CHAPTER 6

MAJOR FINDINGS, CONCLUSION AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Particulars</th>
<th>Page no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>Findings of Objective 1</td>
<td>361</td>
</tr>
<tr>
<td>6.1.1</td>
<td>Financing structure indicators</td>
<td>361</td>
</tr>
<tr>
<td>6.1.2</td>
<td>Outreach indicators</td>
<td>361</td>
</tr>
<tr>
<td>6.1.3</td>
<td>Overall financial performance indicators</td>
<td>361</td>
</tr>
<tr>
<td>6.1.4</td>
<td>Revenue indicator</td>
<td>361</td>
</tr>
<tr>
<td>6.1.5</td>
<td>Expense indicator</td>
<td>362</td>
</tr>
<tr>
<td>6.1.6</td>
<td>Productivity indicator</td>
<td>362</td>
</tr>
<tr>
<td>6.1.7</td>
<td>Efficiency indicator</td>
<td>362</td>
</tr>
<tr>
<td>6.1.8</td>
<td>Risk and liquidity indicator</td>
<td>362</td>
</tr>
<tr>
<td>6.2</td>
<td>Findings of Objective 2</td>
<td>363</td>
</tr>
<tr>
<td>6.3</td>
<td>Finding of Objective 3</td>
<td>364</td>
</tr>
<tr>
<td>6.3.1</td>
<td>Findings of sub-objective 1</td>
<td>364</td>
</tr>
<tr>
<td>6.3.2</td>
<td>Findings of sub-objective 2</td>
<td>368</td>
</tr>
<tr>
<td>6.3.3</td>
<td>Findings of sub-objective 3</td>
<td>370</td>
</tr>
<tr>
<td>6.3.4</td>
<td>Findings of sub-objective 4</td>
<td>372</td>
</tr>
<tr>
<td>6.3.5</td>
<td>Findings of sub-objective 5</td>
<td>374</td>
</tr>
<tr>
<td>6.3.6</td>
<td>Findings of sub-objective 6</td>
<td>375</td>
</tr>
<tr>
<td>6.4</td>
<td>Overall Findings</td>
<td>378</td>
</tr>
<tr>
<td>6.5</td>
<td>Conclusion</td>
<td>380</td>
</tr>
<tr>
<td>6.6</td>
<td>Suggestions</td>
<td>381</td>
</tr>
<tr>
<td>6.7</td>
<td>Future scope of Research</td>
<td>384</td>
</tr>
</tbody>
</table>
6.1 Findings of objective 1

The first objective of the research was to ‘To analyze the financial performance of Microfinance Institutions in Gujarat’. Eight indicators of financial performance were identified and under these eight indicators, fifteen ratios were calculated and analyzed. The following are the major finding of the objective one under eight indicators:

6.1.1 Financing Structure Indicators

Two ratios namely capital/asset ratio and debt/equity ratio was calculated to analyze the financing structure of three MFIs. All the three MFIs have different legal forms and therefore their capital structure formation is also different. Therefore huge difference is seen in debt/equity ratio of all the three MFIs. The capital base of all the three MFIs is less and therefore the capital/asset ratio of these MFIs is found low.

6.1.2 Outreach Indicators

Outreach indicator highlights the client base of MFIs. It is found that SEWA bank is having highest number of active borrowers or client based compared to SAATH and SEWA. This is because SEWA Bank is older compared to other two MFIs and therefore it has covered more areas and in turn more client base.

6.1.3 Overall financial performance Indicators

In order to analyze the overall financial performance of MFI, three ratios have been calculated. It is found that return on equity is higher in all the three MFIs compared to return of assets as their equity base is less as seen in financing structure. Operational self sufficiency ratio indicates that all the three MFIs are able to manage their operating expenses through their financial revenue.

6.1.4 Revenue indicator

Profit margin and financial revenue ratio have been calculated to analyze the revenues of the MFIs. It is found that revenue ratio of Sewa bank is less compared to other two MFIs. This is because of Sewa Bank is a co-operative bank and so it collects deposits from its customer and also lends the money under different schemes. Whereas, SAATH and PRAYAS are majorly involve in only one type of lending scheme under microfinance which is
unsecured. Thus assets base of Sewa Bank is much wider compared to other two MFIs which have resulted into less revenue ratio compared to other two MFIs.

6.1.5 Expenses indicator
As mentioned in previous indicator, Sewa bank’s asset base is higher followed by SAATH and PRAYAS respectively. And therefore the expenses ratios of these three MFIs are in reverse order of their asset base. Moreover, if this indicator is compared with efficiency indicator, it can be concluded that Sewa Bank is having higher efficiency and therefore the overall expenses of Sewa Bank is less compared to other two MFIs.

