



RESEARCH PROPOSAL: SUSTAINABILITY OF MICRO- FINANCE INSTITUTIONS

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Table of Contents

Title	3
Introduction	3
Research Aim	4
Research objectives	4
Literature review	5
Research Methodology	7
Research design	7
Secondary research	8
Primary research	8
Potential Limitations	9
Ethical considerations	9
Timeline	10
References	11
APPENDICES	15
Appendix 1: Questionnaire	15

Title**SUSTAINABILITY OF MICRO FINANCE INSTITUTIONS****Introduction**

Microfinance has become a crucial tool for poverty eradication in many parts around the world. Microfinance organizations are popular especially among individuals who for one reason or the other cannot access loan facilities or financing from regular banks. It is the case because microfinance institutions often target the poor through the use of innovative approaches which include lending to groups, progressive lending, offering collateral substitutes, and developing flexible repayment schedules that meet the needs of their target market. From a bankers' perspective, a microfinance institution can only attain sustainability if the operating income, which is mainly from the loans that these institutions issue to the poor communities cover all its operating costs (Weber, 2012). Information from various studies indicates that there is indeed a challenge when it comes to the sustainability assessment approach that is currently used by microfinance institutions (Pollinger, Outhwaite & Cordero-Guzmán, 2007). Although international and national development programs have been emphasizing on the sustainable microfinance for the poor for a long time, many proposals have been developed to address the issue of low repayment rates and as such help address the challenge of sustainability of microfinance schemes (Quayes, 2012; Gashayie & Singh, 2015). The proposals also aim at initiating small scale farmers' development program and encourage their participation in sustainable microfinance institutions.

Several microfinance programs show that low-income clients tend to use small loans productively and are often willing to pay higher rates of interest for the loans they take up. It is also evident that the poor require saving services just as much or even more than they require the credit services (Hartarska and Nadolnyak, 2007; Dokulilova, Janda & Zetek, 2009; Bogan, 2012). In this regard, as far as the sustainability of microfinance institutions goes, it is evident that the narrative of the poor being risky clients does not necessarily hold. Locally, few studies have been

conducted on the issue of sustainability which includes the sustainability of pilot purpose telecentres in various parts of the world. These studies also include sustainability strategies that have been developed by non-profit organizations in most places around the world (Addo & Twum, 2013). To the researcher's understanding, there are very few if not none, studies on sustainability factors of microfinance institutions. Therefore, this study, seeks to answer the question, "What are the factors influencing the sustainability of microfinance institutions around the globe?"

Research Aim

The main purpose of this study is to establish and identify the factors that affect the sustainability of microfinance institutions across the globe.

Research objectives

- To identify whether financial regulations in the country of operations influence the sustainability of microfinance institutions. This objective will be attained using the survey questions that will be presented to the participants of the study.
- To determine whether the volume of credit given to the clients influences the sustainability of microfinance institutions.
- To determine whether geographical coverage and reach of the microfinance institutions influence their sustainability. This objective will be attained using both primary and secondary source information that will be gathered during the research process.
- To determine the effect that the financial technology used by MFIs has on its sustainability. Information to help attain this objective will be retrieved from various secondary sources, especially past research studies and case studies.

- To determine whether there is a correlation between the number of clients that an MFI serves and its sustainability.

Literature review

Microfinance is not a new concept in the finance industry but has been in existence from early as the 15th century. The concept of microfinance has evolved as an economic development approach aimed at benefiting the people from the low-income bracket. Ledgerwood (1999) defines that microfinance is the provision of financial services to low-income individuals even the self-employed. Many countries around the world have practiced microfinance over the years. In India, MFIs have been referred to as “committee”, Mexico, “tanda”, in Ghana “susu”, in Indonesia “*arisan*”, in Korea “*likelembas*”, in DRC “*xitique*”, and in Sri Lanka “*tanomoshi-ko*” (Mercy Corps, 2006). These are only a few examples of the countries where microfinance has been practiced over the years to help low-income earners. In Europe, many pawn shops were founded by the Catholic Church to serve as alternatives to the money lenders (Mercy Corps, 2006). These pawn shops provided small loans as well as savings, insurance and services to low-income households.

