

Assessing Beneficiaries Perceptions of Service Delivery in Microfinance Institutions

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Abstract:- Commercial banks and recently founded MFIs are two major competitors for microfinance institutions (MFIs). The same microfinance clients are now being targeted by an increasing number of MFIs. The demand for microfinance consumers has increased, which has led to a rise in the sophistication of the services that these customers expect from MFIs. MFIs, however, are putting a lot of effort into keeping and satisfying their clients. MFIs must pay closer attention to the priorities and preferences of their customers in order to comprehend their demands and preferences in the current competitive climate. Today, obtaining customer happiness is crucial to accomplishing MFI goals. As can be seen from the foregoing, MFIs' ability to succeed depends on their ability to do business with their clients. In light of this context, the article dives to assess beneficiaries' opinions on the services of MFIs', microfinance and other associated services.

Keywords:- Micro Finance, Micro Finance Institutions, Beneficiaries, Service Delivery etc.

I. INTRODUCTION

The abundance of habitats and culture in the state of Karnataka has an effect on people's quality of life. The majority of people in Karnataka rely on agriculture as their primary source of income. In order to sustain their farming operations, farmers need financial assistance. MFIs contribute significantly in this area by offering financial support as needed. Since their establishment in Karnataka in the 1980s, MFIs have been supporting farmers with both financial and non-financial services.

The first MFI, known as MYRADA (Mysore Resettlement and Development Authority), was established in Mysuru in 1984. After registering as an NGO, it began offering microfinance services in the state of Karnataka. NABARD launched the SHG-Bank Linkage Programme in 1981–1982. This has shown to be one of the microlending initiatives with the most success. In order to promote rural development in Karnataka, MYRADA, NGOs, and a number of co-operative organisations offered loans to their members in 1984–1985. Large co-ops then split up into smaller groups, which gave rise to the first SHGs, which were known as "credit management groups." These organisations held monthly meetings to raise awareness of record-keeping,

savings, bookkeeping, and communal decision-making. NABARD launched a microfinance scheme in 1991–1992, utilising the SHGBLP pilot project in Karnataka. As a result of the pilot project's success, NABARD felt empowered to launch SHGBLP. Subsequently, the programme expanded throughout the nation. It grew to be among the biggest microfinance projects in the world by 2002.

The first Self-Help Groups (SHGs) in the country were donated to the Kolar district of Karnataka on December 9, 1991, by the Vysya Bank Bangarpet branch to Venkateshwara Mahila Sangha of Mudguli, and on January 30, 1992, by the Andersonpet branch of a co-operative bank to Saraswati Mahila Sangha of Bodugriki. The SHGBLP was established in 1991–1992. Subsequently, NABARD has expanded its activities through a number of efforts, including educating bank and non-governmental personnel, holding regular meetings for agencies involved in the process, evaluating reports, and offering input on how to improve operating systems so that they are easier for users to understand. The Mysore district's Cauvery Grameen Bank was the first RRB to support SHGs.

A comparable scheme called "Swashakthi" was introduced in the 1990s by the International Fund for Agricultural Development (IFAD), in cooperation with the World Bank, the Government of India, and six state governments, including Karnataka. Karnataka was inspired by this experience to implement the SHG technique in a state-wide programme named "Shri Shakti," which means "women power." In Karnataka, SHGs have greatly increased their performance with the help of numerous stakeholders, including the government, NGOs, banks, etc. MFIs are prioritising women more since, in addition to caring for their families, they shoulder greater responsibility for loan repayment and childrearing.

In 1992, the Government of India launched the SHG Bank Linkage scheme across the country through NABARD. This programme is currently among the best at providing microloans. By means of this concept, NABARD provides financial assistance to underprivileged individuals. The governments of India and Karnataka have created a supportive policy climate for microfinance. The National Rural Livelihood Mission (NRLM) has provided interest subvention for the credit up to ₹ 3 lakh at 7% interest per year for qualified women SHGs under the SHG interest

subvention scheme. The GoK has provided 4% interest subvention to self-help groups (SHGs) that have borrowed money from cooperative banks.

