

FACTORS OF MFI GOVERNANCE AND ITS IMPACT WITH SPECIAL REFERENCE TO SKDRDP

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Abstract: *It is evident from the words of N.R Narayana Murthy, that 'good corporate governance is about maximising shareholder value on a sustainable basis while ensuring fairness to all stakeholders: customers, vendor partners, investors, employees, government and society'. The purpose of any MFI should be to act according to the needs of MFI stakeholders and at any cost should ensure that the people who become part of MFIs are never mislead, misgoverned and exploited by any means. Micro Finance Institutions, when governed with proper regulatory norms, their ethical, reasonable and accountable behaviour towards all the stakeholders increases. This movement can bring a transformational change to the field of microfinance when it is gaining attention for wrong reasons.*

Key Words: *Microfinance, Governance, RBI, Regulations, SKDRDP, SHG, Stakeholders*

1. INTRODUCTION:

The last few years have seen the microfinance industry in India grow by extraordinary leaps and bounds. Microfinance Companies has seen their outreach, impact and sustainability grow exponentially. The Finance Ministry and the Reserve Bank of India have recognized the important role played by MFI's in the economy by granting them banking licenses. MFI's are today leading the financial inclusion drive in the country. MUDRA loan financing now makes it easy for microfinance companies to access funds. The varieties of initiatives undertaken by both RBI and government make it easier for the rural poor to access the financial services. The micro finance has proved to be the ray of hope for millions of borrowers who have been ignored of the any financial assistance from so called financial institutions.

By definition, microfinance is the business of giving tiny loans to people who do not have access to formal banking services. The Investopedia website defines microfinance as a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. "...the goal of microfinance is to give-low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance," it says. In India, microfinance institutions (MFIs) cannot collect deposits, but sell insurance products, besides offering small loans that are typically paid back in weekly or monthly installments.

The importance of MFIs in India is invaluable as it is bringing revolutionary changes in the lives of rural households making them self-reliant and successful in their endeavors.

1.1 THE CONCEPT OF GOVERNANCE

It is evident in the words of N.R Narayana Murthy, that 'good corporate governance is about maximising shareholder value on a sustainable basis while ensuring fairness to all stakeholders: customers, vendor partners, investors, employees, government and society'. The purpose of any MFI should be to act according to the needs of MFI stakeholders and at any cost should ensure that the people who become part of MFIs are never mislead, misgoverned and exploited by any means.

The role of governance is pretty high that too at this juncture when there is an increased need for regulatory norms for the MFIs operating in India.

1.2 FACTORS INFLUENCING GOVERNANCE

- Transparency
- Responsiveness
- Fairness in Operations
- Equity and Inclusiveness
- Effectiveness and Efficiency
- Accountability
- Participation
- Board Members Involvement

2. LITERATURE REVIEW:

B.K Prasad, (2008) No theory of governance would be intelligible unless it is seen in the context of its time. In the beginning of the 21st century, it has become evident that those who want minimal government are having an upper hand against the advocates of the paternalist welfare state. But there is no run-away success in sight. One thing has emerged clearly. An efficient, effective and democratic government is the best guarantor of social justice as well as an orderly society. Similarly, there is also emphasis on the fact that the administrative system has to be country specific and area specific taking in view not only the institutions of governance and its legal and regulatory mechanisms but also its market, its civil society and cultural values of the people. The study of literature influences one to believe that there is a definite need of regulations over the MFIs across India and it must be made possible at the earliest in order to ensure the protection of the stakeholders and integrity of the MFIs.

Arora D, (2000) the concept of Good Governance has gained prominence around the world in recent times. It has become a buzzword in the vocabulary of polity and administrative reform, mainly due to the importance given to it by international community. Actually the term governance has become synonymous to sound development management. In recent times the concept of Good Governance first emerged in the mid-1980s as governability with the emphasis on adherence to the rule of law. Following the collapse of the Soviet Union and the end of the cold war, the term governance came to be used to define the reinventing of public administration, particularly in the developing countries, to make it more receptive to the needs of globalization.

