UGC MINOR RESEARCH PROJECT
GOVERNANCE OF MICRO FINANCE INSTITUTIONS WITH REFERENCE TO SELECTED MICRO FINANCE INSTITUTIONS OF KARNATAKA

FINAL REPORT

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CERTIFICATE

This is to certify that a copy of the final report of Minor Research Project entitled "Governance of Micro Finance Institutions with Reference to Selected Micro Finance Institutions of Karnataka" by Mr. Lakshminarayana K.S., of Department of Commerce, SDM College, Ujire has been kept in the library of Commerce Department and an executive summary of the report has been posted on the website of the College.

Principal

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CHAPTER – I

INTRODUCTION

INTRODUCTION

Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'unreached poor'. In the Indian context terms like "small and marginal farmers",

"Rural artisans" and "economically weaker sections" have been used to broadly define micro-finance customers. Research across the globe has shown that, over time, microfinance clients increase their income and assets, increase the number of years of schooling their children receive, and improve the health and nutrition of their families. The earliest phase of Indian Microfinance can be described from early 20th century until 1969, when credit cooperatives largely dominated as an institution in provision of microfinance services. This phase began with passing of Cooperative Societies Act 1904, to extend credit in Indian villages under government sponsorship. This step was provoked by agrarian riots in the Deccan in the late 19th century that brought forth the issue of farmer indebtness to moneylender to British Government. The agrarian riots prompted the British Government to give thrust to the system of Taccavi loans to farmers, regulate money lending and promote rural credit cooperatives as an alternative to money lenders. Between 1950 & 1969, the emphasis was on the promoting of cooperatives. The nationalization of the major commercial banks in 1969 marks a watershed inasmuch as from this time onwards the focus shifted from the cooperatives as the sole providers of rural credit to the multi agency approach. This also marks the beginning of the phenomenal expansion of the institutional structure in terms of commercial bank branch expansion in the rural and semi-urban areas. For the next decade and half, the Indian banking scene was dominated by this expansion. However, even as this expansion was taking place, doubts were being raised about the systemic capability to reach the poor. Regional Rural Banks were set up in 1976 as low cost institutions mandated to reach the poorest in the credit-deficient areas of the country. In hindsight it may not be wrong to say that RRBs are perhaps the only institutions in the Indian context which were created with a specific poverty alleviation - microfinance – mandate.

During this period, intervention of the Central Bank (Reserve Bank of India) was essential to enable the system to overcome factors which were perceived as discouraging the flow of credit to the rural sector such as absence of collateral among the poor, high cost of servicing geographically dispersed customers, lack of trained and motivated rural bankers, etc. The policy response was multi dimensional and included special credit programmes for channeling subsidized credit to the rural sector and operationalising the concept of "priority sector". The latter was evolved in the late sixties to focus attention on the credit needs of neglected sectors and under-privileged borrowers. The rural credit cooperatives in India became a means of pooling the few resources of the poor and providing them with access to different financial services. The nationalization of Banks in 1969 along with a strong political emphasis towards poverty eradication led to a new rural finance policy that was directed at reducing the lending imbalances in particular sectors. This new policy resulted in among other things to establishment of Regional Rural Banks (RRBs) and adoption of priority sector lending by Banks under direct specifications of the Reserve Bank of India (RBI). A decade later rural financial delivery got further boast in 1980-81 with the government sponsored Integrated Rural Development Programme (IRDP), under which loans of less than Rs 15,000 (USD 330) were given to poor. In

20 years since its implementation the financial assistance of approximately Rs 250 billion ($5.6 billion) was provided to roughly 55 million families. However, underneath such aggregated figures, at the ground level IRDP led to large scale misuse of credit. This created a negative perception about the credibility of the micro borrowers among bankers further hindering access to banking services for the low-income people. By 1990s the problems with both States promoted institutional forms viz. credit cooperative and RRBs in delivery of rural credit were quite evident. The credit cooperatives were crippled with poor governance, management and the poor financial health due to intrusive state patronage and politicization. RRBs financial position deteriorated due to the burden of directed credit and priority sector lending and a restrictive interest rate regime. The share of rural credit in the total credit disbursement by commercial banks, which grew from 3.5 to 15 percent from 1971 to 1991, has now declined again to 11 percent in 1998 (Sa-Dhan, 2004). For the first two decades of their existence, political pressure and focus on outreach at the expense of prudent lending practices led to very high default rates with accumulated losses exceeding Rs. 3,000 crores in 1999. In this background various qualitative issues such as concerns about financial viability of institutions on account of high rate of loan delinquency, cornering of subsidy by well off people, continued presence of moneylenders, inability to reach the core poor came out in forefront and resulted in reorientation in thinking around the1990s. In addition to inherent problems with existing institution, the external factors also influenced Indian Microfinance. The macroeconomic crisis in early 1990s that led to introduction of Economic Reforms of 1991 resulted in greater autonomy to the financial sector.

This also led to emergence of new generation private sector banks viz. UTI Bank, ICICI Bank, IDBI Bank and HDFC Bank that would become important players in microfinance sector a decade later. Since 2000, the microfinance sector saw some radical changes in many aspects.

While the prime objective remains, poverty alleviation with new terms of inclusive growth or financial inclusion, this sector moved from sole social return approach to double bottom line approach of social and financial returns. This change in approach led to many changes in the functioning of microfinance. The emphasis on ‘bottom of the pyramid’ and good financial returns of some of leading MFIs, brought many main stream commercial entities taking interest in the sector not only as part of their corporate responsibility but as new business line. One among prominent example in Indian context is ICICI Bank that adopted innovative ways in partnering with NGOMFIs and other rural organizations to extend their reach into rural markets. UN declaration of Microfinance year in 2005 gave further impetus towards recognition of microfinance as a poverty alleviation tool and was able to attract a lot interest from large commercial entities such as foreign banks, investors, pension funds etc. This resulted in their participation in the sector for social and commercial return. India is a country where demand for microfinance services amongst the poor far exceeds supply. Fewer than 10 percent of India’s 75-80 million households that could make use of micro-finance have access to it. One of the greatest barriers is the industry’s lack of capital.

Inclusive growth always received special emphasis in the Indian policy making. Governments of India and the Reserve Bank of India have taken several initiatives to expand access to financial systems to the poor. Some of the salient measures are nationalization of banks, prescription of priority sector lending, differential interest rate schemes for the weaker sections, development of credit institutions such as Regional Rural Banks, etc.

Despite the policy efforts, gap remains in the availability of financial services in rural areas. The dependence of the rural poor on money lenders continues, especially for meeting emergent requirements. Such dependence is more pronounced in the case of marginal farmers, agricultural labourers, and petty traders and rural artisans belonging to socially and economically backward classes and tribes whose capacity to save is too small.

It is in this backdrop that microfinance emerged in India. The Self-Help Group (SHG)-Bank Linkage Program (SBLP) which was launched in 1992 on a pilot basis soon grew significantly. As per the latest estimates, SHGs enable 97 million poor households' access to sustainable financial services from the banking system and have an outstanding institutional credit exceeding Rs. 31,200 crore as at the end March 2011. SBLP is considered to be the fastest growing microfinance initiative in the world. The other model of microfinance, i.e. MFI model comprising of various entities, such as, non-banking financial companies (NBFCs), non-governmental organizations (NGOs), trusts, cooperatives, etc. has also been growing significantly in the recent years.

Micro finance services are provided by banks, credit unions and microfinance organizations, which are also known as microenterprise development organizations (MDSs). These are for profit or non-profit or nongovernmental organizations (NGOs), private voluntary organizations legally chartered, where necessary to lend money to poor people. MDOs such as ACCION International were started in early 1960s; other such as the Grameen Bank began in the 1970s when its founder, Mohammad Yunus, an economics professor in Bangladesh, began lending small amounts of money to poor people, mostly. These small loans were used to start or expand small enterprise, such as vegetable farming, weaving and livestock holding.

As the spotlight is now on the MFIs, they are expected to be transparent in their policies, systems, procedures, and transactions, which call for good governance and accountable to the stakeholders. This article attempted to address the key issues of good governance, which has a direct impact on the all the stake holders starting from the investors, promoters, managers of microfinance institutions as well as to the regulators and the public in general they serve.

The impact of microfinance institutions in terms of inclusive development, poverty reduction and economic empowerment is phenomenal and it also attracted the attention of UN. Validating its impact, UN declared the year 2005 as the year of microfinance and the man who pioneered microfinance, Mohammad Yunus of Grameen Bank, Bangladesh received the Nobel Prize.

These two incidents almost confirmed and validated efforts of MFIs as far as empowering poor and their services to the marginalized section of the society.

The fallout of this global recognition is ushering the danger of mushroom growth of MFIs and dilution in the quality of services offered to the poor.

The crux of issue is the MFIs were initially promoted by voluntary agencies popularly referred as NGOs with the firm focus on community services and emancipation of the poor from poverty.

With the global attention attached to microfinance, promotion of MFIs itself, was transformed in to a global business opportunity and servicing the poor itself became a business goal of such institutions.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation. Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. A logical way to tap capital market is securitization through a corporation that purchases loans made by microenterprise institutions with the funds raised through the bonds issuance on the capital market.

Once microfinance institutions are engaged in deposit taking in order to mobilize household savings, they become financial intermediaries. Consequently, prudential financial regulations become necessary to ensure the solvency and financial soundness of the institution and to protect the depositors. However, excessive regulations that do not consider the nature of microfinance institution and their operation can hamper their viability. In view of small loan size, microfinance institutions should be subjected to a minimum capital requirement which is lower than that applicable to commercial banks.

On the other hand, a more stringent capital adequacy rate (the ratio between capital and risk assets) should be maintained because microfinance institutions provide uncollateralized loans. 80% of MFI penetration in India is concentrated in 3 southern regions: Tamil Nadu, Andra Pradesh and Karnataka.

While there has been significant growth in access to finance in the last decade, there is still a huge unmet demand: The finance accessed by poor households is evaluated at US$ 2.5 billion, whereas the demand from **160 million Poor and Vulnerable Households** in India is evaluated at $100 billion (*Source: World Bank; CGAP - Occasional Paper #8, 2004).*

Microfinance evolved as an instrument to reduce poverty and bring about sustainable development. As an alternative to traditional means of finance such as banking and insurance (which failed to meet the needs of poorer sections of society), microfinance was pioneered by self-help groups, non-governmental organizations and other non-profit institutions. However, with a view to building a scalable model that engenders overall sustainable development, the microfinance sector has witnessed the emergence of for-profit institutions that are structured along the lines of the modern business corporation. These microfinance companies adopt market-based mechanisms to raise capital that is employed in financing the poor and less-privileged.

This study looks into the governance issues and the protection of the stakeholders in the back ground of the proliferation of MFIs in the present society.

This study is restricted to the selected micro finance institutions of Karnataka. This study probes on the issues related to the determinant, influencing factors and independent factors that ultimately decides why a particular institution is a successful one and others or not.

In terms of significance, the study can be extended to any part of the nation or even to other countries.

Theoretical framework of the study looks into the structural and dimensional changes in the field of micro finance and how best it can be enhanced through best governance and management so as to make the MFI's contributing more towards the rural development and poverty reduction.

Governance

Governance is based on the basic tenets of transparency and accountability. Transparency in decision-making provides comfort to all stake holders and accountability which follows from transparency fixes responsibilities for actions taken or not taken. Together they safeguard the interests of the stakeholders in the organization.

Governance system represents the value framework, the ethical framework, and the moral framework as also the legal framework under which business decisions are taken.

The governance is required to uphold the organization's goals and mission and see that they are implemented it is needed to guide the organization's major strategic directions.

Governance helps o maintain the organization's health over time and to mitigate risks

It thus helps to ensure accountability throughout the organization.

Governance finally is required to ensure that the organization has the necessary human and financial resources to operate effectively.

Governance has assumed increasing importance for microfinance institutions (MFIs). As

Micro finance institutions grow in their outreach, increase their assets, and in increasing numbers become regulated entities that can capture savings deposits, they require clear articulation of how their boards will ensure effective governance. More importantly, for a growing number of microfinance institutions, the source of capital has shifted or is shifting from being donor dependent to accessing financial markets in increasingly sophisticated ways. The recent entrance of investors who are providing capital for the most advanced microfinance institutions also raises important issues regarding the characteristics and quality of the governing bodies that lead these institutions.

The microfinance institutions have been very successful in the south and the credit goes to the efforts taken by the state governments there. Nearly two thirds of the MFIs are situated in the southern states. The main impetus given to this system in these states was by the state government. Several successful schemes and innovative steps were been taken by the state which provided a conducive environment to the MFIs. Thus the role of the state government is to facilitate the working of the MFIs and not just by regulating them.

Even though we are far from having inclusive financial services for the poor in

India with all its components, the microfinance sector has come a long way in the last decade. It is facilitating microfinance (to face the present in the area of poverty) and facilitating micro insurance and micro pension (to face the future, in the area of vulnerability and social security). So far, our discussion goes the factors of good governance have direct bearings on the growth and development paradigm of MFIs in the emerging scenario of financial market in India. The impact of the good governance is visible both in the financial and non-financial areas of operation.

In terms of significance, the study can be extended to any part of the nation or even to other countries.

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Micro Finance and Micro Finance Institutions

"Microfinance" is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "microfinance institutions" (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

Relevance of the Study/ Statement of Problem

There is a huge unmet demand for financial services in the microfinance sector. Despite some success stories, MFIs probably reach fewer than 5 percent of the potential clients. Serving this market will require access to funding far beyond what donors and governments can provide. Thus, many MFIs want to expand their outreach by raising funds from commercial sources, including deposits. Some commercial banks are also looking to extend their financial services into the microenterprise market. The government has already drafted the Micro Finance Sector (Development and Regulation) Bill, 2011. The Bill seeks to make it mandatory for all micro finance institutions (MFIs) to be registered with the Reserve Bank of India (RBI). It also entrusts the task of regulating the sector with the RBI.

According to government data, over 5000 *farmers* committed *suicide* in 2005-2009 in Maharashtra. About 3,000 farmers in Andhra Pradesh committed suicide in the past five years owing to debt trap, drought and crop failure. In many cases extreme step of suicide was taken as a course of action due to heavy pressure and humiliation from the private moneylenders and MFI's. Desperate farmers are committing suicide with the hope of getting the relief package.

A recent study done by the Govt. of Andhra Pradesh reported that more than 55 percent of the farmers are not getting the Minimum Support Price (MSP). Even in Karnataka in the vast tract of drought-prone area farmers are in deep financial crisis and on the verge of debt trap. It is said that the state has a disproportionate share of drought-prone areas in the country. The northern districts of Karnataka are considered backward compared to other parts of the state.

Despite the measures undertaken by governance and RBI, the intention of controlling the wrong doings of MFI's is not reaching the desired state. Until and unless, proper mechanism are developed and implemented to monitor the activities of Micro Finance Institutions there is a danger of adverse growth of MFI's at a rapid speed. So the relevance of this study is to ascertain the degree of governance prevailing and the degree of governance to be established in order to ensure that the interest of MFI stakeholders is protected by and large.

Need for the Study (Research Gap)

Micro Finance Institutions are meant for providing financial assistance to small and low income group people. The primary objective of the institution is to uplift the rural poor from the poverty. But presently, majority of the MFI's and NGO's which were meant for serving the poor and welfare of the society are indulging in unscrupulous activities causing threat to the good health of the community. The studies which are undertaken by number of academicians and researchers show that there is a mismatch between the desired and delivered outcome. In order to make MFI more responsible and accountable towards the stakeholders, there is a huge need for creating a regulatory bodies and regulatory framework/guidelines. Earlier research work done by many academicians/professionals focuses mainly on Micro Finance, Key stakeholders of Micro Finance, participation of SHG and NGO's, financial inclusion, risk assessment, rate of interest and loan waiver scheme etc.,

The researcher, upon reviewing the selected articles as part of literature review on Micro Finance Institutions and their governance, finds the following research gap on the said topic.

Now a day's MFI's are becoming popular not because of the service they render but because of not practicing ethics and governance in their operation. As a budding researcher I have identified the research gap prevailing in the field of Micro Finance and that is, there is an implied need of understanding governance, its principles, its implications, the impact of its implications on micro Finance and the benefit arising out of it. In order to protect the interest of various stakeholders, Micro Finance Institutions should be properly controlled and regulated. This research on governance explores the possible mechanisms to regulate the Micro Finance Institutions which will strengthen the sector and enhance the greater benefits towards stakeholders of Micro Finance Institutions. As the number of research underwent on governance of Micro Finance is very minimum in number, this research work will prove highly useful in the days to come in the area of Micro Finance.

Objectives of the Study

The objectives of the study are

1. To asses and analyze the governance issues of microfinance institutions in Karnataka.
2. To ascertain the factors that influences governance in MFIs.
3. To ascertain the importance of regulatory boards in establishing governance in Micro Finance Institutions.

Hypotheses

The following hypotheses were formulated and stated in null form to ascertain the governance issues in the selected Micro Finance Institutions.

Ho_1 The governance practices of Micro Finance Institutions are not in line with the guidelines of governance.

Ho_2 Degree of transparency is more influencing factor on MFIs compared to accounting and auditing factor of governance.

