Determinants of the Financial Performance and Sustainability of Microfinance Institutions in Chandrapur Municipality Nepal

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ABSTRACT

The financial performance and Level of financial sustainability of microfinance institutions (MFIs) in Chandrapur Municipality is examined in this article. Access to financial services for the most vulnerable social groups has long been a problem that numerous projects and programs are trying to solve. Performance of Microfinance Institutions Various works suggest that the performance of an institution can be understood from two perspectives. This investigation used an exploratory research approach. The data has been collected for adaptation of the services and products to the target clients from Chandrapur Municipality by age and number of year involved in microfinance institutions.

INTRODUCTION

Access to financial services for the most vulnerable social groups has long been a problem that numerous projects and programs are trying to solve. Therefore, over the past 40 years, many governments and donors in developing countries have implemented credit initiatives to improve rural people's access to credit. Most of these initiatives, particularly the agricultural development banks, which provide loans at reduced interest rates, have failed in their goals of serving the rural poor and functioning as long-term lending institution (Diagne A. Z., 2001)

Microfinance Institutions (MFIs), consisting of a variety of providers with different legal structures, tasks and methods; Providing various financial products to the most disadvantaged people who have been excluded from traditional banking services. Microfinance Institutions (MFIs), consisting of a variety of providers with different legal structures, tasks and methods; Providing various financial products to the most disadvantaged people who have been excluded from traditional banking services, (Lafourcade, 2005).In this regard, by providing credit, accepting savings, transferring money, and offering insurance and other financial products to low-income people, microfinance institutions have become an essential pillar of many development projects around the world, especially in developing countries. According to Ledgerwood, (Ledgerwood, J., 1999) as a leading institution, microfinance must facilitate access to credit for disadvantaged people in order to achieve development goals such as creating jobs, alleviating poverty, supporting existing businesses, expanding their businesses, empowering women or other vulnerable groups, etc.to achieve inspiring new business developments.

The microfinance industry is not only an integral part of the financial system, but is also seen as a tool for poverty alleviation in developing countries, (Tehulu, 2013). So far, the sector has managed to combine both inclusive finance and financial sustainability as much as possible. Financial sustainability is a prerequisite for the expansion of financial services to a significant size of micro-enterprises over a sustained period , (Christen R. R., 1995). Sustainability enables an MFI program to function indefinitely and independently of funding. Good financial performance allows companies to tap into much larger sources of funding (i.e. customer deposits and the financial markets in general). Performance and achieving financial sustainability, which is the focus of this research, are of great concern to microfinance institutions, donors and to some extent clients.

LITERATURE REVIEW

The next paragraph briefly summarizes the background studies in line with the sustainability and performance of microfinance programs.

Performance of Microfinance Institutions Various works suggest that the performance of an institution can be understood from two perspectives. These are social performance and financial performance. According to (Boye, 2006), social performance indicates the willingness of the MFI to achieve social impact and to integrate into its environment. It clarifies the purpose of poverty alleviation for an MFI. Social performance can be broken down into four dimensions: outreach and awareness, responsiveness, service quality, economic returns, and social responsibility (Amersdorffer, 2015).

Financial performance is one of several metrics commonly used to assess the performance of MFIs in relation to their financial performance. It is often viewed as a benchmark that investors rely on when conducting due diligence and assessing the health of an investment. and determinants of financial performance and sustainability of microfinance institutions in Togo as a tool relied on by government regulators to assess and steer global financial sector health and determine compliance with regulatory policies, (Rosenberg, 2003).

According to (El Kharti, 2013), financial performance is the ability of a microfinance program to cover all of its expenses from its revenues and fund its growth. The latter, which is the subject of our study, has attracted considerable interest from analysts and researchers as it is central to the financial sustainability of microfinance programs. Bui (2017), all MFIs, regardless of whether they are non-profit NGOs or for-profit MFIs, must have good financial performance, i.e. H. they must generate profits over time to be self-sustaining. Many authors used different indicators to assess the financial performance of microfinance institutions. Therefore, some of them used profitability metrics such as return on asset (ROA) and sustainability metrics such as operational self-sufficiency and financial self-sufficiency (Cull, 2007).

On the other hand, some authors have only used profitability metrics to understand financial performance of MFIs (Christen R. R., . Maximizing The Outreach Of Microenterprise Finance : An Analysis Of Successful Microfinance Programs., 1995). Given the structure of this study and considering the results of some previous research, only the return on investment ratio is used in this article to examine the financial performance of microfinance in Togo.

Financial Sustainability

Sustainability is the ability of a microfinance program to steal post-project benefits (Christen R. R., 1995) This implies that appropriate mechanisms and processes have been put in place to ensure that MFI services are always accessible and customers benefit from them regularly and continuously (Bui, 2017). Some scholars contend that sustainability should not always be regarded from a financial standpoint. Microfinance sustainability can be examined in terms of the institutional, market, regulatory environment, and effect in addition to financial factors.

