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Performance Analysis of Commercial Banks Providing Microfinance in Rural Areas of Maharashtra

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Abstract: *Microfinance is an important tool which provides microcredit to the low income People which do not have access to formal financial institutions. In India commercial banks have had a larger share in the providing microfinance right from the inception of microfinance program. In recent times, commercial banks have gone forward to strengthen SHG saving and credit linkages program. In the fiscal year 2014-15, ICICI Bank has planned to reach out to over two million women under self-help groups. SBI is maintaining its position as a leader among Commercial Banks in credit linking of SHGs. The present study is an attempt to analyze the performance of commercial banks providing microfinance operating in rural areas. Different parameters taken for the study includes Operating Self-Sufficiency, Efficiency and productivity. Financial data has been collected from 62 commercial banks that involved in microfinance activity. Data has been analyzed using ratio analysis and t-test. The present study shows that Private sector commercial banks still face high cost per borrower relative to public commercial banks. The paper concludes that Microfinance providers must be able to sustain themselves financially because it is essential that these institutions be run efficiently for poor sections of society.*

Keywords: *Commercial Banks, Efficiency, Microfinance, Performance*

I. Introduction

In India Banking sector provides financial services to the larger segment of country but still to reach the lower segment. There are many reasons that formal financial channel not willing to provide fund to lower segment, such as having low level of education, high cost for small transactions and irregular cash flows of clients. As Indian economy is depending on rural segment which still has limited access to financial services and needs formal banking services for development of rural poor people. Therefore, it is necessary on the part of the government to formulate poverty alleviation policies and programmes for generation of minimum level of income for the rural and urban poor. Government of India, with the help of RBI has introduced several credit linked poverty alleviation programmes, such as Integrated Rural Development Programme and Prime Minister Rojagar Yojana to alleviate the rural and urban poverty. A huge amount of manpower and money was spent on these programmes. These programmes were failed to achieve the desire targets owing to local political conflicts, lack of co-operation and proper co-ordination between the beneficiaries and Government employees, recovery performance of banks was also poor. In such schemes, the beneficiary did not feel the responsibility of paying as they have taken for granted these loans as grants. In addition bankers also did not monitor the recovery process cautiously. As a result these schemes became non-viable. Consequently, the Indian economic planner and policy makers turned their attention towards innovative schemes such as micro finance through Self Help Groups (SHGs). Microfinance refers to the supply of microloans, savings, and other basic financial services like insurance without collateral requirements, to the poor. The success of Grameen Bank in Bangladesh impetus of SHGs movement in India. The NABARD initiated SHGs in 1986-87 but real efforts have been activated with the linkage of SHGs with banks from 1991-92. Nowadays most of the poverty alleviation programmes of Central and State Governments has directed through the SHG mode of financing with suitable subsidies. The SHG-BLP mode of microfinance has driven by the efforts to prove that the poor in the country are indeed the "most bankable" clients. Since independence, the formal banking institutions had ignored the poor due to perceived high risks, high transaction costs involved in small-scale rural lending to a large number of poor households and absence of collateral securities. In such scenario microfinance through SHGs has proved the notion wrong and showed that even the poor are bankable. The SHG members thrift, mobilize the savings and invest in microenterprises. The recovery rate was reported around 95%. Hence, microfinance though SHGs has evolved as an accepted institutional framework to provide financial services to the poor. In recent years, the National Rural Livelihood Mission (NRLM) has been a flagship programme of the Ministry of Rural Development, Government of India where the people below the poverty line are helped to come out of poverty through a combination of skill development, market assistance and financial assistance through SHG-BLP along with subsidy support from the Government, which is linked to credit.

Recently Microfinance Institutions Network, the industry body of Microfinance Companies in India announced that MFI's registered a growth of 44% on their Gross Loan Portfolio to touch Rs 26,150 Crs in the first quarter of FY2015 when compared to Q1 of FY2014 (mfin-publications). In the fiscal year 2014-15, ICICI Bank has planned to reach out to over two million women with cumulative loan disbursements of 2,500 crore under its programme for self-help groups (SHG). SBI is maintaining its position as a leader among Commercial Banks in credit linking of SHGs and is a prime driver for the movement. As on 31st March 2014, Bank's exposure under the scheme is 5,134 crore to 4.47 lakh SHGs, 92% of these SHGs are women's SHGs (Sa Dhan Report 2014).

