Chapter 10

CONCLUSIONS & SUGGESTIONS

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Chapter Contents

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Microfinance plays a role of light in the darkness of poverty. It allows poor people to have benefits of financial facilities and put them in the category of bankable people. MFIs feel the gap between demand side (beneficiaries) and supply side (microfinance providers and/or MFIs). Looking to the financial facilities of microfinance, loans are given without any collateral. Accordingly, repayment of loan without any defaults is a very big concern for MFIs. Repayment of loans is very essential for MFIs as repayment generates income for MFIs. Looking to the financial aspects of microfinance and importance of repayment in microfinance, this study tried to examine the causes of defaults and NPA from demand side (borrowings) and supply side (advances) both.

For the purpose of the study, both primary data as well as secondary data are used. To analyze the repayment behaviour of microfinance borrower primary data by using structured scheduled are gathered. To know the status of MFIs in India secondary data are used. This chapter derives conclusion based on the study. For the purpose of systematic presentation, the chapter is divided into 8 sections. Section 10.1 presents the growth of microfinance sector with special focus on SEWA bank. It also concludes the important findings based on study regarding microfinance sector especially with reference to lending function. Section 10.2, 10.3 and 10.4 concludes the major findings with key results of the analysis carried out in the study. Section 10.5, 10.6 and 10.7 presents the valuable suggestions based on the analysis. Last section 10.8 deals with the suggestions for future research and policy framework.

As part of this research work, the researcher undertook a review of literature on microfinance on social and financial aspects. During the course of literature review the major focus was on the finance area. Within the financial aspects of microfinance, less ventured area was defaults. Based on literature review following remarks are made: The studies of V.K. Ramacharan and Madhura Swaminathan[1], Sampati Guha and Gautam Gupta[2], Sriram M. S.[3], and Anjana Chandramouly[4] are mainly focused on overdues, defaults rate as well as rates of NPA. Jayshree Vyas[5], Karuna Krishnaswamy[6], G. Naga Sridhar[7], Erica Field, Rohini Pande, John Papp[8] and Jessica Schicks[9] have concluded that in case of multiple borrowings, high interest rates and forceful recovery are responsible for the high rates of defaults. However, borrowers also make defaults because of

sickness, unemployment, low level of income, sudden expenses, delay in payment of wages etc. With solutions to that, the studies of Jayshree Vyas[10], K. K. Kundu *et al.*[11], Niels Hermes and Robert Lensink[12], Thi Thu Tra Pham and Robert Lensink[13], and Erica Field and Rohini Pande[14] have suggested that repayment rates can be controlled with close monitoring, more number of staff members, better internal financial and management discipline and by changing lending system.

10.1 Growth of Microfinance

Microfinance is of ancient origin of India. The informal financing system can be traced to the era of Kautilya in fourth century B.C. The first effort in institutionalizing rural credit was made by the Government of India in the first decade of the last century with the passing of the Cooperative Societies Act in 1904 to support the country's predominantly agricultural economy. In 1950, the creation of a nationwide network of rural cooperative banks was an attempt to improve financial access for India's poor. Government of India introduced social control in 1967 and later nationalization of major commercial banks occurred. In 1975, Government of India also introduced a specialized state sponsored, regionally based rural oriented Regional Rural Banks (RRBs). The RRBs were set up in 1976, with the objective to meet the credit requirements of the weaker sections of the society. In the early 1980s, the government of India launched the IRDP, a large poverty alleviation program, which provided government subsidized credit through banks to the poor. In 1981, NABARD came into existence and initiated new approach in the area of rural finance. In 1982 RBI transformed its agricultural credit department into the NABARD.[15]

Microfinance actually came into forefront in 1992 when NABARD launched pilot project for SHG Bank-Linkage Programme. Pilot testing was carried out by NABARD between 1992 to 1995. The pilot phase was followed by the Working Group of NGOs and SHGs constituted by RBI, which came out with the wide range of recommendations on internalization of the SHG concept as a potential intervention tool in the area of banking with the poor. Accordingly, during 1996 to 1998 mainstreaming of pilot project was done by NABARD. From 1998 onwards the expansion of SHG-Bank Linkage Programme commenced. In November 1998 NABARD defined the term "Microfinance" and the same definition was also given by RBI in 2000.

Microfinance came into existence, and it started growing, according to the need and convenience. On analyzing the data of last five years (2008-2012), the total gross loan portfolio of the MFIs has been observed in up ward trend *i.e.* ₹59.54 billion (2008)

to ₹175.65 billion. When MFIs are studied with their legal forms, it shows constant increasing trend for the form NBFCs. It increases from 9.46% (2006) to 65.57% (2012). It is the indication of boost in commercialization of microfinance over a period of times.[16-22] Various types of MFIs provide numerous financial facilities such as savings, credit, insurance, pension and remittance etc. MFIs have developed different types of lending models specially for providing credit facility.

Looking to the historical background of MFIs, though microfinance came to forefront in 1992 through NABARD, SEWA Bank is observed as the oldest and first microfinance provider in India. It was set up as an urban cooperative bank in Ahmedabad, Gujarat.[23] Established by Ela R. Bhatt in 1974, SEWA bank was one of the first MFIs to take the more challenging path of individual lending.[24] Success of the SEWA bank has proved that even if being poor or self employed or illiterate, women can successfully run a bank with profit. The amount of profit[25] has increased from ₹0.54 crores (2007) to ₹0.94 crores (2012). SEWA bank has four branches *viz.* Vasna branch, Behrampura Branch, Madhupura Branch and Rakhial Branch. SEWA bank offers various financial facilities *viz.* variety of savings and recurring deposit, fixed deposits, insurance, pension, unsecured loan as well as secured loan.

10.2 Major Findings: Secondary Data

Based on the secondary data collected from MIX Market and Sa-dhan following major findings can be summarised. MIX Market contained details of 190 MFIs of India. From this, details about 12 financial indicators are gathered. Those financial indicators were GLP, NAB, NLO, BLO, LLO, CPB, CPL, PAR > 30 days, PAR > 90 days, LLR, WOR and TE/A. The data were gathered as on 31st March, 2012. Sa-Dhan contains details of 230 MFIs working in different states of India. From these details about two financial indicators *viz.* GLP and NAB were taken available as on 31st March, 2012.

10.2.1 Findings: MIX (Indian MFIs with Important Financial Indicators)

Information of 17 states of India is analyzed for all financial indicators discussed in above para. Table 10.1 presents detail of all states with the average figures of all indicators. Accordingly, average 11 MFIs were observed per 17 states of India. The state AP was observed as a major microfinance service provider in India since maximum numbers of MFIs (41) as well as maximum values of 8 (out of 12 indicators) indicators were found for this state. Highest amount of GLP was found ₹ 21,433.33 lakhs with NABs 320,610 and NLOs 565,354 for AP. All five ratios were observed highest for AP *viz.* 22.29% (PAR > 30 days), 22.36% (PAR > 90 days), 17.95% (LLR),

