CHAPTER – 5

FINDINGS AND SUGGESTIONS
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The research work on governance of MFIs in Karnataka will be complete only with the findings of the research based on detailed study, cross examinations and analysis of the data collected. The present research work is only beginning on the subject of governance in the MFIs or the issues which are long pending or crept into the MFIs on a continuous basis as regards to the overall governance practices of MFIs in Karnataka. The suggestions based on the observations and analysis will give more impetus to the future generation of researchers to carry out the research on the governance aspect of MFI in future. It is reasonably apt to give a satisfactory conclusion to the current research work with more conviction based on statistical analysis carried out on the basis of data gathered during the research period 2012-2017. The researcher has made an honest attempt to record the major findings and suggestions based on the empirical study and conclusion in this chapter.

5.1.1 MAJOR FINDINGS OF THE STUDY: The study conducted on the governance practices of MFIs in Karnataka is apparently reveals facts which are traditionally included in the operations of the MFIs leading to consistent exploitation of the stakeholders interest. The research work is an attempt to identify the wrong practices of MFIs in delivering services, to record the failure of existing regulatory norms in controlling the same and highlighting the need for setting up of a regulatory body for the governance of MFIs in Karnataka. The major findings of the study have been listed below.

1. It was found that the Micro Finance Institutions are not significantly having clarity on the services offered by them to the customers in the community as it is proven with the one tail test @ 5% level of significance. The computed value (0.046) is less than the critical value (2.028). As the alternative hypothesis is rejected, it is concluded that the functional clarity of the MFIs is not satisfactory regarding the services to be provided.

2. The perception of MFIs towards the rights and obligations of the clients is also not satisfactory as the one tail test @ 5% level of significance at a critical value is (2.028) presents that the computed value (0.2307) is less than the critical value
resulting in rejection of alternative hypothesis ($H_1$) and acceptance of the null hypothesis and can be concluded that, Micro Finance Institutions are not significantly having clarity as to the details of Rights and Obligations of the Clients.

3. It was observed that in the one tail test @ 5% level of significance, the computed value (0.2059) is less than the critical value (2.028). As the alternative hypothesis is rejected, it is evident that the perception of Micro Finance Institutions towards the governance practices is faulty as they have failed to understand the factors of governance which influence their services.

4. It is found that the determinants of board performance are not significantly influential on the governance of MFIs. The study was mainly conducted to ascertain whether the determinants of board performance are significantly influential on the governance of MFIs or not. It was tested and proved through one tail test @ 5% level of significance, as the computed value (-2.22) is greater than the critical value of (-2.028). As the null hypothesis is rejected, it was found that the determinants of board performance are not significantly influential on the governance of MFIs.

5. The MFIs are not significantly practicing the guideline of governance issued by RBI as it was found in the one tail test @ 5% significance, the computed value (0.136) is less than the critical value (2.028). As the alternative hypothesis is rejected, it is concluded that the Micro Finance Institutions are not significantly practicing the guidelines of governance issued by the RBI.

6. One of the major parameter in defining governance is transparency of the operations by the institutions. It is found that the Micro Finance Institutions are not significantly practicing the guidelines on transparency issued by RBI. It is confirmed through one tail test @ 5% level of significance. The computed value (0.1363) is less than as against to the critical value of (2.028). As the alternative hypothesis is rejected, it is concluded that Micro Finance Institutions are not significantly practicing the guidelines on transparency issued by RBI.

7. Another important factor which influences governance practices of MFIs is the practice of disclosure. When the disclosure practice of MFIs was studied it was
observed through the one tail test @ 5% level of significance, the computed value (0.1352) is less than the critical value of (2.028). As the alternative hypothesis is rejected, it is proved that Micro Finance Institutions are not significantly practicing the guidelines on disclosure issued by RBI to the MFIs. This is also a matter of concern and ensures that there is a significant need to incorporate in regulatory norms governing Micro Finance institutions.

8. Grievance redressal is a much needed measure for MFIs operations. It is also one of the guidelines issued by RBI regarding MFIs governance. The one tail test @ 5% level of significance with a critical value of 2.028 proves, the computed value (0.1576) is less than the critical value (2.028). As the alternative hypothesis is rejected, it is confirmed that Micro Finance Institutions are not significantly practicing the guidelines on grievance redressal issued by RBI as part of its governance guidelines.

