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A COMPARATIVE STUDY ON MICROFINANCE IN INDIA AND ABROAD

J. Pavithra* and M. Ganesan**

INTRODUCTION

Micro finance can be characterized as "the methods by which needy individuals change over little entireties of cash into substantial wholes". (Rutherford 1999). It is the procurement of budgetary administrations to poor individuals in creating and immature nations who need to get to business managing an account framework. Not at all like conventional banks smaller scale finance foundations regularly offer little advances charge premium that are reasonable to low pay clients and don't require any guarantee. The micro finance services may be seen in four main terms of mechanisms:-

- Loans – which allow a lump sum to be enjoyed now in exchange for series of repayment to be made in the future in the form of installments.
- Savings – which allow a lump sum to be enjoyed in future in exchange for series of savings made now.
- Insurance – which allows a lump sum to be received at an unspecified future time if needed in exchange for a future savings both now and in future. Insurance also involves income amalgamating in order to hedge risk between individuals on the assumptions that not all those who contribute will necessarily receive the equivalent of their contribution.
- Pension – which allow a lump sum to be enjoyed as specified and generally distinct date in future in exchange for a series of savings made now.

They are many types of micro finance institutions; local institutions that provide a small number of donor-based loans and multi-million dollar banks that work to establish to country-wide savings and loan industries for the poor; those that combine their lending activities, with education and social work and those that limit financial services those that provide credit only and those that also offer credit savings and insurance. Some practioners believe that in order for the industry to grow fast enough to meet the demand, microfinance institutions should aim to

* Research Scholar, Department of Management Studies, Bharath University
** Dean – Admin (retd)., Bharath University

become profitable by setting interest rates enough to exceed their costs. Others argue that most low-income borrowers cannot afford such high interest rates and there is a trade-off between profitability and poverty-fighting impact.

1.1. History of Micro Finance

Small scale credit and miniaturized scale finance are generally new terms in the field of finance, first coming to unmistakable quality in 1970s, as per Robinson. From 1950s through 1970s, the procurement of monetary administrations by givers or governments was for the most part in the structure financed country credit advances. These frequently brought about high advance defaults, high misfortunes, and a powerlessness to achieve families. Robinson expresses that the 1980s spoke to a defining moment in the historical backdrop of microfinance in that miniaturized scale finance associations, for example, grameen bank started to demonstrate that they could give little advances and reserve funds benefits gainfully on a huge scale. They got no appropriations proceeding, and monetarily subsidized and completely manageable and could achieve wide effort to customers.

The distinction between smaller scale credit and financed provincial credit projects of the 1950s and 1960s was that miniaturized scale credit declared on reimbursements on charging loan fees that took care of the expense of conveyance and by concentrating on customers who were subject to the casual segment for credit. The 1990s "saw speedier development in the quantity of microfinance associations shaped and expanded accentuation on achieving scale". Alongside the development of small scale credit organizations, considerations changed, from the simply the procurement of credit to the destitute to the procurement of other money related administrations, for example, reserve funds and benefits. The criticalness of small scale finance and smaller scale credit with the dispatch of the Micro Credit Summit in 1997. The summit focuses to achieve 175 million of the world's denied families, particularly the ladies of those families with credit for the independent work and other budgetary business administrations before the end of 2015. All the more as of late the UN claimed the Year 2005 as the International Year of Micro Credit.

1.2. Micro Finance in India

Since the 1950s, the governments in India have experimented with a large number of grant and subsidiary based poverty alleviation programmes. The studies demonstrate that these compulsory and dedicated subsidized financial programmes, implemented through banking institutions, have not been fully successful in meeting their social and economic objectives. Approximately 75 million households need microfinance, of these 60million households are in rural India and the remaining 15 millions are urban slum dwellers. The annual current credit usage by these households is estimated to be Rs.495,000 million Success stories in Bangladesh, Indonesia gave further boost to the concept in India in 1980s. The sources of microfinance in India are as follows:

Formal Institutions – Rural Banks and Cooperative Banks, NABARD, Land development banks and Urban credit cooperative societies.

Semi Formal Institutions - NGOs

Informal Institutions - Moneylenders and shopkeepers.

FINDINGS

7.1. Microfinance in East Asia and Pacific

Parameters	*Credit MFI cambodia*	*Ganesha MFI Indonesia*	*Cep MFI vietnam*
1. Capital Adequacy Ratio	23.05%	16.33%	51.8%
2. Asset Quality			
a. Standard Loans	95.47%	95.01%	Nil
b. Sub standard loans	1.40%	Nil	Nil
c. Doubtful loans	0.69%	Nil	Nil
d. Loss	2.44%	4.99%	Nil
e. Portfolio at risk	1.32	0.00	1.76
3. Earnings			
a. Return on owners equity	4.47%	54.91%	Nil
b. Return on assets	20.64%	15.98%	Nil
c. Return on equity	19.02%	54.91%	Nil
4. Liquidity			
a. Current ratio	3.45	2.49	Nil
b. Solvency ratio	0.88	0.84	Nil
c. Debt coverage ratio	0.23	0.10	Nil
d. Interest coverage ratio	4.17	2.28	Nil
5. Operational self sufficiency	119.92%	132.00%	171.5%
6. Repayment rate	Nil	100.00%	Nil
7. Rank	2	1	3

The ranking is made based on the parameters capital adequacy, liquidity, earnings, operational self sufficiency, repayment rate. In comparing these parameters we find that asset quality, earnings, liquidity, operational self sufficiency and repayment rate are excellent in GANESHA MFI and accordingly the rest are given rankings with the same. We can conclude that GANESHA MFI stands as no1 in East Asia and Pacific due its good financial performance and rest of the two CREDIT is ranked 2nd and CEP has lack of sufficient data.

