# WORKING OF MICRO FINANCIAL INSTITUTIONS IN KARNATAKA WITH SPECIAL REFERENCE TO FINANCIAL PERFORMANCE

**Thesis submitted to Kuvempu University in fulfillment of requirement for the award of**

**Degree of Doctor of Philosophy in Commerce**

Submitted by

**Smt. Krupa, V. D, M.Com.,**
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[KU:COM:09 (88)]

under the Guidance of

**J. Madegowda, Ph.D.,**
Research Supervisor,
Department of Studies in Commerce,
Kuvempu University,
Jnana Sahyadri, Shankaraghatta - 577451

**November 2022**

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From: November 2022

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# Declaration

I hereby declare that this thesis entitled, **Working of Micro Financial Institutions in Karnataka with special reference to Financial Performance** is an authentic record of independent research work carried out by me under the guidance of **J. Madegowda**, Research Supervisor, Department of Studies in Commerce, Kuvempu University, Jnana Sahyadri, Shankaraghatta. I further declare that this thesis or any part of it has not been submitted earlier to any other University/Institute for the award of any Degree, Diploma, Fellowship or other similar title.

Place: Jnana Sahyadri

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From: 5 October 2022

J. Madegowda, Ph.D.,
Research Supervisor

# Certificate

This is to certify that the thesis entitled, **Working of Micro Financial Institutions in Karnataka with special reference to Financial Performance** submitted by **Smt. Krupa, V. D** for the award of the Degree of Doctor of Philosophy in Commerce is an authentic work carried out by her under my guidance. I also certify that no part of this work has been presented for the award of any Degree or Diploma or any other similar title to any other University/Institute.

Jnana Sahyadri, Shankaraghatta
5 October 2022

(J. Madegowda)
Research Guide

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**(Krupa, V. D)**

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# CHAPTER – I

# MICROFINANCE, MFIS AND REGULATORY FRAMEWORK – AN INTRODUCTION

**Chapter Outline**

**Introduction**

All over the world, many countries are facing two major inter-related challenges viz., unemployment and poverty. Unemployment creates financial crisis reducing the overall purchasing power/capacity of the country and its citizens leading to poverty. Poverty is a social phenomenon prevalent in the society. It is multi-dimensional covering not only income and consumption but also health, education, vulnerability, risk and marginalization and exclusion of poor from the main stream society (Chelliah and Sudarshan, 1999). It is associated with not only insufficient income and consumption but also lack of education, violence, poor health and nutrition, lack of adequate sanitization and clean water facility, unemployment, deficit social relations, vulnerability, etc., which lead to exclusion of poor from the main stream society.

According to World Bank, it (i.e., poverty) is a situation of pronounced deprivation in well-being and being poor as to be hungry, to lack shelter and clothing, to be illiterate and not schooled. As per the International Poverty Index, 2017, extreme poverty refers to a situation of someone living on less than US $ 1.90 per day. Poverty rate is associated with the overall health of the economy. When an economy grows, it creates employment opportunities, stronger labour market and improves the income of families which enable the poor to move above the poverty threshold. This means that, lower poverty rate is coincided with decreasing unemployment rate and/or increasing income. Many studies have shown that the economic development of a country depends upon how effectively it addresses the issue of poverty. In this direction, the World Bank and other institutions/agencies have taken many steps for eradication of poverty (Annexure - 1.1).

The microfinance industry is recognized as a tool to achieve the millennium development goals (MDGs). Many studies have shown that it (i.e., microfinance industry) is contributing, directly and indirectly, to address and achieve the MDGs. Many microfinance practitioners and institutions have demonstrated that the microfinance interventions across the world had direct and positive impact on poverty alleviation. This is because of the reason that the microfinancing system enhances the income of the poor and provides the basic necessities to prevent hunger and malnutrition. It is also generating numerous livelihood opportunities and building entrepreneurial capacity among the poor (Figure - 1.1).

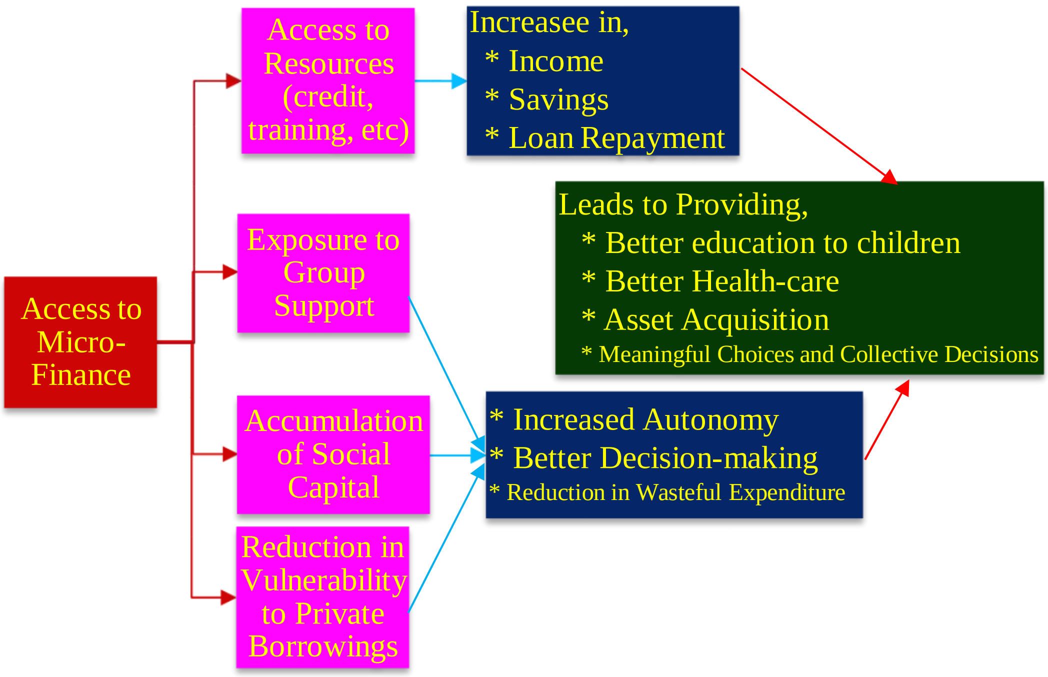



***Figure - 1.1: Alleviation of Poverty through Microfinance***

**Source:** Gopalaswamy A K., Babu M S and Dash U. (June 2015). ***Systematic Review of Quantitative Evidence on the impact of Microfinance on the Poor in South Asia***. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University College, London. p.3.

In the year 2000, 191 UN member-countries signed the MDGs designed for combating poverty, hunger, disease and other poverty-related issues through eight defined goals to be achieved by 2015. MDGs have ended with the remarkable progress and based on its success, 17 sustainability development goals (SDGs) agenda is designed for reducing poverty, and for ensuring economic and social development around the world by 2030. Achievement of these goals is possible only when poor people (particularly, women) have full access to financial services. Therefore, financial inclusion is positioned as an enabler of attaining SDGs. In achieving financial inclusion in a cost-effective way, microfinance has a greater role to play. Due to these reasons, microfinance industry is recognized as a powerful instrument to address poverty and to achieve the Development Goals.

Microfinance enables poor and low-income households to increase their income and to improve their living standards. Furthermore, microfinance is directly targeting the first development goal viz., eradication of poverty.

**Microfinance – Conceptual Framework**

Globally, microfinance has been recognized as a powerful instrument to address poverty and related issues. There is no other development instrument that has generated this much of enthusiasm and promise in the recent past in impacting the lives of the poor. Through innovation, microfinance provides many facilities/services to the poor and disadvantaged groups. This type of financial support helps to mitigate potential risks of poverty and social exclusion. It is linked not only directly with poverty reduction but also indirectly in addressing the issues of health, gender, education and environment.

The Reserve Bank of India, RBI (July 2007) viewed microcredit as "provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income level and improve living standards". And it (i.e., micro-credit) is also viewed as, "extending small loans to very poor people for self-employment project that generate income and enable them to care themselves and their families" (The Micro-Credit Summit, February 1997).

Microfinance refers to the entire gamut of financial services which include micro credit, savings, money transfer, insurance, production of goods, supply and trade of merchandise and commodities and services, skill up-gradation and entrepreneurial development that would serve as a precursor for the economically poor to raise their standards of living and to generate adequate income that would enable them to move to the next echelon of living standards. It is not just giving micro credit, rather, it is a tool for economic development by providing funds when required for consumption, acquisition of assets, acquiring knowledge and skills, and for risk mitigation. Access to money when required helps the poor to break the cycle of poverty by taking advantage of income enhancement opportunities and also prevents them from slipping into further poverty in times of distress. It is a valuable tool for upliftment and empowerment of poor (Debashish Kundu, 2016). It is a new paradigm where poor are made 'bank friendly' and institutions, 'poor friendly'. It always provides better opportunity for poor to save with, and borrow from, formal financial institutions. Poor households normally need finance for three purposes viz.,

(a) To meet the daily consumption needs - enabling the very poor to meet their basic needs and also to protect themselves from risks,
(b) To cope with the emergencies and risks such as health problems. It is also associated with improvement in the economic welfare of households, and
(c) To meet the expenses of education, wedding, funeral, etc. Besides, it supports the poor especially, women and helps them to empower and promote gender equity.

Microfinance is an important and integral part of rural financing which primarily aims at empowering the rural poor. Of course, the coverage of the scheme is not confined to rural area. Instead, it covers all poorer sections in different parts of the country irrespective of whether they are ruralites or urbanites. However, special emphasis is on the women and their economic empowerment. As already stated, the scheme is meant to provide varieties of financial services which primarily include micro credit wherein maximum amount of loan that can be provided is normally ` 50,000. Further, this loan facility is usually routed through self-help groups (SHGs). It is used as an effective tool for ensuring socio-economic change in the poor people with a special emphasis on women. Therefore, it is an important poverty alleviation strategy. It acts as an incentive for, and motivates, poorer sections of the society to take up self-employment activities. The scheme is more of service-oriented and less of profit oriented. It also aims at assisting the small entrepreneurs financially. The scheme is meant for assisting the poorer sections to acquire and develop revenue-generating activities which in turn empower them economically. Most importantly, the recovery rate is high at about 95% which is appreciable and the default rate is very low.

This scheme aims at addressing and achieving MDGs and financial inclusion by providing financial services to the poorer sections of the society at an affordable cost. It provides soft loans even to the poor and down-trodden people engaged in cottage and household activities, etc., which ensure a stream of income improving their economic well-being. It supports the socio-economic participation of women enabling gender equity and well-being of households. The scheme intends to provide small amounts of loan to the poor without any collateral security. It also enables the formation and nurturing of SHGs, and training the members of SHGs with the help of formal banking and financial institutions, non-government organizations (NGOs), etc. It helps to reduce the exploitation of poor by private money lenders who charge higher rate of interest. The overall objective is to help the households to meet their basic needs and protecting them from risks.

The terms ‘microfinance’ and ‘microcredit’ are used interchangeably. However, **microfinance** is used in a broader sense to cover microcredit and other financial services. It includes a few products such as micro-credit, micro-savings, micro-insurance, payment transfer, provident fund, pension, etc. These services are provided by all types of microfinance intermediaries except NGO intermediaries as they cannot mobilize savings from poor and also cannot provide other financial services because of their legal status.

On the other hand, **microcredit** is associated with micro loans to the clients. It is provided by all types of microfinance intermediaries for socio-economic development of poor people. Therefore, it is considered as a part of the microfinance. Besides, there are certain similarities and differences between microfinance and micro-credit as summarized below:

(a) Both microfinance and micro-credit schemes aim at providing only small amount of loan to poorer sections with shorter repayment period.

(b) For providing micro-credit, the institutions have only the external sources of finance. However, the micro financial institutions (MFIs), for the purpose of providing financial services including micro-credit, have both external and internal sources for mobilization of required fund.

(c) Micro-credit loans may or may not need collateral security. But in the case of microfinance, there is no need for providing collateral security.

(d) The purpose of micro-credit is mostly fixed with limited/no scope for deviation. On the other hand, microfinance provides flexibility to the members to use the borrowed sums for consumption, income generation activities, etc.

(e) Micro-credit loans are for both the individuals and groups whereas the microfinance loans are mostly group loans tracking down to individuals.

**Role of Microfinance in Economic Development**

Microfinance plays an important role in the economic development of the country. It offers small loans to low income groups for commencing and expanding their small business generating stream of incomes and employment opportunities to local communities. Thus, microfinance has been treated as an important tool for economic development. It helps to alleviate poverty, create employment for women, reduce financial exclusion, mobilize savings, ensure financial stability, reduce global poverty, develop skills through capacity building programmes, etc (Littlefield., Murdoch and Hashemi, January 2003). It plays a crucial role in achieving economic development by fighting poverty.

In developing countries, financial sector primarily aims at increasing financial inclusion in order to eradicate poverty. This led to the introduction of microfinance concept. Many microfinance products are designed to motivate and support for self-employment. It has direct impact on individual growth through self-employment which indirectly contributes to the growth of Micro, Small and Medium Enterprises (MSMEs) in the country. This growth results in improvement in country's economic development and also in improving gross domestic product (GDP) of the country.

**Global Landscape of Microfinance**

Currently, microfinance is receiving greater attention as a better alternative service in rural credit market. In early 1700s, the Irish Loan Fund System started providing formal credit, savings and other financial services for the poor who were traditionally neglected by commercial banks. In 1800s, Europeans saw the need for more formal institutions for savings and credit lending. These institutions primarily focused on rural and urban poor. In 1865, financial co-operative movement emerged in France and Germany, and its focus was to help the rural population from the clench of private money-lenders and improve their welfare. Many co-operatives in Africa, Asia and Latin America have also followed the European movement. In 1880s, the British government tried to use the German experiment in South India (Madras) to address poverty in India. This resulted in the registration of 9 million poor for credit cooperatives by 1946. During the same period, the Dutch colonial administration started co-operative rural banking system in Indonesia which eventually became Bank Rakyat Indonesia (BRI) - now it is one of the largest MFIs in the world. During 1900s, savings and credit theme began in rural Latin America and this finance helped to modernize the agriculture sector, mobilize idle savings, etc. Between 1950s and 1970s, the governments started providing agricultural credit to small and marginalized farmers with the objective of increasing their productivities and incomes. This credit was lent by state-owned development financial institutions and co-operatives at below market interest rates. But the rural development banks were unable to cover their costs with subsidized interest rates. Further, the poor repayment discipline has eroded the institutional capital base.

1970s saw the birth of micro credit programme. Bangladesh, Brazil and a few other countries started lending to poor women entrepreneurs (Bansal, 2003). In 1900s itself, microfinance companies came into existence with specific motto of increasing commercialization of rural sector as well as weaker sections by mobilizing idle savings and increasing investment through credit thereby zeroing indebtedness.

Many countries like Indonesia (1895), Pakistan (1957), Bangladesh (1976) and Bolivia (1980) started micro credit facilities by establishing many institutions. In 1976, Prof. Mohammad Yunus of Bangladesh pioneered this experiment and in 1983, he developed Grameen Bank Model. Since that time, the micro finance movement has gained momentum with thousands of MFIs operating in almost all countries in the world. In 1973, ACCION (Americans for Community Co-operation in Other Nations) International began in Latin America and then spread to Africa and United States. Later (1974), the Self-Employed Women's Association (SEWA) of India Bank was established in India to provide loans to poor women. In 1980s, micro-credit programmes spread throughout the world. Based on Grameen Bank model, FINCA International and other MFIs were developed in Washington DC in 1986. Now, FINCA is operating its microfinance units in 14 countries and serving more than 65,000 of the poorest families in rural Latin America, Africa and Asia.

In 1990s, international development agencies started promoting microfinance as a strategy to alleviate poverty and introduced the term 'microfinance' rather than 'micro credit'. Microfinance includes many financial services for the poor people. To reach large number of poor clients, MFIs and their networks have started pursuing a strategy of commercialization - transforming themselves into for-profit corporations that could attract more capital and become more permanent features of financial system (De Schrevel, 2005). Many International NGOs such as FINCA, ACCION, Freedom from Hunger, Opportunity International, CARE, Consultation Group to Assist Poor (CGAP), etc., are promoting microfinance programmes for creating new business and combating poverty in a sustainable way.

**Target Groups of Microfinance**

The target groups of microfinance are the people with low and irregular income, micro enterprisers, impoverished women, small farmers, small traders and poor families in rural, sub-urban and urban area. In urban area, the target groups may include even the shopkeepers, small traders, service providers, artisans, street vendors, etc.

Microfinance generally covers poor women as they have proven to be reliable and when they earn, it is used for their families which result in enhancement in the economic wellbeing of the families - better health and education, stronger local economies, etc. By providing access to financial services such as provision of loans, creation of responsibility among beneficiaries (of loans) for repayment, encouraging to open and maintain savings accounts, providing insurance services, etc., they (i.e., microfinance programmes) send a strong message to households and communities. Studies have shown that women are more assertive and confident (more visible in their communities) and play stronger roles in decision making (Jeet and Preeti, 2012).

**Microfinance Products and Services**

Many microfinance products and services are offered to the target groups as identified in Figure - 1.2.

**(a)** **Micro-Credit:** It is an essential part of microfinance. It is about lending very small amount of credit to the poor people for self-employment and livelihood and for generation of income for themselves and for their family.

**(b)** **Micro Savings:** It refers to an opportunity provided for the poor to save, out of their earnings, whatever little amount they can. MFIs mobilize these small savings from the poor in the form of deposits. These deposit services allow people to save money without minimum balance and allow people to retain the same for meeting future unexpected expenses and to plan for future investments such as old age, education, etc. It has flexible features - no minimum balance, no fee to open account, no compulsory deposits, no withdrawal restrictions, payment of interest on monthly basis, etc. These features are attractive to the poor and encourage them to save.

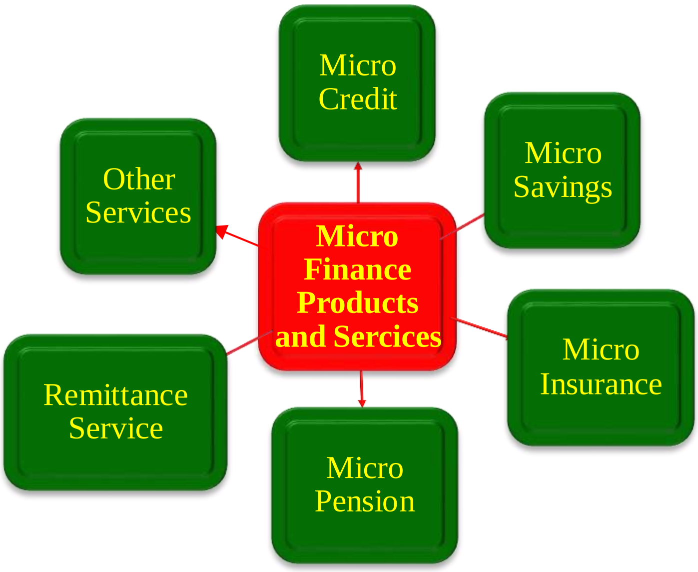



*Figure - 1.2: Microfinance Products and Services*

(c) **Micro Insurance:** Micro insurance provides "protection to low income households against specific perils for premium payment proportionate to the livelihoods and the cost of risk involved" (CGAP, Consultative Group to Assist the Poor). It is the provision of insurance products with low premium as an economic instrument at the micro level. It covers wide variety of risks. Some of the micro insurance products are life and health insurance, agricultural insurance, enterprise insurance and property insurance.

(d) **Micro Pension:** Micro pension is a small amount individually saved during working lives and invested collectively to yield returns. On the agreed withdrawal date, the accumulated capital is paid out in lump sum or periodically in the form of annuity. It aims at serving low-income people who are often financially illiterate and have limited access to financial services. Micro-pensions need specific characteristics in design and distribution to make the product affordable for people working in the informal sectors. This product is named as **swavalamban** and it covers people in informal sector who are 60 years of age and above. This scheme is administrated by the Pension Fund Regulatory and Development Authority through Life Insurance Corporation of India (LIC).

**(e)** **Remittance Services:** This is also considered as one of the microfinance services to the poor. With this service, poor can transfer money (savings) from one place to another, usually across borders, to family and friends. Remittance service is facilitated through formal financial institutions.

**(f)** **Other Services:** Other microfinance services are, (i) financial intermediation, (ii) social intermediation, (iii) business development services and (iv) social services (Ledger Wood, 1999).

**(i)** **Financial intermediation** refers to facilitating microfinance products to the needy. This is done by intermediaries viz., microfinance institutions (MFIs) which include NGOs, non-banking finance companies (NBFCs), banking companies, co-operatives etc.

**(ii)** **Social intermediation** refers to building social and human capital for the successful financial intermediation. It is done by MFIs and social intermediation involves providing subsidies and grants for building human and social capital.

**(iii)** **Business development services** refer to providing non-financial services which facilitate the business/enterprise development. This involves providing business training, skill development activities, forward and backward linkages, technology services and sub-sector analysis. These services are provided by MFIs either individually or jointly with service providers.

**(iv)** **Social services** refer to provision of non-financial services focusing on the well-being of microfinance clients or poor people. This service requires grants and subsidies for longer period and it is mobilized from government and other developmental agencies.

**Microfinance - Indian Scenario**

India is one of the fastest growing economies in the world. However, its major problem in the path for economic growth and development is the poverty. Although the country has been successful in bringing down the percentage of population below poverty line (BPL) to little less than 25, population BPL now is higher than the total population of the country at the time of country's Independence in 1947 and the poor in India account for about one-third of poor in the world. This should be a matter of concern for the country. However, among poor in India, majority is in rural parts of the country.

The Government of India (GoI), from the day of Independence, has formulated and implemented many schemes and programmes to provide required assistance including financial services to the poor and under-privileged to alleviate the poverty. Small Farmers Development Scheme (SFDS), 1974-75; Twenty-Point Programme (TPP), 1975; National Rural Development Programme (NRDP), 1980; Integrated Rural Development Programme (IRDP), 1980; Rural Landless Employment Guarantee Programme (RLEGP), 1983; Jawaharlal Rojgar Yojana (JRY), 1989; Swarna Jayanti Gram Swarojgar Yojana (SGSY), 1999; etc., are some of the schemes and programmes designed and executed by the governments (both central and state governments) to alleviate poverty. Unfortunately and as expected, these programmes have not been able to achieve their targets/goals due to many reasons including poor/improper execution.

One of the above schemes viz., Integrated Rural Development Programme (IRDP) had introduced even the microcredit scheme in 1980 which was regarded as the largest microfinance programme in the world. However, this scheme has failed to achieve its objectives due to many reasons including poor implementation. Therefore, the GoI constituted a committee in 1997 to review the effectiveness of self-employment and wage-employment programmes. After a comprehensive study, the committee recommended for the merger of all self-employment programmes and to shift the focus from individual beneficiary approach to group-based approach. Based on this recommendation, the GoI launched a new scheme called, **Swarna Jayanti Gram Swarojgar Yojana** (SGSY) on 1 April 1999 by amalgamating all other programmes. This is a comprehensive programme as it covers all dimensions of self-employment such as formation of SHGs, training, credit, technology, infrastructure, marketing, etc. This scheme has laudable objective of assisting the establishment of a large number of micro enterprises in rural areas. SGSY is a credit-cum-subsidy programme laying emphasis on activity clusters (Padmalochan., Gitanjali and Sreekumar, November 2012). This programme is considered as a successful programme in promoting microfinance in the country.

National Bank for Agriculture and Rural Development (NABARD) is playing a significant role in supporting group formation, linking them with banking companies as also promoting best practices. And MFIs are also playing an important role. They are substituting money-lenders and also reducing the burden on the formal financial institutions. With the objective of financial inclusion, MFIs and other organizations are providing financial and banking services through the use of business correspondents and facilitators. This kind of financial intermediation has opened up new and diverse avenues to address the issue of financial inclusion by banking companies.

Different forms of credit lending activities are found in different parts of the world. In India, informal financing system traced back to the era of Koutilya in the 4$^{th}$ century BC. Traditionally, traders and money-lenders provided credit to the rural poor at exorbitant rate of interest. Syndicate Bank was the first bank in the country to introduce the concept of microfinance. This bank used to collect micro deposits on daily and weekly basis, and also advanced micro credit for its customers.

In India, the first phase of microfinance started with social banking i.e., broadening the access to credit for those sections of the society who had no access to formal banking. According to All India Rural Credit Survey Report of 1954, informal sources of finance accounted for 70% of rural credit usage, co-operatives 6.4% and the commercial banks accounted for mere 0.9% of rural credit usage.

In 1969, the All India Credit Survey Committee recommended for adoption of **multi-agency approach**. The government had also realized that the rural credit demand was not met by co-operatives and therefore, it felt that the commercial banks also need to play a vital role in meeting the needs. The **Lead Bank Scheme** started to bring strong reforms in the rural financial sector. Along with this, during 1969, the GoI nationalized 14 commercial banks. During mid-1970s, the banking sector started operation on three tier system - the first tier constituted by commercial banks, second tier by RRBs (Regional Rural Banks) and third tier by the co-operative banks. The scheduled commercial banks (SCBs) also started opening branches in rural areas. During 1975, Agricultural Refinance and Development Corporation (ARDC) was set up and in 1976, RRBs were incorporated.

In 1974, India’s first MFI, Shri Mahila SEWA Sahakari Bank, was set up as an urban co-operative bank and now it is known as, SEWA (Self Employed Women Association) Bank. In 1982, NABARD came into existence for rural financing and in the same year, Development of Women and Children in Rural Area (DWCRA) started as a sub-scheme of Integrated Rural Development Programme (IRDP). Under DWCRA, the Government of India (GoI) introduced revolving fund to women groups for income generating activities.

Indian microfinance is led by SHG movement and all programmes are initiated by NABARD under the flagship of SHG-Bank Linkage Programme in the year 1992. During early 1990s, many NGOs stared providing financial services to the poor and many of them transformed themselves into formal MFIs. In 1993, National Credit Fund for Women (Rashtriya Mahila Kosh) was established to provide credit through NGOs for self-employment of Women.

In January 1993, SHGs were allowed by the RBI to open savings bank accounts with banking companies. Further, to study the potential of microfinance movement, the RBI constituted, in 1994, a working group on NGOs and SHGs under the chairmanship of S. K. Kalia (Rajesh, January 2005). In 1994, Small Industries Development Bank of India (SIDBI) started its operations in the field of microfinance in order to strengthen SHGs and to provide microcredit to rural poor and women engaged in industrial activities.

As an important milestone in the history of microfinance movement, in 1995, the state of Andhra Pradesh enacted, 'Mutually Aided Co-operative Societies Act'. In 1996, the RBI has introduced 'Local Area Banks' (LABs). In 1998, 'SIDBI Foundation for Microcredit' was set up by SIDBI with an initial capital of ` 100 crore. Later, the GoI renamed it as, Micro Finance Development and Equity Fund (MFDEF) for infusing new capital to MFIs. In the year 2000, the RBI declared that the bank lending to MFIs is a priority sector lending and MFIs have become an integral part of microfinance. Today, there are many diverse players working in the field of microfinance.

Many initiatives have been taken by the GoI and by the RBI by formulating necessary policies to ensure easy accessibility of financial services for poor and small business. As a result, microfinance sector has achieved substantial progress during the last few decades and also brought many people above the poverty line. Apart from this, is has also played a vital role in the expansion of small business helping the poor to engage in income generation activities and also in creating employment to local communities. In this backdrop, the important phases in the development of microfinance sector in India is summarized below.

**Phase – I: Social Banking (1960 to 1990)**

During this phase, 22 commercial banks in the private sector were nationalized in 1969 (14 banks) and 1980 (8 banks). Under social banking system, RRBs, NABARD and SIDBI were established in 1976, 1982 and 1990 respectively. Co-operative banking was formally structured and developed besides introducing Lead Bank Scheme which was initiated with district credit plans by expanding rural banking network.

**Phase – II: Financial System Approach (1990 to 2000)**

Under ‘not-for-profit’ basis, NGO-based MFIs started providing microfinance services to rural poor. During this period, NABARD also initiated SHG-Bank Linkage programme with innovative credit lending. Based on peer pressure and moral collateral, innovative credit lending mechanism was developed.

**Phase – III: Financial Inclusion (2000 onwards)**

This phase started considering microfinance as a business proposition and it has been commercialized by the development of ‘for profit MFIs’ (NBFC-MFIs, Small Banking Financial institutions, etc) and started providing importance for customer centric microfinance products and services. NGOs are being legitimized.

There are two important mechanisms in India that link the formal financial sector with low-income households without collaterals. They are, (i) Bank-led SHG model which is promoted by the State through commercial banks which lend to SHGs, and (ii) MFIs that are private sector entities lending to SHGs/JLGs (Joint Liability Groups).

The wholesale lending includes agencies like NABARD, SIDBI, Rashtriya Mahila Kosh and the Friends of Women's World Banking (FWWB) in Ahmedabad. Few of the NGOs supporting SHG Federations include MYRADA (Mysore Resettlement and Development Authority) in Bengaluru, SEWA in Ahmedabad, PRADAN in Tamil Nadu and Bihar, ADITHI in Patna, SPARC in Mumbai, ASSEFA in Madras, etc (Piyush and Fahad). On the other hand, commercial banks, co-operatives and RRBs provide microfinance services at retail level through NGOs and MFIs. However, a few of the NGOs that are directly retailing credit to borrowers are SHARE in Hyderabad, ASA in Trichy and RDO Loyalam Bank in Manipur.

Microfinance is provided either formally, semi formally or informally. **Formal sector** covers the entire banking industry which includes all public and private sector banks, and RRBs, NABARD and the RBI. **Semi-formal sector** covers all exclusive microfinance institutions, NGOs and Self-Help Groups (SHGs). **Informal sector** includes family, relatives, friends, pawnbrokers, moneylenders, traders, landlords, etc.

**(a) Formal Institutions:** These institutions consist of commercial banks, RRBs, Housing Finance Institutions (HFIs), co-operative societies, NABARD, Rural Development Banks (RDBs), Land Development Banks and cooperative banks. Urban Cooperative Banks (UCBs) or Urban Credit Cooperative Societies provide microfinance services to the needy (poor). However, Land Development Banks, UCBs, Housing Finance Institutions and Urban Credit Cooperative Societies are not playing significant role in the development of microfinance activity.

**(i) NABARD:** It is an apex development bank established on 12 July 1982 by an Act of Parliament. It is established to provide financial assistance and promote agriculture, development of cottage and village industries, small-scale industries, handicrafts and other rural crafts. This assistance helps to achieve integrated rural development. With the mission of alleviation of poverty, innovative initiatives are undertaken by NABARD.

Under financial support, it provides refinance support to banking companies to the extent of 100% of the bank loans disbursed to the SHGs.

Promotional support – through SHG-Bank Linkage programme, it offers support to SHGs such as Microfinance Development and Equity Fund (MFDEF), Training and Capacity Building, Micro Enterprise Development Programme (MEDP) for Skill Development, Grant Support to Partner Agencies for Promotion and Nurturing of SHGs, Special initiative for scaling up SHGs/SHG Federations, etc.

**(ii) SIDBI:** SIDBI Foundation for Micro-Credit (SFMC) was launched in January 1999 for channelizing funds to the poor for the success of pilot phase of microcredit scheme in India. SFMC is the apex wholesaler for microfinance providing financial services such as loan funds, grant support, equity and institution building support to the retailing MFIs so as to facilitate their development into financially sustainable entities, and non-financial services such as developing a network of service providers for the sector. SFMC is also playing an important role in advocating proper policies and regulations and also acting as a platform for exchange of information across the sector. A unique feature of this scheme is the comprehensive financial support provided to MFIs/NGOs to expand their operations as well as to improve their efficiency. SIDBI's support comprises loans as well as equity/quasi equity support depending upon the needs of client-institutions.

(iii) **Rashtriya Mahila Kosh (RMK):** It was established in 1993 as a national level autonomous body under the guidance of Ministry of Women and Child Development. This body promotes socio-economic empowerment of women. Currently, the operating model followed by RMK is 'facilitating agency' model. It provides loans to NGO-MFIs for onward lending to women-SHGs.

(iv) **Friends of Women's World Banking (FWWB):** It is one of the first institutions created as an affiliate of Women's World Banking in 1982. Its primary objective is to empower poor and asset-less rural and urban women by encouraging them to participate in sustainable livelihood activities through access to financial services. In India, FWWB supports MFIs by providing a variety of financial resources and products. It provides financial assistance for wholesale MFI lending, capacity building, institutional support, research and documentation, livelihood and enterprise development (LEAD), networking and referral services, and social security initiatives to women in India.

