Examining Performance of Microfinance Institutions in India

ABSTRACT

Microfinance Institutions (MFIs) are financial institutions with dual objectives of providing affordable financial services to the people at bottom of the pyramid and being financially self-sufficient for their long-term sustainability. This thesis aims at examining the performance of Indian MFIs. It addresses three broad objectives. First, the study assesses the financial and social productivity change over the period. Considering a data set of 35 MFIs from 2008 to 2017, it studies changes in the performance of the MFIs from before and after reforms in the sector that followed a major microfinance crisis in India in 2010. Second, it measures the social and financial efficiency of Indian MFIs and tries to find out the impact of various factors like size, age, scale, status, portfolio quality, cost of loan, yield and reform measures on the performance of MFIs. An unbalanced panel data set of 180 MFIs from 2005 to 2017 is used for calculating bootstrap DEA efficiency of MFIs and determinants of efficiency are estimated using seemingly unrelated regression model. In the last objective of this study, governance is also considered as an important driver influencing financial and social performance on the basis of systematic literature review and this is validated through focused group discussion with industry experts. The study proposes a framework for prioritization and ranking of MFIs' performance dimensions and factors.

The evidences from this study suggest that financial and social productivity of Indian MFIs declined after Andhra Pradesh microfinance crisis and reform measures supported MFIs in restoring financial and social efficiency. It can be observed that on average Non-NBFC MFIs have outperformed as compared to NBFC MFIs during the entire study period. The results of the bootstrap DEA analysis indicate that Indian MFIs were operating inefficiently. Social efficiency and financial efficiency of MFIs are positively correlated. Size of the firms and average loan size have a positive and significant impact on financial efficiency. However, the impact of average loan size on social efficiency is found to be significantly negative. The study shows that the post-crisis reform initiatives, regulatory interventions alongside socio-economic catastrophe in the sector have brought in some revenue instabilities for MFIs. However, MFIs' social performance has improved during the post-reform period and was found to be significant in this study. Finally, the study of various performance measures and performance factors indicates that financial performance is considered as the most important measure of performance followed by social performance and governance. The highest priority is assigned to factors like funding source, and borrowing and overhead cost for achieving better financial performance. Reaching out to the poorest of the poor and effective utilization of loans is considered to be essential for meeting social goals. The cause and effect analysis shows that governance is the only cause criterion. Financial performance is found to be essential for survival, whereas social performance is the most influential measure of performance and governance acts as a catalyst for achieving performance goals.

Keywords: Microfinance, India; Performance; Financial efficiency; Social Efficiency; Governance