6.1.6 Efficiency indicator
Efficiency of MFI is studied by calculating the operating expense/ loan portfolio and costs per borrowers. It is found that over the five years period, operating expense/loan portfolio is gradually increasing in all the three MFIs which mean that compared to its loan portfolio, percentage increase of operating expenses are higher. Cost per borrower of PRAYAS is highly fluctuating because its write-off policy is fluctuating. By analyzing the cost per borrower of SAATH, it is found that for the first two years it is stable but from third year it has drastically increased this is because in the initial two years it did not write-off its account and in third it write-off all the bad debts before its establishment as a co-operative and which it was carry forwarding it for initial two years.

6.1.7 Productivity indicator
The ratio calculated in order to study the productivity indicator is number of borrowers per staff members. It was found that PRAYAS had an increasing trend that is its employee’s productivity had gradually increased over the five year period. While this was reverse in case of SEWA which had a decreasing trend of number of borrowers per staff members. SAATH is having stable ratio over the five year period.

6.1.8 Risk and liquidity indicator
Two ratio are calculated under risk and liquidity indicator namely portfolio at risk (PAR)>30 days and risk coverage ratio. It is found that Sewa bank PAR > 30 is highest compared to other two MFIs. This is because according to norms of RBI on bank, it cannot write-offs its default loan accounts and
therefore Sewa Bank is carrying forwarding its default loan accounts since its inception. Therefore this ratio is found higher in Sewa Bank. As PRAYAS have fluctuating policy of writing-off its assets, its provisioning pattern is also seen fluctuating. For SAATH, it has not written off its assets for initial two years and therefore less provision for initial two years and on third year, when it has written off its loss accounts, provisioning amount is higher and so on.

6.2 Findings of objective 2

Second objective was to analyze the non-performing assets of microfinance institutions in Gujarat. Eight ratios have been studied to understand the trend of NPA of MFIs in Gujarat. The following are the findings of objective two:

- NPA has been defined for the analysis purpose and it means overdue accounts whose either interest or principal amount of microfinance is outstanding for a period exceeding 90 days. Accordingly it was found that Gross NPA and Net NPA ratio of Sewa Bank was higher because, as mentioned earlier, it does not write-off its default accounts. Net NPA of SAATH and PRAYAS is negative, this is because, Net NPA is calculated by deducting provision from NPA. Now NPA means accounts that are outstanding. That means when these two MFIs provide for provisions, it is to write-off default accounts. Hence while Net NPA calculations, default accounts have already been written-off and additionally total provision for the year is mentioned during the year and not after deducting write-off amount. Therefore, the negative ratio for the both MFIs.

- NPA of MFI is further is divided into two categories, sub-standard and doubtful assets. Sub-standard indicates default for shorter period and therefore there are chances to recover more compared to doubtful assets. Analyzing three MFIs individually, it is found that Sewa Bank is having slightly more doubtful assets compared to sub-standard and the reason for this is its writing off policy. SAATH is having almost 80% of NPA in doubtful category and therefore chances are such that majority of them may result in loss accounts.

- All the three MFIs studied have different ways to classify their loan assets, provisioning and also write off of NPAs. For example, SEWA bank does not write off their accounts and so the write off ratio and loan loss rate is zero. PRAYAS write offs non performing asset that are older than 180 days to 360 days that is within one
financial year, while SAATH writes off its non-performing assets that are older than two to three years. In addition to this, as SAATH co-operative society was established in 2011, it did not write off its portfolio for initial three years.

6.3 Findings of objective 3

The third objective of the research was to ‘To investigate the causes of defaults in microfinance loans of microfinance institutions in Gujarat’. In order to achieve this objective, primary data was conducted through self administered questionnaire. All the responses thus collected were analyzed in this chapter. The findings are summarized by the sub-objectives of the above major objective. The following mentioned are different sub-objectives and their major findings:

6.3.1 Findings of sub-objective 1: Analysis of factors individually

Analysis of the responses of the survey was presented through frequency tables and pie charts. The responses were classified under six categories. Findings of responses under different categories are as under:

➢ Socio–Economic information of borrowers
   - Borrowers were asked five questions related to their socio-demographic details namely their gender, age, education, caste and marital status as these factors do impact repayment capacity of borrowers. 92.2% of the total borrowers’ surveyed were female as microfinance services are provided mostly to female clients. Almost 93% of the total borrowers belong to age range between 21-50 years which can be considered as age when earning capacity is in the highest level. SC/ST, OBC and minority are the caste that belongs to lower section of the society and around 80% of the borrowers surveyed come under this category. Rest 17% did not know their caste. 33.7% of the borrowers were uneducated and 43.6% of the borrowers studied only in primary section. During the survey it was found that inspite of primary education, most of borrowers were just able to write their name for signature purpose only. Thus it can be said that 77% of the borrowers were lacking basic education. Out of total borrowers, 82% of them were married. Borrowers’ were asked six questions related to economic information. These information were number of family members, number of earning members, economic
activity of borrower and his/her family members and income level of borrowers and his/her family members. Financial decisions are taken in family and so other family members’ economic information do affect repayment capacity of borrowers and therefore family members’ economic information has also been collected.

