

Working Capital Management and Profitability: Evidence from India – An Empirical Study

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Working capital refers to the firm's investment in short term assets. The management of working capital is important to the financial health of business of all sizes. The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient way. The management of working capital affects the liquidity and the profitability of the corporate firm and consequently its net worth (Smith, 1980). Working capital management therefore aims at maintaining a balance between liquidity and profitability while conducting the day to day operations of business concern. The study aims to provide empirical evidence about the effects of working capital management on profitability performance of CNX Pharmaceutical companies listed on National Stock Exchange of India. The study uses different working capital measurements for a sample population of Indian firms.

Keywords: Working capital management, profitability, pharmaceutical industry

INTRODUCTION

Management of working capital is an important component of corporate financial management because it directly affects the profitability of the firms. Management of working capital refers to management of current assets and of current liabilities. Researchers have approached working capital management in numerous ways. While some studied the impact of proper or optimal inventory management, others studied the management of accounts receivables trying to postulate an optimal way policy that leads to profit maximization. The way that working capital is managed has a significant impact on profitability of firms. Such results indicate that there is a certain level of working capital requirement, which potentially maximizes returns. This paper investigates the relationship between the components of working capital and firms' profitability for a sample of pharmaceutical companies listed on the National Stock Exchange in India for the period of 5 years from 2005-2006 to 2009-2010 included in CNX pharmaceutical index.

RESEARCH METHODOLOGY

The primary aim of this paper is to investigate the impact of Working Capital Management on profitability of pharmaceuticals firms. This is achieved by developing a similar empirical framework first used by Shinand Soenen (1998) and the subsequent work of Deloof (2003). The study focuses exclusively on the firms listed in CNX Pharma. index of national stock exchange of India. The data reported in this paper were collected for a period of 2005-06 to 2009-10 as a part of study designed to analyze profitability and working capital management from financial reports. Availability and comparison of data induce researcher to select Pharma. index companies. Besides, Index consists ten companies that holding majority of shares in market, so result can be generalized to other pharmaceutical companies also.

REVIEW OF LITERATURE

Many researchers have studied working capital from different views and in different environments. The following study were very interesting and useful for our research:

According to Eljelly, 2004, working capital management requires planning and controlling current assets and current liabilities in such a way that eradicate the threat of inability to meet short term liabilities and evade excessive investment in these assets.

The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. In a study, cash conversion cycle and size variable was found to be important than current ratio which affect profitability. The results were stable and had important implications for liquidity management in various Saudi companies. It was found that profitability and liquidity were negatively correlated. The study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

According to Grablowsky (1976), a significant relationship between various success measures and the employment of formal working capital policies and procedures was found. Cash conversion cycle and cash flow management plays vital role for overall financial management of all firms, especially those which are capital constrained and more reliant on short-term sources of finance (Walker and Petty, 1978; Deakins et al, 2001).

Narasimhan and Murty (2001), focus on improving return on capital employed by targeting some critical areas such as cost containment, reducing investment in working capital and improving working capital efficiency. Shin & Soenen (1998) and Deloof (2003) have found a strong significant relationship between the measures of working capital management and corporate profitability. According to them profitability can be increased by reducing amount blocked in account receivables and inventories. Further, the study was found to be more significant in case of small growing firms.

(Deloof, 2003) discussed that the way working capital is managed will have a significant impact on profitability of firms. Using correlation and regression tests he found a significant negative relationship between operating income and the number of days accounts receivable, inventories and accounts payable of firms. He suggests that managers could create value for their shareholders by reducing the number of days' accounts receivable and inventories to a reasonable minimum. He also found negative correlation between accounts payable and profitability.

(Ghosh and Maji, 2003), studied working capital management in Indian cement companies during 1992 to 2002. He used performance, utilization, and overall efficiency indices were calculated instead of using some common working capital management ratios to measure the efficiency of working capital management. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

According to Shin and Soenen, 1998, to increase the value of the firm, profitability and liquidity, efficient working capital management plays vital role. In his study, the relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock return was examined using correlation and regression analysis, by industry and capital intensity and it was found strong negative relationship between lengths of the firm's net trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns.

