Microfinance on the Revival Path- Comparison of Financial Performance of Select Microfinance Institutions in India, Bangladesh & Pakistan

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Abstract

Microfinance has been considered as a developmental tool to alleviate poverty and lead to growth of nation through financial inclusion. The very poor are the ones who are very vulnerable to the vagaries of nature and are hence considered to be 'un-bankable' by mainstream commercial financial institutions. The goal of microfinance is to make financial services accessible to the poor. Out of nearly 6 lakh villages in India only 10% of the villages have access to finance, thereby making India a country with highest number of households being excluded from banking arena. Funding to the industry during the second quarter grew by close to 300 per cent compared to the first quarter, according to Microfinance Institution Network (MFIN). A sample of 90 Microfinance Institutions (MFIs) has been selected from India, Bangladesh and Pakistan (30 MFIs from each country) for the study. Six financial performance indicators based on efficiency, financial viability, profitability, leverage and capital adequacy have been considered for the study. A comparison is made between the financial performance of the Microfinance Institutions in three different countries by using statistical tool; ANOVA- one-way classification. There is a significant difference in the means of the performance indicators, of MFIs in the three countries. Donors, Practitioners of Microfinance and other stakeholders will benefit by having knowledge of the key financial performance indicators.

Keywords: *Microfinance, portfolio quality, productivity, profitability, capital adequacy*

Introduction

According to a World Bank survey in 2012, only 35% of adults in India had access to a formal bank account and only 8% borrowed from institutional and formal sources. There has been a vaccum that has been created by the banks and the Government. The very poor are the ones who are very vulnerable to the vagaries of nature and are hence considered to be 'un-bankable' by mainstream commercial financial institutions. Microfinance has emerged as a powerful economic development tool intended to favour low-income women and men.

Without access to savings accounts, loans, and insurance and fund transfers for billions of unprivileged people around the world, the obstacles to overcome poverty appear to be insurmountable. A movement to provide better financial services to the poor has been operating since the late 1970s and early 1980s and these services are collectively called Microfinance. Microcredit serves as a powerful tool of microfinance, which involves giving out loans to the poor. Such loans can help a person start a business, generate income and so, can begin the climb out of poverty. This approach enables capital to be put to a productive use in the local economy. Microfinance Institutions also provide savings and insurance, which can help the poor manage unforeseeable events more effectively and ensure their livelihood, is intact. Grameen bank, originating in Bangladesh was the first to establish successful, scalable models for modern Microfinance.

Today, there are close to 90 million active borrowers being served by Microfinance Institutions with nearly 70 billion dollars in Gross Loan Portfolio as reported by Mix Market. Sixty percent of the active borrowers are located in south Asia indicating that the highest concentration of microfinance is, in fact, in South Asia. Bangladesh, India and Pakistan are 3 of the biggest countries in South Asia with large Micro-financing Activities.

In India, the government emphasizes on providing financial services to the poor and underprivileged since independence. Influenced by the Bangladesh microfinance models developed by Dr. Yunus, the government of India has been consistently implementing this scheme to eradicate poverty since 1999. New micro finance approaches have emerged in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and to improve the standards of living. Microfinance in India today is a dynamic space with multiple of players offering various products and services to low-income clients with different approaches. As India is one of the biggest markets for Micro-finance, there are close to 44 million active borrowers and a total of 8.5 billion dollars in gross loan portfolios have been recorded by MIX market. India has a population of 1.295 billion as of 2014. Close to 400 million of India's people or one-third of the world's poor still live in poverty. Many of those who have recently escaped poverty are still highly vulnerable to falling back into it. In fact, due to population growth, the absolute number of poor people in some of India's poorest states actually increased during the last decade.

In the past decade, Bangladesh's economy has grown at nearly 6% per year. With a population of 159 million as of 2014, poverty dropped by nearly a third and more than 15 million Bangladeshis have moved out of poverty since 1992. While poverty reduction in both urban and rural areas has been remarkable, the absolute number of people living below the poverty line remains significant-around 47 million. (Reported by the World Bank).

