Academic leadership. ISSN 1533-7812 Vol:21 Issue 1
http://academicleadership.org/
DOI 10.5281/zenodo.6374666

Criteria and indicators of sustainability of the microfinance banking sector

Sultanova Nilufar Ilhomovna
Doctoral student of Tashkent State University of Economics
nilufar445@mail.ru

Abstract. This research paper examines the microfinance banking sector and the indicators that affect its sustainability. The group of financial stability indicators includes 12 main and 28 additional indicators, the main of which belong to the microfinance banking sector, according to the author.

Keywords: financial system, microfinance instruments, microfinance services, financial services, financial resources, poverty, microbanking.

Introduction

Currently, in most countries of the world, one of the promising areas for the development of the financial system is the creation of a full-fledged microfinance sector that provides access to financial services to an increasing number of people through an increase in microfinance instruments, as well as improving their methodology and mechanisms. The most important condition for creating a full-fledged microfinance sector is to ensure that all those in need of financial services can have access to them on sustainable and cost-effective terms, regardless of place of residence, income and property. Such financial services to low-income citizens are provided by various organizations, which are commonly called “microfinance institutions” (MFIs).

To date, microfinance remains one of the few effective approaches to social and economic development.

In Uzbekistan, microfinance appeared about fifteen years ago, but interest in this segment of the financial market began to be actively manifested relatively recently. To date, the Uzbek microfinance market is at the initial stage of formation and regulation [1].

Literature review

The history of microfinance dates back to the 1700s, when Jonathan Swift set out to improve the banking system so that it would more actively promote the wealth of the poor [2]. He founded the Irish Loan Fund and made small, short-term loans to the poorest people who were turned down by banks, in the hope of improving the welfare of people in rural areas. It took many years to implement this idea, but by the end of the 1800s. It began to spread rapidly: the Irish Credit Fund already had more than 300 banks serving 20% of the Irish population.

Over time, a banking system aimed at the rural and urban poor began to develop throughout Europe. Friedrich Wilhelm Raiffeisen wrote that moneylenders are cheating poor farmers, and the current credit system is not conducive to improving people's well-being [3]. Borrowers often found themselves in a difficult position in constant borrowing, which did not give the expected personal economic development. To change this, he founded the first rural lending union, which differed from banks in that it was owned by members of the same union, offering reasonable interest rates on lending. The idea of credit unions developed rapidly, and by the end

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of the 1800s. Microcredit has spread around the world. Similar credit systems began to form in Latin America, but they were not owned by union members, but by the government or the founders of private banks, and therefore they were not as efficient as in Europe. The first commercial microfinance institution was founded in 1992 in Bolivia. And already by 2010, there is a trend towards a gradual transition from a charitable to a commercial level. Large-scale development of microfinance based on commercial principles began to be observed in the world relatively recently and is concentrated in large and medium-sized cities.

The first efforts to provide financial services to the poor were tied to the ultimate goals of their use. In 1950–1970 government departments and donor organizations provided subsidized agricultural loans to small and low-income farmers in the hope of increasing their productivity and income levels [4].

In 1980–1990 microcredits were mainly loans to low-income entrepreneurs for the acquisition and accumulation of assets, increasing income and the level of well-being of the family. A significant proportion of beneficiaries were women, for whom microcredit proved to be a particularly effective tool.

In the 1970s and early 1980s, the low-income population was provided with direct loans on subsidized terms. These early programs, while innovative in nature, were limited in scope, duration, and design.

Analysis and results

The term "viability" theoretically includes two aspects of sustainability: financial sustainability and institutional sustainability.

Financial sustainability refers to the ability of an MFI to break even without donor grants or subsidies. History shows that the most successful MFIs become self-sufficient. The Microbanking Bulletin published by the World Bank lists 66 financially self-sustaining MFIs and reports an average return on assets (return on equity) of 5.7% [5]. Some MFIs have achieved even greater financial results than traditional commercial banks due to timely repayment of loans and high interest rates. While sustainability is a prerequisite for reaching a large number of clients, it must always be remembered that the depth of outreach may suffer from the “marketization” of the microfinance sector.

Financial resources are an important component of providing financial services, and all MFIs face the need to raise capital. The sources of funds in an MFI may be internal (earnings generated) or external (any remittances to an MFI). The list below shows the main external sources of financing for microfinance activities:

grants and donations;
preferential loans;
commercial loans;
other market products (securities, etc.);
share capital;
deposits.

These sources can be broadly divided into three categories: donor funds, commercial sources, and savings accounts. As a rule, microlending organizations use various sources of financing, however, each microlending organization must carefully plan its needs for financial resources, check the availability of funds and calculate the financial costs that can be covered by its activities. Opportunities for accessing funds vary depending on the financial characteristics of the microcredit organization and the ownership structure. Not all organizations can benefit from donor grants.