Anand Sinha, (2012) Microfinance became a leading and effective strategy for poverty alleviation with the potential for far-reaching impact in transforming the lives of poor people. It is argued that microfinance can facilitate the achievement of the Millennium Development Goals (MDGs) as well as national policies that target poverty reduction, empowerment of women, assisting vulnerable groups, and improving standards of living. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005): “sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs”. Although microfinance cannot be seen as a panacea for poverty reduction, when properly harnessed, it can make sustainable contributions through financial investment leading to the empowerment of people, which in turn promotes confidence and self-esteem, particularly for women. More importantly, the global experience with microfinance has shown that even poor are creditworthy.

Ghate P, (2007) with a lower rate of growth, MFIs are likely to be able to develop more attention to good governance, transparency and client perspectives. They are likely to become more sensitive to social performance generally, and the use of social ratings likely to increase.

3. MICRO FINANCE IN SKDRDP:

The micro finance program of SKDRDP is popularly known as “Pragathi Nidhi Program” (Pragathi Nidhi means fund for growth) has been designed to provide hassle-free, quick and easy finance to the stake holders. The groups are eligible to get funds from SKDRDP on completion of three months of their promotion. During this period the groups are required to save regularly on weekly basis, conduct group meetings write proper resolutions, deposit the money saved in the group common account. During these periods they undergo capacity building training programmes in conducting group meetings, writing basic accounts, managing the finances, preparing business plan etc. In addition to this, the group members prepare a five year development plan and then break it down to an annual plan. The financial assistance will also follow the planned goals.

3.1 ORGANIZATIONAL PROFILE:

Shree Kshethra Dharmasthala Rural Development Projects popularly known as SKDRDP (R.) is registered under Charitable Trust Act of 1920 in the office of Sub-Registrar, Government of Karnataka, Belthangady Taluk, Dakshina Kannada District in the year 1991. SKDRDP (Shree Kshethra Dharmasthala Rural Development Project) name itself says that it is all about rural development programme. SKDRDP carried several activities like Microfinance, Jana Jagrthi Programme, manufacturing and marketing the products etc. Microfinance is one of the main activities of the SKDRDP. Micro Finance is mainly relating to lending loans to the poor people for income generation activities. SKDRDP play a major role in transfer of technology, providing the infrastructure, providing finance through micro credit. Micro Finance activity follows their own system for sanctioning loans and there are a lot of criteria for disbursement of loan. Micro finance activity has a high influence on the rural people.

4. RELEVANCE OF THE STUDY:

There have been studies as to impact of MFI services on SHG members, women empowerment and the society by large. The earlier research works have concentrated more on other issues prevailing in the field of microfinance but not the governance. So, the current research work is undertaken to highlight the factors which influence the governance of MFIs and the practice of the same in the selected MFIs of Karnataka.

5. OBJECTIVES OF THE STUDY:

The role of every MFI is to uplift the rural poor from poverty and thereby ensure the sustainable growth of all those who are at the bottom of the pyramid with least access or no access to the credit. The change in the approach of MFIs over the years is quite visible and it calls for attention. The objective of this study is to understand the factors influencing governance of MFIs and the impact of the governance on the MFIs.

In this regard the objective has been formulated.

- To understand factors influencing governance of MFIs.
- To know the impact of governance on the MFIs.

6. HYPOTHESES

The following null and alternative hypotheses were formulated based on the objectives.

H₀ the factors of governance has no significant impact on the MFI operations

H₁ the factors of governance has a significant impact on the MFI operations

The study has made an attempt to find the answers to the objectives set with the help of above hypotheses and testing of the same.

7. METHODOLOGY OF THE STUDY:

The study was conducted by taking institutional respondent of Shri Kshethra Dharmasthala Rural Development Programme (SKDRDP) into consideration. SKDRDP is one of the top NGO based MFIs in India having its origin from a place called Dharmasthala, in Belthangady Taluk of Dakshina Kannada District. SKDRDP having over 37 Lakh members as its beneficiaries for many of its services is spreading smiles on many faces all over Karnataka, mainly northern Karnataka. The changes brought by SKDRDP are significant and highly commendable in view of changing needs for small and micro credit.