Bangladesh has one of the longest histories with microfinance as Grameen Bank, one of the first successful MFI's, have been a model for many more around the world. MFIs in Bangladesh have created innovative financial products and services to deal with various challenges and attract clients. Since its inception in 1970s, microfinance in Bangladesh has made an important transition with various innovations. At present, there is a distribution of 5.1 million US dollars in gross loan portfolio and MFIs in Bangladesh are serving a total of 18.3 million active borrowers.

In Pakistan, the importance of Microfinance is recognized as a tool of social mobilization and poverty reduction, since late 1990s. The microfinance industry in Pakistan having witnessed continuous growth over the last few years in not only credit but also savings, insurance and remittances, is ideally positioned to play an important role in the inclusive finance sphere. The current macroeconomic stability in the country provides an ideal environment for the sector to grow and expand. Falling interest rates on the back of lower inflation and uptake on private credit provides an opportunity for the microfinance sector to reduce costs and fund their expansion by borrowing from commercial sources. The total asset base of the industry stood over PKR 100 billion with Microfinance Banks, a commercial bank licensed and prudentially regulated by the state bank of Pakistan to exclusively service the microfinance market, making up nearly 70 percent of it. The industry continues to remain sustainable. There are 3.5 million borrowers and a gross loan portfolio of 793.6 million dollars distributed by microfinance providers (MFP) in Bangladesh as reported by MIX Market.

Microfinance is considered as a significant approach for fulfilling Financial Inclusion mission of India. Effective financial management requires periodic analysis of financial performance (Joana Ledgerwood, 2000). Basic set of performance indicators have been considered for the study. Donors, Practitioners of Microfinance and other stakeholders will benefit by having knowledge of the key financial performance indicators.

The key indicators undertaken for review in this article are as follows:-

1. Efficiency Ratios – Operating Cost Ratio
2. Financial Viability - Operational Self Sufficiency
3. Profitability Ratios - Return on Assets Ratio and Return on Equity Ratio
4. Leverage - Debt/Equity Ratio
5. Capital Adequacy –Capital Adequacy Ratio (CAR)

Each of these performance indicators were selected as they are useful in managing MFIs.

Objectives

To compare the financial performance of Microfinance Institutions present in three countries; India, Bangladesh & Pakistan

Literature Review

There is ample literature available on the performance of micro finance institution across the globe, though only few studies have been carried out on the topic related with performance of Indian MFIs.

RajarshiGhosh (2005) in his research paper **Microfinance in India: A critique**, the evolution of microfinance in empowerment of women and poverty alleviation is studied. Microfinance is viewed as an important tool for providing self-employment for the low-income rural population. This paper studies the various delivery models of microfinance institutions, which contribute to women empowerment in India.

"Microfinance in India: Discussion" by **R.Srinivasan and M.S.Sriram (2006)** shows the various views of people from various microfinance institutions. Microfinance has been viewed as an effective tool in bringing about financial inclusion and as a measure to alleviate poverty. This discussion also is a study on the various models of microfinance prevailing in India and aims to discuss if these models contribute to the growth and sustainability. It also aims to discuss about the various government policies and regulatory framework prevailing in microfinance sector.

"**Performance and Transparency: A survey of Microfinance in South Asia"** by **Blaine Stephens and Hind Tazi (2006)** highlights the performance of the microfinance sector in the South Asian region as well as globally. The study has highlighted South Asia for the study due to the region"s impressive outreach with microfinance giants in South Asia such as Grameen Bank, ASA and BRAC. The microfinance sector has evolved by providing micro-loans as well as the self-help group programs in order to reach to a vast majority of the poor population.

Alain de Crombrugghe, Michael Tenikue and Julie Sureda (2007)has studied three important aspects of sustainability such as repayment of loans, financial self-sustainability or operational self-sustainability and cost-control or efficient use of resources.

Jayasheela, Dinesha P T and V.Basil Hans (2008) in their paper on "Financial inclusion and microfinance in India: An overview" studied the role of microfinance in the empowerment of people and provision of a sustainable credit availability to the rural low income population.

