



Problems in Operational Efficiency and Responsiveness of The Microcredit Institutions: A Case Study

KEYWORDS

Micro Credit Institutions, Operational Efficiency & Responsiveness.

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ABSTRACT *Micro credit institutions are the intermediate institutions operating in between the other financial institutions and the SHG members. Besides the mere function of extending loan to the SHG, they hold the most urgent and important responsibility to address the social needs and issues. Since the idea of these institutions was started to take care of the social needs of the marginalized community, it should not be compromised at any level and cannot be compensated by meeting some economic requirements. In this context, the present study attempts to know and understand the rate of interest structure, operation and problems faced by these institutions from different aspects. The study also highlights and includes the valuable suggestions given by the authorities of these institutions. The study reaches at a point that micro credit mechanism has definitely a long lasting social and economic impact. It is a feasible and practical instrument for the socio-economic empowerment of the women community. Therefore, steps and incentives should be taken to make this programme more operational and extensive. Misappropriations in fund management, administrative mismanagements, delays in disbursing the loan etc. should be minimized to a large extent in order to realize the long lasting benefits of this mechanism.*

Introduction

Micro credit is believed to be a tool of development that can be used to get-rid-of poverty. The United Nations – the organization of all the countries of the world – declared the year 2005 as “The UN year of Micro-credit”. In the year 2006, Mr. Mohammed Yunus and the Grameen Bank of Bangladesh were awarded the Nobel peace prize for their sincere efforts to create economic and social development from the lowest strata of society.

Micro credit is a large-scale provision of some loans and deposit services to low income people by secure, conveniently located and competing financial institutions (Elizabeth, 1999). It is an appropriately designed financial product and services that enable many poor people to expand and diversify their economic activities, increase their incomes and improve their self-confidence. They become profitable and self-sustaining while achieving wide client outreach (Khandker, 1995).

During the 1960's and 1970's, in many developing countries, financial services was accessible to the low-income people by the informal financial sector. The poor people were taking loans for the earning of their basic livelihood possibilities like construction of houses, agricultural production operation, health care services etc. But in the 1970's and 1980's people from agriculture, banking, economics, public policy, government service, religion and social work learn the dynamics of local financial markets in developing countries and to consider whether and how financial institutions could operate viably in these markets (Biswal, 2013).

Micro credit institutions are addressing the various socio-economic issues of the most vulnerable sections of the society viz. the hardcore people. For the upliftment of this meticulous section, these institutions are undertaking and extending a wide range of programmes in order to bring social, economic and inspirational changes to the lives of the disadvantaged and demoralized sections of the society. They design the structure of a socio-economic transformation at the grass root level by tracking the hardcore

community initially and then exploring and developing their skill which are appropriate for the management of a small local enterprise. These institutions carry out the objective to explore the inherent potentialities within the poor, illiterate, ignorant and marginalized community. At the same time, they desire to give the message that the disadvantaged section of the society has the potential to lead a normal social life if they work in a group with certain team spirit.

Micro credit institutions are the intermediate institutions operating in between the other financial institutions and the SHG members. Besides the mere function of extending loan to the SHG, they hold the most urgent and important responsibility to address the social needs and issues. Since the idea of these institutions was started to take care of the social needs of the marginalized community, it should not be compromised at any level and cannot be compensated by meeting some economic requirements.

In this context, the present study attempts to know and understand the rate of interest structure, operation and problems faced by these institutions from different aspects. The study also highlights and includes the valuable suggestions given by the authorities of these institutions. In this study, fifteen (15nos.) micro credit institutions are included.

II. Data and Methodology

II.a. Source of Data

The study is based on primary data only which is collected both from the members of SHGs and the various institutions associated with micro credit activities in the Balasore district of Odisha.

(a) Primary Data

- (i) SHGs (Beneficiaries)
- (ii) Institutions (Commercial Banks, NGOs, Micro Finance Inst. Etc.)