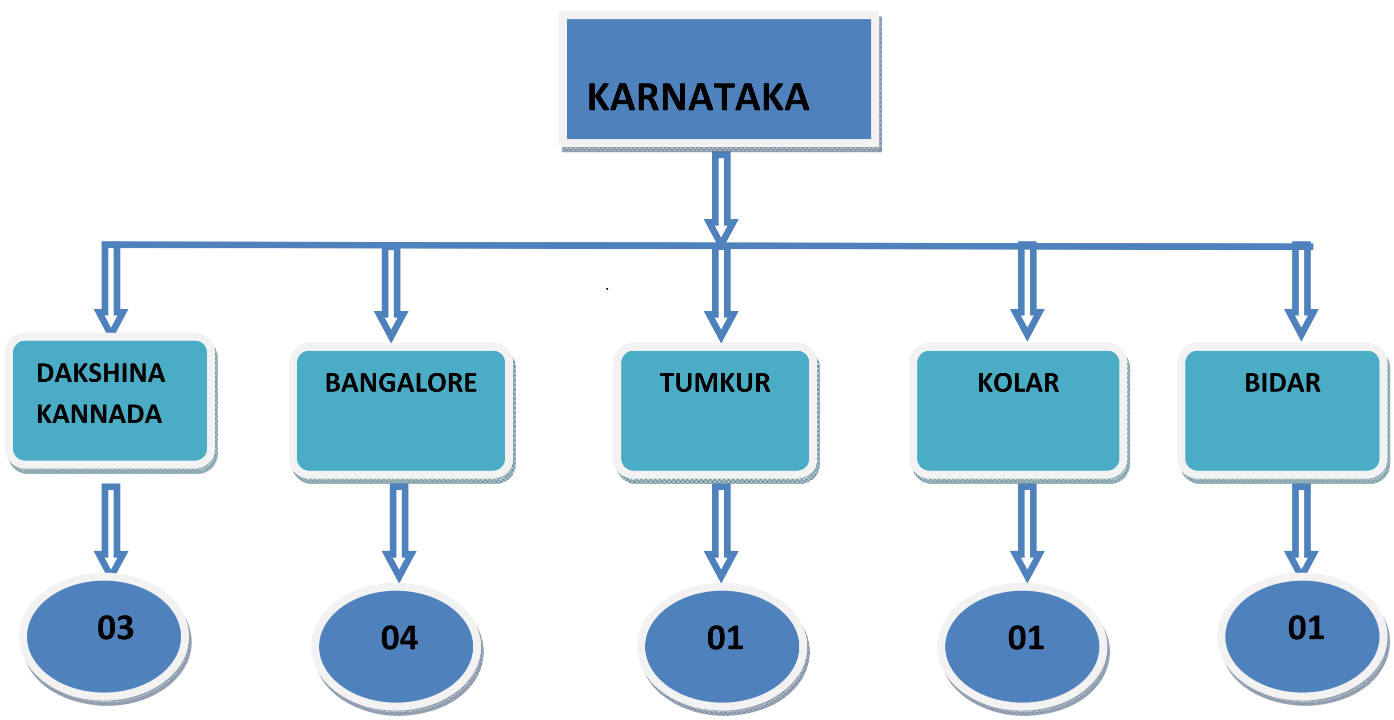
Ho_3 Regulatory boards play a major role in establishing governance in MFIs

Research Methodology

Geographical Area Covered

The study was undertaken in the selected Micro finance Institutions identified for the study in Karnataka. The Micro Finance Institutions located in the districts of Dakshina Kannada, Bangalore, Tumkur, Kolar and Bidar of North Karnataka are chosen for the research work on the basis of availability of number of institutions for the study.

Figure No. 1 Sampling Design - Area of Study



Nature and Sources of Data Collection

The following is the nature and sources of data collected for the present study.

Figure No. 2 Sources of Data Collection

Name of the Institute	Type of Information	Category of Data
1) IIM Bangalore	Reference Materials	Secondary
2) SKDRDP	Reference Materials	Annual Reports
3) 10 MFIs	on governance	Primary
4) Mysore University	Reference Materials	Secondary
5) SDM College	Reference Materials	Secondary

This study has been completed on the basis of a large source of information collected as it is new of its kind. The data required for the research was collected from primary and secondary sources. Various Books, magazines, news papers, articles, journals, publications, government reports, RBI Reports on governance and Micro finance Institutions have been be used as sources of secondary data.

As internet is one of the important sources of information it is been be taken as an important source of secondary data for the present study.

Preparation of questionnaire to evaluate the governance aspects in the functioning and sustenance of MFI's was used as source of primary data. Through the structured questionnaire, the relevant information has been sought from the respondents. Field survey type of research is undertaken for collecting the primary data. Questionnaire Administration and tabulation has done in the light of the research objectives.

To establish relationship with the variables like determinants, influencing factors and independent factors relevant inferential statistical techniques has been applied to test the hypothesis.

Sampling Methods

The population for the current study is the selected Micro Finance Institutions which offer Micro Finance facilities to the poor.

Representatives of MFI's, Members of SHG's and Employees of the Institutions are taken as respondents for the current study.

The researcher has taken 10 Leading Micro Finance Institutions of Karnataka as samples and respondents of these institutions were asked to respond to the questionnaire. The Chairman, Director and Managers of these institutions have responded being part of Policy Makers and these responses are taken in order to test the hypothesis. Systematic Random Sampling Technique was used for collection of data. Micro Finance Institutions were selected on the basis of their turn-over, outreach, and years' of service in the field of finance serving the poor.

Statistical Tools and Techniques used for the study

To analyze the governance practiced in Micro Finance Institutions, tools like **Arithmetic Mean, Standard Deviation, Percentage, t tests** are used in order to prove the hypothesis. Statistical analysis has been done using SPSS. In order to draw suitable conclusions with meaningful analysis, interpretation of data is made using tables and graphs.

Scope and Limitation of the study

The empirical study was undertaken in the selected Micro finance Institutions identified for the study in Karnataka. This study is concentrated on those institutions situated in Karnataka. The main focus of the study was to draw the inferences on the governance issues prevailing in the MFI's and other administrative issues concerning the effective management of the micro finance institutions. The information by the researcher is sought through questionnaire, through meeting the respondents personally.

The study also covers the attributes for institutional performance and the impact on the growth by specialized institutions like SKDRDP from the institutional point of view.

But the study is not out of the limitations. Respondents, while expressing their views on the issues covered, the probability of an element of subjectivity creeping into the responses could not be ruled out. But an attempt is made to reduce such effects to the minimum by providing the necessary clarification where ever it is required. The major limitation was getting Micro Finance Institutions with large scale operations having a structured management.

Scheme of the Study

Chapter 1. Introduction chapter covers the meaning of governance, Micro Finance and Micro Finance Institutions, Relevance of the study, objectives, need for the study, scope and limitation of the study, Research Methodology, Hypothesis of the study.

Chapter 2. Review of Literature from various books, articles and journals is done in this chapter

Chapter 3. This Chapter includes Conceptual framework of Micro Finance Institutions; Governance of Micro Finance Institutions.

Chapter 4. Includes the information on the area of study

Chapter 5. Includes the profiles of selected Micro Finance Institutions in Karnataka

Chapter 6. In this chapter Survey results and analysis of the data collected has been done using various statistical tools Findings and Summary

Chapter 7. This chapter is dedicated to record the Suggestions, Recommendations and made on the basis of analysis made over the study.

Chapter 8. This includes the summary and conclusions drawn on the study conducted on the basis of information gathered and analysis made on the subject matter.

Appendix Bibliography

Questionnaire

CHAPTER – II

LITERATURE REVIEW

LITERATURE REVIEW

There are enormous amount of literature is available on Micro Finance Institutions around the world, though only a few studies have been carried on the issue of governance of MFI's.

Sri Ramesh S Arunachalam(2007), in his article "Governance of Micro Finance Institutions: Time to implement 'connected lending' provisions of RBI circular of 2007"[1] expresses that, granting of loans to internal members of the NBFC MFI's should be taken care of and be monitored properly. The NBFC and their practice of lending to rural poor should be encouraged and it should be properly governed by well established regulatory norms of the government. In this connection RBI circular on 'connected lending' should be implemented.

Focus Note No. 7 of CGAP (2007), in the article "Effective Governance for Micro Finance Institutions"[2] further enhances, a closer examination of governance includes an outline of the roles of the board members, board composition and an explanation of important issues of trust and conflicts of interest. This section then explores governance issues in the particular case of micro finance. It also expresses concern on responsibilities of the board, board composition accountability, transformation and relationship between MFI and NGO.

Roy Mersland & R. Oystein Storm(2007), in their article "Performance & corporate governance in MFI's"[3] clearly expresses that, non-profit organizations are quite common in traditional microfinance. But a non-profit firm needs return on its capital in order to lend again. Also due to competition the non-profit organization, too, needs return on its capital in order to survive in the market. For the purpose of effective performance of the institution internal governance must play a vital role

Prof Zohra Bi and Dr. Shyam Lal Dev Pandey(2011), in the article "comparison of Performance of Micro Finance Institutions with Commercial Banks In India"[4] state that, Micro finance in

India has been viewed as a developmental tool which would alleviate poverty and enhance growth of the country through financial inclusion. Out of 6 lakh villages in India, only approximately 50000 have access to finance. India is a country which has the highest number of households which are excluded from banking. In the study it is also found, only a few MFI's are dominating the sector and many small MFI's are having shortage of capital and identifies the need of regulations and governance to achieve the goal.

The Governance Guide developed by IRAM – CERISE, "A Tool for Analyzing the Governance of MFI" [5] explores, to be sustainable in the long term, micro finance institutions do not just need to be financially viable and compatible with existing legal frameworks. They also need transparent and efficient internal organization that is acceptable to all the institutions stakeholders. This study expresses the key areas in meeting the challenges of governance. It also emphasizes on the relationship between governance and social performance which will help an MFI to analyze its SWOT.

David Hulme, Thankom Arun (2011), in this article "What's Wrong and Right With MFI" [6] states, recent events in south Asia have led to an expected reversal in the narrative of micro finance, long presented as a development success. Despite charges of poor treatment of clients, exaggeration of the impact on the poorest as well as the risks of credit bubbles, the sector can play a non – negligible role in reaching financial services to low- income households. The article, exhibits the lending mechanisms of MFI's and need of ceiling the interest rate on micro loans in order to bring the Micro Finance Industry to a right path. Study also mentions the initiative of the government to pass the Micro Finance (development & Regulations) Bill 2011.

Sri M.S Sriram (2011), in his article "Micro Finance Industry In India : More Thoughts" [7] finds that, Micro finance institutions need not be treated as holy cows. Shows there need not be any soft regulations on MFI's. MFI should be treated on par with Non-Banking companies. Soft corner on MFI's will certainly allow them to deviate from their specified objectives. Also provides an insight into behavioral problems prevailing in MFI's.

R Vijaykumar(2009) in the article on Micro Finance, "Reinstating the SHG Perspective in Micro Finance" [8] attempts to conflate the activities of self-help groups and their federations, the Grameen bank replicators and commercial micro finance institutions, leading to the belief that in empowering the poor the positive attributes of one are shared by the others.

Anu Muhammad (2009), in his work "The Grameen & Micro Credit: A Tale of Corporate Success" [9] states, Grameen Bank's micro credit programme has been organized internationally as a successful model. This model has become an integral part of development thinking and has earned global attention as a new form of banking. But it has more as an effective tool for alleviating poverty and empowering women. The model created a good opportunity for expanding the market for finance, thereby ensuring GB's spectacular success.

Nilakanth Rath's(2008), in his article "Implications of the Loan Waiver for Rural Credit Institutions"[10] expresses his concern on farmer's suicide and debt burden by various reasons influencing on the life of the poor in this article. Poor farmer's death due to the unbearable burden of debt is the matter of concern. It highlights how loan waiver will lighten the burden of the farmers though, in the long run it adversely affect the rural credit institutions that extend loans to farmers. Since the bulk of the loans will be from outside institutions, there is a strong possibility of the demand for writing off loans in times to come.

Sri Debadutta K Panda (2010), in his book "Understanding Microfinance"[11] writes on Micro Finance saying, Micro Finance is not only for social and rural development, but also for business and profit making, based on the organizational missions. Anyway, for the organizational sustainability, outreach and development of cost – effective affordable financial products, there must be a systematic marketing process is the opinion of the author. The role of NGO's in providing Micro Finance and the need of proper channelizing the flow of fund in a right direction are identified in the works of the author.

Drew Tulchin and Jerry Grossman (2006), in their article "Micro Finance : Sustainable Tool for Urban Poverty Alleviation"[12] state, Government actors can make important contributions to the micro finance industry, but they must act carefully to ensure that their efforts result in positive impact. Government actors in developing nations impact the sector through economic policy, financial institution regulation, and supervision. further enhances the earlier thoughts and says Micro finance is the valuable and a sustainable tool for alleviation of poverty around the globe and the role of developing and developed countries in strengthening the Micro finance Industry.

M. Rajashekar(2010), in his article "RBI to MFI's: Shape Up or Face Music"[13] tells that, India's booming microfinance segment is under the scanner, with the Reserve Bank of India(RBI) issuing a veiled warning that it could be taken off the priority sector lending list of banks if the industry fails to improve its governance standard. The article tells about considering the loan to MFI's as priority sector lending and its impact. The article also shows how central bank is closely observing the activities.

Another valuable thought is generated by Indian Institute of Banking and Finance. The study says laws and regulations balance the interest of different groups of the stakeholders. It also specifies that governance is part and parcel of economic growth and success of any organizations[14].

Using of foreign funds to develop domestic markets and establishing of a robust regulatory mechanisms to ensure the responsible behavior from the principal actors within the Micro finance System is the view expressed by Ms. Tara S Nair in Economic and Political Weekly in her article “Financing of Indian Micro Finance - Evidence and Implications “(2012) [15].

The article “Rural Credit in Andra Pradesh: An Assessment” written by T Shankaraiah and I Narendra Kumar (2012), focuses on assessing the performance of financial institutions. Repayment performance of the borrowers and suggested measures for the recovery of over dues from the borrowers is discussed thoroughly[16].

The works of M. Chandran (2012), “Women Empowerment Through Micro Enterprises Development in Tamilnadu” exhibits social empowerment, family employment and individual employment. The paper stresses on according priority on commercial efficacy[17].

M. Malarvizhi and V.M Selvaraj(V), “Micro Finance - A Risk Management for the Poor” express the importance of Micro Finance Institutions to small and medium scale income people like agriculturists and agriculture labourers[18].

Micro Finance Institutions outreach is limited in comparison with the mainstream financial institutions because of the shortage of finance and human resource. Micro finance institutions need grants to build their own capacity as well as that of the borrower for self help groups, is the opinion shared by M.S. Govindaraju and S. Venkatesh (2012), in the article “Financial Institutions in the Implementation of SHG’s Programme in Karnataka “[19].

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CHAPTER – III

CONCEPTUAL FRAMEWORK FOR MICRO FINANCE, MICRO FINANCE INSTITUTIONS AND GOVERNANCE IN MICRO FINANCE INSTITUTIONS

CONCEPTUAL FRAMEWORK FOR MICRO FINANCE AND MICRO FINANCE INSTITUTIONS

Evolution of Microfinance in India

The micro finance initiative in private sector in India can be traced to the initiative undertaken by Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank set up in 1974 by registering as an Urban Cooperative Bank at Ahmedabad City of Gujarat State. The main aim of SEWA bank was to provide banking services to the poor women employed in the unorganized sector. In the midst of the apparent inadequacies of the formal financial system to cater to the financial needs of the rural poor, National Bank for Agriculture and Rural Development (NABARD) sponsored an action research project related to formation of credit groups in 1987 through an NGO called MYRADA at Karnataka state.

Encouraged by the results of field level experiments in group based approach for lending to the poor, NABARD launched a Pilot Project in 1991-92 in partnership with Non Governmental Organizations (NGOs) for promoting and grooming self help groups (SHGs) of homogeneous members and making savings from existing banks and within the existing legal framework. Steady progress of the pilot project led to the mainstreaming of the SHG-Bank Linkage Programme (SBLP) in 1996 as a normal banking activity of the banks with widespread acceptance. The Reserve Bank of India (RBI) set the right policy environment by allowing savings bank accounts of informal groups to be opened by the formal banking system. Launched at a time when regulated interest rates were in vogue, the banks were expected to lend to SHGs at the prescribed rates, but the RBI advised the banks not to interfere with the management of affairs of SHGs, particularly on the terms and conditions on which the SHGs disbursed loans to their members. This has laid the foundation stone of self-governance of the SHGs. The SHGs grown to federation and culminated to NGO-MFIs but the issues of governance remained unresolved.

With the emergence of specialized Microfinance Institutions (MFIs) as a provider of financial services to the poor rural and semi urban folks with their unique dual mission '***to serve the poor'*** and ***'remain financially sustainable',*** Non Bank Finance Companies (NBFCs) took the lead as an integral part of their business enhancement programme and successfully increase their client outreach through this business model. Section 25 companies (under Indian Companies Act, 1956) and the Mutually Aided Cooperative societies (MACS) were the latest entrants to this programme and concentrating in the truly remote areas with very less or no presence of commercial banks.

"Microfinance" is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "microfinance institutions" (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

There is a huge unmet demand for financial services in the microfinance sector. Despite some success stories, MFIs probably reach fewer than 5 percent of the potential clients. Serving this market will require access to funding far beyond what donors and governments can provide. Thus, many MFIs want to expand their outreach by raising funds from commercial sources, including deposits. Some commercial banks are also looking to extend their financial services into the microenterprise market. The government has already drafted the Micro Finance Sector (Development and Regulation) Bill, 2011. The Bill seeks to make it mandatory for all micro finance institutions (MFIs) to be registered with the Reserve Bank of India (RBI). It also entrusts the task of regulating the sector with the RBI.