The study relates to the opportunities available for the microfinance institutions with an increasing demand for credit in the rural areas due to inadequate formal sources of credit.

Pankaj K Agarwal and S K Sinha (2010) found in their study that the sustainability of microfinance institutions is important in order to pursue their objectives through good financial performance. This paper studies the various players in the microfinance sector, which range from not-for-profit organizations, which work towards a developmental objective to commercial banks, which view microfinance as a good source of deposits with sound banking and as a measure to reach their priority lending targets.

"Performance and Sustainability of Self-Help Groups in India: A Gender Perspective" by **Purna Chandra Parida and AnushreeSinha (2010)** studies performance and sustainability of Self-help group in India. It is been reported that the self-help group (SHG) programmes is an effective tool which has been used in various countries in order to address a range of socio-economic issues. The performance and sustainability of self-help groups vary based on income generating activities, gender composition of members in the group etc.

Prof. Zohra Bi and DrShyamLalDevPandey (2011) from Alliance University, Bangalore had compared the performance of microfinance institutions with commercial banks in India. The paper concludes that though the performance of MFIs has improved over the past years, the goal of poverty alleviation and financial inclusion could be achieved with the combined cooperation of banks and the government.

Naveen Kumar. H, Dr. S J Manjunath and SrikanthH S (2012) Professors at the University of Mysore conducted a comparative study between microfinance in India and Bangladesh. The comparison was based in terms of loans lent by institutes to customers, clientele, financial sustainability of MFI's, in order to understand how MFI's in India are performing as opposed to those MFI's in Bangladesh. The paper discovers that Indian MFI's are more profitable and are operating more efficiently than those in Bangladesh

Dr. Aswini Kumar Dash (2013) had published a research paper in the International Journal of Application or Innovation in Engineering & Management (IJAIEM). The methodology of operation of Self Help Groups that form the major micro-finance system in India is discussed and compared with the Grameen system of Bangladesh

Dr.Puspa Raj Sharma at the Prithvi Narayan Campus**,** Pokharahad conducted a comparative study of microfinance in Nepal and Bangladesh. The paper gave a general overview of microfinance in Bangladesh and Nepal, comparison of the key indicators of microfinance services and major microfinance strategies used in Bangladesh. The paper concluded that the productivity of MFIs in Nepal seems poor as compared to those in Bangladesh. The paper also includes a few suggestions for the improvement of microfinance in Nepal.

Faisal Tehseen Shah, Abeer Imam, R W Qureshi and SehrishHanif (2014), Professors at Comsats Institute of Information Technology, Lahore, Pakistan, had conducted a comparative study between two MFI's in Bangladesh and Pakistan to access the efficiency of each firm. Akhuwat Foundation (A Pakistani Microfinance Institution) with Grameen Bank (A Bangladeshi Microfinance Institution). Based on a SWOT and Risk Management analysis between the two firms, the research paper concluded that Akhuwat Foundation had a 'better system' than Grameen bank; that the management of Akhuwat Foundation was based on Transparency, Good Governance and Ethics.

M Sravani (2015) has made an attempt to study the performance of microfinance institutions in the backdrop of the Andhra Pradesh Crisis.

Research Methodology

Sources of Data: The data considered for the study is secondary data collected from the Annual Reports of the Microfinance Institutions and from MIX Market database.

Sampling: The top three countries in South Asia with maximum number of borrowers and maximum number of MFIs were considered as the selection criteria as a result of which we have considered India, Bangladesh and Pakistan. Within each country top 30 MFIs based on the number of borrowers was selected. The sampling technique used is Judgmental Sampling.

Method of Analysis: The secondary data is further analysed by using statistical tool of one-way ANOVA, to draw conclusion based on the results obtained. The technique is used to identify if there exists a significant difference in the performance of the MFIs in three different countries. 5 years Average of the ratios for the past five years (from 2011 to 2015) have been calculated for 90 different MFIs.

Expected Outcomes

The various parameters are calculated for a period of 5 years, which help us to analyze the growth of microfinance institutions in India, Bangladesh and Pakistan and also understand its contribution to financial inclusion.