In a study by kamath (1989), for working capital management in retailing firms, it was found negative relationship between cash conversion cycle and profitability. According to Soenen (1993) in case of overlooking industrial differences, there does not exist any statistically constant relationship between cash conversion cycle and profitability. However, in case of considering industrial differences, the relationship between the mentioned variables has shown dissimilarities across industries as positive in some industries and negative in others.

All the above studies provide base and gives idea regarding working capital management and its components. They also give us the results and conclusions of those researches already conducted on the same area for different countries and environment from different aspects. On basis of these researches done in different countries, researcher has developed own methodology for research.

Variables

Based on above discussion, it can be found that there are many variables i.e. Bills Receivables, Bills Payables, Size of the Firm, Return on Assets, Leverage, Inventory Management, Cash Conversion Cycle, etc. which influence profitability of company. This study undertakes to identify key variables that influence working capital management of Indian Pharmaceuticals firms. Choice of the variables is influenced by the previous studies on working capital management. All the variables stated below have been used to test the hypotheses of study. They include dependent and independent variables:

Operating Profitability which is a measure of Profitability of the firm is used as dependant variable. It is defined as Operating Income plus depreciation, and divided by total assets minus financial assets. The reason for using this variable instead of earnings before interest tax depreciation amortization (EBITDA) or profits before or after taxes is because researcher wants to associate

operating 'success' or 'failure' with an operating ratio. Moreover researcher want to exclude the participation of any financial activity from operational activity that might affect overall profitability, thus financial assets are subtracted from total assets.

Average Collection Period used as proxy for the working capital Collection Policy is an independent variable. It is calculated by dividing account receivable by sales and multiplying the result by 365 (number of days in a year).

Accounts Payable used as proxy for the Payment Policy is also an independent variable. It is calculated by dividing accounts payable by purchases and multiplying the result by 365.

Inventory turnover in days used as proxy for the Inventory Policy is also an independent variable. It is calculated by dividing inventory by cost of goods sold and multiplying with 365 days.

The Cash Conversion Cycle used as a comprehensive measure of working capital management is another independent variable, and is measured by adding Average Collection Period with Inventory Turnover in Days and deducting Average Payment Period.

All the above variables have relationships that ultimately affect working capital management. It is expected that there is a negative relationship between operating profitability on the one hand and the components of Working Capital Management (number of days' accounts receivable, inventories and accounts payable and cash conversion cycle) on the other hand. This is consistent with the view that the time lag between expenditure for the purchases of raw materials and the collection of sales of finished goods can be too long, and that decreasing this time lag increases profitability.

DATA ANALYSIS

Table 1 Descriptive Statistics

| Descriptive Statistics (N = 10) | | | | |
|--|----------------|----------------|-------------|-----------------------|
| | Minimum | Maximum | Mean | Std. Deviation |
| Accounts Receivable | 11.00 | 136.00 | 66.7000 | 42.68242 |
| Accounts Payable | 08.00 | 119.00 | 55.4000 | 35.47205 |
| Inventory Period | 14.00 | 71.00 | 44.7000 | 19.75432 |

| | | | | |
|-----------------------|-------|--------|---------|----------|
| Cash Conversion Cycle | 06.00 | 143.00 | 56.0000 | 42.40283 |
| Profit | 10.00 | 26.70 | 17.5740 | 5.32292 |

Table 1 provides descriptive statistics of the collected variables. All variables were calculated using book values. The book value was used at the end of the years because market values related to the variables are changing every day. In addition, the measurement of profitability could only be based on income statement values, not on market values. Furthermore, when market values are considered, there is always a rather legitimate question of the date for which the 'market values' refer. This is rather arbitrary. Hence, we relied on 'book values' as of the date of the financial reports.

Below analysis reveals that the credit period granted by companies to their clients ranged at 66.70 days while they paid their creditors in 55.40 days on average. Inventory took on an average 44.70 days to be sold. Overall, the average cash conversion cycle ranged at 56.00 days.

Regression Analysis

In order to test which element of working capital contributes most in predicting profitability, a linear regression was performed. Moreover, the impact of these different components on profitability was evaluated through a multiple regression. In multiple regressions, various dimensions of working capital were entered as independent variables and profitability was entered as dependent variable. Enter method (simultaneous method) was used where in researchers specifies the set of predictor variables and relative contribution of each predictor in dependent variable.