The microfinance institutions have enhanced the livelihood of low-income communities and helped to eradicate poverty (Bhusare & Chanda, 2017). For a long time, the poor were not considered to contribute to the financial sector. However, the MFIs today entrusts them to receive loans. The microfinance institutions play a critical social-economic role of a country. These MFIs contribute to the financial and social sectors of the economy through their financial functions. Proper utilization of the MFIs will lead to improved value sustainability as well as enhanced quality of living of the low-income group. The involvement of microfinance institutions in

providing financial services with proper regulations and efficient management will lead to sustainable financial services.

Shah (1999) defines sustainability using an integrated approach since the accounting approach is too narrow. The integrated approach takes into account how the funds are obtained at a market rate as well as the mobilization of local resources. Another definition of sustainability in microfinance institutions is the Brinkerhorff definition which explains sustainability as the “ability of a program to produce outputs that are sufficiently valued by the beneficiaries and stakeholders that the program receives enough resources and inputs to continue production” (Woller et al 1999). The microfinance institutions that are sustainable financially can comfortably continue to operate even after the provision of grants and loans are not made available.

A study by (Arsyad, 2005) to assess the performance and sustainability of the MFIs in Indonesia. The study was carried out on village credit institutions in Gianyar district, Indonesia (Arsyad, 2005). Arsyad found out that supporting government policy at all levels through the legal basis of MFIs and Central Bank Regulation for the formal institutions has a significant contribution to the success of the MFIs. Based on the conditions necessary for a sustainable microfinance institution, it was conclusive that the credit institutions in Gianyar district village were sustainable and thus they had positive social benefits for their clients (Arsyad, 2005). Some economists argue that MFIs must charge high-interest rates to be sustainable. When the government imposes interest rate ceilings, the MFIs are unable to charge enough to be sustainable.

Regulation is often motivated by various objectives for the involved. Some MFIs

require more funds to allow them to advance funds through their micro-credit activities. Such MFIs may require regulation to enable them to hold their savings in bank accounts. Others believe that MFI regulation will promote their businesses and enhance their operations. Other MFI demand for licenses in order to expand the various services they provide to the poor (Pouchous, 2012). Availability and affordability of microcredit to the low income earning individuals lowers the income inequalities in the economy thus creating positive impacts for human development initiatives. Microfinance plays an integral part in promoting microenterprise sustainability such that it enhances improvement in how they manage their financial activities. Due to the increasing number of credit providers in the market as well as customer experience with microfinance services and products, the microfinance industry has experienced a tremendous transformation. With the evolution seen in the microfinance. Leikem (2012) in a study explains that currently there are very few sustainability assessment models that can be used by microfinance institutions to determine their levels of sustainability. MFIs play a crucial role in eradicating poverty in the society, hence, their significance cannot be debated. Therefore, there is a need to help and ensure that they remain sustainable in the course of their operations, given the fact that they mostly deal with high-risk clients. Salsify (2010) indicates that one of the reasons why microfinance institutions risk closure in a few years is because their main clients are the poor. This is a segment that cannot easily access financing from ordinary banks and other financial institutions because their default risk is high.

Research Methodology

Research design

The nature of this research was a descriptive survey. The design was preferred

because it helps ensure that the information gathered relates to the current status of an ideology or issue. Besides, the primary purpose of this method is to describe what exists with respect to the variables. This implies that it helps explain the relationship between and among the different variables which were identified in the course of the study (Burn and Burns 2008).

Secondary research

Secondary research sources also played a crucial role in gathering important information that was used in the study. Secondary sources that were used in the research include newspapers, magazines, brochures, prospectus, library sources, and other documents that the researcher managed to obtain concerning the topic (Windle, 2010). To ensure the validity and reliability of the secondary sources used in the research study, the researcher made use of online libraries and databases to get the sources. In the databases, the researcher mainly used the Boolean search strategy to narrow down on the search results and get the most relevant ones for use in the study (Yakel, 2010). The strategy is useful in helping sort out the most relevant secondary sources in different databases.

