

Indian Micro Finance Institutions: Issues in Resources Raising

Abstract

Microfinance has assumed a great importance in the financial inclusion of hitherto excluded sections of the society and considered as one of the greatest innovation of modern times in finance. This has played unprecedented role in both developed and developing nations of the world. However, it has been limited by availability of resources at a reasonable cost and the result is that though, it has freed the masses from the vagaries of moneylenders, who exploited them by charging exorbitant rate of interest, the rates offered by MFIs is still high in countries like India, compared with the cost of credits from formal financial institutions, i.e. banks. The reason for high rates to the end beneficiary is that the MFIs themselves are made to depend on very high cost funds coupled with higher operational cost. Present paper is an attempt to look at the reasons for high cost and possible solutions to reduce them to enable MFIs serve the masses better. The paper is based on the research, basis the secondary data sources from RBI, Sa-dhan and MFIN. The values in the paper are presented in INR (Rs.) crore, where one unit of INR is equal to 0.014 USD and a crore equals 10 million.

Introduction:

To serve poor financially, several agencies and institutions have been promoted by the Government and Reserve Bank of India. To supplement their efforts, NGOs and MFIs also came up during 1980s & 1990s. These development agencies and non-governmental organizations have been focusing on providing credit for basic consumption needs, capacity building by enabling them to create productive assets and imparting knowledge for better living. In this background, micro finance institutions have expanded their outreach and large number of people especially women have been initiated into banking services, called micro finance, which was defined at the 1997 Microcredit Summit as "programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons". However, with introduction of deposits, insurance and other financial services, Micro Finance has assumed a larger role.

Microfinance has now come to be referred to as small-scale financial services provided to people who work in agriculture, fishing and herding; operate small or micro-enterprises; provide services; work for wages or commission; and other individuals and groups at the local levels of developing countries both rural and urban¹. Clearly, the subject matter of micro finance has been people, largely in unorganised sector with no definite source of income to meet their daily consumption needs / lively hood, etc. As a service delivery mechanism, Micro Finance is all inclusive activity, which caters to financial needs (comprising credit, deposit and insurance) of the people in a definite geographical region.

It is estimated that there are more than 10,000 microfinance institutions (MFIs) world over, comprising a wide range of legal types, from credit unions and cooperatives to non-government organizations (NGOs), government

agencies, private companies and commercial banks. However, only around 500 of these MFIs are suitable for investment, i.e. they are self-sustaining economically and have appropriate governance, business processes and accounting standards in place.ⁱⁱ There has been large number of MFIs in India of which some have grown to become Small Finance Banks, others converted to Non-Banking Finance Companies, while still others continue as Societies, Trusts or not-for profit companies. All these institutions need huge amount of funds to run their operations, which may come from formal as well as informal sources, both domestic and overseas. Therefore, resources raising has always been a challenge for them. Since, Micro Finance Institutions are non-banking companies; their sources of funds are also unlike that of banking companies.

This paper is an attempt to understand issues related with resources raising of Micro Finance Institutions and to draw a parallel with resources raising by banking companies and impact of the same on microfinance sector. The quantitative method for analysis based on the secondary data sources, i.e. RBI, NABARD, SIDBI, Sa-dhan and MFIN publications and Annual Reports of Axis Bank Limited and Bharat Financial Inclusion Limited (BFIL) have provided the requisite data for analysis and comparison. The paper is organised in 6 sections, which are (i) Introduction & methodology, (ii) Resources raising pattern of banking companies in India, (iii) Resources raising pattern of microfinance institutions, (iv) Recent Trends in resources raising by Micro Finance Institutions (v) Problems of managing funds in MFIs, and (vi) Summary & conclusion.