- It was found from the survey that 32.4% of borrowers were self employed and were doing small retail business or small services while 24% were employed in private firm. The major concern was that 30.5% of borrowers were not involved in any economic activity. Majority of the family members were either self employed (35.3%) or working in private firm (34.8%).

- Most of the borrowers (48.2%) were earning a maximum of Rs. 5000 per month and followed by this were the borrowers with no income which formed 31.4% of the total borrowers. Majority of the income of borrowers’ family members fell in the range of Rs. 5001 and Rs. 15000. It was found that on an average, borrowers and their family members earns Rs. 5000 to Rs. 10000 per person.

**Details of Microfinance loan**

- It was found that in microfinance services, it is MFI who approach the clients first and client did not approached MFI. This is due to the characteristic of the clients.

- On analyzing the details of microfinance loan it was found that majority of the borrowers had taken loan either second or third time with loan amount ranging between 10000 to 30000, installment amount with 500 to 1500, number of installment between 25 to 36 or equal to 12, the purpose behind taking microfinance loan was to invest in business either new or existing and the loan had been taken in group.

- The group characteristic majorly found in the borrowers of group borrowing were: there were of 4 to 10 members in one group, group was formed by group members, the common link between group members was that they were neighbours that is living in same society, the loan amount among group members was unequal which means that if the member with higher loan amount
➢ **Repayment of microfinance loan**
  - Three questions were asked related to repayment of microfinance loan. It was found that majority of the borrowers had paid between 4-9 number of installments.
  - Default period that is time period since payment of last installment was either very less that is less than or equal to three months or its was between 12-24 months. It should be noted here that though they might have paid within three months but it is not necessary that till last payment borrowers were regular in payment that is there were cases that though last installment was paid within three months but second last installment had wide gap.
  - And because of this irregularity in payment, the amount of installment was also not exactly to the actual monthly installment amount. Based on the availability of the money, borrower paid higher, lower or equal to the installment amount.

➢ **Loan decisions and adequacy**
  - While analyzing the responses of the questions related to the loan decisions it was found that spouse was involved in majority of the cases of decision related to microfinance loan.
  - Moreover there were person other than spouse also involved in decision making and this can be one of the causes behind microfinance loan becoming NPA.
  - Further it was seen that in three question of decision, the person involved were different in different questions and this could also be one of the causes that might have lead into the default in microfinance loan.
  - In order to check the adequacy of microfinance loan terms, three questions were asked and it was seen that in most of the cases borrowers responded positively towards adequacy of loan amount, installment amount and repayment period.

➢ **Reasons/causes of default**

The following are the three major causes of default that were found from the survey of borrowers:
• The first major causes leading to default in microfinance loan was related to other debt. That means income was there but it was utilized in repayment of other debt. The other debt could have been taken from friend or relative, private money lender or other microfinance institutions. The third type of debt is related to the multiple lending which is one of the major concerns in microfinance in recent time (as analyzed in literature review chapter).

• The second major cause was of income problem that is no income or less income was generated and so there was no money left for the payment of installment amount. This can again be confirmed through their income level and the type of economic activity they are involved.

• The third problem was related to the utilization of income in expenses such for social, Medical, household or education purpose. Thus this is the case of meeting daily expenses and in certain case unexpected events which lead to the increase of expenses and so rather than payment of installment; income is utilized in these expenses. This happens because borrowers do not have much savings with them to deal with unexpected expenses.

➢ Training and supervision of borrowers

• Majority of the borrowers said that they had knowledge of training and information but not all of them had received training or information. Again out of the borrowers who had received training, they were not able to recall the exact information received to them.

• The borrower who had not received training, the major reason they gave for that was they had been provided once before and so during current disbursement of loan, it was not provided.

• The majority responses received for number of meetings held were two meetings which is very less as in the initial two meetings the person do not generate much familiarity. While the second major number of meetings held was just one that is at the time of explaining loan product.

• It was found that visit frequency of MFI staff in majority of the responses given was just once in a month and the purpose was majorly to collect
installment amount. Thus it can be said that personal relation of MFI staff and borrowers was missing which is required in microfinance.

