Economic Comparative Study of Microfinance Models in Haryana

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Abstract

Haryana is one of the economically developed states of India as indicated by various socio-economic parameters. Poverty ratio of the Haryana state is not higher than that of India. Although microfinance movement is comparatively new in the state of Haryana, it is becoming popular in the rural areas of Haryana. The three most popular credit delivery microfinance models used by NGOs in Haryana are SHG, Mixed and Grameen Models. The main objective of the paper was to compare the Performances of different credit delivery Microfinance models used by NGO-MFIs in the state of Haryana. 20 NGOs which were directly related to microfinance were chosen from the universe of 75 NGOs. ANOVA was used to test the significance of the difference in the performance measures of NGOs. It was found that there was no significant difference in the over all performances of the NGOs using different microfinance models.

Keywords: Microfinance, Self Help Groups, NGOs, Micro credit.

1. Introduction

Microfinance movement in Haryana is one of the economically developed states as indicated by various socio-economic parameters and is north - western located in India. It is a predominantly plane area state, 65 per cent of populations live in the cities which constitutes 10 per cent of the state area. For administrative purposes, the state is divided into 21 districts.

Literacy rate of Manipur is almost 70 per cent which is higher than all India average of 64.8 per cent. The per capita income of the state is Rs. 1,35,000/-. Poverty ratio of the Haryana state stood at 20 per cent in 1999-2000 as against the all India average of 26.10 per cent. Haryana has diverse caste groups with different culture and traditions.

In the absence of any big or well established NGO or NBFC, microfinance is still at take off stage. Most of the organisations (NGOs) involved in the microfinance activities are relatively new and small with few staffs. They generally depend on grant or subsidy from Donors or funding agencies for taking up various social works.

Although microfinance movement is comparatively new in the state of Haryana, it is becoming popular in the rural areas of Haryana as it is in the other parts of country. Formation of SHGs has become a movement in rural areas. As on 31-March-2011, 35319 nos. of SHGs have been provided credit link with banks with loan of about Rs. 6243.46 lacs under SHGs-Bank linkage programme.

In Haryana, there are about 900 NGOs out of which about 75 NGOs are actively directly involved to micro finance program. The three most popular microfinance model used by NGOs are SHG Model, Mixed Model and Grameen Model.

SHG Model: The Self Help Group (SHG) model is indigenously developed in India under the NABARD's SHG-Bank linkage programme. Under this model, besides acting as facilitator, the NGO also works as financial intermediary. NGO forms SHGs and perform financial intermediation role as a lender to SHGs after sourcing loan from Bank. In SHG model, group consists of 15-20 members generally meet regularly on monthly basis.

Grameen Model: The Grameen Model which was pioneered by Prof Muhammad Yunus of Grameen Bank is perhaps the most well known, admired and practiced model in the world. Under this model, 5-8 groups of 5 members form a centre and meet regularly every week. It is very cost intensive as it involves building capacity of groups and customers passing a test before the lending could start. The greatness of the Grameen model is in simplicity of design of products and delivery. The process delivery is scalable and the model could be replicated widely.

Mixed Model: Under this model, NGO provide financial services to both Individuals and SHGs. Besides SHGs, NGO also provide support and financial assistance to individuals for taking up micro-enterprises.

The main objective of the paper was to compare the Performances of different credit delivery Microfinance models used by NGO-MFIs in the state of Haryana.

2. Methodology of Paper

A brief description about the selection of nature, sources, method of data collection and analytical techniques used during the research are given below:

2.1 Type of research

The type of the research used for the paper was empirical in nature to compare the Performances of different credit delivery Microfinance models used by NGO-MFIs in the state of Haryana and to test the significance of difference in the performance measures of different Microfinance models.

2.2 Universe of Study

In Haryana, there were 900NGOs which were directly associated with microfinance. So, the universe of the study consisted of 900 NGOs.

2.3 Sample Size

For the purpose of study, only 20 NGOs which is 2.2 per cent of 900 NGOs which were directly involved in microfinance were considered. So the sample size was 20.

2.4 Techniques of Analysis

In the present paper, suitable techniques of analysis such as tables, percentage and ANOVA test are used for analyzing the data.

2.5 Sources of data and data Collection method

The study was based on both the primary and secondary data. The secondary data were collected from various Government Departments, Financial Institutions, and Banks. The primary data were collected through interview schedule from NGOs. Besides interview schedule, focus group discussions and observations method were also used. Financial data for three years from 2009-10, 2010-11 and 2011-12 were collected from each sample NGO-MFIs and were used for the study.

2.6 Parameters used for assessing the Performance of NGOs

In depth study of microfinance operation of NGOs was carried out using MICROS, the credit rating tool of CRISIL India Ltd, (one of the leading rating agencies in India) for Micro Finance Institutions (MFIs). MICRO is acronyms for **M**anagement, **I**nstitutional Arrangement, **C**apital Adequacy and Asset Quality, **R**esources, **O**perational Effectiveness and Productivity and **S**calability and Sustainability. Thus, overall operational performance of each NGO for their microfinance activities was measured using various parameters of MICROS framework.

