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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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THE EFFECTIVENESS OF MICRO FINANCE INSTITUTIONS ON SOCIO-ECONOMIC DEVELOPMENT OF WOMEN IN KARNATAKA

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ABSTRACT

Micro finance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples' lives for the better - especially the lives of those who need it most. In developing countries like India, access to financing and other banking services can be a major challenge for the country's poor, seeking to raise their standard of living. These people often have little, if at all, income or properties to use as collateral to secure loans from formal lending institutions like banks. For these people even small amounts of money – enough to purchase cattle or provisions for a store – can make a difference to their livelihood. Mainstream banks find it challenging to offer services to the poor because the income generated cannot cover the bank's cost of servicing the loans. Consequently, the poor are often forced to turn to informal and unregulated loan sources – moneylenders, who sometimes charge interest as high as 100% a month. The result is a cycle of endemic poverty that is almost impossible to break. The MFIs were born out of this need for timely and affordable credit to India's poor and low-income households. An attempt is made in this paper to analyze and interpret the efficiency and effectiveness of the Micro finance Institutions in terms of outreaching the poor and excluded, different types of products offered by them and socio-economic empowerment factor of women through MFIs.

KEYWORDS

Micro finance Institutions, socio-economic development, outreach, efficiency.

INTRODUCTION

A micro finance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. During the 1970s and 1980s, the micro enterprise movement led to the emergence of nongovernmental organizations (NGOs) that provided small loans for the poor. In the 1990s, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach. Specialized micro finance institutions have proven that the poor are "bankable". Today, formal institutions are rapidly absorbing the lessons learned about how to do small-transaction banking. Many of the newer players in micro finance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly, links among different types of service providers are emerging to offer considerable scope for extending access.

REVIEW OF LITERATURE

Micro finance is a worldwide success story. Their worldwide growth in numbers has had a positive impact by providing the poor with loans, savings products, fund transfers and insurance facilities. This has helped create an encouraging socio-economic environment for many of these developing countries households. But the most challenging question here is to assess the extent of outreach to the marginalized & the poor towards alleviating poverty. The literature pertaining to the efficiency & effectiveness of Micro Finance Institutions is reviewed here.

Cheston & Kuhn (2004) in their study concluded that micro-finance programmes have been very successful in reaching women. This gives micro-finance institutions an extraordinary opportunity to act intentionally to empower poor women and to minimise the potentially negative impacts some women experiences. Tusiime Irene (2008) The major aim of the study was to examine the variables that enhance or negate the effectiveness of micro-finance institutions in improving the economic status of women in the case of Ntungamo district. The study focused on credit schemes under; services offered, loan administration, loan recovery, and interest rates by the institutions on the one hand. On the other hand, the study examined the benefits for women, their projects, challenges and their impressions on these institutions. During the research exercise, the study observed benefits, problems and other issues related to Micro finance Institutions and rural women clients. It was discovered that most of the problems that hinder service delivery are either administrative or as a result of the disadvantaged status that rural women suffer. All the repayments were to be done after one month, which makes long-term investment difficult as well as reducing the willingness to borrow sufficient funds. Others were poor information flow and concentration of branches in a few areas. On the part, the women found a problem in raising collateral as most property belongs to men. There was also the difficulty of finding enough members to qualify for a group loan. Adrian Gonzalez (2007) The main goal of the author is to explore potential drivers of costs including MFI characteristics, country infrastructure (both physical and institutional), prices and availability of inputs, doing business environment and macroeconomic variables. This research is based on a sample of 1,003 MFIs in 84 countries reporting data to the Micro finance Information Exchange, Inc. (MIX), mainly in the period 1999-2006. These MFIs represent 44 million borrowers with 21 billion USD in loan portfolio in 2006. Based on the analysis of MFIs characteristics, we found that the three main drivers of operating expense ratio (OER) are relative loan sizes, ages and scale. However, we are surprised by how quickly reductions in cost disappear after MFIs grow beyond 2,000 borrowers. For example, one of the conclusions of the paper is that in the predicted relationship between relative loan size and OER is statistically significant, strong, but decreasing for larger loan sizes as expected. In particular, an increase in the relative loan size from 10 to 20 percent of GNI per capita is expected to reduce OER over 7 percentage points, but a increase in relative loan size from 30 to 40 percent (just around the median) is expected to reduce OER just around 3 percentage points. Gutierrez, B; Serrano Cinca, C.; and Mar Molinero, C. (2007) "Micro finance Institutions (MFIs) are a special case in the financial world. They have a double financial and social role and need to be efficient at both. In this paper they tried to measure the efficiency of MFIs in relation to financial and social outputs using Data Envelopment Analysis. For the analysis of financial efficiency they relied on existing literature for traditional financial institutions. To these two indicators of social performance: impact on women, and a poverty reach index were added. They have studied the relationship between social and financial efficiency, and the relationship between efficiency and other indicators, such as profitability. Other aspects studied are the relation between social efficiency and type of institution –Non Governmental Organization (NGO), non-NGO, and the importance of geographical region of activity. The results reveal the importance of social efficiency assessment. Kartar Singh and Jain (1995) in their working paper 'Evolution and survival of SHGs: Some theoretical and empirical evidences' explained that there are four stages of group formation: forming, storming, norming, and performing. They identified the factors, which have an impact on group formation as full participation of all members, quality in leadership, some sort of homogeneity among the members, and transparency in operations and functioning of the groups