With the purpose of measuring the multicollinearity effect among independent variables with reference to dependent variable VIF (Variance Inflation factors) statistics was calculated. The value of VIF statistics 10 or less than 10 is found to be satisfied pertaining to multicollinearity and it was found that the value of VIF statistics was 3.671, 4.749, 5.763 and 4.129 in case accounts receivable, accounts payable, inventory period and cash conversion cycle respectively, which is found to be satisfied and shows that the independent variable is not a linear function of other independent variables.

Table – II Data Analysis

| Variables | Profitability | | |
|-----------|---------------|-------|------|
| | β^a | b^b | Sig. |

| | | | |
|-------------------------|--------|-------|--------|
| Accounts Receivables | 0.438 | 0.524 | 0.000* |
| Accounts Payables | 0.301 | 0.311 | 0.027* |
| Inventory Period | 0.171 | 0.193 | 0.068 |
| Cash Conversion Cycle | 0.061 | 0.068 | 0.190 |
| R ² | 0.620 | | |
| Adjusted R ² | 0.317 | | |
| F | 2.042* | | |

Note:^aStandardised coefficients; ^bUnstandardised coefficients, *Significant at 0.001 level

In above table, it was found that out of four variables; only two were significant i.e. ‘accounts receivables’ and ‘accounts payable’, when they are used as proxy for working capital; as the coefficient of the variables is positive and significant (0.438 & 0.301 resp.), while variable ‘cash conversion cycle’ is not significant in explaining profitability (0.061). As far as inventory conversion period concern, is found to be least significant in predicting profitability compare to accounts receivables and accounts payables. In order to know which variable influence most in predicting profitability, their respective regression weights (β values) were considered. As depicted in the table, Bills Receivable ($\beta=0.438$) contributed higher compared to Bills Payable ($\beta=0.301$).

DISCUSSION

Collected data were investigated using SPSS software package. Correlation was first applied to profitability to assess relationship among dependent and independent variable. After that multiple regressions was employed to test the density of relationships.

Regression results shows that density of variables were highest among accounts receivable and accounts payable. It was found that accounts receivable and accounts payable were significant in explaining profitability, while inventory turnover and cash conversion cycle were found to be insignificant. We believe that the approach used in this study can help companies to gain useful insight regarding the relative contribution of each of the elements to manage the profitability. As is evident here, the working capital dimension of accounts receivable and accounts payable drives the profitability of sample population, whereas the other components remain insignificant.

One of the possible explanations for why inventory period and cash conversion cycle were found insignificant, because pharmaceutical industry is well equipped with latest technology of

manufacturing medicines, so the time lag where medicines are work in progress is very low; that ultimately do not effect profitability of the company.

CONCLUSION

This paper observed a negative relationship between accounts receivables and corporate profitability and a positive relationship between accounts payable and profitability. Consequently, it appears that profitability dictates how managers act in terms of managing accounts receivables. Thus, the findings of this paper suggest that managers can create value for their shareholders by reducing the number of days for accounts receivables. In addition, the negative relationship between accounts receivables and firm's profitability suggest that less profitable firms should pursue a decrease of their accounts receivables in an attempt to reduce their cash gap in the cash conversion cycle. On the basis of findings of this paper, we conclude that profitability can be enhanced if firms manage their working capital in a more efficient way.

We may further conclude that these results can be further strengthened if the firms manage their working capital in more efficient ways. If these firms properly manage their cash, accounts receivables, accounts payable and inventories in proper way, this will ultimately increase profitability of these companies.

LIMITATIONS AND FURTHER RESEARCH

This study is limited to the sample of CNX Pharma. Index Indian firms. The finding of this study can only be generalized to pharmaceutical firms similar to those that were included in research. Future research should investigate generalization of the findings beyond the Indian pharmaceutical sector. Further research may extend to the working capital components including cash, marketable securities etc.