Despite the measures undertaken by governance and RBI, the intention of controlling the wrong doings of MFI’s is not reaching the desired state. Until and unless, proper mechanism are developed and implemented to monitor the activities of Micro Finance Institutions there is a danger of adverse growth of MFI’s at a rapid speed. So the relevance of this study is to ascertain the degree of governance prevailing and the degree of governance to be established in order to ensure that the interest of MFI stakeholders is protected by and large.

GOVERNANCE IN MICRO FINANCE INSTITUTIONS

Governance is based on the basic tenets of transparency and accountability. Transparency in decision-making provides comfort to all stake holders and accountability which follows from transparency fixes responsibilities for actions taken or not taken. Together they safeguard the interests of the stakeholders in the organization.

Governance system represents the value framework, the ethical framework, and the moral framework as also the legal framework under which business decisions are taken.

Governance, broadly defined, is the system of people and processes that keep an organization on track and through which it makes major decisions. In the broadest terms, the functions of governance are:

1. To uphold the organization’s goals and mission and see that they are implemented
2. To guide the organization’s major strategic directions
3. To maintain the organization’s health over time and to mitigate risks
4. To ensure accountability throughout the organization
5. To ensure that the organization has the necessary human and financial resources to operate effectively

A broad range of actors have an active role in MFI governance. We can see these actors broadly as external or internal according to their roles in the governance process.

“External” actors:

- Entities that oversee the institutions’ financial health: regulators and auditors
- Providers of financing: shareholders, lenders, and depositors

Good governance is the ability of the board members to monitor the status of the organization, make good strategic decisions, and hold executives accountable for their execution. Ultimately, that comes down to the quality of the board members, the culture and practice of the board, and the power relationships among board members and executives.

Good Corporate Governance refers to a system of people, values, criteria, processes and procedures that ensure that an organization is managed properly and that guides it towards its mission and vision.

The general duties of the Corporate Governance system are:

1. Defending the organization's mission, vision and fundamental goals.

2. Moving the organization along its main strategic guidelines.

3. Maintaining the organization's long-term sustainability.

4. Ensuring that corporate responsibility is applied throughout the organization.

Good Corporate Governance makes sure mechanisms are in place and put into practice in order to strike a balance between management and control and to meet the needs of Stakeholders (everyone involved in the organization and/or affected by its activity).

The challenges involved in implementing Corporate Governance include:

1. Identifying the path to follow and the solutions that best meet the organization's needs.

2. Hiring people who can guarantee efficient management and administration.

3. Conveying that credibility in the eyes of the market is a fundamental pillar.

4. Commitment to stakeholders (shareholders or partners, customers, suppliers, institutions and markets, and so on).

CHAPTER – IV

AREA OF STUDY

AREA OF STUDY – KARNATAKA STATE – A PROFILE

Geographically, Karnataka occupies three natural regions like the Coastal strip, the Sahyadris and the Deccan plateau. They are known in Kannada as Paschima Karavali, Malnad and Maidan respectively.

The Sahyadris are covered with evergreen forests. They drop abruptly towards the Arabian Sea, thus forming a natural barrier between the plateau and the coastal regions. Four passes provide access to the coast. They are the Subrahmanya Ghat, the Charmadi Ghat, the Shiradi Ghat, and the famous Agumbe Ghat. The western Ghats slope gently towards the Bay of Bengal. This is the plateau region drained by the two principal rivers Krishna and the Kaveri. The average elevation of the plateau is about 610 meters above sea-level.

Figure No 3 Map of Karnataka

The western strip across the Arabian Sea is humid & warm in summer, water-soaked in monsoon, profuse with coconut grooves & paddy fields criss crossed by strips of silvery streams & sparkling stretches of sand.

The hilly uplands of Malnad, One of the wettest regions of the world, where the bamboo flourishes wild & areca, teak, rosewood & matti are grown. It is also the home of the stately gaur & langur. In its southern reaches frequent kheddas are held to capture roaming groups of elephants. Also the swift deer & the deadly tiger, whose eyes burning bright in forest night, roam animatedly in the forests.

The east of the ghats is strikingly bare. This elevated stretch is supposed to be the oldest land on the earth where ancient rocks of earth are seen jutting in & out odd shapes. Rivers like Cauvrey, Sharavathi & Ghataprabha pass through upgraded valleys & resulting in water-falls & occasional rapids. The torrental fall of these rivers have been harnessed to generate hydro-electric power in an area where black coal is scarce.

There are seven river systems in Karnataka which with their tributaries, drain the state. The river Cauvery is an Inter-State river and is one of the major rivers of the Peninsular flowing east and running into the Bay of Bengal. The principal tributaries of Cauvery are the Harangi, the Hemavathy, the Lakshmanathirtha, the Kabini, the Shimsha, the Arkavathi and the Suvarnavathy. The river Krishna is also an Inter-State river in Southern India flowing through Maharashtra, Karnataka and Andhra Pradesh. The principal tributaries of Krishna in Karnataka are Ghataprabha, Malaprabha, Bhima and Tungabhadra.

The climate is salubrious for the major part of the year. Karnataka enjoys a tropical climate with three distinct seasons-hot and dry from February to May; rainy with plenty of sunshine from June to October; and cool from November to January. Much lower temperatures are experienced in the North and Northeast during nighttime. The South has a tropical rainforest climate with temperatures averaging 28 degrees Celsius almost all year round.

CHAPTER – V

PROFILE OF MICRO FINANCE INSTITUTIONS

PROFILE OF SELECTED MICRO FINANCE INSTITUTIONS

PRAKRUTHI FOUNDATION

Prakruthi is a not-for-profit organization headquartered in Bangalore, where it is registered since 1991 as a public charitable trust. ‘Prakruthi’ in Sanskrit means Nature in the wider sense. Prakruthi was established by development professionals and social entrepreneurs to provide solace to underprivileged communities and also to train them in technical skills, so they could become dynamic members of society.

Education and arts

With the opening of a multipurpose learning centre in the nineties, the ball was set rolling. Prakruthi has been able to provide early childhood education to over 250 children per year and enrol them into the mainstream schools. To encourage the children’s development, Prakruthi started courses on Performing and Fine Arts, including basic skills training on pottery, painting, drawing and performing arts such as Mohiniyattam, folk dances, Bharathanatyam. Stimulating education and arts is still an important part of Prakruthi’s identity, and has evolved into the establishment of the Centre of Arts and Cultural Heritage (CACHe).

Empowerment

In the year 2001, Prakruthi supported the Indian Armed Forces in the Ladakh region of Kashmir. The project was initiated to improve the lives and the financial security of families affected by the Kargil War. A group of thirty Prakruthi volunteers worked with the local population to form women’s empowerment units, to support widows earn money while sponsoring their children’s education. Furthermore, Prakruthi has initiated a program to identify Persons with Disability

(PWD) to support them in their fields of interest. Out of this program the SAMA foundation was born. This Bangalore based foundation supports disabled children to overcome the educational disadvantages and denial of personal rights and economic security.

Corporate Social Responsibility

In 2006, Prakruthi started a transformation process to be able to address developmental issues beyond the urban educational programs and support the rural and urban poor in various hard to reach sectors such as tea, coffee, sugarcane, cotton and garments. Prakruthi's programs are growing steadily and nowadays the activities touch the life of more than 50.000 families. We have been successful in linking the CSR agendas of various companies to address poverty issues and sustainable development in trying to achieve our stated mission.

International cooperation

Since 2010, Prakruthi is an international not-for-profit organisation with a support office in the UK, handling a varied portfolio of activities in India, Bangladesh, Pakistan and Afghanistan. Prakruthi has grown from a child-centred empowerment organisation in the 1990s to an international NGO promoting Corporate Social Responsibility (CSR) and a holistic approach to address the reality of children and their families in low-income groups in the rural and urban sections of society.

GRAMEENA MAHILA VIVIDODESHA SOUDHARADA SAHAHARI NIYAMIT

PRAWRADA, promoter of GMASS(Grameena Mahila Vividodesha Soudharada Sahahari Niyamit), is a Non-Governmental development organization, established in Bidar district in 1994. Self Help Groups (SHGs) have been recognized as an effective strategy for women empowerment in rural areas. Since the overall empowerment of women is crucially dependent on economic empowerment, women through these SHGs work on a range of issues such as health, nutrition, agriculture, forestry, etc. besides income generation activities and seeking microfinance services.

The growth and development of this self-help concept motivated PRAWARDA in forming an apex body called GMASS under Karnataka SOUHARDA Act of 1997. It was registered in June 2004. Presently, GMASS is operational in five blocks of Bidar district of Karnataka where it covers 275 villages with 3250 SHGs with a total membership of 36,500. GMASS provides micro finance services through its 25 branches.

KAVERI CREDITS (INDIA) PRIVATE LIMITED

Kaveri Credits (India) Private Limited was a Company started in 1995. But the initial promoters did not carry out any micro finance work. In October 2008, the present promoters took over the defunct NBFC, named Kaveri Credits (India) Private Limited, with a valid RBI licence as non-deposit taking, non-banking finance company. In its new format Kaveri Credit India Pvt. Ltd plans to shift from the 'vanilla microfinance approach' and cater to a niche market of clients with existing enterprise for providing livelihood financing through by providing credit services. The promoters have had a vast experience in development and micro credit programs. The Company has a registered office in Bangalore and has plans to spread to other nearby States in a period of five years. The area for intervention will be selected through a detailed livelihood survey. Characteristics of KCIPL’s Clients

- Focus on women and men members - 60% women and 40% men.
- Client in the age group of 20-40 years in case of group loans and for individual maximum up to 50 All members of the group should belong to the same area.

- Of the five members in a group, 3 members should own a house. In case of individual loan, good track record of business. For individual loans, clients should have good track of business, one immovable asset and should engage 10 members in their business from below poverty line status.
- Self employed individuals - small businesses, micro enterprises, petty shopkeepers.

Should have multiple business (agriculture + Two members from the same family can become client for the organisation, but they should be in two different groups.

IDF- Initiatives for Development Foundation

Initiatives for Development Foundation (IDF) is a Public Charitable Trust established under Trust Act on 15-11-2001. IDF is a Bangalore based organisation, founded by a group of former bankers with experience in social banking and small micro enterprises. IDF is a resource, action research and service delivery organization in micro credit and credit plus services developing entrepreneurship. It is working with both rural and urban poor who are financially excluded. The vision of the organisation is Empowerment of underprivileged through participative action. Its main objectives are, Promotion of Entrepreneurship and Self Help culture, Thrift and Micro-credit Development

Development of Group Enterprises, developing clusters of enterprises and linking Technology

Capacity development of Resource organizations and Individuals

It works in almost all the districts of Karnataka with a focus on North Karnataka. It has set up a fully functional MFI at Dharwar and has plans for its legal transformation to an Non Banking Finance Company. It has a marketing company to sell the produce and ensure adequate market access for producers.

It's microfinance initiative through the MFI covers 170 villages in 8 districts and 40 urban towns/cities with an outreach of 6274 Women Self-Help Groups (SHGs) which constitute 64390 women members. At the end of August 2008, the savings from SHG members was Rs 22.1 million and the cumulative micro credit disbursed was Rs 210 million with a portfolio outstanding of Rs 151 million. The past due status is 0.50% reflecting a portfolio quality of 99.5% which is a good performance considering the clientele segment of poor women in remote rural areas. They have provided training on business development to more than 12400 women and 92% they started their enterprises.

IDF is governed by a Governing Board of 9 members, all men, mostly former development banking professionals. It has staff strength of 160 all well qualified professionals, 72 of whom are women. Of the 160, 147 staff (75 male and 72 female) are permanent and 13 staff (all male) are volunteers. They work in Karnataka especially North Karnataka, which is in line with Hivos India's regional concentration policy. It has a Regional Office in Dharwar and 5 branch offices in other centres in Karnataka State.

Hivos SED policy envisages access to financial resources and enterprise development providing greater access to markets and to increased incomes for producers. IDF is working to increase access to financial services in the underserved regions and communities by providing Business Development Services and facilitating access markets for producers. This strategy conforms to the policy goals of Hivos on Sustainable Economic Development and hence merits support.

Initiatives for Development Foundation (IDF) is a nonprofit organization founded by developmental bankers and administrators who have expertise in microcredit, microenterprise development, sustainable agriculture, rural development, transfer of technology, entrepreneurship promotion, corporate planning, communication and administration, social research, NGO constitution and institutional development of grass root organizations. Initiatives for Development Foundation (IDF) was set up as a registered public charitable trust during November 2001.

IDF Financial Services Private Limited (IDF FSPL) was carved out of IDF and is dedicated to provide microfinance and allied financial services. In order to scale and promote microfinance operations and generate adequate capital, microfinance division of IDF was delineated from its parent organization and registered as IDF FSPL, a Non Banking Financial Company in April 2009 with its registered office in Bangalore & administrative office in Dharwad.

VIMUKTI CHARITABLE TRUST

VIMUKTI CHARITABLE TRUST is a social action unit of the Capuchin Franciscan of Karnataka Province, Registered under the Trust Act bearing number, Trust/718/10A/Vol-II/V-299/2000-2001 Dated 01.05.2000. VIMUKTI is integral liberation as understood popularly and it undertakes and executes socio-economic empowerment activities among the disadvantage and the vulnerable sections of the society. As the activities of the province became widespread, 'Vimukti' came into existence in 1999 to co-ordinate, document, monitor, review and evaluate the social work intervention activities to ensure greater efficiency and increased accountability towards the same.

VIMUKTI believes in oneness of humanity based on UNIVERSAL LOVE, irrespective of caste, creed, colour, culture, ethnicity, gender, age and ability; it respects all diversities. This LOVE, to be a force of transformation, is to be translated into socio-economic justice, equality, equity and equal opportunities for all to grow and to have control over all and access to appreciate resources. It is the denial of this truth and the disparities inbuilt in the structures and the process of development have resulted in the marginalization of the Tribals, Dalits, Women, Children, mentally/physically challenged, the destruction of cosmos and devastation of harmonious relationships. It is everyone's sacred duty to work towards a Humanity based on UNIVERSAL LOVE and comprehensive JUSTICE.

PROFILE OF THE CAPUCHIN SOCIETY :

Franciscan Capuchin Friars' society is in India since 400 years. Now the members, numbering around 2000 are spread over in most of the states, and the administration is decentralized dividing themselves into different zones, called the 'Provinces'. The society belongs to the spirit of great humanist and environmentalist, St. Francis of Assisi, whom the United Nations has declared as the Patron of Ecology. The members of this Capuchin order are committed workers and are engaged in Social Ministry of different kinds all over India. Especially they are engaged in activities of the nature of inter-religious dialogue to bring about harmony, justice and peace.

The present request for collaboration comes from the Karnataka Province of the same, who have already had the interventions in the areas of, Women empowerment, Child Development, alcoholic de-addiction, intervention among the poor, and the marginal farmers in Mangalore and community organization activities are undertaken in Belgaum, Raichur, Mangalore and other parts of Karnataka.

Dayalbagh Rural Development Programs is an entity of Social work in Belthangady Taluk. Since 1969 it has initiated its effort for the development of the economically poor and the backward people, irrespective of their caste and creed. Ever since, it has been working without stop for the development of the poor by considering the different issues, programs based on the need of the people at different stages. Integral development of the family is the goal. Development of the family, a major part of it can be realized through the women. Hence keeping the concept of Self Help Group the project has started to form the SHGs and as a result of our efforts the first group was started on 26th Feb. 1999. This provided a impetus for formation of SHGs and within a year 100 groups were formed in 28 villages of Belthangady Taluk. As a result of the coming together, the SHGs arose and the VIMUKTI WOMEN'S FEDERATION of over 2000 women was inaugurated on 26th February 2000.Today the federation has 19 units of 150 Self Help Groups who function on their own leadership and maintain micro finance activity, financial savings over a crore rupees and making a loan transaction of above three crores. Programs on Health, Education, seminars, training, awareness programs and entrepreneurial activities are undertaken by the women as the empowerment process.

VIMUKTI SHG FEDERATION:

Formation, nurture, promotion and strengthening of the SHGs are the main activity of the society for the last 10 years. The SHGs are the basic structure for all the developmental activities of the society. Under the patronage of Vimukti there are 150 SGHs in 33 villages. The total number of members of women has crossed 3000. At present all the SHGs are functioning under the banner of VIMUKTI.

THE STRUCTURE OF THE FEDERATION:

The Clusters are the bridge between the SHGs and the Federation. Once in 3 months, the cluster meetings are organized to share their problems and their achievements. The SHGs meet with the intention of the overall development of the members and to share their problems. There is common discussion among the SHGs. During the meeting the project team will give the possible solution for their problems, appraise their achievements and give some awareness on related topics. The Vimukti women federation is growing and extending its branches day by day. The women have realized that the collective action leads to better and lasting results. Hence the women take a very active role in the developmental issues and other related topics.

Ongoing training and awareness programs on health, education, self employment and other micro finance activities motivate the members to develop their families as well as the community.

BHARATHA SWAMUKTI SAMSTHE (BSST) MICRO FINANCE PVT. LTD

Dr. Ramesh Bellamkonda, the MD & CEO of BSS, is a Bangalore-born gastroenterologist. He graduated from medical school in Delhi and immigrated to the US in 1975. He renounced his successful medical practice and returned to India to focus on poverty alleviation in 1997.

