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Efficiency of Micro Finance Institutions and Financial Sustainability in Jaffna District

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Abstract
Microfinance institutions (MFIs) provide a range of financial services to poor people. This study aims to identify the relationship between efficiency and financial sustainability of microfinance institutions in Jaffna district. For the purpose of this study, Co-operative Rural Banks under two MPCS were selected by using the convenience sampling method. Data was collected and analyzed by using the SPSS for the period of 2007-2009. In this study, correlation and regression analysis were used. The results show that administrative efficiency and operating efficiency are strongly positive associated with financial sustainability among co-operative Rural Banks in Jaffna district. Further the study reveals that administrative efficiency and operating efficiency have a significant impact on financial sustainability.
Keywords: Microfinance institutions, Administrative efficiency, Operating efficiency, Financial sustainability.

1. Introduction
Microfinance institutions focus on providing credit to the poor who have no access to commercial banks. While microfinance institutions try to be financially sustainable, they appear to be often loss making. The delivery of financial services to the poor and low-income people has changed significantly over the recent past. Microfinance has evolved as an economic development approach intended to benefit low income groups. Asian development bank has defined Microfinance as "the provision of a broad range of financial service such as deposits, loans, payment services and insurances to the poor and low income households and their Micro enterprises (ADB-2000). Microfinance institutions (MFIs) provide a range of financial services to poor households. Their worldwide growth has had a positive impact by providing the poor with loans, savings products, fund transfers and insurance facilities. This has helped create an encouraging socio-economic environment for many of these developing countries households. In this regard, Microfinance activities usually involve small loans, topically for working capital, informal appraisal of brewers and investments to repeats and larger loans based on debt capacity and repayment performance steam lined-loan disbursement and monitoring secure serving's products.

The topically Microfinance clients are low income persons that do not have access to formal financial institutions. Microfinance clients are topically self employed often house hold based entrepreneurs. In rural areas they are usually small farmers and others who are engaged in small income generating activities such as food processing and petty trade. In unban areas Microfinance activities are mire device and include shop keepers, service providers, artisans, street vendors etc. Microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income.

Efficiency ratio provides information about the rate at which microfinance institutions generate revenue to cover their expenses. Efficiency refers to the cost per unit. (Joanna Ledger wood, 1997). Efficiency measures how well the available resources are utilized to maximized output. (Monica brand 2000). Financial sustainability refers to the ability of an MFI to develop a diverse resources based on that it could continue its institutional structure and production of benefits for intended clients' population after support cessation of donor financial support (Naser Abdel Karim – 2002). The concept of self – sufficiency means that a program must meet its operational expenses entirely of out of the income generated by the services it offers to its clients. That is an institution should be maintained by its clients not by donors. (Robert Peck Christen, 1997).

The earlier paradigm was that Microfinance was on act of charity as lending for micro enterprises and the poor were not profitable. There were many deficiencies in such lending. That is repayments rates were low, unintended beneficiaries were large, inefficient operations and funds were often not used for the purpose for which they were given and the total outreach was not significant. Due to this reasons MFIs became unable to sustain in their operations. If a MFIs should be sustainable it must be financially self sufficient.

While microfinance institutions try to be financially sustainable, they appear to be often loss making. Nevertheless, they succeed in lending to domestic small companies and poor agents since Western donors and NGOs are still willing to provide financial support against below market interest rates. Recently, however, there seems to be a shift from microfinance institutions to a further focus on financial sustainability and efficiency. Financial sustainability and efficiency of microfinance institutions is obviously very important for a well-functioning financial system in developing countries.

2. Objectives of the Study
This study is aimed at achieving the following objectives.