# MFIs and their Impact on Capacity Building of SHGs Members

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***Abstract***

*Microfinance has been treated as an important tool for economic development. Microfinance lenders offer small loans to aspiring as well as current business owners. These loans assist people in getting access to traditional financing and offer jobs to local communities. The size of microfinance loan may vary from lender to lender. But it plays vital role in economic development through job creation, financial stability and global poverty. Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. In this paper the authors tries to highlight MFIs and their impact on capacity building of SHGs.*

**Keywords: -** Micro-credit, Poverty Alleviation, Microfinance Institutions (MFIs)

## 1. Introduction

The human resources in India are huge and yet to be fully exploited. Several strategies are evolved to mobilize the human resources for optimizing the available financial resources. Micro-credit is one such novel idea, which provides an effective medium for best utilization of human resources especially women by optimizing the use of financial resources. Microfinance programming is seen as an essential tool in poverty alleviation. It is a means of developing a financial system with a social objective and is designed to serve the poor. It is considered as a major tool for socio-economic and rural transformation by increasing the standard of living of the poor. India has, over the years made steady progress in developing microfinance in the country and has made appreciable progress in this direction. The success of rural women development depends on their capacity building. The capacity building depends on functional literacy and numeracy, communication skills and leadership skills.

The Microfinance Institutions (MFIs) are financial institutions with a primary objective of making credit available to that segment of the population, which has been ignored by the commercial banking system for not having collateral requirements. The efficient functioning of these MFIs on a sustainable basis is important but for MFIs it is equally important that people at or below the poverty line are reached, quality services are provided, and that microfinance improves client's lives. Financial sustainability does not ensure the automatic fulfillment of social objectives expected of a typical MFI. To assess the overall programme effectiveness of MFI, some knowledge of social impact is therefore necessary for MFI management and other stakeholders ( e.g., donors and policy makers ) as information on financial performances alone gives an incomplete picture of the programme performances .

Microfinance is gathering momentum to become a major force in India. The self-help group (SHG) model with bank lending to groups of (often) poor women without collateral has become an accepted part of rural finance. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period, SHG-based microfinance, nurtured and aided by NGOs, have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs.

**RELEVANCE OF THE STUDY:**

Microfinance is considered to be a viable tool for poverty alleviation of the state. The development of weaker section of the society depends on sustainability of micro finance institutions. Micro finance institutions help the beneficiary and Self Help Groups (SHGs) to uplift the weaker sections of society. The satisfaction of beneficiaries and SHGs is quite a complex issue and there is a lot of debate and confusion about what exactly is required and how to go about it. This study was an attempt to review the necessary requirements, and discuss the steps that need to be taken in order to measure beneficiary satisfaction. So, an attempt has been made to interpret the responses from the respondents.

**REVIEW OF LITERATURE:**

According to the proponents of micro finance theorists, it has a very important role to play in development of community.

Rogaly (1996) finds five major faults with MFIs. He argues that: They encourage a single-sector approach to the allocation of resources to fight poverty. He also opined that micro credit is irrelevant to the poorest people when an over-simplistic notion of poverty is used. He further emphasized on scale by MFIs.

Johnson and Rogaly (1997) also cited various examples whereby savings and credit schemes were able to meet the needs of the very poor. They state that micro finance specialists are observing improvements in economic security rather than income promotion as the first step in poverty reduction.

Ledgerwood, (1999) studied poverty and the impact of micro finance in combating poverty .The Millennium Development Goals (MDGs) propagated by him are (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people.

Otero (1999) illustrates various ways in which micro finance at its core combats poverty. She states that micro finance creates access to productive capital for the poor which together with human capital addresses through education and training as well as social capital achieved through local organization building enables people to move out of poverty. By providing material capital to the poor, their sense of dignity is strengthened which helps to empower them to participate in the economy and society developmental process.

Wright (2000) states that much of the skepticism of MFIs stems from the argument that micro finance projects fail to reach the poorest, generally have a limited effect on income drive of women owing to greater dependence on their husbands and fail to provide additional services desperately needed by the poor. In addition, Wright says that many development practitioners not only find micro finance inadequate but also it diverts funding from more pressing or important interventions such as health and education.

