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## ANALYSIS OF OUTREACH OF MICROFINANCE PROVIDERS IN RURAL AREAS

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**Prof. Mrinal Savyanavar**  
Assistant Professor,  
Bharati Vidyapeeth's Institute of  
Management Studies and Research,  
Navi Mumbai

**Dr. Pankaj Trivedi**  
Area Chair Person (Finance),  
K. J. Somaiya Institute of Management  
Studies and Research, Vidyavihar,  
Mumbai

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### ABSTRACT

*Worldwide poverty has been a major challenge in development of the any economy. Microfinance has obtained a worldwide avowal as an important tool for poverty alleviation. In present scenario the microfinance provider's sustainability has become the important issues for researchers and policy makers. The outreach of microfinance providers is an important parameter for sustainable growth of microfinance providers. The present study is an attempt to analyze the outreach of microfinance providers operating in rural areas. Financial data has been collected from 215 microfinance providers that involved in microfinance activity in Sangli district, state of Maharashtra. Data has been analyzed using descriptive statistics, t-Test and chi square test. The present study shows that provision of non financial services as a complement to credit and saving services enable the microfinance providers to increase the outreach and leads to sustainable growth.*

**Keywords:** *Microfinance, Outreach, Sustainable Growth*

### INTRODUCTION

Indian economy is depending on rural segment which still has limited access to financial services and needs formal banking services for development of rural poor people. Therefore, it is necessary on the part of the government to formulate poverty alleviation policies and programmes for generation of minimum level of income for the rural and urban poor. Government of India, with the help of RBI has introduced several credit linked poverty alleviation programmes, such as Integrated Rural Development Programme and Prime Minister Rojagar Yojana to alleviate the rural and urban poverty. A huge amount of manpower and money was spent on these programmes but failed to achieve desired outcome. Consequently, the Indian economic planner and policy makers turned their attention towards innovative schemes such as micro finance through Self Help Groups (SHGs). Microfinance refers to the supply of microloans, savings, and other basic financial services like insurance without collateral requirements, to the poor. The success of Grameen Bank in Bangladesh impetus of SHGs movement in India. The NABARD initiated SHGs in 1986-87 but real efforts have been activated with the linkage of SHGs with banks from 1991-92. Nowadays most of the poverty alleviation programmes of Central and State Governments has directed through the SHG mode of financing with suitable subsidies. The SHG-BLP mode of microfinance has driven by the efforts to prove that the poor in the country are indeed the "most bankable" clients. Since independence, the formal banking institutions had ignored the poor due to perceived high risks, high transaction costs involved in small-scale rural lending to a large number of poor households and absence of collateral securities. In such scenario microfinance through SHGs has proved the notion wrong and showed that even the poor are bankable. The SHG members thrift, mobilize the savings and invest in microenterprises. Thus microfinance is gaining importance as an effective tool of social mobilization and poverty alleviation. Hence microfinance providers must target marginally poor clientele so as to capture economies of scale and cover costs which enhance efficiency and productivity in

rural areas. Thus there is need to share experiences and facts, which will help not only in understanding outreach of microfinance providers but also provided knowledge and guidelines to strong and expand of microfinance program in each part of the country.

## LITERATURE REVIEW

Microfinance is defined as the provision of small-scale financial services for the poor Morduch (1999). The microfinance movement has known an important growth during the last couple of decades. However, according to Ahlin et al. (2011) microfinance Institutions (MFIs) have reached to different levels of success; some have become very significant in size and serve a great number of clients like the Grameen Bank in Bangladesh, or the Bank Rakyat Indonesia in Indonesia, while other MFIs remain small or have even ceased to exist. Christen et al. (2004) found in their study that MFIs can be seen as a part of the overall financial system that is focusing on the poor unbanked segments. Poor clients require smaller loans and often are more costly to service Morduch (1999). The characteristics of rural clients that make them more costly also represent significant opportunities to MFIs. According to Mersland and Strom (2009) many MFIs would like to reach more poor, uneducated, or female clients to maximize their social impacts. Further (Adams et al. 1984; Stiglitz 1990) found that providing sustained credit services is one of the means to increase income and productivity of the poor. However, the Indian formal financial institutions have failed to provide these services. Grameen bank in Bangladesh has been lending to the poorest of the poor and mostly women borrowers with unprecedented loan recovery rate. Wahid (1994) suggests that lending to the poorest does not necessarily increase credit risk to the MFIs. According to Conning (1999) MFIs must target poor clientele to achieve economies of scale and cover costs. Navajas et al. (2000) analyzed outreach of five Bolivian MFIs their study they found that most clients were near the poverty line. Further, Servon (1997) did the work with the three MFIs in the US and finds that they served those at the margin of the mainstream economy, not the very poor. Several researchers (Conning 1999; Hulme and Mosley 1996; Zeller and Lapenu 2002; Paxton and Cuevas 2002) discussed that the unit transaction costs for small loans to the poor are high as compared to unit costs of larger loans. Making small loans involves high transaction costs, in terms of monitoring, screening and administration costs per loan. To offer successful microfinance program productivity with outreach should match and also reach the vast majority of potential customers who demand access to credit at market rates. Outreach, is a hybrid index that measures the financial services (the output of the intervention) that the MFI managed to provide, given the objectives it was founded to achieve and for which it received support. Second dimension, is the self-sustainability or SDI, a composite index that measures the extent to which the MFI is independent of subsidies. The outreach-SDI framework was generally accepted and adopted by many researchers include (Navajas et al. 1996; Lariviere and Martin 1998; Yaron 1994, 1998) suggested two fundamental criteria to evaluate the impact of microfinance interventions: sustainability and outreach. To evince the sustainability of microfinance outreach, Indian subcontinent setting is considered in this endeavour. The financial innovations of their lending methodologies such as the use of group lending, nonfinancial services and dynamic incentives have indeed raised the interest of policy makers and researchers as means to alleviate poverty in a self-sustainable way. Above literature reveals that very few studies are available for the outreach of MFIs. There is need for more rigorous studies to better understand the impact of outreach on microfinance provider's better performance.