Funding pattern of Banking Companies in India:

Indian Banks are classified into Public Sector Banks, Private Sector Banks [including new age private banks], Foreign Banks, and form part of 2nd schedule of RBI Act 1934, which also comprises State Cooperatives Banks, Urban Cooperative Banks and Gramin Banks and thus called “Scheduled Banks”. They are regulated by RBI under the powers conferred on it by the Banking Regulation Act 1949. In the hierarchy of Banking and financial Companies, the Cooperative Banks, Regional Rural Banks and Non-Banking Finance Companies constitute form lower rungs and are primarily promoted by Banks and corporate houses. Resources raising by commercial banks is comprises of variety of sources, which could be understood by analysis of balance sheet of any bank in India. For the present study, balance sheet (Appendix 1) of Axis Bank Limited (ABL) has been selected.

A typical balance sheet of any bank or financial institution looks like the one provided in the Appendix 1. On the liability side [sources of funds] normally has components in order of their liquidity, Capitalⁱⁱⁱ, Reserves^{iv}, Deposits^v, Borrowings^{vi} and Other liabilities & provisions. The components at the top of the list are less liquid, whereas the ones at the bottom are relatively more liquid. The Capital is least liquid and is of permanent nature, as the businesses are of ongoing nature. The reserves are transfer of profits after tax and paying dividend to the Balance sheet. Reserves are also of relatively permanent nature and hence invested in less liquid assets and provide cushion against possible future shocks in the business. As may be observed from the balance sheet of ABL, nearly 87% of the liabilities comprised the deposits and borrowings of which nearly 3/4th is coming from the deposits, which are low cost funds, whereas remaining 1/4th by way of borrowings from RBI, other banks under various arrangement / instruments i.e. Subordinated Debt, Non-Convertible Debentures & Perpetual Debt and overseas borrowings, which bear relatively higher costs.

At the industry level, the resources raising is not substantially different in respect of other banks except for the fact that public sector banks are relatively less dependent on overseas borrowings, compared to Axis Bank Limited. To establish this observation, the consolidated figures for liabilities for last 8 fiscal years of all the scheduled banks (baring RRB and Cooperative Banks) is summarised in table 1.

Table 1: Consolidated liability position of all scheduled banks

Year (end-March)	Liabilities (Rs. crore)					
	Capital	Reserves & Surplus	Deposits	Borrowings	Other Liabilities & Provisions	Total
1	2	3	4	5	6	7
2010-11	589.75	4509.44	56158.7	6755.27	3820.77	71834
	0.82%	6.28%	78.18%	9.40%	5.32%	100.00%
2011-12	636.64	5448.98	64535.5	8437.74	4150.06	83208.9
	0.77%	6.55%	77.56%	10.14%	4.99%	100.00%
2012-13	703.1	6386.04	74296.8	10103.9	4409.76	95899.5
	0.73%	6.66%	77.47%	10.54%	4.60%	100.00%
2013-14	760.67	7298.32	85331.7	11013	5355.59	109759
	0.69%	6.65%	77.74%	10.03%	4.88%	100.00%
2014-15	818.39	8227.98	94338.4	11499.4	5485.79	120370
	0.68%	6.84%	78.37%	9.55%	4.56%	100.00%
2015-16	882.22	9130.8	100927	14487.6	5865.71	131293
	0.67%	6.95%	76.87%	11.03%	4.47%	100.00%
2016-17	992.92	10105.4	111139	12807.1	6541.47	141586
	0.70%	7.14%	78.50%	9.05%	4.62%	100.00%
2017-18	1161	10798	117940	16823	5811	152533
	0.76%	7.08%	77.32%	11.03%	3.81%	100.00%

Source: RBI(2018), Handbook of statistics on Indian Economy

As may be observed from the table 1, the Commercial Banks, very heavily depend on the deposits (both saving and current) for its funding requirements as nearly 88 percent of their liabilities in the year 2017-18 constitute deposits and borrowings of which 9/10th are deposits and 1/10th borrowings. Only about 1/10th of the liabilities constituted of the Capital, Reserves and other provisions. The resource raising is based on asset liability management exercise, which enables the Banks to raise short or long-term funds for short or long-term usage. ALM also helps Banks / FIs to invest in call money market / overnight market and engage in inter-corporate lending and borrowing to optimise returns on resources. Therefore, as may be observed from the table 2, the cost of funds has a fluctuating trend and varies in line with the market trend.