9. The success of any MFI measured financially and socially depends on the leadership of the institution. The involvement and commitment of the board members and their integrity towards governance is highly significant in protecting the beneficiaries from exorbitant interest rates and wrong practices of exploiting the needy. The study finds that at a critical (or table) value of $x^2 = 9.210$, at significance level ($\alpha$) = 0.01 and degree of freedom (df) =2, board members of MFIs are significantly involved and committed in ensuring good governance. Since the calculated value of $x^2 = 16.27$ is greater than its critical value, the null hypothesis is rejected and the above findings have been recorded.

10. It is found that the ability of board is the most significantly influential factor on the governance of MFIs. The study was mainly conducted to ascertain to what extent ability of the board is influential on governance of MFIs. It was tested and confirmed through one tail test @ 5% level of significance. The computed value (0.2.73) is less than the critical value of (2.028). As the alternative hypothesis is rejected, it is concluded the ability of board is the most significantly influential factor impacting on the governance of MFIs.

11. It is found that the quality of reporting is not the most significant factor impacting the governance of MFIs. The study was mainly conducted to ascertain whether
the factors of quality of reporting are significantly influential on the governance of MFIs or not. It was tested and proved through one tail test @ 5% level of significance. The computed value (-1.58) is less than the critical value of (-2.028). As the alternative hypothesis is rejected, it is concluded the quality of reporting is not the most significant factor impacting the governance of MFIs.

12. It was found that the proportion of the clients preferring existing regulatory norms for the better governance of MFIs in Karnataka is less than 50 percent. The beneficiaries of the MFIs believe that they are not protected by the existing governance norms prevailing in the MFIs. So the study reveals that there is a significant need for revising and introducing new regulatory norms for the better of MFIs to the benefit of the society.

13. The most important finding of the study is regarding the need for establishment of a regulatory body like SEBI or IRDA for the field of Micro finance as it was found in the study that more than 50 percent of the clients are preferring need for an independent regulatory body in protecting the interest of stakeholders. It was evident from the responses of both institutional respondents and beneficiaries that there is a urgent need for introducing new regulations and setting up of an exclusive regulatory body for the governance of MFIs and ensure ethical, accountable, reasonable and responsible service delivery of the MFIs.

5.1.2 GENERAL FINDINGS OF THE STUDY:

Based on the analysis and interpretation of the data collected from the respondents, the following general findings have been enumerated.

1. One of the major general findings of the study is that, the MFIs which were supposed to be following governance norms and projecting that they are following but have failed miserably and in the present scenario there is an ardent need of a specialized independent governance and regulatory body for monitoring the MFIs.

2. The MFIs are not just meant for providing the financial assistance to the needy. They are empowered to provide various non-financial services as well. But normally, while providing the services concentration of the institution is mainly
towards loans and SHG promotion. It would be beneficial for needy if the MFIs concentrate on all the possibilities of offering savings, training, insurance and other facilities.

3. The MFIs criteria for the selection of areas for providing services are poverty or the concentration of poor people in the locality of MFI functioning. Instead of just poverty, if the institutions prefer all the middle class people as customers, the society can witness a rapid development.

4. The loan disbursement capacity of the institutions has not been fully utilized by the clients. This shows that, though the financial services are on offer, the beneficiaries have not applied to the maximum extent and thereby the funds available are remaining idle. The reason for this may be the institutions shift in charging more interest on the loan products.

5. Another important finding is regarding the late payment problems. The MFIs also, like commercial banks experience late payment problems. Though loan amount is small and ample time is provided for repayment, the problem of non-recovery leading to the creation of NPA is quite visible in MFI.

6. The recovery of loans and methods of recovering the loans used by the MFIs is also one of the reasons why MFIs are considerably growing in contempt to treat the borrowers like commercial banks. As the borrowers are poor and belong to the vulnerable section of the society, they must be given with more time to repay and there should not be any use of errant technique or coercive methods to recover the loan and the MFIs need to practice sensibility in loan recovery.

7. The rate of interest charged by the MFIs on their financial products is too high compared to commercial banks, though it is represented as very minimum on per month basis. Erroneous information to the clients is hurting the repayment capacity of the borrowers.

8. Among all the odds it is observed that the loan disbursement process is very simple and easy for the borrowers based on their experience with other financial institutions.

9. There are problems which are experienced by the institutions like, security reasons, travel time to meet the customers, lack of financial resources, lack of
trained personnel, lack of business opportunities etc., and the institutions have to be in the business by absorbing these problems what they encounter.

10. Keeping in view with the need for governance, the MFIs have also expressed that they are following the RBI guidelines regarding the accountability, transparency aspects of their institutional; operations.