**(b) Semi-formal Institutions:** In India, various types of MFIs also offer microfinance at the retail level. These include co-operative MFIs (SHG federations), NGOs (Non-profit MFIs) and also 'for-profit' MFIs which are referred to as Non-Banking Financial Companies (NBFCs). It may be noted here that the NGOs are mainly working in remote rural areas providing financial services to the persons with no access to banking services.

(c) **Informal Institutions:** The informal financial sources include funds available for poor from their family sources or local money-lenders. The local money lenders charge exorbitant rates of interest on loans. Generally, rate of interest ranges from 36% to 60% due to their monopoly and also due to the absence of any other source of credit for non-conventional needs.

**Tier I: SHGs (SHGs Direct Financial Linkage)**

Prior to 2009, Indian microfinance sector was broadly classified into four tiers as, (1) Tier 1: Self Help Groups (SHGs Direct Financial Linkage), (2) Tier 2: NGOs, (3) Tier 3: MFIs-NBFCs under the Companies Act, 1956/2013, and (4) Tier 4: MFIs (NBFCs and Co-operatives). However, during the post-2009 period, many developments and changes have taken place. And as a result, now, only Tier 1 model is playing a major role. Hence, a few details about this Tier are analyzed and presented below.

Tier I: SHGs (SHGs Direct Financial Linkage) - SHG-Bank Linkage Programme in India is considered as one of the largest microfinance programmes in the world and over the years, this programme is adopted as a part of rural finance (Ansari, 2008).[1] SHGs are operating at gross root level which consist of members of not more than 20 each. The SHGs may be registered or unregistered but the groups decide their code of conduct, savings amount, loan to members, interest on savings mobilized and the quantum of credit and interest on loan. The SHG members function in a democratic way and the group has to open a savings bank account with a bank. However, there are three types of SHG-Bank Linkages as presented below.

(a) **First Model**: Under this model, the banks provide credit directly to the SHGs without the interference by NGO-SHG Promotion Institution (SHPI). In this model, the banks themselves take up the work of forming and nurturing SHGs. It is reported that, in India, 20% of the SHGs are formulated and financed under this model.

[1] Ansari, S. A. (2008). Micro Finance in India. ***Co-Operative Perspective***. 42(4): 39-48.


(b) **Second Model:** Under this model, banks directly finance the SHGs where NGOs act as facilitators and provide skill development and training through SHPI. In India, 72% of the SHGs are financed under this category.


(c) **Third Model:** Under this model, banks finance SHGs through NGOs and other agencies (financial intermediaries) for onward lending to ground level groups or individuals. And the repayment responsibility is with NGOs or SHPI. In India, the number of SHGs linked under this model account for only about 8%.


The rapid growth of SHG-Bank Linkage Programme helped in the empowerment of women, popularly known as Sthree Shakti movement across the country and laid the foundation for emergence of microfinance as a potential tool for upliftment of economically poor but active women.

## Channels of Microfinance in India

In India, microfinance is distributed through two important channels viz., (1) SHG-Bank Linkage Programme (SHGBLP) and (2) MFIs.

### (1) SHG-Bank Linkage Programme (SHGBLP)

India's SHG movement emerged as one of the world's largest and most successful networks of Community Based Organizations (CBOs). Predominantly, it is a women's movement. The SHG-Bank Linkage Programme (SHGBLP) is India's own innovation and proved to be one of the effective poverty alleviation and women's empowerment programmes. During 1992-93, SHGBLP has begun with 225 credit linked groups with a loan amount of ` 29 lakh. Since then, this programme has grown exponentially and got transformed itself as a mass movement across the country. It is one of the largest community-based microfinance models in the world. A few details presented below provide an idea about the significance of SHGBLP (Table - 1.1).

**Table - 1.1: Performance of SHG-Bank Linkage Programme at a Glance, 2020-21**

| Sl. No. | Particulars | Total | |
|---|---|---|---|
| | | Physical (lakhs) | Financial (` crore) |
| I. | Total number of SHGs saving linked with Banks (cumulative) | 112.23 | 37,477.61 |
| II. | Total number of SHGs Credit-linked during the year, 2020-21 | 28.87 | 58,070.68 |
| III | Total number of SHGs having loans outstanding as on 31 March 2021 | 57.80 | 1,03,289.71 |

Source: NABARD. ***Status of Microfinance in India, 2020-21***. Mumbai. p.8.

It is obvious from the above that the total number of SHGs saving linked with banks stood at 112.23 lakhs as at 31 March 2021 and the savings amount at ` 37,477.61 crore. During 2020-21, total number of SHGs credit linked were 28.87 lakhs and the amount of credit linked was to the tune of ` 58,070.68 crore. However, as at 31 March 2021, ` 1,03,289.71 crore was due from 57.80 lakh SHGs.

### (2) MFI-Bank Linkage Programme

MFIs act as an important channel for extending financial services to the microfinance sector in the country. The Indian microfinance sector has witnessed a phenomenal growth over the last few years. They are raising resources from banks and other financial institutions, and extending loans and advances to individuals or members of SHGs/JLGs. Now, the number of institutions providing microfinance services has increased substantially as evident from the following table (Table - 1.2).

**Table - 1.2: Loans to MFIs/MFOs by Banks/Financial Institutions, 2020-21**

| Financing Agency | Loan disbursed to MFIs during the year | | Loan Outstanding against MFIs | |
|---|---|---|---|---|
| | Number of Loan Accounts | Amount (` crore) | Number of Loan Accounts | Amount (` crore) |
| Commercial Banks | 5,742 | 11,204.83 | 11,964 | 20,732.51 |
| Regional Rural Banks | 994 | 19.26 | 3,296 | 37.65 |
| Co-operative Banks | 21,826 | 1,515.24 | 45,921 | 1,831.61 |
| SIDBI | 39 | 2,583 | 78 | 1,892.26 |
| Total by all agencies | 28,601 | 15,322.33 | 61,259 | 24,494.04 |

Source: NABARD. ***Status of Microfinance in India, 2020-21***. Mumbai. p.34.

It is evident from the above that, under MFI-Bank Linkage Programme, the banking companies have disbursed, during 2020-21, ` 15,322.33 crore to 28,601 accounts. And the amount of loan outstanding, as at 31 March 2021, is ` 24,494.04 crore from 61,259 accounts. The average outstanding amount works out to ` 0.40 crore per loan account - commercial banks (` 1.73 crore), RRBs (` 0.01 crore), co-operative banks (0.04 crore) and SIDBI (` 24.26 crore). Among four broad groups of formal financial institutions, the commercial banks are the major players in terms of amount of loan provided to MFIs/MFOs (microfinance organizations) (about ` 1.95 crore per account). However, in terms of number of loan accounts served by extending loans, co-operative banks are the major players. Similarly, SIDBI is providing more loans but to lesser number of accounts as against RRBs serving more accounts but lesser amount of loan.

Some of the highlights which provide different dimensions of Indian microfinance sector, from the point of view of performance, are presented below:

(a) In India, almost 99% of microfinance loan is provided to women from low income households.

(b) 98% of loans are provided through JLG model as this model is efficient in terms of operational costs.

(c) Microfinance loans are free from collateral security where maximum ticket size is up to ` 1,25,000 and average ticket size is ` 36,000.

(d) Microfinance industry has various supply sides with multiple lenders (nearly, 171) which include banks, SFBs (small finance banks), NBFC-MFIs and NBFCs.

(e) Microfinance is outreached almost 600 districts in India where 76% of loan portfolio is in rural area and 24% in urban area.

(f) Microfinance loan is primarily lent for income generating activities but are also taken for household purpose like housing, education, health, etc.

(g) Except non-profit MFIs, all microfinance lenders are regulated by the RBI.

(h) Interest rate charged by NBFC-MFIs is regulated by the RBI. However, the interest rate charged to customers ranges from 18% to 24%.

**Micro Financial Institutions (MFIs)**

In India, microfinance plays a major role in the development of its economy. It acts as an anti-poverty vaccine for the people living especially in rural areas. It aims at assisting communities of economically excluded to achieve greater level of asset creation and income security at the households and community levels. This microfinance service is also provided by MFIs.

MFIs have emerged with the vision of alleviation of poverty and to bring the poor to the mainstream of the economy by providing short-term loans to set up their own ventures. This has paved the way for poor, especially the rural poor, to become economically independent. However, of late, they are increasing urban orientation and providing credit products without the capacity building component. Generally, MFIs provide financial services such as savings and credit facilities, and some MFIs provide insurance and payment services. Along with these, many MFIs provide social intermediation services such as creating self-confidence among rural folks, group formations, financial literacy programmes, marketing skills, etc. They also provide non-income generating loans which are used for consumption, housing and education of children. This way, the MFIs contribute in every possible way to uplift the under-banked sections of the society and make them financially independent.

In India, microfinance concept has emerged due to rural poverty. Microfinance sector in India is slowly reaching the target but none of the MFIs in India has reached nearer the scale of popular Bangladesh MFIs. In India, microfinance has a wide diversity of methodology and legal forms. These models are designed for low income people and rural population to overcome their problems/challenges.

For the developing economies like India, the importance of MFIs is increasingly being considered as the most effective tool for reducing poverty. Hence, the countries now are in rush to promote MFIs. Meanwhile, Indian policy planners have made attempts to formulate strategies and to develop products for delivering financial services to the poorer sections of the society and to small entrepreneurs in a sustainable manner.

MFIs access financial resources from banks and other mainstream financial institutions, and use the same for providing financial support services to the poorer sections of the society. Due to this reason, they have emerged as important players in the rural credit delivery system. In India, these MFIs are in the form of charitable institutions (societies, trust, etc), co-operatives (state and national co-operatives), companies (NBFCs) or banking institutions (local area banks).

"A MFI is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission and methodology. However, all share the common characteristic of providing financial services to clients who are poor and more vulnerable than traditional bank clients" (CGAP, 2012). MFIs provide account services to small balance accounts that would not normally be accepted by traditional banks, and offer transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

During 2016, the worldwide customers for MFIs were 123 million for the loan portfolio of $ 102 billion. And India was the leader in terms of microfinance with 47 million borrowers and roughly $ 15 billion was the outstanding loans.

Indian microfinance sector started in 1970s and it emerged in the form of informal SHGs to deliver micro credit and savings. Later, the sector has witnessed strong growth. Since then, private sector organizations extended credit to microfinance companies. During 2005 to 2010, microfinance sector reported strong growth supported by strong demand for loans from browsers and investors' eagerness to invest fund in high growth industry.

However, in 2010, the microfinance sector was severely impacted by the Andhra Pradesh crisis. The state government promulgated an ordinance to curb the activities of microfinance companies. The crisis triggered a strong response from the RBI and in the year that followed, the sector has registered a turnaround and has evolved into a more mature market. Moreover, the government as well as the RBI have tried to create a conducive policy and regulatory environment for MFIs to expand financial inclusion agenda in India (Table - 1.3).

**Table - 1.3: Indian Microfinance Sector – Evolution and Developments**

| Phases | Year | Particulars |
|---|---|---|
| Initial period | 1974 | Shri Mahila SEWA Sahakari Bank owned and managed by women to provide financial services to women in unorganized sector was established. |
| | 1984 | NABARD advocated SHG linkage as an important tool for poverty alleviation. Other government agencies followed. |
| Change | 2002 | The provisioning norm for the unsecured lending to SHGs brought on par with other secured loans. |
| | 2004 | The RBI included MFI lending within the priority sector lending and recognized MFIs as a tool for financial inclusion. |
| | 2006 | The government shutdown branches of some microfinance companies due to allegations of high interest rates, unethical recovery practices and poaching clients from SHGs. |
| Growth and Crisis | 2007 | Favourable regulations, economies of scale and significant growth drew private equity players into the market. MFI loan book stood at ` 35 billion. |
| | 2009 | MFI Network (MFIN) was started, all NBFC MFIs (Non-Banking Financial Institutions) are eligible for membership. |
| | 2010 | Andhra crisis unfolded – allegedly coercive debt collection practices led poor borrowers to commit suicide. This led to an ordinance from the government and significant clamp down on MFI activities. |
| Consoli-dation and Maturity | 2012 | The Malegam Committee recommended for significant changes in the sector and the RBI issued financial notifications. The MFI loan book reduced to ` 209 bn from ` 216 bn. |
| | 2014 | The RBI issued universal banking license to Bandhan, the largest micro lender in India in terms of assets. MFIN was formally recognized by the RBI as self-regulatory organization (SRO). |
| | 2015 | The government launched MUDRA Bank to help small businesses financially. |

Source: ASSOCHAM India and Ernst & Young. (July 2016). ***Evolving Landscape of Microfinance Institutions in India***. p. 13

Indian MFIs have started their journey with a single product programme and now, they have diversified into different products/services. They have commercialized their operations and trying to understand the financial needs of their clients and customize products which suit their clients within the scope of regulatory restrictions. In the initial phase, MFIs have issued one-year JL (Joint Liability) loans. Later, many MFIs have broadened their services and also introduced many innovative products and customized products based on customer requirements. The period of 2005-10 has witnessed intensive growth in MFI sector.

The apex bank of the country prescribed certain conditions for MFIs e.g., maximum loan amount is ` 50,000 with at least 75% of this loan has to be given for the purpose of income generating. RBI has also mandated banks to issue microfinance loans under priority sector lending. Although the operating costs of MFIs are on higher side, they are self-sustained in meeting their expenses out of their income and leaving marginal surplus to meet their growth needs.

**Current Status of MFIs in India**

As per the World Bank Survey of 2012, only 35% of population in India are accessing formal banking facility and 8% of them are borrowing from institutions and formal sources. To fill this gap, microfinance has emerged as powerful tool for economic development of poor. During 1970s and early 1980s, they provided many financial services which are collectively called, microfinance. Within microfinance, micro credit is provided to the poor for income generation activities and for the commencement of new businesses.

At present, in India, MFIs are operating in five Union Territories and 28 States covering 593 districts. However, highest number of active loan accounts and loan portfolio outstanding are held by five states viz., West Bengal, Tamil Nadu, Karnataka, Bihar and Maharashtra. As on 31 March 2020, the combined micro-credit portfolio (i.e., total loan outstanding) of 191 lenders is ` 2,28,669 crore of which NBFC-MFIs (86) and

Non-Profit MFIs (30) together have share of ` 76,674 crore (33.53%). Both NBFC-MFIs and Non-Profit MFIs have registered 38% year-over-year growth during 2019-20.

A few details about the number of MFIs in each of the States and Union Territories, number of districts covered and also the number of branches of MFIs in each State and Union Territories are presented below (Table - 1.4).

**Table - 1.4: Number of MFIs and their Branches in States and Union Territories**

| Sl. No. | State or Union Territory | Number of MFIs operating in the State (including those having Headquarters outside) | Number of Districts of the State where MFIs operate | Number of Branches |
|---|---|---|---|---|
| (1) | Andaman and Nicobar Islands | 2 | 2 | 4 |
| (2) | Andhra Pradesh | 4 | 12 | 122 |
| (3) | Arunachal Pradesh | 2 | 1 | 2 |
| (4) | Assam | 30 | 30 | 651 |
| (5) | Bihar | 58 | 38 | 1,963 |
| (6) | Chandigarh | 2 | 1 | 2 |
| (7) | Chhattisgarh | 38 | 25 | 673 |
| (8) | Delhi | 9 | 7 | 24 |
| (9) | Goa | 7 | 2 | 17 |
| (10) | Gujarat | 29 | 30 | 596 |
| (11) | Haryana | 27 | 22 | 307 |
| (12) | Himachal Pradesh | 8 | 6 | 15 |
| (13) | Jammu and Kashmir | 3 | 1 | 3 |
| (14) | Jharkhand | 38 | 24 | 585 |
| (15) | Karnataka | 33 | 30 | 1,611 |
| (16) | Kerala | 30 | 14 | 549 |
| (17) | Madhya Pradesh | 50 | 50 | 1,551 |
| (18) | Maharashtra | 49 | 36 | 1,340 |
| (19) | Manipur | 8 | 10 | 37 |
| (20) | Meghalaya | 10 | 4 | 15 |

| | | | | |
|---|---|---|---|---|
| (21) | Mizoram | 4 | 2 | 5 |
| (22) | Nagaland | 1 | 1 | 1 |
| (23) | Odisha | 40 | 30 | 1,452 |
| (24) | Puducherry | 24 | 4 | 55 |
| (25) | Punjab | 20 | 22 | 389 |
| (26) | Rajasthan | 35 | 32 | 948 |
| (27) | Sikkim | 6 | 3 | 14 |
| (28) | Tamil Nadu | 48 | 38 | 2,360 |
| (29) | Telangana | 5 | 10 | 46 |
| (30) | Tripura | 16 | 8 | 182 |
| (31) | Uttar Pradesh | 53 | 71 | 1,876 |
| (32) | Uttarakhand | 21 | 4 | 125 |
| (33) | West Bengal | 51 | 23 | 1,553 |
| | Total | | 593 | 19,073 |

Source: Sa-Dhan – The Association of Community Development Finance Institutions. ***The Bharat Microfinance Report, 2019-20***, New Delhi. p. 12.

It is obvious from the above that eight states have more than 1,000 branches of MFIs each with Tamil Nadu having the highest number of branches and Karnataka has the fourth largest number of branches of MFIs. In terms of gross loan portfolio, ten MFIs have 61% share. In this regard, a few details about the loan portfolios of top 10 MFIs as at 31 March 2020 are presented below (Table - 1.5 and Figure - 1.3).

**Table - 1.5: Top 10 MFIs in India based on Loan Portfolio as at 31 March 2020**

| Sl. No. | Name of MFI | Gross Loan Portfolio (` crore) | Per-centage |
|---|---|---|---|
| (1) | SKDRDP (Sri Kshethra Dharmasthala Rural Development Project) | 11,629 | 11 |
| (2) | Credit Access Grameen Ltd | 9,896 | 10 |
| (3) | Satin Creditcare Network Ltd | 7,220 | 7 |
| (4) | Spandana Sphoorty Financial Ltd | 6,829 | 7 |
| (5) | Asirvad Microfinance Ltd | 5,503 | 5 |
| (6) | Muthoot Microfin Ltd | 4,932 | 5 |
| (7) | Arohan Financial Services Ltd | 4,854 | 5 |
| (8) | Annapurna Finance Pvt., Ltd | 4,030 | 4 |
| (9) | Fusion Microfinance Pvt., Ltd | 3,608 | 4 |
| (10) | Samasta Microfinance Ltd | 3,400 | 3 |
| | Total | 61,901 | 61 |

Source: Sa-Dhan – The Association of Community Development Finance Institutions. ***The Bharat Microfinance Report, 2019-20***, New Delhi. p. 22.

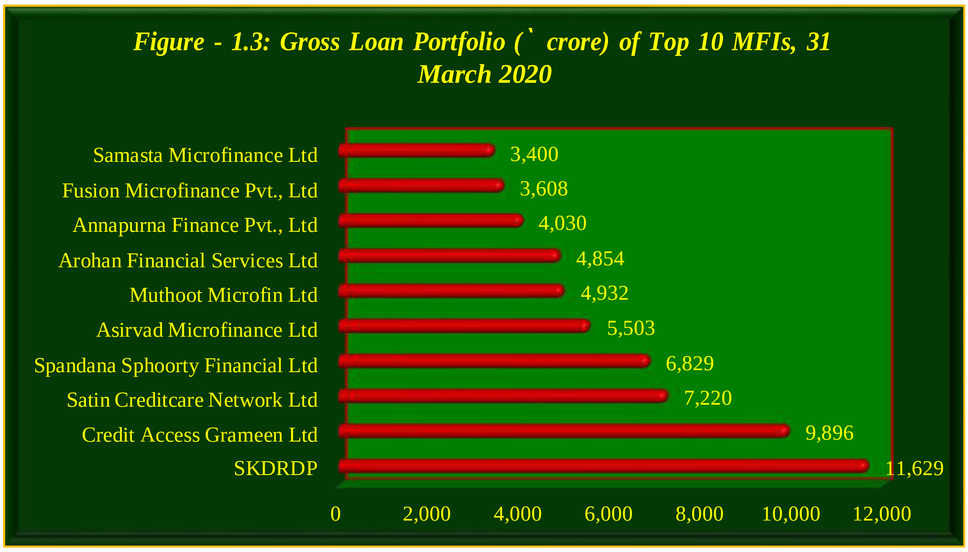
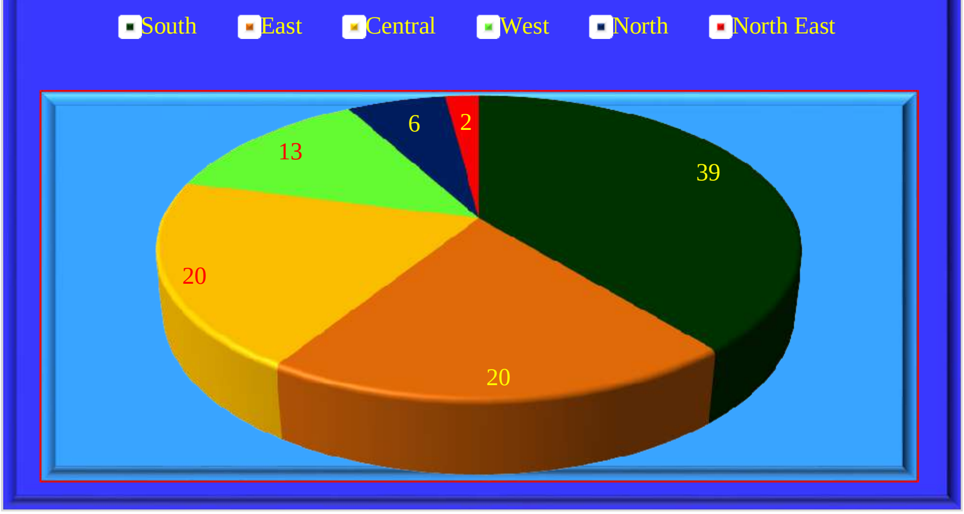



***Figure - 1.3: Gross Loan Portfolio (` crore) of Top 10 MFIs, 31 March 2020***

Out of total clients of MFIs of 399 lakhs, 39% are in southern region followed by 20% each in east and central regions, 13% in western region and 6% northern region. And the remaining about 2% of the clients are in north east region. The share of outreach is expanded in central, western and northern regions from 15% to 20%, 11% to 13% and 4% to 6% respectively. Further, these differences among different regions in terms of clients' outreach by MFIs become clear from the following figure (Figure - 1.4).

*Figure - 1.4: Region-wise Outreach of MFIs (%)*




## Categories of MFIs in India

Based on legal structure, MFIs are classified into three categories as Not-for-Profit MFIs, Mutual Benefit MFIs and For-Profit MFIs.

**Not-for-Profit MFIs** thrive on donor funding. They receive grants from sources like Rashtriya Mahila Kosh (RMK), Friends of Women World Banking (FWWB), SIDBI, Microfinance Development and Equity Fund, etc., for lending. These MFIs are of three types viz., Societies (e.g., Bandhan, Rashtriya Seva Samithi and Gram Utthan), Public Trusts (e.g., SKDRDP and Community Development Centre), and Non-Profit Companies (e.g., Indian Association for Savings and Credit, and Cashpor Micro Credit).

Similarly, **Mutual Benefit MFIs** are of two types viz., Co-operatives registered under State or National Acts (e.g., Pustikar Lagh Vyaparik Pratisthan Bachat and Sakh Sahkari Samiti Limited) and Mutually-aided Co-operative Societies (e.g., Sewa Mutually Aided Co-operative Thrift Societies Federation Ltd). Unfortunately, the co-operatives are overburdened with huge bad debt leading to capital erosion.

And the last category viz., **For-Profit MFIs** are of three types viz., Non-Banking Financial Companies (e.g., Bharatiya Samruddhi Finance Ltd., Share Microfin Ltd., SKS Microfinance Ltd., and Spandan Sphoorthy Finance Ltd), Producer Companies (e.g., Sri Vijaya Visakha Milk Producers Co., Ltd) and Local Area Banks (the only such MFI is Krishna Bhima Samruddhi Local Area Bank). NBFC-MFIs are the fastest growing for-profit institutions in terms of client coverage, geographical coverage, portfolio size and portfolio quality (Figure - 1.5).

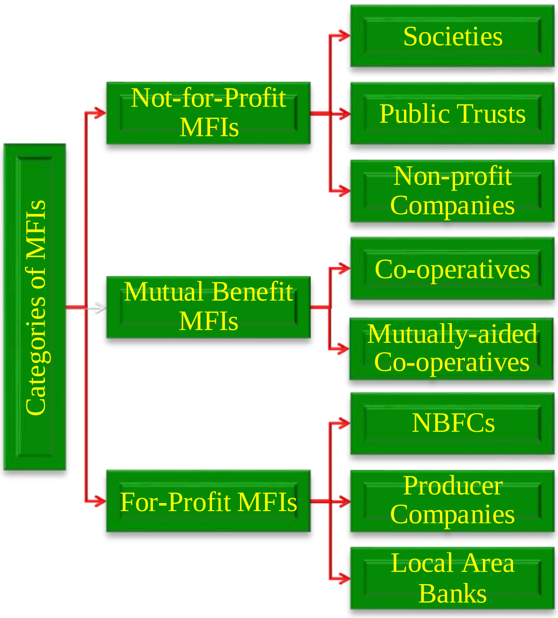



*Figure - 1.5: Classification of MFIs in India*

**Differentiating Factors of MFIs**

MFIs differ from one to another in terms of lending model, loan repayment structure, mode/method of interest rate calculation, product offerings and legal structure as summarized below.

- **(a) Lending Model:** In India, MFIs have adopted group lending rather than individual lending. The group lending has two types viz., Self-Help Group (SHG) Model and the Joint-Liability Group (JLG). In SHG model, an MFI lends to a group of 10 to 20 women, whereas JLG model is Grameen Bank model. In India, majority of MFIs follow a hybrid of group models.
- **(b) Loan Repayment Structure and Mode of Interest Rate Calculation:** Majority of MFIs follow JLG model where weekly and fortnightly repayment structure is followed and charged flat interest rate of 12-18% on loan. Under SHG model, monthly repayment structure is followed and charged 18-24% interest per annum based on reducing balance method. Along with these, some MFIs also charge processing fee at the time of disbursement of loan amount.
- **(c) Product Offerings:** Most of MFIs are engaged in provision of micro-credit and a few of them extend saving, thrift, insurance, pension and remittance facilities. For providing insurance services, MFIs have tie-up with insurance companies.

Indian SHG and JLG models are channels for financial inclusion. In both the models, peer pressure acts as social collateral. Group members are normally from neighborhoods and they trust each other and work together for poverty alleviation. However, two important models viz., SHG model and JLG model differ from each other. Some of these differences are summarized below (Table - 1.6).

**Table - 1.6: SHG Model and JLG Model of Lending - Differences**

| Sl. No. | SHG Model | JLG Model |
|---|---|---|
| (1) | NABARD has promoted this model by SHGBLP and it is mainly used by banks for lending. | JLG model is primarily used by MFIs. |
| (2) | Group size of SHG model is 10 to 20 members. | Group size of JLG model is 5 to 10 members. |
| (3) | SHGs have more formal structure compared to JLGs. They create a few positions in the group such as secretary, treasurer, etc., and they interact with SHG members. | JLG members directly interact with MFI themselves. |
| (4) | SHG members make savings regularly and deposit it with financial institutions. Loan amount from SHG is five times the amount of savings they have in the lending institution. | JLG model is mainly used for lending irrespective of savings. |
| (5) | SHG lending is done in the name of SHG group and not individual. | JLG lending is done to individual members where the members are guarantors for each other. |

The following table (Table - 1.7) provides the details about number of MFIs under each legal form.

**Table - 1.7: Distribution of MFIs across Legal Form**

| Legal Form | Number of MFIs | Percent-age |
|---|---|---|
| NBFC-MFIs | 94 | 40.17 |
| NBFCs | 30 | 12.82 |
| MFIs registered under Companies Act | 36 | 15.38 |
| Societies | 43 | 18.38 |
| Trusts | 19 | 8.12 |
| MACS or Cooperatives | 12 | 5.13 |
| Total | 234 | 100.00 |

**Source**: Sa-Dhan – The Association of Community Development Finance Institutions. ***The Bharat Microfinance Report, 2019-20***, New Delhi. p. 7.

It is obvious from the above table that majority of MFIs (40.17%) in India are registered as NBFC-MFIs followed by societies and MFIs registered under Companies Act with 18.38% and 15.38% respectively. Remaining MFIs are registered as NBFCs (12.82%), Trusts (8.12%) and Mutually Aided Co-operative Societies (MACS) or Co-operatives (5.13%).

**Organizational/Operational Structure of MFIs in India**

The working processes of MFIs differ from that of banking companies. The loan lending methods of MFIs are completely different from traditional banking system. They provide not only microfinance services but also develop financial literacy. Institutions such as NGOs, NBFCs, credit unions, commercial banks, local area banks (LAB), co-operatives, etc., can become and work as MFIs.

Before establishing MFIs in a village, a comprehensive survey is conducted and relevant statistical data such as population, demographics, etc., are gathered. After selecting the village, an introductory workshop is conducted to provide relevant details about the institution, its services, operational mechanism, benefits, etc. The interested women are gathered and formed groups with reasonable number (minimum 5 and maximum 20). For group members, credit is given without collateral security but group members act as guarantors (peer pressure). And the loan amount is to be repaid in time.

After the formation of group, training is provided to group members and village center is created to collect all payments. A field officer presides over the meetings in the village center. These meetings are conducted regularly to collet repayment of loan amount and also to discuss other issues. Any borrowing of loan is done through the branch office.

The organizational/operational structure of MFIs comprise a few hierarchies as presented below (Figure - 1.6).


*Figure - 1.6: Organizational/Operational Structure of MFIs*

Owing to default risk, loans and advances are sanctioned/disbursed only after through check. Before sanctioning loan, all MFIs need to follow specific rules and necessary evaluation of documents is done and all care is taken to check the viability of business. The unique structure of such institutions and their way of functioning have ensured minimum default rate and over 95% of the loans are repaid on time. This is an incredible success and calls for even more growth of MFI sector. Even use of technology may enhance the efficiency of microfinance service - helping the MFIs in greater penetration besides simplifying the process. MFIs are creating value not only for themselves but also for the entire country. MFIs mobilize the required fund from a few sources as summarized below:

(a) Grants and subsidies - this source is particularly used during the establishment of MFIs.

(b) Member and customer deposits - MFIs organized as co-operatives, microfinance banks, etc., offer savings products along with micro credit.

(c) Own capital - small portion of funding is mobilized by the MFIs from their own source.

(d) Funding from public investors – MFIs of bilateral or multilateral organization type like European Investment Bank (EIB), International Financial Corporation (IFC), etc., mobilize the requisite fund from general public (as investment).

(e) Private investors can supply directly or through investment funds specializing in microfinance (MIV, Microfinance Investment Vehicle) serving as intermediary between MFIs and investors.

**MFIs - Lending Methodology**

MFIs provide loan by developing solidarity economy that always relies on mutual confidence. Before lending micro-loan to targeted clients, MFI officials examine the JLG or SHG group members' financial conditions. MFI's committee evaluates the borrowers' eligibility based on their human and social criteria (considering experience, motivation, competence, etc), project viability, repayment capacity, etc. In India, majority of MFIs are providing loan for JLGs.

MFIs are operating differently than banking institutions. They offer services to those who were excluded from formal banking services.

(a) Eligibility Criteria - MFIs grant loan based on human criteria rather than financial guarantees (salary, assets, etc). Their viability evaluations include several interviews with borrowers in addition to the applications.

(b) Guarantee - Banks or financial institutions require guarantee in order to grant loan. But in the case of MFIs, group solidarity mechanism is the base for lending.

(c) Build close relationship with beneficiaries - While lending micro loans, MFIs provide strong support to borrowers - offer training programmes focusing on credit or family budgeting. This builds/develops close relationship with beneficiaries and their family members.

(d) Repayment method - Repayment method is flexible to suit the target audience such as weekly, monthly, etc.

(e) Group borrowers - MFI requests to constitute a group of borrowers for granting a single micro loan to entire group. The group loan does not require any guarantee but instead rely on the solidarity of all group members. This creates a kind of social guarantee where all group members are responsible to MFI as well as to their co-borrowers.

**Performance of MFIs**

In the above backdrop, a few details about number of accounts, amount of loan disbursed by different kinds of MFIs and also the amount of loan outstanding are presented below.