As argued by Navajas (2000), there is a danger that micro finance may siphon funds from other projects that might help the poor in a bigger way. They state that governments and donors should know whether the poor gain more from micro finance than from other projects such as health care or food aid. Therefore, there is a need for all involved in micro finance and development to ascertain what exactly has been the impact of micro finance in combating poverty. The effectiveness of micro finance as a tool depends on directly reducing the extent of poverty and its impact on change in the standard of living of the people .

Littlefield, E. (2003) states that the poor are generally excluded from the financial services sector of the economy. So MFIs have emerged to address this issue of non participation in the market. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to increase the number of poor people they can reach.

Littlefield, Murduch and Hashemi (2003) state "micro finance is a critical contextual factor with strong impact on the achievements of the Millennium Development Goals (MDGs).Microfinance is unique among development interventions. It can deliver social benefits on an ongoing permanent basis and on a large scale". Referring to various case studies, they showed how micro finance has played a role in eradicating poverty, promoting education, improving health and empowering women. However, not all commentators are enthusiastic about the role of micro finance in development but it is important to realize that micro finance is not a silver bullet while fighting poverty.

Chowdhury, Mosley and Simanowitz (2004) argue that it is notoriously difficult to measure the impact of micro finance programmes on poverty. This is so, she argues, because money is fungible. It is therefore difficult to isolate the impact of credit when the definition of 'poverty' is a fiercely contested issue and how it is measured and what constitute the 'poor' not yet defined properly.

UNCDF (2004) states that micro finance and its key roles in development as: It helps very poor households to meet basic needs and protects against risks. Further, it is associated with improvement in household economic welfare and it helps to empower women by supporting women's economic participation and so promotes gender equity.

***OBJECTIVES OF THE STUDY:***

The objectives of the study are :

- To study the socio-economic background of the clients with special reference to their occupation, caste, age, sex and other variables.
- To explain the transactional period of beneficiaries with MFIs of various areas including urban, rural and semi urban.
- To examine the role of employees of MFIs either to meet the loanee or to solve the problem during the transaction.

- To make an analysis of the relationship between the groups of beneficiaries in different services and their satisfaction basing on the performances of MFIs;

**SCOPE OF THE STUDY:**

The study is confined to five different MFIs covering the different regions of Odisha. The age groups of the beneficiaries of MFI and their occupational status were categorised as Small vendors, Agriculture and Horticulture, Vocational, Live stock, Businessmen, and any other miscellaneous category of vocational trade.

**RESEARCH METHODLOGY**:

This study is based on both primary and secondary data. Primary data have been collected through two sets of structured questionnaire both for members of SHGs and employees of MFIs. The questionnaires were distributed among 400 beneficiaries out of which 322 beneficiaries have responded to all the questions asked. Further, 100 employees from different MFIs were contacted with the structured questionnaire, out of which 89 respondents have responded. Statistical techniques with the help of SPSS package werw used to interpret the results. Beneficiary relationship management is the prime element in the management and it gives impact on satisfaction. Further relevant factors were taken as indicator to study the impact of services and quality to justify the analysis.

Some of the important factors were correlated with age factors of the beneficiaries in different levels to find out the percentage of relationship with the groups through cross tabulation method.

Secondary data have been collected from various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins, Economic and Social Survey of Asia and the Pacific, Reports on Economic Policy and from websites of World Bank, IMF and various MFIs.

**DATA ANALYSIS AND INTERPRETATION**

A total number of 400 questionnaires were personally distributed among the members of beneficiaries at an average of 4-5 questionnaires per each SHG. Out of which, 322 (80.5%) beneficiaries effectively responded to the survey. Concurrently, out of which 89 (89%) employees responded to this endeavor without hesitation. The data (Table-1) thus collected through questionnaires from beneficiaries and employees were scrutinized, tabulated and analyzed with immaculate interpretations that are presented in result from beneficiaries and result from employees.