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| Area of operation | Mainly Rural | Rural & Urban | Rural & Urban |
|-------------------|---------------------------------|--------------------------|----------------------------------|
| Main Clients | Poor, borderline Poor, Women | Poor & Poorest, Women | General, Non-Poor Men & Women |
| Service focus | Savings & Credit | Cyclical credit | Need based credit |

| | | | |
|------------------------------------|---|--|---|
| | | | (higher amount) |
| Transactions | Monthly / Weekly meetings | Weekly meetings | Individual |
| Savings | Rs. 20 – Rs. 200 | Rs. 5 – Rs. 30 | Flexible, minimum 10 – 15 % of the loan |
| Interest on savings | 3% - 4%, Bank rate | Nil – 4% | 4.5% - 9.5% |
| Loan size | Rs. 2500 – Rs. 50000 | Rs. 1000 – Rs. 30000 | Rs. 5000 – Rs. 200000 |
| Effective interest rate | 12% - 24% | 21% - 26% | 12% - 24% |
| No. of loan installments (monthly) | 12 – 24 months | 12 – 18 months | 12 – 36 months |
| Insurance | Mostly voluntary | Compulsory & Voluntary | Compulsory |
| Developmental services | Training & linkage with enterprise development programmes | Group training & occasional market support | None, occasional enterprise support |

Source: SIDBI Study on Assessing Development Impact of Micro Finance Programmes-- 2008

The table shows that the SHG model is the most poor—friendly model in terms of low interest rate, longer repayment period and larger amount. The dual pursuit of social ends and financial profits is an ongoing tension for all in microfinance. Mission drift is a common fear as pressures mount to serve richer clients with larger loans and thereby to earn higher profits per loan since transactions costs per rupee tend to fall with loan size. Keeping focused on their respective target populations has thus been central to the missions of the successful institutions.

There are several advantages of the group lending system.

The SHG movement can, at minimum, serve as a quick way to deliver microfinance in an “interim” period, before other institutions can be developed or adapted. The idea is to graduate SHG members to these other institutions where they can access standard individual loans, possibly on a fully commercial basis. The borrowers show their increased reliance on micro finance as also on formal sector and reduced dependence on informal sector (both costly sources of finance and other private informal sources). Access to microfinance leads to a fall in the proportion of borrowing at very high rates of interest and with outstanding debts. The increasing access to formal loans by the SHG sector indicates towards achieving that goal. There are already around 100,000 SHGs in India under various stages of operation.

The membership entitlement has a value-addition effect as it creates opportunity for them to get access to other credit facilities from the friends/relatives/neighbours as the membership itself proves to be a guarantee for repayment of the loan. The members can get easy loans from them in case of emergency, as they are sure to get the money back through the MFI assistance of the client. The poor people value convenient, reliable, continuous, and flexible financial services, but that is not all that they value. Access to other kinds of interventions and opportunities may be even more critical to help people effectively invest for the future, cope with periodic difficulties, and maximize the use of resources.

Few issues in microfinance have been as contentious as those surrounding interest rates. Microlenders have also worked hard to maintain quality standards, with the aim to charge a fair rate for a good product. By stressing convenience, reliability, continuity, and flexibility, programs have delivered products that are both much cheaper than those available from the informal sector and higher quality as well. The SHGs, through deposit—based lending system, have been able to keep the low level of interests compared to the loan-based MFIs. If interest rates were simply costs imposed on borrowers, it would strengthen the brief for minimizing interest rates in the cause of social progress. But interest rates play other important roles; most importantly they function as rationing and incentive mechanisms, and they provide organizations with resources to reward savers.

The SHG movement can, at minimum, serve as a quick way to deliver microfinance in an “interim” period, before other institutions can be developed or adapted. The idea is to then graduate SHG members to these other institutions where they can access standard “individual” loans, possibly on a fully commercial basis.

In India, both the SHG and the MFI (popularly known as Grameen model) models show maximum concentration in the Southern states of Tamil Nadu, A.P, and Kerala where around 90 per cent of the poor have mobilized into groups to take benefits of microfinance. This percentage varies from 5 to 30 in eight states, Bihar, Jharkhand, UP and MP having the lowest share. Size of microfinance industry in India is approximately Rs. 30, 000 crore of which AP accounts for rs. 10,000 crore. The SHG linkage programme is spread over all the states, the MFI model has expanded in only a few states.