**Table - 1.8: Number of Loans Disbursed**

| Types of Lenders | 2019-20 | | 2020-21 | |
|---|---|---|---|---|
| | Number of Loans Disbursed (lakhs) | %age Share | Number of Loans Disbursed (lakhs) | %age Share |
| NBFC-MFIs | 276 | 37 | 177 | 32 |
| Banks | 287 | 39 | 275 | 50 |
| SFBs | 114 | 16 | 70 | 13 |
| NBFCs | 49 | 7 | 24 | 4 |
| Non-profit MFIs | 8 | 1 | 7 | 1 |
| Total | 734 | 100 | 553 | 100 |

Source: NABARD. ***Status of Microfinance in India, 2020-21***. Mumbai. p.32.

It is clear from the above that the number of accounts for which loan was disbursed during 2020-21 by all types of lenders registered a downward change compared to 2019-20. One of the reasons for this downward change is the COVID-19 pandemic. However, the number of accounts for which loan was disbursed declined from 734 lakhs in 2019-20 to 553 lakhs in 2020-21. Among five broad categories of lenders, banking companies are the major players and they have disbursed loans to 275 lakh accounts in 2020-21 as against 287 lakh accounts in 2019-20. And the Non-Profit MFIs have disbursed loans only at 7 lakh accounts during 2020-21 as against for 8 loan accounts in 2019-20 – this category of lender is serving the least number of accounts. More or less, similar type of changes can be observed in other types of lenders.

The pattern of changes is similar even in the case of amount of loan disbursed. This is evident from the following table (Table - 1.9).

**Table - 1.9: Type of Lenders and Loan Disbursement**

| Type of lenders | 2019-20 | | 2020-21 | |
|---|---|---|---|---|
| | Disbursement (` crore) | %age Share | Disbursement (` crore) | %age Share |
| NBFC-MFIs | 79,416 | 31 | 59,867 | 30 |
| Banks | 1,16,644 | 46 | 1,03,798 | 52 |
| SFBs | 38,807 | 15 | 24,794 | 12 |
| NBFCs | 17,510 | 7 | 9,499 | 5 |
| Non-Profit MFIs | 2,377 | 1 | 2,123 | 1 |
| Total | 2,54,754 | 100 | 2,00,081 | 100 |

Source: NABARD. ***Status of Microfinance in India, 2020-21***. Mumbai. p.32.

It is apparent from the content of the above table that the banking companies have disbursed the highest amount of loan to the poorer sections of the society under microfinance scheme. The amount of loan disbursed by banking companies ` 1,16,644 crore in 2019-20 accounting for 46% of total loan disbursed by all kinds of lenders of ` 2,54,754 crore. However, the amount of loan disbursed by them (i.e., banks) declined during 2020-21 to ` 1,03,798 crore but their (banks) share increased to 52%. In all other forms of MFIs, both the amount of loan disbursed and the share declined in 2020-21 compared to 2019-20 – one of the reasons is the COVID-19 pandemic. Even the total amount of loan disbursed by all forms of MFIs during 2020-21 declined to ` 2,00,081 crore from ` 2,54,754 crore in 2019-20.

But in the case of outstanding loan amount, the pattern of changes is different from that of loan disbursement. This is evident from the details presented in the following table (Table - 1.10).

**Table - 1.10: Amount of Loan Outstanding in Microfinance Sector**

| Type of lenders | 2019-20 | | 2020-21 | | Growth (%) | |
|---|---|---|---|---|---|---|
| | Number of Active Loans (lakhs) | Out-standing Balance (` crore) | Number of Active Loans (lakhs) | Out-standing Balance (` crore) | Number of Active Loans | Out-standing Balance |
| NBFC-MFIs | 356 | 72,110 | 359 | 79,115 | 0.9 | 9.7 |
| Banks | 303 | 81,001 | 426 | 1,10,122 | 37.1 | 36 |
| SFBs | 168 | 38,986 | 163 | 37,724 | –3 | –3.2 |
| NBFCs | 84 | 18,073 | 78 | 18,765 | –6.7 | 3.8 |
| Non-profit MFIs | 8 | 1,679 | 11 | 2,113 | 42.8 | 25.8 |
| Total | 919 | 2,11,848 | 1,028 | 2,47,839 | 11.8 | 17 |

Source: NABARD. ***Status of Microfinance in India, 2020-21***. Mumbai. p.32.

Both the total number of active loan accounts and the total amount of outstanding loans registered increase by the end of 2020-21 compared to that at the end of 2019-20. The number of active loans increased from 919 lakhs as at 31 March 2020 to 1,028 lakhs by 31 March 2021. During the same period, the amount of loan outstanding increased from ` 2,11,848 crore to ` 2,47,839 crore. Within the MFIs, in the case of NBFC-MFIs, Banks and Non-Profit MFIs, both the number of active loans and outstanding loan amounts registered increase during this period. But in the case of SFBs, both the active loans and amount of outstanding loans declined by 31 March 2021 compared to on 31 March 2020. On the other hand, in the case of NBFCs, although the number of active loans declined from 84 lakhs to 78 lakhs, the amount of outstanding loans increased during this period.

**RBI Guidelines for NBFC-MFIs**

The salient features of guidelines pertaining to the NBFC-MFIs issued by the RBI are summarized below.

(a) NBFC-MFI should have a minimum NOF (Net Owned Funds) of ` 5 crore (for North-Eastern Region, NOF is ` 2 crore).

(b) Not less than 85% of net assets should be in the nature of ‘qualifying assets’ – ‘net assets’ means total assets except cash and bank balance, and money market instruments.

(c) New NBFC-MFI are required to maintain CAR (Capital Adequacy Ratio) consisting of Tier I and Tier II capital at not less than 15% of aggregate risk weighted assets.

(d) A borrower should not be a member of more than one JLG or SHG.

(e) Not more than two NBFC-MFIs should lend loan to the same borrower.

(f) Process charges of NBFC-MFI shall not be more than 1% of gross loan amount.

(g) From 1 April 2014, the interest rate charged by NBFC-MFIs shall be,

  (i) Cost of fund plus margin or

  (ii) Average base rate of five largest commercial banks by assets multiplied by 2.75. ‘Average base rate’ of the five largest commercial banks shall be advised by RBI on the last working day of the previous quarter for determining the interest rate for the ensuing quarter.

(h) All NBFC-MFIs are encouraged to become members of at least one SRO (Self-Regulatory Organization) which is recognized by the RBI. MFIs have to comply with the code of conduct prescribed by SRO.

**MFIs in Karnataka**

Karnataka state is rich in culture and habitats, and this has impacted on the livelihood of people. Most of the people in Karnataka depend on agriculture which is their main source of income. Farmers require financial assistance to carry out their agricultural activities continuously. In this regard, MFIs play a major role by providing financial assistance whenever they require. MFIs established in Karnataka since 1980s are continuously assisting farmers by providing both financial and non-financial services.

In 1984, the first MFI started in Mysuru viz., MYRADA (Mysore Resettlement and Development Authority). It was registered as NGO and started providing microfinance services in Karnataka. During 1981-82, NABARD started SHG-Bank Linkage Programme. This has proved as one of the successful programmes of microfinance. During 1984-85, MYRADA, NGOs and several co-operative societies were engaged in rural development by providing loan facility to their members in Karnataka. Subsequently, large co-operatives broken into small groups and this was the genesis of first SHGs and they were referred to as, ‘credit management groups’. These groups were conducting meetings regularly creating awareness about savings, book-keeping, maintenance of records and also collective decision making. In 1991-92, NABARD introduced microfinance programme through pilot project of SHGBLP in Karnataka. With the success of pilot project, NABARD got the confidence to start SHGBLP. Later, the programme has spread across the country. By 2002, it has become one of the largest microfinance programmes in the world.

SHGBLP was launched in 1991-92 and the very first SHGs in the country were given to Kolar district of Karnataka by Vysya Bank, Bangarpet branch to Venkateshwara Mahila Sangha of Mudguli on 9 December 1991 and also by a co-operative bank, Andersonpet Branch to Saraswati Mahila Sangha of Bodugriki on 30 January 1992. Later, NABARD has scaled up programmes by undertaking series of initiatives such as training of NGOs and bank staffs, conducting regular meetings for intervening agencies, analyzing reports and providing feedback for changes in operational systems to make them more user-friendly. Cauvery Grameen Bank of Mysore district was the first RRB to promote SHGs. In 1990s, International Fund for Agricultural Development (IFAD) with World Bank collaboration and in partnership with the GoI and six state governments including Karnataka has launched similar programme, ‘Swashakthi’. This experience has encouraged Karnataka to launch a state-wide programme called ‘Shri Shakti’ (means, women power) based on SGH strategy. Together with the support of various stakeholders such as government, NGOs, banks, etc., SHGs have improved their performance significantly in Karnataka.

MFIs are giving more priority for women as they take more responsibility to repay loan and up-bringing their children besides taking care of their family members. In 1992, the GoI, with the initiation of NABARD, introduced SHG Bank Linkage programme throughout India. This programme has become one of the leading models in delivering microfinance. Through this model, NABARD is serving poor and disadvantaged people financially. GoI and GoK (Government of Karnataka) have formulated favourable policy environment for microfinance. In SHG interest subvention scheme, National Rural Livelihood Mission (NRLM) has given interest subvention for the credit up to ` 3 lakh at 7% interest per annum for eligible women SHGs. The GoK has given interest subvention of 4% for SHGs which have taken loan from co-operative banks. Further, in 2017-18, GoK announced that, SHGs and SSGs (Shri Shakthi Groups) get interest free loans from co-operative banks which in turn get interest subsidy from the statement government. This has created revolutionary change. It has created poor-friendly approach from the GoK. Over the years, 97 lakh rural poor have been empowered by SHGBLP in Karnataka and 9.62 lakh savings bank accounts opened by SHGs in different banks with savings of ` 1,442.42 crore and the banks played major role in providing SHG loans which has covered 90% of women-SHGs. Although MFIs are delivering innovative products, they have weak governance as only NBFC-MFIs are regulated and rest of the MFIs have lack of regulatory authority.

As per the report of Association for Karnataka Microfinance Institutions (AKMI) for 2020-21, there are 32 MFIs which are the members of AKMI and 25,258 employees are working in 2,189 branches around Karnataka. These MFIs are having active accounts of 96.42 lakhs with outstanding amount of ` 35,025.16 crore and Portfolio at Risk, PAR (NPA) is ` 888.74 crore. A few details about MFIs in Karnataka are presented below

(Annexure - 1.2). These MFIs in Karnataka are of different legal forms as evident from the relevant data presented below (Table - 1.11).

**Table - 1.11: Legal Form of AKMI Members (MFIs)**

| Legal Form of MFI | Number of MFIs |
|---|---|
| NBFC - MFIs | 16 |
| NBFCs | 1 |
| BCs | 4 |
| SFBs | 6 |
| Trusts/NGOs/Others | 5 |
| Total | 32 |

Source: Report of AKMI, 2020-21

**Conclusion**

Many studies have shown that the microfinance facilitates improved access to finance, improves the financial sector and also leads to financial inclusion and alleviation of poverty. This has positive impact on economic growth. It leads to sustainable economic growth and reduces income inequality. On the other hand, microfinance envisages the integration of financial needs of households into a country's financial system. There is a direct link between microfinance and at least five MDGs. Asian Development Bank (ADB), Food and Agricultural Organization (FAO) and World Food Programme (WFP) declared that, it is possible to achieve the MDGs "if the developing and developed countries take action immediately" by implementing various plans and projects in which microfinance could play a major role.

Even in India, MFIs play a prominent role in the development of overall economy. MFIs are established with the objective of empowering the people to fight against the poverty, building supportive relationships and also outreach programme to the neglected areas. Now, Indian MFIs have not only concentrated on the objective of social nature of helping poor in fighting against the poverty but also on becoming commercialized and focusing on profit.

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**Annexure - 1.1**

**Poverty Alleviation Initiatives at the Global Level**

| Year | Initiatives for Poverty Alleviation and other Poverty-related details |
|---|---|
| 1964 | The US president, Lyndon Johnson, declared 'war on poverty' |
| 1981 | The World Bank collected data about global poverty and found that 44% of world population lived in extreme poverty. |
| 1990 | The World Bank considered 'extreme poverty' as 'people living on less than US $ 1 a day. Accordingly, it found that nearly 36% (1.89 billion people) of the world's population lived in extreme poverty. |
| 1992 | The UN adopted 21 agenda to combat global poverty using country-specific solutions |
| 1995 | The world summit for social development pledged to eradicate poverty. |
| 1997 | Period, 1997-2006, was declared as the first UN decade for eradication of poverty. |
| 2000 | 191 UN members signed the Millennium Development Goals (MDGs). This programme aimed at reducing extreme global poverty level by 2015. |
| 2008 | The period, 2008-2017, was considered as the second UN decade for eradication of poverty. Using 2005 price index, the World Bank revised the International Poverty Line upwardly from US $ 1 to US $ 1.25. |
| 2010 | The MDGs have enabled the countries/world to reduce the extreme poverty rates by half and it was achieved five years earlier than expected (target was to be achieved by 2015). |
| 2012 | The UN General Assembly felt that, eradicating poverty is the greatest global challenge facing the world today. |
| 2015 | • Based on 2011 price index, the World Bank again revised the International Poverty Line upwardly from US $ 1.25 to US $ 1.90.<br>• A set of Sustainable Development Goals (SDGs) replaced the MDGs of 2000. |
| 2020 | The Covid-19 pandemic has pushed an additional 97 million people into extreme poverty. |

Source: Prepared the annexure using the details collected from different sources.

**Annexure - 1.2**

**List of MFIs in Karnataka**

| Sl. No. | Name of MFI | Location of Head Office | Legal Form |
|---|---|---|---|
| (1) | Asirvad Microfinance Ltd | Chennai, Tamil Nadu | NBFC-MFI |
| (2) | Belstar Microfinance Ltd | Chennai, Tamil Nadu | NBFC-MFI |
| (3) | Bharath Financial Inclusion Ltd | Hyderabad, Telangana | NBFC-MFI |
| (4) | BSS Microfinance Ltd | Bengaluru, Karnataka | BC |
| (5) | Chaitanya India Fin Credit Pvt., Ltd | Bengaluru, Karnataka | NBFC-MFI |
| (6) | Credit Access Grameen Ltd. | Bengaluru, Karnataka | NBFC-MFI |
| (7) | IDF Financial Services Pvt., Ltd | Bengaluru, Karnataka | NBFC-MFI |
| (8) | Mudra Microfinance Ltd | Chennai, Tamil Nadu | NBFC-MFI |
| (9) | Muthoot Microfinance Ltd | Ernakulum, Kerala | NBFC-MFI |
| (10) | NABFINS Ltd | Bengaluru, Karnataka | NBFC-MFI |
| (11) | Navachetana Microfin Services Pvt., Ltd | Haveri Karnataka | NBFC-MFI |
| (12) | Samasta Microfinance Ltd | Bengaluru, Karnataka | NBFC-MFI |
| (13) | Spandana Sphoorthy Financial Ltd | Hyderabad, Telangana | NBFC-MFI |
| (14) | RORS Finance Pvt., Ltd | Shrinivasapura, Karnataka | NBFC-MFI |
| (15) | L & T Financial services | Mumbai, Maharashtra | NBFC |
| (16) | Habitat Micro Build India Housing Finance Company Pvt., Ltd | Bengaluru, Karnataka | Others |
| (17) | New Opportunity Consultancy Pvt., Ltd | Mumbai, Maharashtra | BC |
| (18) | Saggraha Management Services Pvt., Ltd | Bengaluru, Karnataka | BC |
| (19) | Vaya FinServ Pvt., Ltd | Hyderabad, Telangana | BC |
| (20) | SKDRDP | Dharmasthala, Karnataka | Trust |
| (21) | Prakruthi Foundation | Seegehalli, Karnataka | Trust |
| (22) | Samuha | Kanakagiri, Karnataka | Trust |
| (23) | Sanghamithra Rural Financial Services | Bengaluru, Karnataka | Trust |
| (24) | Satin Credit care Network Ltd | Gurugram, Haryana | NBFC-MFI |
| (25) | ESAF Small Finance Bank | Trissur, Kerala | SFB |

| | | | |
|---|---|---|---|
| (26) | Fincare Small Finance Bank Ltd | Bengaluru, Karnataka | SFB |
| (27) | Jana Small Finance Bank | Bengaluru, Karnataka | SFB |
| (28) | Suryoday Small Finance Bank | Mumbai, Maharashtra | SFB |
| (29) | Ujjivan Small Finance Bank | Bengaluru, Karnataka | SFB |
| (30) | Euitas Small Finance Bank | Chennai, Tamil Nadu | SFB |
| (31) | Svatantra Microfin Pvt., Ltd | Mumbai, Maharashtra | NBFC-MFI |
| (32) | Svamaan Financial Services Pvt., Ltd | Mumbai, Maharashtra | NBFC-MFI |

Source: Report of AKMI, 2020-21

# CHAPTER – II

# RESEARCH DESIGN

**Chapter Outline**

Introduction
Literature Review:

Conceptual Framework of MFIs
Financial Performance of MFIs – Global Context
Financial Performance of MFIs – Indian Context

Research Gap
Statement of the Problem
Objectives of the Study
Hypotheses
Scope of the Study
Sources of Data
Sample Size
A few other aspects of Research Methodology
Chapter Scheme
Limitations of the Study
References

## Introduction

India has completed 75 years of Independence recently but still the country has not combated poverty and unemployment fully. These two have become the major obstacles for the development of the country. They are considered as the most threatening problems as they not only create economic issues but also have social, moral and political consequences. These two evils created acute disorder in the economic system pushing down the Indian economy in the world graph. Alleviation of poverty and generating self-employment are the only panacea for the obstacles in the path of economic development of the country. It may be noted here that both are inter-related – poverty can be reduced by proper employment and employment eradicates poverty and reduce crime rate in the society. For eradication of poverty and unemployment, the Government of India (GoI) has designed and implemented many schemes such as, (a) Integrated Rural Development Programme (IRDP) in 1978-79, (b) Training of Rural Youth for Self-Employment (TRYSEM) in 1979, (c) Prime Minister Rozgar Yojana in 1993, (d) Jawahar Gram Samriddhi Yojana in 1999, (e) Swarnajayanthi Gram Swarozgar Yojana (SGSY) in 1999, (f) National Rural Employment Guarantee Act (NREGA), 2006 which is modified as, Mahathma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005, (g) National Skill Development Mission in 2014, (h) Pradhan Mantri Awaas Yojana, 2015, (i) Pradhan Mantri Kaushal Vikas Yojana (PMKVY) in 2015, (j) Pradhan Mantri Kisan Samman Nidhi, etc.

For the post-pandemic period, a few new schemes are launched. They include, (a) Atmanirbhar Bharath Abhiyan, (b) Production Linked Incentive Scheme, (c) Garib Kalyan Rojgar Abhiyan, etc.

Some of these schemes have failed to reach targeted poor and to achieve their objectives. Therefore, microfinance programmes are launched as a better alternative for addressing poverty and unemployment. In the middle of 1970s, microfinance scheme was introduced as a revolutionary means to break the vicious cycle of poverty. Microfinance services can reduce the risk of poor, improve productivity, ensure higher Return on Investment (RoI), increase income and also improve living standard of poor. It is playing an important role in bringing poor into the mainstream of the economy and thereby, it can aid to participate in the process of nation building. The quantum of credit available for poor and financially excluded clients has reached ` 1,01,663 crore and the number of clients benefited has crossed 42 million as of March 2020 (Sa-Dhan, 2020),

The progress of SHG-Bank Linkage Programme encouraged the Reserve Bank of India (RBI) to consider microfinance as a mainstream activity and include under the priority lending. Under this programme, public and private sector banks, RRBs and co-operative banks have joined their hands to provide financial and non-financial services to a large number of poor. The GoI and the RBI have also created conducive policy and regulatory framework for MFIs to operate. This environment has led to the mushroom growth of MFIs in different states and union territories of India. Under MFI Linkage programme, banks started lending MFIs and the RBI has also allowed MFIs to pay a role in the lending process. MFIs are currently serving rural, semi-urban and urban poor by providing financial and non-financial services especially for women. Indian financial environment is very congenial for the development of MFIs. As on 31 March 2020, the combined (NBFCs, SFBs etc) micro credit portfolio of 252 lenders (MFIs) has reached ` 2,36,427 crore through 1,085 lakhs of active loans (Sa-Dhan, 2020). Many studies revealed that MFIs have contributed for the socio-economic development of women in rural area and recorded many success stories of women empowerment. Consequently, operation of MFIs in unbanked areas have successfully uplifted the poor and increased self-employment.

MFIs are playing vital role in bridging the gap between demand and supply of financial services. For successful operation of MFIs, it is necessary to have stable/better financial condition. Some of the studies revealed that, Indian MFIs are facing certain challenges in their effective operation such as lack of operational self-sustainability, lack of adequate capital for operation, high cost of borrowed fund, charging high rate of interest to customers, lower profit margin, higher financial and operating expenses dependence of majority of MFIs on subsidy and not self-sustained, inefficient management of assets, cost and leverage reducing the return on asset, return on equity and operational self-sufficiency, etc. However, there is a need for stabilizing or improving the financial performance of MFIs for achieving social and institutional objectives.

In the above backdrop, an attempt is made here to review some of the earlier important studies to obtain a greater insight into the whole gamut of microfinance, MFIs, etc., on the one hand and to identify the research gap that exists at present on the other.

## Literature Review

All over the world, many researchers – both individual and institutional researchers – have worked on different dimensions of microfinance and microfinance institutions (MFIs). Even in India, a number of researchers have examined role and performance of microfinance and MFIs. In this backdrop, an attempt is made here to review a few important studies and to present the summary of their work. The objective of this review is two-fold – (i) to obtain a greater insight into different dimensions of MFIs including theoretical framework and regulatory environment, and (ii) to identify the research gap that exists at present.

For the purpose review, the selected studies are reviewed and presented under three heads viz., Conceptual Framework of MFIs, Financial Performance of MFIs – Global Context, and Financial Performance of MFIs – Indian Context.

### I. Conceptual Framework of MFIs

A few important studies centered around the theoretical framework of MFIs are reviewed and the summary of the same is presented below.

Joselito (November 2001) made an attempt to examine the regulatory environment for MFIs in Ghana and Philippines. He felt that the regulatory issues have greater influence on the operational performance of MFIs which in turn contributes to the industrial development. He observed that the MFIs offer wide range of financial services through formal, semi-formal and informal lending in these countries where they have different legal and regulatory framework. The legal environment in Ghana and Philippines has facilitated the sustainable development of MFIs and enabled NGOs and semi-formal MFIs to access financial resources from commercial markets – felt the author.

A study by Senanayake (2003) examined the economic and marketing environmental factors such as demand for, and supply of, microfinance, factors affecting the success of MFIs, etc., in which MFIs in Sri Lanka are operating. The study focused on the critical issues in commercialization of microfinance sector in Sri Lanka. It is found that interest rate, role of government, donors, etc., are the critical factors in the commercialization of microfinance sector. The author suggested for the commercialization of deposit mobilization and lending operations implying marketization of both these operations for improving efficiency and competitiveness.

Examining the outreach and financial performance of African MFIs, Anne-Lucie., Jennifer., Patricia and Matthew (April 2005) showed that the African MFIs, are most productive globally and they are expanding microfinance activities continuously. These MFIs have shown high level of portfolio quality and average portfolio risk of only 4%. Still, they (i.e., African MFIs) are facing a few challenges such as high operating and financial expenses, and the revenues remaining lower. However, the efficiency of MFIs in terms of cost per borrower is lowest. And the authors suggested for strengthening the capacity of African MFIs by reducing cost, improving technical and product innovation, increasing outreach and also by boosting overall profitability.

Nathanael (December 2005) has examined the impact of microfinance on the life of the people with a special focus on the economic condition. The study shows that, microfinance works for the betterment of poor. More specific findings of the study which reiterate the findings of other studies are, (i) female clients are more empowered with the help of microfinance, and (ii) women spend/use the borrowed amount wisely for the welfare of their families and children. Vijaya and Kashyap (2005) analysed microfinance services provided with the help of Asian Development Bank. This study highlights the role of microfinance in poverty alleviation, women empowerment and financial sustainability of the poor.

After examining the role of rural credit through SHG-Bank Linkage programme, Katuri (2006) has observed/inferred that the banks and external entities are basing their microfinance services on two broad models viz., Business Facilitator (BF) and Business Correspondent Model (BC). The study also discusses the initiates taken by NABARD under special programme. It is also observed that although financial facilities are given to the poor in rural area, majority (65%) of the poor are still borrowing from informal sources.

Sridhar (2007) observed that the credit facility at reasonable rate of interest and on a continuous basis is a necessity for farmers and agricultural labourers. In this direction, the GoI and the RBI (apex bank) have directed the scheduled commercial banks (SCBs) in India to earmark 18% of their loanable fund for the purpose of providing loans and advances to agricultural sector. However, the SCBs are not interested to lend to rural sector. Even the co-operatives and RRBs established to serve the rural poor and to lend for agricultural sector and activities at reasonable rate of interest have not been able to achieve the intended objective. As a result, the poor farming community is turning to the private money lenders who charge exorbitant rate of interest. After discussing all these aspects in a comprehensive manner, the author highlights the role of microfinance and MFIs in delivering the requisite financial services to rural poor and to the agricultural community. The study suggests that semi-formal institutions have to engage/use Business Facilitator and Business Correspondence Models which are appropriate to reach rural mass at less cost.

A study by Befekadu (2007) made an attempt to evaluate the performance of Ethiopia's MFIs from the points of view of outreach and financial sustainability. It is found that, MFI industry rose during 2003 to 2007 and they reached very poor particularly women. From financial sustainability perspective, MFIs are operationally sustainable measured by return on assets (RoA), return on equity (RoE) and profit. The MFIs have improved their financial performance over time. However, no evidence has been found about trade-off between outreach and financial sustainability – felt the author.

Agricultural Finance Corporation Ltd., (September 2008) made a comprehensive study of 25 MFIs and 5,327 households (3,908 clients and 1,419 non-clients). The study made an attempt to compare the base line and end line results, and found variations in socio-economic conditions of clients and non-clients. The impact of SIDBI programme on the beneficiaries was assessed in terms of outreach, access, credit use, entrepreneurial activities, income, employment, human capital, vulnerability and women empowerment. The study identified a few issues which need to be addressed to improve the functioning of the MFIs. These issues include, among others, selection of active poor clients, distinct need for capacity building of groups for long term strengthening and sustainability of microfinance, need to provide guidance and counseling in suitable income generation activities, etc. Further, it is felt that MFIs need to be transparent with respect to interest rate and other costs charged.

Microfinance sector has witnessed competition for MFIs in two main areas viz., acquisition and retention of clients and cost of human resource of MFIs – observed Srinivasan (2008). The study suggests that MFIs need to shift their thinking in competitive situation to acquire and retain the clients. They need to improve their products by lowering interest rates on the one hand and improving the product features on the other to enhance the client comfort drastically – felt the author. In his study, Somanth (2009) analyzed three important aspects. In the first part, the author has discussed the role of microfinance in mitigating poverty in India. The second part deals with MFIs, SHG-

Bank Linkage Programme and their challenges. The last part presents a few case studies which have established the role of microfinance. Besides, the author has carried out impact assessment of microfinance. However, microfinance industry is not free from flaws and it is operating with outdated technology and therefore, an affordable technology can address the major deficiencies and also the need to bring unbanked people into mainstream as a part of social goal of responsible banking – felt the author.

Debadutta (2010) made both textual and contextual study covering the basic concepts of microfinance, supply, intermediation, regulation and different models of microfinance in India. The interesting part of the work is the consideration of risks associated with MFIs and rating of MFIs (social and credit). Impact assessment of microfinance is another important part of this study. The author also laid emphasis on a few disasters of microfinance clients and suggested measures for development of the industry after examining real life case studies. However, the case studies showed that, microfinance has improved the rural women in terms of health, education, empowerment, entrepreneurship and also in developing business strategies.

A study by Amulya., Parul and Santadarshan (2010) provide an overall snapshot of microfinance outreach and penetration in districts and states of India. They documented the expansion of microfinance *via* the SHG and JLG (MFI) models in India over the last few years. This study is expected to assist practitioners, policymakers and researchers to gain a clearer understanding of the overall role played by MFIs in India. Also, policy-makers and practitioners can use inputs from the map to make informed decisions about the need for expansion of financial services to the poor, and to allocate adequate resources to address the areas remain underserved.

After analyzing the factors affecting the performance of MFIs and investigating the implications of institutional and macro-economic factors on the financial performance of MFIs, Katsushi., Raghav., Ganesh., Samuel and Aditi. (July 2011) found that, institutional factors influence the financial performance of MFIs especially profitability, operating expenses and portfolio quality. It is also found that the macro-economic and financial factors have positive impact on the financial performance of MFIs. However, for more sustainability of MFIs, micro-environmental factors are also important – observed the authors.

Hugh (July 2012) explains his personal experience in different countries with MFIs and the beneficiaries. He has pointed out there are a few issues (including, corruption) which are haunting the MFIs. Still he is optimistic about the potential of microfinance and is quietly optimistic about some subtle changes that are happening already in microfinance industry. To improve the microfinance industry, he has offered a few suggestions for microfinance funds, regulators, clients, microfinance whistle blowers and also for management. These suggestions centre around ethical practice by all.

Analyzing the MFIs’ crisis in Andhra Pradesh in 2010, Sarita and Sangeeta (May 2012) observed that the crisis affected the operation of MFIs in other states also and acted as impediment to their operation. However, it is suggested that, improvisation of regulation is necessary for the successful operation. Sefa and Ana (October 2017) have examined and compared the relationship between sustainability and outreach of MFIs in Latin America and Caribbean with MFIs in South Asia. The study showed that, South Asian MFIs need to issue large amount of loans than Latin America and Caribbean. South Asian MFIs disbursed lower amount of loan than Latin America and Caribbean. However, the microfinance services rendered has reduced the poverty in South Asia and results indicate that there exists a trade-off between outreach and sustainability in Latin America and Caribbean.

Robert., Sven., Ippei and Greta (September 2014) examined the presence and growth of Greenfield MFIs in Sub-Saharan Africa. The study found that, Greenfield grew faster in terms of deposits and lending, improved profitability levels comparable to top MFIs, and also substantially increased their lending to women. Greenfield loan sizes are larger than those of most African MFIs. This shows that Greenfield MFIs have achieved rapid gain in financial inclusion – opined authors. Another study by Rajagopalan (2006) is based on the certain case studies in the area of microfinance. The author discussed the measures taken by the MFIs to reach the poor covering issues related to conventional and contemporary with special emphasis on how to make the financial sector more inclusive. He has also analysed how community driven microfinance and use of technology lead to improved profitability of commercial banks.

At the beginning of their study, Rajagopalan and Nirali (2007) presented an overview of microfinance and its impact, impact assessment methodologies and tools. Thereafter, they discussed the contribution of microfinance in poverty alleviation with a focus on the role of microfinance in achieving the MDGs (Millennium Development Goals). Further, they examined the role of microfinance in empowering through SHG-Bank Linkage Programme. The authors observed that many non-financial services focused on capacity building and sustainable development of SHG members. Still, microfinance cannot be considered as magic bullet for women empowerment although microfinance has enabled children's education – felt the authors.

Rengarajan V (2013) examined the supply side of microfinance. It is observed that a very few MFIs have touched the demand side meeting the demands of users of microfinance. On the other hand, many MFIs have offered solutions through different financial models, statistical analysis, economic models, etc. However, there is an increase in crisis, sorrows and more suicides among the users of microfinance. After identifying the missing link, the author provided ethical means to achieve ends and placed them in lucid style. He has given 10 commandments associated with microfinance which if the policy makers, governments, experts, researches, etc, follow will bring more cheer and smile on the faces of the poor. Piyush and Fahad discussed the conceptual framework of Indian MFIs. The authors highlighted the success and failure stories of MFIs around the world. Veena (2015), in her paper, analyzed the remarkable contribution of MFIs in the upliftment of poor especially women. The study found that, MFIs are providing financial and non-financial services continuously for the improvement of economic condition of the poor. In the process, MFIs have been able to improve their performance in terms of productivity, efficiency and operational sustainability to serve the poor.