Table 2: Consolidated cost (%) of funds of SCBs

Bank Group	Year	Cost of deposits	Cost of borrowings	Cost of funds
Public Sector Banks	2016-17	5.7	4.8	5.6
	2017-18	5.1	4.7	5.1
Private Banks	2016-17	5.6	6.6	5.8
	2017-18	4.9	6.2	5.2
Foreign Banks	2016-17	4.2	4.3	4.2
	2017-18	3.8	3.0	3.7
Total	2016-17	5.6	5.4	5.6
	2017-18	5.0	5.3	5.1

Source: RBI (2018), Operations and Performance of Commercial Banks

The consolidated cost of all SCBs put together was 5.6 percent in 2016-17 and has come down substantially to 5.1 percent in 2017-18 owing to reduction in cost of deposits and borrowings from the earlier year. The low-cost advantage was more in favour of foreign banks followed by public sector banks, while the cost of funds was highest for the private sector banks. This could be because of low cost overseas borrowings in respect of foreign banks, while private and public-sector banks depended largely on domestic commercial and inter-corporate borrowings and offered higher interests on deposits. The cost advantage also has impact on margins and profitability of SCBs, which is also impacted by the quality of assets and other factors such as operational cost etc.

Resources pattern of Micro Finance Institutions:

The resources raising is one of the critical aspects of sustainable micro finance business, especially for smaller micro finance institutions, i.e. trusts, cooperatives and societies, as most of them are not-for profit entities, resources raising for them is a challenge as the resources raising from Micro Finance Institutions is not akin the commercial banks in India. The resources raising pattern of MFIs in more mature markets, such as in Latin America and Europe, resembles similarity with the commercial Banks in India, as their main sources of funds are Deposits, Borrowings, Bonds^{vii} and Stocks^{viii} in addition to their strong capital base. In a study commissioned by Inter-American Development Bank, Washington, on “How Should Microfinance Institutions Best Fund Themselves”, a team of researchers comprising Felipe Portocarrero Maisch, Álvaro Tarazona Sori and Glenn D. Westley have studied the micro finance institutions in Latin American countries and concluded that Latin American MFIs have 4 major sources of funding, i.e. Deposits from the customers, borrowings from the public-sector banks, bonds and stock market.

Compared with Latin American and European MFIs, the Indian Micro Finance Institutions have a different funding pattern, which further vary due to their legal constitution, which comprises – NBFC-MFIs^{ix}, Section 8 companies (earlier section 25 companies), Trusts and Societies^x, Co-operatives^{xi}, Partnership Concerns^{xii}, Limited Liability Companies and Limited Liability Partnership^{xiii}. NBFC-MFIs are registered as Non-Banking Finance Companies with Reserve Bank of India and are generally owned by corporate entities or individuals and have attained certain level of corporatisation and run commercially with profit motive. Large number of NBFC-MFIs are registered under Indian companies Act, 1956 / Reserve Bank of India Act, 1934. Section 8 companies / trusts and societies are not for profit entities, with focus on social / sectional benefits. Such entities are formed for the sole purpose of promoting commerce, art, science, religion, charity or any other useful object and have been granted a licence by the central government recognizing them as such. Co-operatives are constituted by group of individuals and all its components own the entity in proportion to their capital contribution, registered under the Society Registration Act, 1860 / Cooperatives Societies Act 1912. Similarly, partnership concerns / limited liability partnerships are constituted under the Partnership Act 1932 and such entities, partners share the profit and loss in proportion to their capital contribution in the enterprise.

For NBFC-MFIs, which have profit motive, the resources raising is relatively easier, though they are largely dependent on borrowings from commercial banks, financial institutions and large NBFCs. Not-for-profit MFIs largely

depend on donations and grants from Government, NABARD, SIDBI, Multi-lateral donor agencies, angel investors and social entrepreneurs. In absence of adequate funding from the equity market, the major source of funds for them is the bank loan. Based on their constitution and ownership pattern, the capital composition of these entities also varies. While, NBFC-MFIs, generally have large capital base compared to other MFIs, primarily due to the RBI requirements. Some of such MFIs, which have established suitable system and procedures, can mobilize deposits as they have grown and have ensured regulatory compliance. Some of them (though very few) also have been allowed to raise funds through bonds and the stock market. However, large numbers of MFI's still work on borrowed funds from banks and donation / investments from multi-lateral agencies. As an example, snapshot of the Balance Sheet of one of the largest MFI, i.e. Bhartiya Financial Inclusion Limited (BFIL) is presented in Appendix 2.