In Financial Year 2014 Bank of India Lead bank of Sangli district has 10764 number of SHG members. In case of private sector commercial banks ICICI Bank, the second largest bank in India and the country's largest private lending institution, with its acquisition of Sangli Bank, a private lender based in Western India, is closer to its goal of expanding its portfolio to include more agricultural and microfinance lending. The Sangli Bank's acquisition provides them access to network across urban and rural centres in rural and small enterprise banking operations and would play an important role in the growth of the rural and agri portfolio for ICICI Bank. Local market knowledge and pre-existing relationships with clients are additional assets that Sangli adds to ICICI. Thus microfinance is gaining importance as an effective tool of social mobilization and poverty alleviation. There is need to share experiences and facts, which will help not only in understanding success and failures of microfinance providers but also provided knowledge and guidelines to strong and expand of microfinance program in each part of the country. Also helps in identify the issues and their solution to help the poor people to fulfill their credit needs.

II. Literature Review

Morduch, defined Microfinance as the provision of small-scale financial services for the poor [1]. The microfinance movement has known an important growth during the last couple of decades. However, According to Ahlin et al. [2], Microfinance Institutions (MFIs) have known different levels of success some have become very significant in size and serve a great number of clients, like the Grameen Bank in Bangladesh, or the Bank Rakyat Indonesia in Indonesia, while other MFIs remain small or have even ceased to exist. MFIs can be seen as a part of the overall financial system that is focusing on the poor unbanked segments [3, 4]. In this sense, the development of the traditional sector is a main determinant of the potential market to be served Bangladesh, India, South Pacific and Brazil, Mexico in Asia and South America; Mali, Burkina Faso, Benin, South Africa, Egypt, and others in Africa have all reported significant achievements to reducing poverty as a result of interventions by microfinance programs [5-7]. The rural poor are often unreached by microfinance because of the high transaction costs, high systemic risk and high vulnerability associated with rural regions Buchenau and Meyer [8]. Rural businesses also tend to be less successful and competitive than urban businesses [9, 10]. MFIs with poverty-alleviation missions may find rural areas have client bases that better match their visions and goals [9-11]. As per Morduch [1], poor clients require smaller loans and often are more costly to service Clients with unprofitable or marginally profitable businesses are less likely to meet loan repayment deadlines easily. The characteristics of rural clients that make them more costly also represent significant opportunities to MFIs. Many MFIs would like to reach more poor, uneducated, or female clients to maximize their social impacts Mersland and Strom [12] . Alain De Crombrugghe et al. [13] studied the determinants of self-sustainability of a sample of microfinance institutions in India. These institutions stand out by their ability and willingness to report financial and operational data to Sa Dhan, a know-how sharing organization. They investigate particularly three aspects of sustainability: cost coverage by revenue, repayment of loans and cost control. Their results suggests that the challenge of covering costs on small and partly unsecured loans can indeed be met, without necessarily increasing the size of the loans or raising the monitoring cost. The analysis suggests other ways to improve the financial results, like a better targeting of the interest rate policy or increasing the number of borrowers per field officer especially in collective delivery models. Vikas Batra and Sumanjeet [14] explored the role of and performance of various delivery models of microfinance in India. Further the paper explores some issues like outreach, impact, efficiency, sustainability and financial inclusions. The banks, Regional Rural Banks, Co-operatives and SHGs linked with Non-Governmental Organizations (NGOs) have a role to play. However, many researchers [15-17], studies attempted to shed light on the link between governance and performance, especially in the Euro-Mediterranean countries, although it is a very active zone with a microfinance industry quite diverse (NGO, NBFI, Bank) where actors should simultaneously pursue the most effective way of realizing their social objective while achieving superior levels of profitability. According to

Brau and Woller [18], MFIs also providing non-financial support have a better performance in comparison with those known as "minimalists", which are engaged only in strictly financial activities.

Few studies were made in the field of analyzing the financial performance of listed MFIs, probably due to the young age of this market. Tucker [19] in his study found that using benchmark measures improves business practices. The author also stresses the importance of having benchmarks in order to be able to compare MFIs with each other, particularly on the basis of financial performance. Hudon [20] analyzes the relationship between financial performance of MFIs and their management mechanisms. The results of Hudon's analysis show that management ratings influence drastically MFI financial performance. It is clear from the review presented in the above section that the sustainability is important for microfinance providers to continue their services to poor .To the best of author's knowledge, a through scan of open literature survey related to it is found that very few studies dealing with performance of commercial banks providing microfinance in rural areas in literature. Therefore, more research work is required in this area to provide the needful information for understanding performance of commercial banks providing microfinance in rural areas of Maharashtra.