**Table -1 Rate of Response**

| ***Categories of respondents*** | ***Questionnaires distributed*** | ***Questionnaires selected*** | ***% of response*** |
|---|---|---|---|
| Beneficiaries | 400 | 322 | 80.5 |
| Employees | 100 | 89 | 89 |

**Table- 2 : Age wise distribution of male and female beneficiaries**

| **Age** | **No. of beneficiaries** | **Male** | | **Female** | |
|---|---|---|---|---|---|
| | | **Number** | **% to total** | **Number** | **% to total** |
| Above 65 | 12 | 8 | 4.7 | 4 | 2.6 |
| Below 25 | 19 | 11 | 6.5 | 8 | 5.2 |
| 55 - 65 | 40 | 33 | 19.3 | 7 | 4.7 |
| 45 - 55 | 43 | 18 | 10.5 | 25 | 16.6 |
| 25 - 35 | 89 | 45 | 26.3 | 63 | 41.8 |
| 35 - 45 | 119 | 56 | 32.7 | 44 | 29.1 |
| Total | 322 | 171(53%) | 100.0 | 151(47%) | 100.0 |

**Source : Own compilation**

Table- 2 reported the age wise distribution of male and female figure of the total beneficiaries covered under the total SHGs. Out of 400 sample beneficiary 322 samples have been considered in the following analysis as the responses found valid. Out of the total 322 valid respondents, 171 are found male which represents 53% of the total respondents, where as 151 beneficiaries are female accounted for 47% of the total. Further, as per the age groups mentioned in the table, highest number of male represent by 35-45 years age group followed by 25-35 years age group. Similarly, in the female group, maximum 63 beneficiaries are from 25-35 years age group followed by 35-45 years age group. The lowest number of beneficiaries in both the sex groups represented in the age group of above 65 years.

**Table- 3 : Age and occupation of beneficiaries**

**Source : Own compilation**

Table – 3 inferred the relationship between the age groups of the beneficiaries of MFI and their occupational status. It is important to study their economic profile. The study is based on the activities sanctioned from micro finance institutions. Here each factor has been divided into six groups. From different operational groups, major occupations have been identified and taken into the study. The occupational status have been classified as Small vendors, Agriculture and Horticulture, Vocational, Live stock, Businessmen, and any other miscellaneous category of vocational trades. Similarly for an in-depth study, the age groups of the customers have been correlated so as to identify the influence of age in selecting the trades.

The study indicates that out of 13 engaged in small vending, 12 beneficiaries are of above 65 years old. Similarly, 17 respondents in the category of agriculture and horticulture trade are in the age group of below 25 years. Further, among 55 beneficiaries in live stock occupation, 40 beneficiaries belong to the age group of 55-65 years. Similarly, among 43 respondents of the age group of 45-55 age, 30 beneficiaries are working in different vocational trade like carpentry, electrician, bell metal worker etc. Similarly out of 92 beneficiaries 89 are engaged in miscellaneous trades, which are in the age group of 25-35 years. Lastly, out of 119 respondents of MFI are in the age group of 35-45 years, 115 beneficiaries are doing small business out of the finance provided by these MFIs.

So, it is concluded that maximum 115 out of 322 beneficiaries accounting for 35% are business men and they represent the age group of 35-45 years followed by 92 beneficiaries doing other miscellaneous trades representing the age group of 25-35 yrs. That means youngers are more flexible in their trade and they perform as per the market demand. They change their trade types accordingly to procure more income.

**Table – 4: Age and period transaction (Cross tabulation)**

| Age | Number of Beneficiaries | Period of Transaction (in Years) | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | (Below-1year) | (5 years & above) | (1 – 2 yeas) | (3 - 4 Years) | (4- 5 years) | (2- 3 years) | |
| | | **4** | **14** | **19** | **81** | **87** | **117** | **322** |
| **Above 65** | 12 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| **Below 25** | 19 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **55 - 65** | 40 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| **45 - 55** | 43 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| **25 - 35** | 89 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| **35 - 45** | 119 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| **Total** | 322 | 1 | 1 | 1 | 1 | 1 | 1 | 6 |

**Source: Own compilation**

The above table depicts that 14 beneficiaries have above 5 years of transaction with MFIs, and 12 among are above 65 years old. Further, 19 respondents are below 25 years old and 4 among them have below 1 year of transactional experience with MFIs. Similarly, 81 beneficiaries of our study have involved in 3 to 4 years of transaction and 40 respondents among them are in the age group of 55 to 65 years. Again, here 89 respondents are in the age group of 25 to 35 years and 87 among them have involved in 4 to 5 years of transaction .Lastly, 119 are in the age group of 35 to 45 years and 117 among them have the experience of transaction from 2 to 3 years.