Table 10.1 Indian MFIs with Average of Important Financial Indicators

No	States	No of MFIs	GLP (₹ in Lakhs)	NABs	NLO	BLO	LLO	CPB (in ₹)	CPL (in ₹)	PAR>30 days (%)	PAR>90 days (%)	LLR (%)	WOR (%)	TE/A (%)
1	AP	41	21,433.33	320,610	565,354	313	400	20,804.62*	848.78	22.29	22.36	17.95	17.72	55.08
2	AS	5	3,217.55	60,809	60,809	428	428	640.00	641.33	5.62	1.82	1.63	1.64	18.91
3	BR	4	248.98	5,111	5,111	250	250	984.00	1,101.00	1.65	1.65	0.07	0.06	22.47
4	DL	4	9,910.93	103,884	103,884	343	343	1,410.25	1,375.75	0.90	0.63	0.64	0.64	29.94
5	GJ	6	2,833.91	24,424	27,652	1,136	1,136	1,292.17	1,396.80	3.91	0.80	1.78	0.23	22.72
6	HR	1	5,637.89	80,583	80,583	378	378	1,256.00	1,256.00	0.92	0.83	0.12	0.12	28.10
7	JH	3	793.74	8,410	9,511	256	256	1,820.33	647.50	1.09	0.69	0.23	0.23	20.01
8	KA	17	20,163.01	174,289	230,809	602	627	1,077.47	948.29	10.73	10.81	2.26	2.51	22.36
9	KL	8	6,887.58	125,791	128,560	3,014	3,020	491.00	544.67	1.92	1.15	0.18	0.21	14.54
10	MP	7	479.62	7,403	12,345	350	351	648.67	621.80	0.50	0.47	0.37	0.38	20.04
11	MH	10	4,369.95	73,946	81,532	393	393	1,951.50	1,949.00	3.68	2.98	9.13	9.15	25.22
12	MN	4	416.74	5,341	5,315	265	296	1,563.00	1,513.00	0.90	0.38	0.00	0.00	26.36
13	OR	14	3,627.58	66,143	96,562	484	485	501.25	761.80	7.90	13.28	0.52	0.52	19.88
14	RJ	6	3,551.38	28,887	35,183	371	382	1,610.00	1,109.80	7.29	3.30	0.38	0.46	17.19
15	TN	29	7,530.03	117,558	162,066	556	568	829.58	779.13	4.19	2.55	1.71	1.85	25.25
16	UP	10	14,358.24	94,361	94,403	362	362	931.50	839.50	2.14	0.61	0.45	0.50	24.60
17	WB	21	20,174.49	222,441	273,427	293	294	498.44	616.43	7.50	7.79	1.38	1.38	20.53
	Grand Average	11	7,390.29	89,411	116,065	576	586	2,253.52	997.09	4.89	4.24	2.28	2.21	24.30

Source: Computed from MIX Data

*: The average CPB of AP is found to be very high as one MFI of AP (*CSF*) was found with CPB of ₹6,84,615. If this value is omitted, the average CPB of AP comes to ₹689.15. Therefore, average CPB of India will be at ₹1,070.25.

17.72% (WOR) and 55.08% (TE/A). It shows the high level of risk for the MFIs in AP. Looking to the average of BLO and LLO, the state KL was found with the maximum numbers *i.e.* 3,014 and 3,020 respectively. This indicates heavy work load for the staff of MFIs in KL. Least numbers of BLO and LLO was observed at 250 for the state BR. Maximum amount of CPB and CPL was observed ₹1,951.50 and ₹1,949 for the state MH. Lowest amount of CPB ₹419 and CPL ₹544.67 was found for state KL.

10.2.2 Findings: MIX (Analysis of each MFI based on Financial Indicators)

This section presents the summary of NLO, BLO, LLO, CPB, CPL PAR > 30 days, PAR > 90 days, LLR, WOR and TE/A based on MIX data. Results of GLP and NAB were compared with Sa-dhan. However, for these ten indicators, data are not available in Sa-dhan, hence, comparatives are not presented. Following para explains the same.

NLO: The NLO will include the loans outstanding as on date. Hence, this will include both, the loans which are granted, and outstanding and time limit for repayment is not over as well as the loans for which repayment period is over *i.e.* they are overdue but not paid till date. Thus, for the overdue loans, with risk PAR > 30 days and PAR > 90 days, can be considered as better indicators. Table 10.2 presents the summary about the NLOs of 190 MFIs by classifying NLO into various groups so as to indicate the size and intensity. From the Table 10.2 it can be seen that maximum share of MFIs (12.11%) had NLO between 10,000-20,000 followed by 11.58% (20,000-50,000) and 11.05% (1,000-5,000). ***SEWA Bank*** was observed with NLO of 20,000-50,000. In case of 48 MFIs the details of NLO was not available. 54 MFIs were observed with NLO above 50,000. Highest NLO were found for AP at 14,133,842 where it was found to be 4,296,870 for *SKS Microfinance*.

Table 10.2 Classification of MFIs based on NLO

No.	NLO	No. of MFIs	%
1	Below 1,000	3	1.58
2	1,000 - 5,000	21	11.05
3	5,000 - 10,000	19	10.00
4	10,000 - 20,000	23	12.11
5	20,000 - 50,000	22	11.58
6	50,000 - 1,00,000	16	8.42
7	1,00,000 - 2,00,000	16	8.42
8	2,00,000 - 10,00,000	15	7.89
9	Above 10,00,000	7	3.68
10	Not Available	48	25.26
	Total	**190**	**100**

Source: Prepared from Secondary data (MIX)

BLO & LLO: These two ratios measures MFI's loan staff's caseload and gauge the productivity of loan staff. Increasing ratios indicates positive trend of MFIs. Table 10.3 shows that for the range of 200-400 highest number of MFIs for BLO and LLO was observed at 30.69%, and 28.95%. In case of BLO and LLO between 400-2000 25.40% and 27.37% number of MFIs were observed. Highest (8,904) numbers of BLO and LLO was observed for *WSE* followed by *GSGSK* (2,322) and *Muthoot* (438). ***SEWA bank*** was found with BLO and LLO above 2000 *i.e.* 3,065. In case of 60 MFIs the numbers of BLO and LLO was not available while for BLO one case was found negative thus, it was excluded here.

Table 10.3 Classification of MFIs based on BLO and LLO

No.	Particulars	No. of MFIs			
		BLO	%	LLO	%
1	Less than 100	4	2.12	4	2.11
2	100 - 200	15	7.94	15	7.89
3	200 - 400	58	30.69	55	28.95
4	400 - 2,000	48	25.40	52	27.37
5	Above 2,000	4	2.12	4	2.11
6	Not Available	60	31.75	60	31.58
	Total	**189**	**100**	**190**	**100**

Source: Prepared from Secondary data, MIX

CPB & CPL: CPB and CPL are generally high in any MFI. As a consequence interest rates of that MFI are also likely to be high to cover the cost. If intrest rates are high, borrowers would not be able to repay loans in time and chances of defaults will also increase. Decreasing cost shows positive trend for MFIs. MFIs should try to minimize their CPB and also CPL to avoid defaults.

Table 10.4 Classification of MFIs based on CPB and CPL

No.	Cost (in ₹)	No. of MFIs			
		CPB	%	CPL	%
1	Less than 100	12	6.35	1	0.53
2	100 - 200	5	2.65	3	1.58
3	200 - 400	22	11.64	12	6.32
4	400 - 600	21	11.11	19	10.00
5	600 - 800	29	15.34	26	13.68
6	800 - 1,000	21	11.11	18	9.47
7	1,000 - 1,500	24	12.70	17	8.95
8	1,500 - 2,000	12	6.35	10	5.26
9	Above 2,000	11	5.82	7	3.68
10	Not Available	32	16.93	77	40.53
	Total	**189**	**100**	**190**	**100**

Source: Prepared from Secondary data, MIX

Table 10.4 shows that for the cost of ₹600-₹800, maximum numbers of MFIs were observed at 15.34% for CPB and 13.68% for CPL. In case of CPB 68 MFIs were

found with high amount of cost above ₹800 while in case of CPL 52 MFIs were found with cost above ₹800. Accordingly, highest CPB was found at ₹4,166 for *VCCL* (JH) while highest CPL was observed for ***SEWA Bank*** *i.e.* ₹3,060 (CPB was also ₹3,060). That indicates very high CPL for the *SEWA Bank.* For 32 MFIs CPB was not available while for 77 MFIs CPL was not available. In case of CPB one MFI was observed with unacceptable amount of cost thus, it was excluded here (Refer note to Table 10.1).