8. STATISTICAL TOOLS AND TECHNIQUES USED FOR THE STUDY:

To analyse the parameters of governance practiced in Micro Finance Institutions, basic tools like **Percentage and frequencies** are used in order to prove the hypothesis. Statistical analysis has been done using SPSS. The tested results have been presented with the help of simple tables.

9. DATA ANALYSIS AND INTERPRETATION:

The study has made an attempt to understand the services provided by the SKDRDP, the role played in overcoming the poverty and the impact it has made on the lives of rural people. The study was conducted to know the governance practices of the MFI which is very important in protecting the interest of all the stakeholders of MFIs.

So any research study is effective only after knowing the practical issues prevailing or developments taking place in the field. For that purpose with the help primary and secondary data analysis has been done. The responses have been carefully classified and presented in tables to find out the results.

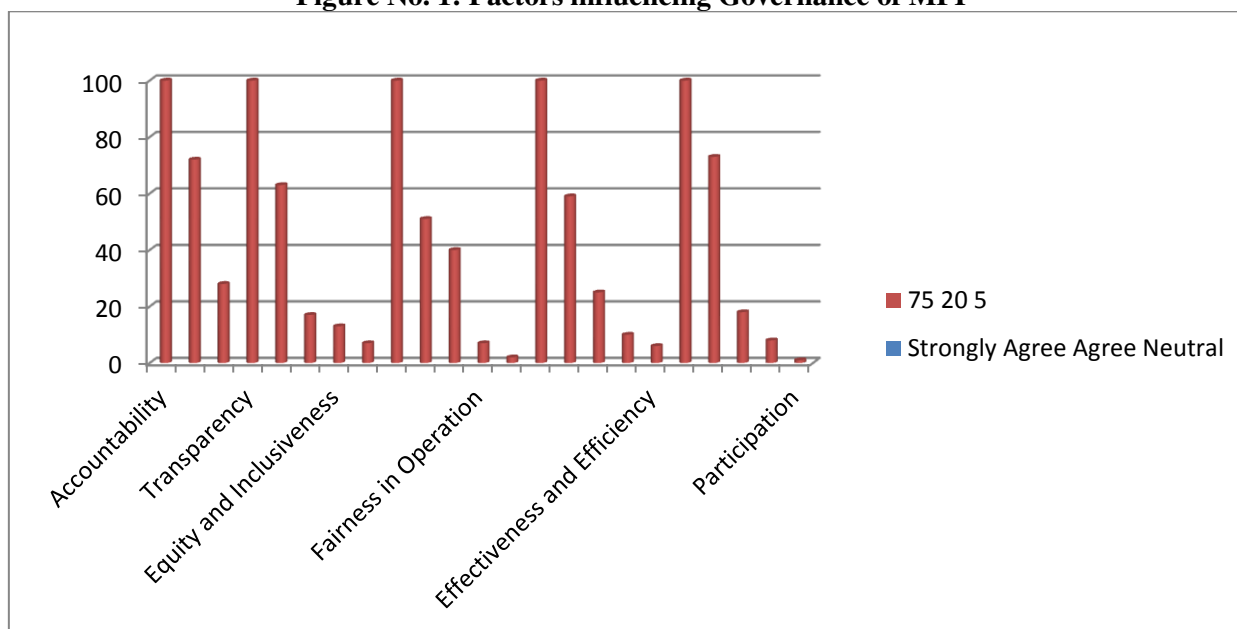
In order to test the hypotheses, 100 respondents from the SHGs working under SKDRDP have been selected and the responses taken from them through a structured questionnaire. The data so collected has been analysed with the help of SPSS and the results has been presented in the following table.