11. As there is a serious need for governance in the MFIs, government has asked the institutions that the Malegam Committee report to be implemented. It is observed that the 62.2 percent of the total MFIs do not know completely about the report and are not practicing the same in their operations. As the guidelines of RBI and Malegam Committee Report have not been taken up in action seriously by the Institutions, it is definitely a setback for the borrowers who are aspiring for a transformed society.

12. The beneficiaries are always prone to the chances of misleading information and misguidance by the MFIs. Regarding the transparency factor of governance, with respect to account details of the clients, it is observed that, the details required by the borrowers is made available to them on a voluntary disclosure basis, but also in some of the institutions, if they need, then they have to place the request for the same.

13. As regards to grievance redressal, few of the MFIs along with practicing the normal techniques, also practice a system where a group of specialized members negotiate and solve the grievances reasonably.

5.2 SUGGESTIONS:

The study on governance of MFIs has helped in knowing the revelations made by the previous research works, based on which the current work is carried out and also in understanding what lies ahead for these institutions and the people who are dependent on these institutions. It is here the researcher wishes to offer the suggestions purely based on the study, experience and observation of the data collected.

1. The MFIs have to basically understand the nature of services they will provide, the need for those services in the society, the reason behind providing those services and the purpose of their services as it will have long lasting impact on
the lives of lakhs of people who subscribe for their services. Unless the MFI remain grounded in providing the basic services to the needy, the purpose of initiating a system of microfinance will be a brutal disaster.

2. The MFIs should be very careful in choosing the sources of funds for the delivery of loans. The cost of the funds they borrow, if it is high, there is every possibility of passing the cost or burden to the borrowers. To make the cost of borrowing less for the beneficiaries, MFIs have to depend on the formal sources of funds which are less costly for them.

3. The MFIs need to be transparent in every aspect of their operations. It is highly important for these institutions to be very considerate in charging the interest for their loan products. It is observed in the responses that the MFIs mislead the borrowers in explaining the rate of interest, by saying it as monthly interest, they avoid letting the borrowers know the value of the same when it is taken as an annual interest. It is hereby important to remind the MFIs that the purpose of establishing these financial institutions is not to make profit but to serve the poor and the needy. The moment there is shift in approach, the end users will be in the receiving end of exploitation and the same must be rooted off at any cost by the authorities concerned in this regard.

4. The problem of delay in repayment or recovery of loans is inevitably natural for the financial institutions working at various levels for various sections of the society. In the study it is observed that still there are institutions which are providing very minimum number of installments like 0-12 months to 12-24 months. The institutions while exercising loan recovery methods must be extra careful, lenient and highly considerate in providing more number of installments, sufficient time and should exercise the techniques which encourage to make payment on time and not the ones which discourage and turn them from accessing services.

5. The borrowers of the MFIs are preferably, rural poor, artisans who are socially and economically backward. It is the responsibility of the MFIs to guide them and protect them until they make their lives out of the services offered by these
institutions. In the process of doing business MFIs are suggested to inform the clients about their rights and obligations with utmost sincerity.

6. Based on the primary data it is believed that the majority of the MFIs (19 out of 37 MFIs taken for the study) are concentrate din Bangalore alone. The number of borrowers who are desperately in need of the financial services are concentrated in rural and remote rural areas of Karnataka. So it is indeed important for these MFIs to go there where it is actually required to the core. Then only the real sustainable development of the society is evident.

7. As the population is increasing manifold in India, the problems related to gender education, health, employment and literacy are also increasing. Hence it is equally important for the MFIs to provide other non-financial services to the rural poor so that they can have better education of managing their earnings, savings or funds taken for use. Through the extension of health services and training for small entrepreneurships MFIs can actually bring rational change in the lives of the people who are at the bottom of the pyramid.

8. It is rightly observed that the MFIs have installed a system of automation for accounting and auditing in their offices which is highly appreciable. But at the same time it would be better for these MFIs to develop a network base of borrowers through a portal where the clients can access the information about the services and the status of their transactions as well.

9. It is observed that all the MFIs are employing full time auditors for the auditing of accounts. Some are practicing just annual audit. So it is better for the welfare of the borrowers as well as for ethical behavior of the institutions to practice either full time audit or continuous internal audit.

10. In the MFIs selected for the study, the parties to decision making are mainly board members. As a responsible financial institution MFIs are advised to involve all the stakeholders in the meetings and decision making process so that the authenticity of the MFI operations prevail and the loyalty of the stakeholders towards the firm remain intact.

