

INFORMATION PROVIDING ISSUES IN MICROFINANCE EFFECTIVENESS ASSESMENT

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Microfinance as compared to the banking activity, more closely linked to the real economy by taking feedback information channels for actual result of financial investments. Control over a traditional bank loan, mainly aimed at ensuring the timely and full refunding, is issued by loans and loan interests, with the simultaneous implementation of strict control of maintaining the stability of the banking system. In addition, the micro finance organizations (MFI) not only interested in the collection and evaluation of the results, coming from the financial sector, but also making monitoring of micro crediting in the real economy, because in addition to economic, microfinance activity also haunts social mission. In article is presented ways for information consolidation of micro financing social economic outcomes, bases on aggregate indices calculation.

Keywords: consolidation of micro and microeconomic information, factor analyzing, comprehensive assessment of microfinance outcomes.

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ПРОБЛЕМЫ ИНФОРМАЦИОННОГО ОБЕСПЕЧЕНИЯ ОЦЕНКИ ЭФФЕКТИВНОСТИ МИКРОФИНАНСИРОВАНИЯ

Решение проблем максимальной социально-экономической отдачи микрофинансовой деятельности представляется актуальным для развивающихся стран. В этой связи, информационное обеспечение оценки эффективности микрофинансирования, прежде всего, имеет цель способствовать принятию обоснованных управленческих решений по распределению финансовых ресурсов по таким направлениям, как бизнес микрокредитования, безвозмездное представления активов, организации тренингов и обучения для начинающих предпринимателей из бедных слоев населения. С целью осуществления факторного анализа эффективности микрофинансирования, в статье предлагаются пути консолидации социально-экономических результатов микрофинансовой деятельности и на этой информационной основе расчета агрегатных индексов.

Ключевые слова: консолидация микро и макро-экономической информации, факторный анализ эффективности, комплексная оценка отдачи микрофинансирования.

1. Information Providing Issues in Microfinance Activity Efficiency Assessment

In practice, the regulatory process of microfinance activities information providing is limited for the most part of the financial sector, targeted to keep MFI regulations indicators, established by the Central Bank of the Republic Armenia. In these circumstances, there are difficulties for comprehensive analysis for the actual impact of micro loans on the real economy development, since practically no effective system of registration, evaluating, and reporting the results because of business micro financing activity. As a result, it becomes impossible to determine exactly, how many new jobs positions, increased incomes of population, expanded strategic ways of business activities of the borrowers have been established as a consequence of micro financing.

The main reasons for such a situation, in our opinion, is the lack of information system consolidation of microfinance activities results in Armenia. Consequently, acting norms of national legislation regarding to microfinance institutions, as well as existing large scale problems hindering the efficient development of microfinance activities, should be a priority for government regulation and control of the microfinance market in Armenia. At the same time, literature provides challenges and impediments to the effective development of legal microfinance business in Russia [1], which is also common to the microfinance market in Armenia. In particular, there are some obstacles for the consolidation of the microfinance actual results information performance:

- insufficient developed legislative and regulatory framework, which defines the status of the MFI and also considering specific different categories of microfinance institutions;
- lack of regulatory consolidation and approved rankings of MFIs activities;
- absence of parameters for assessing the behavior of social efficiency of MFIs;
- lack of approved methods and rules to determine wide-ranging outcomes of micro-loans;
- lack of legislative practice combining the functions of MFIs and major infrastructure institutions;
- low background information and the lack of a full and objective information about MFIs' activities.

In this regard, we propose a format of phased implementation process of the consolidation of microfinance activity results in Armenia, which is aimed to make management decisions in field (see. Figure1). Currently in the republic we have a situation, where microfinance activities are not exposed to the cause and effect range. Often it is impossible to assess the real outcomes of micro loans, which is primarily due to the lack of executive – organizational tools of implementation for consolidation of micro finance through chain «micro credits – business – social and economic return.»[2]

2. The Ways of Microfinance Activity Results Information Consolidation

Therefore, the starting condition for development of the consolidated information system of micro financing results is the formation of such executive – organizational institutions, such as: implementation of the state register of microfinance activities, enforcement of legislation in order to control micro crediting objectives, organizations of accounting

and reporting microfinance results. Incidentally, elements of the state register are already being under regulation of Russian Federation legislation [3], but in our view, it is necessary to expand additional functions in this area.

In particular, in order to consolidate the microfinance activity cause and consequence information flows priorities is not only the introduction of the state register of microfinance, but also the use of legislation control over the target use of either micro loans. Moreover, along with the registration of the actual socio-economic results of microfinance activities, it is necessary to organize their evaluation and accountability that comes beyond the microeconomic management and concerns to statistics.