To the best of author's knowledge, a through scan of open literature survey related to outreach of microfinance in rural areas, it is found that very few studies dealing with relative

importance of outreach of microfinance providers in rural areas has been reported in literature. Therefore, more research work is required in this area to provide the needful information for understanding outreach of microfinance providers for sustainable growth in rural areas.

## RESEARCH METHODOLOGY

**Objectives:** The objectives of the present research study are as follows-

- To study the outreach of microfinance providers in rural areas
- To analyze impact of non financial services on outreach of microfinance providers in rural areas

### Methodology:

The present study involves 215 microfinance providers including MFIs and commercial banks and cooperative bank that providing microfinance in Sangli district, Maharashtra state of India. The sample size has been taken by stratified sampling method. Data has been collected in the form of questionnaire and datasheet filled by managerial level staff of microfinance providers .The secondary sources of data were taken from the various websites, books, journals reports, articles etc.Average loan size for FY 2012, FY 2013 FY 2014 has been used to assess depth of outreach as a proxy used to measure outreach of microfinance providers in rural areas. The t- Test has been used to study depth of outreach of young and mature microfinance providers in rural areas. Further Chi square test is used to analyze impact of non financial services on depth of outreach of microfinance providers in rural areas

### Hypothesis:

$H_{01}$ : There is no significant difference in mean of depth of outreach of young and mature microfinance providers in rural areas

$H_{11}$ : There is significant difference in mean of depth of outreach of young and mature microfinance providers in rural areas

$H_{02}$ : Depth of outreach is independent of non financial services provided by microfinance providers

$H_{12}$ : Depth of outreach is dependent of non financial services provided by microfinance provider

### Data Analysis:

**Outreach of microfinance providers for age -** The t-test has been used to determine if there are significant differences in the mean for young and mature microfinance provider for outreach of microfinance providers in Sangli district.

| Parameter     | Hypothesis  | P-value | Decision                     | Interpretation   |
|---------------|---|---------|------------------------------|--|
| Outreach 2012 | $H_0: \sigma_y^2 = \sigma_m^2$<br>$H_1: \sigma_y^2 \neq \sigma_m^2$ | 0.000   | $P < \alpha$<br>Accept $H_1$ | Variances are assumed to be not same for outreach of young and mature microfinance providers |
| Outreach 2013 | $H_0: \sigma_y^2 = \sigma_m^2$<br>$H_1: \sigma_y^2 \neq \sigma_m^2$ | 0.481   | $P > \alpha$<br>Accept $H_0$ | Variances are assumed to be same for outreach of young and mature microfinance providers     |
| Outreach 2014 | $H_0: \sigma_y^2 = \sigma_m^2$<br>$H_1: \sigma_y^2 \neq \sigma_m^2$ | 0.310   | $P > \alpha$<br>Accept $H_0$ | Variances are assumed to be same for outreach of young and mature microfinance providers     |

From above Table no. 1, we can conclude that variances are assumed to be not same for outreach of young and mature microfinance providers for years 2012. Variances are assumed to be same for outreach of young and mature 2013 and 2014.