M-Management (25%)
- History & Track Record
- Alliances and network
- Credit Methodology and documentation
- Management Information Systems
- Human Resource Management:
- Process , Controls & Audit
- Social impact on environment/local impact:

I- Institutional Arrangement (15%)
- Management ownership and Governing Board
- Organisation structure and infrastructure
- Corporate Governance Practices
- Goals and Strategies

C- Capital Adequacy and Asset Quality (20%)
- Capital Adequacy
- Asset Quality and Portfolio at Risk

R-Resources Management (10%)
- Ability to raise resources
- Liquidity and Asset-Liability Management

O-Operational Effectiveness and Productivity (15%)
- Outreach
- Profitability & Operational Efficiency
- Productivity

S-Scalability and sustainability (15%)
- Scalability of Operations
- Resource based sustainability
- Organisational sustainability
- Programme sustainability

3. Results

The comparison of the performances of different credit delivery microfinance models used by NGOs was done by using MICROS parameters as presented in the following section.

3.1 Comparison of Microfinance models on Overall Performances (Total score on MICROS)

The study revealed that overall performances score measured in terms of MICROS was found to be relatively higher in case of Grameen Model scoring 64.58 per cent, followed by SHG model with 47.26 per cent and Mixed model with 44.90 per cent respectively.

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Table 1 - Rating score on Overall Efficiency (performance) of sample NGO-MFIs

	Overall Efficiency Score	**Max. wt. score**	**Gram-een**	**Mixed**	**SHG**	**Total**	**F**	**Sig.**
M	Management	25	16.00	11.16	12.27	12.15	1.441	.264
I	Institutional Arrangement	15	11.75	9.77	10.11	10.12	.578	.571
C	Capital Adequacy and Asset Quality	20	12.33	7.85	7.33	8.06	2.215	.140
R	Resources	10	4.75	4.16	4.38	4.32	.208	.814
O	Operational Effectiveness and Productivity	15	10.50	5.51	5.51	6.01	3.273	.043**
S	Scalability and Sustainability	15	9.25	6.50	7.55	7.25	1.259	.309
	Total		**64.58**	**44.90**	**47.26**	**47.93**	**1.857**	**.186**

Source: Primary data

However, further analysis (F-test) revealed that there was no significant difference in overall rating score of NGO-MFIs among the models as p value (=0.186)>0.05. But there was significant difference in the parameter "O" i.e. operational effectiveness and productivity among the three models as p value (=0.043) <0.05. Here, Grameen scores twice as much as the other models on "O". The other two models have equal scores.

3.2 Comparison on sub parameters of Management of MICROS

Findings from the comparison of overall performances indicated that there was no significant difference among the different models in respect of the parameter management. But it is imperative for the researcher to know whether there is significant difference among the different models in the sub - parameters of Management. Analysis among the sub-parameters of Management is given below.

Table 2 - Rating score on Management of sample NGO-MFIs

Management Score	**Max.Wt. score (%)**	**Grameen**	**Mixed**	**SHG**	**Avg.**	**F**	**Sig**
History and Track records	8	4.00	6.22	6.89	6.30	4.111	.035*
Credit Methodology and documentation	22	15.00	9.11	7.78	9.10	2.464	.115
MIS and IT	18	8.00	6.22	7.33	6.90	.234	.794
Human Resource Management	32	29.00	17.33	20.89	20.10	4.638	.025*
Process , controls and audit	16	8.00	5.56	6.22	6.10	.656	.531
Social impact	4	0.00	0.22	0.00	0.10	.584	.568
Total	**100**	**64**	**44.67**	**49.11**	**48.60**	**1.441**	**.264**

Source: Primary data *significant at 0.05 level*
Institutional Arrangement

Further, F-test reveals that there was significant difference in rating scores of sub-parameters (history & track record and human resource management) of Management among the three models at 5% significant level. Here, In History& Track record SHG scored highest followed by Mixed and Grameen models in that order. In the sub-parameter resource management Grameen scored highest followed by SHG and Mixed models.

Findings from the comparison of overall performances indicated that there was no significant difference among the different models in respect of the parameter Institutional Arrangement. Further analysis among the sub-parameters of Institutional Arrangement is given below.

Table 3 - Rating score on Institutional Arrangement of sample NGO-MFIs

Institutional Arrangement	Max. wt. score (%)	Gramean	Mixed	SHG	Avg.	F	Sig
Management ownership and Governing Board	33.33	30.00	26.29	25.55	26.33	.486	.623
Organisation structure and infrastructure	26.67	13.33	14.44	14.81	14.50	.152	.860
Corporate Governance Practices	33.33	28.33	20.73	22.59	22.33	1.048	.372
Vision, mission and strategies	6.67	6.67	3.70	4.44	4.33	2.281	.133
TOTAL	100	78.33	65.18	67.40	67.50	.579	.571

Source: Primary data

However, F-test reveals that there was no significant difference in the rating scores of sub-parameters among the three models at 5% significant level.