RESULTS

Hypothesis:

H0: There is no significant difference between the means of MFIs belonging to three countries.

H1: There is significant difference between the means of MFIs belonging to three countries.

Limitations of the Study

The data has been collected only for 30 MFIs from each of the three countries. Hence the analysis cannot be generalized for a vast number of MFIs across the globe.

Only the important financial indicators have been selected. Hence, it is not an exhaustive list of financial indicators.

Analysis & Interpretation

1. Efficiency Ratios: Operating Cost Ratio

It measures the cost of providing services to generate revenue. These are referred to as operating costs and should include neither financing costs nor loan loss provisions. Operating Cost ratio provides an indication of the efficiency of the lending operations.

$$\text{Operating Cost Ratio} = \frac{\text{Operating Costs}}{\text{Average portfolio outstanding}}$$

Table 1: Table showing the Operational Cost Ratio

	India	Pakistan	Bangladesh
Operational Cost Ratio	4.49%	10.20%	7.99%
	12.05%	14.03%	10.12%
	4.74%	15.90%	11.63%
	13.97%	14.29%	10.57%
	10.52%	15.01%	11.54%
	8.26%	11.38%	11.64%
	6.89%	12.83%	7.71%
	7.71%	10.33%	11.95%
	6.30%	8.94%	10.06%
	8.98%	26.48%	9.04%
	12.57%	10.25%	10.92%
	9.17%	5.35%	9.98%
	6.24%	14.21%	13.31%
	10.93%	37.01%	11.72%
	12.39%	15.37%	11.83%
	10.28%	5.47%	11.20%
	8.31%	11.89%	7.60%
	13.01%	17.74%	10.57%
	6.89%	23.31%	11.17%
	14.89%	10.76%	9.04%
	9.63%	20.61%	13.36%
	6.36%	7.00%	12.97%
	8.51%	8.00%	11.57%
	13.07%	13.83%	9.96%
	22.50%	19.93%	11.84%
	7.21%	14.00%	12.78%
	9.89%	15.05%	10.92%
	9.01%	8.00%	8.91%
	11.09%	9.17%	13.19%
	20.98%	12.00%	14.31%

Source: Annual Reports of MFIs

SUMMARY

Groups	***Count***	***Sum***	***Average***	***Variance***
India	30	3.06838	0.102279	0.001705
Pakistan	30	4.182948	0.139432	0.004343
Bangladesh	30	3.293642	0.109788	0.000296

ANOVA

Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Between Groups	0.023154	2	0.011577	5.474873	0.00576	3.101296
Within Groups	0.183969	87	0.002115			
Total	0.207123	89				

Source: Output of Statistical Analysis using MS Excel

There is a significant difference in the operating expenses to total assets ratio of MFIs belonging to the three different countries at 5% level of significance, thereby rejecting null hypothesis. MFIs in India and Bangladesh have maintained a lower operating cost ratio when compared to MFIs in Pakistan. The reason for difference in the Operating Cost Ratio could be because of high training expenses incurred for their staff members, to educate the borrowers etc. The MFIs with considerable experience have been able to reduce their operating expenses through learning curve effect.

2. Financial Viability- Operational Self Sufficiency

Operational Self Sufficiency indicates whether or not enough revenue has been earned to cover the MFI's direct costs, excluding the cost of capital but including any actual financing costs incurred. Operational Self Sufficiency

$$= \frac{\text{Operating Income}}{\text{Operating Expenses + Financing Cost+ Provision for loan losses}}$$

