for alternative models and modifications in the existing models.

Faith-Based Organizations (FBOs) are organizations engaged in development or humanitarian activities that explicitly claim a religious motive (Kirmani & Zaidi, 2010). Clarke (2008) defines a faith-based organization, "as any organization that derives inspiration and guidance for its activities from the teachings and principles of the faith or from a particular interpretation or school of thought within that faith" (p. 6). These FBOs operate either as independent establishments or from places of religious worship (church, mosque, synagogue, or temple). These organizations have been successfully participating in the efforts for poverty alleviation by providing financial services similar to other microfinance institutions. The faith based microfinance institutions (FB-MFIs) are founded on religious precepts, such as care for widows and orphans, to large poverty alleviation programs founded on comprehensive development, similar to the work of secular development organizations (Tadros, 2010). Harper et al. (2008) have studied several FB-MFIs and noted some important features like the non-discriminatory approach of FBOs in selecting the beneficiaries, funding, and staffing. These institutions are also characterized by the ability to employ diverse financial instruments which can be integrated into microfinance programs to promote entrepreneurship amongst the poor and subsequently alleviate poverty (Akhtar, 1996). The challenge is to understand how various religions implement the ideal in practice, leading to this new model of microfinance (Martin et al., 2007). The faith based model of microfinance may prove to be an effective tool to overcome the missing elements in the existing models, mainly the human and ethical elements leading to the formation of social capital. Along with

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other indicators like outreach, impact and financial sustainability, loan portfolio of a microfinance institution is also a good indicator of sustainability and throws light upon other features.

This paper attempts to study the lending practices of the FB-MFIs. A sample of 100 borrowers was purposively selected from one faith based microfinance institution to understand demographic distribution as well as the nature and quality of loan portfolio. The study also tries to delineate similarities and differences among the borrowers of same faith as that of the institution and those of different faiths. The lending policies of the faith-based microfinance institution is also critically analyzed to notice any significant difference in policies towards the borrowers of same faith and different faith. The paper is organized in the following manner. The literature review is presented in Section 2. Section 3 deals with the methodology adopted for meeting the objectives of the study. The loan portfolio is presented and analyzed in Section 4. Finally, key findings are summarized in Section 5. The last section discusses the conclusion and directions for future research.

2. Literature Review

Although FBOs were scarcely found in academic literatures till late 1990s, they can be found more easily in scholarly literatures now. The earlier scarcity of literature has been noted by Ver Beek (2000) and the later shift towards the inclusion of religious and spiritual dimensions in development literatures has been recorded by many latest researchers (Clarke, 2006; Clarke 2007; Marshall & Keough, 2004; Marshall & Keough 2005; Tyndale, 2006). Joshi et al. (2008) identified four types of studies that characterize the evolution of research in this area; (i) descriptive studies of faith based initiatives that highlight the strategic issues, (ii) descriptive studies involving operational issues, (iii) comparative research designs, and (iv) analysis of legal and regulatory issues. Jones & Petersen (2011) deduced from their literature review on FBOs that there is a growing body of research on religion and development. Some articles deal specifically with the role of religion in microcredit. Selinger & Crescent (2004), Haynes (2007), Lunn (2009), Ashta and DeSelva (2012) have highlighted extant research on religion and microcredit and have also presented the role religion plays in development. Berger (2003) provides an analysis of religious nongovernmental organizations (RNGOs), proposes a definition of

RNGOs, traces the emergence of RNGOs from an historical perspective, and situates them in their current religious and sociopolitical contexts. Kressler & Arkush (2009) and Benn (2009) explored how faith-based organizations can work across the religious divide and how better interfaith relationship can improve their ability to deliver aid. Ashta (2010) highlighted the principles of microcredit enshrined in Hindu faith whereas Eberhard (2008), Ransdell et al. (1996), and Plant (2009) have studied the extent and success of church-based health-promotion programs. Arano and Blair (2008) examined the simultaneity between religious intensity and income. Noland (2005) has investigated the relationship between religion, culture, and economic performance with Islamic faith as reference and found that faith supports growth and is not inimical to it.