| Parameter     | Hypothesis                                      | P-value | Decision                     | Interpretation  |
|---------------|---|---------|------------------------------|---|
| Outreach 2012 | $H_0: \mu_y = \mu_m$<br>$H_1: \mu_y \neq \mu_m$ | 0.075   | $P > \alpha$<br>Accept $H_0$ | There is no significant difference in the mean for outreach of young and mature microfinance provider microfinance providers in Sangli district |
| Outreach 2013 | $H_0: \mu_y = \mu_m$<br>$H_1: \mu_y \neq \mu_m$ | 0.000   | $P < \alpha$<br>Accept $H_1$ | There is significant difference in the mean for outreach of young and mature microfinance provider microfinance providers in Sangli district    |
| Outreach 2014 | $H_0: \mu_y = \mu_m$<br>$H_1: \mu_y \neq \mu_m$ | 0.000   | $P < \alpha$<br>Accept $H_1$ | There is significant difference in the mean for outreach of young and Mature microfinance provider microfinance providers in Sangli district    |

As per the results shown in Table no. 2, we can conclude that there is significant difference in the mean for outreach of young and mature microfinance provider microfinance providers in Sangli district for year 2013 and 2014. Descriptive statistics results for depth of outreach for age also shows that depth of outreach is lower for the young microfinance providers (12198.28) compared to mature microfinance providers (11660.38) for year 2012, for year 2013 young microfinance providers (12250.00) compared to mature microfinance providers (14150.94), young microfinance providers (12293.10) compared to mature microfinance providers (14150.94) for year 2014.

**Impact of non financial services on depth of outreach of microfinance providers - Chi square test is used to study impact of non financial services on depth of outreach of microfinance providers in rural areas.**

| Hypothesis   | P-value | Statistic related with chi-square | Decision                     | Interpretation  |
|--|---------|-----------------------------------|------------------------------|---|
| $H_{0a}$ : Outreach is independent on business training provided by microfinance providers<br>$H_{1a}$ : Outreach is dependent on business training provided by microfinance providers | 0.688   | 0.129                             | $P > \alpha$<br>Accept $H_0$ | Outreach is independent on business training provided by microfinance providers |
| $H_{0b}$ : Outreach is independent on literacy training provided by microfinance providers<br>$H_{1b}$ : Outreach is dependent on literacy training provided by microfinance providers | 0.846   | 0.185                             | $P > \alpha$<br>Accept $H_0$ | Outreach is independent on literacy training provided by microfinance providers |

|  |       |       |                                      |  |
|--|-------|-------|--------------------------------------|--|
| H <sub>0c</sub> : Outreach is independent on social awareness provided by microfinance providers<br>H <sub>1c</sub> : Outreach performance is dependent on social awareness provided by microfinance providers | 0.000 | 0.635 | P< $\alpha$<br>Accept H <sub>1</sub> | Outreach is dependent on social awareness provided by microfinance providers   |
| H <sub>0d</sub> : Outreach is independent on legal counsel provided by microfinance providers<br>H <sub>1d</sub> : Outreach performance is dependent on legal counsel provided by microfinance providers       | 0.000 | 0.742 | P< $\alpha$<br>Accept H <sub>1</sub> | Outreach is dependent on legal counsel provided by microfinance provider       |
| H <sub>0e</sub> : Outreach is independent on market information provided by microfinance providers<br>H <sub>1e</sub> : Outreach is dependent on market information provided by microfinance providers         | 0.000 | 0.732 | P< $\alpha$<br>Accept H <sub>1</sub> | Outreach is dependent on market information provided by microfinance providers |

From Table no.3, we can conclude that the outreach is dependent on non-financial service provided by microfinance providers such as social awareness, legal counsel and market information. From the statistics also found that the association is strong because the Cramer 'V' value is 63.5%, 74.2% and 73.2 % which is greater than 50%.

## CONCLUSION

Microfinance providers can improve their sustainability by improving outreach which also reduces the dependence on subsidies and donations. To increase the outreach loan products should suit clients' needs, the delivery process should be convenient, and clients should be made to feel that the organization respects and cares about them. Incentives won't work if the clients do not the access to the credit. The microfinance providers have to collect information on client status to monitor their poverty outreach. Scope of outreach refers to the diversity of services and products being availed by active clients. This includes variety of loan products as well as other financial services such as insurance, pensions, savings and non financial services .Also microfinance providers lacks portfolio information system that enables management to conduct timely and useful analysis of portfolio quality, determine trends in the portfolio over time, and identify possible causes of decline in outreach. MFIs should understand that though microfinance is a resalable product, increasing the outreach of the microfinance sector by including new clients and serving new locations is what which is needed the most at the moment. Encouraging microfinance providers for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the rural areas. Microfinance providers can achieve sustainable growth through financial innovations like provision of nonfinancial services as a complement to credit and saving services are considered and use of such mechanisms enable the MFI to maximize its outreach for sustainable growth.

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