## II. Financial Performance of MFIs - Global Context

Cecile and Manfred (February 2001) analyzed the depth of outreach that includes gender, location, literacy and income levels of clients in credit unions, banks and NGOs. The study used the data from eight MFIs where the depth of outreach index is positively correlated with institutional Subsidy Development Index (SDI). On the other hand, banking companies and credit unions have stronger financial viability and NGOs, on an average, have a deeper outreach. However, the study found that the banking companies and credit unions have greater degree of client heterogeneity and scale, and they reach large number of marginalized clients than NGOs. Abbas and Maisarah. (2013) introduced a new multi-faceted and integrated performance measurement framework and also presented new key characteristics for performance measurement which help organizations to identify an appropriate set of measures to evaluate the performance of MFIs.

In their study, Peter and Timothy (2006) have examined the large international cross-sectional microfinance data and tested how lending methodology mitigates loan portfolio risk. In Christian organizations, microfinance is delivered through group-lending. This has not only assisted the poor but also empowered women and increased outreach. The study revealed that, group lending methodology always reduces the risk for MFI portfolio compared to the individual lending. Examining the relationship between financial and social indicators, and rating assigned by various rating agencies, Begona and Carlos (September 2007) inferred that more profitable, large, less risky and more proactive MFIs achieved better ratings. On the other hand, no relationship was found between social performance and rating. Rating agencies were suggested to develop ratings to reflect the achievements of social goals.

A study by Letenah (May 2009) revealed that, Ethiopian MFIs are performing poor on the depth of outreach due to many reasons such as not using debt capacity properly, poor GLP (Gross Loan Portfolio) to Assets Ratio, low portion of amount allocated for loan, not reaching poorest of the poor, etc. However, the Ethiopian MFIs are good in breadth of outreach, cost management, efficiency and productivity, and they charge low interest rate. The study found that profitability and sustainability of MFIs depend upon the size. The co-efficient of correlation results showed that, there is a trade-off between serving the poor and being operationally self-sufficient. And the age of MFIs is positively correlated to efficiency, productivity, use of debt financing and operational self-sufficiency (OSS) and also debt financing making MFIs more efficient and productive. Examining the impact of MFIs in terms of micro lending outcome among Latin American NGOs and MFIs, James., Shon and Warner (2009) observed a growing movement for non-profit MFIs while channeling micro loan to the poor throughout the world. They measured the impacts from financial and social dimensions by conducting survey of current clients, new clients and graduated clients of five MFIs in Guatemala by using univariate and multivariate analysis. The study showed that, MFIs have improved the lives of poor and this improvement is noticed in social dimensions of clients. The study suggested that, government and policy makers need to consider innovative ways to reduce poverty and human suffering throughout the globe.

A study by Chuck and Larry (December 2009) showed that setting boundaries for MFIs is a hard task but it is necessary to make microfinance safe for commercial investors by developing ethical code for microfinance providers. MFIs need to charge honest interest rate, develop tools for self-monitoring and self-regulation. Creating credit indicators for MFIs and also appropriate regulatory framework help in developing good microfinance practice – felt authors. Niels., Robert and Aljar (2011) have examined the trade-off between outreach to the poor and efficiency of MFIs by using Stochastic Frontier Analysis (SFA) technique. The study revealed that, outreach is negatively correlated to efficiency of MFIs. More specifically, MFIs which have lower average loan balance are also less efficient. Further, it is found that, MFIs have more women borrowers.

Dinos and Arvind (August 2011) made an attempt to evaluate the financial crisis in microfinance industry. For this purpose, the authors considered the crises in MFIs of Russia, Indonesia, Ecuador, Bolivia and Argentina. In Russia, crisis happened due to collapse of small business fund under the weight of defaulted government obligations. In Indonesia, small and medium sized enterprises and personal loan portfolios of BRI (Bank Rakyat Indonesia) showed high default rates. Bolivian crisis is from loan delinquency by four main microfinance players. The CGAP study suggested three factors for increased delinquency and the factors are, (i) concentrated market competition and multiple borrowings, (ii) over-stretched MFI systems and controls and (iii) erosion of MFI lending discipline. The study, therefore, suggested for establishing supportive institutional environment, credit strategy, HR management for improving operational efficiency and also to improve credit methodology.

A research study by Waleed and Ridha (September 2011) using the performance statistics of 16 sample MFIs from Mediterranean region from 2001 to 2008 and using static panel data analysis to empirically examine the impact of outreach on financial performance of MFIs showed that, NGOs' commercial viability has improved with the average loan size. However, MFIs targeting neither the poor nor the women affected the repayment default of these MFIs. Peter (2013) analyzed the relationship between interest rate and for-profit MFI legal form. The study found that there is a consistent and stronger correspondence with for-profit MFI and high rate of interest to clients. Of course, these MFIs also need to incur high cost to provide services to poor. This does not contribute to greater profitability and sustainability as the stronger profit orientation is associated with higher MFI costs.

Abul., Chamhuri., Abdul and Basri (2011) made an attempt to compare the performance of Rural Development Schemes (RDS), the largest Islamic MFI in

Bangladesh and Amanahlkhtiar Prime MFI (AIM) of Malaysia. The authors used financing structure, institutional characteristics, overall financial performance (sustainability), outreach indicators, expenses, efficiency and productivity of both the MFIs for the purpose of evaluation and comparison. The study found mixed results between the performance of two MFIs selected for the study. The performance of AIM was quite remarkable in terms of operational self-sufficiency, revenue and financial expenses. The study revealed that the Islamic microfinance is more closely dealing with poor people to mitigate socio-economic needs in a spiritual way. Sunday., Turyahebwa., Byamukama and Novembrieta (February 2013) analyzed the financial performance of selected MFIs in central region of Uganda. 266 sample MFIs were selected and their performance statistics were analysed using Mean and *t*-test. The study showed that the degree of financial performance of MFIs in central Uganda is higher with an overall average Mean and this shows that majority of financial institutions in Uganda are financially sound. The study concluded that the degree of financial performance of MFIs should enhance financial reporting framework to improve their liquidity position, market share, improve assets value, financial sustainability as well as portfolio quality.

In order to examine the performance of MFIs in Tanzania by integrating financial and non-financial performance metrics, Erasmus (2013) conducted a study from five different dimensions viz., financial, customer, social, learning and growth, and internal business process by using balanced scorecard approach. The study found that the average non-financial performance was high indicating that MFIs were better performing in non-financial measures compared to financial measures. There is a positive correlation between overall financial performance with non-financial performance. This shows that the trade-off does not exist between financial and non-financial performance. The individual financial performance shows negative correlation with social and customer perspective, and a positive correlation with internal business process, and learning and growth. The use of balanced scorecard methodology has high potential in the evaluation of performance of MFIs. MFIs need to balance financial and non-financial performance to survive in the competitive market while meeting their social objectives – suggested the authors.

Mohd and Ahmad (October 2014) made an analysis of determinants of OSS of MFIs of Bangladesh. CGAP performance measuring technique and other descriptive statistical tools besides financial ratios were used to measure and evaluate the same. To measure the OSS, multiple regression technique was used and the study showed that majority of MFIs are operationally self-sufficient in the study region. However, the study observed that there is a need for proper policy framework for the success and effective operation of microfinance programmes. It was also felt that there is a need to improve yield on GLP, simplify loan distribution, and improve personnel productivity which reduce operational cost and focus on increase in value.

A study by Fredrick and Eunica (March 2015) analyzed the credit risk management procedure adopted by MFIs in Kenya covering risk identification, risk monitoring procedure and risk analysis/assessment procedure applied in credit risk management by MFIs in Kenya and their overall impact on the financial performance of MFIs. For this purpose, 54 MFIs from Nairobi were selected and the necessary data were collected from the officers of MFIs. The study showed that the organizations considered risk monitoring, risk identification, risk assessment and risk analysis as a process of credit risk management. The study concluded that the managements of MFIs are increasing their credit risk management by putting in place measures to curb the risk and this is improving the efficiency of services of MFIs.

For analyzing the financial performance of MFIs in Bangladesh, Rupa (November 2015) collected the required data from Microfinance Information Exchanges (MIX) market from 2007 to 2011. Using a few ratios, the author analyzed the performance from the point of view of financial structure, outreach, overall financial performance, revenue and expenses, efficiency and also risk and liquidity of MFIs in Bangladesh. The study established that the return on equity has caused decline in the overall performance during the study period. It is found that, portfolio at risk, PAR > 90 days and risk coverage are the key drivers of overall performance of MFIs in Bangladesh. The combined co-operation of banks, NGOs, government and donors enables to achieve the goals of financial inclusion and alleviation of poverty. Therefore, there is a need for continuous effort to diversify the sources of funding for the MFIs. It is also necessary to attract foreign investment for well-established MFIs – felt the author.

A study by Md Sharif and Mohd Azam (2016) revealed that the financial sustainability of Bangladesh MFIs is affected by capital adequacy ratio, operating expenses ratio and write-off ratio. During the study period, the size, age, savings to total asset ratio, debt-equity ratio, borrower per employee, outstanding loan to total assets ratio and percentage of female borrowers are found to have no significant impact on the sustainability of MFIs. Considering growth in the number of active clients, loan portfolio and depth of outreach, Vani and Eissa (July 2016) made an attempt to evaluate the role of MFIs as a vital part of Yemen financial system. The study found that the MFIs in Yemen have less outreach in terms of growth in number of active clients and loan portfolio. On the other hand, MFIs have good outreach scope in terms of depth of outreach. However, the study suggested to maintain the growth of outreach by reducing administrative/ operational costs and by designing and introducing innovative microfinance products.

Owusu and Amo (2016) made an attempt to analyze the effects of poor administration on the sustainability of MFIs in Ghana. By using primary and secondary data, it is inferred that the MFIs have failed to perform their roles and responsibilities due to poor managerial supervision and poor/weak regulatory authorities. Another reason for failure of MFIs is the diversion of fund and corrupt practices by management and officials of Bank of Ghana – said the authors. Velid and Nejra (2017) have examined the financial and social efficiency of MFIs in Bosnia and Herzegovina, and also the effects of latest crisis. The study used secondary data from 2008 to 2015 and analyzed through Data Envelopment Analysis (DEA) technique. The study found that the financial efficiency is significantly higher than social efficiency. However, small MFIs are performing efficiently compared to large MFIs both from financial and social dimensions. As a result of crisis, the efficiency of MFIs had declined up to 2010 and thereafter, it has begun to show the signs of recovery. The MFIs need to prioritize the financial goals over social goals during the period of crisis – suggest the authors.

A study of financial performance of MFIs supported by regional commercial banks by Michael and Gerard (2004) showed that a few MFIs have reached self-sufficiency and others are making attempts to reach the same. Comparison of these groups of MFIs besides the comparison with regional commercial banks in developing countries showed that self-sufficient MFIs are strong performers in terms of RoA and RoE. And majority of MFIs are very weak and in need of subsidies. Providing financial services to the poor is an expensive proposition and many MFIs are unable to reach self-sufficiency.

## III. Financial Performance of MFIs - Indian Context

With the objective of analyzing the sustainability determinants of sample MFIs in India using regression analysis, Alain., Michel and Julie (2008) investigated three aspects of sustainability viz., cost coverage by revenue, repayment rate of loan and cost control. It is observed that the MFIs are able to meet their costs on small and unsecured loans without increasing the size of loan amount or without increasing monitoring costs. The study suggested for improving the financial results by better interest rate policy and by increasing the number of borrowers per field official. Prema (2009) conducted a study of Annapurna Mahila Mandal (AMM) working as MFI in urban area of Maharashtra. The study primarily focused on the assessment of impact of MFI’s service on beneficiaries. In terms of economic impact, it is found that although the MFI has enabled beneficiaries to improve their savings, it is unsuccessful in creating permanent income generating assets for the beneficiaries. It is also found that, there is a close association between group bonding, social status and self-esteem as perceived by the members but there is no significant improvement in the economic condition of beneficiaries.

Arabi (2010) analyzed the performance of microfinance models experimented in India. MFI model is comparatively costly due to low volume/size of loans. And a good number of MFIs are depending upon subsidy. However, a few are able to cover their costs by charging higher rate of interest. On the other hand, SHG-Bank Linkage Programme has achieved its target but still large segment of the society is deprived access to financial services. Therefore, there is a need for capacity building of MFIs and their primary stakeholders and also need to innovate various aspects such as social intermediation, strategic linkages and new approaches centered on the livelihood and also re-engineering of the financial products offered by them – suggested the author. Anand and Kamwal (January-June 2011) made an attempt to develop financial performance evaluation model for MFIs. This model has certain critical financial indicators such as PAR, loan loss, borrowers per credit officer, capital to asset ratio, operational self-sufficiency, operational expenses/loan profit, etc. Each indicator is rated – PAR is used by four MFIs out of six MFIs, and borrowers per credit officer is used by one MFI out of six MFIs. After analyzing the financial performance of MFIs, the study found that, SKS has achieved better financial performance when compared to SEWA bank but both the MFIs have sustainable financial performance as both MFIs' sustainability score is more than 7.

Padmasree., Bharathi., Achari and Anchula. (2011) analyzed the performance of five selected diamond profiled MFIs which are listed in MIX market. For the purpose of analysis, data were collected from MFIs concerned from 2005 to 2010. The study showed that Sarala, SKS and VFS have managed their operating costs efficiently. MFIs' financial performance is measured by RoA and RoE - all selected MFIs' performance is more than the stipulated benchmark except for CASHPORMC. As far as risk bearing capacity of MFIs is concerned, except Sarala and GFSPL, all others have recorded more than the specified benchmark results. Zohra and Shyam (2011) made an attempt to measure and compare the financial performance of 24 MFIs (selected from MIX market) with a few Indian commercial banks. The broad variables/parameters considered are financial structure, profitability and efficiency. The study found that there is no significant difference between the Means of commercial banks and MFIs. However, RoA, loan size, operating expense ratio and yield on loan size for commercial banks are higher than for smaller MFIs. Operating costs to total funds are higher for MFIs than commercial banks. One of the reasons for higher operating cost in the case of MFIs is the fact that they provide door step services to poor.

For the purpose of examining whether the MFIs are working to serve their clients or working towards becoming profit oriented, Naveen., Manjunath and Srikanth (November-December 2012) selected a few MFIs from both India and Bangladesh and used the criteria/variables such as clientele, financial sustainability of MFIs, loan disbursed by institutions to the customers, etc. The study showed that the Indian MFIs are operating more efficiently and profitably than Bangladesh MFIs. Jayadev and Rao (2012) made an attempt to analyze whether securitization can meet the MFIs' funding requirements. It is found that the microfinance sector needs to revive its products to meet the broader goal of financial inclusion. Along with this, MFIs and banks need to collaboratively work together to meet the financial inclusion objectives. Banks also need to encourage MFIs to go for low cost financing either by giving direct loans or through securitization. For the purpose of evaluating the regulatory environment for MFIs in India, Renuka and Susan (February 2013) used two important documents viz., Malegam Committee Report and the Microfinance Bill, 2011. The authors also examined the consumer protection mechanism and modification of micro prudential regulations. However, they suggested that the regulatory strategies which need to be adopted should focus on the poor by dealing with microcredit and financial distribution.

Savita (February 2013) analyzed the role of MFIs to break down the financial service access barriers in India. Initially, the study analysed the spread of microfinance penetration for which a field interview was conducted (for 103 MFI field officers). The study revealed that the MFIs have succeeded in this regard i.e., in breaking the barriers. However, the analysis in the second and final part of the study showed that the MFIs have not been able to provide microfinance services to some financially excluded poor because of their different method of operations. Therefore, MFIs need to adopt more flexible operating models, need for policy incentives to encourage for expansion of their services in excluded areas, and also there is a need to conduct skill-based training to enable larger access to MFI membership – felt the author. Muhammad., Zahid and Ather (December 2014) made an attempt to analyze the performance of selected MFIs in India. Based on the evaluation of performance, it is found that the number of depositors and women borrowers, total deposits and GLP have positive relationship with MFI model. Financial expense to asset ratio is found significant in RoA model but not in RoE model. Rests of the variables are similar in both the models. In the case of financial efficiency, only the financial expenses to assets ratio and RoA are found to be significant. As far as operational efficiency is concerned, all variables are found to be significant.

Examining the progress of SHG-Bank Linkage Programme using the data from 2009 to 2013, Nikita (July 2014) that (in the year 2012-13, after the launch of SHG-BLP) there is a decline in the number of SHGs whose savings are linked with banks. Increase in the SHG loan outstanding was responsible for increase in NPAs. The study also found that the major share of microfinance sector belongs to commercial banks. Therefore, there is a need to improve the performance of programmes launched under microfinance from time to time – felt the author. Narasimha., Sreenivas and Swapna (2014) examined the overall performance of selected MFIs. The focus of the study was on yield on gross portfolio of selected MFIs. The ANOVA test results show that the average yield on gross portfolio of SML, BSFL, CMC, GVMFL and GFSPL are higher than the industry average. Jayanthi and Gopal (2015) have examined the performance of 15 MFIs using the data for five years and using a few financial ratios and by using Generalized Least Squares (GLS) model. The focus of the study was on outreach and profitability of MFIs. The study revealed that, Muthoot Microfinance and Equital Microfinance are leading in operational self-sufficiency whereas, SKS and Spandana are leading in terms of outreach. The Operational Self Sufficiency (OSS) of 60% of MFIs is above 100 and rest of 40% of MFIs is less than 100 due to Andhra Pradesh crisis which took place in 2010.

Debashish (2016) examined the challenges in the governance and management of MFIs in India laying emphasis on group-based microfinance delivery channels like SHGs and JLGs, their collective and collaborative strengths in reaching the unserved and underserved masses. The study also focused on the challenges they face in raising capital, capacity building and reducing transaction costs besides opportunities and threats to the microfinance sector. It is suggested that the microfinance sector has to lay emphasis on leveraging technology, entering into partnership with third parties having common interests, capacity building and designing products as per changing needs of customer to address the challenges effectively. Pagadala and Mohammed (2017) selected a few MFIs in Telangana state for the purpose of examining the risk management practices. The study investigated the relationship between risk management practices and risk variables besides examining the association of years of operation of MFIs and active borrowers and GLP of six MFIs in Telangana state. The study found that there is a positive relationship between risk management practices and risk variables. The study also showed that there is no association between the number of years in operation and active borrowers and gross loan portfolio of MFIs.

Hailu (October 2020) examined the role of competition in moderating the relationship between MFIs’ social and financial performance. For this purpose, the author collected data from 2005 to 2014 from 183 Indian MFIs. The study showed that there is a positive significant relationship between social and financial performance of MFIs. It is also found that the association between depth of outreach and OSS (operational self-sufficiency) is conditional upon competition. Using TOPSIS and IV TOPSIS, Priyanka and Binoti (October 2021) analysed the financial performance of NBFC–MFIs in India. For this purpose, the authors collected the data from 2014 to 2019 pertaining to outreach, sustainability, quality and efficiency. TOPSIS (Technique for Order of Preference by Similarity to Idea Solution) method is used for overall ranking of MFIs. IV TOPSIS (Interval Value TOPSIS) method is used for benchmarking for five years. The study found that, Satin Credit Care Network Ltd., is consistently performing and it is ranked best in NBFC-MFIs whereas, rest of MFIs' performance is not consistent and BWDA Finance Ltd., is worst performing MFI during the study period.

An analysis of relationship between social and financial performance objectives of Indian MFIs by Nitin and Pankaj (2021) showed that the depth of outreach helps MFIs to achieve financial sustainability and financially stable MFIs lend more as reflected by an increase in their average loan size. The study also found that the Indian MFI sector is having complementary relationship between social and financial performance but still they need to achieve financial sustainability while targeting poor. With the objective of measuring and evaluating technical efficiency of Indian MFIs, Sravani (June 2015) selected 36 MFIs comprising NBFCs (27 MFIs) and NGOs (9 MFIs). The study used DEA (Data Envelopment Analysis) method for analysis which includes two models viz., CCR (Charnes, Cooper and Rhodes) and BCC (Banker, Charnes and Cooper). The study showed that UFSPL (from North-West region) has achieved 100% efficiency. However, the efficiency of MFIs from South region is, on an average, poor compared to that of MFIs from East, North and West regions. The study suggested that the MFIs have to improve their efficiency by proper utilization of inputs and by reducing operating expenses as well as by maintaining adequate number of staffs. Along with these, MFIs need to provide MFI plus services which include insurance and health-related services in order to increase outreach and ultimately lead to reduction of operating expenses. Simultaneously, MFIs need to use technology driven services to reduce cost of operation – suggested the author.

Using the details from the selected MFIs of Manipur state, Ramananda and Dhaneshwar made an attempt to evaluate and compare the performance of different microfinance models used by NGO-MFIs. For this purpose, the authors considered management, client outreach and growth, operating efficiency and portfolio quality, liquidity management, profitability and sustainability. It is found that the Grameen Model is operating more efficiently and effectively when compared to Mixed Model and SHG Model. Most of the NGOs have started microfinance activities during the last three years. Therefore, the average loan size is about ` 5 lakh to ` 10 lakh and there is a need for proper training and financial support to scale up NGO operation. Apart from these, there is a need for some regulatory relaxation for the NGOs to extend their microfinance delivery – felt the authors. Samapti (2004) analysed the delivery models, legal structure and performance of MFIs in India. Services of MFIs have improved the socio-economic status and poor women are empowered and reduced gender discrimination among them – felt the author. However, the author observed that it is necessary to review the organizational structure for better social service and economic benefits to the poor. Siddharth (July 2015) examined the impact of corporate governance practices on the financial performance of MFIs. It is found that the managerial skills in the area of financial management have positive impact on the profitability of MFIs. Further, it is found that both the audit committee and profitability are positively correlated. However, board members of other countries and also the size of board have negatively impacted the profitability of MFIs.

## Research Gap

From the above comprehensive review of literature (i.e., of earlier studies), it is obvious that many researchers – both individuals and institutions – have worked on different dimensions of microfinance and MFIs. A few studies focused on the theoretical background and also the regulatory framework in which the MFIs are functioning. And other studies are on the performance evaluation – both at global and national levels. However, the performance of MFIs in other countries lack comparison with that of Indian

MFIs owing to many differences in the environment, support, etc. However, in Indian context also, many studies have been completed by the researchers. But most of these studies are in the form of articles/papers covering one or two MFIs and/or one or two variables/parameters for the purpose of their studies. And most importantly, there is no comprehensive study on the evaluation of financial performance of MFIs headquartered and working in Karnataka state. This shows the apparent research gap that exists at present and the present study is an attempt to fill this gap in whatever little way it can.

**Statement of the Problem**

Microfinance is contributing substantially as an effective tool for alleviation of poverty. It has a few products which are mainly targeting at the poor people. The formal financial institutions which offer microfinance services for the poor are called microfinance institutions (MFIs). MFIs provide loans and advances to low income communities for their income generating activities i.e., to take up small entrepreneurial activities.

In countries like India, most of the MFIs provide their services in rural area. MFIs' operations are extensively depending on the personal contact of field workers. These field workers gather SHG/JLG members in one place and advise them about the financial and non-financial services regularly. However, MFIs are incurring higher transaction cost per loan. Besides, governments have also made stricter regulations in order to regulate the functions and working of MFIs. Anyhow there are many MFIs in Karnataka which are integral parts of Banks, NGOs, NBFCs, etc.

Though the availability of microfinance is not a major problem to the poorer sections of Karnataka, its channelization into the priority sector and to the needy is a major problem. It depends upon the efficiency with which these MFIs function and deliver the microfinance services. However, the financial performance/position differ from one MFI to others. But in the light of the need for improving their service to poorer sections of the society, they (i.e., MFIs) need to improve their performance in terms of interest income, interest cost, volume of loans and advances, mobilization of required fund, recovery, non-performing loans/advances, etc. Therefore, there is a need for a comprehensive evaluation of performance of MFIs with an emphasis on financial performance evaluation.

**Objectives of the Study**

The primary objective of the present study is to evaluate the financial performance of selected MFIs in Karnataka to ascertain (i) whether the performance is satisfactory, (ii) whether they are improving their performance over the years, (iii) how does each MFI's performance compare with others, etc. In order to address this primary objective, the following specific objectives are set for the present study.

(1) To evaluate the sources and adequacy of funds of MFIs in Karnataka.
(2) To evaluate the financial performance of MFIs in Karnataka.
(3) To evaluate the quality of MFIs' services based on the responses/perceptions of officers and beneficiaries of MFIs.

Besides, there are a few more objectives which support the primary/specific objective/s as presented below:

(i) To analyse and present theoretical framework including the regulatory framework of microfinance and MFIs.
(ii) To present a brief profile of MFIs selected for the study.
(iii) To offers suitable suggestions for improvement of working/performance of MFIs.

**Hypotheses**

In the light of the objectives of the study, a broader null hypothesis viz., ***$H_0$: There exists no significant difference in the performance of MFIs*** is used and tested to ascertain whether there is a significant difference in the performance of MFIs. This comprehensive hypothesis is tested from the point of view of each 18 parameters used to evaluate the financial performance of MFIs as presented below:

(1) $H_{01}$: There exists no significant difference in the performance of MFIs (from the point of view of Total Advances to Total Assets Ratio),

(2) $H_{02}$: There exists no significant difference in the performance of MFIs (from the point of view of total cost),

(3) $H_{03}$: There exists no significant difference in the performance of MFIs (from the point of view of each of Interest Cost Ratio and Non-interest Cost Ratio)

(4) $H_{04}$: There exists no significant difference in the performance of MFIs (from the point of view of Interest Coverage Ratio)

(5) $H_{05}$: There exists no significant difference in the performance of MFIs (from the point of view of Operating Expenses Ratio)

(6) $H_{06}$: There exists no significant difference in the performance of MFIs (from the point of view of total income)

(7) $H_{07}$: There exists no significant difference in the performance of MFIs (from the point of view of Interest Income to Total Income Ratio)

(8) $H_{08}$: There exists no significant difference in the performance of MFIs (from the point of view of Other Incomes to Total Income Ratio)

(9) $H_{09}$: There exists no significant difference in the performance of MFIs (from the point of view of Operating Self Sufficiency Ratio)

(10) $H_{010}$: There exists no significant difference in the performance of MFIs (from the point of view of Current Ratio)

(11) $H_{011}$: There exists no significant difference in the performance of MFIs (from the point of view of Debt-Equity Ratio)

(12) $H_{012}$: There exists no significant difference in the performance of MFIs (from the point of view of Capital Adequacy Ratio)

(13) $H_{013}$: There exists no significant difference in the performance of MFIs (from the point of view of Gross NPA Ratio)

(14) $H_{014}$: There exists no significant difference in the performance of MFIs (from the point of view of Net NPA Ratio)

(15) $H_{015}$: There exists no significant difference in the performance of MFIs (from the point of view of Write-off Ratio)

(16) $H_{016}$: There exists no significant difference in the performance of MFIs (from the point of view of Portfolio Yield Ratio)

(17) $H_{017}$: There exists no significant difference in the performance of MFIs (from the point of view of RoE Ratio)

(18) $H_{018}$: There exists no significant difference in the performance of MFIs (from the point of view of RoA Ratio),

**Scope of the Study**

For the purpose of addressing the objectives and for testing the hypotheses, five NBFC-MFIs in Karnataka are selected. The MFIs are, (i) Credit Access Grameen Limited, (ii) Chaitanya India Fin Credit Pvt., Ltd., (iii) NABARD Financial Services Ltd., (iv) IIFL Samasta Finance Ltd., and (v) IDF Financial Services Pvt., Ltd. All these MFIs are headquartered in Karnataka and functioning in Karnataka providing homogeneity in the environment. And all the five MFIs are NBFC-MFIs. Therefore, even inter-institution comparison is possible and can be made.

And the study period is five years, 2016-17 to 2020-21. The present study covers the financial performance evaluation of MFIs selected for the present study. Of course, the term ‘financial performance’ is used in broader sense to cover even the operating performance.

**Sources of Data**

The present study is based on both the primary and secondary data. Primary data is collected from two major groups of respondents viz., officials of selected MFIs and client/customers of these MFIs. For this purpose, two sets of questionnaires were prepared and administered - one questionnaire for the officials of MFIs and another for the customers/clients of MFIs.

The major source of secondary data is the MFIs – their accounts and reports including their annual reports. However, other necessary data and details are also collected from other secondary sources such as the reference books, research papers/articles, government publications, RBI publications, websites, newspapers, etc.

**Sample Size**

As already stated, five NBFC-MFIs are selected for the present study. In order to obtain a greater insight into the working/effectiveness of MFIs, responses are obtained from two major groups viz., officials of MFIs and their clients/customers. Convenient sampling method is used for the purpose of obtaining their responses. However, as the base for finalizing the sample size, a few relevant details viz., number of clients and officials (i.e., population), presented below (Table - 2.1), are used.

**Table - 2.1: Number of Branches, Officials and Clients of five MFIs**

| Sl. No. | Name of the MFI | Number of, | | |
|---|---|---|---|---|
| | | Branches in Karnataka | Officials working in Karnataka | Beneficiaries in Karnataka (i.e., Clients) |
| (1) | Credit Access Grameen Ltd | 402 | 1,162 | 5,23,400 |
| (2) | Chaitanya India Fin Credit Pvt., Ltd | 132 | 622 | 2,56,621 |
| (3) | NABARD Financial Services Ltd | 22 | 213 | 2,00,000 |
| (4) | IIFL Samasta Finance Ltd | 94 | 575 | 1,45,322 |
| (5) | IDF Financial Services Pvt., Ltd | 54 | 356 | 52,075 |
| | Total | 704 | 2,928 | 11,77,418 |

As the number of clients/beneficiaries of these MFIs is large, a few representatives are selected. To decide about the sample size, Krejcie-Morgan formula is used as summarized below:

$$n = \left[\frac{X^2 \times N \times P \times (1 - P)}{[ME^2 \times (N - 1)] + [(X^2 \times P \times (1 - P)]}\right]$$

where,

n = Sample size,

$X^2$ = Chi-square for the specified confidence level at ‘1’ degree of freedom,

N = Population size,

P = Population proportion (0.50 in this table)

ME = Desired margin of error (expressed as a proportion)

Therefore, sample size for MFI officials and clients/beneficiaries is calculated and presented below:

**Calculation of Sample Size**

**MFI Officials**

$$n = \left[\frac{3.841 \times 2{,}928 \times 0.5 \times (1-0.5)}{[0.05^2 \times (2{,}928-1)] + [(3.841 \times 0.5 \times (1-0.5)]}\right]$$

$$= \left[\frac{2811.612}{(7.3175 + 0.96025)}\right]$$

$$= \left[\frac{2811.612}{8.27775}\right]$$

$$= 339.66$$

$$\approx 340$$

That means, the calculated sample size for MFI officials = 340. However, for the purpose of this study, 340 officials (higher than the calculated sample size of 340) are selected – selecting 68 MFI officials from each of five MFIs.

**MFI Clients/Beneficiaries**

$$n = \left[\frac{3.841 \times 11{,}77{,}418 \times 0.5 \times (1-0.5)}{[0.05^2 \times (11{,}77{,}418-1)] + [(3.841 \times 0.5 \times (1-0.5)]}\right]$$

$$= \left[\frac{11{,}30{,}615.6345}{(2{,}943.5425 + 0.96025)}\right]$$

$$= \left[\frac{11{,}30{,}615.6345}{2{,}944.50275}\right]$$

$$= 383.975$$

$$\approx 384$$

However, for the present study, 500 clients/beneficiaries (100 beneficiaries/ clients from each of the five MFIs) are considered. It may be noted here that this sample size is higher than the minimum obtained using the formula as shown above.

**A few other aspects of Research Methodology**

The present study is exploratory, descriptive and analytical in nature. The study is based on both the quantitative and qualitative data. In order to evaluate the financial performance of MFIs, 18 parameters under five broad categories are used. The six broad categories are, (i) business-related performance, (ii) cost effectiveness/management, (iii) income-related performance, (iv) liquidity, long-term solvency and capital adequacy, (v) asset quality and (vi) profitability. Further, a few descriptive statistics such as Mean, Skewness, Standard Deviation, Co-efficient of Variation, etc., are used besides the Compound Annual Growth Rate (CAGR) and the Year-Over-Year (y-o-y) Growth Rate. Further, for the purpose of testing the hypotheses, one-way ANOVA, is carried out. The responses of both the officials and clients are analyzed using a few descriptive statistics.

## Chapter Scheme

The report of the study is presented in six chapters as presented below followed by a brief description of each chapter.