6.3.2. **Findings of sub-objective 2: To evaluate and compare different factors leading to defaults in microfinance loans of microfinance institutions in Gujarat.**

Cross tabulation analysis is done in order to evaluate and compare different factors leading to defaults in microfinance loan. The cross tabulation analysis is done in two sections: first section includes evaluating two factors at a time and second section included evaluating three factors at a time. Eight cross tabulation under each of the above section has been studies which means total 16 cross tabulations has been studied. The analysis is represented through table and stacked column chart. Following are the major findings of the cross tab analysis:

- **Major findings of analyses of two factors at a time**
  - While comparing installment amount and age group of the borrowers, it was found that in age group between 21-30 years the maximum installment amount is between Rs. 501 to 1000 and less number of responses in higher installment amount.
  - Number of borrowing cycle was compared with time period since payment of last installment that is NPA category. It was found that Borrowers’ with third and fourth borrowing cycle have maximum time range of 12 to 24 months since payment of last installment.
  - It was found from cross tab of number of borrowing cycle and receipt of training and information that majority of the people who are having more than one borrowing cycle, have not received training.
  - Number of borrowing cycle and number of meetings conducted before loan disbursement was studied and it was seen that with the increase in the number of borrowing cycle there are few responses in the meetings conducted and that too maximum of two meetings are held.
  - In time period since loan sanctioned is 4 to 5 years or above five years, the frequency of visit of staff is in majority once in a month or even more than one month gap.
In most of the cases, the similarity was found in three crosstab formed in three questions person who took the decision to take microfinance loan, person who was responsible to pay microfinance loan installment and person who used microfinance loan that means the one person took all the decision but the problem was that person was not always borrowers and this can be one of the situation which lead to the defaults in microfinance loan.

**Major findings of analyses of three factors at a time**

- Proportion of earning members was very less compared to total family members of borrowers. While comparing installment amount between Rs. 1001 to 1500 and Rs. 1501-2000, it was found that the majority was in earning member between 0-2 while family members are 0-4 and 5-7.

- In majority of the cases the individual income of borrower is maximum of Rs. 5000 per month inspite of whatever different types of economic activity borrower is involved. Additionally, though borrower is having same income, the installment amount ranges from Rs. 500 to Rs 2500, in the income level which is maximum Rs. 5000.

- Majority of the family members that were self employed or doing job in private institute had a monthly income ranging from Rs. 5001 to Rs. 15000. Next when economic activity and installment amount is compared, it can be seen that there is no pattern in installment with economic activity.

- Initially when borrowers are new clients to the MFI, that is during first two borrowing cycle, the MFI has disbursed loan in group. Individual borrowing is seen more in case of three and more borrowing cycle in majority of the cases as by that time borrower have become familiar with MFI. Some MFI only lends only in group and therefore borrowing cycle is not relevant as whatever be the borrowing cycle, lending is done only in group. While comparing installment amount and borrowing cycle, it is found that higher installment amount is charged in the higher number of borrowing cycle. It can be concluded that the borrowing cycle of borrower do impact installment amount while there is partial impact of type of borrowing on installment amount.
When all the three factors that are total number of installments, number of installments paid and installment amount are analyzed together, it was found that irrespective of the installment amount; at least 50% of the total number of installment has been paid by majority of the borrowers. Even there are cases when 80-90% of the total number of installment has been paid. Thus it can be concluded that less number of installments are outstanding compared to total number of installment.

Group loan status of overdue/NPA is seen majorly in case where group is formed by group members and in both equal and unequal loan amount. It can be concluded that though when the group is formed by other person, there is no much problem with overall status of group loan. When the group is formed by group members only but inspite of this, overall status of group is not found good.

Loan disbursed that are 1-2 years old, have been paid 7-12 installments in majority of the cases, while their NPA level is in all category. Thus as the loan is older the number of installments paid on it is also higher. Loan older than 4-5 years and more than 5 years has been last paid 36-48 months ago. Thus older the loan, higher the NPA level in terms of time.

With the increase in number of borrowing cycle, loan amount also increases and as the loan amount increases, installment amount on it also increases in majority of the cases. Thus all three factors are directly related with each other.

6.3.3. Findings of sub-objective 3: To understand and derive association between causes of defaults in microfinance loan and various factors such as demographic factors of borrowers, lending terms and supervision & training of borrowers of microfinance institutions in Gujarat.

Twenty seven hypotheses were tested using Chi-square test in order to derive association between causes of default in microfinance loan and other factors. These factors were classified under seven different categories. Summated scale was used to group the similar or related causes of defaults and was converted in 10 major causes. These 10 major causes were considered at the time of hypothesis testing. Following mentioned are the major findings under seven categories:
Association between socio-demographic factors and causes of default
Marital status of borrower had association with causes of default in microfinance loan. While other socio-demographic factors namely age and education do not have significant association with defaults in microfinance loan. This means that certain relationship was found with marital status while no pattern was seen in age and education factor.

Association between economic factors and causes of default
All the economic factors namely number of earning members, borrowers’ income and economic activity and borrowers’ family income and activity had no significant association with causes of default in microfinance loan. This is because that all these factors are interrelated and together decide the economic condition of borrowers and so no relationship is found with individual factor.

Association between microfinance loan related factors and causes of default
Seven variables or factors were studied and out of them five variables had significant association with the causes of default. These factors were time period since loan taken, installment amount, number of installments, purpose of borrowing and type of borrowing had signification relationship with causes of default. While no relationship was found between number of borrowing cycle and loan amount with causes of default.