3.3 Capital Adequacy and Asset Quality
Findings from the comparison of overall performances indicated that there was no significant difference among the different models in respect of the parameter Capital Adequacy and Asset Quality. Further analysis among the sub-parameters of Capital Adequacy and Asset Quality is given below.

Table 4 - Rating score on Capital Adequacy and Asset Quality of sample NGO-MFIs

Capital Adequacy and Asset Quality	Max. wt. score	Grameen	Mixed	SHG	Total	F	Sig.
Capital Adequacy	50	21.66	18.14	14.07	16.66	1.378	.279
Portfolio Asset Quality	50	40.00	21.11	22.59	23.66	2.964	.042*
TOTAL	100	61.66	39.25	36.66	40.33	2.213	.140

*Source: Primary data   * Significant at 0.05 level*

Further, F-test reveals that there was significant different in rating score of sub-parameter portfolio asset quality among the three models at 5% significant level. Here, on sub-parameter portfolio asset quality, Grameen scored highest followed by SHG and Mixed models in that order.

3.4 Resources

Findings from the comparison of overall performances indicated that there was no significant difference among the different models in respect of the parameter Resources. Further analysis among the sub-parameters of Resources is given below.

Table 5 - Rating score on Resources of sample NGO-MFIs

Resources	Max. wt. score	Grameen	Mixed	SHG	Total	F	Sig.
Ability to raise resources	65	22.50	27.22	26.66	26.50	0.188	0.830
Liquidity and Asset-Liability Management	35	25.00	14.44	17.22	16.75	2.032	0.162
TOTAL	100	47.50	41.66	43.88	43.25	.208	.814

Source: Primary data

However, F-test shows that there was no significant difference in the rating scores of sub parameters among the three models at 5% significant level.

3.5 Operational effectiveness and Productivity

Findings from the comparison of overall performances indicated that there was significant difference among the different models in respect of the parameter Operational effectiveness and Productivi**ty.** Further analysis among the sub-parameters of Operational effectiveness and Productivi**ty is** given below.

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Table 6- Rating score on Operational effectiveness and Productivity of sample NGO-MFIs

Resources	Max. wt. score	Grameen	Mixed	SHG	Total	F	Sig.
Outreach	33.33	23.33	14.07	16.29	16.00	2.056	.159
Profitability & Operational Efficiency	46.67	34.44	15.80	14.32	17.00	2.604	.037*
Productivity	20.00	12.22	6.91	6.17	7.11	1.228	.318
TOTAL	**100**	**70.00**	**36.79**	**36.79**	**40.11**	**3.276**	**.043***

Source: Primary data and SPSS software analysis

ANOVA analysis reveals that there was significant difference in rating score of sub parameter profitability &operational effectiveness among the three models at 5% significant level. Here, Grameen scored highest followed by Mixed and SHG models in that order.

3.6 Scalability and Sustainability

Findings from the comparison of overall performances indicated that there was no significant difference among the different models in respect of the parameter Scalability and Sustainability. Further analysis among the sub-parameters of Scalability and Sustainability is given below.

Table 7- Rating score on Scalability and Sustainability of sample NGO-MFIs

Scalability and Sustainability	Max. wt. score	Grameen	Mixed	SHG	Total	F	Sig.
Scalability of Operations	6.67	3.33	2.96	3.33	3.16	.178	.838
Resource based sustainability	23.33	15.00	10.37	12.22	11.66	.978	.396
Organisational sustainability	26.67	16.66	12.96	15.18	14.33	1.243	.313
Programme sustainability	43.33	26.66	17.03	19.62	19.16	1.214	.321
TOTAL	**100**	**61.66**	**43.33**	**50.36**	**48.33**	**1.259**	**.309**

Source: Primary data

However, F-test reveals that there was no significant difference in the rating scores of sub-parameters among the three models.

4. Conclusion

While comparing the relative score of NGO-MFIs, it was found that there was no significant difference in overall performances rating of sample NGO-MFIs using different models microfinance. But among all parameters (MICROS) used for measuring the overall performances, it was "O" i.e. operational efficiency and productivity where there was significant difference among the three models. Further analysis revealed that the performances of the NGOs using different microfinance models differs in some of the sub-parameters of MICROS used for measuring performance, namely, history & track record, human resource management, portfolio asset quality and profitability &operational effectiveness. In History& Track record, SHG scored highest followed by Mixed and Grameen models in that order. In the sub-parameter resource management Grameen scored highest followed by SHG and Mixed models. In the sub-parameter portfolio asset quality Grameen scores highest which is followed by Mixed and SHG models in that order. In the sub parameter profitability &operational effectiveness Grameen scored highest followed by Mixed and SHG models in that order. Therefore, the type of methodology or models had some degree of influence on efficiency and effectiveness of microfinance operation.In short, in the context of Haryana state, Grameen model is the best model followed by Mixed and SHG models.

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