At the present time, in the Republic of Armenia there are no separately organizing statistics, concerning microfinance activities and as a result it not possible to make consolidation of socio-economical results of microfinance (see Figure 1)

In addition to these problems, which are in the field of information consolidation flows microfinance activities, it

is also necessary to solve the tasks undertaken in the following areas:

- establishing legal framework, that will control microfinance activities directions completely, by using legislative strengthening of regulatory instruments;
- the development of a specific mechanism with the purpose to control and enhance methods of financial supervision;
- ensuring harmonious development mechanism of information providing for the management of microfinance activities.

Consolidation of the micro financing socio-economic results creates an information basis for comprehensive analysis of the microfinance activities efficiency (see. Fig. 2). However, this raises the problem of measuring and evaluating microfinance outcomes. Micro loans, stimulating entrepreneurship and serving as an important conditions for financing start-up capital, ultimately leading to the improvement of borrowers' welfare, the development of human capital and social needs of the starting businessmen's family members, which is exposed to difficult economic measurement and evaluation.

As rightly pointed out in the literature, micro financing is not just a social program and in the narrow sense does not provide money in the form of social benefits to the very poor's, who don't have a regular source of income (for example, the homeless or unemployment). The purpose is to generate revenue from their activities, have such an opportunity, with a small financial «impulses» from the outside. [4]

3. Socio-economic indicators of Microfinance Activity

Microfinance is primarily aimed at reducing poverty and inequality, increasing social and human development. This purpose is making financial resources accesses for poor layers of the populations to create profitable business, achieve revenue growth, ensure food security and education of children. At the same time, with decreases of unemployment, people have hope for a better life and for the development of business confidence in the future; prevented the transition of the poor in the category of population to heavy socio-economic, moral and psychological conditions. Under mentioned circumstances', formed the factors contributing to smooth out economic differences between town and country, as well as the prevention of emigration from the country.

Therefore, in current becomes urgent representation indicators, performing socio-economic impact of microfinance activities, which are used in the process of a comprehensive analysis of the microfinance efficiency or in ranking micro crediting directions outcomes. [5] To this end, we propose a set of indicators of social and economic results of microfinance activities, which are a subject to the measurement and accounting in the micro and macro levels (see. Table 1)

Studies show, that microfinance is accompanied by both positive and negative results. For example, loans can be provided to not just one person, but also groups of four even to ten people. If the borrower fails to meet its obligations under the loan, penalties are imposed on the entire group, the members of which later can not receive additional credits. Often, in practice, a group of micro borrowers include relatives to create reasonable responsibility

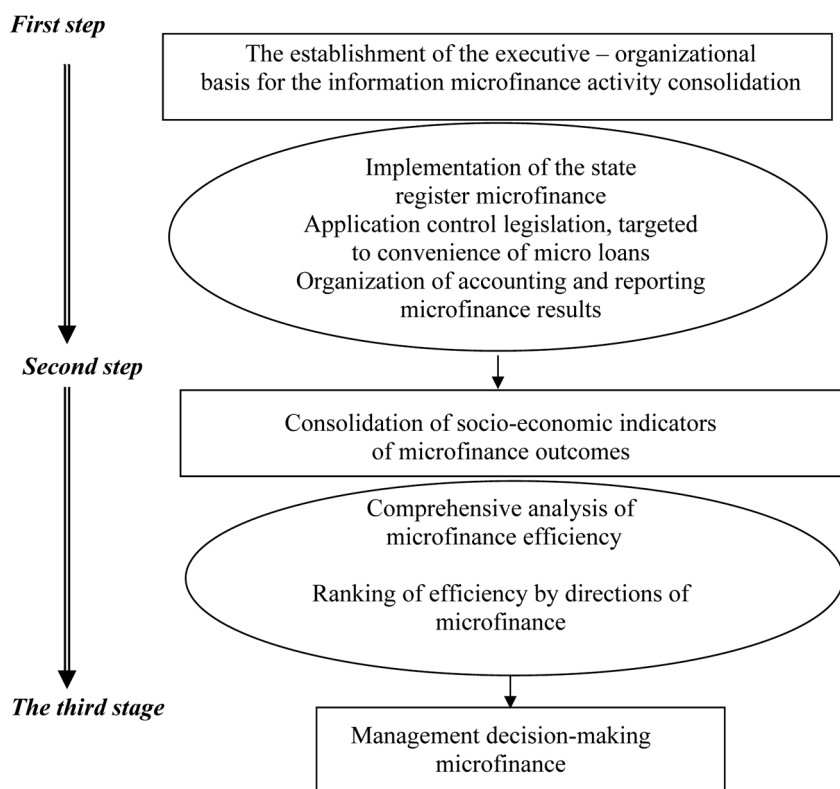


Figure 1. Decision-making process based on the microfinance activity results consolidation (Constructed by authors)

Table 1

Information providing in order to assessing the effectiveness of microfinance activities (Composed by authors).