III. Research Methodology

Objectives

The objectives of the present study are as follows

- To study the performance of Private and Public sector commercial banks providing microfinance in rural areas
- To analyze Efficiency and productivity of Private and Public sector commercial banks providing microfinance in rural areas

IV. Methodology

The present study involves 62 microfinance providers including Public and private sector commercial banks that providing microfinance in Sangli district, Maharashtra state of India. The sample size has been taken by stratified sampling method. Data has been collected in the form of datasheet filled by managerial level staff of microfinance providers. The secondary sources of data were taken from the various websites, books, journals, articles, financial reports of public and private sector commercial banks providing microfinance in rural areas of Sangli district.The ratios such as operating self sufficiency, Yield, Productivity and efficiency ratios such as CPA BPLO and PAR for Financial Year 2013-2014 has been used to assess performance of commercial banks providing microfinance in rural areas.

To evaluate the business performance of microfinance we have taken OSS ratio which indicates sustainability of microfinance providers. Further to assess risk management of microfinance provider in Sangli district we have used Asset and Liability ratio in terms of Yield which measures the financial risk management of a microfinance providers. Further productivity and efficiency ratios which shows, how proficient the organization and management is in operating its financial activities, particularly its use of assets and human resources. In this regards we have used CPA and BPLO which reflects the productivity of loan staff in serving their clients. Another important aspect in performance evaluation of microfinance providers is Portfolio Quality. The ratio studied here to measure portfolio quality is in terms of PAR which measures the "health" of the loans outstanding in terms of its risk. To evaluate the performance of Public and private sector commercial banks t-Test has been used and following hypothesis test for the same.

H_0: There is no significant difference in means performance of Public and Private sector commercial banks providing microfinance in rural areas

H_1: There is significant difference in means performance of Public and Private sector commercial banks providing microfinance in rural areas

V. Data Analysis

Operating Self-Sufficiency (OSS) - This ratio measures the degree to which the institution is able to function independent of grant support. A ratio of 100% is the microfinance providers break-even point and indicates that the microfinance providers income is equal to operating expenses. From Table 1 and 2,, we can conclude that there is no significant difference in mean of operational self-sufficiency public sector commercial banks and private sector commercial banks. From the descriptive statistics also we are observed that of mean public sector commercial banks (127.53 %) and private sector commercial banks (125.67%) are same. To

increase its self-sufficiency, the microfinance providers must decrease its expenses (Financing costs, provision for loan losses, or operating costs).

Yield - The Yield on Portfolio measures receives from portfolio by the way of cash from interest, fees and commissions. It is useful because it can alert management to problems with the loan portfolio. As per the results shown in Table 1 and 2, we can conclude that There is no significant difference in mean of Asset and liability management of public and private sector commercial banks providing microfinance in rural area. From the descriptive statistics also we are observed that of mean public sector commercial banks (20.73%) and private sector commercial banks (17.25%) are not same.. Thus study shows that Public sector commercial banks providing microfinance in rural area managing their portfolio better than private sector commercial banks providing microfinance in rural area. This is very important because cash receipts are needed in order for the MFI to survive, to pay for its operational expenses, and to continue its business operations.

Cost per Active Client (CPA) -This ratio measures the operating expenses that the microfinance providers require to serve a single active client. It is also the amount of revenue that the microfinance providers need to generate from every single client in order to meet break-even. As per the results shown in Table 1 and 2, we can conclude that there is significant difference in mean of Efficiency and Productivity of public sector commercial banks and private sector commercial banks. From the descriptive statistics also we are observed that of mean public sector commercial banks (102.67) and private sector commercial banks (402.96) are not same. Thus study shows that public sector commercial banks providing microfinance in rural area managing their cost per client better than private Public sector commercial banks providing microfinance in rural area.

Borrowers Per Loan Officer (BPLO)-This ratio reflects the productivity of loan staff in serving their client caseload. The higher the caseload per officer, the more clients will be served, and the greater the efficiency gained. As per the results shown in Table 1and 2, we can conclude that There is no significant difference in mean of Efficiency and Productivity public sector commercial banks and private sector commercial banks. From the descriptive statistics also we are observed that of mean public sector commercial banks (295) and private sector commercial banks (319) are same. Thus present study shows that Public sector and Private commercial banks providing microfinance in rural area has shown same efficiency in managing clients.

