microfinance institutions is more comprehensive. With the help of this model, the MFIs can quantify the level of financial sustainability. This will also be used to create a sustainability index for various countries and help the regulator identifying the strong and weak areas of the sector. In addition, the existence of new model is also expected to facilitate MFIs to access to capital markets. Having access to sustainability information may reduce some of the transaction uncertainty.

This model may be considered as one more step in the process of the emergence of the microfinance standards.

CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions and Recommendations:

Previous studies had shown that the MFIs of Bangladesh have performed better as compared to Indian MFIs until 2007. However, this study has found that from last five years the Indian MFIs have performed better as compared to the MFIs of Bangladesh in most of the financial indicators.

For ensuring prudential management, banks in India are expected by the RBI to maintain Capital Adequacy Ratios (CAR - net worth as a proportion of risk-weighted assets) of 9% and NBFCs of 15%. In case of the MFIs of Bangladesh, the capital adequacy is higher than Indian MFIs; therefore, they are much safer in economic downturn. However, the trend of this ratio
is upward in case of India and downward in case of Bangladesh. This trend is a cause of concern for the MFIs of Bangladesh. One of the major reasons for this trend is the legal form of MFIs. In order to serve the large population of underserved poor, several Indian NGO MFIs are converting themselves into NBFC MFIs. Therefore they are able to raise their capital base. In case of Bangladesh, NBFC MFIs are not operational; therefore, they have limited scope to increase their capital base.

By 2007, the aggregate figures suggested that capital adequacy of Indian MFIs was an issue as even the largest MFIs were only just at acceptable levels and below the 12% norm being introduced then. The Debt/Equity ratios emerging were far higher than the 5:1 norm in such lending by commercial banks. However, from 2007 onwards, the private equity funds joined the microfinance focused social investment funds – Bellwether, Lok Capital, Unitus and others – in making investments in the Indian microfinance sector [51]. Even the International Finance Corporation (IFC) became involved. As a result, the equity constraint eased considerably, particularly for start-up MFIs established by professionals and weighted average for Indian MFIs is now in excess of 15% – well ahead of the banking sector.

In order to serve the large poor population of India, Indian MFIs have to further increase their capital base. The conversion from NGO to NBFC will also enhance the capital adequacy for the sector.

In terms of outreach, India and Bangladesh are at the same level. However, the growth rate of Indian MFIs is much higher (60% CAGR in the last five years) as compared to Bangladesh (stagnant). Though the market penetration is quite low in India particularly in UP, MP, Bihar, Orissa, Chhattisgarh, which shows that there exists huge business opportunities for Indian NBFC MFIs. However, at the same time the Indian MFIs will have to explore the cost effective means to reach to the least densely populated area.

No significant differences found between the means of Indian MFIs and the MFIs of Bangladesh on Operational Self Sufficiency, Yield to Gross Loan Portfolio and Return on Asset indicators.

Both countries (India and Bangladesh) have above 90% client as women borrowers, which justify the social commitment of MFIs of their respective countries.

It can also be concluded that the equity holders will be more interested in investing into Indian MFIs than the MFIs of Bangladesh because; they will earn higher return on their investment.

The operating efficiency of Indian MFIs is better and increasing because of higher growth in
outreach and better utilization of work force (the main operating expense of MFIs). Despite the improvement in operating efficiency, the yield of Indian MFIs is rising fast. This means that Indian microcredit borrowers are now paying a relatively high cost for their microcredit. Moreover, at the same time, there has been a substantial widening in the margin available to the average MFIs for covering financial expenses, loan loss provisions and surplus.

Portfolio quality of Indian MFIs (PAR>30 days = 2.4%) is far better than the MFIs of Bangladesh (12.1%) and global median (3.1%). This may be because of ‘ever-greening’ resulting in under-reporting by branches to the head office. Following the Andhra Pradesh crisis of 2006, there has been a significant delinquency crisis in southern Karnataka since 2009 and growing issues with portfolio quality even in states like U.P. with relatively recent microfinance activity. Concerns about consumer protection have led to the state government of Andhra Pradesh stepping in with a heavy-handed ordinance that threatens to bring all microfinance activity to a halt. While this crisis may blow over, greater introspection on issues of multiple lending, the quality of internal control systems, malpractices in loan collection and how to improve portfolio management are certainly called.

It is also concluded that the MFIs, which are converting themselves into NBFC, are financially more viable and their outreach is high.

The Young MFIs of India are more profitable, creating better quality asset, and increasing their outreach at a higher rate as compared to the Mature and old MFIs, while Mature and Old MFIs are utilising administrative and personnel expenses in a much better manner.

Through the analysis of the second objective, it is found that the outreach and capital adequacy are the prominent factors, which are affecting the financial sustainability of Indian MFIs. Nevertheless, the capital structure does not affect the sustainability. In case of Bangladesh, the asset quality and capital adequacy are the main factors, which are affecting the sustainability of MFIs. Again, the capital structure does not affect the sustainability of MFIs.

The third objective has suggested a new, comprehensive, and simplified model for financial sustainability of MFIs. With the help of this model, MFIs can quantify the level of financial sustainability. This model will also be used to create a sustainability index for various countries and help the regulator identifying the strong and weak areas of the sector. In addition, the existence of the new model is also expected to facilitate MFIs to access to capital markets. Having access to sustainability information may reduce some of the transaction uncertainty.
While microfinance remains a small proportion of the overall financial system in terms of portfolio size, it is growing much faster; bank credit grew by 17.5% during 2008-09 while microfinance portfolios grew by around 100%. As a result, in terms of portfolio size as well as number of clients served it is becoming an increasingly significant part of the financial system.

Deposit services remain a distant dream. Thrift deposits are accepted formally by MFIs from their members and are recorded as part of their balance sheets wherever these are legally permitted. The magnitude of MFIs deposit services in India is limited by the fact that not all MFIs are allowed by the regulator to offer such services.

Given recent actions by the Government of Andhra Pradesh, the expected deterioration in portfolio quality as a result, it is quite likely that there will be an increase in costs incurred by Indian MFIs to maintain lending standards while ensuring portfolio quality. At the same time, it is likely that the portfolio yield will decline in response to the political and media pressure on interest rates to end-clients. The implications of such drastic interventions by the government for the long-term sustainability of MFIs are difficult to predict. At best it will result in a decline in capital available for microfinance, thereby slowing down the financial inclusion effect of MFIs operations; at worst it could destroy microfinance altogether, resulting in throwing low income families back into the not-so-benevolent arms of moneylenders.

6.2 Future Research and Thinking:

Based on the above study, following research can be carried out.

a. Social Performance of Microfinance Institutions of India.

b. Financial Performance of Indian MFIs Post Financial Crisis.

c. Impact of Financial Services of MFIs on Indian poor.

d. Why NBFC MFIs are successful in India?

e. Reasons for low penetration of MFIs services in poor densely populated states like UP and Bihar.

f. The regulatory issues and challenges of microfinance sector in India.