The liability side of the Balance sheet of BFIL for Fiscal Year 2018 shows that Rs. 8531 crore, i.e. 74 percent of the resources requirement was met by borrowings and provisions, both short term & long term. Earlier, BFIL (erstwhile SKS Microfinance Limited) did not have the authorization from the RBI to take deposits from clients, exposing MFI to interbank lending availability and volatility in the Net Interest Margin and in profitability. BFIL funded its operations mainly using borrowings from commercial banks. Another key source of financing for the MFI was the securitization market, where it acted as originator of the loans and sold to commercial banks. It serviced the loans, collected the payments, and acted as documentation agent and risk manager. In mid-2011 about 30% of the total loans originated by the MFI was sold through the securitization market. Securitization helped the scalability of its operations, limited the risk in the balance sheet and improved the profitability.^{xiv} Clearly, MFIs such as BFIL have borrowings, securitisation, stock and bonds in addition to capital and reserves as sources of funding. However, other MFIs were not as fortunate and had formidable position to resort to such resources.

Recent Trends in resources raising among MFIs:

Traditionally, financing for Indian MFIs has been largely contributed by banks since lending to microfinance Institutions assisted banks in building a Priority Sector Lending book which is mandated by regulation to form 40% of their lending portfolio. Though funding for Microfinance through Bonds were initiated by organizations such as IFC, Morgan Stanley, Blue Orchard, Standard Chartered Bank to raise money to lend to commercially viable microfinance institutions which offer affordable small loans to the poor, these instruments have not been very effective in resources raising owing to legal and regulatory complexities coupled with higher initiation cost.

Though the structured finance approach has provided microfinance institutions access to diverse funding sources, it has been limited to larger institutions among them. For instance, the MFIs which depended primarily on Commercial Banks / Development Financial Institutions for their funding requirements, raised more than Rs. 200 crore in the fiscal year 2011-12, through securitization transactions. However around 85% of the funds raised through securitization was by large MFIs, who can provide the critical size of unencumbered microloan portfolios, which could be placed in the market. This pattern has not changed in subsequent years as well. As the smaller MFIs often found it difficult to provide large portfolio for a single originator securitization transaction, banks have not shown interest. Of late, the smaller MFIs under the banner of IFMR Capitals' could also raise funds through securitization. Further, IFMR

Capital, also announced India's first collateralized bond obligation of Rs. 98 crore, comprising multi-issuer pooled non-convertible debentures (NCDs).

Further, the Collateral Bond Obligation [CBO] were issued for the first time by Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, Disha Microfin, Future Financial Services, India School Finance Company, Intrepid Finance and Leasing, Pahal Financial Services, Suryoday Microfinance, SV Credit Line, and Svasti Microfinance. LeapFrog Investments, a for-profit private equity fund based in Mauritius that invests in microfinance, has invested USD 29 million in return for a minority stake of undisclosed size in the Institute for Financial Management and Research (IFMR) Capital, which plans to increase access to capital markets for small and medium-sized enterprises (SMEs) and expand its existing investments. However, these efforts have not been able to alter the resources pattern of MFIs, as Term Loans from banks and financial Institutions constituted over 90% of the resources of MFIs. In recent years, the other forms of debt financing have slowly found their way into the debt profile of banks and this share has been steadily expanding. While there is a gamut of investors who participate in rated securitization transactions given the flexibility with which risk-return profiles can be structured, other capital market products such as Non-Convertible Debentures and Commercial Papers are usually taken up by Foreign Institutional Investors allowing MFIs to raise long tenor debt and diversify their sources of funds. Despite these options, the resources position in MFIs is dominated by bank borrowings. Further, the interest rates at which MFIs can raise funding do not fluctuate over the year since the securities have fixed rates and are priced taking into consideration the risk profile of the issuer at whatever time the NCD is issued. However, the cost associated with the NCD issuance include Credit Rating Fee, Merchant banking fee, Registrar Fee, Trustee Fee, Listing Fee and Stamp Duty of which certain fees have a fixed as well as a floating component, have been a deterrent for smaller MFIs. The large ticket NCD's are considered cost effective, which smaller MFI's with a smaller requirement would not afford. The resources, which had almost dried in the aftermath of the AP-MFI crisis have started looking up after the Malegam Committee recommendations, which have paved the way for much sought after regulatory framework issued by RBI in 2012. The result is strong performance of MFIs outside Andhra Pradesh, strengthening operational efficiency and the effective functioning of credit bureaus making banks to start lending to MFIs.