**Chapter Scheme**

| Chapter Number | Title of the Chapter |
|---|---|
| I | Microfinance, MFIs and Regulatory Framework – An Introduction |
| II | Research Design |
| III | Micro-Finance Institutions – A Brief Profile of Selected MFIs |
| IV | Financial Performance of MFIs – An Evaluation |
| V | MFIs and their Services – An Analysis of Perception of Respondents |
| VI | Summary of Major Findings, Conclusion and Suggestions |

Theoretical and regulatory framework of microfinance and MFIs is analysed and presented in Chapter – I wherein an attempt has also been made to present the conceptual framework of microfinance, historical background of microfinance, development of MFIs both globally and in India, guidelines issued by the RBI, microfinance and MFIs in Karnataka, etc.

Chapter – II presents the summary of a comprehensive review of earlier studies made. The review is split into three parts – (i) studies pertaining to the regulatory/legal framework for MFIs and microfinance, (ii) studies dealing with the performance evaluation of MFIs in global context, and (iii) studies relating to financial performance evaluation of MFIs in Indian context. This review is followed by the identification of research gap. Thereafter, other technical aspects of research report such as statement of the problem, objectives of the study, hypotheses, scope of the study, sample size, sources of data, statistical tools for data analysis, chapter scheme and limitations of the study are presented.

A brief profile of five MFIs selected for the present study is presented in Chapter – III. One of the core chapters of the study viz., Chapter – IV presents the evaluation of financial performance of MFIs selected for the study during five years of study period. For this purpose, appropriate ratios and tools/techniques are used to evaluate the financial performance and also for testing the hypotheses.

Chapter – V presents the analysis of responses of two groups of respondents viz., officials of MFIs and their clients. An attempt has also been made cross verify the claims of the officials of MFIs with the responses of clients. Summary of major findings of the study followed by a few suggestions offered for the purpose of improving the financial performance of MFIs are presented in the last chapter, Chapter – VI.

**Limitations of the Study**

Although proper care has been taken to make the study comprehensive and to address the stated objectives, it is subjected to a few limitations which are inherent in this type of studies. The important limitations are summarized below.

The study is based on only five MFIs functioning in Karnataka. Therefore, the conclusions/inferences drawn based the performance of these MFIs may lack general/ universal applicability. The study confines to financial performance evaluation of MFIs and therefore, other dimensions of MFIs such as human resource management, auditing, etc., are outside the purview of the present study. As far as the perception is concerned, it is based on the responses provided by the respondents.

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# CHAPTER – III

# MICRO-FINANCE INSTITUTIONS – A BRIEF PROFILE OF SELECTED MFIS

**Chapter Outline**

## Introduction

In the last two chapters, an attempt is made to analyze and present the theoretical framework of microfinance and microfinance institutions (MFIs), and the technical aspects of research report including the literature review respectively. This chapter presents a brief profile of five MFIs in Karnataka selected for the present study viz.,

(1) Chaitanya India Fin Credit Private Limited,

(2) Credit Access Grameen Limited,

(3) IDF Financial Services Private Limited,

(4) IIFL Samasta Finance Limited, and

(5) NABFINS.

The profile is presented for each MFI separately covering aspects such as general information, operational/organizational structure, clients, products and services, lending methodology, major partners, CSR activities, etc.

# I. Chaitanya India Fin Credit Private Limited

## Introduction

Initially, Chaitanya India Fin Credit Pvt., Ltd., originated as a non-governmental organization (NGO) in 2004. It focused on rural development covering a few villages in Chitradurga district of Karnataka with an emphasis on education of children, energy efficiency and livelihood support for the members of self-help groups (SHGs).

Although it provided microfinance service for the first time in 2007 in Jagalur taluk of Chitradurga district, officially, it started lending microfinance only after September 2007 when it got registered as a non-banking financial company (NBFC). In 2009, it was restructured as NBFC-MFI. However, it continues to focus in rural area employing rural youths as its field officers. It is now providing both the individual loans and joint liability group (JLG) loans to its customers in rural area. In order to improve its business and to contribute to rural development, it conducts financial literacy programmes for the rural people, skill development campaigns, and provides disaster relief and other voluntary services. All these efforts are directed towards improving the lives of low- and middle-income families. Its core value is, *to conduct microfinance business with fairness, learning, meritocracy, transparency, and respect for customers and employees.*

Now, Chaitanya India Fin Credit Pvt., Ltd., is a part of Navi Group as majority of its shares are acquired by Navi Technologies. With the help of its parent, it is now planning to be a PAN (presence across nation) India rural MFI in the near future. It has its registered office in Bengaluru and it is a listed company. And it is rated by CRISIL (Credit Rating Information Services of India Limited) at 'A' indicating 'stable'.

**Operational/Organizational Structure**

The MFI is managed by, and under the supervision of, a board of directors. This board comprises six members – (i) Managing Director (MD) and Chief Executive Officer (CEO), (ii) Joint Managing Director, (iii) two independent Directors, (iv) Deputy CEO and (v) a nominee Director.

As far as operational/organizational structure is concerned, Chaitanya India Fin Credit Pvt., Ltd., has a well-defined structure spelling out clearly who is accountable to whom. However, for proper supervision and control, the entire area of operations (geographical area) is divided into regions, each region is divided into a few divisions, each division is split into 3-4 area offices, and each area office comprises 10-15 branches. At the top of operations, there is a responsible officer viz., Head (Operations).

Head (Operations) supervises the regional managers who in turn supervise the divisional managers in their jurisdiction. And the divisional managers supervise heads of area offices and these heads supervise the branch managers of their area. Each branch manager is assisted by 8-10 credit officers. Each branch office is expected to serve 1,500

– 1,600 clients/customers. And the branch managers are delegated with adequate powers to sanction loan to the target group in their area. Besides, it has a few subject/area specific committees:

(1) Asset and Liability Management Committee,
(2) Audit Committee,
(3) Corporate Social Responsibility Committee,
(4) Finance Committee,
(5) Information Technology Strategy Committee,
(6) Nomination and Remuneration Committee, and
(7) Risk Management Committee.

These committees assist the institution in its business activities. In order to provide micro-finance and other related services, this MFI has partnered with expert-organizations in a few areas as summarized below:

**Chaitanya India Fin Credit Pvt., Ltd - Major Partners**

**Banking Partners:**

| | |
|---|---|
| HDFC Bank | ICICI Bank |
| Kotak Mahindra Bank | IndusInd Bank |
| SBI | IDFC First Bank |
| Bank of Baroda | RBL Bank |

**Rating Agencies:**

| | |
|---|---|
| ICRA | CRISIL |
| SMERA | |

**Credit Bureau:**

| | |
|---|---|
| CRIF | Equifax |
| CIBIL | Experian |

**Group Insurance Partners:**

| | |
|---|---|
| Kotak Life Insurance | ICICI Prudential Life Insurance |
| DHFL Pramerica Life insurance | HDFC Life Insurance |

**Self-Regulatory Organizations:**

MFIN AKMI

**Debenture Trustees:**

CATALYST Trusteeship Limited IDBI Trustee Services Limited

### Target Clients

As already pointed out, Chaitanya is primarily focusing on rural areas and their development by providing loans and advances under both JLG and individual loans to customers. However, the special emphasis, in the provision of loans and advances, is on the women and their empowerment. Of course, it also provides loans to urbanites depending upon the eligibility and need. However, the general eligibility conditions are summarized below:

(a) Family income of the loan applicant shall be not more than ` 60,000 per annum in rural area, and ` 1,20,000 per annum in urban area,

(b) Age of the loan applicant shall be not less than 18 years and not more than 58 years,

(c) There is no bar on the education level – the applicant may be illiterate, semi-literate or literate, and

(d) The thrust areas for lending are,

  (i) Rural Area: Animal husbandry, dairy farming, agriculture-related labour work, etc.

  (ii) Urban Area: Household work, petty business, small business, etc.

### Products and Services

The focus is on meeting the financial requirements of poor. It provides small business loans, JLG loans, etc. It provides loans and advances for both income generating activities and others. About 85% of its loan sanctioned is for income generating activities such as agriculture and allied activities, trade and manufacturing, live-stock and poultry, dairy, and micro and small business, etc., and the balance (i.e., about 15% of loan amount sanctioned) is for meeting other legitimate expenses such as consumption expenses and services.

(a) **JLG Loan:** This loan is sanctioned to small JLGs without asking for collateral securities. Under this scheme, the amount of loan provided to the needy JLG ranges from ` 5,000 to ` 50,000. And the rate of interest is 21% per annum which appears to be on higher side compared to banks' lending rates. However, this rate is lower when compared to the rate charged by private money-lenders. And the loan repayment period is 12-24 months. The borrowers/Groups can repay the borrowed amount either on monthly basis or bi-annually depending upon their convenience.

(b) **Small Business Loan and Live Stock Loan:** This loan is sanctioned for carrying out small businesses, for purchase of live-stock, small machines, etc. The unique feature of this loan is, it is provided at the door steps of the customers. It provides individual loan product with flexible terms and conditions. Under this scheme, the amount of loan varies in the range of ` 1 lakh to ` 5 lakh with repayment period extended up to 48 months. However, the rate of interest differs from one customer to another depending upon the size of loan, repayment period, risk in the proposed project, etc.

In addition to the interest, the MFI also charges two more components for the loan sanctioned viz., (i) loan processing fee (as service charge) at the rate of 1% of the amount of loan sanctioned, and (ii) insurance fee is charged as per the terms and conditions of insurance company/ies.

**Lending Methodology**

Lending methodology followed by this MFI comprises a few important steps as summarized below:

(a) **Formation of Groups and Kendras:** Chaitanya India Fin Credit Pvt., Ltd., provides loans through JLG model. Under this model, a group is formed with 7 - 20 members after collecting the information about the KYC (know your customers) of group members. Further, a 'Kendra' is formed for every 2 - 6 groups.

(b) **Data Entry and Credit Bureau Checking:** Details/data of Customers are entered into the Core Banking System (CBS) at regional processing center by verifying KYC. Instant credit bureau checks before lending loans, in case of urgency and small amounts of loans.

(c) **Group Confirmation:** Five days of compulsory group training (CGT) is conducted by loan officer. After the training, interview is conducted by branch manager. Before confirmation of membership of the groups, their houses are visited by area managers.

(d) **Meetings of Kendra:** Every week/fortnight, meetings are conducted for 30 to 45 minutes by the loan officer for verification and supervision.

(e) **Loan Application:** After group approval, loan applications are accepted by loan officers for further processing which is subject to internal credit limits.

(f) **Loan Evaluation:** The repayment capacity of each customer is assessed on the basis of existing cash flows and income analysis.

(g) **Loan Sanction and Disbursement:** After evaluation, if it is found satisfactory, loan is sanctioned after reconfirmation of group. Funds are transferred to bank accounts of clients and repayment schedules are informed to clients.

(h) **Loan Repayment:** Customers can choose repayment frequency based on their convenience (weekly/bi-weekly/monthly). On the recovery of loan (part or full), the information is updated through online means.

(i) **Loan Utilization:** For 5 - 10 weeks, loan utilization check is conducted. Follow up of loan utilization check in 11 - 15 weeks. Loan utilization check is recorded in passbook and in loan utilization check card.

**Performance at a Glance, 2020-21**

As at the end of 2020-21 reporting period, the latest year for which the details are available, this MFI has its presence, through microfinance services, in seven states of India covering 68 districts with 275 branches. This MFI has man-power of 2,462 in different cadres and has 5,14,580 active borrowers. It has JLG loan distributed of ` 1,288.40 crore and the total assets under management is ` 1,396.33 crore. During 2020-

21, it has earned a total income of ` 157.06 crore, and the profit before tax amounted to ` 25.16 crore. And the amount of profit after tax amounted to ` 20.63 crore.

**CSR Activities**

Chaitanya India Fin Credit Pvt., Ltd., is also undertaking a few activities under CSR (corporate social responsibility) programme. These activities comprise the following:

(a) Sanitization, promotion of health care, provision of safe drinking water facilities in rural India, etc.

(b) Eradication of hungry, poverty and malnutrition.

(c) Promoting education including vocational skills.

(d) Empowerment of women and promotion of gender equity.

(e) Ensuring environmental sustainability.

(f) Development of projects for rural and slum areas.

(g) Disaster management.

(h) Promotion of rural sports and nationally recognized sports through training.

(i) Contribution to the Prime Minister's National Relief Fund.

(j) Protection of national heritage, art and culture.

## II. Credit Access Grameen Limited

**Introduction**

Credit Access Grameen Limited is one of the leading MFIs in India. It enjoys largest share in microfinance market in the world. In August 2018, it was listed with National Stock Exchange of India Ltd (NSE) and Bombay Stock Exchange Ltd (BSE).

This institution has started its operation as a Trust in a small village in the outskirts of Bengaluru. Now, it has grown in the market with its brand. This is founded by two individuals (founder Smt. Vinatha M Reddy and co-founder Shri. Suresh Krishna) who have nurtured the institution as an NGO which was subsequently restructured into an

NBFC during 2007-08. Founders' strong fundamentals helped management to attract key investors and to transform it into a mainstream NBFC-MFI thereafter.

In the year 1999, T. Muniswamappa Trust (TMT) has undertaken a project to start this institution as NGO in Avahalli on the outskirts of South Bengaluru. The required seed capital of $ 35,000 was funded by the Grameen Trust of Bangladesh for replicating the Bangladesh Grameen Bank Microfinance Model in India.

This MFI also follows group lending methodology offering collateral free loan and other services for the women who are economically poor. The primary objective of lending is to create equal opportunities for urban and rural poor, and to achieve inclusive growth. Simultaneously, loan provision is also to assist women to improve their living standard and to break the vicious poverty cycle. Grameen Koota selects financially literate women-entrepreneurs and steadily groom them to start the group lending model.

In the year 2007, the legal status of Credit Access Grameen Limited was transformed from NGO to a NBFC. This has subsequently been reclassified into regulated and governed NBFC-MFI entity by the Reserve Bank of India (RBI) in 2013. Still Grameen Koota has continued as operating brand name for Credit Access Grameen Limited. It is headquartered in Bengaluru and the rating agencies have assessed and rated it with $A^+/A1^+$ reflecting stable outlook. This MFI uses JLG model for lending as well as individual lending. The guiding principles of this MFI are reflected in **CREATE** as summarized below (Figure – 3.1).

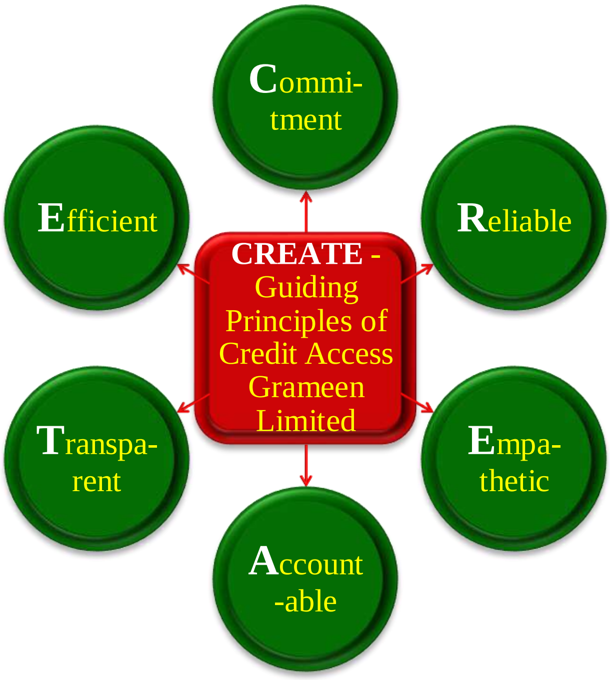



*Figure – 3.1: CREATE – Guiding Principles of Credit Access Grameen Limited*

**Operational/Organization Structure**

The board of directors comprises eight members – chairman, vice-chairman, managing director, three independent directors and two nominee directors.

The business of MFI is conducted through a well-defined organizational structure. It is headed by Head (Operations) with a few regional offices headed by regional managers. Regional officers supervise the activities of divisions in their geographical area headed by divisional managers who in turn monitor the activities of 3-4 area offices (headed by area managers) each. Each area office supervises 10-15 branch offices headed by branch managers. Area managers play an important role in the overall business development in their area. Branch managers are assisted, in their regular business activities, by credit officers. Each branch is expected to serve 1,500 to 2,000 clients.

It has three important committees viz., (i) Committee for supervising Branch and Supervisory Staff and Business Support Team Work, (ii) Risk Management Committee and (iii) Internal Audit Committee. Internal audit is conducted at branch level six times a year, at regional office level and head office, four times a year. Besides, the following committees are also functioning:

(1) Asset-Liability Management Committee
(2) Audit Committee
(3) Corporate Social Responsibility Committee
(4) Executive, Borrowings and Investment Committee
(5) IT Strategy Committee
(6) Nomination and Remuneration Committee
(7) Risk Management Committee
(8) Stakeholders Relationship Committee

This MFI has an employee strength of 14,399 as on 31 March 2021 and 90% of these employees are hired from rural area including 50-60% of the man-power hired from families of its clients. The institution conducts 2-3 weeks of training programme before hiring and on successful completion of pre-hiring training programmes, required number of persons are recruited. It has succeeded in maintaining higher employee retention ratio. It is the practice of this MFI to compulsorily rotate the credit/loan officers every year.

In order to carry out its activities successfully, it has partnered with a few formal institutions such as banking companies, insurance companies, etc. More specifically, it has partnered with ICICI Prudential Life Insurance Company, ICICI Prudential MF, IIFL AMC, Nippon MF, SBI MF, T Row Price, Talyo Pacific Partners, Tata AIA Life Insurance, Vanguard and WCM Investment Management.

It (Credit Access India Limited) is one of the well-established MFIs in India. It is attracting funds globally as it has healthy and secure financial standing. It provides financial services for small and informal businesses and in unbanked areas with special emphasis on the provision of loans and advances to women-clients for running retail shops, small trading, farming, etc.

Currently, it is serving about 4 million clients throughout the country. It is a professionally managed MFI. 15% of its shares are held by Olympus Asia (US PE Firm, focusing on mid-cap Asian Companies) and 9% by Asian Development Bank. About 50% of its shareholders (220+) are high net worth individuals (HNWIs).

**Target Clients**

Basically, this MFI focuses on women as it believes that, women are ambitious and contribute for community and country's socio-economic development. Majority of the women use the financial resources availed from the MFI more productively and for the welfare of their families and for the community development.

**Products and Services**

CAG offers both financial and non-financial products and services to its clients/ customers. It has designed schemes based on customers' life cycle needs at lower rate of interest. These products are modified based on the customers and staff feedback. Some of the priorities for lending are water and sanitation, festival celebration, education, home improvement, etc. However, it is providing three major types of loans viz., group loans, individual loans and distributor of products (Figure – 3.2).

The salient features of the above schemes are summarized in the following paragraphs.

**(a) Group Loans:**

- **(i) Income Generation Loans:** This loan is provided for supporting customers to start/expand their business enterprises and other income generation activities such as purchase fixed assets and/or for carrying out agricultural activities, to take up animal husbandry, to meet additional working capital requirement of their existing business, etc. Under this scheme, clients are allowed to take loan up to ` 1 lakh at 19.25% of interest per annum. The tenure for repayment is 52 weeks to 156 weeks depending upon the loan amount.

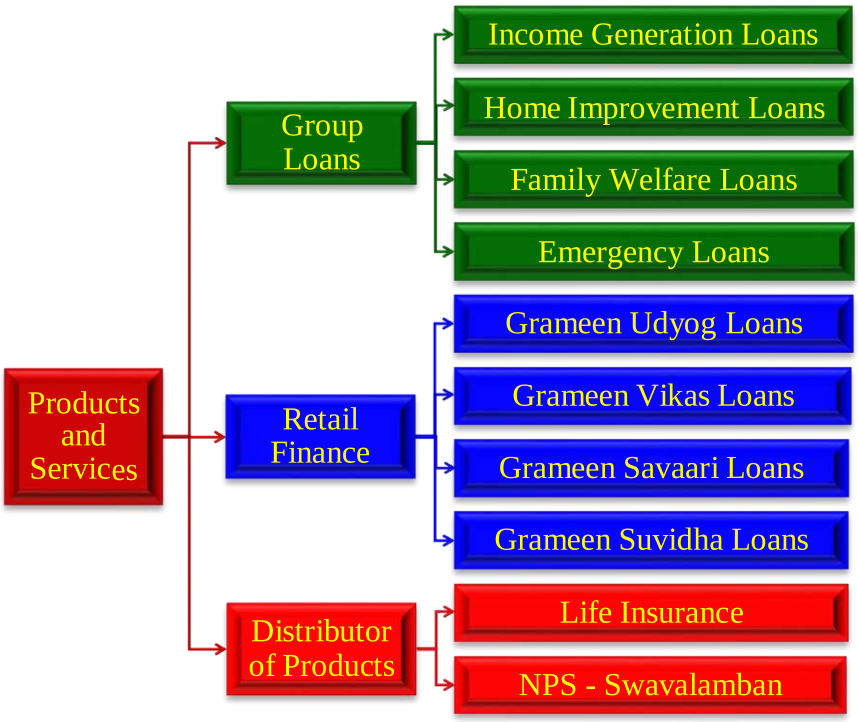



*Figure – 3.2: Credit Access Grameen Limited – Products and Services*

(ii) **Home Improvement Loans:** This loan is provided to customers for availing water connection, construction of toilets, besides improvement and extension of their existing houses including repairing of house and/or replacement of existing roof, wall floor or door, monsoon proofing, adding a room or kitchen, etc. Under this scheme, clients are allowed to take loan from ` 5,000 to ` 50,000 depending upon the purpose and requirement. The rate of interest is 19.25% per annum. The repayment period is 52 weeks to 208 weeks depending upon the loan amount.

(iii) **Family Welfare Loans:** This loan is provided to customers to help them to improve their quality of life. It meets the genuine consumption needs such as LPG connection, purchase of bicycle, cooking stove, water purifiers, solar lights, educational requirements, cover for medical expenditures and also to meet specific needs that arise during festivals. Under this scheme, clients are allowed to take loan from ` 1,000 to ` 15,000 depending upon the purpose. The rate of interest is 19.25% per annum. The repayment period is 24 weeks to 52 weeks depending upon the loan amount.

(iv) **Emergency Loans:** This loan is provided to customers to meet their emergency and short-term cash flow constraints. Under this scheme, customers are allowed to take loan up to ` 1,000. The rate of interest is 19.25% per annum. The tenure for repayment is three months.

(b) **Retail Finance:** This loan scheme, introduced from 2016, offers loans to existing customers and targets customers who have high entrepreneurial capacity. The loan is offered to customers for expanding their existing business, meet working capital requirements, procurement of stock, machinery, vehicle (two wheelers), etc.

(i) **Grameen Udyog Loans:** This loan is provided to customers who require higher amount of loan in their individual capacity to meet their short-term requirements, increasing the scale of business and/or procurement of inventories, machinery, etc. Under this scheme, clients are allowed to take loan up to ` 1.50 lakh. The rate of interest is 22% per annum. The tenure for repayment is 24 months.

(ii) **Grameen Vikas Loans:** This loan is provided to customers who require capital for business expansion, procurement of machinery, etc. Under this scheme, clients are allowed to take loan up to a maximum ` 5 lakh. The rate of interest is 22% per annum. The repayment period is 24 months to 60 months depending upon the loan amount.

(iii) **Grameen Savaari Loans:** This loan is provided to customers for purchasing new two-wheeler vehicles which can support their income generating activities. Under this scheme, clients are allowed to get loan up to ` 70,000. The rate of interest is 22% per annum. The repayment period is 24 months.

(iv) **Grameen Suvidha Loans:** This loan is provided to customers as an intermediary loan for customers to meet their additional requirements such as maintenance of assets, procurement of inventory required for business, etc. Customers can avail loan up to 15% of Udyog or Savaari loan amount sanctioned. The rate of interest is 22% per annum. The repayment period is six months.

(c) **Distributor of Products:** Under this scheme, the MFI provides/offers the products of other entities in the overall interest of its clients. These products/ services primarily comprise life insurance products and national pension scheme (NPS) – Swavalamban services.

**(i) Life Insurance:** Credit Access Grameen Ltd., has tied up with insurance companies to provide life insurance to their customers. Shriram Life insurance Company Ltd., ICICI Prudential Life, HDFC Life and Kotak Life Insurance Company are the insurance companies with which this MFI (i.e., Credit Access Grameen Limited) has tied-up for providing insurance coverage to its customers and spouse/co-borrowers. Under this scheme, the lives of its clients are covered up to ` 2 lakh each. It provides both individual term life and joint term life policies. However, the maximum coverage is ` 5 lakh for products under joint life policy.

**(ii) National Pension Scheme - Swavalamban**: This scheme is launched to promote small savings during customer's productive life helping the customers during their old ages.

Irrespective the type and amount of loan, the MFI charges 1% of the sanctioned loan amount as one-time processing fee (i.e., service charge). Besides, it also levies/ charges group members insurance premium as per the terms and conditions of the insurance company.

As far as the procedure followed by this MFI for sanctioning and disbursing loan amount is concerned, it is, more or less, similar to the procedure followed by Chaitanya India Fin Credit Private Limited (as analyzed and presented earlier). Hence, the same is not repeated here.

**Performance at a Glance, 2020-21**

The activities of Credit Access Grameen Limited, as of now, cover 14 states and one union territory covering 265 districts. It has 1,424 branches with 39,11,619 active borrowers and 14,399 employees as on 31 March 2021. Women-borrowers account for 97.92% of total active borrowers of the institution. Gross loan portfolio of this MFI is ` 13,587 crore. Customer retention ratio of 87% indicates the satisfaction of customers about the services provided by the MFI.

During 2020-21, this MFI earned a total income of ` 1,291.07 crore and reported a profit before tax of ` 194.29 crore and profit after tax of ` 142.39 crore.

**CSR Activities**

CAG believes in its business but with social commitments. Under Corporate Social Responsibility (CSR), various supporting and awareness programmes are conducted for improving the quality of life of the people in the area of its business operations besides working towards community/societal development. During 2020-21, CAG has worked on **WASH** (water, sanitization, hygiene), **Sugrama** (community development programme) and **Susikshana**. During 2020-21 (the year haunted by COVID-19), it has taken up the following activities under CSR programme. To implement CSR activates effectively, two different approaches were structured. They are, (i) activities which are directly implemented by CAG team itself and (ii) activities which are implemented by partnering with Navya Disha (CSR implementing partner).

(i) Activities which are directly implemented by CAG team: Under this programme, many COVID support programmes are conducted/organized. They include, issue of health kits, grocery kits, PPE kits, thermal scanners and other items. These assistances are provided/distributed in 11,094 localities benefitting nearly 5,58,326 persons. Covid-19 online training sessions were also conducted for staff members in collaboration with Narayana Health CSR.

(ii) CSR activities are also conducted in collaboration with Navya Disha at selected branches organizing programmes such as combating COVID-19, Sushikshana sandbox and other relief activities. **Sandbox activities** are planned for a short-term period. On the basis of success of these short-term activities, the company considered it for expansion to a larger scale. These programmes are implemented by adopting two gram panchayats covering 26 villages.

## III. IDF Financial Services Private Limited

**Introduction**

Initiative for Development Foundation (IDF) is an NGO founded by development bankers and administrators who are proficient in microfinance, entrepreneurial development programmes such as communication and administration, transfer of technology, corporate planning, sustainable agriculture and rural development, etc. It was registered as a registered public charitable trust in November 2001. In April 2009, it was registered as a non-banking finance company. It has registered office in Bengaluru and administrative office in Dharwad (Karnataka). It follows JLG (Joint liability group) model for lending besides individual loans. It is rated by Infometric Rating as 'IVR BBB–/Positive' (IVR Triple B Minus with Positive Outlook).

IDF Financial Services Private Limited (IDF FSPL) primarily provides microfinance and other allied services to its customers. The motive behind this service is to help the poor, both in rural and urban areas, in a sustainable way. IDF microfinance division was delineated from its parent institution for the purpose of increasing the scale and promotion of microfinance operation and also to mobilize adequate capital for its operations. IDF FSPL believes in meeting the diversified credit needs of customers. Further, for different sections of people, they offer customized services to meet their needs. It offers SHG loans and NGO-MFI loans based on the requirements of customers.

IDF FSPL is a NBFC-MFI established to provide short-term finance to micro Self-Help Groups (mSHGs). It assists in the formation and nurturing women mSHGs and focusing in rural and semi-urban area. It strongly believes that, economic empowerment of women is a greater asset for the country. It concentrates on the poor at grassroots level through the process of social mobilization for livelihood and this social mobilization allows poor to build their own organizations. The core values of IDF FSPL are commitment, transparency, innovation, ethics in business and exceptional teamwork. The thrust areas of its activities are,

(a) Assist micro Self-Help Groups,
(b) Capacity building of micro SHGs through training and other activities, and
(c) Providing financial assistance for income generating activities thereby generating employment opportunities aiming at eradication of poverty.

**Operational/Organizational Structure**

IDF FSPL is managed by a board comprising seven members including a chairman, a managing director and five other directors. The business activities of this MFI are under the supervision and control of Head (Operations). The entire geographical area of operation is divided into a few divisions and these divisions are headed by divisional managers who monitor 3-4 area offices (headed by area managers) in their jurisdiction. Each area officer supervises 3-5 branch offices (headed by branch managers) and each branch manager is assisted by 3-5 credit officers. Each branch monitors about 1,500 to 2,000 clients. Of course, the regulatory authority is the Reserve Bank of India (RBI). At the MFI level, it has a few committees such as Audit Committee, Risk Management Committee, etc.

It has its business in 20 districts across three states viz., Goa, Karnataka and Maharashtra with 59 branches and 266 employees. As at 31 March 2021, its client base is 68,559 with a gross loan portfolio of ` 155.92 crore.

For the purpose of providing microfinance and other related services, IDF FSPL has partnered with many formal organizations in different sectors as summarized below:

**IDF Financial Services Private Limited - Major Partners**

**Banking Partners:**

| | |
|---|---|
| Bank of Baroda | Bank of Maharashtra |
| Canara Bank | ESAF Small Finance Bank |
| Habitat Micro Build India | IDFC First Bank |
| Jana Small Finance Bank | Karnataka Grameen Bank |
| Karnataka Vikas Grameen Bank | NABARD |
| NABKISAN Finance Limited | NABSAMRUDHI Finance Limited |
| SIDBI | State Bank of India |
| Union Bank of India | United Commercial Bank |

**Strategic Partners:**

AKMI — Sa-Dhan

**Support Institutions:**

Intellecap — Social Microfinance Facility, Netherlands

**IT Service Providers:**

Force Technologies Private Limited

**Rating and Grading Institutions:**

Infometrics Valuation and Rating Pvt., Ltd., — SMERA Rating Private Limited

## Target Clients

IDF FSPL provides equal opportunities to the poor while providing loans and advances, and other services. They provide microfinance and other services without any discrimination to their caste, religion, etc. However, emphasis is on women as they believe in empowerment of women. The following factors are considered while sanctioning and disbursing loan – (i) clients' social and demographic characteristics, (ii) current income level of clients, (iii) present skill level of clients, (iv) group cohesiveness, (v) current and proposed activities undertaken by the clients, etc. A few other aspects pertaining to the provision of microfinance are presented below:

**Table – 3.1: IDF FSPL – Eligibility and other Factors for Microfinance**

| Sl. No. | Variable | Condition/s |
|---|---|---|
| (1) | Income | Rural area: up to ` 1,25,000 per annum<br>Urban area: up to ` 2,00,000 per annum |
| (2) | Age group | 18 to 59 years |
| (3) | Education | Illiterate or semi-literate |
| (4) | Occupation | Rural area: Farming, animal husbandry, dairy farming, sharecroppers and agri-related labour work<br>Urban area: Petty business and household work |

| | | |
|---|---|---|
| (5) | Communities | Poorer sections of the society. However, at least 10-15% should be from SC/ST and 18-20% from minority communities |
| (6) | Purpose of Loans provided to SHGs | • **Consumption Need:** For fulfilling the needs of clients such as education, health, clearance of past debts, emergencies, marriage expenses, purchase of household assets like gas stoves, house repairs, electricity connection, etc<br>• **Productive Purpose:** Purchase of animals, petty business, land on lease, purchase of agricultural inputs, public small transport vehicles, sewing machine purchase for embroidery work, beauty parlor, motor winding, catering services, agarbatti rolling, etc<br>• **Asset Creation:** Purchase of consumer durables, bicycle, purchase of site, repair of house, etc |
| (7) | Documents required for Loan Sanction | • Identity proof such as driving license, Aadhaar card, PAN card, etc<br>• Address proof issued by competent and legitimate government authority such as driving license, telephone bill, electricity bill, gas bill, etc<br>• Proof of income and bank statements |
| (8) | Loans provided to NGOs and MFIs | It provides small start-up loans to NGOs or MFIs for the purpose of relending to the poor - this service is provided on selective basis. |

**Products and Services**

IDF FSPL provides microcredit, micro-insurance, education loan, etc. However, the loan products are classified into four broad categories as summarized below:

**(a)** **Interim Loan Product:** This loan is provided to meet the emergency needs of existing SHG members up to a maximum of ` 10,000. This interim loan is sanctioned to those SHG members who have existing loans which are regular and they need additional loan to meet their urgent and immediate requirements such as medical emergencies, educational fee payment, etc.