PAR > 30 Days & PAR > 90 Days: High level of ratios shows the high level of risk of defaults for the MFIs. Therefore, the loans exposed to risk, for PAR > 30 days and PAR > 90 days is required to be monitored and controlled. Data displayed in Table 10.5 shows that 17.99% MFIs were observed risk free from PAR > 30 days while 11.58% MFIs were observed risk free from PAR > 90 days as they are found with 0% ratio. The ratio between 0.01%-0.50% were found for maximum numbers of MFIs *viz.* 21.16% (PAR > 30 days) and 21.58% (PAR > 90 days). The ratio above 5% was observed for 39 MFIs (PAR > 30 days) and 22 MFIs (PAR > 90 days). Highest ratio of PAR > 30 days (99.98%) and maximum ratio of PAR > 90 days (98.97%) was found for *Seba Rahara* (WB). ***SEWA bank*** (GJ) falls into the category of 5% - 10% for PAR > 30 days (6.42%) and for PAR > 90 days it falls into the category of 2% - 5% (*i.e.*2.16%). In case of one MFI (*Sanghatitha* from AP) the ratio of PAR > 30 days was found above 100% (*i.e.* 142.77%) thus, it was excluded.

Table 10.5 Classification of MFIs based on Ratios for PAR > 30 days & PAR > 90 days

No.	Ratio (in %)	No. of MFIs			
		PAR > 30 Days	%	PAR > 90 Days	%
1	0	34	17.99	22	11.58
2	0.01 - 0.50	40	21.16	41	21.58
3	0.50 - 1.00	22	11.64	16	8.42
4	1.00 - 2.00	15	7.94	10	5.26
5	2.00 - 5.00	18	9.52	19	10.00
6	5.00 - 10.00	15	7.94	7	3.68
7	10.00 - 20.00	7	3.70	5	2.63
8	20.00 - 100.00	17	8.99	10	5.26
9	Not Available	21	11.11	60	31.58
	Total	**189**	**100**	**190**	**100**

Source: Prepared from Secondary data, MIX

LLR & WOR: In case of LLR and WOR lower ratios indicate favourable situation for MFIs. Write–offs are the greatest threat to an MFI because they result in reduction in MFI's asset and its current and future earning potentials. Table 10.6 presents that highest numbers of MFIs 40.98% (LLR) and 38.30% (WOR) were

observed with 0% ratio followed by 15.85% (LLR) and 14.36% (WOR) numbers of MFIs with the ratio of 0.01% - 0.50%. Highest ratio of LLR and WOR was found at 65.44% for *L&T Finance* (MH). ***SEWA bank*** was observed with the LLR between 5% - 10% (*i.e.* 9.53%) and the WOR was not available for *SEWA bank*. In case of 7 MFIs and 8 MFIs, LLR and WOR respectively were observed very high between 20% - 100%. In case of LLR, 5 MFIs were reported with negative ratio and 2 MFIs were observed with ratio above 100% while in case of WOR, 2 MFIs were observed with ratio above 100%. Hence, those MFIs were excluded here.

Table 10.6 Classification of MFIs based on LLR and WOR

No.	Ratio (in %)	No. of MFIs			
		LLR	%	WOR	%
1	0	75	40.98	72	38.30
2	0.01 - 0.50	29	15.85	27	14.36
3	0.50 - 1.00	10	5.46	13	6.91
4	1.00 - 2.00	19	10.38	17	9.04
5	2.00 - 5.00	15	8.20	16	8.51
6	5.00 - 10.00	7	3.83	6	3.19
7	10.00 - 20.00	0	0.00	0	0.00
8	20.00 - 100.00	7	3.83	8	4.26
9	Not Available	21	11.48	29	15.43
	Total	**183**	**100**	**188**	**100**

Source: Prepared from Secondary data, MIX

TE/A: Higher ratio indicates the higher expenses of MFIs in relation to value of assets. Lower ratio is desirable. It can be seen from the Table 10.7 that 33.16% of MFIs were observed with the ratio between 20% to 30% followed by 23.68% MFIs with ratio ranging between 10% to 20%. In case of 5 MFIs the ratio was observed very high *i.e.* above 100% followed by 4 MFIs with the ratio between 50% - 100%. Highest ratio was found at 560.32% for *Need To India* (AP). ***SEWA bank*** was observed with the ratio between 10% to 20% (*i.e.*12.99%), this can be considered positive aspect for *SEWA*.

Table 10.7 Classification of MFIs based on TE/A

No.	TE/A (in %)	No. of MFIs	%
1	Below 10	9	4.74
2	10 to 20	45	23.68
3	20 to 30	63	33.16
4	30 to 50	13	6.84
5	50 to 100	4	2.11
6	Above 100	5	2.63
7	Not Available	51	26.84
	Total	**190**	**100**

Source: Prepared from Secondary data, MIX

10.2.3 Findings: Comparison of MIX and Sa-Dhan based on GLP and NAB

MIX Market has provided details of 190 MFIs in India while Sa-dhan has provided details of 230 MFIs in India. Two indicators GLP and NAB were found common from both the sources. Comparison of GPL and NAB from MIX and Sa-dhan is presented in following para.

GLP: Portfolio measures the health of loan outstanding in terms of its risk of being default in repayment. Table 10.8 gives the over all idea of MFIs in India with detail of GLP. Looking to the MFIs from Sa-dhan, in case of 4 MFIs (out of 230) the value of GLP was found ₹0 so those MFIs were excluded. Major proportion of number of MFIs in MIX (15.26%) were observed for GLP ₹200-₹500 lakhs while in Sa-dhan it was (18.58%) observed for GLP of below ₹50 lakhs. MFIs can be classified into four categories based on portfolio size as (a) small (less than ₹100 million), (b) medium (₹100-₹500 million), (c) large (₹500-₹1,000 million) and (d) mega (more than ₹1,000 million).[26] On examining the MFIs from MIX, it is observed that 48.95% (93 out of 190) MFIs fall into small category while 65.49% (148 out of 226) MFIs from Sa-dhan fall into small category. For medium category of MFIs, 25.26% of MFIs were observed for MIX and 19.03% of MFIs were observed for Sa-dhan. Looking to the large MFIs, 10.53% of MFIs were observed for MIX while only 3.98% was observed for Sa-dhan for large category of MFIs. Highest amount of GLP was found at ₹373,020.79 lakhs (Mega Category) for *Bandhan* (WB). ***SEWA Bank*** (GJ) falls into large category (₹5,622.27 lakhs) in both (MIX & Sa-dhan).

Table 10.8 Number of MFIs based on size of GLP (31-03-12): MIX and Sa-dhan

No.	GPL (Rs. in Lakhs)	No. of MFIs			
		MIX	%	Sa-Dhan	%
1	Below 50	16	8.42	42	18.58
2	50 - 200	27	14.21	38	16.81
3	200 - 500	29	15.26	33	14.60
4	500 - 1,000	21	11.05	35	15.49
	Small	93	48.95	148	65.49
5	1,000 - 2,000	26	13.68	16	7.08
6	2,000 - 5,000	22	11.58	27	11.95
	Medium	48	25.26	43	19.03
7	5,000 - 10,000 (Large)	20	10.53	9	3.98
8	10,000 - 50,000	19	10.00	16	7.08
9	50,000 - 1,00,000	4	2.11	5	2.21
10	Above 1,00,000	6	3.16	5	2.21
	Mega	29	15.26	26	11.50
	Total	**190**	**100**	**226**	**100**

Source: Prepared from Secondary data

NABs: On examining NABs for MIX, NABs were not available in case of 7 MFIs. In Sa-dhan, NABs were observed zero for 3 MFIs. Therefore, these 3 MFIs were excluded for analysis. It was observed that maximum share of numbers of MFIs were observed at 17.89% (MIX) and 21.15% (Sa-dhan) for the range of NABs between 5,000-10,000 followed by category of 1,000-5000 with 16.32% (MIX) and 19.38% (Sa-dhan). On comparing categories of NABs below 1000, the proportion of numbers of MFIs was found with big difference *i.e.* 5.79% for MIX and 11.45% for Sa-dhan. Highest NABs was found from *SKS* (AP) *i.e.* 4,256,719. ***SEWA Bank*** (GJ) falls into the category of NABs of 20,000-50,000 (*i.e.* 23,362).

