



Fine-tuning credit disbursement in the microfinance space in Bangalore rural district

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Abstract

Microfinance can turn out to be the proverbial game-changer in the lives of the country's masses and by extension, in the country's economic health. However, the effort has to be supplemented by state-of-the-art technology and the optimal exploitation of the said technology, for it to succeed. Hence the stakeholders associated with the microfinance space, in particular, the financing banks and other intermediaries like MFIs and NGOs should exploit technology, infers the researcher, consequent upon her interaction with these three respondent categories. Admittedly, micro-financing the beneficiaries is a costly exercise for the banks, but the researcher is convinced that by designing the right technology platform and promptly updating it, banks can transform the micro financing activity into a lucrative activity. In fact, the activity could reveal itself as the proverbial fortune that is lying at the bottom of the pyramid, untapped. Banks' strategies vis-à-vis micro-financing should be centred around this opportunity. The microfinance regime should not lead the beneficiaries to believe that microfinance represents a gratuitous offer from their government that seeks to indulge them. As they say, "there is no such thing as a free lunch" even in the richest countries.

Keywords: game-changer; indulge; lucrative; optimal; pyramid; state-of-the-art

1. Introduction

1.1 Theoretical background of the problem

Two major models of micro credit obtain in the country. They are the 'banking model' and the 'MFI model'. In the former, Self Help Groups (SHGs) are constituted and financed by banks. Occasionally the SHGs are constituted by NGOs and financed by banks. In the latter, SHGs are constituted and financed by MFIs. MFIs receive resource support from various channels. In India, a big chunk of micro credit activity is undertaken through the 'Banking model' (NABARD's Bank-SHG Linkage). Up to 15 percent of the activity is undertaken through 'MFI model'.

2. Statement of the problem

Banks face problems while financing microfinance activities be such financing direct or indirect. In the indirect format, banks disburse through SHGs, NGOs etc. In the director format, they directly disburse to the microfinance (MF) borrowers. Having said, one should also admit that on their part, the MFIs as well as the NGOs face certain problems while intermediating between banks and the ultimate MF borrower while assisting the latter financially. These problems need to be identified, examined and addressed in the interest of the growth of the MF space in general and the stakeholders associated with the MF space, in particular.

3. Review of literature

1. India's microfinance industry has several hurdles to overcome (Jamuna, 2017) ^[1]. In the circumstances, technology has its role cut out – it has to play a key role in changing the way the various players have to honour their responsibilities in the microfinance space. One

would expect the new age technology to introduce new products, minimise risks, and cut costs all of which eventually culminate in a marked transformation of the microfinance sector; whether regulations can accelerate the growth of the sector; whether the group-lending model and the mono-product model can sustain. Additionally, the influence the small finance banks and payments banks will exert has to be reckoned too, given that they are in a position to do so. These and other issues have to be addressed. The role that the regulator has to play, the potential of exponential growth that new technology can offer and the opportunities Fin Tech partnerships can engender need to be reckoned too.

2. Financial inclusion today is not something that is confined to developing countries (Vishwanathan, 2017) ^[3]. It concerns developed economies too. After all, greater financial inclusion contributes to cherished goals like poverty reduction, economic growth and jobs, superior food security and agricultural production, women's financial empowerment, and health protection. The financial inclusion movement in developing economies, especially those from Asia and South-East Asia, is gathering steam. In Asia alone, almost 27 percent of adults hold an account in a formal financial institution and only 33 percent of the enterprises report enjoying a line of credit or loan from the formal financial institutions.

Microfinance typically represents a source of financial services for entrepreneurs and small businesses given that they are in no position to access institutional financial services for various reasons. The two significant tools for the delivery of formal financial services to such clients

are relationship-based banking for individual entrepreneurs and small businesses and group-based models. In the latter, several entrepreneurs collectively avail of loans and other services.

3. A big chunk of large MFIs is transforming itself into differentiated banks, under the Small Finance Bank (SFB) category (PxC, 2017) [2]. Some SFBs like ESAF Small Finance Bank, Jana Financial Services and Ujjivan Small Finance Bank already account for 46 percent of the MFI-lending operations in India. Their loan portfolio almost touched USD four billion as of 31 December 2016. This will lead to a temporary vacuum in the MFI space. The sector will still be in the limelight, as it employs and serves many clients from the lower income groups. The SFBs, like all banks, are well funded and given their ability to access additional resources, technology and deposits, will challenge the small and medium MFIs of the day. The microfinance sector will remain relevant, all the same. After all, the SFB model is yet to prove its worth with most of them still raising funds and leveraging on the microfinance borrowers. MFIs in turn can respond to the challenge by forging strong partnerships or by becoming niche players.