A number of studies provide overview of the functioning of FBOs and the variety of approaches they take (Vidal, 2001; the Workshop on Faith-based organizations, 2006; Clarke and Jennings, 2008; Hefferan et al., 2009; and Tyndale, 2006). These studies also pose important research questions like the long-term cultural implications of FBOs. Noy (2009) tries to establish an empirically grounded, synthetic framework for understanding the range of approaches to development, both material and spiritual, that are at play in the world today. Ndemo (2006) deals with sustainable development of faith-based enterprises in Kenya focusing on the question of measuring social enterprises as a strategy for the developing the sector and the report on the involvement of FBOs in the Global Fund (2008) describe the role of FBOs in the administration of grants. Ivereigh (2011) has pointed to the differing opinions on the positive roles of FBOs and reiterates that religious faiths develop civic society different than secular civic society. Partnering with an FBO is a subject that has received attention of the researchers as well as policy makers (James, 2009). Wrigley (2011), Marshall (2005) and Bakewell & Warren (2005) outline some distinctive characteristics of faith-based NGOs and provide tentative suggestions regarding how these might affect partnerships. Robinson (2011) and UNFPA (2008) studied the effect of government funding on FBOs in five distinct areas: mission, distinctiveness, staffing, programming and supporters. Clarke (2008) documented a unique partnership between FBOs of different faiths.

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Morse and Mc Namara (2009), Cucuzza et al. (2003), Eade (2002), Palmer et al., (2003), Ritva and Svensson, (2005), and World Bank et al., (2005) are a few empirical studies that identify the FBOs and describe the distinctive role of faith-based organisations in development. Bano and Nair (2007) is a survey of FBOs in South Asia, Jodka (2009) studies a sample of FBOs in Nagpur and Pune in Maharashtra state in India and Mc Keon and Madsen (2009) study FBOs in Western Canada. Petersen (2010) surveys international religious NGOs engaged in development and humanitarian aid. Bradley (2009) compares and contrasts three groups of faith-based development organizations (FBDOs); community-based FBDOs, intermediary FBDOs and missionary organizations. James (2009) mainly deals with the features of FBOs and their reticence in clarifying their faith identity. Sider and Unruh (2004) propose an inductively derived six-fold typology of social service and educational organizations and programs based on their religious characteristics.

The role of FBOs in microfinance and poverty alleviation has been empirically investigated in a few studies (Stabile 2005; Martin et al 2007; Engelenhoven, 2006). Mersland et al. (2012) have studied the financial performance of Christian faith-based microfinance institutions. Ashta and De Selva (*ibid*) have framed several research questions as a result of their literature review on religion and microcredit. These faith-based microfinance institutions have been discussed as individual cases or as groups in the various studies. Some notable faith-based microfinance institutions in India have been mentioned by Harper et al. (2008).

There is a need for empirical understanding of faith-based microfinance institutions both from the sustainability as well as impact perspectives. Each of these factors also needs to be probed for their possible relationship with the faith dimension. Loan portfolio of a microfinance institution is a good indicator to understand the distinctive traits of the faith-based microfinance institutions. The factors studied were the loan repayment cycles, general demographics and, the relationship between various factors involved in loan repayment. Additionally, it would also suggest if there is any trend of discrimination between the clients of same faith as the microfinance institution and those of different faiths. In case no such trend is found, it may be inferred that the model has the potential for general acceptability.

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3. Methodology

The main focus of this paper is to understand the loan portfolio of FB-MFIs. In the process, the paper attempts to mainly analyze the profile of the borrowers and policies of the institutions towards members of the two groups (same faith and different faith). On the other hand, the repayment pattern of the two groups of beneficiaries was also studied to notice any significant difference in the repayment behavior of the two groups.

The above aspects were taken into account while framing the research questions that are listed below:

- What is the demographic profile of the borrowers of an FB-MFI? Is there any significant difference between the two groups of borrowers?
- What is the main purpose/usage of loan taken by the two groups of borrowers in an FB-MFI? Is there any significant difference between the two groups of borrowers?
- What is the policy of collateral requirement of the FB-MFI? Is the policy different for the two groups of borrowers?
- What is the tenure of loan, amount disbursed and repayment frequency by an FB-MFI? How do the two groups of borrowers compare on these factors?
- Is there any relationship between the repayment and faith of the borrowers?

According to Wright et al. (2006), loan portfolio is a major source of earning for MFIs and is commonly subject to material misstatements. The failure of any financial institution occurs due to the deterioration in the quality of the loan portfolio. Wright et al. (2006) have identified over-due amounts, repayment schedules, loan repayments, delinquency, loan terms, security, and loan portfolio management policies as key parameters for loan portfolio audit. CGAP (1999) identifies loan balances, transaction activity, and portfolio risk as indicators of loan portfolio. According to Norell (2001), arrears (in units of days) are the most important indicator of the quality of loan portfolio. Field repayment schedule and delinquency have been studied by Field and Pande (2008). This study focuses on a few of the selected parameters for assessing the quality of loan portfolio of a FB-MFI.