Table 10.9 Number of MFIs based on NAB: MIX and Sa-dhan

No.	NABs	No. of MFIs			
		MIX	%	Sa-Dhan	%
1	Below 1,000	11	5.79	26	11.45
2	1,000 - 5,000	31	16.32	44	19.38
3	5,000 - 10,000	34	17.89	48	21.15
4	10,000 - 20,000	29	15.26	29	12.78
5	20,000 - 50,000	23	12.11	27	11.89
6	50,000 - 1,00,000	16	8.42	19	8.37
7	1,00,000 - 2,00,000	17	8.95	13	5.73
8	2,00,000 - 10,00,000	15	7.89	14	6.17
9	Above 10,00,000	7	3.68	7	3.08
10	Not Available	7	3.68	0	0
	Total	**190**	**100**	**227**	**100**

Source: Prepared from Secondary data

10.2.4 Key Results

One of the objectives of the study is to acquire an idea about all MFIs working in different states of India and to study the important financial indicators of MFIs. Following key results are observed from MIX and Sa-dhan data.

a. On comparing state wise data, 11 MFIs were observed on an average for 17 states of India. The state AP was found for maximum number of MFIs (41). Maximum average of GLP, NABs and NLO was found for AP indicating that AP is the major microfinance service provider in India. However, maximum average of CPB, PAR > 30 days, PAR > 90 days, LLR, WOR and TE/A was also observed for the state AP indicating high level of risk for the MFIs in AP. Highest average of BLO and NLO was found for the state KL indicating maximum case load on the staff members of the MFIs in KL. Maximum average of CPL was found for MH.

b. On examining NLO, maximum numbers of MFIs were found for the group of 10,000-20,000. *SEWA Bank* (GJ) was observed with NLO of 20,000-50,000.

c. On examining BLO and LLO, majority of MFIs were found from the group of 200-400. *SEWA bank* was found with BLO and LLO above 2000.

d. On examining CPB and CPL, highest numbers of MFIs were found with the cost between ₹600 to ₹800. *SEWA Bank* was found with CPB and CPL above ₹2,000.

e. On examining PAR > 30 days and PAR > 90 days, majority of MFIs were found with the ratio between 0.01 to 0.50%. *SEWA bank* (GJ) falls into the category of 5% - 10% for PAR > 30 days and for PAR > 90 days it falls into the category of 2% - 5%.

f. On examining LLR and WOR, majority of MFIs were found with the ratio at 0%. *SEWA bank* was observed with the LLR between 5% to 10% and the WOR was not available for *SEWA bank.*

g. On examining TE/A, majority of MFIs were found with the ratio between 20% to 30%. *SEWA bank* was observed with the ratio between 10% to 20%.

h. On comparing GLP for MIX and Sa-dhan, majority of MFIs were found with the amount of GLP between ₹200-₹500 lakhs for MIX while majority of MFIs were found with the amount of below ₹50 lakhs for Sa-dhan. For both the sources, majority of MFIs fall into small category based on size of GLP. *SEWA Bank* (GJ) is fall into large category in both (MIX & Sa-dhan).

i. On comparing NAB for MIX and Sa-dhan, majority of MFIs were found with NABs between 5,000-10,000 for both MIX and Sa-dhan. *SEWA Bank* (GJ) falls into the category of NABs of 20,000-50,000.

10.3 Major Findings: SEWA Bank

Major findings from the analysis of the data of the SEWA bank are presented here in three different parts. Following lines explain the same.

I Findings: Based on Overdue Analysis

a. Maximum share (19.23%) of total overdue was observed for the year 2010-2011 as a percentage of total advances.

b. The highest share of overdue of STLs was found at 5.32% for the year 2006-07.

c. The highest share of overdue of MTLs was found at 20.96% for the year 2009-10.

d. In case of LTLs, the share of overdue was observed very high at 48.59% for the year 2010-11.

II Findings: Based on Analysis of Bad and Doubtful of Recovery

a. Maximum proportion (15.20%) of total bad and doubtful of loans was observed for the year 2009-2010 as a proportion of total advances.

b. For STLs, the proportion of loans bad and doubtful of recovery was observed to have decreasing trend *i.e.* 4.57% (2006-07) to 0.40% (2011-12).

c. For MTLs, the proportion of loans bad and doubtful of recovery was observed to be very high at 23.16% for the year 2009-10 and low at 8.23% for the year 2011-12.

d. For LTLs, the proportion of loans bad and doubtful of recovery was observed to be high at 13.94% (2009-10) which declined to 6.71% in 2010-11 and further to 4.48% in 2011-12.

III Findings: Based on Analysis of NPA

a. Looking to the *branch wise data*, highest share of NPA A/Cs in a branch to total No. of NPA loan A/C (52.28%) as well as share of NPA A/Cs to total number of loans (32.20%) were observed for Head office. Highest share of NPA outstanding in a branch to total amount of loans outstanding (27.12%) and share of NPA outstanding to total amount of loans outstanding (52.25%) were also observed for Head office. It is very interesting to note that head office is controlling highest number of Loan A/Cs (36.38%) as well as having highest amount of loan outstanding (37.39%). NPAs in head office are more than proportion of NPAs of all other branches.

b. Looking to the *credit size wise data*, highest proportion (33.73%) of loan is observed in the range (₹10,000 - ₹25,000) and highest (39.26%) proportion of NPA a/c are also in the same range. When proportion of NPA a/c to loan a/c in a given range is examined it is observed to be highest for the lowest size of loan *i.e.* less than ₹5,000 (29.82%). When amount of NPA to amount of loan outstanding is examined, here also the highest proportion (33.22%) is found for loans amount less than ₹5,000. The highest proportion of NPA (in a given range) to total NPA amount is found on credit size of ₹25,000-₹50,000.

c. Looking to the *purpose wise data*, the highest share of percentage of NPA A/Cs in a purpose to total number of NPA A/Cs was observed at 25.12% for the purpose of building repairing. On examining the percentage of NPA A/Cs to total number of loans, it was observed that highest share was found for the loans taken for business purpose (74.74%). Looking to the proportion of NPA amount outstanding in a purpose to total amount of loans outstanding highest proportion

was found at 27.62% for purpose of debt repayment. On examining the percentage of NPA amount outstanding to total amount of loans outstanding, highest proportion was observed at 77.03% for the loans taken for the purpose of business.

d. On examining the *loan type wise data*, in standard A category, highest number of loans were found for PH loans. For substandard category (NPA), SN loans were at highest percentage at 16.07%. Looking to the overdue amount, maximum proportion of amount was observed at 84.81% for substandard category for US loans. On comparing outstanding amount of loans, maximum amount (82.92%) was observed for standard A category for PH loans. This is a good indicator that the standard A category has highest number and amount of loans.

10.4 Major Findings: Primary Data

To understand the behaviour of borrowers, bank's frontline workers and bank's facilitators the primary data are gathered through structured schedules. As mentioned in Chapter 3, on Research Design, for the purpose of study, SEWA Bank is selected. This section presents concluding results from primary data. This section deals with six different sections. First section gives brief about the sample. Next three sections present the major findings from the analysis of BRWRs, BSs and HHs respectively. Last two sections present the key results found from the analysis of BRWRs as well as BSs and HHs.

The primary data were gathered from the three groups of people of the SEWA bank *viz.* BRWRs, BSs and HHs. The data for BRWRs were collected during the period from April 2010 to October 2010. The data for BSs and HHs were collected during the month of February-2010. Total 484 BRWRs were taken as sample. The data from BSs and HHs were gathered from 66 and 17 numbers of sample respondents. Following paragraphs present the major findings from the final survey.

10.4.1 Major Findings: BRWRs

One of the objectives of the study is to understand the behaviour of the borrower regarding loan taking and repayment of the same with sample of borrowers of SEWA Bank. Following lines present the major findings analyzed from the responses of BRWRs.