**(b)** **IDF Pragathi:** Business activities require more loan when they graduate to higher scales but under microfinance, they cannot meet their requirement due to RBI guidelines. However, individual loan product, IDF Pragathi, is introduced to take care of higher business loan requirement outside the preview of RBI guidelines. The loan amount under this scheme is up to ` 1.50 lakh and repayment tenure is 24 to 36 months.

**(c)** **IDF Ashraya Micro Housing Loan:** This scheme is designed and introduced for meeting the needs of members in rural and semi-urban areas. Under micro housing loan product, IDF Ashraya, loan is sanctioned for construction of small dwelling unit with a maximum limit of ` 50,000 and repayment tenure is 48 to 60 months.

**(d)** **mSHG Loans:** The loan under this scheme is sanctioned for (i) productive purposes (purchase of agri-inputs, animal husbandry activities, setting up or expansion of microenterprises, business activities, etc), (ii) consumption purposes (children education, health care, past loan repayment, religious function, etc) and for asset creation (purchase of consumer durables, repair of house, site purchase, vehicle purchase, etc)

**(e)** **Individual Loan - Abhyudaya:** This loan is for those individuals who are not the parts of mSHG. The loan under this scheme is sanctioned to those group members who have promptly repaid their previous loans ($1^{st}$ and $2^{nd}$ cycle loans). The maximum loan amount is ` 60,000 and repayment tenure is 24 to 36 monthly installments.

In the light of the above, salient features of micro-SHG and individual loan services are summarized below (Table – 3.2).

**Table – 3.2: Features of Micro SHG and Individual Loan Services**

| Sl. No. | Cycle Number | Details of Loan Provision | | |
|---|---|---|---|---|
| | | Maximum Loan Amount (`) per Member | Rate of Interest (%) | Repayment Period (months) |
| (1) | mSHG Loan: | | | |
| | 1 | 25,000 – 30,000 | 21.89 | 12-24 |
| | 2 | 30,000 – 40,000 | 21.89 | 24 |
| | 3 | 40,000 – 50,000 | 21.89 | 24 |
| | 4 | 50,000 – 60,000 | 21.89 | 24 |
| (2) | Individual Loan | 60,000 – 1,00,000 | 22.89 | 24-36 |

In addition to the interest at the rates presented above, the IDF FSPL also charges 1% of the sanctioned loan amount as the loan application processing charge (i.e., service charge).

**Lending Methodology**

The IDF FSPL has developed its loan products based on the needs of its clients such as working capital for business, assets for livelihood and/or agriculture or any other requirements other than meeting consumption. IDF FSPL starts the business process by organizing poor women into homogenous groups of five members who are living in close vicinity with the same economic background and strong affinity for each other. Five such groups constitute a **cluster** and meet every month. All these SHG groups are federated into IDF SHG Federation, Dharwad. These federations are registered for the interest of socio-economic development of members.

After a thorough due diligence of SHGs, this MFI sanctions loans to those mSHGs which are successful in Group Recognition Test (GRT) and also have satisfied credit history evidenced by the credit bureau.

**Performance at a Glance, 2020-21**

As already stated, at present, IDF FSPL is covering 20 districts from three states (Goa, Karnataka and Maharashtra) and it has 59 branches in these districts. Number of borrowers, as at 31 March 20221, is 68,559 from 19,351 SHGs. It has man-power of 266. During 2020-21, it has earned a total income of ` 31.43 crore and reported a profit before tax of ` 4.50 crore and profit after tax of ` 3.56 crore.

## IV. IIFL Samasta Finance Limited

### Introduction

IIFL Samasta is one of the committed MFIs working in India for economic empowerment of women. Since its inception in March 2008 (as a registered NBFC), it is providing innovative financial services for women from unbanked areas of the society at affordable terms and conditions. It is covering both rural and semi-urban areas with wide array of its financial products for sustainable and inclusive economic growth. Presently, it is operating in 16 states across India with innovative technology solutions enabling the customers to enjoy digitalization. One of the objectives of Samasta is to create economic opportunities to improve the standard of living of people in the communities it is serving.

Its registered office in Bengaluru and it is listed entity. Also, IIFL Samasta Finance Limited is rated with CARE 'A' meaning 'stable outlook'. This NBFC-MFI provides both individual loans and also loans through JLG.

It offers financial services to those who are deprived of access to formal banking services for income generation activities, education, meeting working capital requirements, etc. With these services, Samasta has successfully made lives of many of its customers stronger. The strong foundation, transparency, strategies of retail business and ethical business have ensured success in its business. It is founded on the core principles of fairness, integrity and transparency in working.

### Operational/Organizational Structure

IIFL Samasta Financial Limited is governed by a board comprising seven directors including a managing director and another chief technology officer. Of the remaining five directors, four are independent directors.

Business operation of Samasta is under the supervision of Head (Operations) who supervises the regional offices which are headed by regional managers. Every 10 to 11 branches are under the direct supervision and control of a divisional manager. The divisional managers are also responsible to monitor area managers. Each of the area managers supervises of 4 to 5 branches. Branches are headed by Branch Managers assisted by 8-10 credit officers. Each branch supervises/manages 1,500 to 5,000 clients.

Currently, Samasta has 618 branches in 16 states and one union territory of India viz., Assam, Bihar, Chhattisgarh, Goa, Gujrat, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Pondicherry, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

In order to manage its activities effectively, besides the board and other managerial personnel, it has a few committees such as Asset Liability Committee, Audit Committee, Information Technology Strategy Committee, Nomination and Remuneration Committee, and Risk Management Committee.

### Target Clients

IIFL Samasta Finance Ltd., is serving as NBFC-MFI by offering financial services to low income group people in western and southern states of India. It believes that, women play a crucial role in developing healthy community making them financially strong which is necessary for development of the society. Therefore, more importance is given for empowerment of women.

However, it provides microfinance to poor in both rural and urban areas, and formal educational qualification is not essential for the poor to avail of the loan facility as this MFI provides microfinance to both illiterates and literates. However, their age should be not less-than 18 years and not more than 52 years. Further, the annual income should not be higher than ` 1.25 lakh.

**Products and Services**

IIFL Samasta Finance Ltd., provides a few financial services to their customers as summarized below.

(a) **Samriddhi:** This loan is designed for empowerment of women. Under this scheme, loan is provided to set-up and/or to expand micro enterprises. This fulfills the needs of entrepreneurs such as procurement of inventory, initial capital requirements, working capital increase, etc. This loan is provided under JLGs and loan amount ranges from ` 10,000 to ` 60,000, and the rate of interest is 21.86%. The repayment tenure is two years.

(b) **Shiksha:** Loan under this scheme is provided to customers to meet the academic requirements of their children. This loan is provided under JLGs and the loan amount varies from ` 10,000 to ` 15,000 depending upon the requirements of customers. The rate of interest is same at 21.86% as in most of other schemes. The repayment period is also two years.

(c) **Surabhi**: This loan is provided for women-customers for dairy development activities. Loan covers purchasing of new cattle and insurance coverage to mitigate risk. This loan is provided for individuals and the loan amount varies from ` 50,000 to ` 90,000 and the rate of interest is 21.89%. The repayment tenure is two years and repayment frequency is monthly.

(d) **Samvardhana:** This is an additional loan for the existing business loans. This loan is provided for income generation activities of those customers who have good repayment history and can access more cash to boost their income generation activities. This loan is provided under JLGs and the loan amount ranges from ` 10,000 to ` 25,000, and the rate of interest is 21.86%. The repayment period is two years.

(e) **Suvidha:** This loan is designed to improve the customer lifestyle - for purchase of products such as cooking stove, solar lights, mobile phones, etc.

This loan is provided under JLGs and the loan amount is in the range of ` 2,000 to ` 18,000 and the rate of interest is 21.86%. The repayment tenure is two years.

(f) **Sampark:** This scheme is designed to promote micro, small and medium enterprises (MSMEs). It encourages self-employment in rural areas. This loan is provided for individuals and the loan amount is from ` 3 lakh to ` 5 lakh and the rate of interest is 23 to 25%. The repayment period is 10 years and repayment frequency is monthly.

(g) **Swabhiman:** This scheme is designed to provide loan to customers who are micro entrepreneurs. Loan is provided for expansion of businesses at affordable interest rate without any collateral securities. Under this scheme, loan is provided for individuals and the loan amount is from ` 50,000 to ` 3,00,000 and the rate of interest is 24 to 27% per annum. The repayment tenure is four years and repayment frequency is monthly.

(i) **Sajal:** This scheme is meant to provide loan to customers for securing basic necessities of life. By using this loan, customer can setup filtration unit, house water connection, water storage, toilet construction and other households. The loan amount ranges from ` 4,000 to ` 30,000 without any collateral securities.

As with other MFIs, this MFI also charges 1% of loan sanctioned as the loan processing fees.

**Lending Methodology**

Business and Development Correspondents and Facilitators (BCs and BFs) follow the following procedure while lending loans either to SHGs or JLGs:

(a) Promoting, nurturing and monitoring groups by identification of borrowers.

(b) Loan application is primarily verified with the basic information.

(c) Providing necessary details about credit products such as maximum amount that can be borrowed, rate of interest, repayment period, frequency of repayment, etc.

(d) Advice on management of money and debt counseling – to ensure that the borrowers utilize the borrowed amount properly.

(e) Processing and submission of customer applications to IIF Samasta Finance Ltd.

(f) Promotion and nurturing Self-Help Groups and/or Joint Liability Groups.

(g) Post-sanction monitoring of loans to ensure that the amount borrowed is utilized for the purpose for which it was borrowed.

**Performance at a Glance, 2020-21**

At present, IIFL Samasta Finance Ltd., is serving in 16 states and one union territory with 618 branch offices and 6,794 employees. There are 16.20 lakh active borrowers with total loan disbursed of ` 37 billion. Total assets under management (GLP) is ` 47.90 billion. During 2020-21, it has earned a total income of ` 435.21 crore and reported a profit before tax of ` 82.15 crore and profit after tax of ` 66.62 crore.

**CSR Activities**

IIFL Samasta Financial Ltd., has organized many programmes and carried out many activities under CSR during the year 2020-221. These activities/programmes include, among others, the following:

(a) With the support of NGOs, Samasta has launched two live-stock development centers (LDC) at Harohalli and Halaguru in Karnataka State. These centers are rendering services for 40 villages covering 1,642 cattle.

(b) Conducted campaigns for creating awareness about the preventive measures for the illness of livestock. These campaigns were organized in Nadaboganahalli Village (K R Pete taluk of Mandya district, Karnataka), Nelamane (Shreerangapatna taluk of Mandya district, Karnataka) and Darasaguppe village (Mandya district, Karnataka) in Karnataka. Professional Veterinary Doctors have treated 642 animals and provided general livestock information to farmers.

(c) Scholarships were given especially for girls under the scheme, 'Shiksha Ki Udaan'.

(d) Vision care project is launched in collaboration with Essilor Vision Foundation. Under this programme, free eye checkups were conducted for 2,000 persons in Karnataka.

(e) Immediate support was given for 234 persons affected by Nivar Cyclone in Tamil Nadu during November 2020.

(f) COVID-19 relief activities are carried out in Karnataka, Maharashtra, West Bengal, Rajasthan, Gujarat, Tamil Nadu, Bihar, Kerala and Odisha. Also provided PPE kits to 25 designated hospitals. Besides, safety kits and groceries were provided to the needy.

(g) Provided furniture to government schools in Rajasthan.

## V. NABFINS

### Introduction

Besides the SHG-Bank linkage programme, NABARD has undertaken an initiative to promote microfinance sector by establishing NABFINS. It (i.e., NABFINS) is a subsidiary of NABARD established in the mid-2000. It was registered as NBFC-MFI in February 2015 with the objective of setting up of benchmarks and standards for MFI sector and to establish fair and transparent MFI. It provides microfinance and other financial services in rural, semi-urban and urban areas for the needy and the disadvantaged sections of the society. Through SHGs and JLGs, it provides microfinance services to the needy. NABFINS is working with transparency, set standards for governance among the MFIs and also provides microfinance services to the needy directly or through Business Correspondents (BCs) and Business Facilitators (BFs). It wants to be a model MFI in India with customer trust by providing hassle-free loans to customers (low income and in unorganized/informal sector).

NABFINS was incorporated in 1997 and registered as an NBFC in 2008. In February 2015, it was registered as an NBFC-MFI. It is headquartered in Bengaluru providing microfinance and other services under SHG and JLG models.

**Operational/Organizational Structure**

Majority of the shares (more than 51%) of NABFINS are held by NABARD which has assumed the responsibility of ensuring professional management. NABFINS is governed by independent board of directors who are experts in different fields such as microfinance, banking, rural development, financial regulation and administration, etc. The board is competent to ensure good corporate governance as it comprises highly educated and qualified with personal achievements and experience in social banking, academics, empowerment of women, poverty alleviation, banking sector, administration, etc. It comprises 11 directors including a chairman and a managing director. Of the remaining, five are nominated directors – one director nominated by the Government of Karnataka, two by the NABARD, one by Canara Bank and another by the Union Bank of India.

In order to conduct its activities, it has (besides the managerial personnel) a few committees including Audit Committee, CSR Committee, IT Strategy Committee, Loan Committee, Nomination and Remuneration Committee, and Risk Management Committee.

Further, NABFINS' major partners are Business and Development Correspondents and Facilitators. For credit delivery, SHG/JLG tools are used. Presently, there are more than 300 partner agencies including 200 active partners supporting the NABFINS' activities. As the parent of NABFINS, NABARD is the major partner of NABFINS followed by Government of Karnataka and other banking companies as tabulated below (Table – 3.3).

**Target Clients**

NABFINS is providing microfinance and other financial services to the low-income groups with need-based credit with friendly terms and conditions. It is serving rural, urban and semi-urban areas especially women. Financial products of NABFINS support entrepreneurship, community-based organizations for empowerment and enrichment of lives of women.

**Table – 3.3: Shareholders of NABFINS**

| Shareholders | Share Subscription (` lakhs) | Share Subscription (%) |
|---|---|---|
| NABARD | 10,200.63 | 63.10 |
| Government of Karnataka | 2,980.00 | 18.43 |
| Canara Bank | 1,600.00 | 9.90 |
| Union Bank of India | 850.00 | 5.26 |
| Bank of Baroda | 500.00 | 3.10 |
| Federal Bank | 25.00 | 0.15 |
| Dhanlaxmi Bank | 10.00 | 0.06 |

Source: Based on data from the Annual Report of NABFINS, 2020-21

**Products and Services**

NABFINS provides varieties of services to its customers through different schemes such as group lending, lending to institutions and skill lending model as summarized below.

**(a) Group Lending – Business/Development Correspondent/Facilitator Model:** Under this scheme, loans and advances are provided to both JLGs and SHGs. Loans to SHGs are up to a maximum of ` 15 lakh whereas it is only ` 7.50 lakh in the case of JLGs. However, the rate of interest is same for both the groups and it is 17.30% per annum.

Besides, NABFINS also lends money directly to traders up to a maximum of ` 7.50 lakh with same interest rate of 17.30% per annum.

Further, in the light of Tsunami that destroyed Tamil Nadu a few years ago, NABFINS has designed a special scheme for assisting livelihood of coastal communities of Tamil Nadu in a sustainable manner. This scheme is funded by the International Fund for Agriculture and Rural Development (IFARD). Under this scheme, loans are provided up to a maximum of ` 2 lakh through JLGs formed by IFARD at 17.85% interest rate.

(b) **Lending to Institutions:** To provide institutional support for the poor and meet the requirement of the industry, NABFINS has designed a special scheme for financing Second Level Institutions (SLIs). These SLIs are registered entities primarily dealing with business activities for the benefit of members. One of the major objectives of NABFINS is to provide adequate credit to SLIs which helps in aggregation, value addition and support services to rural people.

(c) **Skill Loan Model:** Under this model, industry-based workers are trained through the PAN IIT Alumni Reach for India Foundation (PARFI). The vocational training is provided based on the industry demand. NABFINS is a strategic partner for extending credit to candidates to meet their training cost. In post-employment period, candidates are required to repay the loans at customized EMIs with adequate time period. Under this scheme, a loan up to a maximum of ` 25,000 at 6% interest rate is provided.

It also charges, 1% of sanctioned loan as the processing fee and it is a one-time charge. As far as the lending methodology is concerned, it is similar to as in the case of IIFL Samasta Finance Ltd (as presented earlier – hence, the same is not repeated here).

**Performance at a Glance, 2020-21**

As of now, it (i.e., NABFINS) is serving the poorer sections in 16 states and one union territory covering 171 districts with 204 branch offices. It has financed 11,670 groups and 7,78,849 customers. It has an employee strength of 1,205. The amount of loan outstanding as at 31 March 2021 is ` 1,558 crore. During 2020-21, it has earned a total income of ` 255.54 crore and reported a profit before tax of ` 45.37 crore and profit after tax of ` 20.37 crore.

**CSR Activities**

During the year 2020-21, the major emphasis was on supporting health and sanitization activities, education of women, providing skill development training for encouraging women empowerment, safe drinking water, building community toilets, construction of toilets in government schools, etc. For COVID-19 pandemic, the company has undertaken two major projects viz., (i) procurement of life saving medical equipment needed for COVID-19 patient treatment and (ii) support for sanitization facilities at government hospitals and government schools.

## Conclusion

From the above, it is obvious that all the five MFIs are in the business of providing microfinance and other related services to the poor with a special emphasis on women. They are serving the poorer sections of the society in both rural, urban and sub-urban area. Further, the services are provided to both the literates and illiterates without discriminating in terms of caste, religion, etc. And all the MFIs have designed loan schemes keeping in mind the requirements of poorer sections of area in which they operating. Most of the terms and conditions on which microfinance is provided are more or less same in all the five MFIs. All the MFIs selected for the present study have presence, in terms of business, in more than one state but all of them have headquarters in Karnataka. Therefore, the performance of one MFI can be compared with others.

## References

https://iiflsamasta.com/product/

https://nabfins.org/partners-bdc/

https://www.chaitanyaindia.in/company

https://www.creditaccessgrameen.in/contact-us/

https://www.idf-finance.in/

**Annexure – 3.1**

**Credit Access Grameen Limited - Awards and Recognition**

| Sl. No | Year | Awards/Recognition |
|---|---|---|
| (1) | 2007 | Ranked 19th in the 'Top 50 MFIs' in the World. |
| (2) | 2009 | Ranked among 'Top 10 MFIs in the Country' by CRISIL. |
| (3) | 2010 | In terms of performance of 2009, CAG was placed in the 4th rank of 'Top 100 MFIs in the World' by the Global Microfinance Exchange (MIX). |
| (4) | 2013 | Awarded the official seal of transparency. |
| (5) | 2013 | Awarded with 'Truelift Certificate' acknowledging its contribution to development of the poor. |
| (6) | 2014 | Recognized by MIX-2013 as Socially Transparent and Responsible (STAR) MFI among 200+ MFIs. |
| (7) | 2016 | SMERA Rating agency has rated as top MFI code of conduct assessment (COCA). |
| (8) | 2017 | Bagged the ISC FICCI – 2017 Award for Best Financial Accessibility for sanitization. |
| (9) | 2017 | Won 'SKOCH Resilient India Award, 2017' for sanitization. |
| (10) | 2019 | Won 'Water.org and Sadhan Award' for water and sanitization credit financing, 2019. |
| (11) | 2019 | Won the best NBFC category award, 'FE Best Bank Award'. |
| (12) | 2019 | Won the 'Micro Finance Organization of the Year Award, 2019'. |
| (13) | 2020 | Won the 'Outstanding Contribution to Rural Entrepreneurship and Empowerment' award. |
| (14) | 2020 | Considered as one of the India's 25 best Workplaces in Banking, Financial Services and Insurance (BFSI) Sector |
| (15) | 2020 | Won the 'Silver Stevia Award' for the excellence in innovation in financial inclusion. |
| (16) | 2021 | Won the 'Micro Finance Organization of the Year' award by Inclusive Finance India Award, 2020 organized by ACCESS in partnership with HSBC. |
| (17) | 2021 | Considered as one of the India's 25 best Workplaces in Banking, Financial services and Insurance (BFSI) Sector, 2021. |

# CHAPTER – IV

# FINANCIAL PERFORMANCE OF MFIs – AN EVALUATION

**Chapter Outline**

**Introduction**

Organizations undertake many functions such as production, human resource management, marketing, finance, etc. These functions play an important role in the organizational success. Among these functions, finance is more important as it has effects on all other functions of the organizations. The sources from which the organizations mobilize the required fund, amount of fund they mobilize, the kind of fund (equity capital, debt capital, etc), productive employment of the fund so mobilized for the purpose of undertaking revenue/income generating activities, etc., play a crucial role in the success of the organizations. This is because of the reason that if the organizations are able to manage their financial resources effectively, then they are able to minimize their costs on the one hand and maximize their income/revenue on the other. This results in higher profit and profitability. This is true even in the case of microfinance institutions (MFIs).

It is, therefore, necessary to evaluate the financial performance of five MFIs selected for the present study. This evaluation enables the MFIs to understand how well they are managing their financial resources – employing the fund for maximizing business. And the financial performance is evaluated from a few dimensions such as volume of business, cost effectiveness, revenue/income generation, liquidity, solvency, profitability, etc. For the purpose of evaluating the financial performance, three important financial statements viz., balance sheet (also called, statement of financial position), statement of profit and loss (also called, statement of comprehensive income) and the statement of cash flows provide the necessary data. And for evaluating the financial performance, many accounting ratios and compound annual growth rate (CAGR) are used besides a few statistical tools such as mean, standard deviation (SD), minimum-maximum and range, skewness and co-efficient of variation (CV) are used. Besides, trend analysis is also used/made to examine whether MFIs are improving their performance year after year on a continuous basis. With the help of both the ratios and trend analysis, it is possible to evaluate the performance of an MFI over the years and also to compare the performance of one MFI with that of others. This two-dimensional analysis/ evaluation provides greater insight into financial position, financial performance and operational efficiency of MFIs. Further, for the purpose of testing the hypotheses, ANOVA test (Analysis of Variance) is carried out.

The key performance indicators (KPIs) in the form of financial performance indicators such as operating cash flow, current ratio, solvency ratio, debt-equity ratio, gross profit and gross profit ratio, return on equity, etc., determine, track and project economic well-being of MFIs. This evaluation helps not only the boards of directors and other managerial personnel but also the external stakeholders including shareholders to understand how effectively and efficiently their MFIs are conducting the business.

As is known, there are many ratios which can be used in evaluating the financial performance of MFIs. However, for the purpose of orderly presentation and evaluation, the financial performance of MFIs is measured and evaluated under six heads and under each of these heads, 3-4 ratios are used. The broad categories of ratios and also the specific ratios are used under each of these broader categories are presented below (Table – 4.1).

**Table – 4.1: List of Ratios used and the Broader Categories**

| Sl. No. | Broader Categories of Ratios | Ratios Used |
|---|---|---|
| I. | Business-related Performance | (1) Total Advances to Total Asset Ratio<br>(2) Business per Employee<br>(3) Loan per SHG/JLG Member |
| II. | Cost Effectiveness/ Management | (4) Total Cost<br>(5) Interest and Non-interest Costs – Relative Share<br>(6) Interest Coverage Ratio<br>(7) Operating Expenses Ratio |
| III. | Income-related Performance | (8) Total Income<br>(9) Interest Income to Total Income Ratio<br>(10) Other Incomes to Total Income Ratio |

| | | |
|---|---|---|
| | | (11) Operating Self Sufficiency Ratio |
| IV. | Liquidity, Long-term Solvency and Capital Adequacy | (12) Current Ratio<br>(13) Debt-Equity Ratio<br>(14) Capital Adequacy Ratio |
| V. | Asset Quality Evaluation | (15) Gross NPA Ratio<br>(16) Net NPA Ratio<br>(17) Write-off Ratio |
| VI. | Profitability Ratios | (18) Portfolio Yield Ratio<br>(19) Profit per Employee<br>(20) Return on Equity (RoE)<br>(21) Return on Assets (RoA) |

In the light of the above, a detailed analysis and evaluation of financial performance of five MFIs selected for the study viz., Chaitanya India Fin Credit Private Limited (CIFCPL), IDF Financial Services Private Limited (IDFFSP), IIFL Samasta Finance Limited (IIFLSFL), NABARD Financial Services Limited (NABFINS) and Credit Access Grameen Limited (CAGL) is made in this chapter under six broad categories as presented in the above table.

## I. Business-related Performance

In order to evaluate business-related performance of MFIs, three important ratios are used (as presented in Table – 4.1). It may be noted here that the volume of business is measured with the help of a few variables. However, the most important variable is the amount of loan sanctioned and disbursed by the MFIs, and also the number of clients served by them. Further, man-power productivity can also be examined by linking the number of clients/borrowers served to the number of employees. In this backdrop, performance of MFIs is examined from the perspective of loan provided and also the clients served.

**(1) Total Advances to Total Asset Ratio**

This ratio establishes the relationship between the total advances made by MFIs to their total assets as presented below:

$$\text{Total Advances to Total Assets Ratio} = [\frac{\text{Total Loans and Advances}}{\text{Total Assets}} \times 100]$$

This indicates the efficiency with which the MFIs are using their assets for their lending activities. It may be noted here that the overall profit and profitability depend upon the effective use of their assets for lending purpose. This ratio, therefore, measures the lending policy of MFIs – higher the ratio, better is the lending policy and *vice-versa*. However, increase in lending should not be by compromising on the credit appraisal. In this backdrop, using the amounts of total loans and advances, and total assets of five MFIs (Annexure – 4.1, Total Loans and Advances, and Total Assets), total advances to total assets ratio is computed and presented below for each of the five years of study period together with the calculation of a few descriptive statistics and ANOVA test results (Table – 4.2).

It is obvious from Annexure – 4.1 (‘Total Loans and Advances’, and ‘Total Assets’) that all the five MFIs increased their assets year after year during the study period except marginal decline by the end of 2020-21 compared to the end of 2019-20 in the case of NABFINS and IDFFSP. Still, the CAGR is positive in all the five MFIs ranging between 9.35% (NABFINS) and 81.16% (IIFLSFL). CAGL has employed highest amount of capital on its assets of ` 12,696.79 crore up to 31 March 2021 and the lowest is by IDFFSP of ` 157.94 crore. Consequently, the MFIs have been able to lend more to their clients. Even in this case, there has been a continuous increase in the amount of loans and advances provided except marginal decline in the case of NABFINS and IDFFSP as at 31 March 2021 compared to that at 31 March 2020. Further, IIFISFL (SML) registered the highest CAGR of 94.04% and the lowest is in the case of NABFINS at 10.04%. Again, CAGL has lent the highest amount, among five MFIs, of ` 11,720.48 crore up to 31 March 2021 and the lowest is by IDFFSP of ` 131.18 crore.

**Table – 4.2: Total Advances to Total Assets Ratio**

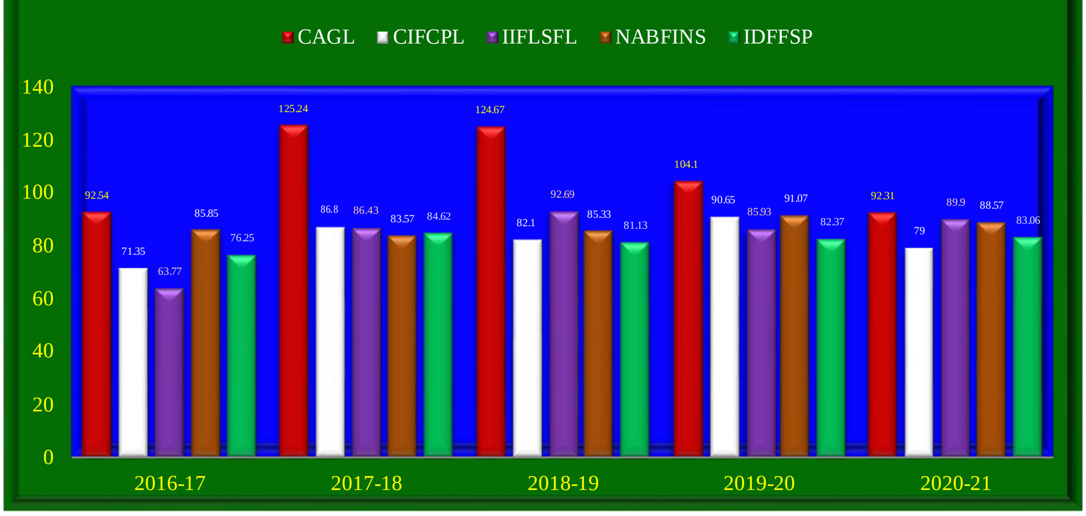
| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR: | | | | | |
| Advances | 30.56 | 39.40 | 94.04 | 10.04 | 16.27 |
| Assets | 30.63 | 36.59 | 81.16 | 9.35 | 14.30 |
| Advances to Assets Ratio (%): | | | | | |
| 2016-17 | 92.54 | 71.36 | 63.77 | 85.85 | 76.25 |
| 2017-18 | 125.24 | 86.80 | 86.43 | 83.57 | 84.62 |
| 2018-19 | 124.67 | 82.10 | 92.69 | 85.33 | 81.13 |
| 2019-20 | 104.10 | 90.65 | 85.93 | 91.07 | 82.37 |
| 2020-21 | 92.31 | 79.00 | 89.90 | 88.57 | 83.06 |
| Descriptive Statistics: | | | | | |
| Minimum (%) | 92.31 | 71.35 | 63.77 | 83.57 | 76.25 |
| Maximum (%) | 125.24 | 90.65 | 92.69 | 91.07 | 84.62 |
| Range (%) | 11.33 | 19.3 | 28.43 | 5.22 | 8.4 |
| Mean (%) | 107.77 | 81.98 | 83.74 | 86.88 | 81.49 |
| Rank | 1 | 4 | 3 | 2 | 5 |
| SD (%) | 16.40 | 7.42 | 11.50 | 2.95 | 3.19 |
| CV (%) | 15.21 | 9.05 | 13.73 | 3.40 | 3.91 |
| Skewness | 0.27 | –0.47 | –1.92 | 0.61 | –1.39 |
| CAGR (%) | –0.049 | 2.06 | 7.11 | 0.63 | 1.73 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 2441.425 | 4 | 610.356 | 6.425 | .002 |
| Within Groups | 1899.873 | 20 | 94.994 | | |
| Total | 4341.299 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (‘Total Loans and Advances’, and ‘Total Assets’) and the calculations made based on these details.

As a result of difference in the rates of change in total assets, and total loans and advances, the ratio (of total advances to total assets) moved in both the directions in all the five MFIs. Still the variation is not wide as reflected by both the SD and CV. Among five MFIs, CAGL has achieved the highest five-year annual average of 107.77% (varying between 92.31% for 2020-21 and 125.24% for 2017-18). However, CAGR is negative at -0.049% as the ratio in the last year is slightly lower than in the first year. On the other hand, comparatively poor performer is the IDFFSP with annual average of 81.49% where the ratio varied between 76.25% in 2016-17 and 84.62% in 2017-18. But the CAGR is positive at 1.73%. Even in other three MFIs, one can observe decline in the ratio in one or two periods. However, the CAGR is positive. Value of skewness is negative in the case of three MFIs viz., CIFCPL (-0.47), IIFLSFL (-1.92) and IDFFSP (-1.39) indicating that the ratio of advances to assets moved towards negative value during the study period than positive value. But in other two MFIs, it is positive (CAGL: 0.27 and NABFINS: 0.61) indicating that the ratio moved towards positive value than negative during the study period.

This analysis brings the point to the fore that all the five MFIs have improved their performance, with a few exceptions, in terms of advances to assets ratio. This becomes clear from the following figure (Figure - 4.1).