Sustainability has four interrelated dimensions: financial sustainability, economic sustainability, institutional sustainability and borrower sustainability (Khandker et al., 1995). Bui emphasized the fact that it has broader dimensions that include institutional sustainability, market sustainability, legal policy environment sustainability, and impact sustainability (Bui, 2017). However, only the financial component of the sustainability concept is considered in the present study. A microfinance institution must not be dependent on funding to sustainably support its activities. Financial sustainability is the ability to operate continuously or meet microfinance goals independently of donor support (Hossain & Khan, 2016; Bui, 2017). Some analysts identified three or four levels of financial viability to be reached by an MFI, but nowadays, most people in the microfinance sector only pay attention to two levels.

Self-sufficiency rates are calculated to assess financial sustainability. Operational autonomy and financial autonomy are generally the two degrees of autonomy used to assess microfinance institutions (Ledgerwood, 1999). According to Meyer (2002), financial sustainability can be achieved in two steps: Operation Sustainability (OSS) and Financial Self-sufficiency (FSS). Operational sustainability is the ability of a microfinance program to cover its operating costs from its business income, whether funded or not. On the other hand, microfinance programs are financially self-sufficient as they can cover their business and financing costs from their revenues and other market-based subsidies. MIX Market defines

financial sustainability as achieving an operational sustainability level of 110% or more, while operational sustainability is defined as achieving an operational self-sufficiency level of 100% or more. Operational self-sufficiency is the ratio of total operating income to total operating expenses (including administration costs, interest expenses and risk provisioning). This last definition is the basis of this research.

REVIEW OF PREVIOUS EXPERIMENTAL STUDIES

MFIs are generally viewed as dual-purpose MFIs as their goal is to increase their reach while covering their costs and staying in business well into the future. Essentially, a microfinance institution has two goals: first, to serve a broad spectrum of poor borrowers; and second, to cover its costs, which are self-supporting (Hartarska, 2004; Kanyenda, 2019). For this reason, many studies have been conducted on the performance and sustainability of microfinance institutions. In their research entitled Maximizing the Outreach of Microenterprise Finance (Christen et al. (1995) found a clear correlation between outreach and deep outreach within analyzed successful microfinance, and financial sustainability is achievable, Akboglou, KE, zkan, B., even when providing financial services to low-income people.

METHODOLOGY

This investigation used an exploratory research approach. An exploratory research design is used to address a study difficulty when there are no prior data or few studies to draw upon. This research is oftentimes haphazard and disjointed. It presents a speculative or theoretical idea of the subject of research and acts as a tool for exploratory studies. It won't offer concrete solutions to the research challenge. The goal of this investigation is to characterize the issue and give the researcher new insight into it. Exploratory research can be adjusted and creates the foundation for further investigation. The researcher must take into account a range of sources when performing (SMstudy, 2016).

FINDINGS AND DISCUSSION

The data has been collected for adaptation of the services and products to the target clients from Chandrapur Municipality by age and number of year involved in microfinance institutions.
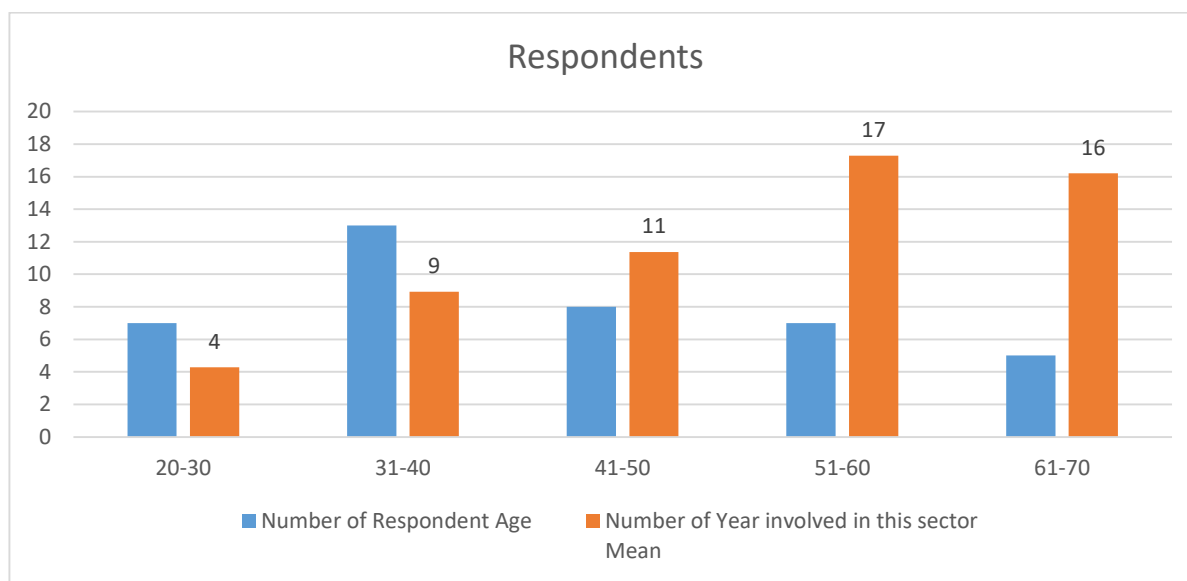
Figure 1: Respondents Age group involved years in Microfinance