1. In the demographic profile of the borrowers it is observed that 56.82% are in the age group of 21-40. 48.76% were unaware about the caste and 76.03% are Hindu. 90.08% of the borrowers are married. The level of education of

borrowers was observed to be very low at 34.71% having education only upto primary level.

2. 484 borrowers were observed with 2625 family members where 1552 family members were economically inactive and 589 were self employed. Looking to the individual borrowers, out of 484 borrowers, 45.87% (222) were observed to be self employed followed by 41.12% inactive borrowers. Uncertainty of income was found high among the sample BRWRs. On examining the earning members of the family of BRWRs, 38.02% of BRWRs were found with 21-40% earning members in their family.
3. Out of 484 borrowers, 63 (13%) borrowers were observed with 50% earning members (TFM 4, TEM 2) in the family.
4. In most of the situations regarding decision to take the loan, decision to use the loan and decision to use the profit, decisions were taken by borrowers themselves. 41.12% borrowers took decision to take the loan themselves and 38.02% borrowers took decision to use the loan themselves. Regarding decision to use the profit, 44.63% borrowers took self decision.
5. Saving habit of the borrowers were gathered in two parts *viz.* borrower's savings in other than SEWA bank and borrower's savings in the SEWA bank. Out of 484 borrowers, 60 were observed regular savers in other than SEWA bank, while 79 were regular savers in SEWA bank. 31.43% of respondents invested in *Vishis*, when they were investing in other than SEWA bank. 22.57% of respondents made savings through *Chinta Nivaran Yojana* of SEWA bank.
6. Majority of the borrowers (66.74%) had not undergone any type of training of the SEWA bank. 42.98% of borrowers were not interested in taking training at SEWA bank. However, out of remaining responses, 22.87% of borrowers could not take training, as closure of one day business was not affordable for them.
7. Total 1335 (1309 ULs & 26 SLs) numbers of loans were disbursed to the 484 borrowers. 421 ULs and 12 SLs were found with the amount in range of ₹1,000 to ₹10,000. 41 ULs and 3 SLs were having amount of ₹51,000 and above. Out of 1335 loans, 43.15% (576) loans were taken for productive purposes, of which 574 loans were unsecured and 2 were secured. For 327 loans (24.49%) the purpose was not communicated by the borrowers of which 305 loans were unsecured and 22 were secured.
8. On examining the frequency of borrowings by the BRWRs, 345 loans were found for 3rd time borrowers.

9. Awareness about rates of interest among BRWRs was found very low. Only 21.69% borrowers were having correct awareness about the rate of interest they are charged for taking the loan.

10. Major reasons of defaults were found as follows:
    a. high fluctuation of income of the BRWRs
    b. illness,
    c. sudden expenses,
    d. borrowed money from private money lenders. Other reasons were also indicated but they were in minority. Majority of the loans were not repaid in time because incomes of borrowers were very fluctuating. Reddy K[27] also pointed out that because of unexpected incidences such as illness, accident and death of member or earning member in the households, the SHG members made defaults.

11. Major reasons found from sample BRWRs who did not make defaults were as follows:
    a. habit of regular savings
    b. regular income,
    c. habit of economizing the spending,
    d. all family members are earning. Other reasons were also indicated but they were in minority.

10.4.2 Results Based on Testing of Hypotheses: BRWRs

As one of the objectives of the study is to examine the extent of defaults leading to non performing assets (NPA) in microfinance and to suggest some solutions to reduce the level of defaults, the effect of four major factors on the numbers of default was examined. These four factors are: socio-demographic factors, economic factors, loan related factors and financial literacy of borrowers. For this purpose 17 hypotheses are framed based on chi-square test and 17 hypotheses are framed based on difference between proportions. The important findings are summarised as follows:

A Key Results: Based on Chi-square test

Socio-Demographic Factors

1. On examining the relation between *age* of the BRWRs and number of defaults, it was observed that they *are related* to each other. (H_{01})
2. On examining the relation between *religion* of the BRWRs and number of defaults, it was observed that they *are not related* to each other. (H_{02})
3. On examining the relation between *marital status* of the BRWRs and number of defaults, it was observed that they *are not related* with each other. (H_{03})

4. On examining the relation between *education level* of the BRWRs and number of defaults, it was observed that they *are related* to each other. (H_{04})
5. On examining the relation between *proportion of earning members in the BRWR's family* and number of defaults, it was observed that they *are related* with each other. (H_{05})
6. On examining the relation between *person making decision to take the loan* and number of defaults, it was observed that they are *not related* with each other. (H_{06})
7. On examining the relation between *person making decision to use the loan* and numbers of defaults, it was observed that they *are related* to each other. (H_{07})
8. On examining the relation between *person making decision to use profit* and numbers of defaults, it was observed that they *are not related* to each other. (H_{08})

Economic Factors

9. On examining the relation between *uncertainty of income* of BRWRs and number of defaults, it was found that they *are not related* with each other. (H_{09})
10. On examining the relation between *per capita income* of the BRWRs and number of defaults, it was found that they *are not related* to each other. (H_{010})
11. On examining the relation between the *regularity of savings (in other than SEWA bank)* and number of defaults, it was found that they *are not related* with each other. (H_{011})
12. On examining the relation between the *regularity of savings (in SEWA bank)* and number of defaults, it was found that they *are related* with each other. (H_{012})

Loan Related Factors

13. On examining the relation between *amount of loan* and number of defaults, it was found that they *are related* with each other. (H_{013})
14. On examining the relation between *purposes for which loan is taken* and number of defaults, it was observed that they *are not related* with each other. (H_{014})
15. On examining the relation between *frequency of borrowings* of BRWRs and number of defaults, it was found that they *are related* with each other. (H_{015})

Financial Literacy

16. On examining the relation between the *training* among the BRWRs and number of defaults, it was found that they *are not related* with each other. (H_{016})
17. On examining the relation between the *awareness* of rates of interest among the BRWRs and number of defaults, it was found that they *are not related* with each other. (H_{017})

B Key Results: Based on Difference between Proportions (*z* test)

Socio-Demographic Factors

1. *No significant* difference was found between proportions of defaults between the *age groups* of below 40 and above 40 (H_{018}).
2. *No significant* difference was found between proportions of defaults between *Hindus* and *Muslim* (H_{019}).
3. *No significant* difference was observed for any group of *marital status* of the borrowers (H_{020}). Maximum proportion of default was found for the group 'married but single'.
4. *Significant* difference was observed for two groups of *education level* of BRWRs *viz.* (b) uneducated *v/s* above primary and (c) primary *v/s* above primary (H_{021}). Maximum proportion of defaults was observed for the group of uneducated borrowers. It indicates that the level of education does affect to the proportion of default. As the level of education increases the proportion of default decreases.
5. When, the difference between groups was examined, for proportion of default and proportion of earning members in the family, *significant* difference was observed for 5 groups *viz.* (b) 0% to 20% *v/s* 41% to 60%; (d) 0% to 20% *v/s* 81% to 100%; (e) 21% to 40% *v/s* 41% to 60%; (h) 41% to 60% *v/s* 61% to 80% and (j) 61% to 80% *v/s* 81% to 100% (H_{022}). Maximum proportion of default was observed for the group of 0% to 20%. It indicates that the proportion of default can be reduced with more number of earning members in the family.
6. Difference between proportions of defaults for person making decision to take the loan, decision to use the loan and decision to use profit was found to be *significant* for one group only *i.e.* (b) self *v/s* self & spouse (H_{023}, H_{024}, H_{025}). Thus, the proportion of default reduces when the decision is taken by borrower in consultation with spouse.