STATEMENT OF THE PROBLEM

Since women's empowerment is the key to socio economic development of the community; bringing women into the mainstream of national development has been a major concern. The concept of micro finance thus executed with the instrumentality of Self Help Groups provides a paradigm shift in the strategy for

resolving the socio-economic deprivations of the poor. It is an intermediate strategy that combines myriad issues of development experiences. It has been well recognized world over as an effective tool for poverty alleviation and improving socio-economic conditions of poor women. In India too, it is making a strong headway in its efforts to reduce poverty and empower the poor women. Against this backdrop, the present study has been carried out to assess the impact of Self Help Groups on socio-economic status of women in rural and urban areas. The study has covered the district of Bangalore, Karnataka state of India.

OBJECTIVE

To analyze and interpret the efficiency and effectiveness of the Micro finance Institutions in terms of outreaching the poor and excluded.

HYPOTHESES

H₀ = There is no effective significant impact between the effectiveness of Micro Finance Institutions and socio-economic development of women.

H₁ = There is an effective significant impact between the effectiveness of Micro Finance Institutions and socio-economic development of women

RESEARCH METHODOLOGY

To evaluate the effectiveness of MFIs in outreaching the marginalized, the researcher selected 30 Micro Financial Institutions in Bangalore District on random basis and secondary data with respect the number of women borrowers, age of MFI as On 2011, gross loan portfolio, average loan balance per borrower and total assets were collected from the published financial reports of the MFIs.

RESULTS & DISCUSSION

BRIEF PROFILE OF THE SAMPLE MFIS

SKS Microfinance Ltd (SKSMPL)	Grameen Financial Services Ltd (GFSPL)	Ujjivan Financial Services Ltd (UFSPL)
Janalakshmi Financial Services Pvt Ltd (JFSPL)	RORES Micro Entrepreneur Development Trust (RMEDT)	BSS Microfinance Bangalore Pvt Ltd (BMPL)
Sanghamithra Rural Financial Services (SRFS)	Chaitanya india financial services Ltd	Spandana Sphoorty Financial Ltd (SSFL)
Shri Kshetra Dharmasthala Rural Development Project	Bandhan Society	Bhartiya Samruddhi Finance Limited (BSFL)
Share Microfin Limited (SML)	SWAWS Credit Corporation India Pvt Ltd (SCCI)	Aadarsha Welfare Society (AWS)
Asmitha Microfin Ltd (AML)	Samasta microfinance limited	Adhikar
Cashpor Micro Credit (CMC)	Welfare services	Village Financial Services Pvt Ltd (VFSPL)
Grama Vidiyal Micro Finance Pvt Ltd (GVMFL)	Saadhana Micro finance	Rashtriya Seva Samithi (RASS)
Equitas Micro Finance India Ltd (Equitas)	Hand in Hand (HiH)	Sewa Mutually Aided Cooperative Thrift Societies Federation Ltd (Sewa)
Madura Micro Finance Ltd (MMFL)	Swayamshree Micro Credit Services (SMCS)	Centre for Rural Social Action (CReSA)