Due to constraints of resources, one faith based microfinance institution situated in Patna was selected from the list of institutions

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generated from the literature review (see Table 1). This institution serves the primary source of sample used in this study. This microfinance institution has religious motivations in its inception and was registered in 1998 with a goal of poverty alleviation (Khan, 2009). Its first branch was started in Phulwari Sharif in 2002 and now it has about seven branches spread across Bihar and in Lucknow (Uttar Pradesh). For this study, the oldest branch of this FB-MFI situated at Phulwari Sharif, Patna has been selected. This is the most active branch and leads other branches of the Institution both in the number of accounts as well as transactions. In all, 100 loan accounts were purposively selected from the records for detailed analysis. Christen and Fleming (2009) in their study have described sampling methods to be used for studying the loan portfolio of an MFI. They have suggested the use of judgment while selecting the sample and usage of a statistical model to create the sample. They have also indicated that a sample set of 50 may be adequate to yield statistically reasonable results. This study follows to some extent the sampling methods proposed by Christen and Fleming for sampling loans.

The statistical data listing of all the variables collected are in tables, wherein mean, mode and standard deviation have been used for continuous variables, while percentage and proportions are used for categorical data. The chi-square tests are applied to test the independence of two variables, and chi-square goodness of fit was applied to test the difference of proportion in the two data sets. All statistical tests are two-tailed, at $\alpha=0.05$. The two-sample Kolmogorov-Smirnov test (K-S Test) was applied to test if the samples follow the same distribution (normal). Subsequently, Likert Scale (Score) is computed to compare the different parameters of Loan Portfolio, in the two groups of borrowers.

Table No 1: List of Faith-based Microfinance Institutions

S No	Name	Study	Faith affiliation	Country/ Head Office
	Christian Aid	Kessler and Arkush (2009), Harper *et al.*	Christianity	UK/Oxford

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		(2008)		
	Muslim Aid	Clarke (2008)	Islam	UK/London
	SKDRDP	Harper , *et al.* (*ibid*), Ashta (2011) , Shetty and Veerashekharappa (2009)	Jain	India/Mangalore
	Akhuwat	Harper , *et al.* (*ibid*)	Islam	Pakistan/Lahore
	COVA	Harper , *et al.* (*ibid*), Kaur (2007)	Islam	India/Hyderabad
	Al Farz Foundation	Khaled (2011)	Islam	Pakistan/Lahore
	CAPARV	Harper , *et al.* (*ibid*)	Islam	India/Imphal
	ESAF	Harper , *et al.* (*ibid*)	Christianity	India/Chennai
	Al Khair Cooperative Society	Khan (2009)	Islam	India/Patna
	Catholic Relief Services	Harper , *et al.* (*ibid*)	Islam	India/Ranchi
	The Holy Cross Social Service Centre	Harper , *et al.* (*ibid*)	Islam	India/Hazaribagh
	LEAP	Harper , *et al.* (*ibid*)	Christianity	Liberia/Monrovia
	Village Development	Bradley (2009)	Hinduism	India/Jodhpur

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	Project			
	Oxfam	Bradley (2009)	Christianity	UK/Oxford
	Islamic Relief Worldwide	Cordier (2009), Kirmani and Khan (2008)	Islam	UK/London
	World Jewish Relief (WJR)	Kessler and Arkush (2009)	Jewism	UK/London
	Tearfund	Wrigley (2011)	Christianity	UK/Teddington
	Muslim Fund Deoband	Khan and Nisar (2004)	Islam	India/Deoband
	United Methodist Committee on Relief	Clarke (2008)	Christianity	USA/New York
	Chinmaya Mission Sidhabari	Paul (2012), Paranjape (2005)	Hinduism	India/Sidhabari
	SNDP	Minimol and Makesh (2012)	Hinduism	India/Kerala

4. Results

The sample of borrowers selected from the faith based microfinance institution was first divided into two groups on the basis of the faith of the borrowers. The first group comprised of the members of the same faith as that of the institution while the second group comprised of members belonging to any other faith. The two groups were then compared on various parameters to notice any differences among them.

4.1. Gender-wise distribution

The gender distribution in the two groups appeared to be same, with male borrowers' proportion more than female borrowers' proportions. However, the proportion of male borrowers is slightly

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higher in case of same faith. The chi-square test was conducted to evaluate the difference of proportion in the two data sets of the two groups. Here p-value was found to be <0.05, suggesting no significant discrimination in the selection of male and female borrowers from the two groups.