Portfolio at risk (PAR) – This ratio measure portfolio quality. This ratio reflects the true risk of a delinquency problem because it considers the full amount of the loan at risk-this is particularly important when the loan payments are small and loan terms are long. As per the results shown in Table 1 and 2 we can conclude that there is significant difference in mean of Portfolio Quality of public and private sector commercial banks providing microfinance. From the descriptive statistics also we are observed that mean of public sector (0.91%) and private sector commercial banks (1.02%) are not same. Thus study shows that public sector commercial banks providing microfinance in rural area has better portfolio quality than private Public sector commercial banks providing microfinance.

Table 1: Test of equality of variance

Parameters	Hypothesis	P-value	Decision	Interpretation
OSS	H_o:$\sigma^2_{pbc=}$ σ^2_{pvc} H_1:$\sigma^2_{pbc}\neq\sigma^2_{pvc}$	0.000	P<α Accept H_1	Variances are assumed to be not same for public and private sector commercial banks on operating self-sustainability.
Yield	H_o:$\sigma^2_{pbc=}$ σ^2_{pvc} H_1:$\sigma^2_{pbc}\neq\sigma^2_{pvc}$	0.002	P<α Accept H_1	Variances are assumed to be not same for public and private sector commercial banks on Asset and Liability.
CPA	H_o:$\sigma^2_{pbc=}$ σ^2_{pvc} H_1:$\sigma^2_{pbc}\neq\sigma^2_{pvc}$	0.000	P<α Accept H_1	Variances are assumed to be not same for public and private sector commercial banks on Productivity and Efficiency
BPLO	H_o:$\sigma^2_{pbc=}$ σ^2_{pvc} H_1:$\sigma^2_{pbc}\neq\sigma^2_{pvc}$	0.087	P>α Accept H_0	Variances are assumed to be same for public and private sector commercial banks on Productivity and Efficiency.
PAR	H_o:$\sigma^2_{pbc=}$ σ^2_{pvc} H_1:$\sigma^2_{pbc}\neq\sigma^2_{pvc}$	0.000	P<α Accept H_1	Variances are assumed to be not same for public and private sector commercial banks on portfolio quality.

Table 2 : Independent t-test

Parameters	Hypothesis	P-value	Decision	Interpretation
OSS	H_o:$\mu_{pbc=}$ μ_{pvc} H_1:$\mu_{pbc} \neq_{pvc}$	0.715	P>α Accept H_0	There is no significant difference in mean of operational self sufficiency public and private sector commercial banks.
Yield	H_o:$\mu_{pbc=}$ μ_{pvc} H_1:$\mu_{pbc} \neq_{pvc}$	0.124	P>α Accept H_0	There is no significant difference in mean of Asset and liability management of public and private sector commercial banks.
CPA	H_o:$\mu_{pbc=}$ μ_{pvc} H_1:$\mu_{pbc} \neq_{pvc}$	0.000	P<α Accept H_1	There is significant difference in mean of Efficiency and Productivity of public and private sector commercial banks.
BPLO	H_o:$\mu_{pbc=}$ μ_{pvc} H_1:$\mu_{pbc} \neq_{pvc}$	0.622	P>α Accept H_0	There is no significant difference in mean of Efficiency and Productivity public and private sector commercial banks.
PAR	H_o:$\mu_{pbc=}$ μ_{pvc} H_1:$\mu_{pbc} \neq_{pvc}$	0.021	P<α Accept H_1	There is significant difference in mean of Portfolio Quality of public and private sector commercial banks.

VI. Conclusion

The present study shows that performance of Public sector and private sector commercial banks providing microfinance in rural areas with respect to operation Self Sufficiency and Asset Liability Management are same. It also shows that Public and private sector commercial banks providing microfinance have achieved self sufficiency, which would helps in achieving the goal of poverty alleviation with the combined cooperation of banks, government in the microfinance industry. The private sector commercial banks providing microfinance in rural areas has high cost per borrower in comparison with public sector commercial banks providing microfinance in rural areas .Hence microfinance providers must target marginally poor clientele so as to capture economies of scale and cover costs which enhance efficiency and productivity commercial banks providing microfinance in rural areas. Also Private and Public sector commercial banks providing microfinance should use new technologies and IT applications to reduce their operating costs and also make the operation more transparent and efficient. Staff productivity and efficiency are key aspects in microfinance service delivery. Thus effective and combined efforts of trained staff in handling the rural customers increase efficiency of public as well as private sector commercial banks providing microfinance in rural areas and leads to the long term goal to attain poverty alleviation.

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