Economic Factors

7. *No significant* difference was observed for the various groups of *economic activities* (H_{026}).
8. *Significant* difference between proportion of default was found in case of 8 various levels of *annual per capita income* of borrowers such as (b) ₹0-₹10,000 *v/s* ₹20,001-₹30,000; (c) ₹0-₹10,000 *v/s* ₹30,001-₹40,000; (d) ₹0-₹10,000 *v/s* ₹40,001-₹50,000; (e) ₹0-₹10,000 *v/s* above ₹50,000; (f) ₹10,001-₹20,000 *v/s* ₹20,001-₹30,000; (g) ₹10,001-₹20,000 *v/s* ₹30,001-₹40,000; (h) ₹10,001-₹20,000 *v/s* ₹40,001-₹50,000; and (i) ₹10,001-₹20,000 *v/s* above ₹50,000 (H_{027}).

Highest proportion of default was found for the income group of ₹0-₹10,000. It indicates that proportion of default reduces with the high level of per capita income of the borrowers.

9. *Significant* difference was found for the groups of regular savers *v/s* irregular savers in both the cases *i.e. savings in other than SEWA* bank (H_{028}) and *savings in the SEWA* bank (H_{029}). Maximum proportions of default were observed for irregular savers in both the cases *i.e.* savings in other than SEWA bank and savings in the SEWA bank.

Loan Related Factors

10. On comparing various levels of *amount of loan*, *significant* difference was found for the group ₹21,000 to ₹40,000 v/s above ₹40,000 (H_{030}). High proportion of default was found for the group of loan amount of ₹21,000 to ₹40,000. The proportion of default decreases as the amount of loan increases.
11. *No significant* difference between proportions of default was observed for any group of *purposes of the loan.* (H_{031}). It shows that purposes of the loan do not have any effect on the proportion of default.
12. For six different groups of various levels of *frequency of borrowings*, *significant* difference in proportion of defaults was observed *viz.* (a) 1 time *v/s* 2 time; (b) 1 time *v/s* 3 time; (c) 1 time *v/s* 4 time; (d) 1 time *v/s* 5 time & above; (g) 2 time *v/s* 5 time & above; and (j) 4 time *v/s* 5 time & above (H_{032}). Highest proportion of default was observed 1 time borrowers. This necessarily indicates that more the number of times, the borrower is granted loan, the chances of default in loan repayment reduces.

Financial Literacy

13. On examining the financial literacy of the borrowers, *no significant* difference was found for *trained borrowers and non-trained* borrowers (H_{033}). However, *significant* difference between proportions of default was found between borrowers who were *aware* about the rates of interest and those who were not. (H_{034}). The proportion of default was higher for group of borrowers who were unaware about the rate of interest. It indicates that training does not effect to the proportion of default but awareness of the borrowers regarding the rates of interest can reduce the level of default.

10.4.3 Major Findings: BSs

The second important segment for the purpose of study was bank's frontline workers *i.e.* Banksathis. The entire population of BSs (87) of SEWA bank was studied

except 16 BSs, on account of reasons mentioned in Chapter-3 (Research Design). The major findings based on data analysis are presented in the following para.

1. 28.79% of the BSs were found from the age group of 36-40. 42.42% of them were having secondary level education. 39.39% of them found with working experience of 4-6 years.
2. On examining minimum and maximum amount of loan that can be granted to BRWRs, majority of the BSs opined that for unsecured loan being sanctioned for the first time, minimum amount should be ₹5,000 and maximum limit should be ₹10,000. For second time loan minimum amount should be ₹15,000 and maximum limit should be dependent on the balance of savings of the BRWRs. In case of secured loan, for the first time and/or second time, majority of BSs opined that the amount is decided by the SEWA bank.
3. Regularity/maintenance of savings of the BRWRs was found the most important factor at the time of sanctioning the loan as well as deciding the loan amount.
4. Most of BSs collect loan instalment on daily basis at the convenient time of BRWRs.
5. Most BRWRs were not found regular in repaying the daily loan because income of BRWRs was fluctuating to a greater extent. Thus, majority of BSs opined that daily loan was not in high demand because it was suitable to daily wage earners only.
6. Majority (60.61%) of BSs recommend the BRWR for loan without undergoing any type of training because closure of one day business was not affordable for BRWRs and they avoid coming to the bank for training.
7. Based on responses of BSs to the questionnaire, the sequence of steps followed for recovery in case of default was derived. The steps are:
   a. Personal visit to borrower to inquire the problems and explain them to pay the instalment as early as possible;
   b. Inform hand holder;
   c. Personal visit to borrower with hand holder;
   d. Personal visit to guarantor of the borrower along with hand holder. Other steps were indicated but according to BSs maximum 4 steps were required to be followed for recovery in case of default.
8. Based on analysis of responses to the questionnaire following are the major reasons of defaults:
   a. illness,

b. loss of business/job,
c. unwillingness to repay,
d. sudden and/or social expenses in excess of income. Other reasons were indicated but they were in minority.

9. For negative effect of defaults on the bank, majority BSs opined the followings:
   a. bank will not be able to give higher amount of loan because of no recovery of previous loan,
   b. income of bank decreases,
   c. banks have to reserve an amount equivalent to amount of NPA and
   e. wastage of travel expenses. Other reasons were indicated but they were in minority.

10.4.4 Major Findings: HHs

The third category of the respondents is bank's facilitators, *i.e.* Hand Holders. As discussed in Chapter-3 on Research Design, here also effectively 100% of population (16) is selected for study. Their role is very crucial in loan recommendation, monitoring of the borrowers and banksathis and recovery of loan. The following lines present major findings based on analysis of responses to the questionnaire, by HHs.

1. Majority (31.25%) of HHs were found from the age group of 41-45. 43.75% of HHs were found graduated and equal percentage of HHs were found having working experience of 6 to 10 years.
2. For unsecured loans to be sanctioned for the first time, for minimum amount, opinions are in favour of ₹5,000 while for maximum limit it was opined that it was dependent on balance of savings. For second time loan, majority of the HHs reported ₹15,000 as minimum amount and maximum limit was reported to be dependent on the balance of savings by most of the respondents. Majority of HHs opined that bank only decide the amount for secured loan. For loans on fixed deposit majority of them opined that the amount should be sanctioned up to 80% of FD.
3. For precondition to sanction the second time loan and factors to decide the loan amount both regularity/maintenance of savings (43.24% responses out of 37) and record of previous loan (40.54%) was found most preferable factors.
4. Looking to the responses about loan products in operation, only daily loan collection (unsecured loan product) was found inactive at the time of data collection (62.5% out of 16 hand holders) on account of irregularity of borrowers in daily payment as the main reason for the same. Maximum hand holders agreed

that borrowers had not paid loan instalments daily regularly. Maximum hand holders (56.25%) had informed that daily loan was not in high demand among the borrowers as daily loan was convenient to daily wage earners only (60% responses out of 10). On inquiring suggestions to increase demand of daily loan, out of 10 responses, 30% respondents suggested that daily service should be given to the borrowers at their convenience, but other 30% respondents informed that it is impossible to increase the demand of daily loan. 7 HHs were of the opinion that daily loan was in high demand because daily repayment in small instalments can reduce the burden of interest and debt.

5. For the views of recommendation of loan to the borrower without training, 81.25% hand holders were in favour of recommending the borrower for loan even without training because closure of one day business was not affordable for borrowers who earn on daily basis.
6. Majority of HHs monitored their BSs by randomly checking their slip book and cash scroll.
7. The most preferred sequence of steps followed in case of default was as follows:
   a. Ask banksathi first that whether they visit the borrower's place regularly or not (inquiring with banksathi, about regular visit to borrower's place)
   b. Personal visit to borrower to inquire the problems and explain them to pay the instalments as early as possible to avoid the burden of interest;
   c. personal visit to guarantor;
   d. send a notice to borrower and/or guarantor. Other steps were indicated but according to HHs maximum 4 steps were required to be followed for recovery in case of default.
8. According to HHs, major reasons for defaults are:
   a. illness among the BRWRs,
   b. loss of business/job and
   c. expenses in excess of income of BRWRs. Other reasons indicated were in minority.
9. All HHs were of the opinion that defaults affect negatively on the bank as-
   a. income of bank decreases,
   b. bank has to reserve an amount equivalent to amount of NPA and bank cannot give higher amount of loan and,
   c. wastage of travel expenses. Other reasons indicated were in minority.