Socio-economic indicators	Symbol	Scope of information
Microfinance activity		
micro loans	МК	Credit organizations
no refundable microfinance	БК	Public organizations
Economic indicators		
number of micro loans per capita	ДН	Statistical services
the proportion of micro-loans in the amount of bank loans	УМ	Central Bank of Armenia
revenue growth borrowers	РД	Households
the ratio of MFI clients to the number of poor population		Statistical services
growth of tax collection inflows	PH	Regional tax authorities
the share of micro-financing in GDP	УВ	Statistical services
Social indicators		
creation of new jobs	HP	Statistical services
emigration reducing SE	СЭ	Statistical services
the level of gender equality	ГР	Statistical services
satisfaction of minimal social needs norms	СН	Households
the share of the unemployed in the family	БС	Statistical services
number overqualified entrepreneurs	КП	Households
loss of social capital	СК	Statistical services
the number of bankruptcy micro entrepreneurs	МП	Households

for repayment of the loan. However, it is possible, that the presence of family members in the group can lead to deeper conflicts of micro borrowers' interests.[6] Moreover, in the context of financial promotion retraining, different over qualifications, create the risk of outflow of labor force in more prosperous regions and the dissolution of accumulated human capital. Therefore, during a comprehensive analysis of the effectiveness along with positive indicators should also be considered unfavorable indicators.

As can be seen from Table 1, a part of the microfinance activity indicators is generated at the microeconomic level that can be obtained on the basis of special reporting from micro business. Another part of the performance of microfinance activities is in macroeconomic nature, and thus, reports using statistics accounts. Therefore, in practice, number of organizational issues solutions in the field of microfinance that results information consolidation, in our opinion, must include:

- introduction of separate statistics reporting about microfinance activity,
- submission requirements of special outcome reporting forms of the microfinance business,

- coordination of information flow from the micro and macro-economic sector in the state register for microfinance activity.

In current situation, the sector of microfinance in Armenia almost has no legislative levers in order to report the results of microfinance activities. Micro entrepreneurs provide reports only on their tax obligations, and credit organizations are limited only by preparing the financial statements, publishing or presenting special regulative statements forms to the Central Bank of RA. As a result, the key socio-economic indicators of microfinance do not come beyond reporting, which is required to compile reports on the special legal requirements. Enforcement of legislation on the preparation of financial

statements will support the process of consolidation of microfinance results information flow (see. Fig. 1)

Traditional presented reporting forms, because of its adaptability, are not suitable for consolidating information on the results of micro finance activities, because they are aimed at satisfying any information needs of creditors, or have controlling destination in the field of micro businesses taxation. However, requirements for systematization and transparency through the development of simplified reporting forms, adapted to the specific microfinance activities, will be not successfully completed on a voluntary basis. Information support of microfinance in micro business, in our opinion, should be set by law and upcoming regulations circumstances. That should lead to the obligation to prepare and submit the state register of microfinance special reporting by the borrowers.

In sequence, the statistical records should provide information flows regarding the results of microfinance activities of macroeconomic sector that has not yet been implemented in Armenia. Publishing statistical yearbooks provide mainly the trends of unemployment, population income rising, emigration level and economic growth, but according of these data impossible to determine the proportion of microfinance impact on these figures. The same applies to reporting approaches of the Central Bank of Armenia, which is regarding to credit institutions or loans, issued by economy sector, without separation performance of microfinance.

Consequently, it is necessary to introduce a special statistics on micro financing, that will give opportunity to provide cause – result information and

Table 2

Client Serving Indicators in Microfinance Field [7]

Name of Indicators	
Diversification of micro financing organizations	
microfinance providing from non commercial organizations	33%
Microfinance providing from credit organizations	37%
Distribution of micro finance clients on different parameters	
share of agro borrowers	38%
share of women borrowers	73%
share of micro credits for business purposes	81%

Table 3

Ranking of countries by accessing population in micro financing activity [8]

Ranking	Country	Borrowers / population
1	Bangladesh	25%
2	Bosnia and Herzegovina	15%
3	Mongolia	15%
4	Cambodia	13%
5	Nicaragua	11%
6	Sri-Lanka	10%
7	Montenegro	10%
8	Vietnam	10%
9	Peru	10%
10	Armenia	9%
11	Bolivia	9%
12	Thailand	8%

consolidate actual results of microfinance activities (see figure 2). Moreover, at present, in the Republic of Armenia does not apply the developed methods of preparation of the consolidated reports on the movement of micro-loans and consequently, current planning of future financial projection based on common standards, which in turn makes it difficult to conduct a comprehensive analysis of the effectiveness, efficiency of microfinance activities.