Upon his return, he initiated the founding of Bharatha Swamukti Samsthe (BSST), a not-for-profit Trust registered under the Indian Trusts Act, to engage in providing microfinance to rural and urban poor. Effective April 1st 2008, the microfinance operations of BSST were taken over by BSS Microfinance Private Limited, a Non-Deposit taking Systemically Important(NDSI) NBFC registered with the RBI, which is run by the same team as BSST.

BSS Lending Methodology

They have a group based program of lending, through which we lend to group based women, on group recommendation and group guarantee. At present, we have only one project, called "BSS Microloan Project". (Group Lending Program- GL for short) in which, we follow basic principles of original methods of Grameen Bank of Bangladesh with suitable local modifications. Presently, in our Group Lending only women can join the program. We are working in 19 districts of Karnataka and 2 District of Maharashtra.

Members Characteristics:

- Age should be 18 to 53 years.
- She should be married & husband has agreed to join the program.
- Should be poor & permanent resident of that village.
- One member can join from one family.
- She should be able to work.
- She should not be defaulter for any organization.

Group Characteristics:

- 5 members in a group from different family & lived in same village.
- Member must know each other in money matters & know each other very well.
- Must not be blood relations in same group.
- Should take responsibility among group member.

Center Characteristics:

- Center is the basic functional unit.
- Minimum 2 groups & maximum 6 groups in a center.
- In a village there can be several centers.

Center Meeting:

- Center meeting will be conducted Weekly/Fortnightly/Monthly depending upon the requirement.
- All Financial transactions will be in center meeting only.
- Center meeting will be conducted in the early morning 6:30 am onwards & also convenient to organization.
- All members have to attend the center meetings regularly as per the schedule.

Loan Application:

- Members are eligible to make a loan application in first Center meeting itself.
- 100% attendance is must for a group to apply loan.
- 75% attendance requirement for individual member & center attendance must be 75% on the day of the members making loan applications
- Total indebtedness of borrowers should not exceed 50,000/-.
- Loan will be extended only to borrowers whose household income in rural areas is less than Rs. 60,000/- and non-rural areas is less than Rs. 1,20,000/-
- Loan applications to be initially approved by group & center members and they have to

take repayment responsibility.

- Should be approved by credit committee of the Organization.
- Loans will be approved predominantly for income generating activity except Alcohol business, arrack selling, tobacco business & other socially prohibited activities. We also give loan for life quality improvement in a few cases.

Loan Disbursement:

- Disbursement will be in center meeting only.
- On disbursement day group members' attendance must be 100%.
- The attendance of center members should be 75% on disbursement day.
- Loan will be given to MBT members through NBFC and all borrowers are required to abide MBT principles & rules.
- Husband/Guardian signature is must for disbursement as co-borrower.
- Loan will be given predominantly for income generating activities except tobacco, alcohol, arrack & socially prohibited activities. We also give loan for life quality improvement in a few cases.
- Loan is disbursed on group & center responsibility.
- Past credit history of member, group & center must be good.
- Loan utilization & center discipline must be good.

Security:

- They do not take any collateral / margin / security deposit for loan.

Loan Utilization:

- Members should utilize loan for approved purpose only.
- After loan disbursement, all loan utilizations will be checked in next center meeting.
- Three further verification is must during the loan tenure by supervisory level staff.
- Loan amount limits: minimum Rs.1000/- and in multiples of Rs. 1000/-. Maximum limit depends on the loan product and in any case less than Rs. 35,000 for first cycle and Rs. 50,000 for subsequent cycles.
- Repayment Mode: Weekly / Fortnightly / Monthly at the choice of borrowers.
- Interest & Other Charges:
  a) 26% per annum on diminishing balance for all the loan products.
  b) 1% Loan Processing Fee (LPF) + applicable Service Tax on LPF.
  c) No prepayment charges.
- Customers Grievance Redressal System

Grievance Redressal Mechanism:

- Member Loan Pass Books contains details of field office name, field office address, phone number & head office address in local language. Further, during the course of training and also at the time of center meetings, we bring awareness to our clients about the provisions of grievance redressal mechanism of our company. Our clients can also make phone calls in case of any grievances or they can directly communicate with our concerned officials from field offices.

- A register is maintained in all the field offices to record member grievances, if any. Such grievances are promptly addressed by the branch manager or any supervisory staff.

Moreover, wherever required, the report is also forwarded to Head Office for necessary action.

Their operational and lending procedures ensure that the loan provided by us to the end-clients meet all the guidelines stipulated by RBI to facilitate the Banks to avail "Priority Sector Status" for the credit facility extended to the Company.

NAVAKARNATAKA RURAL DEVELOPMENT SOCIETY

This is an Gulbarga based NGO which was started in the year 1994. Its operates at Bellary, Bidar, Chamrajnagar, Chitradurga, Davangere, Gulbarga, Mysore, Shimoga, Tumkur.

The key issues of this institution is Animal Husbandry, Dairying & Fisheries, Agriculture, Drinking Water, Education and Literacy, Environment & Forests, Health and Family, HIV/AIDS, Legal Awareness and Aid, Micor Finance(SHGs), Micro Small and Medium Enterprises, Nutrition, Panchavati Raj, Rural Development and Poverty Alleviation, Urban Development and Poverty Alleviation, Women’s Development and Empowerment.

Over the last few years, this institution has made remarkable progress in extending micro finance facilities to the rural poor exempted from access to financial services.

SAMASTHA MICROFINANCE

Samasta Microfinance Limited began operations in March 2008 with an aim to provide financial services to the urban and rural poor in the southern and western states of India.

Our early market survey among agricultural labourers, artisans, and industrial workers revealed the non-availability of formal financial institutions in these areas. Moneylenders with their astronomical interest rates continue to be the most commonly availed monetary support. This sets off an endless cycle of debt and the inability to rise above it.

Samasta focuses on bridging the gap between ambition and achievement of the working poor across India, by providing financial and non-financial services, in a sustainable long-term relationship and enable them to achieve a better quality of life.

Samasta, as a Non Banking Financial Company, believes that the way forward lies in microfinance which empowers individuals and enriches communities. By alleviating financial stress among the poor and offering an opportunity for income-generation, it helps improve the quality of life. The micro loans can be used to pay off outstanding debts borrowed from local money lenders at very high interest rates, start small businesses, pay educational expenses and for emergency health services, which are the primary requirements of the people we cater to.

In addition to microfinance, Samasta also offers a host of non-financial services, including life insurance, health insurance and financial counseling to its members. Furthermore, Samasta will partner with technical training institutes to provide skills development for the children of our members.

We are currently operating in Chennai, Kancheepuram, Vellore, Krishnagiri, Coimbatore and Nilgiri districts in Tamil Nadu, and Bangalore in Karnataka. In the next three years, Samasta will be operational in Maharashtra, Gujarat and Madhya Pradesh. By 2013, we plan to reach 1.8 million people in India.

We believe that social change is possible through a robust microfinancing business model that will be beneficial to our members and investors alike.

SHRI KSHETHRA DHARMASTHALA RURAL DEVELOPMENT PROJECT

Shri Kshethra Dharmasthala Rural Development Project, popularly known as SKDRDP, is a charitable trust promoted by Dr. D. Veerendra Heggade. SKDRDP concentrates on the empowerment of rural women by organizing Self-help Groups (SHGs) on the lines of Joint Liability Groups (JLBs) of Bangladesh and provides infrastructure and finance through micro credit for the rural people.

The Shri Ksherta Dharmasthala Rural Development Project encompasses all aspects of enriching the rural life. It is currently engaged in developmental activities in Dakshina Kannada, Udupi, Uttara Kannada, Coorg, Shimoga, Chickmagalur, Dharwad, Haveri, Gadag, Tumkur, Belgaum, Mysore, Chamarajnagar, Koppal, Davangere and Chitradurga districts operating in 20,000 villages covering more than 19,92,000 families. SKDRDP is active with its Community Development Programs throughout the state of Karnataka and holds its presence in six coastal towns under the Karnataka Urban Development and Coastal Environment Management Project.

SKDRDP (R.) is registered under the Charitable Trust Act of 1920 in the office of Sub-Registrar, Government of Karnataka, Belthangady Taluk, Dakshina Kannada District in the year 1991.

SKDRDP is presently working with 19,92,327 families. For their convenience 1,72,568 Self Help Groups have been promoted. These members contribute loan margins, borrow money, share it among themselves and repay at weekly intervals. In order to meet the financial need of the members, SKDRDP has borrowed funds from commercial banks and disbursed to the SHGs for onward lending to the members. During the current year Rs. 345.44 crores were disbursed to the SHGs. As on March 31, 2012 SKDRDP could show 62% growth in outstanding over the last year. The micro finance outstanding went up from Rs. 1,025.85 crores as on March 31, 2011 to Rs. 165,504.52 crores as on 31st March 2012. Delinquency as on March 31, 2012 is Rs. 20.25 crores of the outstanding. During the current year SKDRDP borrowed Rs. 280.00 crores from commercial banks to sustain its microfinance operations. In spite of increased financial costs, SKDRDP did not revise its lending rates which were maintained at 18% on reducing scales or 10% on flat basis for loans. SKDRDP received subsidized loans for housing and small enterprise from NABARD and DBCDC. The interest subsidy was passed on to the beneficiary.

SOUTH CANARA DISTRICT CREDIT CO-OPERATIVE BANK (NAVODAYA GRAMA VIKASA CHARITABLE TRUST)

To empower the rural youth with self respect and the power of self employment by exploring their ability and skills, Navodaya Self Help Grop project was established in the month of January 2000 at Sural,Karkala Taluk of D.K. District.

Objectives

- Formation of SHG for the socio- economic, development and cultural programmes for the development of rural people.
- Training the rural unemployed youth, especially the women to make them self-reliant.
- Formation of training centers for the self-employment.
- Organizing unemployed youths and encouraging them to take up self-employment.
- Formation of self help groups in rural areas state wide and developing their economic, social and culture status through appropriate programmes.
- In order to provide over all health protection to the Navodaya Self Help Group members. Introducing Chaitanya Health Insurance Scheme.

- Conducting awareness programme on the availability of economic and other help from various women's development programmes for the self employment.
- Personality development programme.
- To conduct free Health checkup camps for health care of the rural poor.
- To help the financially poor patients suffering from cancer, cardiac disease, kidney failure etc.
- Opening of Educational institution to impart good and higher education for the children of rural poor.
- To promote and preserve art and culture and to specially encourage their own immense folk heritage.
- Awareness and training to preserve and protect the herbal plants of great medicinal value.
- To promote self employment opportunities and encourage skill training with a view to tap alternative source of income.
- Establishment of job oriented training centers for the rural unemployed youth..

Philosophy

Make the rural populance able and capable to earn live hood with self respect and to ovate their Self Help Groups, there by brining unity, empowerment, discipline and self respect within the reach.

Navodaya Grama Vikas Chritable Trust has already formed 26,365 Self Help Groups consisting 2,68,212 members spread over 5 districts viz., Dakshina Kannada, Udupi, Dharwad, Uttar Kannada and Shimoga of Karnataka State . Out of these 13,317 groups belongs to Dakshina Kannada District. The Trust was successful in getting the members trained for self employment and to gain financial support.

CHAPTER – VI

RESULTS AND ANALYSIS

RESULTS AND ANALYSIS

Based on the review of literature and conceptual framework the following hypothesis in the null form were formulated and analyzed in the background of data collected.

Ho_1 The governance practices of Micro Finance Institutions are not in line with the guidelines of governance.

Ho_2 Degree of transparency is more influencing factor on MFIs compared to accounting and auditing factor of governance.

Ho_3 Regulatory boards play a major role in establishing governance in MFIs

As part of data collection, responses were taken from the directors and chairmen's of selected MFIs. As it is an empirical study, the importance is given on the significant factors of governance while analyzing the data collected through questionnaire. The questions asked and responses collected are presented in the form of following tables and graphs.

Table No.6.1 Service offered by MFIs

Savings	Percentage
Yes	100%
No	0%
Total	**100**

The table No. 6.1 to 6.6 are used to ascertain the services offered by the Micro Finance Institutions across Karnataka. Various services like savings, loans, remittances, SHG promotion, Insurance and training are widely offered by most of the Institutions.

Table No.6.1 Service offered by MFIs

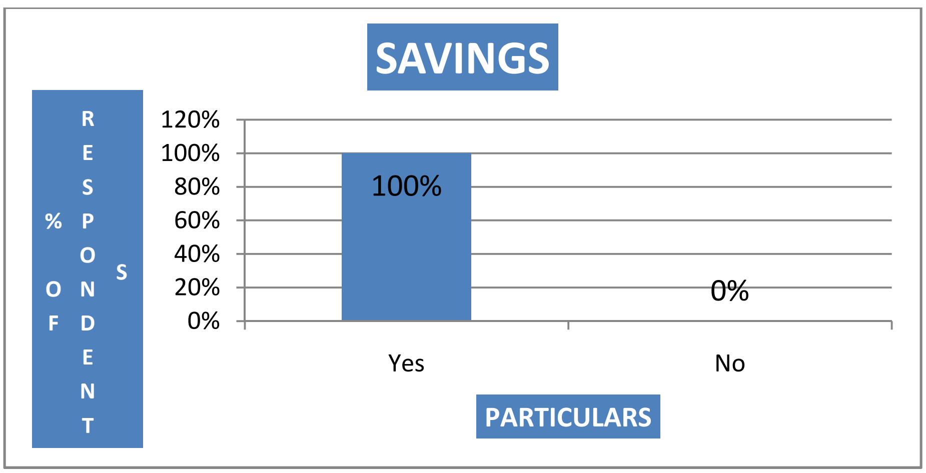


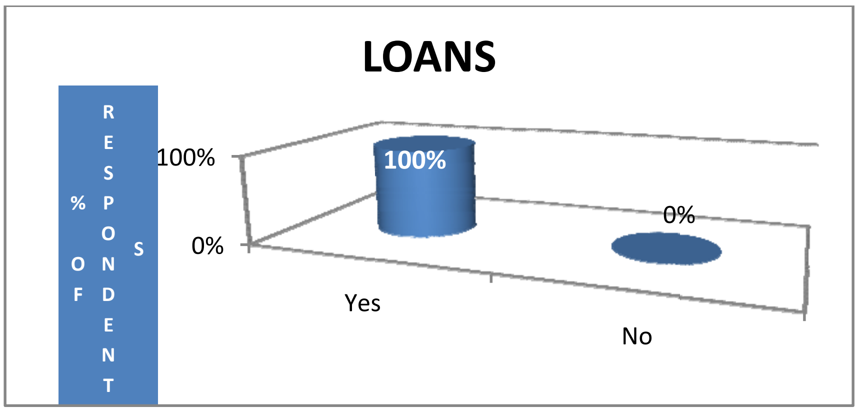
Table No.6.1 shows that all the ten MFI's selected for the study provide savings facility to their clients. The above chart shows that 100% savings facility is given by all the Institutions. From this it can be concluded that all the ten MFIs are providing saving facilities for the clients.

Figure No. 6.2 Services offered by MFIs

Loans	Percentage
Yes	100%
No	0%
Total	**100%**

Table No. 6.2 shows that, all the ten selected MFI's provide Loan facility to the clients. The above chart shows that, as a major part of their services all the selected Institutions i.e., 100% offer the credit facility to the members of their Institutions.

Figure No.6.2 Services offered by MFIs



This also indicates that, Micro Finance Institutions are primarily sought by the poor is for credit services. Thus, from the above analysis it can be concluded that, primarily the MFIs are meant for extending credit facilities to the rural poor.

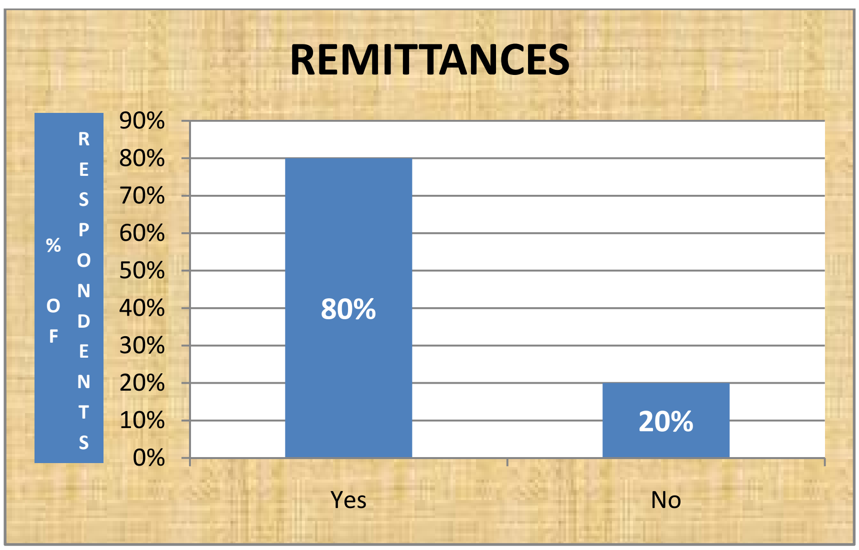
Table No.6.3 Services offered by MFIs

Remittances	% of Respondents
Yes	80%
No	20%
Total	**100%**

Table No. 6.3 depicts the Remittance facility provided by these Institutions as part of their functioning. This is also one of the major functions undertaken by many of the institutions.

The data in tables are presented in graph also to understand its validity.