Table 2. Gender-wise distribution of study groups

GROUPS	GENDER	
	MALE N (%)	FEMALE N (%)
SAME FAITH	49 (89.09%)	6(10.91%)
DIFFERENT FAITH	37 (82.22%)	8(17.78%)
p-value of Fisher-exact chi-square test	0.033	

Statistically speaking, the two data sets follow same kind of statistical distribution, as also evident by the graph below too.
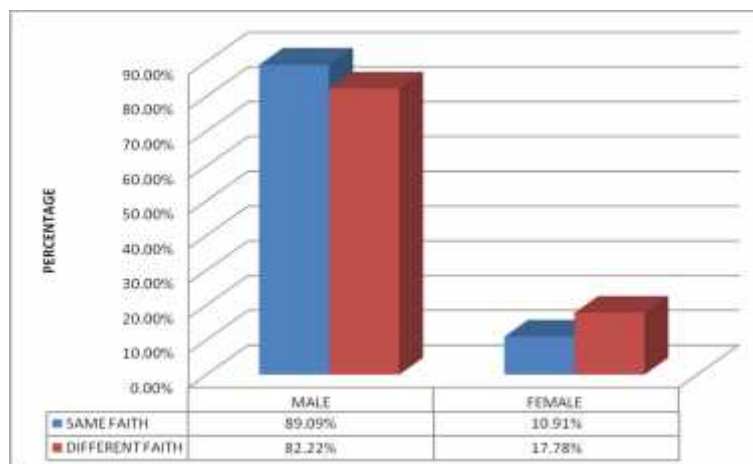
Figure 1. Gender-wise distribution of study groups

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4.2. Age-wise distribution

The next step was to study the age-wise distribution of borrowers, wherein we find the data pattern by and large appears to be similar for both study groups. However, it is evident from Table 3 that the age group of both the male and female borrowers is (25-35). The mode for females in both the study group remains same, while in different faith earlier than the same faith.

Table 3. Age-wise distribution in the two study-groups

Groups	Age groups								Mode age	
	M Male N (%)	FFemale n (%)	MMale N (%)	FFemale n (%)	MMale N (%)	FFemale n (%)	M Male N (%)	FFemale n (%)	M Male	FFemale
Class intervals	18-25		25-35		35-45		45 and above			
Same faith	9(16.36%)	0(0.00%)	17(30.91%)	3(5.45%)	16(29.09%)	3(5.45%)	7(12.73%)	00(0.00%)	33.89	35.00
Different faith	11(24.44%)	0(0.00%)	14(31.11%)	3(6.67%)	9(20.00%)	3(6.67%)	3(6.67%)	2(4.44%)	28.75	35.00

The chi-square test could not be applied in the above table, as we have many zero frequencies. Nonetheless, the similarity of data pattern can be observed by viewing the graphical representation in Figure 2.
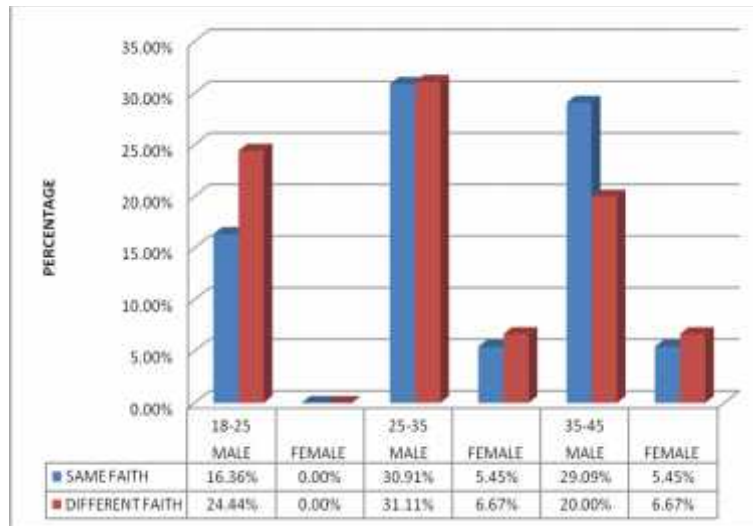
Figure 2. Age-distribution in the study groups

4.3. Occupation pattern of two groups

The occupation is also considered as an important macro-economic indicator. Here too we find similarity, which is majority of people seeking loans in both the study group, irrespective of gender is Business people.