(b) Sampling Design: In the concerned area of research,

there are about 15,600 SHGs in the 12 (twelve) blocks (Annual report of the district collectorate, 2008) out of which 0.5% of the total SHGs i.e. 78 (seventy eight) numbers of SHGs are covered under the present study. Again, all the 78 SHGs are chosen/ selected on a random basis and no repetition of a group is made from a particular village. For example, in a particular village there may be more than one SHG but only one SHG has been selected for our study. Similarly, from each SHG, 05(Five) members are taken out of which one is the president, the other one is the secretary and the rest three members are chosen randomly. Therefore, as a whole, from 78 SHGs, 390 SHG members [78 x 5(3m general members + 2 executive member)] are covered under the present study.

II.b. Methodology

Simple figures and percentage are used for analysing the problems in operational efficiency and responsiveness of the microcredit institutions.

III. Results Analysis

The structure of the Rate of Interest

The rate of interest structure is one of the critical component of the micro credit institutions. As is obvious, these institutions are not profit oriented rather welfare oriented. Therefore, they face a double/ two way problem both from the side of the beneficiaries as well as the funding institutions.

First, the Beneficiaries are very poor and really don't have the capability to repay the loan charged with a higher rate of interest. Therefore, when a comparatively higher rate of interest is charged by the institution they feel pressurized and demoralized to take a loan further. Instances are also there that the beneficiaries are compelled to sell their fixed assets like land, cycle, house, domestic animals etc. to repay the loan.

Second, these institutions are getting the fund from other financial institutions in the state and centre. Therefore, they hold the responsibility to repay the loan by the due time with the predetermined rate of interest. Besides this, they also need fund to carry out their day-to-day operation and also to conduct and organize various training and awareness programmes as a part of the welfare activities.

Since the above problems are very practical and common, the submission of the private micro credit institutions and NGOs is that in most of the cases they are compelled to charge certain rate of interest that may be higher than the commercial banks.

A detail picture of the rate of interest of the institutions covered in the study area is reflected in the following bar diagram.

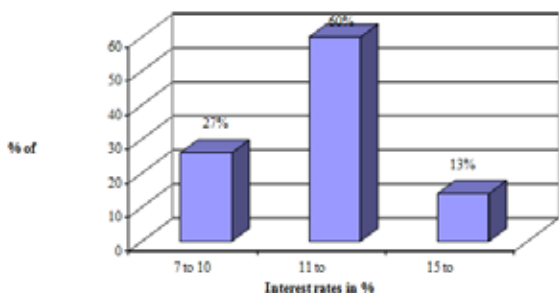


Fig. 3: Distribution of Rate of Interest imposed by the institution

The figure shows that 60 percent of the institutions have the rate of interest in the range of 11-14 percent. 13% institutions are charging a higher range of rate of interest that is 15-18 percent. It is also seen that 27% institutions are charging 7-10 percent rate of interest. The average rate of interest is 11.43 percent in the study area.

Median value is 11.38 percent of rate of interest which means that 50% of the institutions impose interest rate below this value and the remaining 50 percent are above this value. The Mode value is 12 percent of rate of interest which indicates that majority of the institutions impose this rate. The reason behind the high rate of average interest in the concerned study area is that the different private micro credit institutions and NGOs are charging a higher rate of interest which is responsible for this.

Extent of Benefit to the SHG members.

The prime purpose of the micro credit institutions is to track the poor and illiterate women, assist them with small amount of funds, providing training and skill development techniques and ultimately to build their capacity. The response of the institutions covered in the present study in the concerned district with respect to this parameter is reflected in the following diagram.

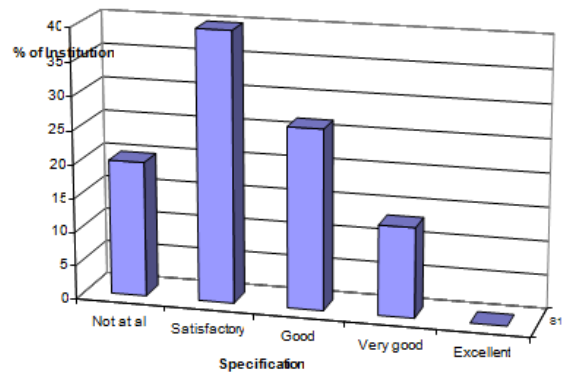


Fig 4: Extent of Benefit Provided to the Members of SHG (Assesses by the Institutions)