Association between factors related to microfinance group loan and causes of default
Group loan status of overdue/NPA is seen majorly in case where group is formed by group members and in both equal and unequal loan amount. It was found that though group was formed by MFI employee, it does not affect the overall functioning of the group. Similar trend was found in case when group was formed by agent/mediator.
Major Findings, Conclusion and Suggestions

- **Association between factors related to repayment of microfinance loan and causes of default**
  All the three factors related to repayment of microfinance loan such as total number of installments paid, time period since payment of last installment and installment amount paid in last installment have found to have significant association with causes of default. This means that certain relationship is found between pattern of causes of default and repayment of microfinance loan.

- **Association between decision related factors and causes of default**
  By analyzing three decision related factors, it was found that all of them had significant association with causes of loan defaults. It means that person who takes decisions related to microfinance role do affect the causes of default.

- **Association between factors related to training and supervision and causes of default**
  Out of three factors analyzed under this section, only the visit frequency of MFI staff had association with the causes of default. Thus it can be said that visit frequency of MFI staff do have relationship with causes of defaults. While other two factors that is receipt of training and information and number of meetings held do not have association with causes of loan default. This is because it was found that number of meetings held on an average was very less and training and information provided to borrowers’ was in past and thus though borrower had received training and conducted meetings it was almost same as not receiving or conducting.

6.3.4. **Findings of sub-objective 4: To know the association between microfinance loan amount and various factors such as demographic factors of borrowers, lending terms and supervision & training of borrowers of microfinance institutions in Gujarat.**

Association between microfinance loan and other factors has been tested through 15 hypotheses using chi-square test. These factors have been divided into four different categories and major findings under each these categories are as under:
Major Findings, Conclusion and Suggestions

- **Association between socio-demographic factors and loan amount**
  Two factors age and education were tested using hypotheses and it was found that there was no significant association between both these factors and microfinance loan amount. This means that at the time of deciding loan amount, age factor and education factor of borrower was not taken into consideration as there is no relationship found.

- **Association between economic factors and loan amount**
  There was no significant association found between microfinance loan amount and three economic factors namely number of earning family members, borrowers’ income and borrowers’ economic activity tested through formation of individual hypothesis. Two factors that are borrowers’ family income and family economic activity had significant association with microfinance loan amount. Thus it can be concluded that while deciding loan amount, family income and economic activity was taken into consideration. This is because many women borrowers were not involved in any economic activity and thus it is necessary to check family income and economic activity.

- **Association between microfinance loan related factors and loan amount**
  Five factors namely number of installment, purpose of loan, type of borrowing, status of group loan and number of installment paid were individually compared with microfinance loan amount. And in all five factors significant association was found that means there was relationship between all the above factors and microfinance loan amount.

- **Association between factors related to training and supervision and loan amount**
  Significant association was found between receipt of training and information and microfinance loan amount. That means that there was relationship between these two factors but then it was found that relationship was negative that is with the increase in loan amount, the receipt of training was not there as MFI generally gave training during the first time of borrowing and higher loan amount is given only in follow up cycle.
No significant association was found in number of meetings conducted and frequency of staff visit compared with loan amount. The number of meetings conducted should be equal for all and it should not be related with loan amount but here in total the number of meeting conducted were very less and so it should be increased. Moreover, visit frequency should also be equal to every loan amount which is the result of hypothesis but here overall visit frequency is very less therefore it is required to increase.

6.3.5. **Findings of sub-objective 5: To understand and analyze overall loan adequacy with different factors such as demographic factors of borrowers, lending terms and supervision & training of borrowers of microfinance institutions in Gujarat.**

Three questions of adequacy were combined using summated scale and then the significant difference is checked with other factors to study the responses of borrowers’ under different categories using one way ANOVA test. Further post hoc test is applied to factors where significant difference was found. The following are the findings according to different categories:

- **Difference amongst socio-economic factors and overall adequacy factors**
  
  Significant difference was found amongst various groups of socio-economic factors namely age, education, individual income and family income regarding overall adequacy factors of microfinance loan. Post hoc test showed that there was similarity amongst age group of 0-20, 21-30 and 31-40 regarding overall adequacy factors. The education group of ‘graduate’ has similarities with all the other education groups of uneducated, primary, secondary and high school. The borrowers’ individual income group of ‘Rs. 15000-25000 have similar responses as of group of ‘no income’, ‘1-5000’ and 5001-15000. In borrowers’ family income, ‘above 25000’ group of income has similarities with ‘no income, ‘1-5000’, 50001 -15000 and 15001-25000.

- **Difference amongst microfinance loan related factors and overall adequacy factors**
  
  Among the five factors under microfinance loan related factors, it was found that only one factor that is loan amount had significant difference regarding
overall adequacy factors. This means that while responding to the question related to overall adequacy factors no difference was found amongst various group of number of borrowing cycle, installment amount, number of installment and purpose of loan. Amongst various group of loan amount, it was found that there are similarities seen two times. First the loan amount group of ‘less than or equal to Rs. 10000 have similarity with ‘Rs.10001-20000’ group and ‘Rs.21001 to 30000’ group of loan amount. Secondly ‘Rs.80001-90000’ group have similarity with ‘above Rs. 90000’.