Figure No.6.3 Services offered by MFIs



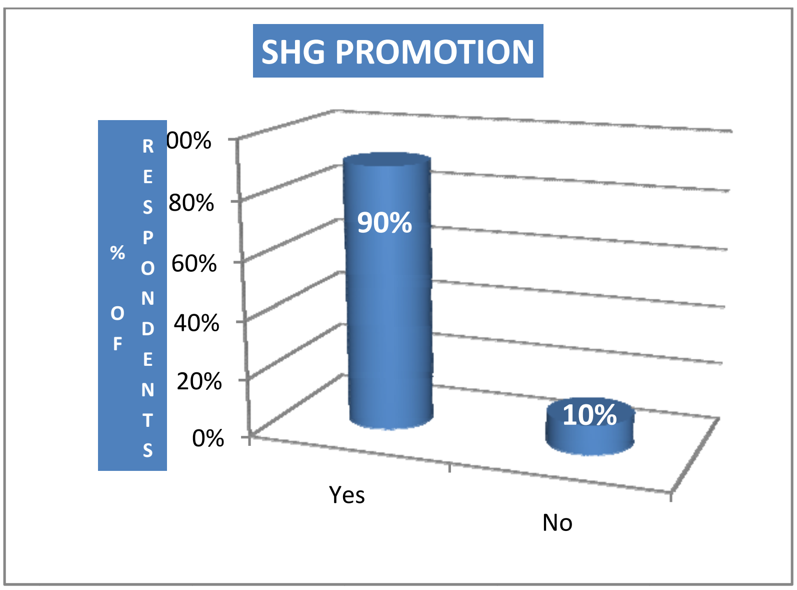
The above chart shows out of ten Institutions, 8 Institutions provide the remittance opportunity and other two do not provide such benefits to the clients. When the same is presented in percentage around 80% provide this facility and 20% of the Institutions do not provide this advantage in the field of finance.

Table No. 6.4 Services offered by MFIs

SHG Promotion	% of Respondents
Yes	90%
No	10%
Total	**100%**

One of the most important services one would expect from the MFI's is SHG promotion. Table No. 6.4 shows how this has been represented by the MFI's in the present day context.

Figure No. 6.4 Services offered by MFIs



90% of the Institutions have taken the responsibility of promoting the SHG's working around as it is the need of the day in the Micro Finance Sector. Only one Micro Finance Institution is not promoting any SHG.

From this it is clear that, majority of the MFIs are promoting formation and functioning of Self-Help groups as part of their regular business

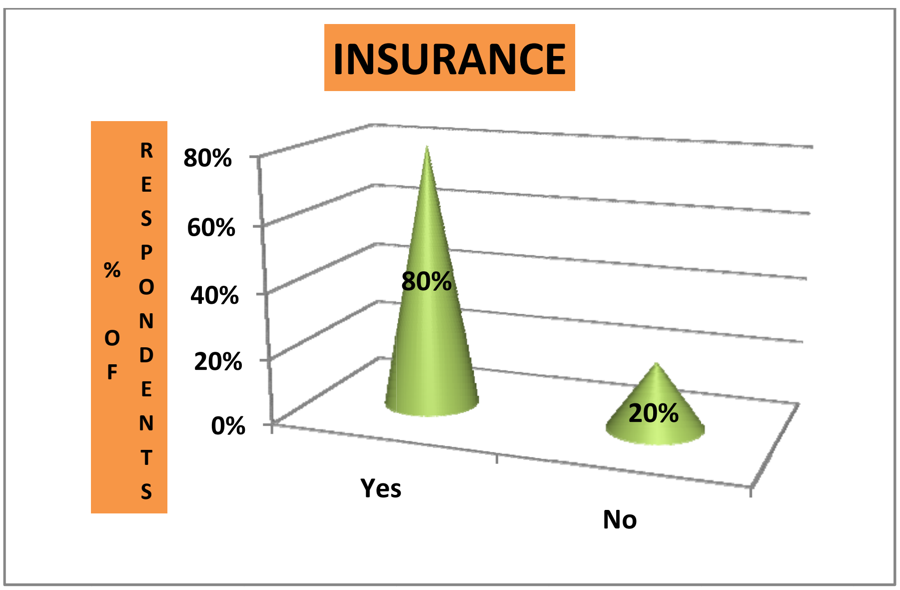
Table No. 6.5 Services offered by MFIs

Insurance	% of Respondents
Yes	80%
No	20%
Total	**100%**

Table No. 6.5 expresses that out of 10 MFI's 8 Institutions offer the Insurance service to their clients.

Now a days, insurance service offered by these institutions is called as Micro Insurance. Though it is a separate service for these institutions, majority of these institutions are providing insurance service to the clients to a large extent.

Figure No. 6.5 Services offered by MFIs



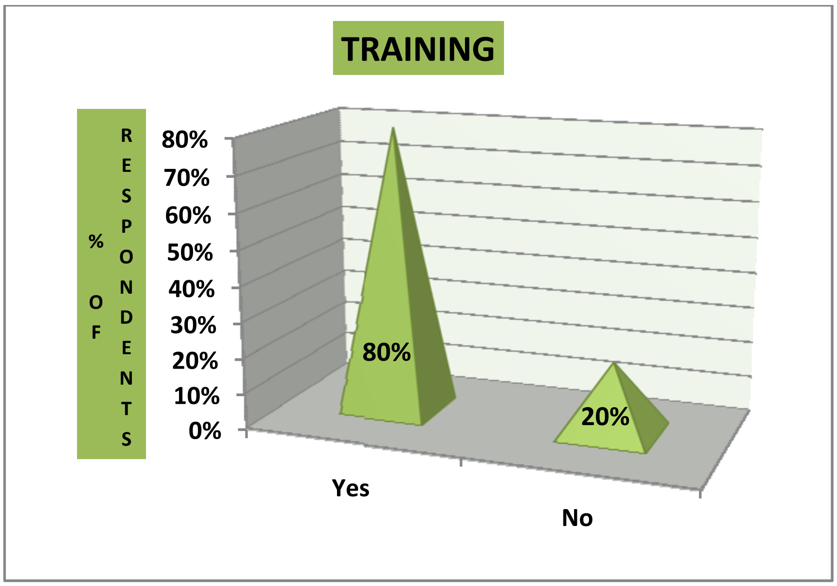
The above chart expresses that out of 10 MFI's 8 Institutions offer the Insurance service to their clients. In order to strengthen the life of the rural poor providing insurance facility is one of the important aspects of the MFI's. The chart shows, 80% of the Institutions provide this facility and 20% do not provide.

Table No. 6.6 Services offered by MFIs

Training	% of Respondents
Yes	80%
No	30%
Total	**100%**

Table No. 6.6 shows that, 80% of the Institutions i.e., 8 MFI's provide training to the clients for self employment and 20% of the Institutions fail to provide training to the members of the SHG.

Figure No. 6.6 Services offered by MFIs



From the above chart it can be concluded that, MFIs have taken up training for self employment also as a major activity in their institutions. But all the institutions are not training the people who aspire for self employment.

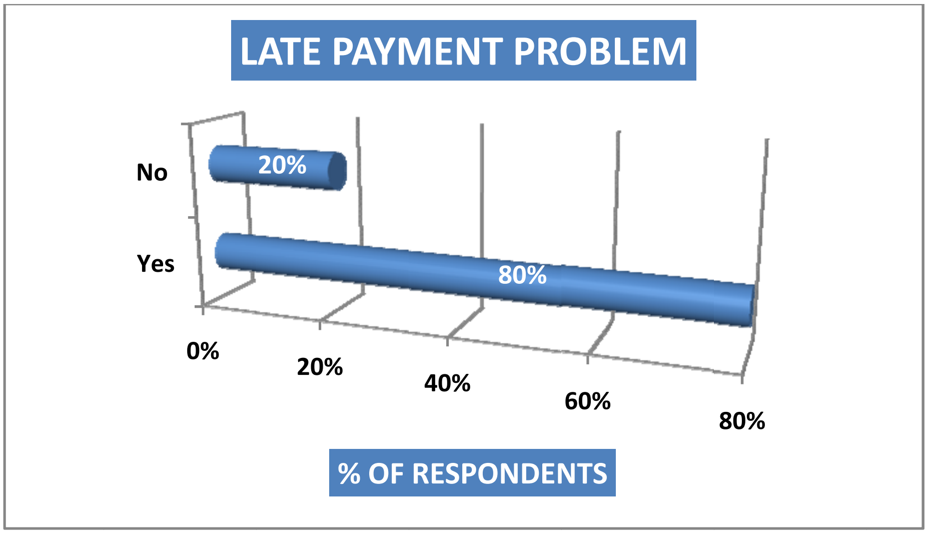
For the purpose of rendering services to the rural poor, MFIs do need financial resources and this is generated from the sources like, rising from donor resources, borrowing soft loans from agencies, borrowing from commercial banks, deposit mobilization. In the study it was found that, the important financial resources of the Micro Finance Institutions are from donor resources and borrowings from banks.

Table No.6.7 Late Payment Problems

Late Payment	% of Respondents
Yes	80%
No	20%
Total	**100%**

This table deals with the late payment problems faced by the MFI's. The interesting fact derived after the study is that 20% of the Institutions do not have the problem of late payment and working their way successfully. 80% of the institutions certainly suffer from the problem of late payment.

Figure No.6.7 Late Payment Problems



From the above graph it can be concluded that, late payment problem certainly prevails in these institutions and it has affected the normal workings of the Institutions. This would certainly affect the growth of any Institution.

The MFIs usually suffer from late payment problems. The current study reveals that the late payment problems prevails in these institutions and institutions have taken varieties of steps like, frequent visits, use of federation officers, creating awareness, convincing through Sevaniraths, issue of notice and reminders, appointing animators to overcome the late payment problems.

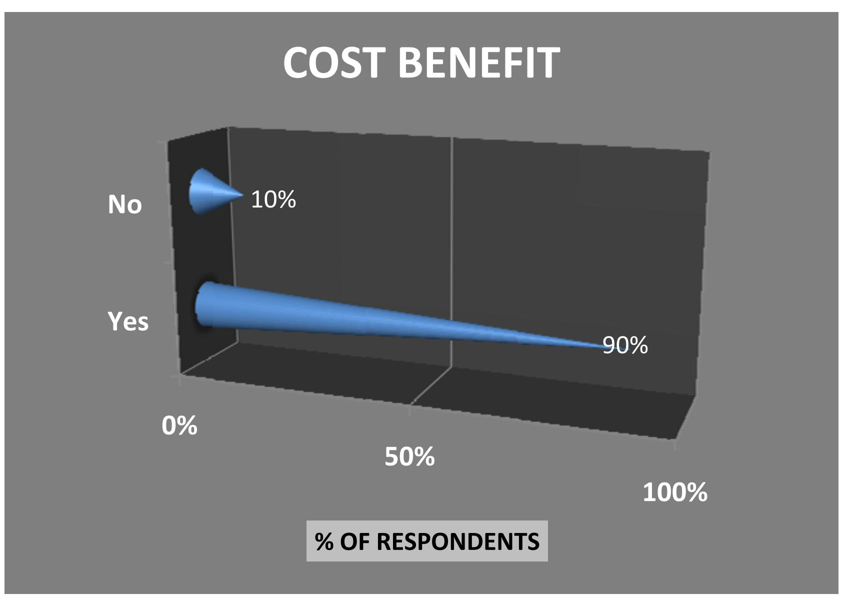
In response to the, access to the information on financial services respondents expressed that the MFIs provide the information regarding the financial services, through the staff appointed for information sharing, brochures, rules and regulations of the federations, terms and conditions, guidelines through Sevaniraths, notices etc.

Table No. 6.8 Cost Benefit to Stake Holders

Cost Benefits	% of Respondents
Yes	90%
No	10%
Total	**100%**

Table No. 6.8 shows whether any cost benefit is given to stake holders of the institution. And study reveals that 90% of the MFI's provide cost benefit to their clients irrespective of the nature of benefit. Only 1 MFI fails to extend the cost benefit to the stake holders.

Figure No. 6.8 Cost Benefit to Stake Holders



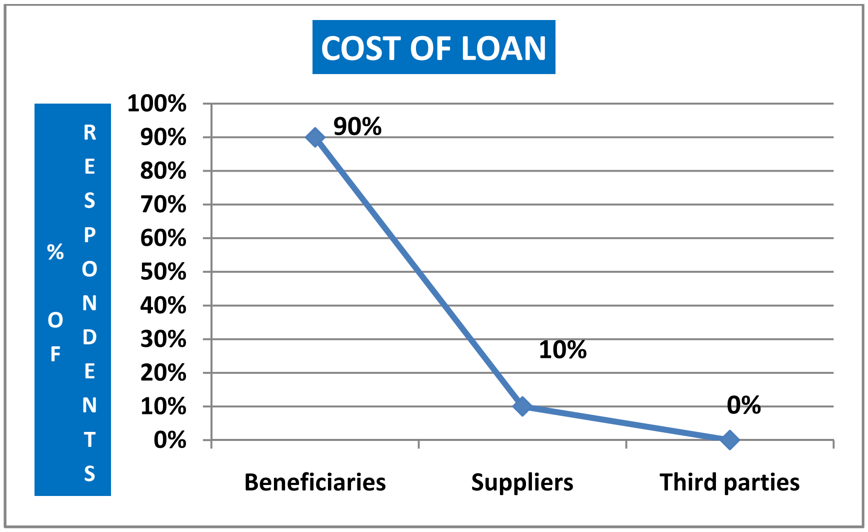
From the above chart it can concluded that, stakeholders get the cost benefit in the services they receive from the MFIs and it is one of the leading criteria which will enhance the efficiency and performance of the MFIs in the long run.

Table No. 6.9 Cost of Loan Favoring Stakeholders

PARTICULARS	Beneficiaries	Suppliers	Third parties	Total
% of Respondents	90%	10%	0%	100%

The above table is used to denote whether cost of loan given by MFI's is favorable to various stakeholders or not. The stakeholders were classified as Beneficiaries, Suppliers and third Parties.

Figure No. 6.9 Cost of Loan Favoring Stakeholders



Upon analyzing, researcher comes to know that, 90% of the MFI's cost of loan is favorable to beneficiaries to a large extent. One institution, along with benefiting beneficiaries, it benefits cost of loan to suppliers also. But no MFI offers cost of loan benefit to ant third parties.

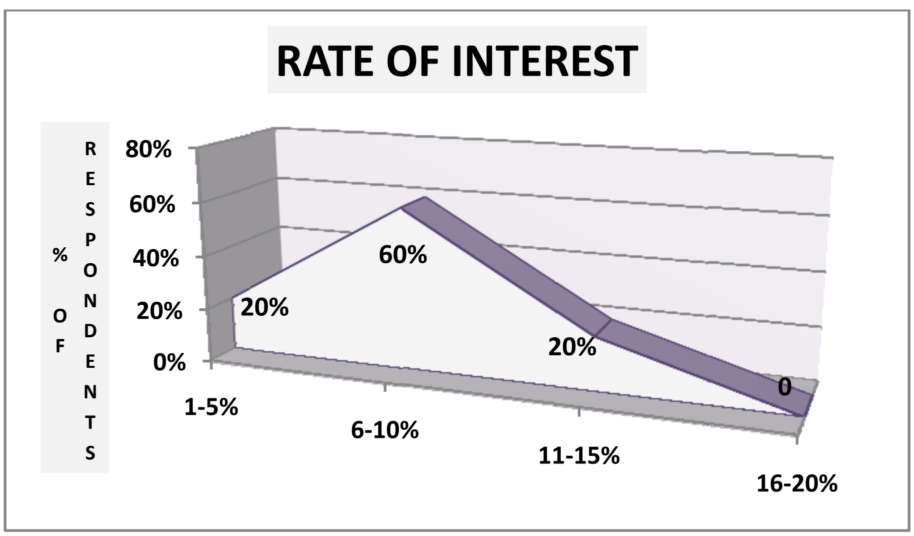
Thus, it can be concluded that, the leading MFIs cost of loan favoures the beneficiaries than any other stakeholders of the society and it is a positive sign for the welfare of the rural poor who are exempted from the financial services.

Table No. 6.10 Rate of Interest on Financial Products

Particulars	1-5%	6-10%	11-15%	16-20%	**Total**
% of Respondents	20%	60%	20%	0%	**100%**

Table No. 6.10 is drawn to ascertain the rate of interest charged by the MFI's on their products. Questionnaire contains the rate of interest ranging from 1-5%, 6-10%, 11-15%, 16-20%. Out of 10 MFI's two Institutions charge 1-5%, 6 MFI's charge 6-10% and two more institutions charge 11-15% interest.