Table 3: Debt funding to MFIs (Rs. crore)

Year	Debt Funding (All)	NBFC-MFIs	Others
2015-16	44822	43268	1554
2016-17*	33923	31765	2168

Note: The decline is owing to net-off the debt to MFIs, which became SFBs

Source: Sa-dhan (2017), Bharat Microfinance Report, 2017

As may be observed in table 3, the MFI debt funding was over Rs.33923 crores in 2016-17, which comprised borrowing (77%) and Non-Convertible Debenture (11%), subordinated debt (3%), bonds (2%), and a small amount through savings and deposits. In addition, 31 larger MFIs raised funds to the tune of Rs.3768 crores through securitisation during the year. Out of total outstanding borrowing to lenders, the share of For-profit MFIs (NBFC/NBFC-MFIs) alone constitutes Rs.31765 crore (94%), whereas NGO-MFIs hold an outstanding borrowing close to 6%. Size-wise, MFIs with portfolio size above Rs.500 crore hold 83% of the total outstanding amount and MFIs with portfolio

size of Rs.100-500 crore hold another 14% and MFIs with portfolio less than Rs. 100 crore hold a miniscule amount of the outstanding borrowed portfolio. The total debt fund received during the year for all MFIs, excluding 6 SFBs, collectively was close to Rs.26236 crores, with NBFC-MFIs cornering Rs.25048 crore (95%), whereas NGO-MFIs only 5%.

Table 4: Cost of funds to MFIs

MFIs group	Year	Cost of funds (%)
Small [Portfolio size -upto Rs.100 crore]	2016-17	15.2
	2017-18	14.9
Medium [Portfolio size - Rs. 100-500 crore]	2016-17	15.5
	2017-18	15.8
Large [Portfolio size – above Rs. 500 crore]	2016-17	12.9
	2017-18	13.6
Total	2016-17	14.3
	2017-18	14.6

Source: Sa-dhan (2017), Bharat Microfinance Report, 2017

About the financial cost (table 4), the median financial cost for all the MFIs put together for fiscal 2017 was a whopping 14.8%. While, financial cost for other forms of MFIs averaged 13.3%. It is also observed that there is a direct correlation between financial cost and portfolio size as MFIs with portfolio size upto Rs. 100 crore was 14.9%, whereas it stood at 13.6% for MFIs with portfolio size of above Rs.500 crore, whereas MFIs with portfolio between Rs.100-500 crore had the financial cost of 15.8%. This is due to smaller MFIs with portfolio size lower than Rs.100 crore have access to low cost funds from NABARD, SIDBI, MUDRA, Ananya etc. compared to larger MFIs, whereas very large ones have access to products such as securitisation and equity markets. Since bank loans are the major source of funds for MFIs and the rates are largely similar or within a range, financial cost for most legal forms, especially those dependent mainly on bank loans, are almost similar with financial cost for Not-for Profit MFIs marginally lower than that of for-profit MFIs and Section 8 Companies. This is primarily because not for profit MFIs may have access to grants, revolving funds and subsidised loans from government sources.

On the analysis of the various heads of expenses, it is observed that the financial cost constituted 48%, while operating cost was 52%.