- **Difference amongst factors related repayment of microfinance loan and overall adequacy factors**
  There was no significant difference found amongst various group of number of installment paid and time period since payment of last installment amount regarding overall adequacy factors of microfinance.

- **Difference amongst factors related to training and supervision of borrowers and overall adequacy factors**
  Two factors related to training and supervision were tested using two hypotheses and it was found that there was significant difference amongst various group of number of meetings conducted and frequency of staff visit regarding overall adequacy factors of microfinance loan. Amongst the various groups of number of meetings held, the group of ‘no meeting’ has similarities with number of meetings of ‘one’ and ‘two’ groups. Amongst the various groups of visit frequency of MFI staff, the group of ‘weekly’ has similarities with ‘fortnightly’ group.

6.3.6. **Findings of sub-objective 6: To understand and analyze the relationship and impact of borrower’s combined causes/ situations that lead to arrears/defaults in microfinance loan on overall reasons behind NPA in microfinance loan of MFIs in Gujarat**

Relationship of borrower’s combined causes/ situations that lead to arrears/defaults in microfinance loan on overall reasons behind NPA in microfinance loan of MFIs in Gujarat was studied using correlation analysis and the impact
of above two variables was studied through application of stepwise regression model. The following are the findings of above analysis:

- **Relationship borrower’s combined causes/situations that lead to arrears/defaults in microfinance loan on overall reasons behind NPA in microfinance loan of MFIs in Gujarat using Correlation Analysis**
  - First evaluation is done on connection between respondent's overall situations where no or less income generated and overall situation was utilized for other things. Estimation of $r$ is 0.468 which propose strong relationship between these two constant variables.
  - Second evaluation is done on connection between respondent's overall situation where no or less income generated and combined miscellaneous causes of microfinance loans in default. Estimation of $r$ is 0.094 which propose strong relationship between these two constant variables.
  - Third evaluation is done on connection between respondent's overall situation where no or less income generated and overall reasons for NPA in microfinance loan loans. Estimation of $r$ is 0.374 which propose strong relationship between these two constant variables.
  - Fourth evaluation is done on connection between respondent's overall situation where income was utilized for other things and Combined miscellaneous causes. Estimation of $r$ is 0.135 which propose strong relationship between these two constant variables
  - Fifth evaluation is done on connection between respondent's overall situation where income was utilized for other things and overall reasons for NPA in microfinance loan. Estimation of $r$ is 0.431 which propose strong relationship between these two constant variables.
  - Sixth evaluation is done on connection between respondent's combined miscellaneous causes and overall reasons for NPA in microfinance loan. Estimation of $r$ is 0.293 which propose strong relationship between these two constant variables.

- **Impact of borrower’s combined causes/situations that lead to arrears/defaults in microfinance loan on overall reasons behind NPA in microfinance loan of MFIs in Gujarat using Stepwise Multiple Regression Model**
Major Findings, Conclusion and Suggestions

- **Model Summary**
  - First value related with respondent’s overall situation where income was utilized for other things is most influencing factor. The value of R square is 0.398, it indicates that 39.8% variations in the overall reasons of NPA occurs because of overall situation where income was utilized for other things.
  - Second value of R square is 0.565 and changes in R square is 0.167 it indicates that combine influence of two independent factor that are combine influence of respondent’s overall situation where income was utilized for other things and combined miscellaneous causes is 56.50% and remaining changes occurs because of remaining factors, 0.167 indicates that because of combined miscellaneous causes 16.7% changes occurs in dependent variable.
  - Third value indicates the combine influence of three independent variables i.e. overall situation where income was utilized in other things, combined miscellaneous causes and overall situation where no or less income generated on dependent variable (overall reasons of NPA). In the table value of R square is 0.682 which indicates that 68.2% variations occurs in dependent variable because of these three independent variables. While remaining 39.8% changes in total turnover occurs because of remaining factors.

- **ANOVA Analysis**
  The individual hypotheses for all three independent variables have been tested with ANOVA analysis and following are the findings:
  - The significant value is 0.000 which is <0.05 which indicates that there is significant impact of respondent’s overall situation where income was utilized in other things on overall reasons of NPA in microfinance loan of MFIs in Gujarat.
  - The significant value is 0.000 which is <0.05 which indicates that there is significant impact of respondent’s overall situation where income was utilized in other things and combined miscellaneous causes on overall reasons of NPA in microfinance loan of MFIs in Gujarat.
The significant value is 0.000 which is <0.05 which indicates that there is significant impact of respondent’s overall situation where income was utilized in other things, combined miscellaneous causes and overall situation where no or less income was generated on overall reasons of NPA in microfinance loan of MFIs in Gujarat.