Primary research

The study population was made up of managers of local microfinance institutions and its field officers. This was important because these individuals understand the intricacies of microfinance institution operations. As such their input in the research process was viewed as extremely important as it would help the researcher understand the ideas as to why most MFIs face the challenge of sustainability. To ensure that the sample was selected without bias a simple random selection approach was used. Taherdoost (2016) explains that random sampling the most

preferred in research studies because it is because it ensures that each participant has an equal chance of being selected. At the end of the day, 45 respondents were selected as the sample size. Of these respondents, there were 15 managers and thirty field officers. The reason why the researchers chose to focus on the field officers as crucial respondents in the research is because they interact with the clients and local business people. As indicated earlier, these people can be of great importance in the sustainability of MFIs because of the hidden information which they possess. In the course of their interactions with the field officers, it is possible that the latter might have gathered some of the hidden information, hence, it was necessary to select them as participants in the study.

Potential Limitations

One of the limitations is that some of the microfinance institutions engaged in the survey were unwilling to reveal information concerning their organization out the fear that such information would be accessed by their rivals. Another limitation of this study was on restrained resources especially finance. All the expenses involving the research were supposed to be met by the researcher. Hence, this limits the scope level of the researcher. The third major limitation in the research study was on limited time.

Ethical considerations

The researcher explained to the participants how the information gathered from them would be used. In studies such as this one, it is important to clarify that the information is only being used to complete a dissertation as part of school coursework. This is important, especially in the modern age where information is an important resource that every business seeks to protect from any authorized access

(Gajjar, 2013). In this research, the researchers knew that some of the participants would not be comfortable responding to some of the questions, hence, he sought a letter from the institutions indicating that the information that was being gathered was only for use in the completion of a research study. Besides, the researchers also presented the participants with consent forms that explained the responsibility of the researcher in regards to the data that was gathered (Gajjar, 2013). This was done as part of the ethical considerations that were deemed necessary to ensure that the research did not violate any ethical principle.

Activity	Timeframe
Literature review	2 weeks
Research proposal preparation	2 weeks
Questionnaire development and piloting	1 week
Data collection	2 weeks
Analyzing of responses	1 week
Discussing the findings and completing the dissertation	2 weeks
Proofreading and editing	1 week
Submission of the dissertation	Last week (12th week)

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APPENDICES

Appendix 1: Questionnaire

SECTION A: GENERAL INFORMATION

1. Name of the organization [填空题]

2. How long has the microfinance institution been in operation? [单选题] *

- ☐ A. 5-10 years
- ☐ B. 11-15 Years
- ☐ C. Over 15 Years

3. What is the average number of staff members in the organization? [单选题] *

- ☐ A. 5-10 employees
- ☐ B. 11-15 employees
- ☐ C. 16-25 employees
- ☐ D. More than 25 employees

SECTION B: FACTORS AFFECTING SUSTAINABILITY

To what extent to do you feel that the factors identified below influence the sustainability of your organization. (Please tick appropriately)

Key:

1- Very low extent 2- Low extent 3- Moderately 4- Large Extent 5- Extremely the factors identified below influence the sustainability [矩阵量表题] *

	Very low extent	Low extent	Moderately	Large extent	Extremely
4. Financial Regulations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Financial technology in the organization	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Number of client served by the firm	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Geographical coverage and reach of the firm	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8. Volume of credit allowed to the clients	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SECTION C: CHALLENGES FACING MICROFINANCE INSTITUTIONS

9. What are the main challenges that you face in your firm? [多选题] *

- ☐ Financing
- ☐ High Default
- ☐ Government regulations
- ☐ Low number of customers
- ☐ Little profits

10. What are some of the other challenges that your microfinance institution faces currently? [填空题] *