Furthermore, GoK declared in 2017–18 that interest-free loans are provided to SHGs and SSGs (Shri Shakthi Groups) by cooperative banks, who thereafter receive interest subsidies from the state government. This has brought about radical transformation. It has led to the GoK taking a less than ideal stance. Over the years, the SHGBLP in Karnataka has empowered 97 lakh rural poor people. Additionally, SHGs have opened 9.62 lakh savings bank accounts in various banks, with a combined deposits of ₹ 1,442.42 crore. The banks have been instrumental in giving SHG loans, which have supported 90% of women-led SHGs. Even though MFIs are producing cutting-edge products, their governance is inadequate because only NBFC-MFIs are subject to regulation; the other MFIs are not.

In accordance with the Association for Karnataka Microfinance Institutions (AKMI) report for 2020–21, 2,189 branches throughout Karnataka are home to 25,258 staff from 32 MFIs that are members of AKMI. These MFIs have 96.42 lakh active accounts, with ₹ 35,025.16 crore in outstanding debt and ₹ 888.74 crore in portfolio at risk (NPA).

➤ *Statement of the Problem*

Microfinance is a very useful instrument that is helping to reduce poverty. Its limited products are primarily aimed at the impoverished. Microfinance institutions (MFIs) are the official financial institutions that provide microfinance services to the underprivileged. MFIs give low-income communities loans and advances so they can start small businesses or engage in other revenue-generating activities.

While the availability of microfinance does not pose a significant issue for Karnataka's poorest communities, how it is directed towards the priority sector and the underprivileged poses a significant challenge. It is dependent on how well these MFIs operate and provide the microfinance services. But each MFI has a different financial standing and performance than the others. However, they (i.e., MFIs) must enhance their performance in terms of interest revenue, interest cost, volume of loans and advances, mobilisation of necessary funds, recovery, non-performing loans/advances, etc. in order to better serve the less fortunate segments of society. Consequently, a thorough assessment of MFIs' performance is required, with a focus on financial performance review.

➤ *Objectives of the Study*

The primary objective of the present study is to presented below:

- To examine the quality of services based on the response of beneficiaries of MFIs.
- To evaluate challenges faced by borrowers while availing and repaying loan of MFIs.
- To evaluate the non-financial services offered by selected MFIs in Karnataka.
- To analyse the impact on beneficiaries after joining MFIs.
- To offers suitable suggestions for improvement of working/performance of MFIs

➤ *Sources of Data*

Both primary and secondary data form the basis of this study. The beneficiaries of five MFIs—SKRDP, Samuha, Prakruthi Foundation, and Samasta Microfinance Ltd.—provide primary data for the collection. Questionnaires were created and distributed for this reason. The MFIs' accounts and reports, particularly their annual reports, are the main source of secondary data. Nevertheless, additional relevant information is also gathered from many secondary sources, including reference books, research papers, journals, government and RBI publications, websites, newspapers, etc.

➤ *Sample Size and Statistical Tools Used*

Five NBFC-MFIs have been chosen for the current study, as was previously mentioned. The beneficiaries are asked to respond in order to gain more insight into the operation and efficacy of MFIs. To get their answers, the convenient sampling approach is employed. The sample size for the study determined with the help of a Morgan formula and the same presented below:

$$\begin{aligned}
 n &= \left[\frac{3.841 \times 11,77,418 \times 0.5 \times (1 - 0.5)}{0.05^2 \times (11,77,418 - 1) + [(3.841 \times 0.5 \times (1 - 0.5))]} \right] \\
 &= \left[\frac{11,30,615.6345}{(2,943.5425 + 0.96025)} \right] \\
 &= \left[\frac{11,30,615.6345}{2,944.50275} \right] \\
 &= 383.975 \\
 &\approx 384
 \end{aligned}$$

However, for the present study, 1000 beneficiaries (200) from each of the five MFIs are considered.

To analyze the data certain statistical tools such as mean, standard deviation, percentages are used.

