Outreach and Sustainability of Microfinance Institutions in India in Pre and Post Andhra Pradesh Microfinance Crisis in Context of South Asia

Prabhjot Kaur

Faculty of Management Studies, New Delhi–110007

Abstract

Microfinance institutions are considered as an effective tool for achieving the objective of financial inclusion. To achieve this objective it is necessitate that MFIs should be sustainable while reaching the poorest of poor. After the Andhra Pradesh Microfinance Crisis, 2010 sustainability and outreach of MFIs in India is doubtful and questionable. Present paper attempts to look into various dimensions of sustainability and outreach of Indian MFIs in the context of other countries in South Asia. Microfinance crisis has hit Operational Sustainability of Indian MFIs very badly, yet, on cost front Indian MFIs seems to be best performer in South Asia.

Keywords: Breadth of outreach, depth of outreach, microfinance crisis, and operational sustainability etc.

1. Introduction

Microfinance is considered as an innovative tool for enabling the poor to reap the benefit of growth. In recent past, it has emerged as an effective tool for achieving the mission of financial inclusion in the developing countries. During 2005-10, Indian Microfinance was among the world’s largest microfinance sector. During that period, growth registered in terms of numbers of unique clients was 62% per annum and growth of portfolio was impressively high at 88% per annum [1]. However, after the Microfinance crisis in Andhra Pradesh, growth of Indian Microfinance has come to halt. Enactment of Andhra Pradesh Microfinance Institutions (regulation of money lending) Act, 2010, affected micro-lenders’ profitability, loan recovery and turned their operations unviable. Andhra Pradesh microfinance crisis spread to almost every state of India. Crisis has left some microfinance companies with negative net worth, due to
which they are unable to borrow from the banks and hence their credit disbursal get affected by the crisis. Funding constraints, negative perceptions combined with higher operating costs are posing challenges to the growth of the industry. Andhra Pradesh (AP) crisis has affected cost efficiency, Operating Expense Ratio and Weighted Average Yield of MFIs negatively [1]. Against this backdrop, in this paper attempt has been made to examine, crucial aspects related to financial sustainability and outreach of MFIs in India, in context of South Asia, in pre and post Andhra Pradesh crisis.

2. Literature Review
2.1 Outreach
The term outreach generally connotes two dimensions: depth and breadth of outreach. Outreach is typically used to refer to the effort by MFOs to extend loans and financial services to an ever-wider audience (breadth of outreach) and especially toward the poorest of the poor (depth of outreach) [2]. Thus, reaching the poorest is depth of outreach, but reaching large number of people even if they are relatively less poor is breadth of outreach [3,4]. On outreach, Hermes et al. [5] express similar views. They contend outreach is to provide credit to the poor who have no access to commercial banks, in order to reduce poverty and to help them with setting up their own income generating businesses. Bassem [6] include the number of female borrowers as an indicator of outreach. This may be due the fact that major clients of MFIs are women only. This holds true for India also where majority borrowers (median percentage of women borrowers is 100 per cent, MIX data) are women only. However, Schreiner [3] provides somewhat more comprehensive definition of outreach and proposed outreach have six dimensions: Worth of Outreach, Cost of Outreach, Scope of Outreach, Depth of Outreach, Length of Outreach, and Breadth of Outreach.

2.2 Sustainability of Microfinance Institutions
Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off [7]. Reaching the poor is major issue related to sustainability of MFIs. Reaching the poorest of the poor is more costly than reaching other segments of the market even when there are no fixed lending costs, and that leverage may be much harder to achieve for MFOs that target the “low-end” of the market [2]. With the purpose of attaining sustainability, MFIs try to gain economies of scale by diverting their efforts in servicing better-of clients. This strategy results in reducing expenses per loan and increasing the probability of repayment. Another way to attain sustainability, consistent with Tucker and Miles [8], is to increase profits by raising interest rates, fees, or both. This option moves the costs for clients up and consequently raises default rates. Both options, hit very poor badly and they could not benefit from microfinance services.
2.3 Trade off between outreach and sustainability
Depth of outreach and financial sustainability are two desirable but polar opposite targets. Since depth of outreach implies increased service to the poor, while emphasis on financial sustainability may force MFIs to either cut back on the disbursement of smaller loans or rely more on subsidies [3]. Therefore, it is required to strike a balance between outreach and financial sustainability of MFIs, so that, both financial and social mission can be accomplished. However, Gibbons and Meehan [9] contend that there was no necessary medium to long-term trade-off, for even among the poorest loan clients; average loan size tends to increase considerably over the years as clients prove their ability to repay and consequently have access to larger and/or multiple loans. Quayes [10] analyzed 702 MFIs from 83 countries, and drew an inference that there is no trade-off between financial sustainability and depth of outreach. However trade-off exists between breadth of outreach and financial sustainability. Whereas, Fajonyomi, et al. [11] analyzed 80 MFIs over the period 2005-10 from southwestern Nigeria and confirms strong, positive and uni-directional relationship between sustainability and breadth of outreach.