The problems of managing fund in MFIs:

Many stake holders of the sector are of the view that the sector needs to be deregulated to enable it source cheaper funds from the market. They are of the view that deposit generation may be permitted to them at par with Banks. However, Reserve Bank of India's concerns cannot be completely ruled out. Deposit mobilisation is a complex phenomenon in banking services. The regulator must ensure that the MFI has not only adequate paraphernalia to enable it to mobilise the resources but also to ensure safety of the money of the depositors, which could be ensured only, when the MFI has attained certain economies of scale. The intrinsic strength of the MFI should be such that sudden change in market should not render it cash less and in turn its liquidity is jeopardized.

The conventional view about Indian depositors [low-income] transact more frequently, which will affect the liquidity of the MFI adversely. However, it has been observed that, deposit [savings from the client] is with the intent to ring fence ones' future from possible market socks and they deposit only that much, which they feel may not be required to manage their lives and its affairs on daily basis. Hence, liquidity management may not be as difficult for MFIs, as it is perceived to be. The problem related to deposit management is however a costlier affair as large number of small transactions require large infrastructure and brings with it additional operational risks and significantly affects the market risks that MFIs face, i.e. liquidity risk, term mismatch risk, interest rate risk and exchange rate risk.

However, there is another view that the importance of borrowing from public sector institutions lies in the fact that it allows MFIs to enjoy interest rates and maturities that would be difficult to obtain from domestic or international commercial lenders. Borrowings from these sources allow MFIs to reduce liquidity and term mismatch risks. The interest rates charged by these sources are high, however, they provide a stable funding both in terms of quantum and pricing, thus avoiding distortions in the financial system and at the same time prepares MFIs to increasingly access commercial financing. If high cost funds are borrowed, they would be required efficient deployment. If not planned properly, MFI may end up keeping excess borrowings in current accounts / working capital transaction accounts, where no interest is payable on credits. Hence, on such mobilised amount, while they may be paying high rate of interest, due to their non-utilisation, it may not be generating any income to the MFI.

Therefore, a robust assets-liability management (ALM) system is as important to the MFIs as it is to the Commercial Banks / Financial Institutions. Hence, borrowing plan to meet business projections are key and accordingly resources raising be planned by MFI. The ALM is important from the point of view of matching the maturities and to plan investment of high cost funds in high earning portfolio to maintain the top line. Hence, for a well-run MFI, selection of resources, its cost and maturity vis-a-vis the funding requirement are of key importance, which MFIs can ensure through a proper Asset–Liability Management system.

Recent Developments in Micro Finance:

Reserve Bank of India has been emphasising on the need for better monitoring and management of NBFCs, including NBFC-MFIs. Accordingly, RBI has issued numerous guidelines since Andhra MFI Crisis. The AP crisis paved the way for setting up of the Malegam Committee by RBI. The committee made wide ranging recommendations on legal form of MFIs, their capital structure, pricing, corporate governance and adoption of fair practices code. The resources raising by MFIs was subject to compliance of these requirements. Hence, every Bank and FI have issued code of commitment framework and fair practice code, compliance of which is a pre-requisite for resources raising. In November 2014, RBI issued revised regulatory framework for NBFCs (NBFC-MFIs) with an intent to bring NBFC-MFIs at par with Banks, especially about NPA classification and resultant provisioning norms, capital adequacy / capital to risk at risk ratio etc. However, these guidelines are viewed differently by different sections of people. On the one hand, the move has been welcomed for instilling greater discipline and compliance among NBFCs, on the other hand, there has been severe criticism that these changes, would render higher capital requirement for NBFC-MFIs. Further, if such compliances are not ensured, the fund mobilisation from the formal sources would become difficult and therefore,

NBFC-MFIs would require depending on still costlier sources of resources. It is estimated that compliance to new guidelines alone would increase the cost to NBFC-MFIs by 100 to 150 bps, which would be a tough for these institutions, since this will have spiralling effect on pricing of the NBFC-MFI products.