II. RESULTS AND DISCUSSIONS

A. *Challenges Faced by Borrowers while Availing and Repaying Loan*

The respondent-borrowers were given a few potential issues or hurdles, and they were asked to mark their answers. It should be mentioned that the respondents had the choice of providing more than one response. The information gathered from them is utilised to calculate the mean and standard deviation, which are shown below:

Table 1 Challenges Faced by Barrowers while Availing and Repaying Loan

Sl. No.	Challenges faced by barrowers while availing and repaying Loan	Number of Respondents	Mean	Standard Deviation
Challenges faced at the time of Availing Loan:				
(1)	Lack of information about group formation	1000	4.83	0.77
(2)	Lack of information about loan and interest rate	1000	4.26	0.66
(3)	Difficulty in filling the application and approaching the authorities for getting loan	1000	4.76	0.81
(4)	Delay in sanctioning loan	1000	4.19	0.94
(5)	Required loan amount is not sanctioned	1000	3.52	1.25
(6)	Lack of transparency in charging processing fees and insurance premium	1000	3.14	1.30
(7)	Lack of cooperation among the members while getting loan	1000	1.77	1.23
Challenges faced at the time of Repayment of Loan:				
(1)	Loan installment amount is heavy	1000	4.53	0.83
(2)	Repayment period is very short	1000	2.73	0.77
(3)	Not sending timely reminder by officials	1000	4.35	0.84
(4)	Additional interest or fine charged on loan default	1000	2.97	1.09
(5)	Lack of sympathetic approach from MFIs officials	1000	4.72	1.29
(6)	Natural calamities lead to problem in repayment	1000	1.73	0.67
(7)	Loan default affects CIBIL score of customers	1000	1.76	0.50

Source: Survey Results

From the above, it is clear that the respondents either disagreed or strongly disagreed with the problems/challenges they anticipated facing when obtaining a loan from MFIs. These issues included (i) a lack of knowledge about group formation, (ii) a lack of knowledge about interest rates and amounts, (iii) difficulty completing loan applications and/or approaching authorities for getting loans, and (iv) a delay in loan sanctioning. The mean values for these issues were on the higher side, at 4.83, 4.26, 4.76, and 4.19, respectively.

With regard to another possible problem/challenge viz., lack of transparency in charging processing fees and insurance premium, the respondents' responses are between 'neutral' and 'disagreeing' as the mean value is 3.14. As far as the remaining two problems are concerned (viz., not sanctioning required amount of loan, and lack of co-operation among members of SHGs/JLGs while getting loan), the respondents agreed (few are 'neutral' in their opinions) as the mean values are 2.01 and 1.67 respectively. However, in the case of, (i) not sanctioning required amount of loan and (ii) lack of co-operation among members of SHGs/JLGs while getting loan, the opinions of respondents vary widely as reflected by the standard deviation of 1.25 (against the mean value of 2.01) and 1.23 (against the mean value of 1.67) respectively.

Out of seven possible problems/challenges before the borrower-respondents pertaining to the repayment, the

respondents did not agree with two and they are, (i) not sending timely reminders by the officials, and (ii) lack of sympathetic approach of officers of MFIs as the mean values are 4.35 and 4.72 respectively signifying 'disagreeing' to 'strongly disagreeing'. With regard to two more possible problems viz., (i) loan instalment amount is high, and (iii) repayment period is very short, the responses from respondents are between 'neutral' and 'disagreeing' as the mean values are 4.53 and 2.73 respectively. On the other hand, with regard to the remaining five possible problems/challenges viz., (i) additional interest or fine charged on loan default, (ii) natural calamities, and (iii) adverse impact on CIBIL score of customers, the respondents 'agreed' or 'strongly agreed' as the mean values are 2.97, 1.19, 1.13, 1.33 and 1.16 respectively. However, with regard to three possible problems viz., additional interest or fine on loan default, demonetization and natural calamities, there is wide variation in the opinions of respondents as reflected by standard deviation – 1.09 (as against the mean value of 1.97), 0.72 (as against the mean value of 1.19) and 0.67 (as against the mean value of 1.33) respectively.

➤ Non-Financial Services Offered by MFIs

Information regarding the non-financial services provided by MFIs is gathered from the respondents and is tabulated here with a few calculations. It should be mentioned that respondents were permitted to provide more than one response.

