

Efficiency, Outreach and Sustainability of Micro Financial Institutions Working In Madhya Pradesh: A Review

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Abstract: India is a developing country, microfinance plays an important role in financial inclusion initiatives, namely enabling access of financial service to un-served individuals. These microfinance institutions can also play an important role in reducing poverty and economic development. For the effective implementation of economic development and poverty reduction initiatives, in principle, it must assess the performance of microfinance institutions. To effectively implement economic development and poverty reduction initiatives, the performance evaluation of microfinance institutions is basically necessary. Although it plays an important role in national economic development, but to analyse and evaluate the performance of these microfinance institutions, especially in India, it was not much to explore. Therefore, this paper aims to study different aspects of the performance of India's microfinance institutions to measure the effectiveness of mobilization and sustainability. This article describes the dimensions of free space can be found between the standards and real performance indicators of microfinance institutions working in India, and help governments, regulators resource agencies to develop effective policies and management of these microfinance institutions as well as allocating them to meet customers' interests. The main objective of this paper is to examine in Madhya Pradesh microfinance institutions work performance, focusing on efficiency, Outreach and sustainability.

Keyword: Microfinance, Indian Microfinance Institutions, efficiency, Outreach and sustainability.

1. Introduction

For a country like India, poverty always remains a big concern for the policy makers and for the government. Out of various measures to eradicate it, Microfinance, of late, has provided a ray of hope. The task force on supportive policy and regulatory framework for microfinance constituted by NABARD defined Microfinance as "the provision of thrift, saving, credit and financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their standard of living" (Sen, 2008). Many governments, policymakers and academicians alike have shown a deep interest towards the micro financial institutions because of its great potential in poverty alleviation and financial inclusion activities. Micro financial Institutions have been expected to reduce poverty, which is considered as the most important development objective (World Bank, 2000). Robinson defines microfinance as small scale financial services for both credits and deposits-that are provided to people who farm or

fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income for renting out small amount of land, vehicles, draft animals or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas (Robinson, 2001)

Poor people in most countries virtually have had no access to formal financial services (Littlefield, Murdach and Hashemi, 2003). The informal financial options such as moneylenders, family loans and traders are usually small in amount and involve a very high cost. The more opportunities at grass root level especially provision of required financial services at competitive rates to support their investments including viable business activities. (Qayyam and Ahmad, Pakistan Institute of Development Economics). Microfinance emerged as a noble substitute for informal credit and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries. (Japonica Inter sectoral 2003; Morduch and Haley 2002).

In developing country like India MFI plays an important and effective role to fight poverty and empowers poor and rural people. In last few decades, it has been gaining wider attention among policymakers, government and academicians. These MFIs works as an instrument in reducing poverty by providing financial services to the people living in rural area and who have no or little access to commercial banks or formal financial institutions. MFI's plays a critical role in development as it enables the people of rural area to get financial help in building their assets, establishing enterprises, enhancing earning capacity, smoothing consumption and get the capacity to manage their risks better.

MFIs are established with some social and financial objectives and provide small loans to low income citizens with the objective of making them self-sufficient and productive activities or micro enterprises. These MFIs are also involved in empowering women and small business to have access to financial services.

The present study is an attempt to analyse the operational effectiveness of MFI's working in Madhya Pradesh. It assumes significance because it is essential that these institutions should be run efficiently so that the underprivileged and marginalized sections of society should get the benefits of their part. MFI's must be strong enough, in

terms of efficiency and sustainability, in order to continue pursuing their social objectives.

2. Literature Survey

[1] **Subham Kailthya** studies the trade-off between the outreach and financial performance of Indian microfinance institutions. According to him, India's microfinance institutions are undergoing structural changes as donor agencies move forward and subsidy institutions gradually enter profitable organizations. Therefore, they should carefully analyse the nature of the interrelationship between the awareness of MFIs and financial performance. Their results show that the expansion of coverage and sustainable financial performance are strong intertwined targets. Efficiency, leverage and institutional structure can affect financial performance, but the motivation is to better coordinate employee incentives, reduce operating costs and improve risk management capabilities.

