ABSTRACT

This study examines the phenomenon of mission drift among Indian microfinance institutions (MFIs) and the loan delinquency behavior among their clients. It addresses three broad objectives. First, it explores the mission drift at the macro-level considering the breadth outreach and examines if the outreach approaches vary between MFI and SHG-Bank Linkage Program (SBLP). Considering 17 major states of India, the findings reveal no much differences in the lending approaches between them. Contrary to the general belief that MFIs are more prone to financial sustainability goals, there is persistence of divergence in regional penetration of both the microfinance providers. The goal of financial sustainability is at the core of both the microfinance models as reflected from the positive association of their inter-state penetration with state per capita incomes, literacy rate and non-firm employment, and negative effect of the default rate.The study further examines the incidence of mission drift among MFIs and its propagating factors at the household level. It involves an investigation of depth outreach using a sample of 498 MFI client households from Odisha and West Bengal. The findings indicate that MFIs are biased against the low income groups. The total loan portfolio is mostly composed of high income or relatively wealthier clients. Ironically, the loan size decreases with the increase in poverty depth. At the same time, the interest rates are higher for the smaller sized loans, indicating poverty penalty. MFIs seem to prefer lending to non-agricultural sector with possibly an intention to reduce their credit risk. Apart from income and wealth, the other mission drift propagating factors are client households' average age, education, level of social capital and loan experience. Finally, the study focuses on loan delinquency behavior of the MFI borrowers. The results tend to indicate that there is a misplaced concern over poverty lending among the MFIs. This is evident from the fact that though lower income clients become more prone to default, if there is proper supervision supported by proper utilization of credit and prevalence of the ethos of joint liability, the default rate may decline even among the low income clients. Rather, higher costs of borrowing lead to greater default probabilities. Contrarily, those having higher financial literacy with greater social cohesiveness are likely to be lesser loan delinquent. In effect, the study ascertains the overriding role of the 'financial systems approach' in Indian microfinance sector, leading to mission drift. MFIs' implicit fear of higher credit risk in poverty lending, adding fuel to mission drift, may be overcome if there is effective monitoring coupled with greater accountability on the part of the loan officers and promotion of the ethos of joint liability and group cohesiveness in MFI operation.

Keywords: Loan Delinquency, Microfinance, Mission Drift, Poverty lending, Poverty Penalty.