FINANCIAL STRUCTURE AND POVERTY ALLEVIATION IMPACT

The financial and organizational differences of these two models are as follows:

Table 8: Financial and Functional Difference—Grameen vs. SHG

| Grameen Model | Self-Help Groups |
|--|---|
| Evolved in Bangladesh; widespread across the world and also in India | Popular in India. Also practiced in Indonesia, parts of South-East Asia and Africa |
| Centrally managed by Micro Finance Institution | Government/NGOs/Banks promote them and empower them to manage their own affairs. Banks provide loans to groups |
| Joint liability Groups of five | Informal affinity Groups of 10 to 20 |
| 5 to 8 groups – one center – only purpose facilitating weekly meetings with MFI | Federation of SHGs are separate entities - provide several financial and non-financial services to member SHGs. |
| Weekly meeting routine -supervised by MFI staff. Savings and repayments - collected and handed over to MFI. | SHG does similar functions, but they do this on their own behalf, since it is effectively a micro-bank. |
| Lending driven Insistence on loans utilisation for 'productive' purposes Compulsory savings as a condition of accessing such loans | Savings driven Loans from banks for need based lending to members – purpose determined by individual members Savings – used for internal lending – builds group corpus and helps members in emergencies |
| Loan process quick – less than a month | Bank linkage process slow - from a few months to 2 years (6 months in AP) |
| The members have their accounts with the MFI directly | Members have their accounts with the SHG, not with the bank |
| Group is not autonomous; formed for a specific purpose of delivering financial services | SHG is an autonomous financial and social organisation |
| Interest rates high - cost to borrowers vary from 24% to 48% | Banks lending - 9% to 12% to S.H.Gs. Cost to the member + 3% |
| Members have to compulsorily borrow from their MFI | Members can borrow from S.H.G's own funds and from Bank loan to S.H.G |
| More appropriate for countries with poor banking infrastructure | SHG system reflects the scale, and the organizational diversity, of the Indian financial system |
| MFI staff visit every group, every week. | Group manages its own affairs after the initial intensive nurturing phase |
| Members - limited stakes in the MFI; profits do not benefit them | Group owned by members - Interest margins retained at SHG level for the benefit of members. |

Source: Society of Elimination of Rural Poverty (SERP), Annual Report 2009--10

It is clear from the table that the Grameen model or the MFI model is comparatively rigid in delivering financial services. The mushrooming growth of the MFIs can largely be attributed to priority sector lending clause issued by the RBI in 2000. Under this clause, banks would have to lend 40 per cent of their total loan portfolio to the priority sector, MFI lending being included. If the banks failed to meet the target, they will have to buy NABARD bonds which yielded very low returns (3--4 per cent). The MFIs were paying 12—13 per cent interest. Hence, the banks merrily increased lending to the MFIs without monitoring the status of borrowers of the MFIs.

The MFIs, specially the large ones, have a difficult and to some extent conflicting mandate to satisfy both shareholders and borrowers. Many of them has tried to consolidate their position in the form of

for-profit Non—Banking Finance Companies (NBFC) rather than non—profit NGOs that most NGOs started out as. As a result, more than 80 per cent of MFI lending is now concentrated with such NBFCs.

Despite the banking industry's ambitions on financial inclusion, MFIs cater to only around 20 per cent of the unbanked households. MFIs reach out to a segment where the transaction sizes are too small for the traditional loan products to be affordable. These transaction costs are therefore piled up on loans in form of higher interest rates. Banks cannot add these charges on to interest rates as these are capped for small loans.

As a result, yields on advances are almost double of that for a successful MFI. For instance, weighted average yields for advances on commercial banks is 10.8 per cent against 20—24 per cent for MFIs. From borrower's perspective, this rate is much cheaper compared to what he will pay the money lender. The MFIs have achieved expertise in almost 100 per cent achievement in loan recovery. The expansion of money and emphasis on total recovery has contributed significantly to the crisis that AP experienced recently and put a serious question mark on poverty alleviation impact of the MFI model. The thrust on repayment is forcing MFIs to focus on increasing size and attracting private equity capital. At present, private equity investments are estimated to be around \$200 million in India MFIs are now offering concurrent loans to existing customers.