[2] **Rohit Balyani and S.K. Choubey (2016)** studied the microfinance situation of Madhya Pradesh. According to their research, microfinance is a concept that helps the poor to use economic growth to create opportunities. By providing small savings, financial services such as credit and insurance to poor and low-income families in India, microfinance offers full potential for rural development, women's empowerment and wealth creation.

[3] **Sibghatullah Nasir (2013)** studied microfinance in India. It is led by the self-help group (SHG) of the microfinance program. The main goal is to provide a cost-effective mechanism for providing financial services to the poor. He recently fined him and Ramesh (Minister of Rural Development) helped create a dynamic bathroom design for the rural areas of the DRDO office. The paper concludes with practical recommendations for overcoming the problems and challenges associated with microfinance in India.

[4] **Padmalochan Mahanta et.al (2012)** studied the current situation of microfinance in India. Accordingly, microfinance seems to fill the economic gap in India. However, there is very little awareness raising activity compared to requirements and possibilities. However, after NABARD recruited and prepared the SHG team, some progress was made in the field. Many NGOs and microfinance institutions are involved in this area. In addition, there are a number of companies that have been widely introduced through IPOs and are beginning to make profits. However, in recent years, there have been many steps that need to refocus on regulatory issues in the microfinance sector. This article describes three different aspects of microfinance, the first increase in microfinance in India and other countries. Second, NABARD and other banks have developed Grameen Bank SHG's role in issuing credit. Third, this includes the role of the government in legislation protecting the rights of young debtors. In this survey, they also worked hard to meet regulatory needs and asked many microfinance institutions to develop and guide their microfinance operations for NGOs.

[5] **Ravinder Kaur** studied the microfinance outreach in India. Therefore, microfinance institutions are effective organizations dealing with important poverty issues in the Indian economy. Like many popular sports, the microfinance

movement has broad goals and multiple differences on key issues. The campaign itself was promoted through a shared commitment to provide credit for the formation and development of SMEs.

[6] **Taruna et.al (2015)** study the impact of microfinance. It depends on the priority country of India. In this paper, his research will include published research papers and Internet research resources in the microfinance industry. Annual research, industry reports from microfinance institutions, key microfinance organizations and organizations help promote this research, especially in terms of size, growth and past trends. Interacting with many experts will help you understand and analyses the problems in the microfinance industry and find possible solutions. The results of the study show that the activities of southern India and many microfinance institutions have grown exponentially, and most poor women will actively participate in microfinance activities.

[7] **Nisha Pathak (2017)** research on Madhya Pradesh's microfinance program and its awareness program. According to the paper, he suggested that microfinance, like developing countries like India, be seen as a means of improving finances. In India, it can attract funding for the Self-Improvement Party (SHL) at the beginning of the Microcredit Crusade, which was piloted by NABARD in 1992. It plays an important role in alleviating poverty and financial progress. Microfinance and microfinance are unique ideas. Smaller funds, including credit, reserve funds, protection management and settlement, and microfinance.

[8] **S. Saravanan and Devi Prasad Dash (2017)** studied the growth and distribution of microfinance in India. This article discusses the issue of SHG funding in 30 states in India between 2007 and 2015. Based on this assessment, teams from four different banks were financed. SHG is a self-help state-owned banking group. When the board of directors implements a variable regression framework and fixed effects for the country and obtains unpaid loans, there is a positive correlation between the savings rate of the self-help group and the savings rate of bank loans. This paper formally describes the evolution, structure and other financing models of microfinance institutions since 2000. The direct and indirect model MFI's self-help group is dedicated to promoting the long-term development of financial sub-processes. Since the establishment of small financial institutions, microfinance institutions have developed in various forms. After the successful launch of Grameen Bank, the IFI program has been implemented in India.