3. Data Analysis and Conclusions
For the purpose of comparing outreach and sustainability of Indian MFIs with their counterparts in South Asia, data is collected from Microfinance Information Exchange database, for the year 2008 and 2012 (pre and post Andhra Pradesh microfinance crisis period respectively). Referring to Table 1, it is clear that Operational Self Sufficiency (proxy for sustainability of MFIs) of Indian MFIs has declined from 2008 to 2011 to the extent to make them operationally non sustainable. Operational Self Sufficiency (OSS) less than 100 per cent shows operations of MFIs are not sustainable and their incapacity to recover their operational costs from the operational revenue. However, even after AP microfinance crisis, OSS of Indian MFIs is better than MFIs in Afghanistan and Pakistan. On cost front, although after AP crisis, cost per borrower has increased in India, yet, it is lowest in comparison to other MFIs operating in South Asia.

In pre and post crisis period, average (median) percentage loan given to women remains highest in India in comparison to South Asia, implying breadth of outreach is not affected by the crisis. Turning the focus to the depth of outreach i.e. Average loan Balance per borrower /GNI, it is lowest across the countries in South Asia in both pre and post crisis period. Poorer the borrower is smaller the size of loan [10], thus, in India, borrowers are relatively poor. Secondly, it is associated with the lesser efficiency [4], which is obviously is a reason of concern for Indian MFIs.

Looking at the quality of Portfolio Index, i.e. Portfolio at Risk (PaR30), that shows loans due but not paid, even after 30 days, has increased for India for 2011. For all other countries PaR30 is declining from 2008 to 2011, which implying their portfolio quality is improving. In the period 2011 India is the only country whose PaR30 has increased, which eventually pointing portfolio quality of Indian MFIs has been deteriorated after the crisis.
Table 1: Comparison of Indian MFIs with the South Asian MFIs in pre and post Andhra Pradesh Crisis

<table>
<thead>
<tr>
<th>Country</th>
<th>Afghanistan</th>
<th>Bangladesh</th>
<th>India</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs (count)</td>
<td>15</td>
<td>6</td>
<td>29</td>
<td>37</td>
<td>100</td>
<td>113</td>
</tr>
<tr>
<td>Operational Self Sufficiency (median)</td>
<td>51.5 %</td>
<td>59.31%</td>
<td>85.95%</td>
<td>102.9%</td>
<td>109.1%</td>
<td>91.29%</td>
</tr>
<tr>
<td>Percent of Women Borrowers (median)</td>
<td>60.0%</td>
<td>39.79%</td>
<td>96.24%</td>
<td>96.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Gross Loan Portfolio (median)($)</td>
<td>3,196,615</td>
<td>3,359,378,946</td>
<td>9,742,582,93</td>
<td>10,239,337,983</td>
<td>5,699,914,957</td>
<td>1,440,199,098</td>
</tr>
<tr>
<td>Portfolio at Risk30 (median)</td>
<td>12.8%</td>
<td>0.43%</td>
<td>2.34%</td>
<td>1.69%</td>
<td>0.30%</td>
<td>1.04%</td>
</tr>
<tr>
<td>Equity (median($)</td>
<td>280,905</td>
<td>331,245</td>
<td>3,668,743</td>
<td>2,41,656</td>
<td>1,629,273,975,15</td>
<td>431,40</td>
</tr>
<tr>
<td>Average Loan Balance per borrower/ GN</td>
<td>52.6%</td>
<td>124.0%</td>
<td>18.15%</td>
<td>17.9%</td>
<td>10.39%</td>
<td>9.39%</td>
</tr>
<tr>
<td>Cost Per Borrower (median($)</td>
<td>103</td>
<td>284</td>
<td>15</td>
<td>18</td>
<td>14</td>
<td>18</td>
</tr>
</tbody>
</table>
Outreach and Sustainability of Microfinance Institutions in India in Pre

<table>
<thead>
<tr>
<th>Debt Equity Ratio (median)</th>
<th>8.85</th>
<th>-3.49</th>
<th>3.58</th>
<th>5.7</th>
<th>6.21</th>
<th>2.8</th>
<th>10.97</th>
<th>7.47</th>
<th>2.52</th>
<th>3.18</th>
<th>2.55</th>
<th>1.63</th>
</tr>
</thead>
</table>

Source: Compiled from Microfinance Information Exchange [12]

References

[12] www.mixmarket.org