Table 2 Non-Financial Services Offered by MFIs

Sl. No.	Additional services offered by MFIs	Number of Respondents	Relative Share (%)
(1)	Entrepreneurship skills-based programmes	85	8.5
(2)	Development programmes especially for women	65	6.5
(3)	Mobilization of local resources	20	2
(4)	Drinking water, health and sanitation	95	9.5
(5)	Enterprise development assistance	50	5
(6)	Marketing and managerial assistance	10	1
(7)	Providing technical assistance through workshops	15	1.5

(8)	Agricultural/business development services	40	4
(9)	Training while lending loan	480	48
(10)	Others	140	14

Source: Survey Results

The aforementioned indicates that, among the nine non-financial services, the majority of respondents (480, or 48% of the total respondents) believed that MFIs offered thorough training in addition to loans for a period of four to five days. Training in the areas of (i) drinking water, health, and sanitation (95 respondents, or 9.05% of the total respondents), (ii) entrepreneurship skill-based programmes (85 respondents, or 8.5% of the total respondents), and (iii) development programmes for women (65 respondents, or 6.5% of the total respondents) are additional significant non-financial services. The mobilisation of local resources (20 respondents, or 2.32% of the total respondents); (iv) enterprise development assistance (50 respondents, or 5.5% of the total respondents); (v) agricultural/business development services (40 respondents, or 4.65% of the total

respondents); (vii) the provision of technical assistance (15 respondents, or 1.74% of the total respondents); and (viii) marketing and managerial assistance (10 respondents, or 1.16% of the total respondents). This analysis demonstrates that, out of all the non-financial services provided by MFIs, the training given to borrowers at the time of loan sanction and payout is the most significant service. Only self-sustaining MFIs offer these non-financial services, nevertheless, because they come at an expense to the MFIs.

➤ Service Quality of MFIs

Opinions were collected from the respondents about the quality of services at different times and based on these responses, mean and standard deviation are ascertained and presented below:

Table 3 Service Quality of MFIs

Sl. No.	Service Quality of MFIs	Number of Respondents	Mean	Standard Deviation
(1)	Processing applications	1000	1.03	0.17
(2)	Sanction of loan	1000	1.11	0.34
(3)	Disbursement of loan	1000	1.24	0.49
(4)	Repayment procedure	1000	1.51	0.62
(5)	Foreclosure formalities	1000	1.26	0.50
(6)	Training before lending loan	1000	1.10	0.41
(7)	Managerial assistance for women entrepreneurship	1000	1.30	0.59
(8)	Post-loan grant services	1000	1.4	0.62
(9)	Non-financial services	1000	1.56	0.80
(10)	Executives' availability and approach	1000	1.11	0.31

Source: Survey Results

The preceding data indicates that the beneficiary respondents thought the MFI services were moderate, easy, or very easy. This is supported by the mean values of 1.56 for non-financial services, which leans substantially towards "moderately easy," and 1.03 for processing loan applications. Nonetheless, because the standard deviation is low, there is little variation in the responses for all but one of the service categories offered by MFIs. However, because the standard deviation for "non-financial services" is 0.80 as opposed to

the mean value of 1.56, beneficiary respondents' responses vary greatly in this scenario.

➤ Impact on Beneficiaries after Joining MFIs

Beneficiary respondents' opinions and responses regarding the modifications or advancements in their situation following the initiation of MFI services were also gathered (via SHGs/JLGs). The following are the results of calculating the mean and standard deviation using the received responses:

Table 4 Impact on Beneficiaries after Joining MFIs

Sl. No.	Impact on Beneficiaries after joining MFIs	Number of Respondents	Mean	Standard Deviation
	Impact on Economic status of Clients:			
(1)	Engaged in income-generating activities	1000	1.06	0.28
(2)	Upliftment of living standards	1000	1.30	0.50
(3)	Acquiring assets (land, building, vehicle, etc)	1000	1.42	0.68
(4)	Created opportunity to become self-employed	1000	1.28	0.65
(5)	Improved savings and investment habit	1000	1.26	0.52
(6)	Empowered economically (women)	1000	1.17	0.40
(7)	Growth in agricultural and allied activities	1000	1.11	0.49
	Impact on Social status of Clients:			
(1)	Improvement educational level of children	1000	1.08	0.27
(2)	Awareness about women protection and other social issues	1000	1.22	0.41
(3)	Attending various social awareness programmes	1000	1.35	0.65