Table 1. Indicators of financial and institutional stability of MFOs [1]

Financial stability	**Institutional sustainability**
I. Financial ratios	I. Productivity ratios
Portfolio return	Active borrowers per employee
Adjusted return on assets	Outstanding loans per employee
Adjusted return on equity	II. Performance ratios
II. Efficiency ratios	Administrative efficiency
Operational self-sufficiency	Operational efficiency
financial self-sufficiency	
III. debts	
Debt level	
Portfolio at risk	

Criteria and indicators of sustainability of the microfinance banking sector. As already noted, the sustainability of the development of the microfinance banking system is a form of movement that is associated with positive development and growth. This movement expresses a complex, positive development of quantitative and qualitative parameters of activity - both the banking system as a whole and the activity of its individual elements in interaction with the interests of the economy. This gives grounds to assume that the criterion for the stability of the banking system can be considered the circumstances under which it demonstrates:

the immutability of its appearance as a socially significant institution;

fulfillment of obligations arising from its functions.

Based on the functions of the banking system and previously defined signs of stability, its indicators should characterize:

continuity of development, despite the action of destructive external and internal factors, to recover from the shocks occurring

the process of movement;

uniform development, excluding deep recessions in the scale and quality of banking activities;

equilibrium functioning, accompanied by a balance of interests of its individual elements, the synchronous development of all its blocks, diversification of activities.

In the most general terms, we can conclude that the banking system should be recognized as stable where:

no crises;

in general, the resolution of contradictions in banking activities is achieved;

positive interaction with the external environment is ensured - various sectors of the economy, various types of markets;

a proportional geographical distribution has been achieved, adequate to the territorial distribution of production;

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the stability of its various types is manifested (including the stability of the political, legislative, moral and other spheres);

individual banks may go bankrupt, but the general trend towards positive development remains;

the effective distribution of accumulated capital is carried out;

the circulation of capital is ensured;

constancy (balance) is maintained even when disproportions or negative external shocks increase;

there is an opportunity to assess risks and manage them;

the ability of self-correction, limitation and elimination of imbalances was formed [1].

The formulated criteria make it possible to reach indicators for evaluating the development of the banking system at the macro level. If we proceed from certain functions of the banking system, then its development, in our opinion, should be assessed using indicators such as:

the stability of the monetary unit;

stability of money circulation;

the level of GDP monetization;

the level of inflation (as you know, on the one hand, inflation contributes to the growth of funds that are the object of banking, but on the other hand, inflation can lead to an increase in overdue loans and even their complete non-repayment);

efficiency of monetary regulation of the economy.

Significant information about the stability of the banking system can also be provided by such indicators as:

the ratio of assets (liabilities) of the banking system to GDP;

the ratio of the total profit of the banking system to GDP; the ratio of the capital of the banking system to GDP;

the share of loans granted to the real sector of the economy in GDP and total banking assets;

the ratio of the size of securities purchased by banks to GDP;

the profitability of the banking system, including in comparison with the profitability indicators of other sectors of the economy;

the ratio of the money resources of the population as part of the resources of the banking system to GDP and money income of the population;

the ratio of funds of enterprises and organizations as part of the resources of the banking system to GDP;

level of concentration in the banking system.

Unfortunately, the presented indicators are not used as a whole to assess stability; meanwhile, they make it possible to identify the strengths and weaknesses of the development of the country's banking system, as well as some systemic risks of its functioning. In dynamics, these indicators may indicate negative phenomena in the banking sector, a decrease in sustainable development.

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To assess the development of the banking system, one can also use macroeconomic indicators that address the characteristics of the development of the microfinance banking sector.

Conclusion and recommendations

Financial soundness indicators (FSIs) were initially used by the International Monetary Fund as part of the financial sector assessment programs in various countries. Subsequently, the proposed set of indicators began to be actively used in the practice of the Bank for International Settlements and other institutions. Today, 49 states calculate and publish FSIs.

PFCs are used for the following purposes:

1. To assess the vulnerability of the financial sector in the event of shocks;
2. Assessment of the state of non-financial sectors;
3. Tracking financial sector vulnerabilities due to credit risk, liquidity risk and market risk;
4. Assessing the ability of the financial sector to cover losses, for example, determined by equity capital adequacy ratios.

The set of indicators makes it possible to assess the current financial condition of the microfinance banking sector, its counterparties, the household and corporate sectors. The group of indicators of financial stability includes 12 main and 28 additional indicators. The main ones concern the microfinance banking sector. Additional indicators relate, as noted earlier, to the functioning of other sectors of the economy and market segments. The above list of quantitative indicators of financial stability is constantly expanding.

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