The above listed MFIs were established during the late 1990s. The legal status of the MFIs has been transformed from NGO to Non Banking Finance Corporation at present. Almost all the MFIs cater to the needs of customers ranging from ten lakh to eight million across the country. Each of these MFIs has an employee force ranging from 200 to more than thousand in numbers. The mission statement of these MFIs is to eradicate poverty by providing financial services and to transform and uplift the lives of the poor. The products and services offered by the MFIs consist of a basket of customized products to meet a wide range of customer needs. Products are continually designed and developed to enable families to build assets, generate income, protect themselves from various spikes in their cash flow and to help them become self reliant. Offering Insurance products has also become one of the recent developments.

TABLE 1: PRODUCT OFFERING

TYPE OF LOAN	RANGE (amount in INR)
Income Generating Loan	6000-25000
Family loan	1000-25000
Emergency Loans	1000-2500
Housing Loans	10000-50000
Life Insurance	Minimum 100 as Premium.

Income generating loans or Business loans in the range of 6000-25000 gives self-employed women access to financing to support their businesses (selling fruits/vegetables/ flowers, running petty shops, tailoring, etc.) Customers typically use this to finance diverse business needs such as working capital, capital equipment expenditure, vocational training, repayment of high-cost debt etc.

Family loan in the range of 1000-25000 allows low-income women to finance a range of family needs such as children's school expenses, medical care, house repairs, social and religious obligations, buying consumer durables, and the repayment of high-cost debt previously taken for family needs.

Emergency loan for about rupees 2000 is designed to meet the unforeseen emergency requirements of customers and is disbursed within 24 hours of request.

Housing loans gives women financial access to pay for rental deposits, lease amounts, or for home improvements. MFIs insist on a mandatory life insurance cover for the women while spouse cover is optional.

Huge amounts of loans are disbursed from time to time to cater to the various needs of the their customers and the MFIs claim that the success rate in terms of repayment varies from 95% to 99.5%, which substantiates to the fact that women are better borrowers in terms of repayment and utilization.

The interest rates for different types of loans vary for each institution. The interest rate ranges from 24% to 38%. The interest rates, fees and other charges of products and services are determined from time to time based on prevailing market rates, the organizational capacity, and government regulations. These are duly discussed and approved by the management team and the board, and subsequently communicated transparently to customers before implementation.

To examine the extent of outreach with respect to the respondents and also to measure the outreach, secondary data has been used. The number of women borrowers, age of MFI as On 2011, gross loan portfolio, average loan balance per borrower and total assets are considered as independent variables and are analyzed and the results are interpreted using the Discriminant Analysis technique.

Two groups have been formed based on the total number of women borrowers for carrying out the discriminant analysis. The following results are the consequences of Fisher's estimation for discriminating the major factors:

TABLE 2: TESTS OF EQUALITY OF GROUP MEANS

	Wilks' Lambda	F	df1	df2	Sig.
Borrowers	.908	2.837	1	28	.103
Gross Loan Portfolio (USD)	.977	.666	1	28	.421
Average Loan Balance	.978	.631	1	28	.434
Total Assets	.900	3.111	1	28	.089
Age	.714	11.199	1	28	.002

Source: Secondary Data

From The above table, the F values of women borrowers ($F=2.837$), gross portfolio ($F=0.666$), average loan balance per borrower ($F=0.631$), total assets ($F=0.900$), and age ($F=11.199$) are statistically significant. This implies that these five major factors are essential in determining the efficiency and effectiveness of outreach of Micro Finance Institutions to the poor.

The overall classification is also justified with the help of the following Box's M test.

TABLE 3: BOX'S M TEST FOR MFIs OUTREACH TO POOR

Box's M		128.629
F	Approximate	5.621
	Df1	15
	Df2	486.180
	Sig.	.000

Tests null hypothesis of equal population covariance matrices.

The Box's M value 128.629 and the approximate F value for the overall classification with equal population, co-variance matrixes are highly significant.

This implies that there is adequate distribution of women borrowers, Gross loan portfolio, and average loan balance per client among the MFIs.