Availability of easy loan is creating another dangerous possibility. While repayment rates continue to be almost perfect in MFI model, multiple borrowings are rising alarmingly. This triggers a concern that borrowers may be heading for a debt trap as they borrow from one MFI to repay another. NABARD argues that rural women are borrowing more as more credits are available. Over last ten years, AP has seen an explosion in rural credit. Earlier, there was three sources of rural credits—banks, family and moneylenders. Now the banks give loans to SHGs at 3 per cent and directly at 8—9 per cent. But as they are reluctant lenders, the borrowers turn to MFIs for rest of the loans. The SHGs can monitor the loan activities of group members but it is not possible for MFIs to keep track of loans.

The MFI's insistence on weekly repayment also accounts for multiple borrowing. The rural poor have always borrowed to meet expenditure requirement as money enters the village economy only after the harvest. It is not easy to sustain weekly repayment as money supply is tied up with agricultural cycle.

The multiple avenues of credit that have opened up in AP and Karnataka also mirror the change in the nature of funding for Indian MFIs over the years. Ten years ago, the microfinance industry comprised of philanthropy—based models built around long—term soft loans. Around 2001, they began to get loans from Development Finance Institutions like SIDBI and IFC. Then the private equity capitals were introduced and the stage is gradually being set for IPOs. The larger MCIs are growing at such larger pace that private equity will not be able to provide enough capital to fulfill capital adequacy ratio norms of the RBI.

The MFIs are now offering concurrent loans to existing customers. The explosion of credit supply is attracting more MFIs in the same areas where other MFIs are already there. This is because the borrowers do not need fresh training regarding MFI activities. This means a large number of loans are disbursed to micro enterprises and subsistence farmers that are very unlikely to be able to survive beyond a few months or, at most, years. Poor people may lose their assets when their micro enterprise fail, as well as fall further into debt. Moreover, the poor finds it difficult to repay micro credit when interest rates are very high, which only adds to the problems of running such a tiny business, and so contributes further to the high failure rate of microfinance clients in general. This largely explains the AP debt crisis.

It is perceived that lending to everyone in the local economy would help them all to benefit and escape poverty. This suggests the need for microfinance institutions to be scaled up in order that everybody could access a micro loan.

However in areas which are saturated with microfinance institutions, it is often found that there was a fall in price in the products sold, leading to falling profits for local micro enterprises. This came as a result of a large number of micro enterprises being able to supply the same products, in turn leading to lower prices for these products and less margins for profit for these micro enterprise owners.

The small family farms that could most productively use small farm credit lose out due to their size and relative complexity, but the smallest and least productive ‘postage stamp’ farms get access to as much micro credit as they want. This adverse selection problem also means that agricultural

cooperatives, which are hugely important in helping to generate what are called 'collective economies of scale', also losing out on sources of finance.

MFI's charge high interest rates in order to become financially self-sufficient. They can indeed survive with high interest rates, but the micro enterprise structures that then begin to emerge around them are weak and unsustainable. Microfinance institutions can therefore survive by charging high interest rates, but the local economic structure they end up producing is weak and unsustainable. The microfinance institutions end up as 'cathedrals in the desert'. Another important point are the high costs of these microfinance institutions resulting from the high salaries and bonuses paid to their managers and executives; this helps to keep interest rates much higher than they would otherwise be if the institution was genuinely dedicated to resolving poverty. These high interest rates are also often justified because they allow microfinance institutions to expand their operations to include other poor people. However this means poor people are effectively being asked to pay these high interest rates so that other poor people can have access to microfinance, which is a very shaky moral justification for expansion. The very poor are helping out other equally poor escape poverty, because most micro enterprises cannot operate upon such a high cost

When we have people with limited productive capabilities and limited access to resources, once they are given money to invest, they generally all end up producing the same thing. In order to make microfinance credit work, a range of collective institutions, such as cooperatives for agriculture, local business associations etc. are required. Otherwise individual based entrepreneurship will not take the people that are receiving microfinance credit very far. It would be impossible to expect people who have to repay 40% or more interest to be able to develop a serious business that would possibly involve technology, innovation, training or any meaningful complexity (Bansal, Hema (2005)).

There is no clear evidence that self—sufficient MFIs, whether large or small, have been able to push local economy, though there are a few isolated best practices. International evidence also shows cooperatives have been able to provide better economic results in terms of creating stable social capital. SHG model seem to be better equipped to achieve the goal of poverty alleviation than the MFIs, which depend more on market—driven interest rates.

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