Table No 4: Occupation-wise distribution of the two groups

Grou ps	Occupation							
	Male N (%)	Femal e N (%)	Male N (%)	Fem ale N (%)	Male N (%)	Femal e N (%)	Male N (%)	Fe ma le N (%)
	Business		Self-employed		Job		Unemploy ed	
Same faith	35(63.6 4%)	4(7.27 %)	6(10.9 1%)	2(3.6 4%)	3(5.4 5%)	0(0.00 %)	5(9.0 9%)	0(0 .00 %)

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Diffe rent faith	28(62.2 2%)	5(11.1 1%)	6(13.3 3%)	1(2.2 2%)	2(4.4 4%)	0(0.00 %)	1(2.2 2%)	2(4 .44 %)

Again, as we have zeros, we could not apply chi-square test but the pattern can be observed by viewing the graph in Figure 3.
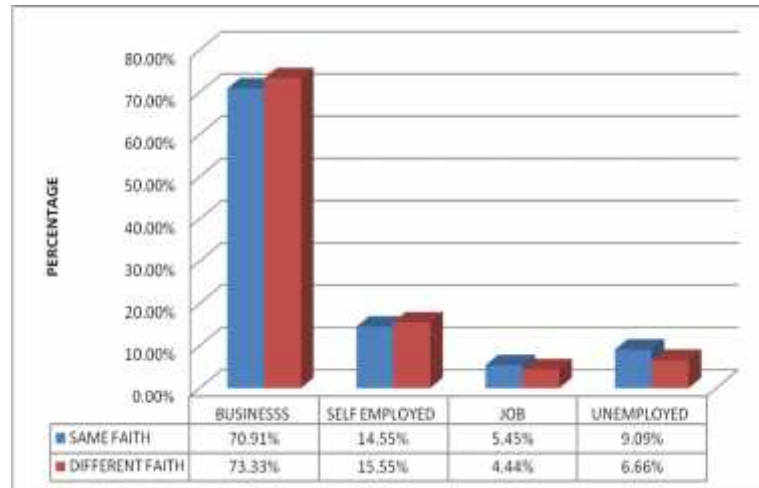
Figure 3. Occupation-wise distribution of the two groups

4.4. Purpose of Loan

The occupation-wise loan distribution is similar to secular models with 72% of the borrowers engaged in business and 15% of the borrowers being self-employed, and purpose-wise loan distribution is similar to secular models with 82% of the loans being borrowed for business purposes. It was found that the proportion of business men seeking business loans were high in both the Study Group, with a correlation co-efficient as high as 0.99, which suggests that there is a perfect relationship between the profession and purpose of loan as far as Business people are concerned. The chi-square test of independence was conducted to evaluate the difference of proportion in the two data sets seeking loans for different purpose is dependent on the study group. Here again p-value was found to <0.05, suggesting no significant difference. The results have been summarized in Table 5.

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Table 5. Purpose-wise distribution of loans in the two groups

Groups	Purpose of loan			
	Male N (%)	Female N (%)	Male N (%)	Female N (%)
Purpose of loan	Business loan		Personal loan	
Same faith	42(76.36%)	6(10.91%)	7(12.73%)	0(0.00%)
Different faith	28(62.22%)	6(13.33%)	9(20.00%)	2(4.44%)
P-value of fisher-exact chi-square test	0.019			

The results are also represented in the graphical form in Figure 4
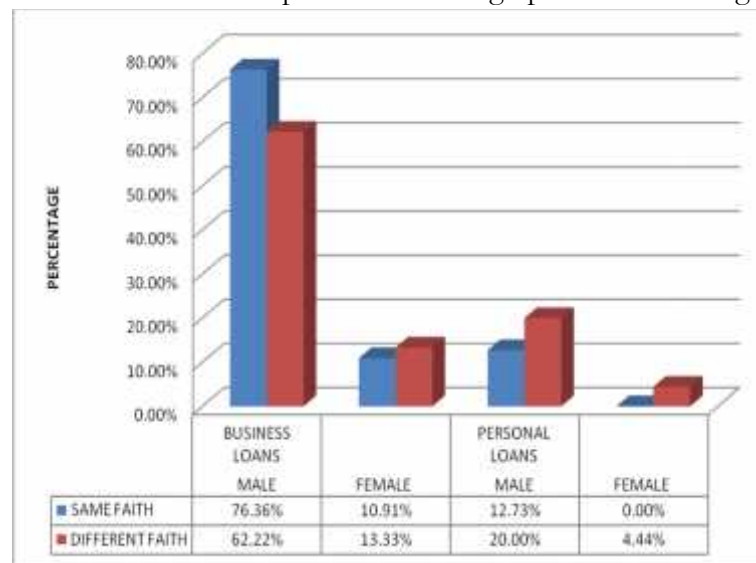
Figure 4. Purpose-wise distribution of loans in the two groups

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4.5. Collateral Security

Another important aspect of this study was to find the collateral requirement by faith based microfinance institutions. In addition to that, the security requirement is studied distinctly for the two groups to find any discriminatory policy. The details of security obtained for loans from the two different groups are summarized in Table (6). It is found that a majority of the loans are given against personal guarantee of other member, which does not constitute a physical collateral as required by the banks. We first applied the two-sample Kolmogorov-Smirnov two-tailed test to see if the samples follow the same distribution (normal), and it was found that it does. Therefore, Likert Score is used for comparison, which suggests that Different Faith Group is better and their loans are more secured.