**Figure - 4.1: Total Advances to Total Asset Ratio (%)**



The trend in the ratio and also CAGR indicate the improvement in the performance of MFIs during the study period. However, the rate of improvement differs from one MFI to others. In this background, in order to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Total Advances to Total Assets Ratio), ANOVA test is carried out and the summary of test results is presented in the above table (Table – 4.2). It is known that the table value of '*f*' ($f_{tab}$) is 2.87 at 5% of level of significance ($\alpha = 0.05$) for degree of freedom of 24 ($df = 24$). And the calculated value of '*f*' ($f_{cal}$), as presented in the above table, is 6.425. As the $f_{cal} > f_{tab}$, the null hypothesis is tested and rejected. Therefore, alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' (from the point of view of Total Advances to Total Assets Ratio) is accepted.

**(2) Business per Employee**

For the success of any organization, it is necessary to obtain higher business per employee. In the case of MFIs, this ratio viz., business per employee is expressed in terms of amount of loans and advances per employee as presented below:

$$\text{Business per Employee} = \left[\frac{\text{Total Loans and Advances}}{\text{Number of Employees}}\right]$$

It may be noted here that higher the ratio, higher is the interest income which in turn increases the profit and profitability. In this backdrop, based on the details presented in Annexure – 4.1 ('total loans and advances' and 'number of employees'), business per employee is computed for all five MFIs and for all five years of the study period. The results together with a few descriptive statistics are presented below (Table – 4.3).

**Table – 4.3: Business per Employee**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR: | | | | | |
| Loans and Advances | 30.56 | 39.40 | 94.04 | 10.04 | 16.27 |
| Number of Employees | 23.79 | 15.94 | 57.99 | 25.37 | 5.98 |
| Business per Employees (` crores): | | | | | |
| 2016-17 | 0.62 | 0.18 | 0.21 | 2.28 | 0.31 |
| 2017-18 | 0.91 | 0.24 | 0.34 | 2.24 | 0.34 |
| 2018-19 | 1.14 | 0.30 | 0.37 | 1.72 | 0.45 |
| 2019-20 | 1.03 | 0.37 | 0.39 | 1.30 | 0.48 |
| 2020-21 | 0.81 | 0.46 | 0.58 | 1.19 | 0.49 |
| Descriptive Statistics: | | | | | |
| Minimum (` crores) | 0.62 | 0.18 | 0.21 | 1.19 | 0.31 |
| Maximum (` crores) | 1.14 | 0.46 | 0.58 | 2.28 | 0.49 |
| Range (` crores) | 0.52 | 0.28 | 0.37 | 1.09 | 0.18 |
| Mean (` crores) | 0.90 | 0.31 | 0.38 | 1.75 | 0.41 |
| Rank | 2 | 5 | 4 | 1 | 3 |
| SD (` crores) | 0.20 | 0.11 | 0.13 | 0.51 | 0.08 |
| CV (%) | 22.25 | 35.34 | 35.17 | 29.17 | 20.11 |
| Skewness | -0.39 | 0.33 | 0.61 | 0.04 | -0.55 |
| CAGR (%) | 5.49 | 20.64 | 22.53 | -12.19 | 9.59 |

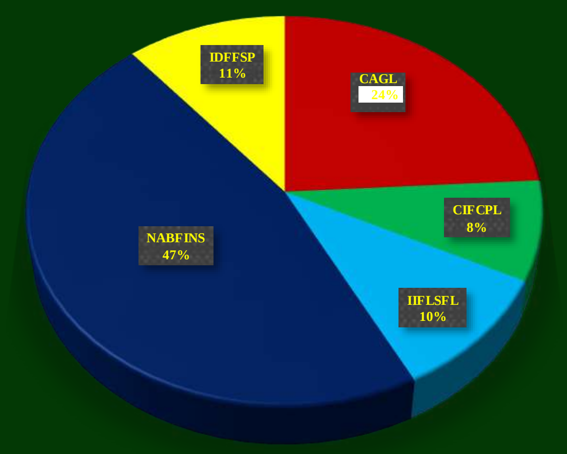
**Source**: Prepared the table based on the data presented in Annexure – 4.1 ('Total Loans and Advances', and 'Number of Employees') and the calculations made based on these details.

As the performance of MFIs from the point of view of loans and advances has already by analysed, the focus of analysis here is on the man-power and the business per employee (i.e., employee productivity). As far as the man-power strength is concerned, as natural, it has registered a continuous increase in all the MFIs except downward change in the case IDFFSP by 31 March 2021 when compared to as at 31 March 2020. CAGL has the highest number of employees when compared to other four MFIs at the end of each of the five years of study period. And IDFFSP has lowest number of employees. However, in all the five MFIs, CAGR is positive – highest in the case of IIFISFL with

57.99% and lowest in the case of IDFFSP with 5.98%. And the CAGR in the number of employees is lower than that in the amount of loans and advances (except NABFINS) e.g., in the case of CIFCPL, CAGR is loans and advances is 39.40% as against only 15.94% with regard to number of employees. This is a reflection of higher man-power productivity in terms of business per employee.

As far the business per employee is concerned, in the case of three MFIs viz., CIFCPL, IIFLSFL and IDFFSP, it increased continuously year after year. But in the case of the remaining two MFIs viz., CAGL and NABFINS, it declined during the last two and four periods respectively. As a result, in the case of NABFINS, the CAGR is negative at -12.19%. But in all other cases, it is positive with highest CAGR recorded by IIFLSFL (22.53%) and lowest by CAGL (5.49%). In spite of continuous reduction in the business per employee in all the four subsequent years, NABFINS has achieved the highest business per employee in all the five years and therefore, it is at the top of the rank list. Even CAGL which has allowed its business per employee to decline during the last two years, has achieved the second highest performance. The amount of business per employee varied between ` 0.62 crore (2016-17) and ` 1.14 crore (2018-19) with an annual average of ` 0.90 crore in the case of CAGL whereas these figures are ` 0.18 crore (2016-17), ` 0.46 crore (2020-21) and ` 0.31 crore respectively for CIFCPL – the poor performer among five MFIs. In the case of NABFINS, it varied between ` 1.19 crore (2020-21) and ` 2.28 crore (2016-17) with an annual average of ` 1.75 crore – highest business obtained. Similarly, in the case of IIFLSFL, the amount of business per employee varied between ` 0.21 crore (2016-17) and ` 0.58 crore (2020-21) with an annual average of ` 0.38 crore. And in the case of IDFFSP, it varied between ` 0.31 crore (2016-17) and ` 0.49 crore (2020-21) with an annual average of ` 0.41 crore. Although the amount of business obtained per employee increased/decreased during the study period, the variation is not wide as the both the SD and CV are on lower side. The figure presented below (Figure - 4.2) provides a clear idea about the annual average business per employee of five MFIs.

**Figure - 4.2: Business per Employee (` crores)**




### (3) Loan per SHG/JLG Member

This ratio establishes the relationship between average gross loan portfolio of MFIs with their average number of active borrowers. This ratio is used by MIFs to measure the average loan amount distributed to each of active borrowers during the year. Higher ratio indicates distribution/disbursement of higher loan amount to the borrowers during a particular period. Loan per SHG/JLG member is computed as presented below:

$$\text{Loan per SHG/JLG Member} = \left[\frac{\text{Average Gross Loan Portfolio}}{\text{Average Number of SHG/JLG Members}}\right]$$

Using the above formula and the relevant data presented in Annexure - 4.1 (‘Average Gross Loan Portfolio’ and ‘Average Number SHG/JLG Members’), the amount of loan provided per SHG/JLG member is calculated for each MFI and for each year. These results, together with other relevant calculations, are presented below (Table – 4.4).

**Table – 4.4: Amount of Loan per SHG/JLG Member**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Average Gross Loan Portfolio | 35.43 | 37.60 | 83.44 | 13.02 | 17.23 |
| Average Number of SHG/JLG Members | 19.16 | 25.52 | 90.73 | 4.24 | 7.53 |
| Loan per SHG/JLG Member (`): | | | | | |
| 2016-17 | 19,795.03 | 15,269.10 | 31,424.89 | 14,266.89 | 14,388.70 |
| 2017-18 | 26,330.77 | 13,998.47 | 32,700.00 | 13,678.00 | 16,111.48 |
| 2018-19 | 28,080.41 | 15,694.13 | 24,991.00 | 17,687.12 | 19,735.89 |
| 2019-20 | 35,638.79 | 19,096.48 | 22,981.26 | 22,654.42 | 20,922.72 |
| 2020-21 | 37,539.00 | 24,177.32 | 25,859.00 | 21,381.00 | 22,158.22 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (`) | 19,795.03 | 13,998.47 | 22,981.26 | 13,678.00 | 14,388.70 |
| Maximum (`) | 37,539.00 | 24,177.32 | 32,700.00 | 22,654.42 | 22,158.22 |
| Range (`) | 17,743.97 | 10,178.85 | 9,718.74 | 8,976.42 | 7,769.52 |
| Mean (`) | 29,476.80 | 17,647.10 | 27,591.23 | 17,933.49 | 18,663.40 |
| Rank | 1 | 5 | 2 | 4 | 3 |
| SD (`) | 7,220.69 | 4,108.71 | 4,237.04 | 4,055.44 | 3,288.38 |
| CV (%) | 24.50 | 23.28 | 15.36 | 22.61 | 17.62 |
| Skewness | -0.20 | 1.27 | 0.38 | 0.12 | -0.46 |
| CAGR | 13.65 | 9.62 | -3.82 | 8.43 | 9.01 |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 ('Average Gross Loan Portfolio' and 'Average Number SHG/JLG Members') and the calculations made based on these details.

It is unequivocal from the content of the above table that all the five MFIs have improved their performance from the points of view of both the determinants of the ratio viz., average gross loan portfolio and average number of SHG/JLG members as evident from the positive CAGR. However, among the five MFIs, IIFLSFL has achieved the highest growth rate 83.44% in average gross loan portfolio and 90.73% in the average number of SHG/JLG members served. This shows the reduction in the amount of loan provided to each SHG/JLG member. However, these ratios are lowest for NABFINS at 13.02% and 4.24% respectively. And in this case, growth in the number of members served is lower than that in the average loan portfolio. Similar situation exists in the performance of other three MFIs viz., CAGL (35.43% and 19.16%), CIFCPL (37.60% and 25.52%) and IDFFSP (17.23% and 7.53%).

However, the amount of loan provided per SHG/JLG member registered a continuous increase during the study period in the case of both CAGL and IDFFSP – increasing from ` 19,795.03 as at 31 March 2017 to ` 37,539 by 31 March 2021 in the case of CAGL with a range of ` 17,743.97 and CAGR of 13.65% and with five-year annual average of ` 29,476.80. And this MFI is the top performer out of five MFIs. These figures for IDFFSP work out to ` 14,388.70; ` 22,158.22; ` 7,769.52; 9.01% and ` 18,663.40 respectively. On the other hand, in the remaining three MFIs, the amount of loan declined for one or two periods. For instance, in the case of CIFCPL, the amount of loan per member declined from ` 15,269.10 as at 31 March 2017 to ` 13,998.47 by 31 March 2018, and thereafter, it registered a continuous increase. Similar is the case with other two MFIs. In spite of this continuous increase, and decline for one or two years, there is no wide variation in the amount as evident from both the SD and CV whose values are on the lower side (Figure - 4.3).

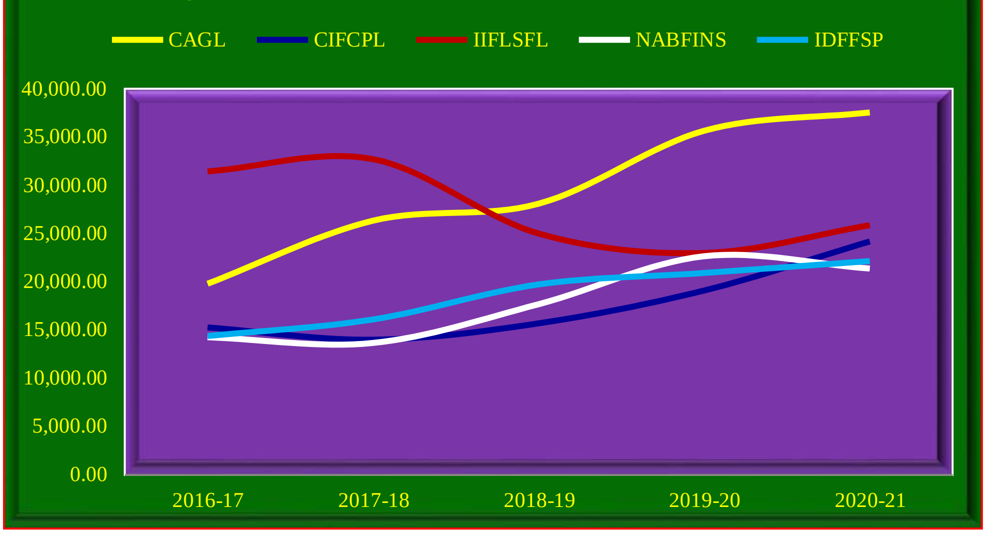


**Figure 4.3 : Amount of Loan per SHG/JLG Member (`)**

However, except IIFSFL, all other four MFIs have registered positive CAGR – highest is in the case of CAGL (13.65%) and lowest is in the case of IIFLSFL (-3.82%). But the skewness value is negative for both CAGL (-0.20) and IDFFSP (-0.46) indicating that the values skewed towards negative values than positive during the study period. In other three MFIs, the skewness value is positive. All these data and calculations show that all the five MFIs have improved their performance in terms of amount of loan provided per SHG/JLG member with some variation.

## II. Cost Effectiveness/Management

In the case of financial institutions including MFIs, total cost comprises two broad categories viz., interest cost and non-interest cost. Of the two, interest cost is a major category as it accounts for more than 60% of their total costs. These costs should be minimized without comprising on the volume of business and the quality of financial services. This is because of the reason that the value of ` 1 of cost saved is more than that of earning ` 1 more income. Therefore, cost management assumes importance which lay emphasis on two important aspects viz., conserving value-adding activities and eliminating/reducing the consumption of non-value-adding activities. In this backdrop, a few cost ratios are used to evaluate the cost effectiveness of MFIs.

### (1) Total Cost

As already stated, total cost comprises both interest cost and non-interest costs. Year-wise total costs for each of the five MFIs are presented below (Table – 4.5).

**Table – 4.5: Total Cost (` crores)**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%):Total Cost | 25.40 | 28.11 | 79.74 | 13.70 | 12.43 |
| Total Cost (` crores): | | | | | |
| 2016-17 | 592.04 | 60.45 | 33.00 | 110.62 | 14.21 |
| 2017-18 | 681.43 | 84.77 | 87.710 | 136.78 | 13.1 |
| 2018-19 | 785.58 | 63.01 | 267.10 | 153.11 | 18.42 |
| 2019-20 | 1,234.93 | 168.05 | 437.68 | 214.85 | 24.94 |
| 2020-21 | 1,836.85 | 208.58 | 618.99 | 210.17 | 25.53 |
| Descriptive Statistics and Others: | | | | | |
| Min (` crores) | 592.04 | 60.45 | 33.00 | 110.62 | 13.10 |
| Max (` crores) | 1,836.85 | 208.58 | 619.00 | 214.85 | 25.53 |
| Range (` crores) | 1,244.81 | 148.13 | 586.00 | 104.23 | 12.43 |
| Mean (` crores) | 1,026.17 | 116.97 | 288.90 | 165.11 | 19.24 |
| Rank | 3 | 2 | 1 | 5 | 4 |
| SD (` crores) | 516.23 | 67.35 | 243.69 | 45.88 | 5.83 |
| CV (%) | 50.31 | 57.58 | 84.35 | 27.79 | 30.28 |
| Skewness | 1.23 | 0.72 | 0.41 | 0.12 | 0.16 |
| CAGR (%) | 592.04 | 60.45 | 33.00 | 110.62 | 13.10 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 3276266.58 | 4 | 819066.64 | 12.32 | .000 |
| Within Groups | 1330213.77 | 20 | 66510.69 | | |
| Total | 4606480.35 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Total Cost) and the calculations made based on these details.

It is obvious from the annexure – 4.1 (Total cost) that in all the five MFIs total cost increased year after year during the study period with exception for one year in CIFCPL (2018-19) and IDFFSP (2017-18). However, CAGR is positive in all the five MFIs owing to both the increase in the volume of business and also due to inefficiency. Therefore, it is not desirable/advisable to assess the performance of MFIs based on the total cost.

It can be observed from the above that CAGL is incurring higher amount of cost and IDFFSP is incurring the lower amount of total cost. Based on this, it is not advisable to infer that CAGL is inefficient and IDFFSP is efficient. Because, the volume of business of CAGL is highest whereas it is lowest in the case of IDFFSP. Therefore, CAGR in loans and advances, and in total cost is compared – in the case of CAGL, the CAGR is 30.56% and 25.40% respectively which indicates that CAGL has improved its business at higher rate than the rate of increase in total cost. This is true even in the case of IDFFSP as the CAGR in loans and advances is higher at 16.27% than that in total cost of 12.43%. Similar type difference can be observed in the case of CIFCPL and IIFLSFL. But in the case of NABFINS, it is reverse – CAGR in loans and advances is 10.04% as against in total cost of 13.70% indicating an element of inefficiency. Based on this difference, ranks are assigned to MFIs.

As a clear conclusion cannot drawn based on the total cost and the trend in total cost besides the descriptive statistics, and to test the null hypothesis '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of total cost), ANOVA test is carried out and the summary of test results is presented in the above table. As the $f_{cal}$ (12.32) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' (from the point of view of total cost) is accepted.

### (2) Interest and Non-interest Costs – Relative Share

The relative share of interest cost in the total cost (i.e., the percentage of interest cost to total cost) and that of non-interest cost are computed using the data in Annexure – 4.1 and presented below (Table – 4.6).

**Table – 4.6: Interest and Non-Interest Costs – Relative Share (%)**

| Year | Ratios and Descriptive Statistics | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | | CIFCPL | | IIFLSFL | | NABFINS | | IDFFSP | |
| | IC | NIC | IC | NIC | IC | NIC | IC | NIC | IC | NIC |
| CAGR (%) | 17.99 | 32.51 | 19.73 | 35.12 | 76.92 | 81.86 | 8.39 | 19.59 | 16.19 | 8.15 |
| Total Cost (%): | | | | | | | | | | |
| 2016-17 | 54.66 | 45.34 | 51.56 | 48.44 | 44.33 | 55.67 | 57.54 | 42.46 | 49.68 | 50.32 |
| 2017-18 | 51.90 | 48.10 | 41.43 | 58.60 | 39.35 | 60.67 | 50.01 | 50.00 | 46.95 | 53.05 |
| 2018-19 | 53.05 | 46.90 | 16.71 | 83.30 | 44.26 | 55.74 | 51.10 | 48.90 | 54.34 | 45.66 |
| 2019-20 | 46.24 | 53.80 | 41.97 | 58.00 | 40.34 | 59.66 | 47.80 | 52.20 | 62.67 | 37.33 |
| 2020-21 | 40.29 | 59.70 | 36.77 | 63.20 | 40.97 | 59.03 | 45.32 | 54.68 | 58.56 | 41.44 |
| Descriptive Statistics and Others: | | | | | | | | | | |
| Min (%) | 40.29 | 45.30 | 16.71 | 48.40 | 39.35 | 55.67 | 45.32 | 42.46 | 46.95 | 37.33 |
| Max (%) | 54.66 | 59.70 | 51.56 | 83.30 | 44.33 | 60.67 | 57.54 | 54.68 | 62.67 | 53.05 |
| Range (%) | 14.37 | 14.40 | 34.85 | 34.90 | 4.98 | 5.00 | 12.22 | 12.22 | 15.72 | 15.72 |
| Mean (%) | 49.23 | 50.76 | 37.69 | 62.30 | 41.85 | 58.15 | 50.35 | 49.65 | 54.44 | 45.56 |
| Rank | 3 | 3 | 1 | 5 | 2 | 4 | 4 | 2 | 5 | 1 |
| SD (%) | 5.92 | 5.94 | 12.90 | 12.92 | 2.31 | 2.31 | 4.59 | 4.59 | 6.39 | 6.39 |
| CV (%) | 12.02 | 11.69 | 34.23 | 20.73 | 5.51 | 3.97 | 9.11 | 9.24 | 11.74 | 14.03 |
| Skewness | -1.02 | 1.00 | -1.25 | 1.25 | 0.32 | -0.32 | 0.98 | -0.98 | 0.16 | -0.16 |
| CAGR (%) | -5.92 | 5.68 | -6.54 | 5.48 | -1.56 | 1.18 | -4.66 | 5.19 | 3.34 | -3.81 |
| ANOVA Test Results: | Sum of Squares | | *df* | | Mean Square | | *f* | | Sig. | |
| Between Groups | 921.94 | 921.28 | 4 | 4 | 230.49 | 230.32 | 4.29 | 4.28 | .011 | .012 |
| Within Groups | 1074.67 | 1077.18 | 20 | 20 | 53.73 | 53.86 | | | | |
| Total | 1996.62 | 1998.46 | 24 | 24 | | | | | | |

**Note:** 'IC' = Interest Cost and 'NIC' = Non-interest Cost

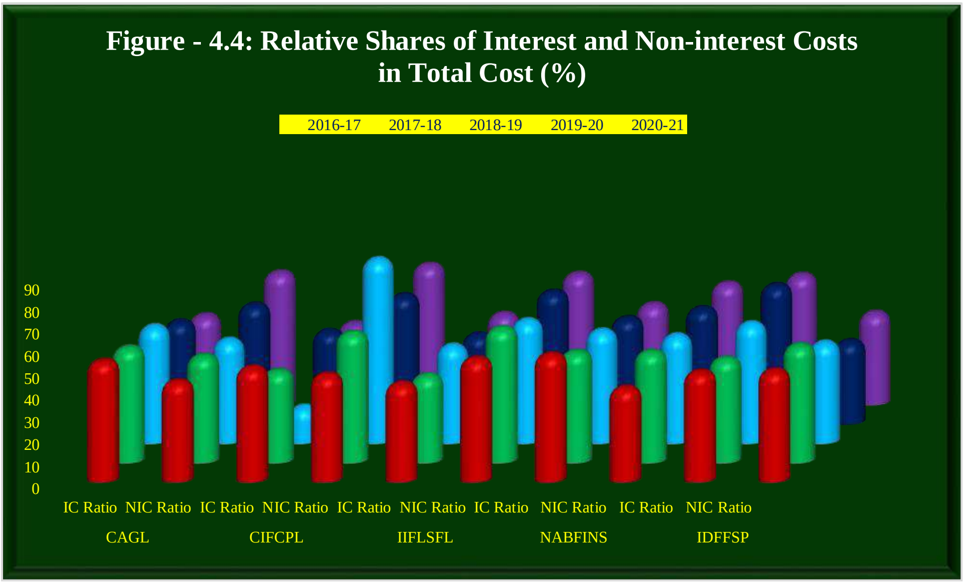
**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Interest Cost, Non-Interest Cost and Total Cost) and the calculations made based on these details.

It can be observed from the content of the above table that the CAGR in interest cost is lower than that in non-interest cost in all MFIs except IDFFSP. For instance, in the case of CAGL, CAGR is 17.99% in interest cost as against 32.51% in non-interest cost.

Similar is the case with other three MFIs. But in the case of IDFFSP, it is reverse – CAGR in interest cost is higher (16.19%) than that in non-interest cost (8.15%). This shows that the non-interest costs are increasing at higher rate than the interest cost. It is, therefore, necessary for MFIs to focus on the control of non-interest costs.

Further, observation of year-wise interest cost and non-interest cost ratios shows that the share of non-interest cost is higher for majority of MFIs and in majority of the years of the study period. For example, in the case of IIFLSFL, for all five years of the study period, the share of non-interest cost is higher than that of interest cost and as a result, the five-year annual ratio (non-interest cost) works out to 58.15% as against the share of interest cost of only 41.85%. This type of situation can be observed even in the case of CAGL and CIFCPL. But in other two cases, the share of non-interest cost is slightly lower than that of interest cost. For example, in the case of NABFINS, the share of non-interest cost (five-year annual average) is 49.65% as against the share of interest cost of 50.35%. Surprisingly, in the case of CIFCPL for 2018-19, the share of non-interest cost is substantially higher at 83.30%.

Further, for majority of the years, the relative share of non-interest cost has registered a continuous increase. But in the case of interest cost, the relative share has declined for majority of the years. Both the conclusions are true for all the five MFIs. For example, in the case of CIFCPL, the percentage of interest cost to total cost declined thrice during the study period (2017-18, 2018-19 and 2020-21) when compared to their immediately preceding years. Besides, the CAGR in interest cost ratio is negative for all MFIs except IDFFSP. On the other hand, in the case of non-interest cost ratio, the CAGR is positive for all MFIs except IDFFSP. However, the differences/changes become clear from the following figure (Figure – 4.4)




All these bring the point to the fore that the MFIs have succeeded in lowering the relative share of interest cost but failed to exercise the control over non-interest cost. However, it is not clear as to whether the difference in the performance of MFIs is significant and therefore, ANOVA test is carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of each of Interest Cost Ratio and Non-interest Cost Ratio). Summary of test results is presented in the above table. As $f_{cal}$ (4.29) > $f_{tab}$ (2.87) in the case of interest cost ratio, and $f_{cal}$ (4.28) > $f_{tab}$ (2.87) in the case of non-interest cost ratio at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of each of interest cost ratio and non-interest ratio.

### (3) Interest Coverage Ratio

This ratio establishes the relationship between profit before interest, tax and dividend on the one hand, and the amount of interest cost on the other as presented below:

$$\text{Interest Coverage Ratio} = \left[\frac{\text{Profit before Interest, Tax and Dividend}}{\text{Amount of Interest (for the year)}}\right]$$

This ratio shows how many times interest cost is covered by the amount of profit before interest, tax and dividend. Higher the interest coverage ratio, higher is the certainty of MFI meeting its interest obligation even if the profit declines by certain amount/ percentage. It is, therefore, implied that higher the cover, the more secure the debenture holders and other lenders would be with respect to their periodical interest income. In this background, the interest coverage ratio is computed for each MFI and for each year of the study period, and the results are presented below (Table – 4.7).

A close observation of the content of the Table – 4.7 reveals that the CAGR in interest cost is higher than that in 'profit before interest, tax and dividend' in all MFIs except CIFCPL and IIFLSFL. This is an indication that the rate of increase in the interest cost is higher than that in profit before interest, tax and dividend which is not desirable. However, in the case of CIFCPL, it is reverse – CAGR in interest cost (19.73%) is lower than that in profit before interest, tax and dividend (25.35%).

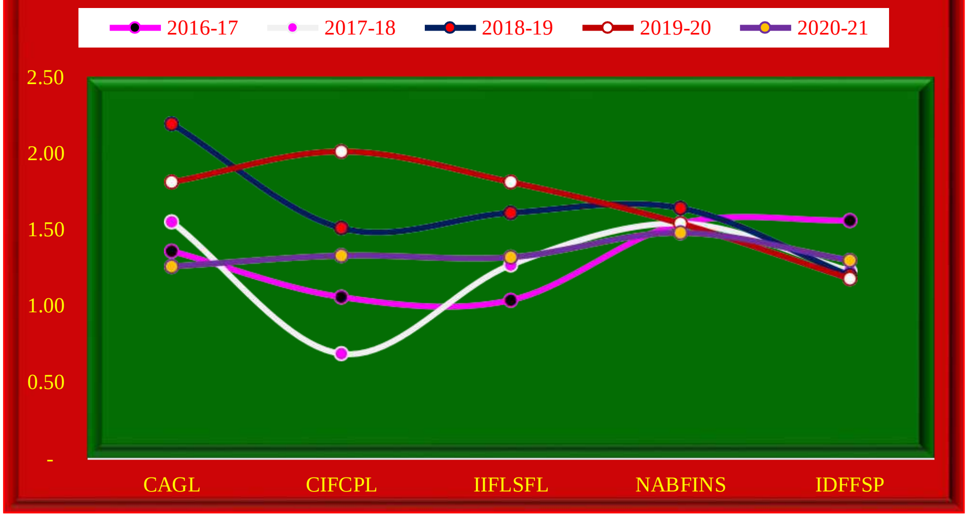
**Table – 4.7: Interest Coverage Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSML | NABFINS | IDFFSP |
| CAGR: | | | | | |
| Profit before Interest, Tax and Dividend | 16.24 | 25.35 | 85.59 | 7.54 | 11.99 |
| Interest Cost | 17.99 | 19.73 | 76.92 | 8.39 | 16.19 |
| Interest Coverage Ratio (times): | | | | | |
| 2016-17 | 1.36 | 1.06 | 1.04 | 1.54 | 1.56 |
| 2017-18 | 1.55 | 0.69 | 1.27 | 1.54 | 1.23 |
| 2018-19 | 2.19 | 1.51 | 1.61 | 1.64 | 1.20 |
| 2019-20 | 1.81 | 2.01 | 1.81 | 1.54 | 1.18 |
| 2020-21 | 1.26 | 1.33 | 1.32 | 1.48 | 1.30 |
| Descriptive Statistics and Others: | | | | | |
| Minimum | 1.26 | 0.69 | 1.04 | 1.48 | 1.18 |
| Maximum | 2.19 | 2.01 | 1.81 | 1.64 | 1.56 |
| Range | 0.93 | 1.32 | 0.77 | 0.16 | 0.38 |
| Mean | 1.63 | 1.32 | 1.41 | 1.55 | 1.29 |
| Rank | 1 | 4 | 3 | 2 | 5 |
| SD | 0.38 | 0.49 | 0.30 | 0.06 | 0.16 |
| CV | 23.00 | 37.43 | 21.37 | 3.83 | 12.20 |
| Skewness | 0.85 | 0.26 | 0.27 | 0.98 | 1.80 |
| CAGR | -1.48 | 4.70 | 4.90 | -0.79 | -3.61 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 4293.13 | 4 | 1073.28 | 1.064 | .400 |
| Within Groups | 20178.78 | 20 | 1008.94 | | |
| Total | 24471.91 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 ('Profit before Interest, Dividend and Tax', and 'Interest Cost') and the calculations made based on these details.

It can also be observed that the interest coverage ratio is less than '1' in the case of CIFCPL for one year, 2017-18 indicating the hard truth that the amount of profit before interest, tax and dividend is not adequate to meet its interest obligations. However, for all other years and for all MFIs, the ratio is higher than '1' but less than '2' with two exceptions – CAGL had 2.19 interest coverage ratio for 2018-19 and CIFCPL had 2.01 coverage ratio for 2019-20. But what is important is, for majority of the years/MFIs, excess of interest coverage ratio over '1' is marginal. This indicates that if their profits decline even marginally, they find it difficult to meet their interest obligations. Again, the common feature is that no MFI has succeeded in improving its interest coverage ratio consistently year after the year during the study period. Further, the skewness value is positive for all MFIs. And in the case of CIFCPL and IIFLSFL, the CAGR is also positive at 4.70% and 4.90% respectively. In other three cases, it is negative – CAGL: -1.48%, NABFINS: -0.79% and IDFFSP: -3.61% which is desirable. Among five MFIs, CAGL with five-year annual average of 1.63 times stands in the first place in the rank list followed by NABFINS (1.55 times), IIFLSFL (1.41 times), CIFCPL (1.32 times) and lastly IDFFSP with 1.29 times of interest coverage ratio. However, the trend in the ratio becomes clear from the following figure (Figure – 4.5).

**Figure - 4.5: Interest Coverage Ratio (times)**



From the above analysis, it is clear that the MFIs have achieved mixed results – both success (to lower the interest coverage ratio) and failure (allowing the ratio to increase). However, it is not clear whether the difference in the performance of MFIs from the point of view of interest coverage ratio is statistically significant. Therefore, and also to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Interest Coverage Ratio), ANOVA test is carried out and the summary of test results is presented in the above table (Table – 4.7). As $f_{cal}$ (1.064) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and accepted and concluded that there is no significant difference in the performance of MFIs in terms of interest coverage ratio.

**(4) Operating Expenses Ratio**

This ratio (also called, 'efficiency ratio') is computed by dividing the amount of operating expenses by the amount of average gross loan portfolio. It may be noted here that, 'operating expenses' include general and administrative expenses. It is computed as presented below:

$$\text{Operating Expenses Ratio} = \left[\frac{\text{Operating Expenses}}{\text{Average Gross Loan Portfolio}} \times 100\right]$$

Using the above formula and the data in Annexure – 4.1 (Operating Expenses and Average Gross Loan Portfolio), the ratio is calculated for each MFI and for each year and the same is presented below together with a descriptive and test results (Table – 4.8).