The interest rate structure in the micro finance sector has been a matter of concern. Even the MFIs, which are NBFCs are not mandated to raise deposits and thus do not maintain saving bank accounts with them. Hence, low cost funds are not available. The cost of funds to MFIs is 14.6% from AIFIs, Banks and larger NBFCs. The equity investment demands still higher returns. Due to this the rates charged by MFIs from the end beneficiaries has always been high. However, in post Andhra Pradesh MFI crisis, contracts have been used by AIFIs and Banks to effectively reduce the interests substantially. RBI had allowed MFIs to charge upto 10 percent higher than the cost of funds restricting it to 26 percent. With consistent efforts and greater use of technology, reduction in default rates and availability of cheaper funds, the rate of interest has now been hovering around 20 percent. This is a huge success of control and regulation as the interests charged earlier has almost halved now from 36-40% earlier. However, it is observed that big push is required, which would be possible only by subsidized interventions so that the poor can attain the goals of - reasonable health, education, livelihood, asset creation and savings for reinvestment. The Rural Infrastructure Development Fund (RiDF) created out of the shortfall in advances by SCBs in rural financing, which are refinanced at around 4.5 to 5 percent, if made available to the sector, it would reduce the cost substantially.

Summary and Conclusion:

The MFIs in India were on a growth trajectory till the Andhra Pradesh Micro finance crisis happened in the year 2010 post AP MFI Ordinance 2010. Till then the funding pattern of MFIs was primarily dominated by borrowings from commercial banks and development finance institutions such as SIDBI and NABARD. However, post Andhra Pradesh crisis, there has been regulatory concerns which followed by tightening of finances from Banks and DFIs, which on the one hand rendered the MFIs facing shortage of funds at the same time it provided an opportunity to look out for other avenues of financing. This in turn has helped MFIs to explore Bonds and Stocks as alternative sources of finance. The stock listing of SKS and issuance of Bonds, including NDCs by IFMR and many other MFIs has potential to change the concept of MFI funding and MFIs have started looking beyond public-sector banks & DFIs. However, the funding pattern has remained unchanged, since, smaller MFIs continue to resort to borrowings. Even securitisation transaction is few and far between and generally resorted to by relatively larger MFIs. Further, though IFMR has provided a common platform to smaller MFIs, the spread continues to be limited.

The regulatory mechanism prescribed by RBI has been with the intent to instil strength among NBFCs, which had low capital base, flexible NPA and provisioning norms, lacked corporate governance. The new regulatory mechanism is likely to prepare NBFCs for next level of compliance and in due course may help prepare them in tune with Basel norms. Once NBFCs attain certain size and level of compliance, they will be able to raise funds on the lines of banks. Further, with the markets maturing and NBFCs attaining economies of scale in coming years, the funding pattern would undergo a transformation, which would be in line with the stated objective of sustainable microfinance. However, though the micro finance business has transformed from “sustainable microfinance” to “responsible

microfinance”, resulting in large scale changes in customer protection measure, across the regions and institutions, yet the high interest rate continues to be a cause for concern, both among the MFIs and end beneficiaries and a view pervades the sector that Government required to approach to the problem from a fresh perspective. While, MFIs have been made to comply with measures such as responsible financing, including adoption of code of commitment and corporate governance, the all-powerful Banks and Financial Institutions continue to charge higher interest rates, at times much higher than the retail loans to industries and individual businesses, despite knowing that MFIs cater to the financial needs of the poorest in the society.

Appendix 1

Axis Bank Limited - Balance Sheet as at March 31, 2018

Rs. crore

	Schedule No.	As on 31-03-2018	As on 31-03-2017
CAPITAL AND LIABILITIES			
Capital	1	513.31	479.01
Reserves & Surplus	2	62931.95	55283.53
Deposits	3	453622.72	414378.79
Borrowings	4	148016.14	105030.87
Other Liabilities and Provisions	5	26245.45	26295.47
TOTAL		691329.58	601467.67
ASSETS			
Cash and Balances with Reserve Bank of India	6	35481.06	30857.94
Balances with Banks and Money at Call and Short Notice	7	7973.83	19398.24
Investments	8	153876.08	128793.37
Advances	9	439650.30	373069.35
Fixed Assets	10	3971.68	3746.89
Other Assets	11	50376.62	37468.93
TOTAL		691329.58	601467.67
Contingent Liabilities	12	735297.70	669625.84
Bills for Collection		49565.60	81055.36
Significant Accounting Policies and Notes to Accounts	17 & 18		