The diagram clearly indicates that 40 percent of the institutions are satisfied with respect to the extent of benefit they are providing to the SHG members. It is also seen that 27 percent are good and 13 percent are very good with respect to the extent of benefit. But the critical fact is 20 percent of the institutions have the submission that they are not providing any benefit at all to the SHG members. Rather they are pressurising and demoralizing the poorer section. Unexpected consequences like committing suicide may occur as was seen in some places of Andhra Pradesh. Some of the reasons of this problem are such as:

A higher rate of interest charged by the private Micro credit institutions and NGOs on the loan advanced to the beneficiaries.

Compelling the borrowers to repay the loan in the due time before the project/work is materialized for the purpose it was extended.

Lack of transparency in the calculation of the rate of interest. That is, the institutions are not explaining properly the modus operandi of the loan (principal + interest) advanced to the SHG members.

No training and skill development programmes are con-

ducted to train the SHG members about the work/ purpose for which the loan is sanctioned.

Some of the commercial banks are demoralizing the poor SHG members to take a loan and to open an account in order to avoid the pressure of work with respect to small financial transactions. Rather they are more interested in large financial operations to sustain in the presence of competition.

The average value of the extent of benefit provided to the SHG members is 1.13 which indicates that the response is satisfactory. The median value is 1.0 explains that 50 percent of the institutions are extending benefit below the satisfactory level and the rest 50 percent are above the satisfactory level. Mode is 1.0 which means that majority of the institutions are providing satisfactory level of benefit to the SHG members.

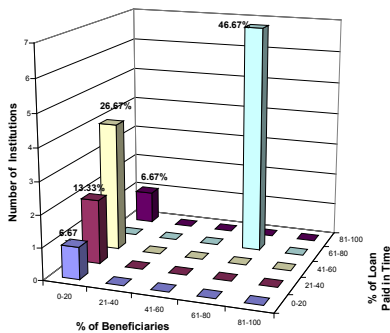
(Code used: 0 – not at all, 1 – satisfactory, 2- Good, 3 – very good, 4 – excellent)

Timely repayment of the loan

Timely repayment of the loan is another important component of the socio-economic improvement and proper utilization of the loan by the beneficiaries. It is commonly assumed that if/ when the loan is productively and purposefully utilized by the beneficiaries, it will not be a problem to repay the loan by the due time. The positive side of repaying the loan by the due time is that the beneficiary will not face any problem to get a loan further. This also indicates the awareness of the respective beneficiary with respect to the complications of the deferred payment.

The present study has taken the response of the SHG members with respect to their timely repayment of the loan in section 4.4 which shows that about 63 percent of the beneficiaries are repaying 61-80 percent of their loan by the due time. The response of the institutions with respect to the same indicator is represented in the following diagram.

Fig. 5: Timely repayment of loan (Assessed by the Institutions)



The diagram shows that 6% of the beneficiaries are repaying 0-20 % of their loan by the due time which is responded by 6.67% of the institutions. It is indicated that 21-40 % of the loan is paid in time by 10% of the beneficiaries and it is the response of 13.33% of the institutions. Similarly 26.67% of the institutions are keeping their view that 14% of the total beneficiaries are able to repay 41-60% of their loan by the due time. As is reflected in the diagram, maximum number of beneficiaries that is 61% of the beneficiaries are repaying 61-80% of their loan in time. Maximum repayment that is 81-100 percent repayment is made by 9% of the beneficiaries as is responded by 7% of the institutions. The average value of this indicator is 3.3 which means that 41-60% of the loan on

average is repaid by the due time. The median is 4.0 which means that 50% of the beneficiaries are repaying less than 61-80% of their loan in the due time and the remaining 50% of the beneficiaries are repaying above this by the due time. Mode is 4.0 which indicates that maximum number of beneficiaries are repaying 61-80% of their total loan by the due time. The study also observes that 0% and 100% repayment of the loan is made by 2% and 3% of the beneficiaries respectively.

