

ECONOMIC PERFORMANCE AND CONSTRAINTS OF MICROFINANCE IN KARNATAKA -CASE STUDY OF BANGALORE RURAL DISTRICT

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OBJECTIVES OF THE PROJECT

This study puts forward how micro finance has received extensive recognition as a strategy for economic sustainability. Further it seeks to examine the impact of micro finance with respect improvement in livelihood and access to resources. Finally it examines the nature of economic performance promoted by MFIs organized through SHGs and NGOs (Non Government Organizations) in Karnataka and particularly in Bangalore rural district. The specific objectives of the study are.

- ❖ To study the impact of group dynamics within SHGs and changes in pattern enterprise mix among the SHG members**
- ❖ To assess the process of graduation SHG members both in economic and social spheres and examine the impact of the same on undertaking microenterprises**
- ❖ To study economic viability of microenterprises promoted by the SHG member as also to examine impact of microenterprises on generating income/ employment among SHG members**
- ❖ study and analyze the constraints faced by microfinance programme**
- ❖ Recommended strategies and policies to strengthen the Micro finance**

The present study has been conducted in Bangalore rural district covering three taluks, with the objectives of studying the economic performance of microfinance and constraints, in that assessing the process of graduation of MF members, both in economic and social sphere.

The objectives present various aspects relating to Economic performance. The first sub section elaborates various aspects relating to structure, conduct of meetings, account keeping, leaderships qualities, savings, loaning operations etc.

The second sub section details the linkage patterns of SHG to bank loans.

Secondly addresses the economic and social profile of the sample SHG households in section one, the distribution of households according to level of

economic activity, level of literacy, family size, age profile, etc are presented categorised on the basis of age of SHGs. As the SHG-Bank Linkage programme basically catered to the poor and weaker section of the society, how far the programme succeeded in terms of its targeted such segments of population has also been attempted in section two. Section three elaborates the asset structure of SHG members household before and after joining SHGs.

Thirdly, analysis of the Economic performance of microenterprises. SHG members, who had set up MEs, had no record available with them on capital investments. Working capital requirements, production, sales, costs and profits etc. Members were operating such ME units on a very limited scale of operation with limited raw material stock. In such situations, for calculating economics of MEs, all parameters like, gross income, cost of production-both variable and fixed, volume of sales, net profit/ income were computed on per day/week/month basis which later on were annualized depending on the number of working day per annum. Memory bias of the member was also visible while answering various queries on MEs. Study follow analyses the income and employment generated by SHG members who have promoted MEs, attempts made to drawn out constraints faced by the microfinance institutions in economic performance

Lastly Study achieved successfully drawn the findings, issues and recommendations for strengthen and sustainability of rural microfinance.

ACHIEVEMENTS FROM THE PROJECT

This Pre and Post facto study of Micro Finance Institutions (MFIs) across the district attempted to explore the relationship between Micro Finance and poverty reduction and sought to review these questions in the context of the vibrant and fast-growing Micro Finance sector in Karnataka. The study demonstrates that the Micro Finance programmes have, to a considerable extent, been able to help the poor in achieving a better level of living by providing them easy access to credit to start/expand income generating activities. Overall improvement in wealth ranks of households indicates a positive impact of the programme on poverty reduction. However, key challenges such as provision of loanable funds, organisational weaknesses in MFIs, lack of equity/capital, regional imbalance, need for central legislation, etc. need to be addressed if the Micro Finance sector is to achieve its stated objectives. The findings would be of interest to the

practitioners, researchers, policy makers, donor and funding institutions and all those who are closely associated with the Microfinance sector

SUMMARY

Executive Summary

This report demonstrates that it is possible (and necessary) for the microfinance sector to measure and understand itself through a strongly economic performance lens and make decisions based on this. But why make this a central point of a report when there seem to be even more urgent issues at stake today in the sector?