10.4.5 Results Based on Testing of Hypotheses: BSs and HHs

This section presents the key results found through the hypotheses testing to examine the similarity of opinions of BSs and HHs with each other through RCC. Following lines presents the key results.

1. On examining the similarity between the opinions of BSs and HHs regarding *factors to decide the loan amount*, it was found that there *is a similarity* between the opinions of BSs and HHs. (H_{01})
2. On examining the similarity between the opinions of BSs and HHs regarding *reasons of daily loan not in use*, it was found that there is *no similarity* between the opinions of BSs and HHs. (H_{02})
3. On examining the similarity between the opinions of BSs and HHs regarding *steps followed in case of default*, it was found that there is a *similarity* between the opinions of BSs and HHs. (H_{03})
4. On examining the similarity between the opinions of *BSs* and *HHs* regarding *reasons of defaults*, it was found that there is a *similarity* between the opinions of BSs and HHs. (H_{04})
5. On examining the similarity between the opinions of *HHs* and *BRWRs* regarding *reasons of defaults*, it was found that there is *no similarity* between the opinions of HHs and BRWRs (H_{05})
6. On examining the similarity between the opinions of *BSs* and *BRWRs* regarding *reasons of defaults*, it was found that there is *no similarity* between the opinions of BSs and BRWRs. (H_{06})

   For H_{05} and H_{06}, it can be inferred that, even though the relation is found, but it is not significant. This is likely to be on account of the fact that the borrower is the party concerned for default and the BSs and HHs are on the other hand, monitoring the loan. Hence, there is likely to be difference in perception or the degree of perception. Therefore, even though this is not a significant relationship, but at least there is no negative RCC, should be considered favourable for the purpose of proper follow up and monitoring by BSs and HHs.
7. On examining the similarity between the opinions of BSs and HHs regarding *negative effects of defaults on the bank*, it was found that there is *no similarity* between the opinions of BSs and HHs. (H_{07})

10.5 Suggestions

The study of existing legal structure for MFIs concluded that presently, there is no regulatory mechanism in place for MFIs except for those which are registered as NBFCs with RBI. It is suggested to form a suitable and precise regulatory frame work for each type of MFI which can control the increasing numbers of for profit MFIs. Interest rate cap should also be put up to control MFIs from charging usurious interest rates from the poor people. Strict rules also required regarding forceful recovery from the poor people.

10.5.1 Suggestions based on Secondary Data

One of the objectives of the study was to understand the functioning of MFIs operating in India and analyse the financial indicators of the same. The major findings are presented in this chapter in paras 10.2.1, 10.2.2 and 10.2.3. Based on this following suggestions are made to acquire an idea about all MFIs from all over India, MFIs were studied with important financial indicators and the results of that study suggest the following.

1. The State AP was observed with highest average of GLP, NABs and NLO indicating highest proportion of coverage of microfinance services in India but AP was also found with the highest ratios of PAR > 30 days, PAR > 90 days, LLR, WOR and TE/A. The MFIs in AP should try to control all the ratios as it is the indication of high level of risk for the MFI.
2. As Majority of MFIs were observed with small size of GLP, MFIs should try to increase their GLP as it indicates the health of loan outstanding. Accordingly, *SEWA Bank* can also try to increase the GLP as it falls into category of large MFIs based on size of GLP. *SEWA Bank* can increase the level of GLP upto mega MFIs.
3. The higher ratio of BLO and LLO shows the higher caseload per officer. Though more clients are served, caseload in excess of optimal caseload increases the risk of delinquency and default rates due to inadequate loan review and follow-up. MFIs either can decrease the numbers of BLO and LLO or can offer better training or incentives, or implement more efficient process for reviewing, approving, and disbursing loans. As highest numbers of BLO and LLO were found for KL, MFIs in KL should try to incease their number of staff members to avoid heavy work load on staff. *SEWA Bank* was observed with BLO and LLO

3above 2000 hence, bank should try to reduce the numbers of BLO and LLO to avoid the heavy case load on its staff members.

4. CPB and CPL informs that how much MFI incur from its each borrower and/or loan. CPB provides a meaningful measure of efficiency for the MFI, by determining the average cost of maintaining an active borrower. As CPB and CPL are high in any MFI, interest rates of MFIs also goes higher to cover the cost. If intrest rates are high, borrowers would not be able to repay loans in time. There are more chances of increase in level of defaults. Therefore, MFIs should try to minimize their CPB and also CPL to avoid defaults. The state MH should try to focus on reducing CPB as well as CPL as it is observed to be quite high. *SEWA Bank* has also high amount of CPB and CPL therefore, *SEWA Bank* need to focus on reducing both, CPB and CPL.

5. Higher percentage of PAR > 90 days indicate higher level of defaults as well as risk for the MFI. While ratio of PAR > 30 days indicate the lower level of risk of defaults. However, in both the cases MFIs need to change their instalment collection method and try to concentrate on better management that can reduce the PAR risk for the MFI. As AP has the highest GLP, the risk on portfolio and level of defaults have also been recorded high. MFIs in AP should try to develop different collection methods to minimize the level of risk as well as the level of defaults. *SEWA Bank* was found with medium level of both the risks as compared to other MFIs. However, it should try to minimize both, PAR > 30 days as well as PAR > 90 days.

6. High ratio of LLR and WOR indicate a problem in the MFIs collection efforts. MFIs should try to decrease the ratio of LLR as well as WOR by developing good collection strategy. By developing special MIS (Management Information System) on recovery of loans, MFIs can manage their good repayment record. Good MIS can closely and regularly monitor each borrower and in any case of default, MIS inform MFI and quick action can be taken to recover the default. Accordingly, MFIs can reduce the risk of default which leads to NPA. The MFIs from the state AP should try to decrease the rate of LLR as well as WOR to reduce the risk of default. *SEWA Bank* should also try to reduce the ratio of LLR.

7. Higher level of ratio of TE/A indicates the higher amount of expenses of MFIs in comparison with the amount of assets. MFIs having higher amount of ratio should try to reduce their level of expense. MFIs can control their operating expenses also. MFIs should develop strategies to increase the level of assets in

comparison to expenses to increase their profitability. The MFI in state AP were observed with high proportion of TE/A. Therefore, AP should try to reduce the level of expenses to increase their profitability.

10.5.2 Suggestions for SEWA Bank

1. Additional focus is needed in case of MTLs as compared to STLs and LTLs as the proportion of overdue and bad and doubtful of recovery was observed high as compared to other loans which indicated poor recovery in case of MTLs.
2. As, the proportion of default found is highest for the credit size ranging between ₹25,000 to ₹50,000, it is suggested that for high size loan close monitoring to avoid high level of defaults be carried out.
3. When loans are granted for business purpose it requires a very close monitoring because, the proportion of default, considering loan a/c and loan amount for the business purpose is highest. On examining the share of NPA A/Cs in a purpose to total number of NPA A/Cs the purpose of building repair has got the highest share. However, when the share of NPA amount outstanding in a purpose to total amount of loans outstanding for a given purpose is examined then debt repayment has got the highest share. Thus, from view point of controlling NPA, these three types of loans- business, building repair and debt repayment require a very close monitoring.
4. From the view point of controlling NPA, SN loans requires close monitoring as highest number of women and highest proportion of overdue amount were observed for this type of loan product. Further more, it is recommended that the care which is taken prior to sanction of the loan for a definite purpose should be monitored after disbursement of the loan for the correct application of the funds.

10.5.3 Suggestions based on Primary Data for BRWRs

This section gives important suggestions based on results of primary data. Suggestions are made for BRWRs.

1. SEWA bank should avoid sanctioning the loan to the borrowers above the age 60 to reduce number of defaults.
2. SEWA bank should try to increase the proportion of loan to educated borrowers to reduce the proportion of default. However, it is not possible for SEWA bank to sanction the loan to only highly educated people as the very purpose of microfinance is to grant loan to poor people and where the people are generally uneducated. However, SEWA bank can explain each terms and conditions of loans at the time of sanctioning and can also deal with any of the family member

of BRWR with higher education. By providing proper explanation, the proportion of default can be reduced.