(Codes used: 1: 0-20%, 2:21-40%, 3:41-60%, 4:61-80%,5:81-100%)

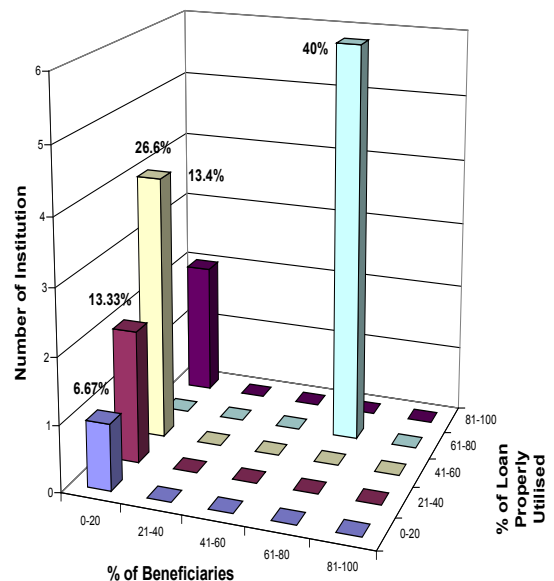
The study therefore, observes the existence of deferred payment for most of the beneficiaries. The institutions have the opinion that the poor SHG members are utilizing and diverting their loan otherwise for which it is difficult to repay the loan at the due time.

Proper utilization of the loan

Proper utilization of the loan is one of the most important aspect that is suppose to be taken seriously by the beneficiaries. The utilization of the loan may be considered as proper and purposeful if and only if it is used and invested for the predetermined purpose for which it is advanced. But it is a common fact that as the beneficiaries belong to a poor community, sometimes they became unable to invest the loan for the predetermined purpose rather they divert a part or whole of the loan for unproductive purposes such as meeting social obligations, education of their children, medical expenses, repaying the old debts etc. Since these requirements are unavoidable and seems to be mandatory for the time being, the question of proper utilization of the loan arises and becomes more viable

In this context, the present study has taken the response of the beneficiaries with respect to the proper utilization of the loan in the previous chapter (chapter – 4). The study found that about 95% of the beneficiaries are utilizing their loan properly. The response of the institutions with respect to the same parameter that is the status of utilization of the loan extended to the beneficiaries is also taken. The following diagram reflects the response of the institutions about the proper utilization of the loan by the beneficiaries.

Fig. 6: Proper Utilization of the loan (Assessed by the Institutions)



The diagram indicates that 5 percent of the total beneficiaries are utilizing up to 20% of their loan properly as is responded by 6.6% of the total institutions. Similarly 9% beneficiaries are properly utilizing up to 40% of their total amount of loan. It is also seen that 13 % of the beneficiaries are able to utilize up to 60% of their loan properly which is responded by 26.6% of the institutions. The most interesting observation of the study in this point is that 62% of the total beneficiaries are utilizing up to 80% of their loan properly and 81-100% proper utilization of the loan is made by 11% beneficiaries. It is found from the study that 0% and 100% proper utilization of the loan is made by 1% and 6% beneficiaries respectively.

The average value of the proper utilization of the loan by the beneficiaries is 3.6 which means that 61-80 percent of the loan is properly utilized. The median is 4.0 implies that 50 percent of the beneficiaries are properly utilizing below 61-80 percent and the remaining 50 percent are properly utilizing above 61-80 percent. The mode value is 4.0 which means that majority of the beneficiaries are utilizing 61-80 percent of their loan properly.

(Codes used: 1: 0-20%, 2:21-40%, 3:41-60%, 4:61-80%,5:81-100%)

The observation on this point is very important to identify the problem and to derive appropriate and feasible solutions in relation to the given indicator. As is found from the above diagram, 38% of the beneficiaries are not able to utilize properly at least 80% of their loan and 89% of the beneficiaries do not utilize the whole amount of their loan properly. Therefore, the present study has tried to find out the reason behind this matter from the authorities of the institutions covered under the study.