PUTTING THE REPORT IN ITS CONTEXT

It is because microfinance was started with a mission and an ideal of serving the poor. No doubt, any ideal has to be constantly balanced against the possible and the practical over time. But in microfinance this balancing act has led the sector to the question “What do the poor really mean in the context of microfinance and financial inclusion?” In essence this question is a mirror to the sector. No stakeholder within the sector doubts the importance of serving the poor. But when we ask ourselves if decisions in microfinance are consistently approached in terms of serving the poor the answer, at best, is uncertain. This report outlines an empirical and data-driven method to do so. And in the process of answering this question the report *touches* upon a few of the important debates of the day. The practitioner and the regulator at whom the report is primarily directed will find it of interest that the data from the study can also inform discussions on margin caps, RBI income ceiling as well as the need for stronger poverty targeting by the practitioners.

But the report is not about “pushing” or “advocating” specific recommendations. It is part of a series of efforts to open a dialogue with the regulator and the practitioner and other stakeholders about a way to understand microfinance portfolios and the end clients in a different light. More importantly, how this understanding can qualitatively as well as quantitatively help to define the contribution of microfinance to financial inclusion.

The report is based on the results of poverty measurement of 310 microfinance clients across 3 MFIs in the district of Karnataka conducted from May/June to November 2013 and May /june to October 2014 using the Progress out of Poverty

Index (PPI). It is, in effect, a first of- its kind attempt at poverty profiling of portfolios of MFIs at a state level in India. Bangalore Rural district in Karnataka was chosen because it has a large and diverse microfinance presence as well as a strong and active association, sadhan that was keen to undertake this exercise on behalf of its members. In particular, sadhan position as the nodal body of microfinance institutions in Karnataka guaranteed access to a statistically representative sample of microfinance clients at a district level. The 3 MFIs that participated in the study have a combined share of 25% of the microfinance market in Karnataka and include institutions following the SHG Model. Because of the statistical significance of this sample, the report can interest and engage stakeholders outside Karnataka. The findings from the study are proportionately extended to the total client base of the participating MFIs (*and not to all the MFIs in Karnataka*). The findings presented here are indicative of the performance of all the three participating MFIs *as a group* and not of any one of the participating MFI.

The present study has been conducted in Bangalore rural district covering three taluks ie., Doddaballapur, Devanahalli and Hoskote with the objectives of studying the economic performance and constraints with in microfinance members and changes in pattern of enterprise mix among the SHG members assessing the process of performance of SHG members both in economic and social sector.

The sample frame constituted 3 MFI, 56 SHGs, and 310 members selected from across the agencies like, commercial banks, RRB and co-operative Banks and various NGOs around rural district. The number of members in the sample SHGs varied from a minimum of 9 to a maximum of 16. The sample SHGs saved from a lowest of Rs.30 to a high of Rs.100/ per member per month. Majority of SHGs (70%) saved Rs.50 per member per month. About 48 per cent of SHGs reported increase in savings rate over time

About 71% of SHG had received 3-4 bank linkage. Average loan size(cumulative for the groups was worked out to Rs.1,91,980 of which 70% was for income generating purpose and the remaining 30% was for consumption and other social

function and contingency purpose. Asset base increased for about 65.8% of the sample households. While about 24.2% sample households reported no change in their asset holding pattern about 10 per cent reported decrease in their asset size. The decrease in asset size was as a result of selling out of milch animals.

More than 7 years old group members had graduated from an amount of Rs.1,986 in the first linkage to a high of Rs. 35,000 in the sixth linkage. Similarly, three year old SHG member graduated from Rs. 1,373 in the first linkage to Rs. 10,229 in the third linkage. More than 7 years old group members availed a cumulative average loan amount of Rs.24,332 an increase by 95% over the cumulative loan amount availed by 3 year old group members

Out of 310 members, while 42 per cent had initiated/supported different IGAs about 28.4% members had graduated to microenterprises with asset creation. About 29.7% had not initiated by IGAs/MEs and had utilized money solely for different consumptions purposes.

Income generated by ME households increased by 70.5% in comparison to non-IGAs households. ME households 41.2% of total household income were generated from the ME while rest 58.8% was generated from other household enterprises.

Employment generated by ME households increased by 81% in comparison to non-IGAs households. For ME households, 78.9% of total employment days were generated from the ME while rest 21.1% was generated from other household enterprises

The constraints towards viability and sustainability of the rural microenterprises, inter-alia, include lack of forward/backward linkages, infrastructure facilities, inadequate marketing arrangements, improper and inappropriate supply support mechanism for raw materials, obsolete technological support, etc. Side by side, there were inadequate support services in terms of capacity building/skill based training input to the microenterprises owners.