Table 2: Table showing the Operational Self Sufficiency

	India	Pakistan	Bangladesh
Operational Self Sufficiency	155.99%	126.31%	196.02%
	88.54%	110.04%	123.46%
	98.23%	49.91%	108.94%
	109.80%	98.33%	133.94%
	118.94%	115.75%	109.34%
	126.02%	91.16%	121.99%
	90.63%	185.37%	135.23%
	109.35%	98.47%	109.33%
	81.29%	136.03%	128.71%
	114.78%	79.29%	99.97%
	107.63%	98.60%	125.43%
	113.67%	138.58%	162.99%
	76.97%	121.21%	110.02%
	119.21%	64.46%	116.21%
	115.51%	104.05%	122.05%
	113.12%	129.35%	104.75%
	127.05%	119.07%	120.81%
	99.49%	104.56%	146.96%
	122.80%	71.71%	122.11%
	104.88%	105.30%	163.69%
	120.71%	96.47%	110.49%
	135.26%	92.70%	116.30%
	100.85%	74.03%	113.99%
	107.38%	82.35%	120.93%
	47.28%	50.80%	98.26%
	126.92%	86.22%	108.11%
	112.08%	189.61%	137.14%
	110.37%	104.50%	168.13%
	115.73%	147.92%	116.57%
	67.53%	117.61%	117.46%

Source: Annual Reports of MFIs

SUMMARY

Groups	***Count***	***Sum***	***Average***	***Variance***
India	30	32.38023	1.079341	0.044399
Pakistan	30	31.89752	1.063251	0.107111
Bangladesh	30	37.69341	1.256447	0.049465

ANOVA

Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Between Groups	0.689504	2	0.344752	5.146217	0.007721	3.10129576
Within Groups	5.828244	87	0.066991			
Total	6.517748	89				

Source: Output of Statistical Analysis using MS Excel

There is asignificant difference in the operational self-sufficiency ratio of different category of MFIs at 5% level of significance, thereby rejecting null hypothesis. The operational self-sufficiency ratio is slightly lower for the microfinance institutionsin Pakistan when compared to MFIs in India and Bangladesh.

The MFIs can consider increasing their OSS by either increasing its yield (Return on Assets) or by decreasing its expenses (financing costs, provision for loan losses or operating costs)

3. Profitability Ratios- it measures the MFIs net income in relation to the structure of its balance sheet. This ratio helps the investors and managers to calculate whether they are earning adequate return on their investments.

3.1 Return on Assets

$$ROA = \frac{\text{Net Income}}{\text{Average Assets}}$$

Table 3: Table showing the Return on Asset

	India	Pakistan	Bangladesh
Return on Asset	5.00%	4.97%	10.65%
	-10.35%	1.52%	4.65%
	2.52%	-9.56%	1.71%
	1.25%	-0.44%	5.09%
	2.39%	3.09%	1.50%
	3.19%	2.27%	3.68%
	-9.51%	10.65%	5.00%
	1.20%	-0.47%	1.66%
	-11.04%	5.44%	3.86%
	1.79%	-6.83%	-0.01%
	1.30%	0.14%	4.81%
	2.77%	2.41%	8.51%
	-12.60%	4.29%	-0.03%
	2.24%	-17.17%	2.84%
	2.19%	0.93%	3.67%
	1.84%	3.08%	0.75%
	3.16%	4.60%	1.90%
	-2.12%	1.08%	7.73%
	2.52%	-10.04%	3.42%
	-0.98%	0.80%	8.27%
	3.02%	-1.83%	1.94%
	3.78%	0.00%	2.76%
	-0.68%	0.00%	2.37%
	0.95%	-3.36%	3.00%
	-30.03%	-9.14%	2.90%
	1.61%	-2.07%	1.45%
	1.61%	15.28%	5.33%
	1.34%	0.00%	8.46%
	2.08%	4.78%	2.66%
	-5.72%	0.00%	3.31%

Source: Annual Reports of MFIs

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
India	30	-0.35265	-0.01176	0.005191
Pakistan	30	0.044172	0.001472	0.003911
Bangladesh	30	1.13827	0.037942	0.00071

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.039748	2	0.019874	6.076002	0.003388	3.101296
Within Groups	0.284572	87	0.003271			
Total	0.32432	89				

There is a significant difference in the ROAratios of different category of MFIs at 5% level of significance, thereby rejecting null hypothesis. Some of the MFIs in the all the three countries have negative profitability ratio which indicates that the MFIs have not earned profit.