(4)	Improved communication skills and confidence to interact with group members	1000	1.29	0.48
(5)	Better health and sanitization	1000	1.46	0.69
(6)	Improvement in social status and security	1000	1.17	0.40
Impact on Political Empowerment of Clients:				
(1)	Participation in the meetings of village panchayat and Grama Sabha	1000	1.08	0.31
(2)	Regular voting in elections	1000	1.21	0.52
(3)	Regular interaction with politicians	1000	2.39	1.75
(4)	Contesting election as a candidate	1000	2.56	1.77
(5)	Selected as a member of government body	1000	2.16	1.82
(6)	Freedom for women to participate in political activities	1000	1.63	0.61
Impact on Family Decision-making:				
(1)	Positive impact on education of girl child	1000	1.04	0.24
(2)	Increase in decision-making power in the family	1000	1.15	0.38
(3)	Taken family decisions against dowry system, domestic violence and child marriage	1000	1.35	0.52
(4)	Taking independent decisions related to family savings, investment, etc	1000	1.36	0.50
(5)	Able to manage family business and cash flows effectively	1000	1.20	0.42
(6)	Managing household activities effectively after taking loan from MFIs	1000	1.12	0.35

Source: Survey Results

The above data makes clear that, after beginning to receive services from MFIs, the beneficiary-respondents agreed and strongly agreed with all seven economic implications, as indicated by the mean value, which ranges from 1.06 (engagement in income-generating activities) to 1.42 (acquisition of assets such as land, building, vehicle, etc.). On the other hand, benefit respondents' answers to the question of "creation of opportunity to become self-employed" vary greatly, with the standard deviation being on the upper side at 0.65 compared to the mean value of 1.28.

The mean value ranged from 1.08 (improvement in children's educational level) to 1.46 (better health and sanitization), reflecting the respondents' agreement or strong agreement with all six areas regarding the changes in the social status of beneficiary-respondents after they began receiving benefits from MFIs. Furthermore, because the standard deviation is minimal, the beneficiary respondents' responses do not differ much from one another.

Regarding political empowerment, beneficiary-respondents' responses ranged from "strongly agreeing" to "neutral," with the mean value falling between 1.08 (attending grama sabha and village panchayat meetings) to 2.56 (running for office). But in three cases—interacting with politicians on a regular basis, running for office, and being chosen to serve in a government body—the answers differ greatly because the standard deviation is higher in these cases, at 1.75 (against a mean value of 2.39), 1.77 (against a mean value of 2.56), and 1.82 (against a mean value of 2.16), respectively.

Regarding the implications of the fourth category, which is impact on family decision-making, the table above shows that, after beginning to receive services from MFIs, the beneficiary respondents either strongly agreed or agreed with

all six areas of improvement. Family decision-making procedures about children's education, choices about social evils, savings and investments, administration of the family business and financial flows, management of home activities, etc. have all benefited by association with MFIs through SHGs/JLGs. Most notably, because the standard deviation is low, there is little fluctuation in the beneficiary respondents' responses.

III. FINDINGS

- On the problems/challenges faced by the respondents while availing loans and advances from MFIs, they stated that the lack of information about group formation, loan and interest rate, difficulty in filling the application and in approaching appropriate officer/s for getting loan, delay in sanctioning loan are assigned with mean value of 4.65 to 4.39 implying that these are not the challenges.
- However, lack of transparency in charging processing fees and insurance premium were assigned with mean value of 3.94. But the lack of co-operation among SHG/JLG members while getting loans and the MFIs not sanctioning the required loan amount were considered by the respondents as the real problems with mean value of 1.67 and 2.01 respectively.
- And the beneficiary-respondents disagreed with the official-respondents and they felt that the MFIs are not sending timely reminders for repayment of loans, and also about the absence of sympathetic approach of officials of MFIs – however, the mean value are 4.25 and 4.12 respectively. Similarly, higher loan instalment amount and shorter repayment period are also considered as the difficulties faced by the beneficiaries while repaying loan- however, the mean values are 3.53 and 3.73 respectively.

- Majority of the respondents have agreed and strongly agreed about the quality of services offered by MFIs such as timely processing of loan applications, sanction and disbursement of loan, repayment procedure, foreclosure formality, training before lending loans, managerial assistance for women entrepreneurship, post-loan grant services and availability of executives availability as the mean values are between 1.03 and 1.56.
- Beneficiary-respondents agreed and strongly agreed with the view that the availing of loans and advances from MFIs has improved their economic status and this is evident from the mean values of 1.06 to 1.42.
- Beneficiary-respondents agreed and strongly agreed with the view that loans and advances from MFIs enabled them to acquire and improve their social status as indicated by the mean values of 1.08 to 1.46.
- Beneficiary-respondents have also agreed and strongly agreed with the view that the loans and advances have enabled them to acquire political status such as participation in meetings of village panchayats and gram sabha, regular voting in elections as the mean values are 1.08 and 1.21 respectively. It has also helped the members to interact with politicians contesting election as candidates, and selection as members of government bodies and freedom for women to participate political activities as the mean values are between 1.63 and 2.56.
- Beneficiaries opined that MFIs enhanced the ability of beneficiaries in family-related decisions as the mean values are between 1.04 and 1.36