There is a definite point of departure that future research would need to follow-up on—orientation of MFIs to the poor and very poor with a change in their operating context. More immediately, the report touches upon a few topical issues raising questions and suggestions for the regulator and practitioner alike. In the process, it also introduces a new pro-poor sensibility of re-looking at these

issues. And in our study opinion, it is most important for the sector to internalize this sensibility. To reiterate the point made at the beginning, the way to do this is to understand microfinance portfolios *consistently* through an economic performance lens. It is possible to make it an industry practice and habit; but there has to be an industry consensus on this to move it forward. This dialogue, among all stakeholders (and especially the practitioners and investors), needs to begin. There are initiatives already under-way, state-wide, such as the Pro-Poor Seal of Excellence (newly branded True lift) that are bringing a pro-poor focus back into microfinance, through development of a community of practice around issues of outreach, services and tracking progress at the client level of the MFIs. The approach that the report proposes is complementary to these. All these only go towards strengthening the linkage between microfinance and financial services for the poor, within the broader mandate of financial inclusion.

Finally, the study, in itself, is hardly an isolated and one-time effort. It would make sense to continue to extend this study to other geographies in India or to target specific issues. At the end of the day, what underlies these efforts is the goal to steer the spotlight in microfinance where it rightfully should rest—to those who are financially excluded from formal banking services, and within the financially excluded to include poor segments. We strongly hope the report, and similar future efforts, take the “possible” towards the “ideal” in microfinance.

Main Findings:

- **Socio-economic empowerment has been considered instrumental for holistic development. Women’s empowerment is obviously essential for raising their socio-economic status in the society. Recently, women’s empowerment has acquired an important place in government policy, non-government advocacy and academic research.**
- **There has been paradigm shifting in development and governance. Democratic decentralization, partnership with NGO’s, empowering community based organizations, participatory development, sustainable growth and equity etc. have proved to be instrumental in people’s participation in development and governance as well as their empowerment.**

***The size of group plays an important role in the process of group dynamics. It has been reported to be comprising of 12 members. The groups have stabilized over the period. However, only 35 percent SHG's were reported second grading while 97percent were found first graded. Only a negligible percent SHG's received the revolving fund and 13percent received bank loaning.**

***The SHG's maintain their account in banks and operate jointly. The frequency of bank transaction is mainly once a month.**

***The sources of savings are mainly by curtailing expenditure and saving from income. The average savings per group has been reported to be Rs.12442/- while per member savings has been Rs.1199/-. Similarly, per group average credit has been reported to be Rs. 54274/- while per member credit was found to be Rs. 5231/-.**

***Out of total members of SHG's, three fourth have received credit, while 46 percent members have taken loan more than once.**

***Awareness regarding basic services to the members has been reported to be satisfactory. Roads, drainage and socio-economic development are reported prioritized local issues for development.**

***The main factor of motivation to save is mainly securing future. The SHG's faces problems regarding income generation activities. They have also initiated community development. However, only 48 percent have initiated income-generating activities. In the majority of the cases only some members of SHG's have initiated income generation activities.**

***Most of the beneficiaries belonged to the age group of 26-45 years. They were found either illiterate or educationally backward. They were mostly married and had a nuclear family. Their housing conditions are somewhat good still they face problems of electricity, safe drinking water and sanitation. The land holding size of respondent's families has been reported to be small and one third of them were found landless. The beneficiaries were mainly self-employed housewives. The respondent's husbands were either unemployed or self-employed. The household income of respondent's families has been reported to be low; however, the contribution of beneficiaries to the family income has been significant.**

***Most of the beneficiaries have joined SHG', recently. They were motivated by NGO workers and mostly are ordinary members. They reported that only some**

members participate in meetings of Groups. Which is being convened project staff, NGO's workers and functionaries of groups. The decisions in the meeting are taken by the majority of the members.

*Awareness of SHG's activities has been reported to be quite satisfactory but constraints of groups, achievements of groups etc. are not known to everyone.