### Coefficient Analysis

Three equations are formed by stepwise adding all three independent variable to check the impact of these three independent variables on dependent variable. Following are the findings:

- The first equation means 0.132 unit’s change in respondent’s overall situation where income utilized in other things and 0.136 unit’s change in combined miscellaneous causes will change 1 unit of overall reasons of NPA.

- The second equation means 0.132 unit’s change in respondent’s overall situation where income utilized in other things and 0.136 unit’s change in combined miscellaneous causes will change 1 unit of overall reasons of NPA.

- The third equation means 0.100 unit’s change in respondent’s overall situation where income utilized in other things, 0.119 unit’s change in combined miscellaneous causes and 0.084 unit’s change in respondent’s overall situation where no or less income generated will change 1 unit of overall reasons of NPA.

### 6.4 Other findings

Previous three sections describe findings of the research objective wise. This section includes overall findings through studying of remaining secondary data, interviews and meetings with MFI staff and observation during survey.

- It was found by studying the existing regulatory framework for microfinance institutions, that there was no single regulatory authority guiding all legal forms of microfinance institutions except NBFC-MFIs. As seen above, because of lack of
unique regulatory authority, there are different ways of classification of assets and provisioning. Because of this, it is difficult to compare MFIs with each other.

- It was observed during the survey that borrowers were involved in economic activity which was dependent on day to day availability of work. For example, majority of the women client were involved in handicraft, stitching and other work which was purely dependent on the order received and did not guaranteed work on a regular basis and therefore their income was also not fixed. Moreover, the borrowers’ belonged to community were more importance is given to rituals and customs and so majority of their income was spend behind such events. Thus, on one side income was not generated regularly and on the other side this little income was utilized in non-economic activities.

- Borrowers’ belong to lower class of society where they did not have much awareness about the money management. Because of lack of proper knowledge, majority of them were not giving much importance to savings or they had not planned the repayment schedule when they had taken microfinance loan. They were just focusing on the current requirement and based on that they apply of the loan. Moreover, most of them did not know the basic information of loan terms and conditions. They just asked the amount they get at the time of loan and the amount they will have to pay afterwards on a monthly basis.

- It was found that the MFI staff did not much believed in training and all the process of training was just a formality in majority of the cases. That means either number of days or number of hours of training were cut short and completed earlier. Moreover, the training was provided for the new clients or borrowers only while second and more time borrowers were not provided any training. In certain cases, there were situation were borrowers themselves were not interested in receiving training and assumed that the training process was a waste of time and they only demanded the loan money.

- MFI staffs that were directly connected with the borrowers that is front line staff were found to be more professional in nature. That means they did not have much
interest in understanding the problems or queries of the borrowers but were only concern about the installment money.

- Approach of microfinance institutions toward their borrowers was found to be adequate in terms of loan process, methodology of collection and other financial services such as savings, insurance etc. But the problem was found in terms of proper implementation and reach to the client or borrower. For example, there is provision of providing training, verification of repaying capacity of borrower, visiting and meeting borrower frequently etc as a part of microfinance loan process but as seen in previous findings, all these things were not actually implemented properly.

- It was found from the conversation with MFI staff at different level that most of the staff was not satisfied with the remuneration policy of the MFI. Because of this, it was observed that the employees of MFI were not performing their duties properly with utmost integrity. And this could be one of the situations which may lead misunderstanding between borrower and MFI and MFI staff and resulting in microfinance loan default.

### 6.5 Conclusion

This section concludes the findings mentioned in above four sections as under:

Financial performance analysis of microfinance institutions concludes that overall all the three MFIs have performed better than its previous year except for Sewa bank whose client base have been decreased over the years and therefore most of the financial indicators have been affected. Common things highlighted from the study is that all the three have less equity base compared to debt and the more the year of experience and the more was the client outreach.

The trend of indicators of non-performing has been found different in three MFIs as they have different norms and policies to deal with non performing assets. Moreover, it was found from observation and interaction with account department staff of MFIs that both Saath and Prayas MFI have fluctuating policies on NPAs, and therefore no particular trend was found in majority of NPA indicators. While Sewa bank have
comparatively stable policies, one because they follow the guidelines given by central bank that is Reserve Bank of India and another because it is the most experienced MFI in all the three MFIs studied.

From the primary data, it was found that major cause of default was other debt which highlights the situation of multiple lending where different MFIs lends to same borrower. At the same time it was seen from literature review data that microfinance has not been reached in many of remote areas of Gujarat. Thus it can be concluded that MFIs are providing microfinance services to same areas rather than approaching to uncovered market.

Moreover, MFIs were not giving much importance to demographic and economic status of borrower while deciding the loan amount and rather it was related majorly to number of borrowing cycle. Next, training and supervision are important pre and post disbursement activity of microfinance respectively. But from the survey it was found that not much attention was paid to these two activities.