Table 6. Collateral security in the two groups

Groups	Collateral security						P-value of k-s two sample test	Loan security likert scale
	M Male N (%)	Female N (%)	M Male N (%)	Female N (%)	M Male N (%)	Female N (%)		
	Ornaments		Post dated cheque		Personal guarantee			
Same faith	3(5.45%)	0(0.00%)	20(36.36%)	3(5.45%)	26(47.27%)	3(5.45%)	0.53	1.52
Different faith	1(2.22%)	3(6.67%)	17(37.78%)	4(8.89%)	19(42.22%)	1(2.22%)		1.64

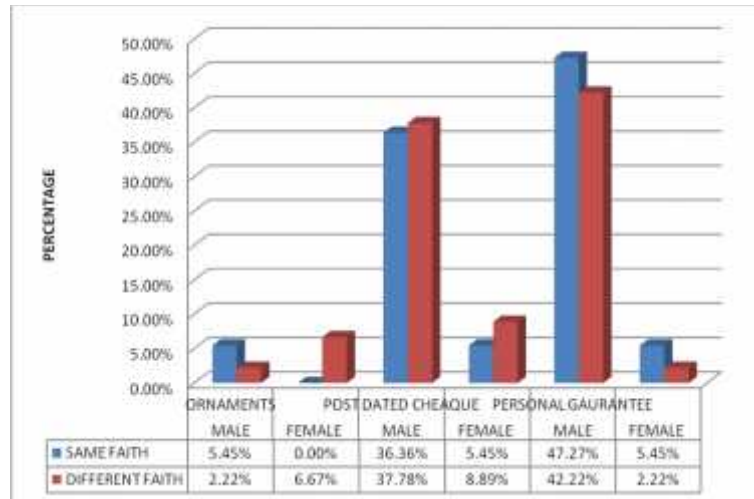The graphical representation of loan security distribution is presented in Figure 5.

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Figure 5. Loan security in the two groups

4.6. Tenure of loans in the two groups

The tenure of loans was analyzed for the two types of loans – business loans and personal loans in the two groups. Table 7 presents the details of the business loan.

Table 7. Tenure of business loans in two groups

Groups	Business loans								Total
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	
Period	(3-6) months		(6-9) months		(9-12) months		One year +		
Same faith	9(16.36%)	2(3.64%)	33(60.00%)	1(1.82%)	0(0.00%)	0(0.00%)	0(0.00%)	3(5.45%)	87.27%

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Diff erent faith	9(20.00%)	1(2.22%)	19(42.22%)	3(6.67%)	0(0.00%)	0(0.00%)	0(0.00%)	2(4.44%)	75.56%

Table No. 8 presents the details of personal loan. In case of business loans, the modal class is (6-9) month's short term loans for both the Group. Therefore, majority of the Business Loans given are of 6-9 months tenure. However, the modal class is different for Personal Loans for the two groups.

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Table 8. Tenure of personal loans in two groups

Groups	Personal loans								Total
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	
Period	(3-6) months		(6-9) months		(9-12) months		One year +		
Same faith	0(0.00%)	0(0.00%)	2(3.64%)	0(0.00%)	2(3.64%)	0(0.00%)	3(5.45%)	0(0.00%)	12.73%
Different faith	2(4.44%)	1(2.22%)	6(13.33%)	1(2.22%)	1(2.22%)	0(0.00%)	0(0.00%)	0(0.00%)	24.44%

4.7. **Amount of loan disbursed in the two groups**

The amount of loan disbursal in business loan in each Group has been highly uneven, as we see concentration mainly in the two extreme Class Intervals (see Table 9). However, the Loan Risk Indicator is high in the case of Same Faith, which implies that Higher Amount of Loans (having higher risk) have been given more.