11. As part of governance, the MFIs will be tested in their transparency practices. The MFIs need to be open to all the stakeholders irrespective of the consequences
emerge. It is important for them to be transparent as they are not doing any commercial motive business. It becomes difficult for those who are after profits. Hence, MFIs in Karnataka need to be transparent in every aspect to any extent so that they will be preferred over other financial institutions leading into the transformed life for many in the state.

12. Another issue which prevails with the MFIs is hiding information when it is sought by the stakeholders. So the MFIs should be open enough to allow the clients and employees to access information about the profits or the rates of interest charged, calculations and account details etc.,

13. Upon studying the happenings in these institutions, it is firmly appealing that the clients dropout is increasing significantly. The researcher believes it is the high time that the MFIs realize the reasons for these dropouts and find ways to tackle it sooner than later. Otherwise, as the small financial bank concept is emerging, the chance of customers shifting to new avenue is more or less certain.

14. It is beneficial for the MFIs to have better clientele base, client relationship and development of client networks so as to retain the borrowers with the firm and find new customers on a continuous base as part of expansion to reach more service aspirants, which will ensure the sustainable development of the institution as well.

15. It is advisable to all the MFIs to place before the government the need for regulations and regulatory bodies so as to ensure the protection of stakeholders interest as the present system of self-regulations are not yielding any desired results. The MFIs desire to go under regulations will definitely make them more accountable and responsible thereby ensuring, societal acceptance of the institutions, ease of services and better lifestyle for those who borrow the services. Until there is establishment of any regulatory body, the MFIs are suggested to follow the existing RBI guidelines and recommendations of Malegam Committee Report not for the sake of governance but for the responsibility of bringing changes to lives of the rural poor.
5.3 LIMITATIONS OF THE STUDY:

Any research work is not out of limitations. It is the responsibility of the researcher to mention the same. The researcher would like to place on record that this work is an attempt to introduce the new researchers into the matters of governance of Microfinance Institutions. As the topic is very new and due to the limitations, the researcher was just able to give a fair idea about the governance practices of MFIs in Karnataka with basic questionnaire and analysis.

1. This research work is confined only to selected MFIs of Karnataka and not for the entire MFIs operating in Karnataka. The results of the study may or may not be applied for other parts of Karnataka.

2. The major limitation was review of literature as at the time of commencing the study the literatures available on the governance of MFIs were very limited.

3. The sample which is selected is less compared to other studies, the reason being the non-availability of registered MFIs. As a part of study on governance it was important to find only the MFIs and not the SHGs. Sincere attempt is made to increase the sample base. But it is only restricted to 37 MFIs who have registered under AKMI of Karnataka. But the respondents of 10 selected MFIs across Karnataka have been increased to 500.

4. The institutional respondents while answering were quite hesitant and avoiding in selecting certain answers. The informal responses collected were tested with the help of articles, annual reports and financial statements for the purpose of analysis.

5. It is difficult to collect responses from the institutions than the individual responses. As the MFI authorities do not find the need and spare time for sharing information for the purpose of research.
5.4 SCOPE FOR FURTHER RESEARCH:
The present research is an attempt to understand the governance practices of MFIs in Karnataka. The problems due to unethical practices of MFIs and the service related issues are plenty. The researchers have many areas for study as regards to governance of MFIs. They are listed below.

1. The governance practices of MFIs in Karnataka can be further studied by taking few more districts of Karnataka with more factors which influence governance
2. There is scope for studying the role of governance in ensuring better performance of SHGs in Karnataka.
3. It is recommended to the future researchers to conduct the study on the structure of regulatory body for the purpose of ensuring ethical practices of MFIs
4. A comparative study can be undertaken on the parameters of accountability and transparency factors of governance in order to understand which factor is more likely to influence the responsible behavior of the MFIs towards stakeholders.
5. A study can be undertaken to suggest the need for state regulations or state regulatory body for the purpose of ensuring better governance of MFIs as there are no proper governance guidelines from the state governments in India.
5.5 CONCLUSION:
One of the most significant and promising revolutions in the recent past is the emergence of microfinance. The benefits of micro finance and the impact it has made over the years on the lives of millions of people is remarkable and deserves every ounce of accolades. Microfinance is viewed as a tool for the promotion of informal credit to the poorer section of the people. It has resulted in providing increased access to credit or micro credit to the poor. Micro finance has promoted SHG groups in accessing informal financial facilities thereby ensuring a strong and independent women groups and individuals.