3.2 Return on Equity

ROE =Net Adjusted Income_

Average Equity

Table 4: Table showing the Return on Equity

Return on Equity	India	Pakistan	Bangladesh
	34.25%	24.68%	18.70%
	-28.85%	6.73%	17.70%
	51.33%	-9.76%	15.62%
	5.90%	219.33%	23.56%
	11.05%	17.51%	9.66%
	14.18%	12.82%	24.57%
	-305.74%	27.94%	39.82%
	8.17%	-4.51%	18.79%
	-48.90%	27.12%	11.18%
	9.14%	-31.06%	-0.39%
	9.14%	2.48%	13.17%
	35.25%	4.63%	18.31%
	-92.59%	18.66%	-3.95%
	8.29%	614.44%	33.84%
	7.39%	3.90%	22.54%
	10.68%	6.49%	7.69%
	11.28%	27.33%	12.25%
	-9.02%	3.73%	49.38%
	10.76%	-164.83%	35.29%
	3.75%	5.29%	38.69%
	13.64%	-24.66%	19.90%
	22.03%	20.00%	30.87%
	0.32%	15.00%	11.96%
	4.25%	-4.90%	20.26%
	5579.83%	-15.01%	46.30%
	19.56%	-2.21%	22.21%
	9.32%	19.33%	19.26%
	6.55%	10.00%	34.30%
	8.66%	4.94%	16.81%
	-23.09%	5.00%	36.41%

Source: Annual Reports of MFIs

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
India	30	53.86538	1.795513	104.4161
Pakistan	30	8.403843	0.280128	1.504211
Bangladesh	30	6.647038	0.221568	0.016405

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	47.77122	2	23.88561	0.676412	0.511092	3.101296
Within Groups	3072.165	87	35.31224			
Total	3119.936	89				

Source: Output of Statistical Analysis using MS Excel

There is no significant difference in the ROEratios of different category of MFIs at 5% level of significance, thereby rejecting alternate hypothesis. Some of the MFIs have negative profitability ratio, which indicates that the MFIs have not earned profit.

High ROA and ROE is required to attract private capital to achieve its mission of poverty alleviation. Microfinance institutions have a small asset base, as they are not allowed to accept deposits from their clients. The optimum range of ROA as per ACCION audit is greater than 3% (> 3%) for ROA and greater than 15% (> 15%) for ROE.

4. Leverage - Debt/Equity Ratio

Leverage refers to the extent to which an MFI borrows money relative to its amount of equity.

$$\textbf{Debt to equity ratio} = \frac{\textbf{Debt}}{\textbf{Equity}}$$

Table 5: Table showing the Debt/Equity Ratio

Name of the MFI	India	Pakistan	Bangladesh
Debt to Equity Ratio	5.902	4.084	0.736
	3.284	3.132	2.634
	26.076	0.75333333	7.57166667
	3.782	-12.77	3.654
	3.968	4.92	5.42166667
	3.736	3.244	5.19
	-48.578	1.604	6.325
	5.288	7.626	9.226
	1.45	3.724	1.688
	4.192	4.412	18.955
	5.806	6.4	1.74666667
	11.934	0.902	1.205
	1.82	3.64166667	11.9275
	3.324	-8.648	9.744
	2.618	3.006	4.932
	4.83	1.156	7.948
	3.464	5.808	6.83
	2.378	3.288	5.61666667
	4.4575	26.505	10.0566667
	4.608	5.2525	3.41
	3.468	9.2	11.696
	2.534	3.49	10.0233333
	2.734	1.45	3.922
	3.122	1.30666667	5.46
	5.618	0.55	15.82
	4.828	0.055	13.116
	4.736	0.27333333	3.59
	4.8125	3.66	3.02
	2.24	0.035	5.19666667
	3.36	5.62	9.165

Source: Annual Reports of MFIs

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
India	30	91.792	3.059733	114.7605
Pakistan	30	93.6805	3.122683	37.4904
Bangladesh	30	205.8268	6.860894	19.5704

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	284.2701	2	142.1351	2.481679	0.089504	3.101296
Within Groups	4982.817	87	57.27375			
Total	5267.087	89				

Source: Output of Statistical Analysis using MS Excel

There is no significant difference in the Debt/Equity ratio of different category of MFIs at 5% level of significance, thereby rejecting alternate hypothesis. Some of the MFIs in India and Pakistan have negative Debt/Equity ratio, which indicates that the MFIs have borrowed more debt to focus on growth. It is suggested to all the MFIs to maintain a proper balance between debt and equity to ensure that the equity or viability of the organization is not at risk.