The figure 1 shows the age group of the respondents involved in microfinance categorized in five groups from 20-30 to 61-70. As per the chart, there are 40 respondents by the age from 20 years to 70 years. The 4 respondents are involved in age from 20-30 years, 9 respondents are involved in 31-40 years and so on. Finally, as per the figure, the higher respondents i.e. 17 respondents are involved in 51-60 years old.

Table 1: Descriptive Statistics of Adaptation of the services and products to the target clients

S.No.	Particulars	N	Mean	Std. Deviation
1	The MFI provide consumer/emergency loans	40	4.40	1.008
2	The MFI provide loans from 0 to 6 months.	40	1.65	1.252
3	The MFI provide loans from 6 to 12 months.	40	3.65	1.027
4	The MFI provide loans above 12 months.	40	4.53	.640
5	The MFI provides insurance products (except death insurance for loans, see below)	40	4.08	1.289
6	The flexibility of repayment	40	2.08	1.421
	N= 40			

The MFI provides consumer/emergency loans. Mean = 4.40: The average rating or measure associated with consumer/emergency loans is 4.40. Std. Deviation = 1.008: This value represents the standard deviation, which indicates the dispersion or variability in the ratings or measures for consumer/emergency loans. A higher standard deviation suggests greater variability in the observations.

The MFI provides loans from 0 to 6 months. Mean = 1.65: The average rating or measure associated with these loans is 1.65. Std. Deviation = 1.252: This value represents the standard

deviation, indicating the variability in the ratings or measures for loans with a repayment period of 0 to 6 months. A higher standard deviation suggests greater variability in the observations. The MFI provides loans from 6 to 12 months. Mean = 3.65: The average rating or measure associated with these loans is 3.65. Std. Deviation = 1.027: This value represents the standard deviation, indicating the variability in the ratings or measures for loans with a repayment period of 6 to 12 months. A lower standard deviation suggests less variability in the observations.

The MFI provides loans above 12 months. Mean = 4.53: The average rating or measure associated with these loans is 4.53. Std. Deviation = 0.640: This value represents the standard deviation, indicating the variability in the ratings or measures for loans with a repayment period longer than 12 months. A lower standard deviation suggests less variability in the observations.

The MFI provides insurance products (except death insurance for loans). Mean = 4.08: The average rating or measure associated with these insurance products is 4.08. Std. Deviation = 1.289: This value represents the standard deviation, indicating the variability in the ratings or measures for insurance products. A higher standard deviation suggests greater variability in the observations.

The flexibility of repayment. Mean = 2.08: The average rating or measure associated with the flexibility of repayment is 2.08. Std. Deviation = 1.421: This value represents the standard deviation, indicating the variability in the ratings or measures for the flexibility of repayment. A higher standard deviation suggests greater variability in the observations.

The findings suggest that the MFI's consumer/emergency loans and loans above 12 months are perceived very positively by the respondents, with high mean ratings and relatively low standard deviations. This indicates that the majority of respondents view these services favorably and consistently.

The area that requires attention is the flexibility of repayment, which received a lower mean rating and a higher standard deviation. This suggests that respondents have diverse opinions on the repayment options provided by the MFI. To address this, the MFI could conduct surveys or interviews to understand clients' expectations better and design more flexible repayment plans that align with their needs.

Overall, the findings provide valuable insights into the MFI's services and customer perceptions. By focusing on areas that need improvement and leveraging their strengths, the MFI can enhance customer satisfaction, attract more clients, and achieve its mission of providing accessible financial services to those in need.

CONCLUSION

This research aims to identify factors affecting microfinances performance and financial sustainability in Chandrapur Municipality (Nepal) of adaption of the services and products to the target clients. The data from 40 respondents by age and number of years involved in microfinance institutions shows the result of services provided by the MFIs. Given that microfinance's size has a favorable impact on its financial success, asset growth should be a goal for organizations that provide it. As they will greatly reduce losses, strict supervision of defaulted loans and actions to boost payback rates are required. There must be action taken to boost staff dynamism and productivity.

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