The services of the MFIs is one of the reasons behind the economic and social changes the society is witnessing today and it also embarks the road ahead to be travelled. These changes may be seen as social empowerment or economic growth in these years. The decrease in child mortality, improved maternal health, increased nutrition, improved housing, health and savings, quality of life, self-sustaining micro and small enterprises, income generating projects and associations can be rightly attributed to the impact of micro finance in India.

In India, micro finance has been considered as a progressive tool for the financial inclusion. The objectives of providing loans to the people those are underprivileged and have no access to formal financial services are brought under this category. As of 2016-17 the borrowing base has been increased from 83.6 million to 93.9 million customers ensuring the increased need for the MFI services in India.

Micro finance has also influenced the people in increasing the personal income, attainment of increased education, betterment of health and influenced commercial banking institutions to improve their services. Micro finance services have made it possible for the rural artisans to earn more income through the promotion of non-agricultural income generating activities by and large. It is a positive impact on the lives of these rural households as it offers multiple sources of income by which one can manage his family needs and survive. The contribution of micro finance is invaluable as it comes handy during risky situations of one’s life and provides greater relief during
distress. The success of MFIs can be summed up in the increased resilience of the individuals with the generation of various incomes for their livelihood.

The impact of microfinance cannot be solely attributed to positive changes it has brought over the years to the society. There are criticisms on the microfinance and its negative impact on the beneficiaries who have embraced the MFI services. It is equally important to look at the other side of MFI operations. It is said that, though the MFI services are influential, the changes it brings are only short term positive changes and they cannot be relied upon or applied to the whole society. As the MFIs want expand customer base and depend upon those borrowers who are capable of repaying in time, the poorer ones are less benefited and better off households benefit more from the MFIs. Over the years it has been observed in the states like Andhra Pradesh, Maharashtra and Karnataka the beneficiaries of MFI services are in deep debt trap and in extreme cases leading to suicide of many farmers also. It is found that the money borrowed for needed purposes have been used in owning consumer durable goods instead of productive investments. If it is true, then the objective of empowerment remains a stigma only for the field of micro finance.

It is also found that, in order to repay interest on the loan taken from one MFI, a counter loan is taken from another MFI which is not at all a healthy practice and the very purpose of providing the loans to welfare is not achieved. The MFIs concentrate more on SHG members than individuals as customers for granting loans and this will add pressure on all the other group members as all the members become liable to repay the loan or liability. These kinds of practices will lead to unintended consequences which the sector may have to face in the years to come.

In the light of these criticisms, the pioneer of Microfinance Dr. Mohammad Yunus says, “MFIs that charge more than 15% of interest on the loan products should be made to pay penalties”. This means the root cause for all the criticisms is higher rates of interest and coercive methods for recovery of loans. If this is addressed, then the majority of the issues can be better handled.

It is in this backdrop the researcher wants to highlight the increased need for regulations on the MFIs. Primarily MFIs must be simply made to register as legal entities as they carry out all the banking operations now a day. A sound and unambiguous legislative
framework is a prerequisite for effective regulatory system for the field of micro finance. Majority of the societies and trusts which are providing microfinance services are unregulated and unsupervised and it’s high time to regulate them to protect the interest of the stakeholders. All the types of MFIs should be made to provide services on sustainable basis under a common, uniform and shared performance standards. For the purpose of ensuring the financial performance standards, reporting of financial results must be made mandatory to that can comply with prudential norms. A proper mechanism to supervise the complying with rules must also be established.

There must be a government policy to see that the MFIs which are providing microfinance services but are not registered as section 25 companies are qualified as NBFCs and all the relevant regulations will apply and they are to be followed by the institutions irrespective of their status. They must also be made to register with RBI compulsorily, prudential norms be imposed and compulsory credit rating of their loans must be undertaken on a regular basis.

It is important to ensure that any MFI being a NBFC accepts deposit from customers, which is exempted from taxation and which can access foreign capital is required to obtain investment grade rating, which no MFI has obtained as of now has been under proper supervision and regulation. Unless these necessary measures are not incorporated the survival of MFI and its stakeholders will be in danger in the near future.

The research work on Governance Practices of MFIs in Karnataka is a sincere attempt to portray the need for regulations and a specialized independent regulatory body to bring a positive change in an already contaminated field of microfinance which is gaining a lot of attention for the wrong reasons which are highlighted in the study conducted. It is the firm belief of the researcher that the outcome of this research work will be considered in good faith by the government and whoever is concerned with the improvement of micro finance services and the betterment of the one who is at the bottom of the pyramid.