Additionally, Fin Tech, a global phenomenon, is re-defining the rules of engagement of financial services. Many new digitally-enabled lenders are providing micro-credit to the under-served and un-served markets, namely, the small businesses selling on e- marketplaces by leveraging digital data, cab drivers exploiting aggregator's data and small retail shops exploiting the PoS (Point of Sale) data. Capital Float, Neo Growth Credit Limited, Indifi Technologies Pvt Ltd, etc, represent a new breed of such Fin Tech lenders. The market segments they are addressing are adjacent to the MFI sector and the two categories could soon clash.

The microfinance sector can embrace such technology or partner with Fin Tech companies. MFIs are facing competition from universal banks and other entities such as NBFCs and Section 8 companies, which are growing their own portfolio in microfinance. It is not surprising, considering that it is a good revenue-generating opportunity. What is more, it will help achieve the mandated 40 percent under priority sector lending. MFIs can partner with universal banks to help them with acquisition, credit assessment, disbursement and collections.

4. Research gap

The reviewed literature has come out with impressive facts and figures. However, one wishes that the reviewed literature had also covered the problems faced by banks and other intermediaries like MFIs and NGOs. Collectively, these three stakeholder groups can play a role in raising the micro-finance beneficiaries above the poverty line. It is this research gap the present study seeks to bridge.

5. Scope of the study

The study confines itself to the three major stake-holder categories, namely, bank officer respondents, MFI respondents and NGO respondents from Bangalore (Rural) district, Karnataka.

6. Objectives of the study

The objectives of the study are to

1. Identify the problems faced by banks while disbursing microfinance directly and indirectly
2. Examine the problems faced by MFIs while financing the beneficiaries
3. Examine the problems faced by NGOs while intermediating between the financiers and the micro-finance beneficiaries.

7. Hypothesis proposed to be tested

The study proposes to test the following hypothesis:

“Apathy on the part of the beneficiaries to benefit from the scheme is a problem banks, MFIs and NGOs face”

8. Research design

The following paragraphs explain how the research is designed.

8.1 Research methodology

The study is descriptive in nature and uses the ‘fact-finding’ survey method. Interview schedules specially designed for the purpose were administered to the respondents for collection of primary data. Being a structured / directive interview, the interview was conducted with a detailed standardised schedule.

8.2 Sources of data

Data required for the research has been collected from both primary and secondary sources. Primary data has been collected from bank officers, MFI respondents and NGO respondents.

Secondary data has been collected from banks, the financial press and the Association of Karnataka Microfinance Institutions and the government of Karnataka in soft as well as hard versions. In addition, the researcher interacted extensively with other stakeholders associated with India's forex market.

8.3 Sampling plan

- **Bank officers:** Given the limited number of bank officers into financing women beneficiaries of MFIs in the area covered by the study, purposive or judgement sampling under the non-probability method has been deployed. The researcher selected 30 such bank officers operating in the area covered by the study. This criterion, according to the researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus, it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.
- **MFI respondents:** Given the limited number of MFI respondents operating in the area covered by the study, purposive or judgement sampling under the non-probability method has been deployed. The researcher selected 30 MFI respondents operating in the area

covered by the study. This criterion, according to the researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus, it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

- **NGO respondents:** Given the limited number of NGO respondents operating in the area covered by the study, purposive or judgement sampling under the non-probability method has been deployed. The researcher selected 30 NGO respondents operating in the area covered by the study. This criterion, according to the researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus, it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

8.4 Data collection instruments

Interview schedules, specially designed for the purpose, were drafted and pre-tested in order to identify the possible weaknesses in the instrument. Upon receipt of feedback, they were appropriately revised and finalised for administration to the respondents for collection of primary data.

The Interview Schedules featured open questions and closed questions. Open questions were included since the objective was to identify opinions, ascertain degrees of knowledge and seek suggestions and more information. In some cases, the subject matter of the question could be outside the range of the respondent’s experience and hence open questions were deemed a better alternative. Further, open questions would help in determining the depth of the feelings and intensity of the expressions of the respondent. Invalid source specified. Open questions might give the respondent a chance to think through the topic. Since it is practically impossible for the researcher to assess the level of information possessed by the

respondent, open questions came in handy. The response freedom inherent in open questions could elicit a variety of frames of references from the respondent, which might provide unanticipated insights. Given the qualitative nature of the values the variables would elicit from the respondents, they could lend themselves ideally to statistical tools like Likert scale and chi-squared test.