Figure No. 6.10 Rate of Interest on Financial Products



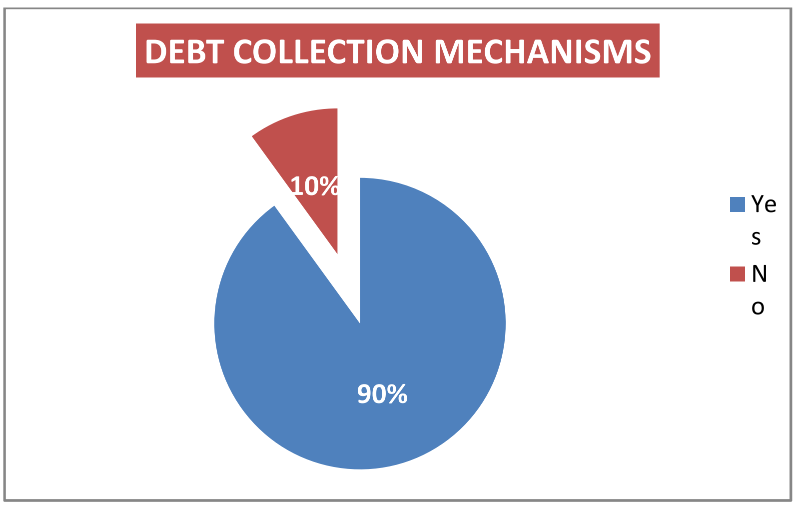
From the above graph it is very clear that, MFIs are charging moderate interest which is not so high and which is acceptable in the current financial market. No MFI charge interest more than 15% and this is one good indicator that expresses the social concern of these Institutions. So, 6-10% interest charged by these MFI's are identified as ideal in the Micro Finance sector.

Table No.6.11 Debt Collection Mechanisms

Debt Collection Mechanisms	% of Respondents
Yes	90%
No	10%
Total	**100%**

Table No. 6.11 shows whether any debt collection mechanism is followed by the Institutions. The major problem faced by many MFIs is in debt collection. The failure of the Institutions in debt collection will certainly affect their service delivery in future.

Figure No.6.11 Debt Collection Mechanisms



The above chart depicts, 90% of the MFI's selected for the study have a specific debt collection mechanism practiced by them. Only one Institution suffers from not having a specific mechanism for debt collection. Thus, from the above analysis it can be concluded that the MFIs are satisfactorily getting success in collecting debt from the clients.

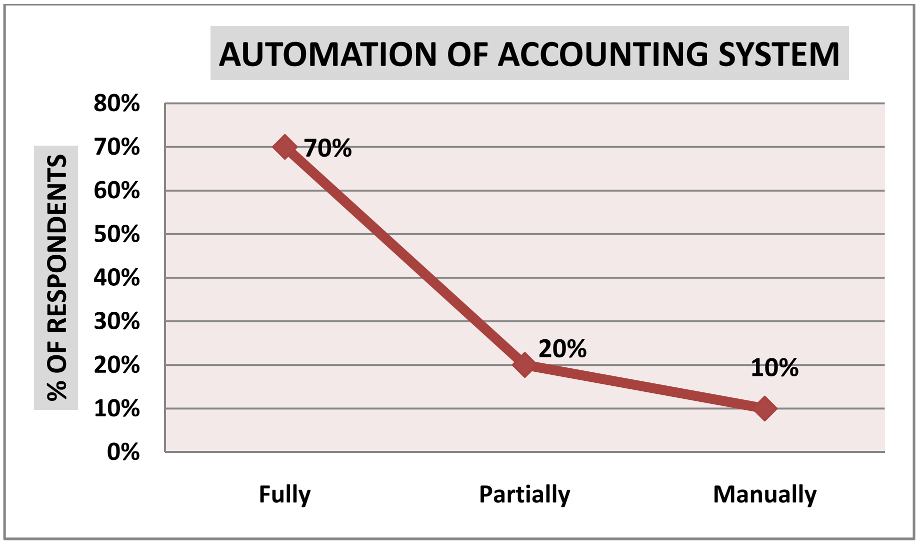
The MFIs face varieties of problems in reaching the target group for the delivery of services. In the study it was found that, the major problems faced by the MFIs are travel time, security reasons, inadequate information, lack of basic infrastructure, in adequate financial resources etc. These problems are highly affecting the desired growth of the MFIs.

Table No. 6.12 Automation of Accounting Systems

Particulars	Fully	Partially	Manually	Total
% of Respondents	70%	20%	10%	**100%**

In order to bring transparency in their operations it is advisable to go for automation of accounting system. In the questionnaire, to ascertain the automation followed for accounting options like manually, fully or partially was given. The above table depicts the percentage on which the accounting systems are automated in these Institutions.

Figure No. 6.12 Automation of Accounting Systems



The above graph presents the facts on automation of accounting systems. It was found that for about 70% of the 10 selected MFIs maintain accounts completely using automation, 20% use it partially and one MFI practices manual system of accounting in their operations regularly.

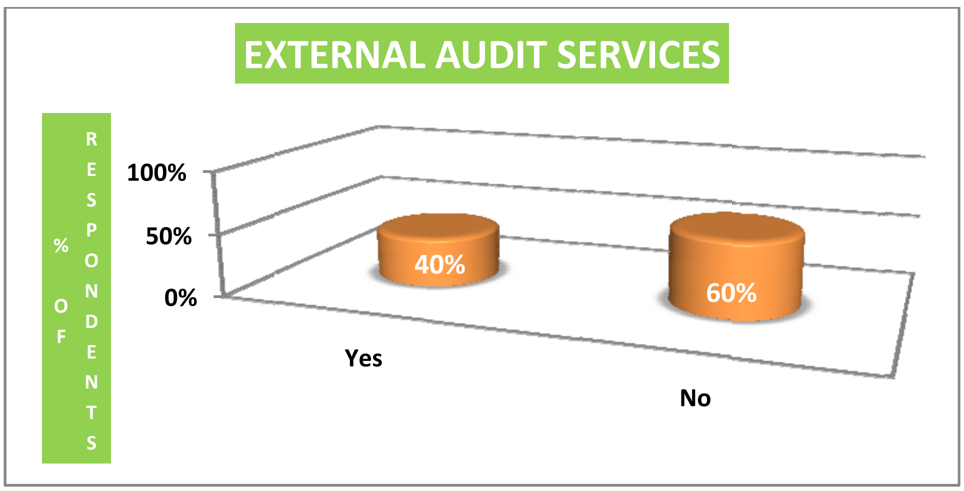
It is clearly observed that, majority of the MFIs are using computer assisted accounting systems in their Institutions. And few of them are practicing it ever since they have established.

Table No. 6.13 Audit Practices followed

External Audit	% of Respondents
Yes	40%
No	60%
Total	**100%**

Table No. 6.13 exhibits the external audit service employed by the MFIs to examine the accounts maintained by their accounting staff. In order to bring accuracy in the operations of MFI's it was identified as necessary to have various kinds of audits to increase the reliability of the performance of MFI's enabling them to expand their business.

Figure No. 6.13 Audit Practices followed



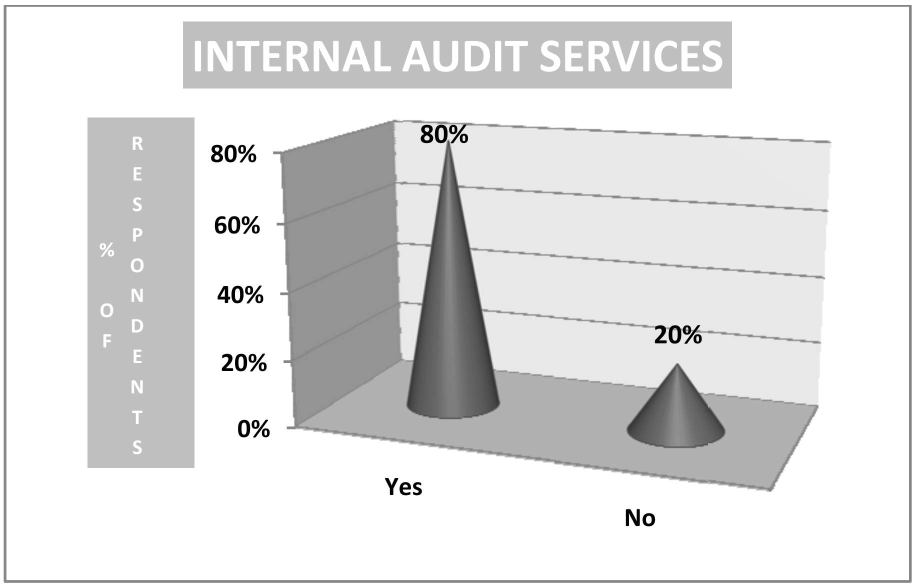
In the above chart, it is identified that 60% of the MFI's go for taking external auditors service to audit their books of accounts. And the rest i.e., 40% of the MFI's prefer other type of audits instead of preferring external audit service.

Table No.6.14 Audit Practices followed

Internal Audit	% of Respondents
Yes	40%
No	60%
Total	**100%**

Table No. 6.14 shows the internal audit employed by the MFIs in examining the accounts of the Institutions. The Institutions not just follow external audit. In addition to external audit, they also practice internal audit.

Figure No.6.14 Audit Practices followed



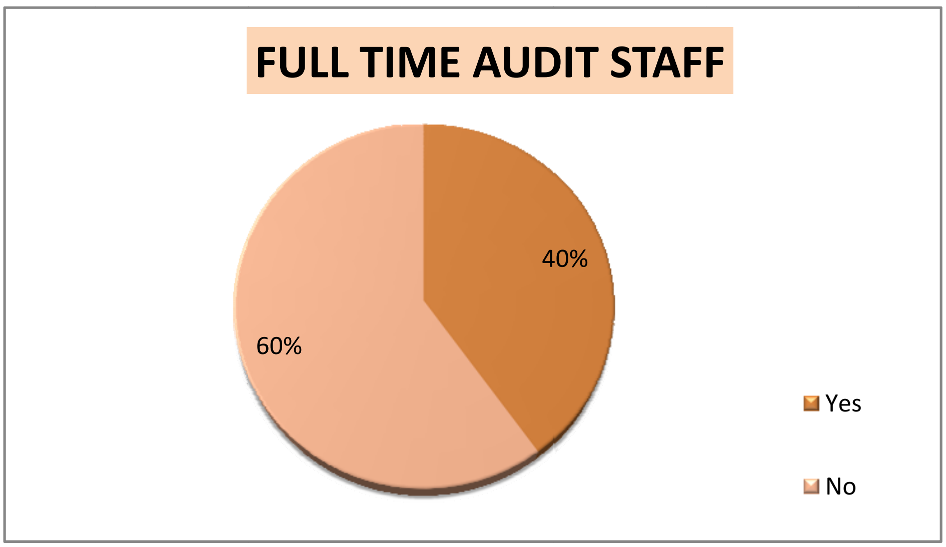
The above chart exhibits the Internal Audit Service employed by the selected MFI's of the study. 8 MFI's out of ten use the Internal Audit Service along with employing external audit service resulting in cumulative percentage of 80%. 20% of the MFI's are not in favor of using internal audit service. Thus, it can be concluded that MFIs are acting more responsibly in protecting the interest of the stakeholders by practicing both internal and external audit in their operations.

Table No. 6.15 Audit Practices followed

Full time Audit	% of Respondents
Yes	80%
No	20%
Total	**100%**

Table No. 6.15 shows that, full time audit staff can also be employed to ensure the accuracy and correctness of the accounts. From the above table it is clear that, MFIs do like employing full time audit staff for the purpose of checking the accuracy of the accounts maintained by the accounting staff.

Figure No. 6.15 Audit Practices followed



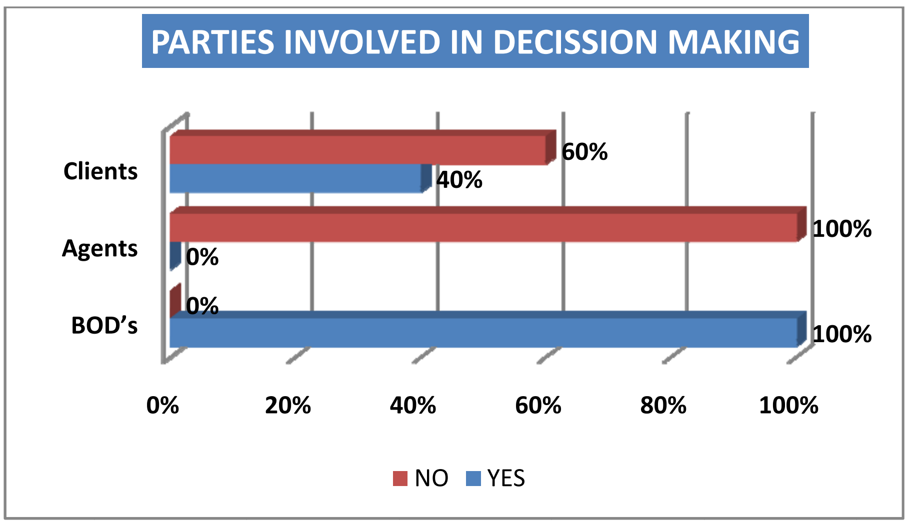
In the present study, 60% of the institutions exercise full time audit as part of their auditing. 40% of the institutions do not practice full time audit and they just rely upon the external audit services at large. From this it can be clearly concluded that, in order to be more responsible towards the stakeholders of the MFIs, these institutions practice all the types audit to check the correctness of the books of accounts maintained.

Table No.6.16 Parties Involved in Decision Making

Parties Involved	% of Respondents		Total
	Yes	No	
BOD's	100%	0%	**100%**
Agents	0%	100%	**100%**
Clients	40%	60%	**100%**

Table No. 6.16 shows that, the success of any Institution largely depends on its management and the people involved in decision making. In a Micro Finance Institution, various people like BOD's, Agents, and Clients take part in decision making process.

Figure No.6.16 Parties Involved in Decision Making



Here, all the ten MFI's allow the BOD's and Agents to participate in the decision making process of the concern. 60% of the MFI's allow clients to take part in decision making process along with BOD's and Agents. So the chart shows that the involvement of clients in decision taking is not in equilibrium with other parties concerned.

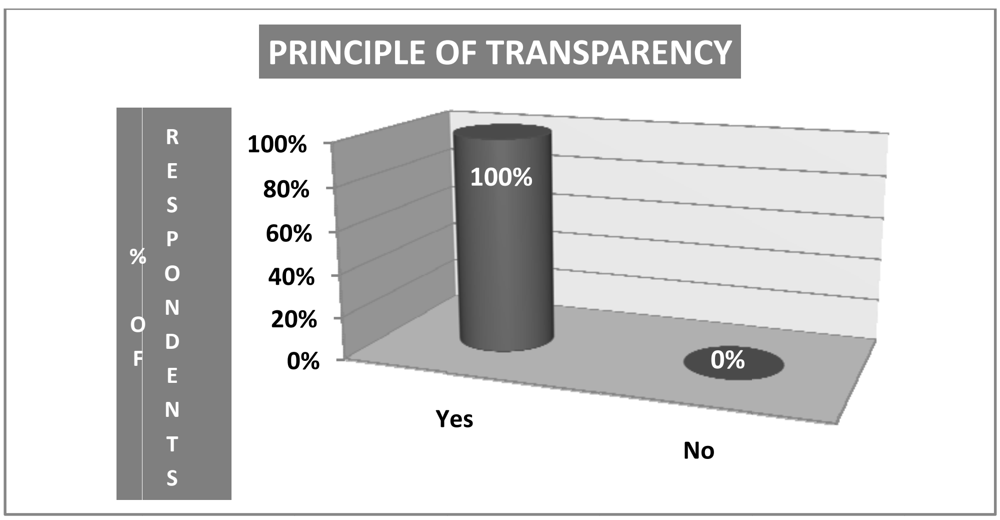
Here it can be concluded that, the institution which is progressive in nature will certainly take the views of various stakeholders to make its operations more responsive towards the welfare of the rural poor. In the study it was found that, not much scope is given for the participation of the clients in decision making process of these MFIs.

Table No. 6.17 Practice of Transparency

Transparency	% of Respondents
Yes	100%
No	0%
Total	**100%**

Table No. 6.17 shows that all the 10 MFI's do practice the principles of Transparency in their business. The major element in the governance of any Institution of finance is Transparency. The institution which practices transparency is judged as the most responsible institution towards its stakeholders.

Figure No. 6.17 Practice of Transparency



The above chart clearly indicates that MFI's have taken transparency as a needed tool for ensuring the effectiveness of services offered by them to the society. This is shown in the chart as, 100% of the MFI's work under the principles of transparency. Thus, one can conclude that, transparency practiced in these Institutions are widely recognized in the financial market and it also expresses the level of governance exercised in the MFIs making them more accountable towards the stakeholders of the MFIs.