IV. RECOMMENDATIONS

The nation's MFIs are making a significant contribution to the fight against poverty in a number of ways, including by giving the underprivileged access to essential financial services and support as well as by imparting the necessary training to manage finances and business units. Most notably, recovery performance is far better than that of the nation's commercial banks.

- MFIs charge significantly higher interest rates on the loans and advances they make to their clients and consumers. This holds true for every MFI that was chosen for the current investigation. Compared to the 15% interest rates offered by commercial banks, these MFIs charge interest at "18%+," which is a higher rate. Thus, it is advised to lower the interest rate and make it more competitive. This can be accomplished in at least two ways: first, by lowering non-interest expenses; and second, by raising non-interest incomes. Both offer opportunities to maximise or minimise MFI performance. Both offer opportunities to maximise or minimise MFI performance. And a portion of these advantages might be distributed to SHG/JLG members in the form of interest rate reductions. This guarantees scale economies and more business for MFIs.
- The majority of MFIs rely on subscriptions, donations, and their own funds to provide their lending operations and other financial services to the underprivileged segments of society, especially women. The data,

however, reveals a larger discrepancy between the amount of money needed for lending and what is available. Many clients are turned down for institutional credit services because the amount needed is greater than what is available. Therefore, it is recommended that a "refinancing" facility be arranged at a significantly lower interest rate by the government and the apex bank.

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- The amount of loans and advances that can be refinanced cannot exceed 50–75% of what was given during an accounting year.
- The authorities have the authority to set the maximum interest rate that MFIs can charge. For instance, MFIs are not allowed to charge interest rates greater than 16% annually.
- MFIs' annual refinance facility eligibility may be determined by looking at the new loans and advances that were disbursed in that accounting year.
- The regulatory bodies such as IRDAI, SEBI, PERDAI, IBBI, and others must guarantee a friendly atmosphere for the microfinance industry to operate in. Banks and other financial institutions must guarantee that the industry receives enough funding to continue operating without interference.

V. CONCLUSION

The importance of microfinance in developing nations such as India cannot be overstated. It is a key component of the socioeconomic advancement of the impoverished. Since the 1990s, numerous national and international agencies and institutions have implemented programmes aimed at reducing poverty; among these is microfinance, which is a rapidly developing instrument for socioeconomic development, poverty alleviation, and boosting the earning potential of young entrepreneurs. Microfinance offers a wide range of financial services to low-income and marginalised groups.

MFIs are crucial to the provision of microfinance in India, particularly to the economically disadvantaged segments of the population and in rural areas. Despite all of its benefits, microfinance has a number of drawbacks that must be resolved methodically. They make a significant contribution to the nation's efforts to achieve sustainable economic growth. The RBI and the national government have both taken action to promote the expansion of this industry. Nonetheless, there is a need for the federal government and state governments to raise the essential public knowledge of MFI services. This could improve India's economic standing. The regulatory bodies such as IRDAI, SEBI, PERDAI, IBBI,

and others must guarantee a friendly atmosphere for the microfinance industry to operate in.

In India, MFIs are playing key role in providing microfinance especially in rural area and to the economically backward sections of the society. With all positive outcomes, microfinance comes with a set of challenges which need to be dealt in a systematic manner. They contribute immensely towards country's journey to attain sustainable economic growth. Both the central government and the RBI have taken steps for growth of this sector. Still, it is necessary for both the central and the state governments to create necessary awareness about the services of MFIs. This could strengthen economic status of India. The regulatory authorities like, IRDAI, SEBI, PERDAI, IBBI, etc., have to ensure a congenial environment for the microfinance sector for carrying on its activities. In order for the industry to continue operating without interference, banks and other financial institutions must guarantee that there is a sufficient supply of capital.

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