7.2. Microfinance in Eastern Europe and Central Asia

Parameter	*Credit Mongol MFI Mongolia*	*Constanta MFI Bulgaria*
1. Capital Adequacy Ratio	68%	114.43%
2. Asset Quality		
a. Standard Loans	Nil	96.19%
b. Losses	Nil	3.38%
c. Portfolio at risk	Nil	0.43%
3. Earnings		
a. Return on equity	2.41%	15.32%
b. Return on Assets	0.93%	4.32%
4. Liquidity		
a. Current Ratio	20.68	3.47
b. Solvency ratio	0.57	0.26
c. Debt coverage ratio	0.03	0.15
d. Interest Coverage ratio	Nil	3.04
e. Fixed charges coverage ratio	Nil	1.93
5. Operational self sufficiency ratio	Nil	128.00%
6. Rank	2	1

In consideration with the two institutions we can find out that the capital adequacy ratio is higher in CONSTANTA MFI and a good asset quality is also maintained. The earnings and in liquidity ratios such as solvency current ratios are good than institution in Mongolia. Moreover data is insufficient in CREDIT MONGOL MFI. We can conclude upon saying that as high capital adequacy, return on equity, good asset quality, and an excellent operational self sufficiency is there so CONSTANTA MFI is ranked as no 1 in Eastern Europe and Central Asia.

7.3. Microfinance in South Asia

Parameters	*Nirdhan Utthan Bank MFI Nepal*	*Grameen Bank MFI Bangladesh*
1. Capital Adequacy Ratio	7.42%	16.33%
2. Asset Quality		
a. Loan loss ratio	0.35%	Nil
3. Earning		
a. Return on owners equity	26.79%	21.22%
b. Return on assets	9.69%	41.82%
c. Return on equity	31.18%	314.60%
4. Liquidity		
a. Current Ratio	0.45	7.52
b. Quick Ratio	0.44	Nil

contd. table

Parameters	*Nirdhan Utthan Bank MFI Nepal*	*Grameen Bank MFI Bangladesh*
c. Solvency Ratio	0.65	0.43
d. Debt coverage Ratio	0.06	0.54
e. Interest coverage Ratio	1.02	1.19
f. Fixed charges coverage	Nil	1.19
5. Operational self sufficiency	121.66%	214.73%
6. Rank	2	1

In comparison with Nepal and Bangladesh institution, we can find that the capital adequacy ratio, return on equity, return on assets and operational self sufficiency are much higher than NIRDHAN Bank in Nepal. Even though the liquidity is much higher than NIRDHAN bank in Nepal, because of its high capital adequacy and there is no loan loss ratio, which proves that the founder Mr. Mohammad Yunus gets the nobel peace prize in terms of financial performance and also social awareness which makes Grameen Bank to be ranked as no 1 in South Asia.

7.4. Microfinance in India

Parameter	*Basix*	*SNFL*	*Spandana*	*Share*	*Grameen Koota*
1. Capital adequacy	118.94	52.63	10.30	8.62	7.18
2. Asset quality					
a. Std Loans (%)	65.00	99.45	99.96	98.3	98.57
b. Sub std loans	35.00	Nil	Nil	Nil	Nil
c. Doubtful loans	Nil	0.55	Nil	Nil	Nil
d. Loss reserve	Nil	Nil	0.04	1.7	1.43
3. Earning					
a. ROOE	1.76	1.07	93.27	21.73	173.20
b. ROA	1.85	1.92	51.09	17.13	14.58
c. ROE	28.09	1.11	126.78	32.11	201.80
4. Liquidity					
a. Current ratio	1.42	13.53	1.84	5.50	2.05
b. Quick ratio	1.01	Nil	1.84	Nil	Nil
c. Solvency ratio	0.84	0.71	0.34	0.62	0.73
d. Debt coverage	0.08	0.009	0.10	0.07	0.07
e. Interest coverage	0.66	0.13	0.36	0.24	2.10
f. Fixed charges	0.70	0.13	0.37	Nil	Nil
5. Operational self sufficiency	107.36%	108.6	13.03	66.42	110.20
6. Rank	2	1	5	4	3

The ranking has been given based on capital adequacy, operational self sufficiency and the quantum of standard assets. This has been done as micro financial institutions are service oriented.

7.5. CONCLUSION

This gives the overall comparison of microfinance institutions in India and abroad. Here the method used for analysis is "CAMEL" which is C – Capital adequacy, A- Asset quality, M- Market Risk, E- Earnings, and L- Liquidity. Since here as market risk is not involved as they do not invest in shares we are not considering it. Some more parameters such as operational self sufficiency which tells us about the financial structure and repayment rate which is the rate at which the loan is repaid by the individuals or groups We found out the best performing institution in each region. Even though we could rate institutions still its difficult to say that this is the only one institution performing as each and every instititution in each region has its own quality.

Here by analyzing and making a comparative study of institutions in India and abroad we can make out that there are lots of countries which are below the poverty line than what we have in India. These micro finance institutions are making efforts to help the poor and make them to stand up on their own. The institutions which are ranked 1 are doing a great job to the poor yet millions and millions of poor people in many countries are the same though institutions have come forward to help people. Coming to India all the companies are doing very well but when it comes to the mind of service, Sarvodaya Nano Finance Limited is the best both In service as well as profit. To conclude many more institutions should join hands to eradicate poverty and to bring prosperity in India and around the world.

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