3. Higher the number of earning members in the family, lower the proportion of default. Hence, as a part of loan approval procedure, this should be considered as one of the important aspects. With the rising proportion of per capita income of the borrower, the proportion of default reduces. SEWA bank should try to increase the proportion of loan to borrowers with high level of per capita income.
4. The proportion of default reduces when the decision to take loan, decision to use loan and decision to use profit is taken by borrower in consultation with spouse. Therefore, as a part of loan approval procedure, the consent of spouse can be considered to reduce the proportion of default.
5. Regular saving in the SEWA bank and/or other than SEWA bank, leads to reduction in proportion of default. SEWA bank should try to focus on savings also. Regular savings are helpful for BRWRs as well as bank because savings plays a role of collateral. Savings be made mandatory pre-condition for loan sanction. Moreover, the concerned BSs and HHs be instructed to monitor the savings.
6. The lower amount of the loan should not be taken with ease by BSs and HHs. It is for lower amount of the loans that high proportions of defaults are observed. When more small amount of loans accumulates it results into high amount. Hence, for small amount of loans, separate monitoring cell, after considering cost-benefit be created.
7. BRWRs were found with high proportion of defaults in the initial stage of borrowings, extra care should be taken in sanctioning of the loan to the first time borrower. SEWA bank should make proper inquiry of BRWRs family and family members, their purpose of loan, economic activities of all family members etc. before sanctioning the loan. If any loan was not repaid regularly by the BRWR, extra care should be taken at the time of sanctioning the next new loan to the same borrower. By monitoring of each BRWR strictly the bank can reduce the number of defaults.
8. Even though the training had not helped in reducing the level of default, the awareness about the interest rate has helped in reducing the proportion of default. Hence, as a part of loan sanctioning procedure, the borrowers should be intimated about the rate of interest.

10.5.4 Suggestions based on Primary Data for BSs and HHs

This section presents the suggestions based on the comparative analysis of BSs and HHs.

1. Looking to the special case of daily loan collection, opinions of BSs and HHs were not found similar. BSs do not want to increase the volume of daily loan collection while HHs believed that if daily loan is given at the suitable time of the BRWRs daily loan accounts can be increased. Accordingly, it is suggested that SEWA bank can increase the demand of daily loans by changing the policy of daily loan collection. It is also suggested that the amount of daily loan should not cross the repayment capacity of the borrower as the payment of daily loan was done on daily basis and the amount of daily instalment is directly connected with the amount disbursed to the borrower. Recommendations of BSs and HHs should be taken into consideration while changing the terms of daily loan.
2. Looking to the reasons of defaults among the BRWRs, opinions of BSs and HHs were found significantly correlated. However, on examining the opinions of BSs and HHs with the views of BRWRs regarding defaults opinions it was found to have positive relation even though insignificant. It is suggested that as the BRWRs and BSs are generally coming from same geographic location, the close monitoring of BRWR would help to reduce the level of default.
3. Looking to the negative effects of defaults on the bank, opinions of BSs and HHs were not found significantly correlated. An attempt should be made by the SEWA bank to explain BSs and HHs regarding effect of defaults on bank/bank functioning/bank's profitability etc. Thus, they will become informed banksathis and hand holders and they can take proper care for recovery. If BSs and HHs are properly and in similar manner aware about the negative effects, they would try to control the level of defaults with proper knowledge which can help SEWA bank to increase the recovery of loans.
4. BSs and HHs should be given proper training to make them understand the actual strategies of SEWA bank. They should be perfectly aware about the negative effect of defaults to maintain the proper flow loan recovery and it can reduce the chances of defaults.

10.6 Suggestions for Future Research

Based on ***Secondary Data***, suggestions for future research on MFIs are as follows:

(1) MFIs generally reach a combination of poor and non-poor people. Rarely do they reach the poorest[28]. Accordingly, the future research can be done on the MFIs in India who actually reach the poorest and can identify the actual effect of microfinance on poverty reduction. The future research can be done to understand the financial status and sustainability of those MFIs who actually reach the poorest with profit.

(2) With the growth of commercialization of MFIs, the research can be done on the impact of commercialization of MFIs and identify its effects on the poor from all over India. Comparative study can be done to study the financial status of MFIs *v/s* poor people affected from commercialization of MFIs.

(3) This study mainly focused on causes of defaults and NPA as part of credit risk for MFIs. Further, research can be done focusing especially on credit risk as well as other risks faced by MFIs and can find out best methods to manage risk for MFIs.

Based on ***Primary Data***, following suggestions are given for future research.

(1) Present study mainly focused on urban borrowers of the SEWA bank, further research can be done by focusing on rural borrowers also.

(2) Though the group method was found to be most successful method of recovery, the defaults were also observed in the group methods of SHG and JLG. Same type of study can be done with the sample of SHGs and JLGs to understand the loose points of recovery in group methodology which can help to achieve 100% recovery rate.

(3) In this study the researcher mainly analysed the defaulters of microfinance. Further the comparative research can also be carried out focusing on regular borrowers of microfinance. It gives whole idea about two sides of microfinance users.

(4) Present study deals with loan facilities of the SEWA bank, further research can be done on the beneficiaries of other financial facilities of the SEWA bank.

(5) Same type of study can also be done to understand the over indebtedness of the poor people.

Policy Suggestions: Through the results of this study, SEWA bank can know the repayment behaviour of its borrowers from NPA category. SEWA bank will also able to understand the attitude of banksathis and hand holders towards defaulted borrowers and recovery of those loans. Accordingly, SEWA bank can change its policy regarding loan sanctioning, pre inquiry of loan as well as post monitoring of loan, proper follow-up of defaulted loan etc. The training policy be changed by the SEWA bank to make it easily

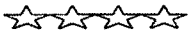
accessible to borrowers, without disturbing their daily earning activities. For this purposes, BSs and HHs be provided the specific guidelines. The bank can also change the strategy of loan recovery to control the rates of defaults as well as NPA.

Following Table 10.10 presents the policy suggestions for the SEWA bank to reduce the proportion of defaults regarding borrowers.

Table 10.10 Policy Suggestions for the SEWA Bank: Borrowers

Sr. No.	FACTORS	Suggestions to reduce the Proportion of Default
	Socio-Demographic Factors	
1	Age	Avoid sanctioning the loan to the borrowers above the age 60.
2	Education level	Try to increase the proportion of loan to educated borrowers
3	Household Situations	Sanction more number of loans to the borrowers with more number of earning family members.
4	Decision to Take Loan	As a part of loan approval procedure consent of spouse be included.
5	Decision to Use Loan	
6	Decision to Use Profit	
	Economic Factors	
7	Annual Per Capita Income	The amount of loan should be inline with per capita income of the BRWRs. The bank may decide the proportion and policy for the same.
8	Habit of Regular Savings	The information system and loan monitoring mechanism be so devised to inspire the regular savings by the borrowers.
	Loan Related Factors	
9	Amount of Loan	Lower amount of loans need close monitoring and strict follow-up
10	Frequency of Borrowings	Extra care should be taken in sanctioning of the loan to the first time borrower.
	Financial Literacy of the Borrowers	
11	Awareness of Rates of Interest	Rates of Interest should be clearly specified to the borrowers at the time of loan sanction

Thus, this study has tried to take the stock of development of microfinance institutions (MFIs) from the view point of legal framework as well as growth of microfinance institutions in India. The secondary data sets an alarm for need to control cost per borrower and cost per loan along with need to monitor PAR > 30 days and PAR > 90 days. The study of borrowers of the SEWA Bank reveals certain important factors affecting to the rates of default. Thus, the study is found to be topical at an appropriate point in time to direct the MFIs to help the poor, with sound lending procedures.



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