Diversion of some portion of the loan to meet the consumption requirements since most of the SHG members are not economically well off.

Non availability of productive employment possibilities in their locality.

Emotional compulsion to meet the family requirements.

Inadequate savings.

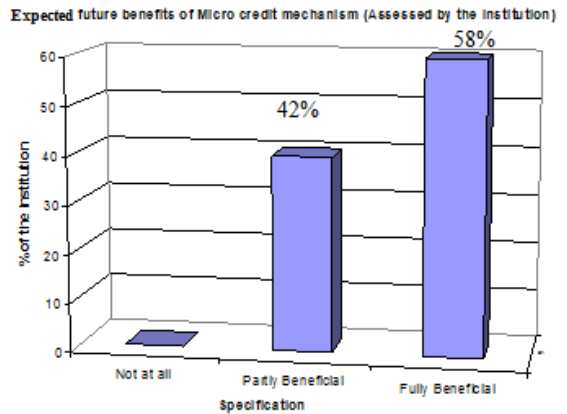
Future Benefits of Micro credit

Micro Credit mechanism has a far reaching and long lasting prospective for its future operation. This is an appropriate and socially feasible instrument which is also economically viable. The extension of activities and rendering of various services in different social issues strengthens the existence, efficiency and viability of these institutions.

These small credit institutions have the objective to maximize the social welfare for which they are different by principle from other professional credit institutions. They carry out the responsibility to explore all the possibilities where a poor and illiterate woman can stand by her own to meet the challenges of a so called male dominated social structure. Therefore, this mechanism may not have a short term or immediate result due to the existence of certain socio-economic bottlenecks in the structure but can be efficient and more operational in the future.

In this context, the present study has collected the response of the institutions covered in the concerned study area and it is reflected in the following diagram.

Fig. 7: Expected future benefits of Micro credit Mechanism (Assessed by Institution)



The diagram shows that 42% of the institutions have the response with respect to the partial benefit and the remaining 58% of the institutions are realizing the complete/full benefit of micro credit institutions in the future. The average value of the future benefits of micro credit mechanism is 1.66 which means that it is fully beneficial to the poor. The mode of this indicator is 2 which means that maximum number of institutions is giving their response in favour of the full benefits of micro credit mechanism.

(Codes used: 0 – Not at all, 1 – Partly Beneficial, 2 – Full Beneficial)

The institutions have realized that they are facing a good number of constraints in their operation and management. They are also facing certain problems in getting the fund at the right time from the funding agencies. They are running with financial crunch to conduct and organize various training, awareness and skill development programmes for the SHG members. Many times, they are not getting any support and co-operation from the government side to work properly and efficiently. If it is possible to eliminate these constraints to some extent, then there is little doubt about the realization of full benefits of the micro credit mechanism.

Sustainability of Micro credit mechanism

Sustainability of this noble and world wide used mechanism depends upon multiple factors with respect to their management, operation, extension of social services, meeting the requirements of the poor and their accessibility. They should be focused and very specific about their objective in relation to extension of social and economic services. They must remember that extension of social services is their ultimate goal and economic services are a critical and major component of that. Therefore, their way of operation must not derail completely from social service to economic service.

In the present study, the response of the micro credit institutions has taken with respect to their viability of continuing these institutions in future and their importance in generating income, employment, saving and empowerment of women. Response on these four factors have been tabulated and analysed in the following manner.

- One factor response
- Two factor response
- Three factor response
- Four factor response

In one factor case, the response w.r.t. an individual factor has been analysed which is given below.

Table 14
Single Factor Response

Category	No. of Institutions	% of Institutions
Increase in income	1	6.67%
Increase in employment	0	0
Increase in savings	0	0
Women empowerment	3	19.01%

This above table shows that maximum number of institutions are keeping their response for the empowerment of women and 6.67% of the institutions have the response for the only increase in income. It is also reflected that none of the institutions have given their response for the only increase in employment as well as savings.

In two factor case, the response w.r.t. a pair of factors has been analysed which is given in the following table.