*The saving rate per member has been reported to below i.e. less than Rs. 50 per month. The main purposes of savings have been reported as social security, food security, education of children, medical, festivals, agricultural operations etc.

CONTRIBUTION TO THE SOCIETY

Our study brought out reality of the Economic performance of microfinance institution in the project area, finding of our study given the broad scope to researcher for further exploration, policy makers to set right the delinquency in the economic performance of microfinance. Our document will be very good record for reference and library resources to stakeholders.

This study showcases the significant contribution of the MFIs to a fairly large cross-section of clients, which would be of great help to the policy makers as well as the general public, to understand and appreciate the role that the MFIs can play, in ameliorating the lot of the poor and the underserved.

Our study can be attributed in large part of the leaders with the self confidence to learn from mistakes, which are identified in our study, and the boldness to try new ideas in the face of counter attempts. This has proved more important than legal identity, institutional type, or funding source, all of which vary considerably among the successful programs of Karnataka

Preface

In recent years, micro finance has gained growing recognition as an effective tool in improving the quality of life and living standards of very poor people. This recognition has given rise to a movement that now has a global outreach and has penetrated in the remote rural areas, besides slums and towns.

Micro Finance programmes extend small loans to poor people for their varied needs such as consumption, shelter, income generation and self-employment, etc. In some cases, micro finance programmes offer a combination of several services to their clients, in addition to credit. These include linkages with savings and

insurance avenues, skill development training and marketing network. Micro credit programmes, thus, assume significance since they facilitate poverty reduction through promotion of sustainable livelihoods and bring about women empowerment through social and collective action at the grassroots. In addition, micro finance interventions lead to increased social interaction for poor women within their households and in the community, besides, greater mobility that increases their self-worth and self-assertion in the social circle.

Bangalore rural districts In Karnataka, the micro finance movement has almost assumed the shape of an industry, embracing thousands of NGOs/MFIs, community-based self-help groups and their federations, co-operatives in their varied forms, credit unions, public and private banks. During the last decade, the sector has witnessed a sharp growth with the emergence of a number of Micro Finance Institutions (MFIs) that are providing financial and non-financial support to the poor in an effort to lift them out of poverty. The MFI channel of credit delivery, coupled with the national level programme of SHG-Bank Linkage, today, reaches out to millions of poor had, in 2014, across the state.

This document presents the main findings of the pre-post microfinance performance. The study highlights the benefits received by the client households from their association with micro finance, in terms of expansion and diversification of livelihood activities, growth in employment opportunities, income growth, asset acquisition, savings, access to loans from various sources, reduction in vulnerability and enhancement of women empowerment. A Clients' Retrospective, based on in depth interviews, gives a holistic picture of the changes brought about in their lives, as a result of the assistance. The study has brought out that there is vast unfulfilled demand for micro finance in Karnataka, and the MFI sector has immense potential and scope to grow, supplement and complement the SHG-Bank Linkage Programme. Micro Finance movement in Karnataka is making rapid strides and has raised high expectations in the state about the role that it can play in poverty reduction and women empowerment.

This study showcases the significant contribution of the MFIs to a fairly large cross-section of clients, which would be of great help to the policy makers as well as the general public, to understand and appreciate the role that the MFIs can play, in ameliorating the lot of the poor and the underserved.

There are, however, certain areas of concern that need to be addressed by the combined efforts of all the stakeholders. Absence of a proper regulatory framework and supervision mechanism for the sector is a major hindrance in the orderly growth of the sector. We hope that the Micro Finance Bill would be enacted soon, so as to provide a legal framework and direction to the sector. Other concerns like transaction cost of MFIs, transparency in dealing with poor clients, effective cost of credit to clients etc. need to be attended to. The challenge also lies in developing support systems for the sector in terms of building a pool of qualified professionals, introducing corporate governance in line with the best practices and promoting innovations in use of technology in delivering credit to the clients. Being a pre and post facto study, it was a comprehensive assignment that involved tracking of clients and non-clients over a period of one year six months. We would also like to place on record our sincere thanks micro finance clients of Doddaballapur, Devanahalli and Hoskote for their cooperation during the time of visit.

Principal Investigator is keen to carry forward the study and would welcome comments and feedback from the reviewer.

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