Table 9. Amount of business loan disbursed in the two groups

Groups	Business loan amount								Loan risk likert scale	P-value of k-s two sample test
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female n (%)		
Amount	Below Rs. 5,000.00		Rs.5,000.00-Rs. 10,000.00		Rs.10,000.00-20,000.00		Above Rs. 20,000.00			
Same faith	20(36.36%)	2(3.64%)	9(16.36%)	1(1.82%)	2(3.64%)	0(0.00%)	11(20.00%)	3(5.45%)	1.89	0.53
Different faith	14(31.11%)	1(2.22%)	5(11.11%)	3(6.67%)	2(4.44%)	0(0.00%)	7(15.56%)	2(4.44%)	1.62	

The trend of disbursal for business loan is also represented graphically in Figure 6.
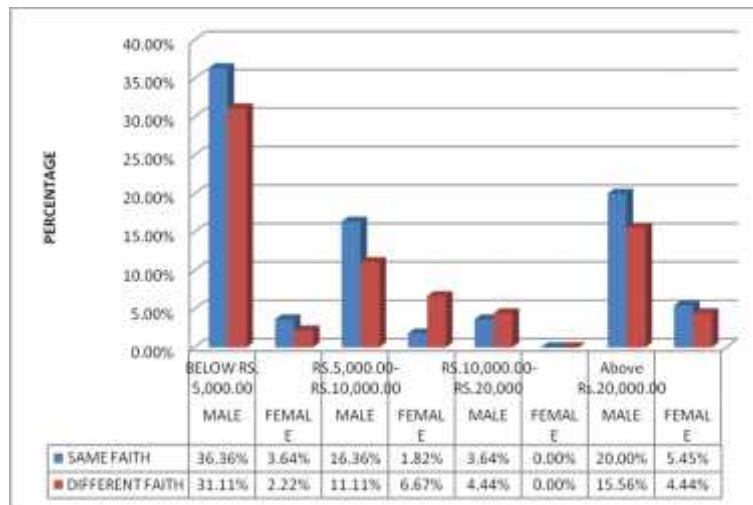

Figure 6. Amount of loan disbursed in the two groups

In case of Personal Loans, the number and percentage of Loans given by Different Faith is higher than that of Same Faith, hence the Loan Risk Likert Score is high for the loans disbursed to different faith (see Table 10).

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Table 10. Amount of personal loans disbursed in the two groups

Groups	Personal loans amount								Loan risk likert scale	P-value of k-s two sample test
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female n (%)		
Amount	Below Rs. 5,000.00		Rs.5,000.00-rs. 10,000.00		Rs.10,000.00-20,000.00		Above rs. 20,000.00			
Same faith	1(1.82%)	0(0.00%)	0(0.00%)	0(0.00%)	0(0.00%)	0(0.00%)	6(10.91%)	0(0.00%)	0.45	0.53
Different faith	4(8.88%)	0(0.00%)	2(4.44%)	0(0.00%)	0(0.00%)	1(2.22%)	3(6.67%)	1(2.22%)	0.60	

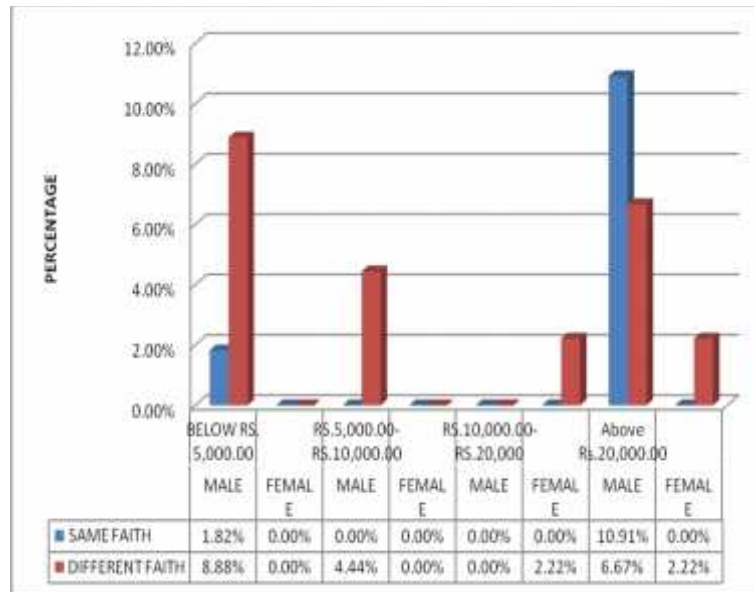The amount of loan disbursal for personal loans has been graphically presented in Figure 7.

Figure 7. Amount of personal loans disbursed in the two groups

4.8. Re-payment and default in the two groups

An overview of the frequency of repayment installment is presented in Table 11. It was found that majority of the repayment in the business loan category is on monthly basis whereas similar proportions of daily and monthly repayments can be seen in case of personal loans. It is also evident from the table that the pattern of Loan Re-payment is at variance in the Business Loan segment of the two Study Groups. However, in case of Personal Loans, the data pattern (proportions) does not have much statistical difference. The same is conveyed by the p-value.