8.5 Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of H_0 and H_1 . To be specific, Likert scale and chi-square test were applied to test the hypotheses.

8.6 Limitations of the study

Primary data has at times been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity, albeit negligible, has found its way in. In addition, one has to admit that the respondents, being human, could err. Hence, the researcher would like to admit that the findings of the thesis, which draw equally heavily from the discussions the researcher held with the said respondents, may have been affected, albeit to a negligible extent. In the circumstances, it will not affect the accuracy of the findings of the study.

9. Analysis of primary data collected from the 30bank officer respondents

In the following paragraphs, the primary data collected from the 30bank officer respondents is analysed.

9.1 Problems faced by banks while disbursing microfinance

No programme can be perfect, notably programmes targeting the welfare of the rural poor. The problems faced by banks while disbursing microfinance can be no exception to the rule. Hence the researcher requested the respondents to disclose the problems the banks face while disbursing microfinance. Their replies to the query appear in the following Table.

Table 1: Problems faced by banks while disbursing microfinance

Problems	Number of respondents
Small ticket loans turn out to be costlier for banks	26
Just three or four schemes account for the biggest chunk of the disbursement	25
Data manipulation by bureaucrats	24
Lending decisions cannot be based on automated scoring	23
Apathy on the part of the beneficiaries to benefit from the scheme	23
It is not financing per se but the bottlenecks in implementation that pose a challenge	21

Small ticket loans turn out to be costlier for banks, aver 26 respondents. Just three or four schemes account for the biggest chunk of the disbursement, cite 25 respondents. Data manipulation by bureaucrats is blamed by 24 respondents. Lending decisions cannot be based on automated scoring, assert 23 respondents. Apathy on the part of the beneficiaries to benefit from the scheme is cited by 23 respondents. It is not financing per se but the bottlenecks in implementation that pose a challenge, assert 21 respondents.

10. Analysis of primary data collected from the 30 MFI respondents

In the following paragraphs, the primary data collected from the 30 MFI respondents is analysed.

10.1 Problems faced by MFIs while disbursing microfinance

No programme can be perfect, notably programmes targeting the welfare of the rural poor. The problems faced by banks

while disbursing microfinance can be no exception to the rule. Hence the researcher requested the respondents to disclose the

problems the banks face while disbursing microfinance. Their replies to the query appear in the following Table.

Table 2: Problems faced by MFIs while disbursing microfinance

Problems	Number of respondents
Marketing support for the beneficiaries is inadequate	26
Schemes are not handled by professionals	25
Some unregulated MFIs play the spoilsport	23
Apathy on the part of the beneficiaries to benefit from the scheme	23
Excessive interference by the SHG	21
Diversion of funds by beneficiaries	21

Marketing support for the beneficiaries is inadequate, aver 26 respondents. Schemes are not handled by professionals, cite 25 respondents. Some unregulated MFIs play the spoilsport, assert 23 respondents. Apathy on the part of the beneficiaries to benefit from the scheme is cited by 23 respondents. Excessive interference by the SHG is cited by 21 respondents. Diversion of funds by beneficiaries is cited by 21 respondents.

11. Analysis of primary data collected from the 30 NGO respondents

In the following paragraphs, the primary data collected from

the 30 NGO respondents is analysed.

11.1 Problems faced by NGOs while disbursing microfinance

No programme can be perfect, notably programmes targeting the welfare of the rural poor. The problems faced by banks while disbursing microfinance can be no exception to the rule. Hence the researcher requested the respondents to disclose the problems the banks face while disbursing microfinance. Their replies to the query appear in the following Table.

Table 3: Problems faced by NGOs while disbursing microfinance

Problems	Number of respondents
Marketing support for the beneficiaries is inadequate	27
Schemes are not handled by professionals	26
Excessive interference by the SHG	26
Apathy on the part of the beneficiaries to benefit from the scheme	25
Diversion of funds by beneficiaries	23

Marketing support for the beneficiaries is inadequate, aver 27 respondents. Schemes are not handled by professionals, cite 26 respondents. Excessive interference by the SHG is cited by 26 respondents. Apathy on the part of the beneficiaries to benefit from the scheme is cited by 25 respondents. Diversion of funds by beneficiaries is cited by 23 respondents.

12. Summary of findings

In the following paragraphs, a summarised version of the findings arrived at, by analysing the primary data furnished by respondents, is furnished:

12.1 Bank officer respondents

Small ticket loans turn out to be costlier for banks, aver 26 respondents. Just three or four schemes account for the biggest chunk of the disbursement, cite 25 respondents. Data manipulation by bureaucrats is blamed by 24 respondents. Lending decisions cannot be based on automated scoring, assert 23 respondents. Apathy on the part of the beneficiaries to benefit from the scheme is cited by 23 respondents. It is not financing per se but the bottlenecks in implementation that pose a challenge, assert 21 respondents.