Source: Axis Bank Limited (2018), Annual Report

Bharat Financial Inclusion Limited - Balance Sheet as at March 31, 2018

Rs. crore

	Notes	As on 31-03-2018	As on 31-03-2017
Equity and liabilities			
Shareholders' funds			
Share capital	3	139.32	137.98
Reserves and surplus	4	2859.37	2308.76
Share application money	5	0.05	-
Non-current liabilities			
Long-term borrowings	6	2385.82	2208.54
Long-term provisions	7	232.41	271.20
Other Long-term liabilities	8	10.39	7.57
Current liabilities			
Short-term borrowings	9	606.35	1123.72
Other current liabilities	7	5195.03	4208.01
Short-term provisions	8	102.03	151.78
TOTAL		11530.69	10417.56
Assets			
Non-current assets			
Fixed assets			
Tangible assets	10	16.39	16.96
Intangible assets	11	5.35	4.95
Intangible assets under development	12	0.00	0.17
Non-current investments	12	0.02	0.02
Deferred tax assets	13	-	-
Long-term loans and advances	14	1479.09	1441.69
Other non-current assets	15	116.68	68.27
Current assets			
Trade receivables	16	11.37	10.93
Cash and bank balances	17	2046.45	2806.37
Short-term loans and advances	14	7751.66	5985.43
Other current assets	15	103.49	82.59
TOTAL		11530.69	10417.56

Source: BFIL (2018) Annual Report.

End-note:

ⁱRobinson, M.S., 1996, addressing some key questions on finance and poverty, Journal of International Development 8.

ⁱⁱ Microfinance Market Outlook 2014 - No "sudden stop": demand for microfinance soars, a publication of responsAbility.

ⁱⁱⁱ General ledger account showing owners' investment plus net income from the firm's operations, less net losses (if any) from operations, less withdrawals of funds by the owner(s) for personal use.

^{iv} Reserves are a part of net worth of a firm over the amount realized from issuance of stock (shares) and arising from retained profits, revaluation of assets, and the surplus sums. It may also be defined as part of retained earnings set aside for a specified purpose and, hence, unavailable for disbursement as dividends.

^v Money placed into a banking institution for safekeeping.

^{vi} Receiving something of value in exchange for an obligation to pay back something of usually greater value at a particular time in the future.

^{vii} A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

^{viii} A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. There are two main types of stock, i.e. common and preferred.

^{ix} A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company.

^x Not for profit entities - Trusts, Societies and Section 8 companies. Due to better laws, Section 8 companies have the most reliable and strongest organizational structure. Section 8 companies are those companies which are formed for the sole purpose of promoting commerce, art, science, religion, charity or any other useful object and have been granted a licence by the central government recognizing them as such. Thus, there are three criteria for determining whether a company is section 8 company or not, i.e. 1) Its objects should be only to promote commerce, art, science, religion, charity or any other useful object. 2) It should intend to apply its profits or other incomes only in promoting its objects; and 3) Central government should have granted a licence to such a company recognizing them as such.

^{xi} Cooperative is a firm owned, controlled, and operated by a group of users for their own benefit. Each member contributes equity capital, and shares in the control of the firm on the basis of one-member, one-vote principle.

^{xii} According to section 4 of the Partnership Act of 1932, Partnership is a relation between two or more persons who have agreed to share the profits according to their ratio of business run by all or any one of them acting for all.

^{xiii} The limited liability company (LLC) is a hybrid legal entity that has both the characteristics of a corporation and of a partnership. An LLC provides its owners with corporate-like protection against personal liability.

^{xiv} A Study of Four Listed Micro Finance Institutions by Rodriguez Monroy C, Huerga A, A paper presented at 6th International Conference on Industrial Engineering and Industrial Management. XVI Congreso de Ingeniería de Organización. Vigo, July 18-20, 2012

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