Table No. 1: Factors influencing Governance of MFI

Factors	Responses	Frequency	Percent	Valid Percent
Accountability	Strongly Agree	75	75.0	75.0
	Agree	20	20.0	20.0
	Neutral	5	5.0	5.0
	Total	100	100.0	100.0
Transparency	Strongly Agree	72	72.0	72.0
	Agree	28	28.0	28.0
	Total	100	100.0	100.0
Equity and Inclusiveness	Strongly Agree	63	63.0	63.0
	Agree	17	17.0	17.0
	Neutral	13	13.0	13.0
	Disagree	7	7.0	7.0
	Total	100	100.0	100.0
	Strongly Agree	51	51.0	51.0

Fairness in Operation	Agree	40	40.0	40.0
	Neutral	7	7.0	7.0
	Disagree	2	2.0	2.0
	Total	100	100.0	100.0
Effectiveness and Efficiency	Strongly Agree	59	59.0	59.0
	Agree	25	25.0	25.0
	Neutral	10	10.0	10.0
	Disagree	6	6.0	6.0
	Total	100	100.0	100.0
Participation	Strongly Agree	73	73.0	73.0
	Agree	18	18.0	18.0
	Neutral	8	8.0	8.0
	Disagree	1	1.0	1.0
	Total	100	100.0	100.0

Figure No. 1: Factors influencing Governance of MFI



Source: Primary Data

It is evident from the above table that 75 percent of the respondents strongly agree that the accountability factors have an influence on the governance of the MFI. 72 percent of the members opine that the transparency is also an influencing factor on the governance. 63 percent strongly believe that equity and inclusiveness is one more major factor which is influential on governance of MFI. Only 51 percent strongly agree that fairness in operation is needed in the MFIs as part of good governance. 59 percent are of the opinion that effectiveness and efficiency is an influencing factor on the governance of MFI and 73 percent strongly agree that participation of stakeholders is very essential for the effective governance of MFIs.

Table No. 2: Descriptive Statistics on Factors Influencing Governance of MFI

Factors	N	Mean	Std. Deviation
Accountability	100	1.30	.560
Transparency	100	1.28	.451
Equity and Inclusiveness	100	1.64	.959
Fairness in operation	100	1.60	.711
Effectiveness and Efficiency	100	1.63	.895
Participation	100	1.37	.677
Valid N (list wise)	100		

Aggregate Mean and Standard Deviation	1.47	0.70
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Source: Compiled from Primary Data

$$t_{cal}(\text{Computed value}) = \frac{1.47 - 2.5}{0.70} = -1.47$$

Table No.2 presents the one tail test @ 5% level of significance, critical value is -1.662. As computed value (-1.47) is less than the critical value (-1.662), the alternative hypothesis (H_1) is accepted and null hypothesis (H_0) is rejected. Therefore it can be concluded that, the factors of governance has a significant impact on the MFI operations.

10. FINDINGS AND SUGGESTIONS

The study succeeds in exploring the fact that there is no significance influence of factors of governance on the MFI and operations of MFIs are satisfactory in terms of providing reasonable services to the clients. Yet, it can be highlighted that still there is lack of proper governance or understanding of governance guidelines and improper implementation of existing regulatory norms as issued by the RBI. It is in this backdrop, the researcher wants to highlight the need of regulatory body in the country to extend governance practices towards rural health issues and ensure the stakeholders protection against charging of higher interest, less no of repayment instalments, coercive methods for the recovery of loans etc., which are rubbing salt on the wounds of the rural poor in India.

The suggestion is initiate the techniques for good governance of MFIs by the government and to conduct more research work on governance practices of MFIs in Karnataka and the need for ensuring the effective practice of governance by the MFIs.

11. CONCLUSION:

As the spotlight at the international level is now on the MFIs, they are expected to be more transparent in their policies, accountable in their systems, procedures, and transactions, which call for good governance in the MFIs to protect the stakeholders. The attempt in this research work is to address the key issues of good governance, which has a direct impact on all the stake holders starting from the investors, promoters, managers of microfinance institutions as well as to the regulators and the public in general they serve. Ultimately, in the states like Karnataka where farmers suicide is a very big issue, it becomes necessary for the concerned authorities to look at the present scenario of MFI operations and ensure that they are properly regulated from misguiding the needy and exploiting the poor who are striving for small finance in Karnataka.

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