5. Capital Adequacy Ratio- It refers to the amount of capital an MFI has relative to its assets

$$\textbf{Capital Adequacy Ratio} = \frac{\textbf{Interest Capital + Reserves + Retained Earnings}}{\textbf{Risk- weighted assets}}$$

Table 6: Table showing the Capital Adequacy Ratio

	India	Pakistan	Bangladesh
Capital Asset Ratio	15.03%	20.98%	57.93%
	25.60%	24.96%	27.74%
	6.02%	75.81%	11.81%
	21.06%	0.28%	21.82%
	20.86%	17.66%	15.85%
	22.27%	1.90%	16.58%
	10.90%	38.58%	11.39%
	18.32%	11.60%	11.39%
	0.46%	21.52%	37.19%
	19.51%	20.64%	4.26%
	15.14%	18.92%	36.44%
	7.92%	54.16%	45.42%
	-7.53%	23.59%	8.11%
	26.13%	-0.43%	9.67%
	31.43%	25.05%	16.90%
	18.00%	47.07%	11.42%
	25.98%	16.08%	15.20%
	30.21%	26.09%	16.07%
	24.80%	7.51%	10.38%
	21.00%	16.32%	23.60%
	24.14%	13.97%	9.00%
	29.46%	22.25%	9.10%
	27.97%	40.79%	20.50%
	30.69%	52.54%	15.84%
	-52.67%	69.14%	6.22%
	19.72%	94.52%	7.19%
	17.84%	78.62%	22.05%
	17.66%	21.46%	24.93%
	33.16%	96.73%	16.16%
	22.94%	15.10%	10.05%

Source: Annual Reports of MFIs

ANOVA Output of Capital Adequacy Ratio

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
India	30	5.24013	0.174671	0.026049
Pakistan	30	9.733807	0.32446	0.072627
Bangladesh	30	5.50196	0.183399	0.015009

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.424113	2	0.212057	5.595893	0.005174	3.101296
Within Groups	3.296871	87	0.037895			
Total	3.720984	89				

Source: Output of Statistical Analysis using MS Excel

There is a significant difference in the Capital Adequacy Ratio of different category of MFIs at 5% level of significance, thereby accepting alternate hypothesis. The Non-Banking Financial Companies (NBFCs) in India are required to maintain a capital adequacy ratio (CAR) of 15% as mentioned by RBI. It has been reported that nearly 45% of the MFIs have CAR in excess of 20% and 25% of MFIs have CAR above 15%. A higher CAR is essential for the microfinance institutions because a thin layer of capital would not allow for loss absorption in case of default.

Conclusion

Microfinance cannot be considered as a magical wand to evade poverty. The Government of the respective countries, Commercial Banks and Microfinance Institutions together can bring in a difference to the society. There has been a significant improvement in the financial performance of microfinance institutions in the recent years. Unlike Bangladesh, India has a comparatively good network of commercial banks with almost 70% of the 80,000-odd bank branches located in the rural and semi-urban areas. The RBI policy to make it mandatory for the banks to extend credit to the priority sector and also support the cause by providing funds to these commercial banks at a reduced rate of interest have helped in the development and support of the SHG model in India.The more experience the institutions gain in the field of microfinance they have been able to bring down the cost and improve their earnings. Mobile banking would also be a valuable tool for reducing cost. There is a huge demand for funds that is not yet catered to by the MFIs. MFIs can consider increasing the scale of operations thereby meeting the dual objective of improving their overall performance and improving the lives of the poor. Frequent audits by ACCION audit could be conducted by the regulatory authority to monitor the performance of MFIs. Subsidies could be provided for these audits as most of the MFIs do not undergo this audit as it is expensive. However with development of effective strategies and with a combined effort by all the players in the society, the long term Millenium Development Goal of UN to eradicate Poverty by the 2025 can be attained.