3. Importance of Proposed Investigation

Madhya Pradesh is one of the largest states in India, constituting 9.7% of the country's total area and 5.82% of India's total population. Of its specific population, 65.6 million (according to 2014 estimates), 74% of the population live in rural areas. About 20.2% of the large tribal population also lives among parliamentarians, the highest among the Indian states. 37.4% of the population in the state lives below the poverty line, with 38.4% in urban areas and 37% in rural areas. When the poverty rate fell from 42.5% to 37.4%, parliamentarians (along with Chhattisgarh) did a good job of reducing poverty between 1994 and 2000. But after that, there have been no major incidents, and the proportion of the poor

in the population has risen too high, while the average ratio in India is 26.1%. By looking at these factual data, the survey shows that the MP government must have the opportunity to participate in 24.5 million people living below the poverty line. Therefore, these people and others who are slightly above the poverty line are the preferred customers of microfinance, and this underserved population, especially women, should be the ultimate beneficiary of the state's microfinance vision.

Poverty alleviation and financial inclusion are two of the main problems facing the country, which can only be solved by strengthening the network and efficiency of the work of MPs in MPs. But the current situation is terrible, because financial institutions like banks offer only 2.62 million accounts, and MFI provides these accounts to a small extent. However, about 10 million MPs are potential customers of financial services, of which 2.5 million are poor families. Therefore, this exposed part of society requires a lot of effort from banks and microfinance institutions.

There are currently 27 microfinance institutions operating in the state, and 48 banks in the state provide microfinance services. Therefore, by observing national scenarios, MFI's efficiency, outreach and sustainability must be critically analysed.

4. Objectives of the Study

The main objective of the study is to examine the performance of MFIs working in Madhya Pradesh focusing on their efficiency, outreach and sustainability. There are some other specific objectives in order to explore the topic of the study.

- To explore different factors that affect efficiency and sustainability of MFIs working in Madhya Pradesh.
- To analyse and evaluate outreach performance of MFIs working in Madhya Pradesh.
- To recommend or suggest ways of performance improvement of MFIs.

5. Research Methodology

This study will attempt to identify factors that influence the performance of rural microfinance institutions in Madhya Pradesh. It will also determine the importance of discovering the relationship between factors that have a significant impact on the performance of large MFIs in other developing countries such as India.

The quantitative data analysis method will be used to establish causal relationships based on previous research reports from rural microfinance institutions in different regions, which will be further explained in the theoretical context related to the conceptual framework of efficiency, outreach and sustainability.

6. Research Design

The study will use a research project involving the collection of longitudinal data from 27 microfinance institutions in Madhya Pradesh for four years. The survey method was chosen because it has the opportunity to obtain the required amount of data in quantitative analysis (Hair et al., 2006). According to the survey method, Sanders et al. (1997) allows

large amounts of data to be collected from a significant number of people in a very economical manner. The survey is also standardized and easy to compare. It is an effective tool for achieving causality (Ghauri and Gronhaug, 2005), which is the main focus of this study. Using longitudinal data (panel data) improves tracking changes (measurement variables) in structures and at relationship time (Hair et al., 2006), which allows for the control of certain non-perceived features of individual firms (MFIs) and promotes causality if the deduction of causality is very difficult if only one year is collected. The use of data allows us to study the importance of delayed behaviour or decision outcomes, such as longitudinal or panel data, the value and ordering of data points is meaningful (Wooldridge, 2006, Verbeek, 2004) to study repeated cross-sectional observations, the group The data in the data is more suitable for studying dynamic changes (Gujarat, 2003). The choice of four years is because it is the time when relevant data is available.

6.1 Sample

According to a survey conducted by Collis and Hussey (2003), a group of subjects were drawn from a population and studied to extrapolate the population. In this study, an analytical survey methodology will be used to study a sample of MFIs working in Madhya Pradesh. Analytical surveys were used in the context of determining whether there is any relationship between different variables (Collis and Hussey, 2003). This study will use a study sample to infer the population because collecting data for everyone in the population is time consuming and expensive.