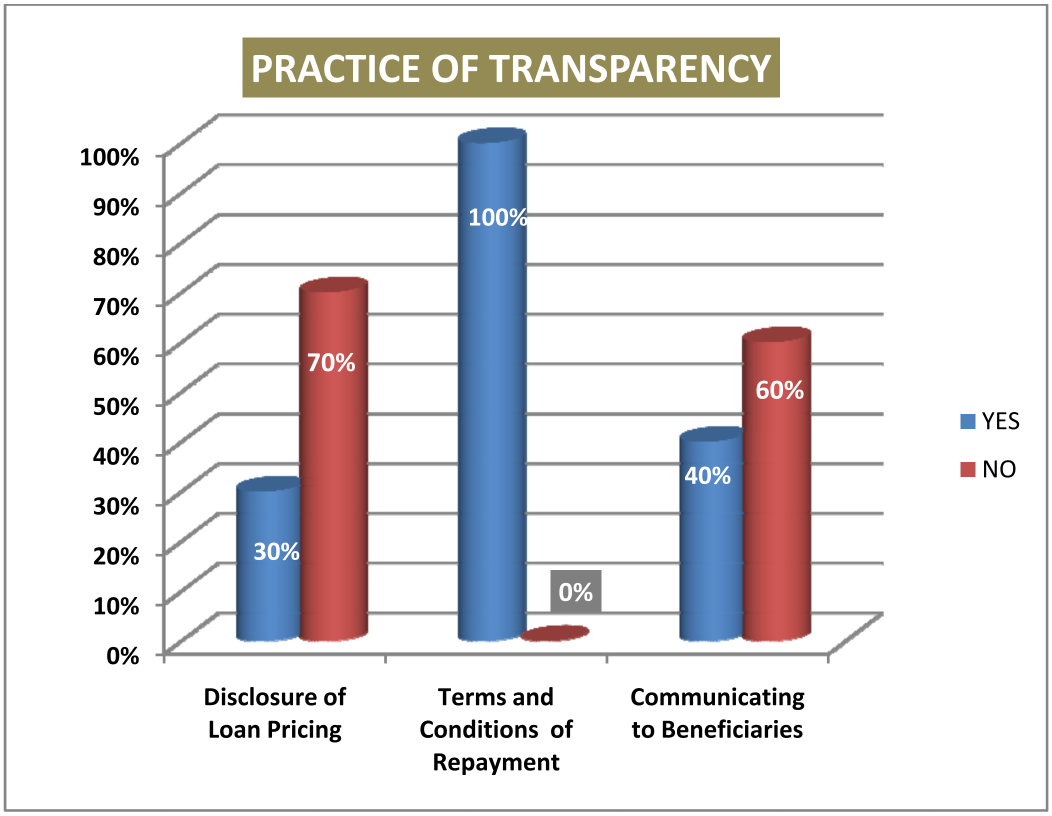
In the study it was also found that as part of Transparency MFIs are initiating some best practices. The best practices are, disclosure of annual reports, participation of stakeholders in regular meetings, encouraging for self employment, asset creation and community development, information through websites, guidelines, group empowerment programme, training through CRE, rural upliftment, marketing training, directions for proper utilization of loans etc.

Table No.6.18 Practices of Transparency

Practices	% of Respondents		Total
	Yes	No	
Disclosure of Loan Pricing	30%	70%	**100%**
Terms and Conditions of Repayment	100%	0%	**100%**
Communicating to Beneficiaries	40%	60%	**100%**

Table No. 6.18 is used to denote the various transparency tools used by the MFI's. The table shows, 30% of the MFI's are disclosing the loan pricing of their products and 70% are not. The major criteria of transparency when it comes to MFIs are disclosure of Loan Pricing. This indicates, this is rightly practiced by these Institutions.

Figure No.6.18 Practices of Transparency



In the above graph it is also clear that, all the 10 MFI's make it mandatory to practice the disclosure of terms and conditions for repayment of loan resulting in 100%. When it comes to interacting with Beneficiaries, 40% of the institutions are communicating to the beneficiaries and 60% of the MFI's are not communicating with the beneficiaries on their products and repayment of loan or recovery as part of the governance Practice.

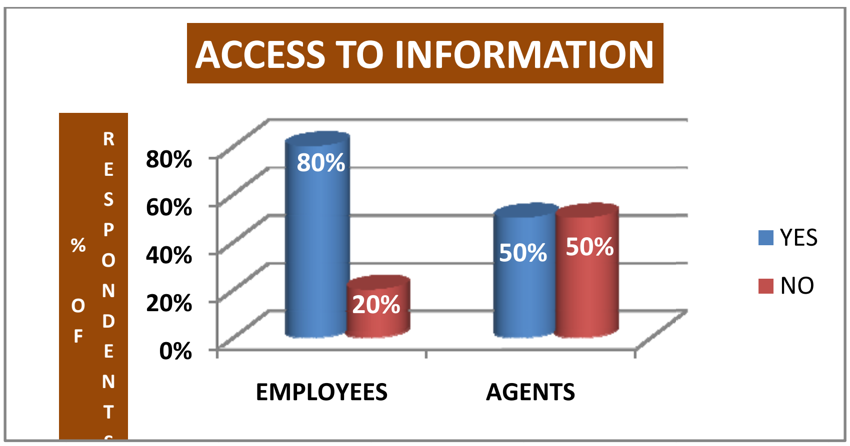
Thus, it can be concluded that, the practices of transparency certainly adds value to the services rendered by the MFIs and makes each institution unique and recognized in the field of Micro Finance.

Table No.6.19 Access to Information

Access to Information	% of Respondents		Total
	Yes	No	
Employees	80%	20%	**100%**
Agents	50%	50%	**100%**

Table No. 6.19 exhibits how far Micro finance Institution stakeholders have access to information about various services and other related financial matters of the institution. The above graph shows that, 80% of the agents have the privilege of accessing information required by them and 20% do not have any access to information.

Figure No.6.19 Access to Information



The above chart also shows, when it comes to employees, 50% of them have access and rest of the 50% have no access to information required by them. Information access is one of the important criteria of transparency. As transparency is one of the dominant factors in governance, the institution which provides the required information is termed as the institution with good governance.

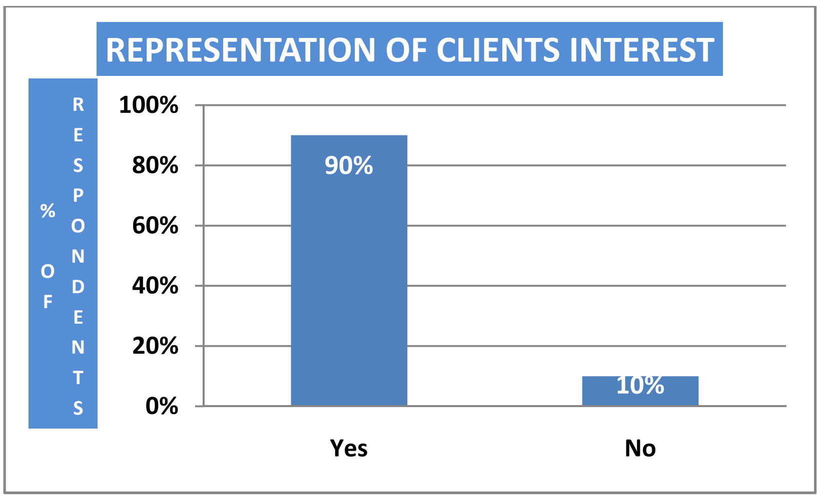
From this it is clear, the employees and agents have access to information in the MFIs. This support from the MFIs will help them to reach the unreached in terms of delivery of service.

Table No.6.20 Representation of clients Interest

Clients Interest	Percentage
Yes	90%
No	10%
Total	**100%**

Table No.6.20 shows that, 90% of the institutions have mechanisms for protecting interest of the clients. Protection of clients is a leading factor for the success of any institution. The table also shows 10% of institutions do not protect the interests of the MFI clients.

Figure No.6.20 Representation of clients Interest



From the above chart, it is clear that, out of Ten MFIs, eight MFIs have the mechanisms of representing the clients Interest to a larger extent. This also indicates the clients are given the opportunity of sharing their views with the management about the problems faced by them and means of improving the quality of service.

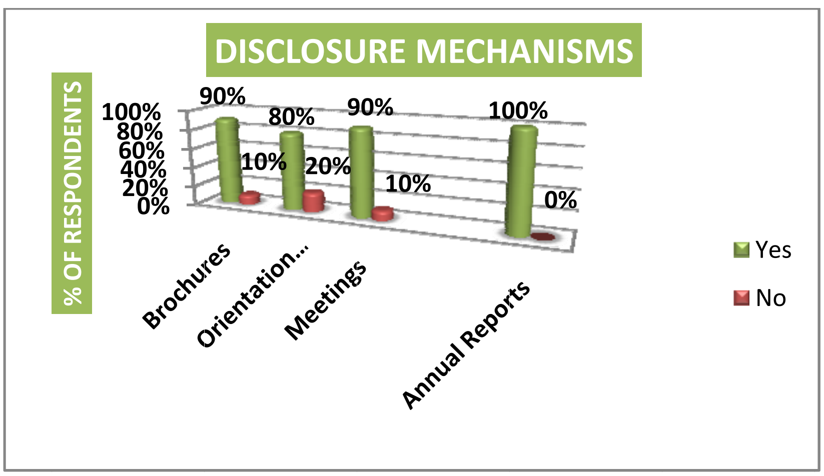
The study reveals that, institutions have taken up certain mechanisms to ensure the representation of client's interest like allowing them to participate in meeting, allowing them to file the complaints through animators, federations, taking resolutions from federations, employment opportunities, verification of interest subsidy disbursed etc.

Table No.6.21 Disclosure Mechanisms Used

Disclosure Mechanisms	% of Respondents		Total
	Yes	No	
Brochures	90%	10%	**100%**
Orientation Sessions	80%	20%	**100%**
Meetings	90	10%	**100%**
Annual Reports	100%	0%	**100%**

The table No. 6.21 represents, the disclosure mechanisms followed by MFIs as part of their governance. Various disclosure mechanisms are used by these institutions like brochures, orientation sessions, Meetings, annual reports etc.

Figure No.6.21 Disclosure Mechanisms Used



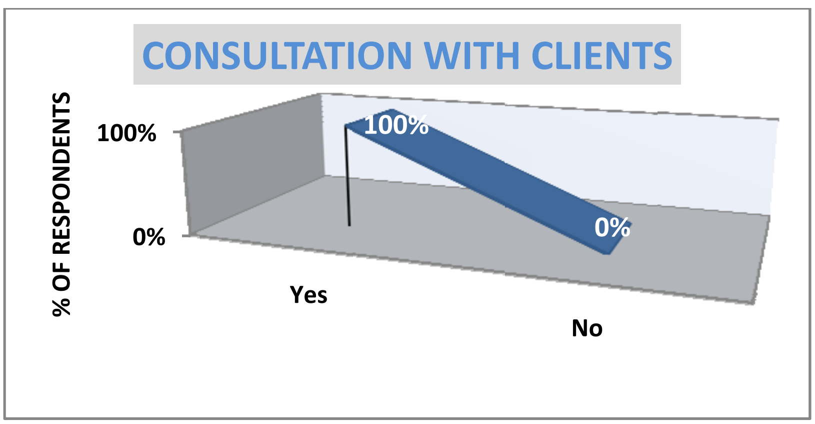
of the total institutions taken for study, 90% are using brochures as one disclosure mechanism, 80% of them use orientation sessions, 90% of them use Meetings, and all the ten institutions use annual reports resulting in 100% as part of disclosure mechanism. This data reveals that, the institutions are rightly ahead in terms of disclosure and governance practices contributing to the welfare of the poor.

Table No.6.22 Consultation with Clients

Consultation	Percentage
Yes	100%
No	0%
Total	**100%**

Table No. 6.22 presents that, all the 10 MFIs resulting in 100% do consult the clients before they take any policy decision which is responsive to the needs of the client. The Institutions should clearly know what is required for the society and they should try to make their every move responsive and beneficial to the welfare of the society.

Figure No.6.22 Consultation with Clients



The Above chart exhibits, MFIs are taking reasonable care towards stakeholders in meeting their requirements. The institution before it takes any decision must consult the representatives of stakeholders to make its decision and policies responsive to the needs of the clients.

From this it is clear, MFIs are making their policy responsive to the needs of the clients so that their service delivery meets the actual needs of the rural poor who are exempted from the financial services.

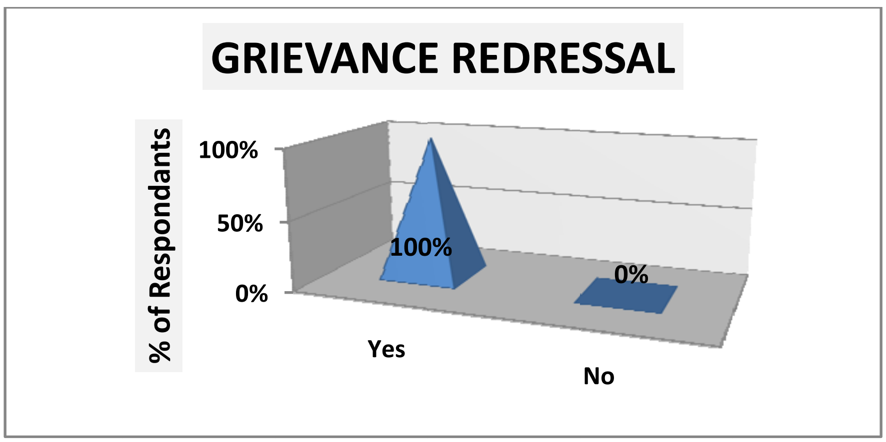
In order to make MFI policies responsive to the needs of the clients, MFIs have taken several initiatives like, consultation with clients, informing through the office members, feedback and review meetings, resolutions by federations, participation in decision making process, National Pension Scheme facility, quick audit practice in consultation with clients etc.

Table No.6.23 Grievance Redressal

Grievance Redressal	% of Respondents
Yes	100%
No	0%
Total	**100%**

Table No. 6.23 shows, the grievance redressal mechanism practiced by the MFIs in ensuring the interest of clients protected. Grievance redressal is quite commonly needed mechanism in these days for many of the institutions. In the present study, it is identified that, all the 10 MFIs have grievance redressal mechanisms.

Figure No.6.23 Grievance Redressal



The above chart shows, these institutions have their own method of grievance redressal mechanisms resulting in 100% problem solving approach. This shows, to what extent present day MFIs are responsible towards the society though they have allegations from the various corners of the society about not practicing governance in their operations.

Thus, it can be concluded that, MFIs do take reasonable care and diligence in settling the grievance of the clients and related stakeholders.

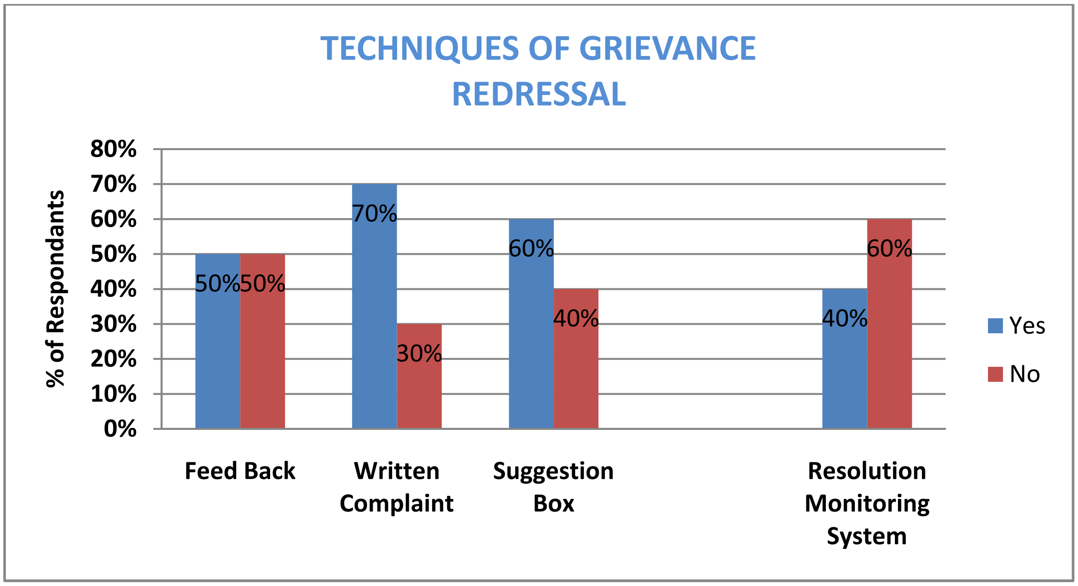
One of the most important influential factors of governance is grievance redressal. The conflicts and difference of opinion arising between the Institutions and clients, agents and clients and between the various stakeholders should be properly dealt to bring efficiency in the operations of the MFIs. In the study it was found that, for the grievance redressal institutions use various mechanisms like, grievance redressal Cell, interactions and negotiations with the parties concerned, office bearers solving the problem, grievance redressal office, vigilance department working at head office and at branch level.

Table No. 6.24 Techniques of Grievance Reddressal Mechanisms

Mechanisms	**% of Respondents**		**Total**
	Yes	No	
Feed Back	50%	50%	**100%**
Written Complaint	70%	30%	**100%**
Suggestion Box	60%	40%	**100%**
Resolution Monitoring System	40%	60%	**100%**

Table No. 6.24 shows, in order to ensure grievance redressal, MFIs do practice the above shown techniques like Feedback, Written complaint, suggestion Box, resolution monitoring system and many more.

Figure No. 6.24 Techniques of Grievance Reddressal Mechanisms



The above chart shows, in 50% of the institutions feedback is used as one redressal mechanism, in 70% of the institutions written complaint is taken as the redressal mechanism, in 60% of the institutions suggestion box is taken as a tool and in 40% of the institutions, resolution monitoring system is preferred as a tool for grievance redressal mechanism.