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ANNEXURE- List of MFIs

INDIA

Sl. No.	Name of the MFI
1	Bandhan Financial Services Pvt Ltd
2	SKS Microfinance Ltd
3	ShriKshethraDharmasthala Rural Development Project
4	Janalakshmi Financial Services Pvt Ltd
5	Ujjivan Financial Services Pvt Ltd
6	Equitas Micro Finance Private Limited
7	SpandanaSphoorty Financial Ltd
8	Satin Creditcare Network Ltd
9	Share Microfin Ltd
10	Grameenkoota Financial services Pvt ltd
11	GramaVidiyal Microfinance Ltd
12	Cashpor Micro Credit
13	AsmithaMicrofin Ltd
14	Utkarsh Micro Finance Pvt Ltd
15	Suryoday Micro Finance Pvt Ltd
16	ESAF Microfinance and Investments Pvt Ltd
17	Sonata Finance Pvt Ltd
18	Arohan Financial Services Pvt Ltd
19	Annapurna Microfinance Pvt Ltd
20	SV CreditlinePvt Ltd
21	Asirvad Microfinance Pvt Ltd
22	Madura Micro Finance Ltd
23	Future Financial ServicessPvt Ltd
24	Fusion Micro Finance Pvt Ltd
25	BharatiyaSamruddhi Finance Ltd
26	RGVN (North East) Microfinance Ltd
27	BSS Microfinance Pvt Ltd
28	Belstar Investment & Finance Pvt Ltd
29	S.M.I.L.E. Microfinance Ltd
30	IFMR Rural Channels and Services Pvt Ltd

BANGLADESH

Sl. No.	Name of the MFI
1	Association for Social Advancement (ASA)
2	BRAC
3	BURO Bangladesh
4	Thengamara Mohila Sabuj Sangha
5	Shakti Foundation for Disadvantaged Women
6	Society for Social Services
7	Jagorani Chakra Foundation
8	United Development Initiatives for Programmed Actions
9	RDRS Bangladesh
10	Padakhep Manabik Unnayan Kendra
11	Caritas Bangladesh
12	Christian Service Society
13	People's Oriented Program Implementation
14	Rural Reconstruction Foundation Jessore
15	Sajida Foundation
16	Bangladesh Extension Education Services
17	Dushtha Shasthya Kendra
18	Gram Unnayan Karma
19	Resource Integration Centre
20	Center for Development Innovation and Practices
21	Samaj Kallyan Sangstha
22	Wave Foundation
23	Integrated Development Foundation
24	HEED Bangladesh
25	Eco-Social Development Organization
26	Coastal Association for Social Transformation Trust
27	Society Development Committee
28	Village Education Resource Center
29	Palli Progoti Shahayak Samity
30	Ghashful

PAKISTAN

Sl. No.	Name of the MFI
1	National Rural Support Programme
2	Khushhali Bank
3	Akhuwat
4	Kashf Foundation
5	Tameer Microfinance Bank Ltd
6	National Rural Support Programme Microfinance Bank Limited
7	ASA Pakistan Limited
8	First Micro Finance Bank Ltd - Pakistan
9	Thardeep Rural Development Programme
10	FINCA Microfinance Bank Limited, Pakistan
11	Sindh Rural Support Organization
12	Punjab Rural Support Programme
13	Rural Community Development Society
14	BRAC – PAKISTAN
15	Safco Support Foundation
16	Orangi Charitable Trust
17	Development Action for Mobilization and Emancipation
18	Jinnah Welfare Society
19	Farmers Friend Organization
20	ORIX Leasing Pakistan Ltd
21	Community Support Concern
22	Mojaz Foundation
23	Waseela Microfinance Bank Limited
24	Apna Microfinance Bank (Formerly NMFB)
25	U Microfinance Bank Limited
26	Pak Oman Micro Finance Bank Ltd
27	Sungi Development Foundation
28	Association for Gender Awareness & Human Empowerment
29	Ghazi Barotha Taraqiati Idara
30	Organization for Participatory Development