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Table 11. Details of Repayment

Groups	Instalment repayment							
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)
Loans	Business loans				Personal loans			
	Daily		Monthly		Daily		Monthly	
Same faith	42(87.5%)	4(8.33%)	0(0.00%)	2(4.17%)	3(42.86%)	0(0.00%)	4(57.14%)	0(0.00%)
Different faith	23(67.65%)	4(11.76%)	5(14.71%)	2(5.88%)	6(54.55%)	0(0.00%)	3(27.27%)	2(18.18%)
Total					Total			
Same faith	95.83%		4.17%		42.86%		57.14%	
Different faith	79.41%		20.59%		54.55%		45.45%	
P-value of fisher-exact chi-square test	0.002(<0.05)				0.72			

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Likert Scale has been constructed to compare the performance of Loan Repayment between the two groups. We find that the Business Loan Payment Likert Score (see Table 12) is better in the case of Same Faith than the Different Faith, which means that Same Faith Loans have been able to get their Loans repaid better.

Table 12. Analysis of business loan repayment

Groups	Business loans						Loan payment likert score
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	
Loan status	Paid		Overdue		Ongoing		
Same faith	25(45.45%)	4(7.27%)	16(29.09%)	2(3.64%)	1(1.82%)	0(0.00%)	
Different faith	19(42.22%)	4(8.88%)	8(17.78%)	2(4.44%)	2(4.44%)	0(0.00%)	
Total							
Same faith	52.73%		32.73%		1.82%		1.55
Different faith	51.11%		22.22%		4.44%		1.22
P-value of chi-square with yates test with yates correction	0.33						

In case of personal loans, Likert Score for different faith is lesser than in the case of Same Faith, which means that Same Faith Loans have been less able to get their Loans re-payment, or has lesser proportions. However, we find some similarity between the different loans and the two study groups. The loans overdue are for a short period of time. We present the facts in Table 13.

Table 13. Analysis of personal loan repayment

Groups	Personal loans						Loan payment likert scale
	Male N (%)	Female N (%)	Male N (%)	Female N (%)	Male N (%)	Female N (%)	
Loan status	Paid		Unpaid		Ongoing		
Same faith	2(3.64%)	0(0.00%)	3(5.45%)	0(0.00%)	2(3.64%)	0(0.00%)	
Different faith	7(15.56%	2(4.44%)	2(4.44%)	0(0.00%)	0(0.00%)	0(0.00%)	
Total							
Same faith	3.64%		5.45%		3.64%		0.27
Different faith	20.00%		4.4.4%		0.00%		0.33

5. Discussions & Conclusions

The analysis of the loan portfolio provides important findings on the lending policies and features of loan products of an FB-MFI. More specifically, it compares two sets of borrowers classified as same faith and different faith for the purpose of the study. A significant difference in the factors of lending would mean that the institution treats the two set of borrowers differently. This would raise concerns regarding the general acceptability of the faith based model of microfinance in poverty alleviation.

The gender, age and occupation distribution in the two groups of borrowers were found to be same. The proportion of male borrowers

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was more in both the groups and majority of the borrowers fell in the age group of 25-35 years. The occupation of the borrowers in both the groups is mainly small business irrespective of the gender and the males seek business loans more than the females in both the groups. The various features of loans offered by FB-MFIs – collateral requirement, tenure, amount and repayment frequency formed an important component of the research. It was found that a majority of the loans are given against personal guarantee of other member, which can be assumed as no security if benchmarked with the banking industry. Most of the business loans had tenure of 6-9 months with monthly repayment while the personal loans had daily and monthly repayment frequencies. The amount of business loan disbursed is high in case of same faith while the reverse was found in case of personal loans. Overall, there was no significant difference observed in the treatment of the institution towards the two groups of borrowers on any of these factors.

A loan-risk Likert score was computed to analyze the risk profile of the borrowers. The scores indicate that the members of the same faith are more at risk of default in business loans whereas the reverse was found in personal loans. However, the recovery Likert score of business loan was found to be better in case of same faith while the recovery Likert score of personal loans was better for different faith.

These are some preliminary findings of just one faith-based microfinance institution. The results suggest that the FB-MFI follows a non-discriminatory approach and therefore has scope for general acceptability. The findings are also limited in scope because of the small sample size and the fact that all the borrowers belonged to one institution. There is a need to study a larger sample of borrowers from various FB-MFIs to make the findings generalizable. The risk profile of the borrowers studied in this research is also indicative and need to be studied in more detail for better risk management in these institutions. Overall, faith-based model of microfinance has the potential to deliver the microfinance services, specifically loans, in a more ethical and responsible manner. More empirical studies would prove if they really can.

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