Hence it can be inferred that the maximum beneficiaries belong to the age group of 35 – 45 years and their transactional period with the MFIs is 2 – 3 years only.

**Table –5: Age and frequency of visit by the employees of MFIs**

| Age | Number of Beneficiaries | Frequency of Visit | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Once in a month | Occasionally | More than once in a month | More than once in a week | Once in a week | Every day | |
| | | 11 | 16 | 45 | 85 | 82 | 103 | 322 |
| | | 9 | 17 | 33 | 52 | 86 | 125 | 322 |

**Source: Own compilation**

The study shows that for 17 beneficiaries have faced very occasional visit of MFI's employees to their SHGs and 12 among them are above 65 years old. Further, 19 respondents of our study are below 25 years old.

Moreover, it can be said that, the frequency of visit by the employees of MFIs is more the age group of 35 - 45 years followed to the age group of 55-65 years and it is confirmed that they maintain informal relation in business also by visiting daily to the concerns and touch beneficiaries. The frequency of visit also gives an impact on the beneficiaries as they feel more responsiveness.

Satisfaction is one of the subjective factors, which vary from person to person. Further, it also depends upon a number of other factors. But from assessment point of view, it can be measured through expectation. When expectation of a person shows high and contrary to it, the level of satisfaction shows a less, as expectation is always less in measuring satisfaction. Here, regression coefficient measures the scale for satisfaction by including the different age groups of the respondents as predicator and satisfaction as dependent variable.

**Table-6 : Age and Satisfaction Level**

| Age | Number of Beneficiaries | Satisfaction level (in Percentage) | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | (Below 30) | (30-40) | (Above 70) | (60-70) | (40-50) | (50-60) | |
| Above 65 | 12 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Below 25 | 19 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| 55 - 65 | 40 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| 45 - 55 | 43 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| 25 - 35 | 89 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| 35 - 45 | 119 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| Total | 322 | 1 | 1 | 1 | 1 | 1 | 1 | 6 |

**Source : Own compilation**

Table–6 explains the relationship between the age groups of the beneficiaries of MFIs and the satisfaction level they possess from the products and services offered by MFIs. The level of satisfaction have been categorized into six percentage groups such as below 30, 30 – 40 , 40 – 50 ,50 – 60 , 60 – 70 , and above 70 percent level. As satisfaction is a combination of different factors, these factors are considered here for the measurement.

So, it can be concluded that maximum number of beneficiaries who feel that high degree of satisfaction are within the age group of 45 – 55 years, where as low degree of satisfaction has been derived among the beneficiaries in the age group of 55 – 65 years.

**Table-7 : Regression of Age and Satisfaction**

a. Predictors: (Constant), age
b Dependent Variable: satisfaction
R-Regression Coefficient

In the process of sieving variables the regression analysis of Age and Satisfaction has been made and the results are shown in output Table – 7. Here in the output table-I, the correlation coefficient between age and satisfaction shows 0.671, which indicates a moderate relationship. Further, the coefficient of determination in this case shows about 95 percent. This model explains the different levels of satisfaction depending upon the variations in age groups. As a further measure of the strength of the model the standard error of the estimate is compared with the standard deviation of age groups reported in the output table-7. The total satisfaction revealed in shape of adjusted R square is 0.450 with a standard error of 23.031, which is much higher with the change in age groups.

**Table—8 : Analysis of Variance (ANOVA) (b)**

a Predictors: (Constant), age
b Dependent Variable: satisfaction
F-F statistic
df- degrees of freedom

The ANOVA Table-8 reports a significant F statistic of 166.2, indicating the significance value zero. That indicate the regression value have a less impact on satisfaction. Further, nearly 80 percent variation has been marked in residuals which are explained by the change in age groups .It signifies that more satisfaction could be expected from beneficiaries as it varies with the change in age groups. So, as per the age groups taken in the study differs with the scale of satisfaction. That does not mean aged respondents are more satisfied on MFIs and younger age groups are less satisfied.

**Table – 9 : Coefficients**

The output Table-9 shows that, determining the relative importance of the significant predictor i.e. age factor, is having a high standardized coefficient Beta value i.e. 0.518 (output table-5). Further, the standard error reveals 0.041, which is very low and significant. So these two variables are more elastic in nature and Beta (unstandardised) values indicate a less value, i.e. 0.636, which means a less satisfaction with the total beneficiary in the SHG in overall.