The overall conclusion of the findings was that though there are certain problems of borrowers due to the unexpected situation or lack of awareness while repayment of microfinance loan but this problem of repayment can be reduced by minor changes in the working policy and behavioral aspect of MFI. The next section thus highlights the suggestions based on the findings of the research.

6.6 Suggestions

Based on the findings of both primary as well as secondary data mentioned above, following are the major suggestions to microfinance institutions in Gujarat to reduce the non performing assets of microfinance loan:

- Major cause of microfinance loan becoming default was due to other debt taken by borrower and this other debt also include situation where microfinance loan is taken from more than one microfinance institutions. In order to avoid this multiple lending that is different MFIs lending to same borrower at the same time, common data base should be created of all the
borrowers taking microfinance loan. This is similar to the software used by bank which is called ‘CIBIL’ which helps to know the past financial transaction of the person who comes to take loan from bank. Similar software should be used by MFI.

➢ Another way to avoid multiple lending is by exploring new avenues and reaching the most remote areas and covering the poorest. It was found during the survey and secondary data analysis that MFI have not yet covered the most remote areas of Gujarat and therefore the above suggestion is quoted to MFI.

➢ Other major cause that lead to microfinance loan default was ghost loan or installment that is though borrower have take microfinance loan on his/her name but the loan amount have been utilized by person other than borrower. This is a situation which have aroused due to lack of awareness among borrowers that if loan amount is not paid regularly and loan is shown under borrower’s name then the borrower will not be able to get future loan due to decrease in credibility of borrower. Moreover, borrowers were not able to recall basic loan details and other microfinance services when asked during the survey. Therefore in order to increase awareness and knowledge among borrowers, proper training is required to be provided to them by MFIs and that too at a regular interval.

➢ There were lot of cases where the causes of microfinance loan default was migration that is change of place where borrower was living without informing MFI and this could be either for short term or permanent. This problem could be overcome through regular and timely supervision by MFI staff. Regular supervision will create bonding between MFI staff and borrower and so borrower will be able to share his/her personal things including if they are going to shift their house. In addition to this, once the strong bond is created, borrower will not try to cheat the MFI staff and this will ensure timely repayment by the borrower.

➢ It was found that the purpose of loan at the time of loan application was different from the actual usage of loan amount and that too in non-economic
activity in majority of the cases. Thus it is the responsibility of the MFI to ensure that on first hand, borrower should tell the actual purpose of taking loan and secondly, MFI should ensure that borrower use the money for the same purpose. This can be done through regular supervision by MFI staff.

- From the data analysis and conversation with field officer at the time of survey, it was found that the loan amount was decided based on the number of borrowing cycle. This means that higher the number of borrowing cycle, the more the loan amount. And this was one of the cause which lead to the microfinance loan into default because it was found through questionnaire data analysis that economic factors (such as economic activity and income level etc.) of most of the borrowers indicated that borrower did not had repayment capacity. Thus repayment capacity of the borrower should be analyzed properly by MFI staff before deciding the amount of loan.

- As mentioned in section of ‘other findings’, approach of MFIs towards its employees and staff was not adequate in majority of the cases and most of the staff was dissatisfied and had complain against MFIs. Microfinance institutions are in service industry and their main asset is their employees and therefore they should properly managed as if the employees are not satisfied, they will not provide proper service and it will effect overall performance of MFIs. Thus it is required that MFI should revisit its remuneration policy to reduce dissatisfaction among staff.

- It was observed during the survey that there were internal problems between the employees. In addition to this, majority of them did not have proper knowledge about the microfinance and methodology adopted by its MFI to provide microfinance services. Because of this proper information did not reach to the borrower leading to misunderstanding and dissatisfaction of borrower with MFI or MFI staff. This can be avoided by arranging training sessions to the employees.

- Even within in same MFI (SAATH MFI), it was found that same borrower have taken loan simultaneously from two different branches of the MFI. Thus,
MFI should upgrade its database and maintain in consolidated form that means there should be centralized system of maintaining data of its clients and which could be accessed by each branch of the MFI.

6.7 Future scope of Research

Following are few of the suggestions for future scope of research:

- The objective of the research was to investigate the causes of default in microfinance loan and in order to achieve this objective; primary data was collected from default borrowers. Further research can be conducted by surveying MFI’s staff at various level of organization structure.
- Respondent of the research were default borrowers. Further the comparative research can also be carried out by analyzing regular borrowers.
- The research was conducted in a particular area with specific topic. Thus the current research can be carried forward by widening scope or changing the scope of the research. For example the present research was carried in Gujarat state of India and future research can study be conducted by studying other state or it can even widened the scope by comparing two or more states. Similarly time horizon can be increased for further study.
- The present research was focused on microfinance loan services of microfinance institutions and its impact. Further, the study can be done on other services of microfinance to get overall impact of microfinance.