Table 15
Two Factor Response

Category	No. of Institutions	% of Institutions
Increase in both income and employment	0	0
Increase in both income and savings	1	6.67%
Increase in both income and women empowerment	2	13.34%
Increase in both employment and savings	0	0
Increase in both employment and women empowerment	0	0
Increase in both savings and women empowerment	1	6.67%

The table shows that, maximum number of institutions are giving their response in favour of the increase in income and women empowerment. It is also indicated that none of the institutions have given their response about the increase in income and employment, increase in employment and savings as well as increase in employment and women empowerment.

In three factor case, the response w.r.t. three factors has been analysed which is given in the following table.

Table 16
Three Factor Response

Category	No. of Institutions	% of Institutions
Increase in income, employment and savings	0	0
Increase in income, employment and women empowerment	1	6.67%
Increase in income, savings, women empowerment	2	13.24%
Increase in employment, savings and women empowerment	0	0

The table shows that maximum number of institutions have given their response about the simultaneous increase in income, savings, and women empowerment. It is also indicated that none of the institutions have their response

about the simultaneous increase in income, employment and savings as well as employment, savings and women empowerment.

In the four factor case, the maximum number of institutions i.e. 27 percent of the institutions have their response for the increase in all of the above factors. The study also observes that 100 percent of the institutions are supporting and keeping their view in favour of the continuity the micro credit mechanism in future.

IV. Conclusion

The present study has taken the response of the institutions in the concerned area. The study reaches at a point that micro credit mechanism has definitely a long lasting social and economic impact. It is a feasible and practical instrument for the socio-economic empowerment of the women community. Therefore, steps and incentives should be taken to make this programme more operational and extensive. Misappropriations in fund management, administrative mismanagements, delays in disbursing the loan etc. should be minimized to a large extent in order to realize the long lasting benefits of this mechanism. A good lender-borrower relationship, transparency in operation and management, supervision and guidance about the productive and proper utilization of the loan, organizing various training programmes for their skill development and creating awareness about the benefits of a standard health and education may go a long way in providing maximum benefit to the disadvantaged and marginalized section of the society.

Suggestions to improve the efficiency of micro credit mechanism

The present study found that micro credit mechanism plays a viable role in uplifting the socio-economic status of the poor and marginalized women community in the concerned study area. But the extent of benefit these institutions are providing is satisfactory but not very good or excellent. Therefore, the institutions have suggested certain valuable steps and measures to make the micro credit programme more efficient, operational and people friendly. Some of the important and feasible suggestions of the institutions are given in the following.

Steps to be taken by the institutions.

1. The rate of interest of all micro credit institutions must be uniform.
2. Flat interest rate system should be abolished.
3. There should be proper identification of a SHG member and separate identity number should be given to each female member.
4. Funding should be made on the basis of geographical phenomenon.
5. Loan should be given at a subsidized rate of interest to the successful SHGs.
6. Training, skill development programmes and seminars should be conducted continuously and regularly.
7. There should be continuous supervision, surprise visiting and checking of the activities of the SHGs to which the loan is extended.
8. More public awareness programmes should be conducted to avoid the problem of default in the timely repayment of the loan.
9. There should be proper maintenance of records and transparency in maintaining the accounts of the SHGs.
10. The successful SHGs should be rewarded and this message must reach to other SHGs so that they will be encouraged to work efficiently.

11. Adequate marketing facility should be created for the products of the SHGs.

Steps to be taken by the beneficiaries (SHG members)

1. The executives of the SHG must be sincere about conducting regular meetings among their members.
2. They should not violate the general principles and policies of the SHG at any situation.
3. Internal conflicts and mismanagement of funds should be minimized to the extent possible.
4. The members must be careful about the consequences of diverting the loan for consumption purposes.
5. The SHG members must work in the group with the spirit of team work so that the social welfare cause of micro credit programme will be successful.

The submission of the micro credit institutions is that if the steps suggested by them can be undertaken at least to the possible extent then the globally accepted noble mechanism can work magically and more successfully to bring a significant socio-economic transformation at the grass root level which is also sustainable.

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