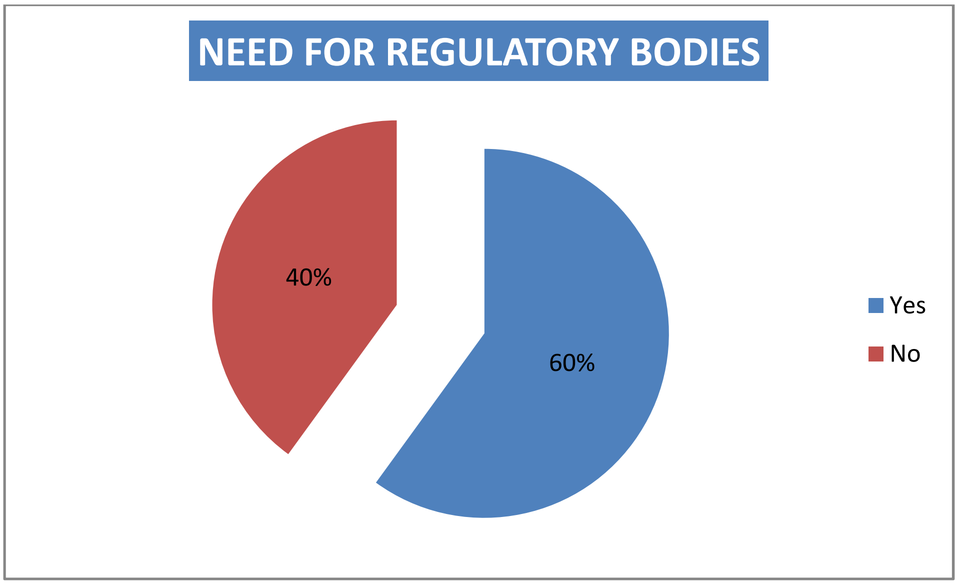
Thus, from this it is clear that, using of the above techniques for grievance redressal has helped these MFIs to understand the issues causing the relationship with the institutions and addressing it instantly as and when it arises.

Table No. 6. 25 Need for Regulatory Bodies

Regulatory Bodies	% of Respondents
Yes	60%
No	40%
Total	**100%**

Table No. 6.25 is used to represent the opinion of the MFIs on formulating regulatory bodies. The majority of the selected MFIs are of the opinion to set up an exclusive regulatory bodies to monitor the operations of the MFIs as it has got increased importance in the present day context.

Figure No. 6. 25 Need for Regulatory Bodies



The above chart shows, 60% of the MFIs expressing their willingness for formulating of the regulatory bodies and the rest 40% are not in favour of formulation of regulatory bodies. The leading MFIs have identified the role of regulatory bodies in ensuring the quality of service of these institutions and those institutions which are not in favour of regulatory bodies still think that the formation of regulatory bodies will restrict their free fly in this field of finance.

While concluding it can be rightly said, for the current day Micro Finance Industry, there is a definite need of regulatory body to govern and control the operations of MFIs to ensure the interest of the stakeholders are protected.

TESTED HYPOTHESES:

1. The governance practices of Micro Finance Institutions are in line with the guidelines of governance.

   Variables identified: **10, 10, 4, 8, 9, 10, 4, and 3**

   i. Computed mean: 7.25

   ii. Population mean:10

   iii. Standard Deviation: 3.22

   iv. Standard Error: 1.14

   v. t value: -2.19

   vi. t value (CV): 1.895 at 5% significance level, Degree of Freedom 7

   vii. Conclusion: calculated t value (-2.19) is smaller than the critical value (1.895). We reject the H_1 and accept H_0 therefore t is not significant and proved that microfinance institutions are not in the line with the guidelines of governance.

2. Degree of transparency is more influencing factor on MFIs compared to accounting and auditing factor of governance.

   Variables identified: **4, 5, 7, 5, and 4**

   a. Computed mean: 5

   b. Population mean:10

   c. Standard Deviation: 1.22

   d. Standard Error: 0,545

   e. t value: -9.17

   f. t value (CV): 2.132 at 5% significance level, Degree of Freedom 4

g. Conclusion: calculated t value (-9.17) is smaller than the critical value (2.132). We reject the H_1 and accept H_0 therefore t is not significant and proved that in microfinance institutions Degree of transparency is more influencing factor compared to accounting and auditing factor of governance

3. Regulatory boards play a major role in establishing governance in MFIs

   Variables identified: 4, 7, 6, 3, 8, 2, and 9

   A. Computed mean: 5.57
   B. Population mean:10
   C. Standard Deviation: 6.95
   D. Standard Error: 2.63
   E. t value: -1.68
   F. t value (CV): 1.943 at 5% significance level, Degree of Freedom 6
   G. Conclusion: calculated t value (-1.68) is smaller than the critical value (1.943). We reject the H_1 and accept H_0 therefore t is not significant and proved that regulatory boards play a major role in establishing governance in MFIs.

CHAPTER – VII

FINDINGS AND SUGGESTIONS

Findings

On the basis of primary data, secondary data and the interactions with the policy makers have resulted in the revelation of following findings.

1) The important financial resources of the Micro Finance Institutions are from donor resources and borrowings from banks.
2) The MFIs provide required information on the services to the people in need.
3) The MFIs face varieties of problems in reaching the target group for the delivery of services.
4) The percentages of interest charged by the institutions are reasonable and rural friendly.
5) MFIs do follow effective auditing and automation to ensure better accountability in their operations.
6) MFIs are transparent enough to be responsible towards the stakeholders of the MFIs.
7) MFIs practice the disclosing of the terms and conditions of repayment and communicating to the beneficiaries on their operations.
8) MFIs practice the mechanisms of protecting the interest of the clients.
9) All the MFIs are transparent in their operations.

Suggestions:

On the basis of the research undertaken, the data collected through secondary and primary data Following suggestions are recommended.

1) MFIs are more expected to render services towards the rural poor who are affected by local money lenders.
2) As MFIs are suffering from the conceptual clarity of the Micro Finance service they have to render, they should be clear with what they have to do actually to uplift the rural poor from poverty
3) Most of the MFIs suffer from late payment problems and they should come up with new mechanisms to overcome this problem in contrary to the existing techniques.
4) MFIs should encourage the rural poor to take up self employment from the financial service they receive.
5) MFIs need to be more clients friendly when people approach them for finance.
6) MFIs have to be more soft in debt collection mechanisms because, the existing methods are not so encouraging and its demoralizing the applicants.
7) Effective Governance in MFIs should be widely practiced in view of efficient performance and increased transparency.
8) Though governance is practiced, it is not effectively implemented in all the institutions. So, MFIs should be properly educated by making them to know the benefits of transparency and governance in the financial market.
9) As MFIs are criticized for trying to deceive the poor people by charging higher rate of interest, they must be controlled by establishing proper regulatory mechanisms.
10) As MFIs fail in effective implementation of governance there is a need of establishing regulatory body to monitor and govern the MFIs in the long run.

11) It is advisable to majority of the institutions to follow the service delivery and operational methods adopted by the leading institutions like, SKDRDP, IDF, Navodaya Grama Vikasa Trust, Samastha Micro Finance and Bharathiya Swamukthi Samsthe.

Conclusion

Primarily, as microfinance institutions (MFIs) grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement by a board. Additionally, increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is perhaps their most important challenge and requires the greatest oversight. Finally, MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objective.

Therefore, a clear articulation of the function of microfinance boards is essential for their effective governance. After analyzing the basic issues in Micro Finance Institutions and types services offered and existing governance prevailing in these institutions, the researcher proposes to establish the environment which will strengthen the micro finance sector and the conditions that must exist to achieve effective governance.

CHAPTER – VIII

SUMMARY AND CONCLUSION

Summary and conclusion

Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'unreached poor'. In the Indian context terms like "small and marginal farmers", "Rural artisans" and "economically weaker sections" have been used to broadly define micro-finance customers. Research across the globe has shown that, over time, microfinance clients increase their income and assets, increase the number of years of schooling their children receive, and improve the health and nutrition of their families. The earliest phase of Indian Microfinance can be described from early 20th century until 1969, when credit cooperatives largely dominated as an institution in provision of microfinance services. This phase began with passing of Cooperative Societies Act 1904, to extend credit in Indian villages under government sponsorship. This step was provoked by agrarian riots in the Deccan in the late 19th century that brought forth the issue of farmer indebtness to moneylender to British Government. The agrarian riots prompted the British Government to give thrust to the system of Taccavi loans to farmers, regulate money lending and promote rural credit cooperatives as an alternative to money lenders. Between 1950 & 1969, the emphasis was on the promoting of cooperatives. The nationalization of the major commercial banks in 1969 marks a watershed inasmuch as from this time onwards the focus shifted from the cooperatives as the sole providers of rural credit to the multi agency approach. This also marks the beginning of the phenomenal expansion of the institutional structure in terms of commercial bank branch expansion in the rural and semi-urban areas. For the next decade and half, the Indian banking scene was dominated by this expansion. However, even as this expansion was taking place, doubts were being raised about the systemic capability to reach the poor. Regional Rural Banks were set up in 1976 as low cost institutions mandated to reach the poorest in the credit-deficient areas of the country. In hindsight it may not be wrong to say that RRBs are perhaps the only institutions in the Indian context which were created with a specific poverty alleviation - microfinance – mandate.

India is a country where demand for microfinance services amongst the poor far exceeds supply. Fewer than 10 percent of India's 75-80 million households that could make use of micro-finance have access to it. One of the greatest barriers is the industry's lack of capital.

Inclusive growth always received special emphasis in the Indian policy making. Government of India and the Reserve Bank of India have taken several initiatives to expand access to financial systems to the poor. Some of the salient measures are nationalisation of banks, prescription of priority sector lending, differential interest rate schemes for the weaker sections, development of credit institutions such as Regional Rural Banks, etc.

Despite the policy efforts, gap remains in the availability of financial services in rural areas. The dependence of the rural poor on money lenders continues, especially for meeting emergent requirements. Such dependence is more pronounced in the case of marginal farmers, agricultural labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose capacity to save is too small.

The crux of issue is the MFIs were initially promoted by voluntary agencies popularly referred as NGOs with the firm focus on community services and emancipation of the poor from poverty.

With the global attention attached to microfinance, promotion of MFIs itself, was transformed in to a global business opportunity and servicing the poor itself became a business goal of such institutions.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation. Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. A logical way to tap capital market is securitization through a corporation that purchases loans made by microenterprise institutions with the funds raised through the bonds issuance on the capital market.

In the microfinance field, governance has assumed increasing importance for several reasons.

Objectives of the Study

The objectives of the study are

1. To asses and analyze the governance issues of microfinance institutions in Karnataka.
2. To ascertain the factors that influences governance in MFIs.
3. To ascertain the importance of regulatory boards in establishing governance in Micro Finance Institutions.

Hypotheses

The following hypothesis were formulated and tested to check the authenticity of the data collected.

Ho_1 The governance practices of Micro Finance Institutions are not in line with the guidelines of governance.

Ho_2 Degree of transparency is more influencing factor on MFIs compared to accounting and auditing factor of governance.

Ho_3 Regulatory boards play a major role in establishing governance in MFIs

Findings

In the present research, on the basis of primary data, secondary data and the interactions with the policy makers have helped the researcher to record the following findings.

1) The important financial resources of the Micro Finance Institutions are from donor resources and borrowings from banks.
2) The MFIs provide required information on the services to the people in need.
3) The MFIs face varieties of problems in reaching the target group for the delivery of services.
4) The percentages of interest charged by the institutions are reasonable and rural friendly.
5) MFIs do follow effective auditing and automation to ensure better accountability in their operations.

6) MFIs are transparent enough to be responsible towards the stakeholders of the MFIs.
7) MFIs practice the disclosing of the terms and conditions of repayment and communicating to the beneficiaries on their operations.
8) MFIs practice the mechanisms of protecting the interest of the clinets.
9) All the MFIs are transparent in their operations.

Suggestions:

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1) MFIs are more expected to render services towards the rural poor who are affected by local money lenders.
2) As MFIs are suffering from the conceptual clarity of the Micro Finance service they have to render, they should be clear with what they have to do actually to uplift the rural poor from poverty
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5) MFIs need to be more clients friendly when people approach them for finance.
6) MFIs have to be more soft in debt collection mechanisms because, the existing methods are not so encouraging and its demoralizing the applicants.

7) Effective Governance in MFIs should be widely practiced in view of efficient performance and increased transparency.

8) Though governance is practiced, it is not effectively implemented in all the institutions. So, MFIs should be properly educated by making them to know the benefits of transparency and governance in the financial market.

9) As MFIs are criticized for trying to deceive the poor people by charging higher rate of interest, they must be controlled by establishing proper regulatory mechanisms.

10) As MFIs fail in effective implementation of governance there is a need of establishing regulatory body to monitor and govern the MFIs in the long run.

11) It is advisable to majority of the institutions to follow the service delivery and operational methods adopted by the leading institutions like, SKDRDP, IDF, Navodaya Grama Vikasa Trust, Samastha Micro Finance and Bharathiya Swamukthi Samsthe.

Conclusion

Primarily, as microfinance institutions (MFIs) grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement by a board. Additionally, increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is perhaps their most important challenge and requires the greatest oversight. Finally, MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objective.

Therefore, a clear articulation of the function of microfinance boards is essential for their effective governance. After analyzing the basic issues in Micro Finance Institutions and types services offered and existing governance prevailing in these institutions, the researcher proposes to establish the environment which will strengthen the micro finance sector and the conditions that must exist to achieve effective governance.

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APPENDIX

QUESTIONNAIRE

GOVERNANCE OF MICRO FINANCE INSTITUTIONS WITH REFERENCE TO SELECTED MICRO FINANCE INSTITUTIONS OF KARNATAKA

Questionnaire for Microfinance Institutions(MFIs)

MFI PROFILE

Name of the Respondent: ____________________ Present Designation ______________

1. Name of the Organization : ____
2. Address ____
   ____
3. Telephone(area code) __________ (Office) ____________ (Cell) ______________
4. E-mail Address : _________________________ Website : ___________________
5. Year of establishment : ____________________

A. NATURE OF FUNCTIONING

6. What services do you offer?

Savings:	Yes	☐	Insurance:	Yes	☐
	No	☐		No	☐
Loans:	Yes	☐	Training:	Yes	☐
	No	☐		No	☐
Remittances :	Yes	☐	SHG Promotion :	Yes	☐
	No	☐		No	☐

Any other specify: ☐

B. FINANCIAL MANAGEMENT

7. Financial resources are generated through

Raising from donor resources/agencies ☐

Borrowings soft loan from agencies ☐

Borrowings from commercial Banks ☐

Deposit mobilization ☐

Any other specify : ________

8. Have you experienced any late payment problems in the past 12 months?

Yes : ☐

No : ☐

9. What steps did your institution take to resolve these late payment problems

____

____

____

10. When clients access your financial services, what information/forms do you provide to ensure that they are well informed of their rights and obligations?

____

____

____

____

11. Does your firm provide cost benefit to stakeholders?

Yes : ☐

No : ☐

12. Cost of loan is favorable to

Beneficiaries :	Yes	☐
	No	☐
Suppliers :	Yes	☐
	No	☐
Third Parties :	Yes	☐
	No	☐

Any other specify:

13. What is the percentage of interest you charge for your financial products?

1 – 5%	:	☐	6 – 10%	:	☐
11 – 15%	:	☐	16 – 20%	:	☐

14. Do you have a specific mechanism for debt collections?

Yes :

No :

Any other specify:

C. MANAGEMNT OF MICROFINANCE OPERATIONS

15. What are the problems facing your organization in reaching the targets (in the order of priority of 1 – 7)

Security Reasons

Travel time to clients

Lack of business opportunities

Lack of basic infrastructure

Inadequate information about clients

Lack of trained personnel

Inadequate financial resources

Any other specify :

D. ACCOUNTING SYSTEMS AND AUDITING

16. Whether the accounting system is automated?

Fully	:	Yes ☐	Partially :	Yes ☐
		No ☐		No ☐
Manual	:	Yes ☐	Any other specify:	
		No ☐		

17. Which of the following practices does your organization follow in relation to Audits?

Employs services of an External Auditor : Yes ☐ No ☐

Internal Audit system is practiced : Yes ☐ No ☐

Full-time staff is in charge of Internal Audit : Yes ☐ No ☐

Since how long you practice the internal audit in your organization: ________

18. Please describe any other internal control measures you practice.

____

____

____

____

E. <u>DECISION MAKING PROCESS</u>

19. Who are the parties involved in decision making process?

BOD's : Yes ☐ No ☐

Agents : Yes ☐ No ☐

Clients : Yes ☐ No ☐

Any other specify : ________

F. <u>TRANSPARENCY</u>

20. Does your organization works under the principle of Transparency?

Yes : ☐

No : ☐

21. Please briefly describe the best practices of your organization?

22. Does your organization 62have following practices?

Disclosure of loan pricing: Yes ☐ No ☐

Terms and conditions of repayment: Yes ☐ No ☐

communicating to beneficiaries: Yes ☐ No ☐

23. Is there any provision to access the information by

Employees : Yes ☐ No ☐

Agents : Yes ☐ No ☐

Any other specify :

24. Are there mechanisms in your organization to ensure that clients' interests are represented?

Yes : ☐

No : ☐

If YES, briefly mention?

25. Does your organization use the following disclosure mechanisms?

Brochures : Yes ☐ No ☐

Orientation sessions: Yes ☐ No ☐

Meetings : Yes ☐ No ☐

Annual Reports: Yes ☐

No ☐

26. Do you consult clients to make your MFIs policy directions responsive to their needs?

Yes : ☐

No : ☐

If YES, Mention the mechanisms ____

<u>GRIEVANCE REDRESSAL</u>

27. Do you have a grievance redressal mechanism in your organization?

Yes : ☐

No : ☐

If YES, Specify

____

____

____

28. What is the technique used for grievance redressal?

Feed back : Yes ☐

No ☐

Written complaint: Yes ☐

No ☐

Suggestion Box: Yes ☐

No ☐

Resolution Monitoring System: Yes ☐

No ☐

Any other specify: ☐

29. Do you find the need of regulatory bodies in protecting the interest of the stakeholders?

Yes : ☐

No : ☐

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