12.2 MFI respondents

Marketing support for the beneficiaries is inadequate, aver 26 respondents. Schemes are not handled by professionals, cite 25 respondents. Some unregulated MFIs play the spoilsport, assert 23 respondents. Apathy on the part of the beneficiaries

to benefit from the scheme is cited by 23 respondents. Excessive interference by the SHG is cited by 21 respondents. Diversion of funds by beneficiaries is cited by 21 respondents.

12.3 NGO respondents

Marketing support for the beneficiaries is inadequate, aver 27 respondents. Schemes are not handled by professionals, cite 26 respondents. Excessive interference by the SHG is cited by 26 respondents. Apathy on the part of the beneficiaries to benefit from the scheme is cited by 25 respondents. Diversion of funds by beneficiaries is cited by 23 respondents.

13. Conclusions

Conclusions are inferences / generalisations drawn from the findings and relate to hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses. As explained already, this study proposes to test the following hypothesis:

“Apathy on the part of the beneficiaries to benefit from the scheme is a problem banks, MFIs and NGOs face”

Hence H₀ and H₁ are as follows

H₀: Apathy on the part of the beneficiaries to benefit from the scheme is not a problem banks, MFIs and NGOs face

H₁: Apathy on the part of the beneficiaries to benefit from the scheme is a problem banks, MFIs and NGOs face

On the basis of the primary data collected from the respondents, vide Tables: 1, 2 and 3, a chi-square test was applied to ascertain the association, if any, between the three variables. The following Table reveals the computation made using MS-Excel.

Table 4

Observed Values			
Category	Yes	No	Total
Bank officers	23	7	30
MFI's	23	7	30
NGOs	25	5	30
Total	71	19	90
Expected Values			
Category	Yes	No	Total
Bank officers	23.66666667	6.333333333	30
MFI's	23.66666667	6.333333333	30
NGOs	23.66666667	6.333333333	30
Total	71	19	90
	Yes	No	
2	o-e	-0.6667	0.6667
		-0.6667	0.6667
		1.3333	-1.3333
	(o-e)^2	0.4444	0.4444
		0.4444	0.4444
		1.7778	1.7778
	((o-e)^2)/e	0.0188	0.0702
		0.0188	0.0702
		0.0751	0.2807
	CV	0.1127	0.4211
	TV		5.991464547
	p		0.97

The calculated value of χ^2 is 0.5337, lower than the table value of 5.991465 for an alpha of 0.05 at two degrees of freedom. Hence the null hypothesis is not rejected, and the research hypothesis is rejected. $p=0.97$ is the inverse of the one-tailed probability of the chi-squared distribution.

14. Recommendations

The following are the researcher’s recommendations

1. Small ticket loans turn out to be costlier for banks, no doubt. But technology can address this problem considerably. Hence the researcher strongly recommends that banks exploit technology to overcome this hurdle. Presently, our commercial banks, including the staid public sector banks (PSBs) are better equipped on the technological front to address this problem. However, the PSBs should promptly update their technology platform to remain as cost-effective and as efficient as possible to exploit the opportunities that the microfinance space.
2. Banks cannot afford to ignore the microfinance space since it represents the proverbial bottom of the pyramid the banks can profit from. Hence the approach of banks towards the microfinance warrants a paradigm shift in their operational strategies which in turn hinge upon the ability of the banks to exploit technology for the purpose.
3. Bureaucrats are bureaucrats and will continue to be so all over the world. However, the common man and the country’s institutions always factor in this reality in their

scheme of things and found a way to minimise the barriers the bureaucracy may erect. A good number of checks and balances are in place to “infer” the most accurate data by applying a suitable “discount factor” to the data released by bureaucracy. Hence this need not be taken seriously by the stakeholders.

4. Apathy on the part of beneficiaries is nothing new in the Indian milieu. The government in its missionary zeal to raise the poor above the poverty line, has unfortunately indulged the poor. Far from appreciating the government’s serious efforts, the beneficiaries, current and prospective, have taken the government’s welfare schemes for granted. Hence the government has its task cut out – even as it rewards beneficiaries who progress materially and socially by using the welfare schemes introduced by it, the government should make it clear through its actions that such welfare schemes cannot be taken for granted by laggards. A carrot-and-stick policy is the need of the hour on the part of the government. In other words, diversion of funds by the beneficiaries should be dealt with strictly.

15. References

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