6.2 Sample Size

The sample size is determined after considering the purpose of using the sample and the variables in the study. The purpose of using this sample is to infer that the population is also referred to as generalization (Ghauri & Gronhaug, 2005; Collis & Hussey, 2003). The study will be divided into three themes: Outreach and Performance; Efficiency and Performance; and Financial Sustainability and Performance. Variables related to efficiency, outreach and financial sustainability will be constructed after reviewing the literature and it is expected that 15-20 variables will be constructed for each performance-related term.

6.3 Sample Selection

The sample selection criteria are affected by two factors. The first is to show the universality of the population, and the second is the variables in the study, which needs to be realized. These are the geographic location, type and age of the MFIs, which are at least 4 years old (because this represents the majority of MFIs). The sample will be selected using stratified sampling techniques. According to the stratified sampling by Ghauri and Gronhaug (2005), the population is divided into a subset of mutual exclusion and exhaustion.

6.5 Analysis Tools

SPSS: SPSS's visual designer program allows researchers to easily create visual effects such as density maps and radial box plots using their data. In addition SPSS also provides a data management solution that allows researchers to perform exploration of primary data. The regression and interrelationship will visualised through SPSS analysis.

E-View: The secondary data set has been analysed by this software tool. Basically this is great to show the time series data and provide the deep understanding to the secondary data.

7. Analysis of Data

There are generally two methods for measuring efficiency, where nonparametric method data envelopment analysis (DEA) is superior to the parametric method stochastic frontier method (SFA). There are three reasons for choosing DEA technology to analyze the efficiency of MFIs. First, DEA technology works for MFI because it takes into account multiple inputs and outputs. Second, it applies to the observations of a few microfinance institutions that are suitable for Madhya Pradesh. Third, it provides results without any a priori assumptions about the form of analysis of the production function. In order to study the possible determinants of MFI efficiency, different variables of interpretation efficiency will be formed and divided into different groups based on location, basic characteristics, financial management and performance. These variables will be analyzed using correlation and regression analysis. The analysis of outreach as a performance indicator for MFIs will be based on two main areas, breadth and depth. The sustainability of microfinance institutions is based on indicators financial self-sustainability, operational sustainability, return on assets and return on equity. These indicators will be analyzed by a random effects model.

8. Expected Outcome

This study focus on the analysis of the different possible determinants of the efficiency of Indian microfinance institutions and will analyses the indicators of outreach and sustainability related to the performance of these MFIs working in Madhya Pradesh. The outcome of this study is expected to provide answers to the following questions:

- ✓ Is there any relationship with efficiency indicators and performance of MFIs working in Madhya Pradesh?
- ✓ Is there any relationship in outreach breadth and performance of MFIs working in Madhya Pradesh?
- ✓ What are the determinants of sustainability of MFIs working in Madhya Pradesh?
- ✓ How Efficiency, Outreach and sustainability are related with reference to performance of MFIs working in Madhya Pradesh.

The results of the study also address the issue of effectiveness and will be able to recommend and propose ways to improve the performance of MFIs working in Madhya Pradesh.

This study focus on analyzing the different determinants of the efficiency of Indian MFIs and will analyze mobilization and sustainability indicators related to the performance of these MFIs working in Madhya Pradesh.

The results of this study are expected to answer the following questions:

1. Does the MFI efficiency and performance indicators working at Madhya Pradesh have anything to do with it?
2. Does the scope and performance of the MFIs working in Madhya Pradesh have any relationship?
3. What are the determinants of the sustainability of microfinance institutions working in Madhya Pradesh?
4. How does efficiency, liquidity and sustainability relate to the performance of MFIs working in Madhya Pradesh?

The results of the study address the issue of effectiveness and able to recommend to improve the performance of MFIs working in Madhya Pradesh.

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