Indicators of micro finance activity efficient are presented by various research interpretations. In one case, those are taking analyzing from point of view clients serving results (see table 2), from another, the nature is microfinance efficient is taking on consider percentage of residents in microfinance processing activity (see table 3)

However, in our opinion, to assess the effectiveness of micro financing it is advisable to present an integrated approach, since it is a sphere of activity that simultaneously generates both economic and social effects, as at the microeconomic and at macroeconomic level. Therefore, it becomes necessary to analyze the effectiveness of microfinance operations, both in terms of macroeconomic stability, and so as a result of business activities of micro entrepreneurs.

Moreover, the socio-economic effects of microfinance are always in a dynamic state, and therefore in need of index assessments. The performance of microfinance activities in the index structure also gives an opportunity for implementing factor analysis and to disclose the potential for raising microfinance separate ways.

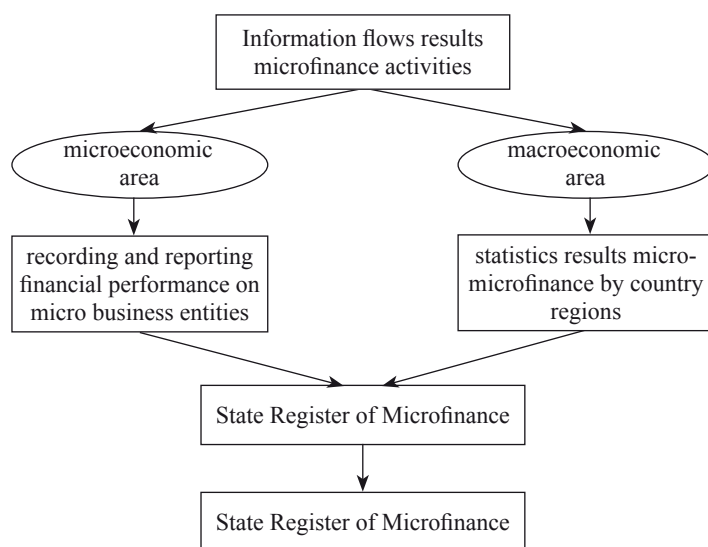


Fig. 2. The proposed mechanism of consolidation of information flow results Microfinance (Composed by authors)

On this basis, to assess the effectiveness of microfinance, we propose to apply the aggregate indexes, included components of the socio-economic indicators of microfinance activities. So, if we assume, that as a consequence of consolidation information flows results microfinance already calculated individual indexes of microfinance activities, it is possible not only to present an aggregate index of the effectiveness of microfinance as a whole, but also to calculate the strength of impact of each individual index and implement changes in the efficiency factor analysis in the following areas.

Economic effectiveness of microfinance (I_e)

$$I_e = I_{ДН} \times I_{МБ} \times I_{ПД} \times I_{PH} \times I_{УВ}$$

Social returns of microfinance (I_c)

$$I_c = I_{HP} \times I_{CЭ} \times I_{CH} \times I_{ГП} \times I_{BC} \times I_{КП} \times I_{CK} \times I_{МТ}$$

4. Conclusion

The use of aggregate indices for evaluating the effectiveness of microfinancing, in our opinion, greatly enhances the quality of decision making in the field of microfinance.

First, aggregate indices coordinate components, while indicators of socio-economic results form both the micro and macro-economic spheres, which allows comprehensively assess the effectiveness of microfinance operations

Second, using aggregate indexes is making possible general approaches measuring the socio-economic benefits of microfinance and consequently, to carry out comparative analysis in specific areas of micro crediting and microfinance to identify the reserves for raising activities efficiency.

Third, using aggregate indexes of microfinance, calculated through consolidated information, making possibility to carry out the factorial analysis of the effectiveness of microfinance, and on this basis to apply the reasonable management decisions to improve strategic directions of the development of micro business.

Therefore, information providing for evaluating the effectiveness of microfinance is primarily aims to promote the adoption of evenhanded management decisions on the distribution of microfinance in areas such as:

micro-crediting business, free refundable assets, organization of training and education by the pursuit of maximum socio-economic benefits from micro financing activities.

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