**FINDINGS OF THE STUDY:**

MFI operations are becoming increasingly beneficiary oriented. The demand for MFIs one-stop integrated financial services is well on the rise. The ability of MFIs to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Convergence in the industry to cater to the changing demographic expectations is now more than evident. Insurance and other forms of cross selling and strategic alliances will soon alter the business dynamics of MFIs and fuel the process of consolidation for increased scope of business and revenue. The thrust on farm sector, health sector and services offers several investment linkages. In short, the domestic economy is an increasing pie which offers extensive economies of scale that only large MFIs will be in a position to tap with the phenomenal increase in the country's population and the increased demand for micro financial services; Speed, service quality and beneficiary satisfaction are going to be key differentiators for each MFI's future success. Thus it is imperative for MFIs to get useful feedback on their actual response time and beneficiary service quality aspects of SHG, which in turn will help them take positive steps to maintain a competitive edge.

**RESULTS FROM THE STUDY OF BENEFICIARIES (SHGS):**

In the study of age wise distribution of male and female beneficiaries, the result showed that out of 400 sample beneficiaries 322 samples have been considered as valid. The following are the results from members of SHGs.

- Out of 322 respondents, 198 are male representing 72% and 124 are female accounting for 28% of the total. Further, as per the age groups mentioned in the table, highest number of male represent by the 35-45 age group followed by 25-35 age group. Similarly, in the female group maximum 67 is represented by 35-45 age groups followed by 25-35 age groups. The lowest number of beneficiaries in both the sex groups are represented the age group of above 65 years.

- In the study of Age and occupation of beneficiaries, it was found that maximum of 115 out of 322 beneficiaries accounted for 35% which are business men and they are mostly the age group of 35-45 years followed by 92 beneficiaries doing other miscellaneous trades representing the age group of 25-35 age. That means younger's are more flexible in their trade and they perform as per the market demand. They change their trade types accordingly to procure more income.

- In the study of age and frequency of visit by the employees of MFIs is more to the age group of 35-45 years followed to the age group of 55-65 years and it is confirmed that they maintain informal relation in business by visiting daily to the SHGs and touch beneficiaries.

- In the study of age and satisfaction level, it was found that the maximum numbers of beneficiaries who feel that high degree of satisfaction are within the age group of 45 – 55 years; where as low degree of satisfaction has been derived among the beneficiaries in the age group of 55 – 65 years.

**RESULTS FROM THE STUDY OF EMPLOYEES:**

The following conclusion was made out of the analysis through various tools and techniques from the employees.

- In the study of age and Occupation type in different MFIs, It was found that the maximum employees are supervisors followed by managers in different MFIs.

- In the study of age and Month income, it was found that the maximum number of respondents belonging to the age group of 35-40 years and their earnings were in between Rs.25, 000- 30,000 p.m.

- In the study of age and year of service with other MFIs, it was found that the employees with age group of 45 and above aged are generally not MFIs professionals and they have not taken their career as bankers before in the MFIs.

- In the study of age and year of service with other MFI, it was found that the maximum of employees i.e. around 51% have served more than 10 years in the other MFIs and the rest 49% of the employees have served in other MFIs for a period of less than 10 years.

In aggregate satisfaction measurement basing on different age groups, regression has been used. The results revealed that, the age factor really has a contribution towards the satisfaction and showed a moderate value. So these two variables were more elastic. That means, respondents have satisfied with moderately on the service quality, technology used by MFIs, service factors and on total quality management of MFIs in aggregate.

**CONCLUSION:**

Eventually, it would be ideal to enhance the creditworthiness of SHG members by the Microfinance Institutions. The MFIs have contributed a lot by capacity building in the areas of financial discipline and social requirements. The present study was to analyze the impact of MFIs on the weaker section of society, in particular SHG members and to evaluate their role and efficiency in the socio-economic developments of the rural beneficiaries with special reference to occupation, caste, age, sex and other variables and also examined the MFIs through various schemes including the role of MFIs in financing to different category of rural beneficiaries. Further the objective of the study was concluded with the examination of MFI competencies responsible for the success and to make a statistical analysis of the relationship between the groups of beneficiaries and MFI services. Besides expanding their own services, MFIs are also being viewed as potential channels for delivery of other products and services to low income and rural populations.

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