The relationship between cluster classification and the five major factors of MFIs outreach of respondents are established in a compact domain comprising one linear discriminant function with Eigen value .591 and co-variance value 100 percent. The clusters and the factors are related through canonical correlation coefficient .610.

TABLE 4: EIGEN VALUES

Function	Eigen value	% of Variance	Cumulative %	Canonical Correlation
1	.591(a)	100.0	100.0	.610

a First 1 canonical discriminant functions were used in the analysis.

TABLE 5: WILKS' LAMBDA FOR MFIs OUTREACH

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.628	11.845	5	.037

Source: secondary Data

The significance of the canonical coefficient is exhibited through the Wilk' Lambda value 0.628 for the function and its respective chi-square value 11.845 are statistically significant at 5 percent. This implies that there is a close relationship between different MFIs and perception about the outreach to the poor.

The contribution of different factors of the respondents and their significant role in discriminating the MFIs are identified by the following structure Matrix:

TABLE 6: STRUCTURE MATRIX OF THE MFIs OUTREACH TO THE POOR

Variables	Function
	1
Age	.822
Total Assets	.433
Borrowers	.414
Gross Loan Portfolio (USD)	.201
Average Loan Balance	-.195

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

The structure matrix table provides another way of indicating the relative importance of the variables. It shows the correlations of each variable with the discriminate function.

In determining the occurrence of the groups, the following prior probabilities are presented:

TABLE 7: PRIOR PROBABILITIES FOR GROUPS

GROUP	Prior
1	.233
2	.767
Total	1.000

Source: Secondary data

It is observed from the above table that the prior probabilities are shown at 0.233 and 0.767 respectively.

TABLE 8: CORRELATION BETWEEN MFIs AND SHG MEMBERS ON SOCIO-ECONOMIC EMPOWERMENT

		MFIs OPINION	SHG Members OPINION
MFIs OPINION	Pearson Correlation	1	.605(*)
	Sig. (2-tailed)		.037
SHG Members OPINION	Pearson Correlation	.605(*)	1
	Sig. (2-tailed)	.037	

* Correlation is significant at the 0.05 level (2-tailed).

It can be inferred from the above results that Pearson's correlation 0.605 is significant at 5 percent. Therefore the null hypothesis is rejected at 5 percent and it can be concluded that there is an effective significant impact between the effectiveness of Micro Finance Institutions and socio-economic development of women. There exists positive relationship between the MFIs and SHG members on socio-economic empowerment of women.

FINDINGS

1. Discriminant Analysis technique is used to examine the extent of outreach with respect to the respondents and also to measure the efficiency and effectiveness and the variables viz., number of women borrowers, gross loan portfolio, average loan balance per borrower, total assets and age are statistically significant.
2. The application of one sample "t" test on twelve statements of Micro Finance Institutions efficiency in outreaching the poor and empowering women is considered and the mean values are greater at 5 percent level and are significant.
3. The application of Karl Pearson's correlation reveals that there exists positive relationship between the MFIs and SHG members on socioeconomic empowerment of women.

RECOMMENDATIONS

1. There is considerable scope for development of micro finance in India since there is enormous unmet demand for financial services in this sector. Therefore, enacting fresh legislation or appropriate amendments in the existing legislation related to Micro-financial institutions is needed.
2. The micro-financing institutions need proper regulation and operation of business transactions. Therefore, RBI, SIDBI, NABARD and other organizations should evolve proper mechanism for monitoring, supervision, direction, appraisal and evaluation of micro-financial institutions as well as self help promotion institutions.

CONCLUSION

The effective organization and execution of MFIs policies is a significant instrument in the process of their outreach to the poor and influencing women empowerment. Running a successful MFI often means striking a healthy balance between outreaching the marginalized and sustaining the effectiveness of the programme. Restoring to better involvement and educating and creating a positive impact on the clients towards various aspects of their lives can solve this. The role of MFI is significant as it contributes immensely to the society especially women with respect to various factors like covering those individuals financially who are otherwise not covered by the formal banking system, creating a positive impact on the marginalized towards education, health, inculcating leadership qualities among them.

SCOPE FOR FURTHER RESEARCH

1. The role of commercial Banks in spreading the SHG and micro finance movement in different areas can be studied.
2. Comparison of performance and satisfaction of members of women SHGs with men SHGs can be undertaken.

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