It is evident from Table – 4.8 that the CAGR in operating expenses is lower than that in average gross loan portfolio in all MFIs except NABFINS. The CAGR is highest in the case of IIFLSFL at 68.54% and lowest in IDFFSP at 5.32%. In the case of NABFINS, the CAGR in operating expenses is 15.83% which is higher than that in average gross loan portfolio of 13.02%.

**Table – 4.8 Operating Expenses Ratio**

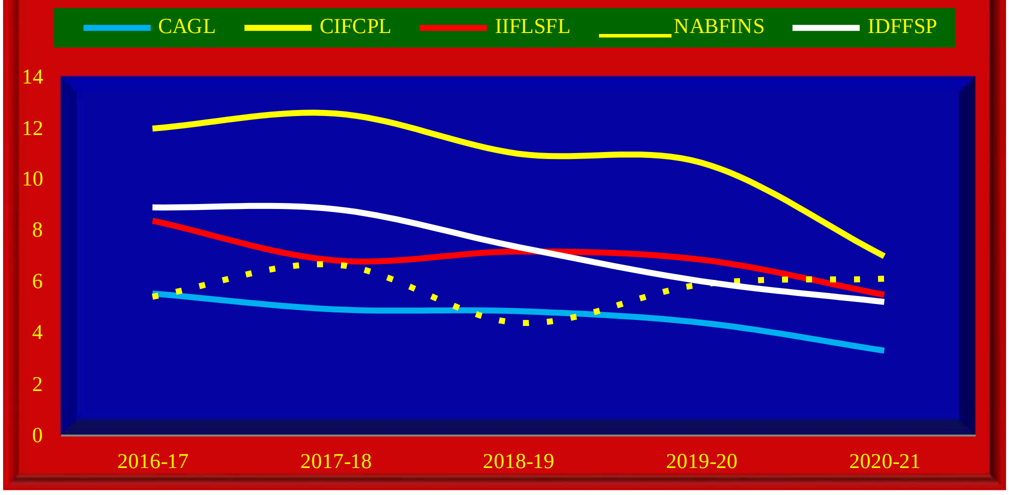
| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Operating Expenses | 22.20 | 23.56 | 68.54 | 15.83 | 5.32 |
| Average Gross Loan Portfolio | 35.43 | 37.60 | 83.44 | 13.02 | 17.23 |
| Operating Expenses Ratio (%): | | | | | |
| 2016-17 | 5.54 | 11.98 | 8.38 | 5.42 | 8.90 |
| 2017-18 | 4.92 | 12.57 | 6.83 | 6.67 | 8.83 |
| 2018-19 | 4.85 | 11.00 | 7.18 | 4.40 | 7.35 |
| 2019-20 | 4.40 | 10.65 | 6.86 | 5.90 | 6.02 |
| 2020-21 | 3.31 | 7.00 | 5.49 | 6.12 | 5.21 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 3.31 | 7 | 5.49 | 4.4 | 5.21 |
| Maximum (%) | 5.54 | 12.57 | 8.38 | 6.67 | 8.90 |
| Range (%) | 1.92 | 5.00 | 2.89 | 2.27 | 4.49 |
| Mean (%) | 4.60 | 10.64 | 6.95 | 5.70 | 7.26 |
| Rank | 1 | 5 | 3 | 2 | 4 |
| SD (%) | 0.83 | 2.17 | 1.03 | 0.86 | 1.65 |
| CV (%) | 18.02 | 20.43 | 14.84 | 15.00 | 22.73 |
| Skewness | -0.96 | -1.57 | -0.06 | -0.83 | -0.21 |
| CAGR (%) | -9.78 | -10.19 | -8.11 | 2.46 | -10.16 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 103.71 | 4 | 25.93 | 13.05 | .000 |
| Within Groups | 39.73 | 20 | 1.99 | | |
| Total | 143.44 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Operating Expenses, and Average Gross Loan Portfolio) and the calculations made based on these details.

A close observation of operating expenses ratio shows that both CAGL and IDFFSP have succeeded in lowering the ratio continuously year after year. In the case of CAGL, it declined from 5.54% for 2016-17 to 3.31% in 2020-21, and these figures for IDFFSP work out to 8.90% and 5.21% respectively. On the other hand, both CIFCPL and IIFLSFL have lowered their ratio in three years allowing it to increase in one year

(CIFCPL: 2017-18 and IIFLSFL: 2018-19). However, in all these four cases, the ratio in the last year is lower than in the first year, and therefore, the CAGR is negative which is desirable. On the other hand, in the case of NABFINS, the ratio registered increase in three years, and it is higher in the last year of the study period than in the first year, and therefore, CAGR is positive at 2.46%. Further, the skewness value is negative for all the five MFIs indicating that the ratio moved towards negative value than positive during the study period. And the five-year annual average is lowest in the case of CAGL at 4.60% and highest in the case of CIFCPL at 10.64%. In spite of all these changes/fluctuations, the variation is not wide as both the SD and CV are on the lower side. However, the trend in the ratio becomes clear from the following figure (Figure – 4.6).

**Figure 4.6: Operating Expenses Ratio (%)**




Although the above analysis brings the point to the fore that the MFIs, on an average, improved their performance by lowering the ratio with an exception of NABFINS wherein the ratio increased except for one year, 2018-19. However, in order to ascertain whether there is a significant difference in the performance of MFIs and to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Operating Expenses Ratio), ANOVA test is carried out and the summary of test results is presented in the above table (Table – 4.8). As $f_{cal}$

(13.05) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected. Therefore, alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' (from the point of view of Operating Expenses Ratio) is accepted.

## III. Income-related Performance

As it is known very well, efforts are put, resources are mobilized and utilized, and amounts are expended for the purpose of earning revenue/income. This income should be higher than the cost so that the MFI recovers the entire cost incurred and left with some surplus known as, profit. In this background, a few measures are used, as already identified, to measure, evaluate and compare the performance of MFIs.

### (1) Total Income

As stated earlier, the income of MFIs comprises both interest income and non-interest income. However, interest income constitutes a major portion of their total income. In this backdrop, the details pertaining to total income of each of MFIs and for each of the years of the study period are presented below (Table – 4.9).

All MFIs have improved their revenue/income during the study period as reflected by the positive CAGR. However, the rate of increase is highest in the case of IIFLSFL with 84.50% of CAGR followed by CIFCPL with 28.94% CAGR, CAGL with 23.42% CAGR and the least improvement is in the case of IDFFSP with 10.67% CAGR.

**Table – 4.9: Total Income (` crores)**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Total Income (` crores): | | | | | |
| 2016-17 | 709.26 | 65.58 | 32.84 | 144.75 | 18.93 |
| 2017-18 | 871.53 | 76.30 | 96.78 | 173.74 | 15.03 |
| 2018-19 | 1,283.32 | 117.14 | 339.75 | 204.14 | 20.91 |
| 2019-20 | 1,684.36 | 175.17 | 582.11 | 270.26 | 28.55 |
| 2020-21 | 2,031.14 | 233.74 | 702.13 | 255.54 | 31.43 |
| Descriptive Statistics and Others: | | | | | |
| Min (` crores) | 709.30 | 65.60 | 32.80 | 144.80 | 15.00 |
| Max (` crores) | 2,031.10 | 233.70 | 702.10 | 270.30 | 31.40 |
| Range (` crores) | 1,321.90 | 168.20 | 669.30 | 125.50 | 16.40 |
| Mean (` crores) | 1,315.90 | 133.60 | 350.70 | 209.70 | 23.00 |
| Rank | 1 | 4 | 2 | 3 | 5 |
| SD (` crores) | 550.90 | 70.60 | 292.70 | 53.20 | 6.80 |
| CV (%) | 23.40 | 28.90 | 84.50 | 12.00 | 10.70 |
| Skewness | 0.30 | 0.70 | 0.10 | 0.00 | 0.30 |
| CAGR (%) | 23.42 | 28.94 | 84.50 | 12.040 | 10.67 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 5452362.96 | 4 | 1363090.70 | 17.168 | .000 |
| Within Groups | 1587987.85 | 20 | 79399.39 | | |
| Total | 7040350.81 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Total Income) and the calculations made based on these details.

However, as in the case of total cost, the performance of MFIs cannot be evaluated on the basis of absolute amount of total income as it depends, among others, upon the volume of business. Therefore, the trend is examined. All MFIs have succeeded in improving their total income year after year continuously during the study period except downward change in one year in NABFINS (2020-21) and IDFFSP (2017-18) when compared to their immediately preceding year. In terms of total income, CAGL stands in the first place with highest amount of total income when compared to other four MFIs and this MFI has also registered a continuous increase in its income – increasing from ` 709.26 crores in 2016-17 to ` 2,031.14 crore in the last year of the study period with a five-year annual average of ` 1,315.90 crore. Even the skewness value is positive at 0.30 with no wide variation in the income from one year to another. On the other hand, IDFFSP is smallest MFI in terms of total income which is lower in each of the years when compared to other four MFIs – increasing from ` 18.93 crore in the first year to ` 31.43 crore in the last year of the study period with five-year annual average of only ` 23 crore. Here also, the skewness value is positive at 0.30 and there is no wide variation in the total income during the study period. Even in other three MFIs, similar type of changes can be observed with an exception that in the case of IIFLSFL, the total income varied widely as evidenced by CV of 84.50 and SD of ` 292.70 crore. However, the trend in the performance of each of MFI and also the difference among five MFIs become clear from the following figure (Figure – 4.7).

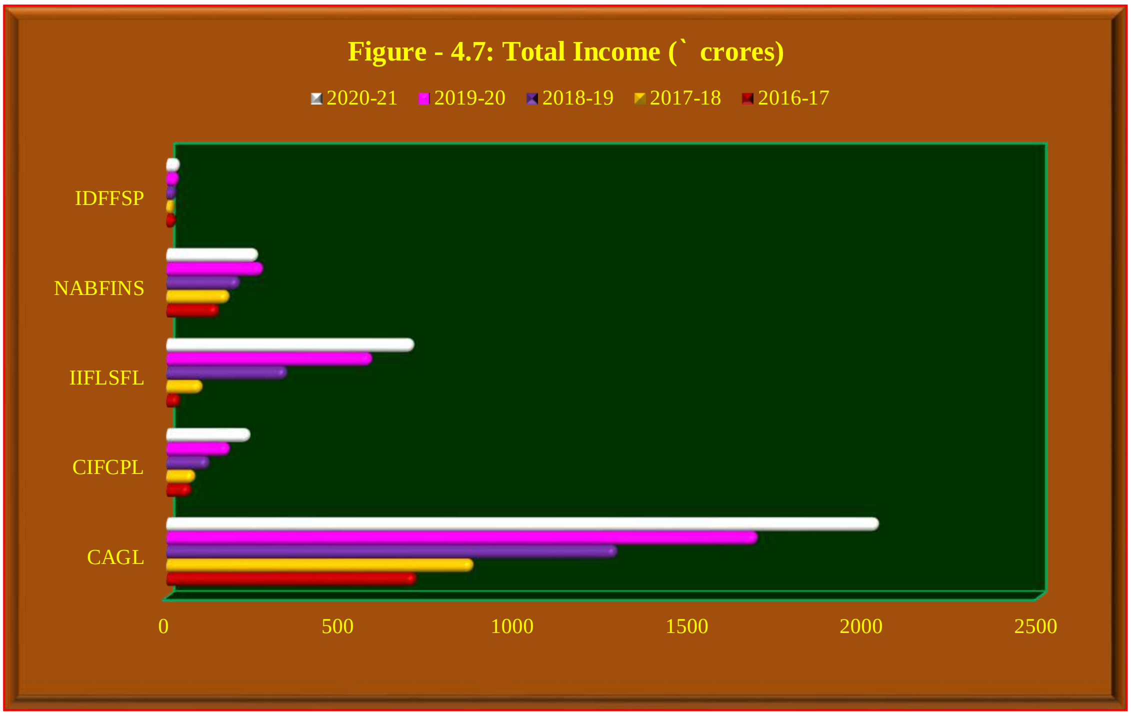


Figure - 4.7: Total Income (` crores)

Although the above analysis shows the improvement in the performance of MFIs in terms of total income, it is not clear as to whether there exists a significant difference in their performance. Therefore, to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of total income), ANOVA test is carried out. Summary of test results is presented in the above table. As $f_{cal}$ (17.168) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of total income.

### (2) Interest Income to Total Income Ratio

Interest income (i.e., the amount of interest earned on the loan provided to the members of SHG/JLG) accounts for a major portion of income of MFIs. Therefore, interest income to total income ratio is used as a measure of earning capacity of MFIs showing the proportion of interest income of MFIs in their total income. This ratio is calculated by dividing the amount of interest income earned in a year by the amount of total income earned during that year as presented below:

$$\text{Interest Income to Total Income Ratio} = [\frac{\text{Interest Income}}{\text{Total Income}} \times 100]$$

Using the above formula and the data presented in Annexure – 4.1 (Interest Income and Total Income), the ratio is calculated for each MFI/year and the results are presented below together with descriptive statistics and test results (Table – 4.10).

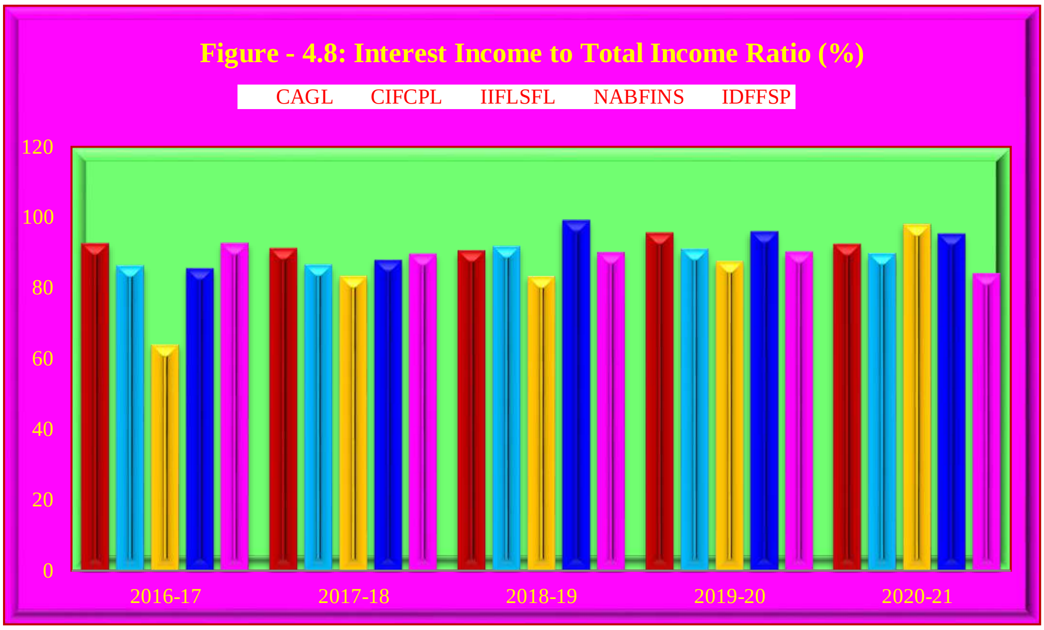
As far as the interest income and total income are concerned, CAGR is positive for all MFIs with highest CAGR of 100.92% recorded by IIFLSFL in interest income and 84.50% in total income. On the other hand, lowest CAGR is recorded by IDFFSP with 8.59% in interest income and 10.67% in total income. However, CAGR in interest income is higher than that in total income in the case of three MFIs viz., CIFCPL, IIFLSFL and NABBINS. In the remaining two MFIs viz., CAGL and IDFFSP, it is reverse i.e., the CAGR in interest income is lower than that in total income.

**Table – 4.10: Interest Income to Total Income Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Interest Income | 23.37 | 29.96 | 100.92 | 14.48 | 8.59 |
| Total Income | 23.42 | 28.94 | 84.50 | 12.04 | 10.67 |
| Interest Income to Total Income Ratio (%): | | | | | |
| 2016-17 | 92.59 | 86.36 | 64.02 | 85.68 | 92.74 |
| 2017-18 | 91.27 | 86.67 | 83.42 | 87.97 | 89.74 |
| 2018-19 | 90.63 | 91.82 | 83.33 | 99.22 | 90.17 |
| 2019-20 | 95.60 | 91.06 | 87.64 | 96.11 | 90.36 |
| 2020-21 | 92.42 | 89.81 | 98.07 | 95.43 | 84.19 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 90.63 | 86.36 | 64.02 | 85.68 | 84.19 |
| Maximum (%) | 95.60 | 91.82 | 98.07 | 99.22 | 92.74 |
| Range | 5.37 | 5.46 | 34.05 | 12.82 | 8.55 |
| Mean (%) | 92.50 | 89.14 | 83.30 | 92.88 | 89.40 |
| Rank | 2 | 4 | 5 | 1 | 3 |
| SD (%) | 1.91 | 2.51 | 12.3 | 5.77 | 3.20 |
| CV (%) | 2.07 | 2.81 | 14.8 | 6.21 | 3.50 |
| Skewness | 1.27 | -0.27 | -0.90 | -0.41 | -1.40 |
| CAGR (%) | -0.04 | 0.79 | 8.90 | 2.18 | -1.92 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 295.29 | 4 | 73.82 | 1.797 | .169 |
| Within Groups | 821.50 | 20 | 41.08 | | |
| Total | 1116.79 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Interest Income, and Total Income) and the calculations made based on these details.

With regard to interest income to total income ratio, it moved in both the directions during the study period in all the five MFIs. Of course, the number of years during which they allowed the ratio to decline differs from one MFI to another – reduction in the ratio is only in one year in the case of IIFLSFL (2018-19) and in three years in the case of CAGL (2017-18, 2018-19 and 2020-21). In the case of NABFINS, the highest achiever (from the point of view of interest income to total income ratio), the ratio varied between 85.68% (2016-17) and 99.22% (2018-19) with a range of 12.82 and with a five-year annual average of 92.88%. The least performer is IIFLSFL wherein the ratio varied between 64.02% (2016-17) and 98.07% (2020-21) with a range of 34.05 and with five-year annual average of 83.30%. In the case of CAGL, the ratio declined for all years except for 2019-20 and it varied between 90.63% (2018-19) and 95.60% (2019-20) with a range of 5.37 and with five-year annual average of 92.50%. More or less, similar type of changes can be observed in other two MFIs. As a result, in the case of CIFCPL, IIFLSFL and NABFINS, the CAGR is positive indicating that the ratio in the last year is higher than in the first year of the study period. And in the remaining two MFIs (CAGL and IDFFSP), the CAGR is negative as the ratio in the last year is lower than in the first year. In spite of all these changes/fluctuations, there is no wide variation in the ratio as reflected by the SD and CV which are on the lower side. But what is important is, for all the MFIs except CAGL, the value of skewness is negative indicating the ratio moved towards negative value than positive during the study period. In the case of CAGL, it is positive at 1.27 (Figure – 4.8).




Although the above analysis clearly shows the difference in the performance of MFIs in terms of ratio of interest income to total income, it is not clear whether the difference is statistically significant or not. Therefore, ANOVA test is carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Interest Income to Total Income Ratio). Summary of test results is presented in the above table (Table – 4.10). As $f_{cal}$ (1.797) < $f_{tab}$ (2.87) at $\alpha$ = 0.05 for *df* = 24, the null hypothesis is tested and accepted concluding that there is no significant difference in the performance of MFIs from the point of view of interest income to total income ratio.

### (3) Other Incomes to Total Income Ratio

Other incomes (i.e., incomes other than interest income) of MFIs comprise of fees received, commission earned/received, profit on sale of property, plant and equipment, miscellaneous income, interest on income tax recovery, interest on staff loan, mutual fund redemption income, interest on deposits with banks, etc. Therefore, this ratio works out the relative share of other incomes in the total income of MFIs as presented below:

$$\text{Other Incomes to Total Income Ratio} = [\frac{\text{Other Incomes}}{\text{Total Income}} \times 100]$$

With the help of the data presented in Annexure – 4.1 (Other Incomes and Total Income) and using the above formula, the ratio of other incomes to total income is ascertained for each MFI/year and the results are presented below with other test results and descriptive statistics (Table – 4.11).

**Table – 4.11: Other Incomes to Total Income Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR: | | | | | |
| Other Incomes | -6.65 | -52.73 | 32.03 | -1.19 | 25.39 |
| Total Income | 23.42 | 28.94 | 84.50 | 12.04 | 10.67 |
| Other Incomes to Total Income Ratio (%): | | | | | |
| 2016-17 | 1.06 | 5.47 | 2.46 | 8.56 | 4.2 |
| 2017-18 | 0.11 | 5.49 | 0.67 | 5.25 | 5.52 |
| 2018-19 | 0.16 | 0.0096 | 1.8 | 6.19 | 4.68 |
| 2019-20 | 0.07 | 0.0014 | 1.25 | 3.89 | 3.27 |
| 2020-21 | 0.26 | 0.036 | 0.46 | 4.57 | 7.89 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 0.07 | 0.0014 | 0.46 | 3.89 | 3.27 |
| Maximum (%) | 1.06 | 5.49 | 2.46 | 8.56 | 7.89 |
| Range | 0.99 | 6.44 | 2 | 4.67 | 4.62 |
| Mean (%) | 0.33 | 2.20 | 1.33 | 5.69 | 5.11 |
| Rank | 5.00 | 3.00 | 4.00 | 1.00 | 2.00 |
| SD (%) | 0.41 | 2.99 | 0.82 | 1.81 | 1.75 |
| CV (%) | 124.43 | 135.96 | 61.83 | 31.88 | 34.30 |
| Skewness | 2.08 | 0.61 | 0.46 | 1.14 | 1.11 |
| CAGR (%) | -24.50 | -63.38 | -28.49 | -11.79 | 13.44 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 2441.425 | 4 | 610.356 | 6.425 | .002 |
| Within Groups | 1899.873 | 20 | 94.994 | | |
| Total | 4341.299 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Other Incomes and Total Income) and the calculations made based on these details.

It is obvious from the above that the ratio varied between 0.0014% (CIFCPL, 2019-20) and 5.49% (CIFCPL, 2017-18) with a range of 6.44. In the case of NABFINS, it varied between 3.89% (2019-20) and 8.56% (2016-17) with a range of 4.67 and with five-year annual average of 5.69% which is satisfactory. Similar is the case with other MFIs. However, CAGL has the least five-year average compared to other MFIs. And there is no wide variation in the ratio from one year to another during the study period as reflected by standard deviation and coefficient of variation which is less than 50% in IDFFSP and NABFINS. But in other three MFIs, variation in the ratio during the study period is wide where CV is more than 50%. And the skewness value is positive in all the five MFIs indicating that the ratio moved towards positive value than negative during this five-year period which is desirable. Due to decrease in the current year ratio compared to 2016-17, CAGR is negative for all MFIs except IDFFSP.

Although the above analysis clearly shows the difference in the performance of MFIs, it is not clear whether the difference is statistically significant or not. Therefore, ANOVA test is carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Other Incomes to Total Income Ratio). Summary of test results is presented in the above table (Table – 4.11). As $f_{cal}$ (6.425) > $f_{tab}$ (2.87) at $\alpha$ = 0.05 for $df$ = 24, the null hypothesis is tested and rejected concluding that there is a significant difference in the performance of MFIs from the point of view of other incomes to total income ratio.

**(4) Operating Self Sufficiency Ratio**

In order to evaluate the sustainability of MFIs, Operating Self Sufficiency Ratio is used. It establishes the relationship between the aggregate of interest income and fee received on the one hand, and the aggregate of operating expenses, loan loss provisions and financial cost on the other as presented below:

$$\left[\begin{array}{c}\text{Operating Self-}\\ \text{Sufficiency Ratio}\end{array}\right] = \left[\frac{\text{Interest Income and Fee Received}}{\begin{array}{c}\text{Operating Expenses, Loan Loss}\\ \text{Provisions and Financial Cost}\end{array}} \times 100\right]$$

The ratio shows whether the operational revenue (i.e., the aggregate of interest income and fee received) is adequate to meet all operating expenses including loan loss provisions and financial costs. The ratio should at least 100%. In this backdrop, using the data presented in Annexure – 4.1 (Interest and Fees Received, and Operating Expenses, Loan Loss Provisions and Financial Cost), the ratio is computed for each MFI/year and the results are presented below together with a few descriptive statistics and test results (Table – 4.12).

A close observation of the content of the Table – 4.12 shows that in the case of three MFIs IIFLSFL, NABFINS and IDFFSP, the CAGR in 'interest income and fee received' is higher than that in 'operating expenses, loan loss provisions and financial cost'. For example, in the case of IIFLSFL, the CAGRs are 86.79% and 80.8% respectively. On the other hand, in the case of CAGL and CIFCPL, it is reverse i.e., CAGR in 'interest income and fee received' is lower than that in 'operating expenses, loan loss provisions and financial cost' e.g., in the case of CAGL, the CAGRs are 21.86% and 25.25% respectively.

As far as the operating self-sufficiency ratio is concerned, one can observe fluctuations during the study period in all the five MFIs. In the case of CAGL, the ratio varied between 111.81% (2020-21) and 164.74% (2018-19) with a range of 53.05 and with five-year annual average of 139.10% (highest among five MFIs), and therefore, it stands in the first place in terms of operating self-sufficiency ratio. However, the ratio in the last year is slightly lower than in the first year and therefore, CAGR is negative (-1.29%) and skewness value is also negative at -0.02. The ratio, in the case of IDFFSP, registered increase during the last two/three years and varied between 110.27% (2017-18) and 126.61% (2016-17) with a range of 16.34 and five-year annual average of 113.73% – lowest among five MFIs and therefore, it stands in the last place. Further, CAGR is negative at -2.62% but the skewness value is positive which is desirable.

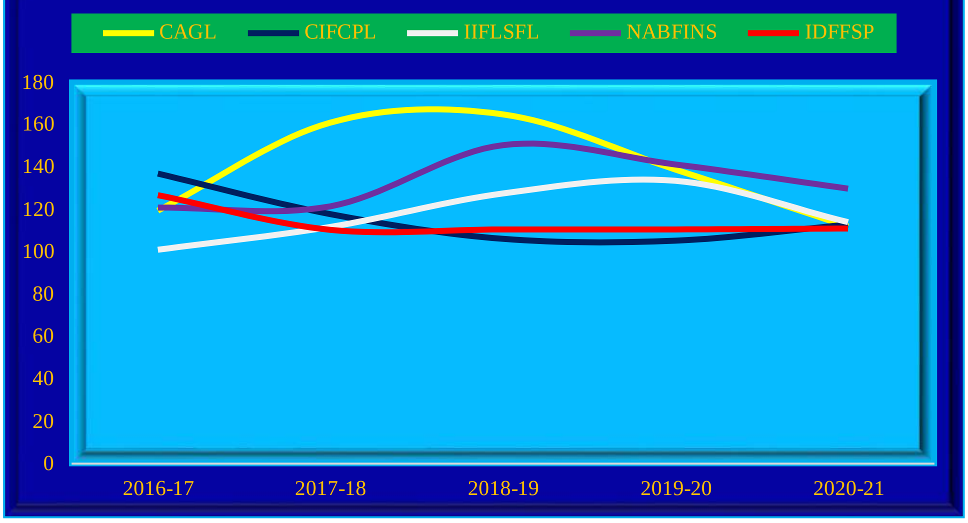
**Table – 4.12: Operating Self Sufficiency Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Interest and Fees Received | 21.86 | 28.99 | 86.79 | 12.99 | 16.79 |
| Operating Expenses, Loan Loss Provisions and Financial Cost | 25.25 | 35.53 | 80.80 | 11.39 | 12.76 |
| Operating Self Sufficiency Ratio (%): | | | | | |
| 2016-17 | 119.30 | 136.85 | 100.86 | 120.81 | 126.61 |
| 2017-18 | 160.84 | 117.75 | 111.63 | 121.40 | 110.27 |
| 2018-19 | 164.74 | 106.07 | 127.42 | 150.29 | 110.45 |
| 2019-20 | 138.70 | 105.21 | 133.39 | 141.16 | 110.45 |
| 2020-21 | 111.81 | 112.81 | 113.89 | 129.77 | 110.87 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 111.81 | 105.21 | 100.86 | 120.81 | 110.27 |
| Maximum (%) | 164.74 | 136.85 | 133.39 | 150.29 | 126.61 |
| Range | 53.05 | 31.64 | 32.53 | 29.48 | 16.34 |
| Mean (%) | 139.10 | 115.74 | 117.44 | 132.69 | 113.73 |
| Rank | 1 | 4 | 3 | 2 | 5 |
| SD (%) | 23.80 | 12.87 | 12.99 | 12.83 | 7.20 |
| CV (%) | 17.10 | 11.12 | 11.06 | 9.67 | 6.33 |
| Skewness | -0.02 | 1.43 | 0.05 | 0.58 | 2.23 |
| CAGR (%) | -1.29 | -3.79 | 2.46 | 1.44 | -2.62 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 2596.16 | 4 | 649.04 | 2.903 | .048 |
| Within Groups | 4471.07 | 20 | 223.55 | | |
| Total | 7067.23 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Interest and Fees Received, and Operating Expenses, Loan Loss Provisions and Financial Cost) and the calculations made based on these details.

The second best performing MFI is the NABFINS where the ratio varied between 120.81% (2016-17) and 150.29% (2018-19) with a range of 29.48 and five-year annual average of 132.69%. And both the CAGR (1.44%) and skewness value (0.58) are positive. CIFCPL has allowed its ratio to decline during three years of the study period (2017-18 to 2019-20) but improved to 112.81% in the last year which is still lower than in the first year. Therefore, CAGR is negative at -3.79% but skewness value is positive at 1.43. On the other hand, IIFLSFL improved its ratio in all years except the last year. In this case, the ratio varied between 100.86% (2016-17) and 133.39% (2019-20) with a range of 32.53 and five-year annual average of 117.44%. And both CAGR (2.46%) and skewness value (0.05) are positive. In spite of these changes in the ratio for all MFIs, variation is not wide as both the SD and CV are on the lower side (Figure - 4.9).

**Figure - 4.9: Operating Self Sufficiency Ratio (%)**




From the above analysis, it is clear that the MFIs have succeeded, to certain extent, in improving their sustainability as reflected by the operating self-sufficiency ratio. However, it is not clear whether the difference in the performance of MFIs is statistically significant or not. Therefore, ANOVA test is carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Operating Self Sufficiency Ratio). Summary of test results is presented in the above table (Table – 4.12). As $f_{cal}$ (2.903) > $f_{tab}$ (2.87) at $\alpha$ = 0.05 for *df* =

24, the null hypothesis is tested and rejected accepting the alternative hypothesis concluding that there is a significant difference in the performance of MFIs from the point of view of operating self-sufficiency ratio.

## IV. Liquidity, Long-term Solvency and Capital Adequacy

MFIs should keep adequate funds to meet their short-term financial obligations as well as to ensure that their day-to-day business activities are not hampered due to the paucity of funds. At the same time, very high degree of liquidity is also not desirable as the idle assets do not earn anything. It is, therefore, necessary to strike a right balance between high liquidity and lack of liquidity. In order to evaluate the liquidity position of MFIs, as already stated, one important ratio is used viz., Current Ratio. Further, for the purpose of measuring the firm's obligations to the outsiders in relation to the funds provided by the owners, Debt-Equity Ratio is used. In addition, capital adequacy is measured by CRAR (Capital to Risk Weighted Assets Ratio).

In the light of the above introduction, performance of MFIs is measured, evaluated and compared using the above three important ratios.

### (1) Current Ratio

Liquidity position of MFIs is measured with the help of current ratio. This ratio measures the short-term solvency position of MFIs by establishing the relationship between current assets and current liabilities as shown below. Normally, 2:1 current ratio is considered as ideal.

$$\text{Current Ratio} = \left[\frac{\text{Current Assets}}{\text{Current Liabilities}}\right]$$

Using the data pertaining to current assets and current liabilities presented in Annexure – 4.1 and the above formula, current ratio is computed for each MFI/year, and the results are presented in the following table with a few descriptive statistics and the test results (Table – 4.13).

**Table – 4.13: Current Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Current Assets | 28.51 | -6.39 | 12.16 | 7.30 | 10.45 |
| Current Liabilities | 31.09 | -15.34 | -7.81 | 0.87 | 15.84 |
| Current Ratio (times): | | | | | |
| 2016-17 | 1.71 | 2.12 | 1.85 | 1.67 | 1.92 |
| 2017-18 | 1.62 | 2.45 | 1.17 | 2.34 | 1.76 |
| 2018-19 | 1.90 | 2.90 | 0.87 | 2.28 | 1.36 |
| 2019-20 | 1.30 | 2.13 | 2.63 | 2.83 | 1.30 |
| 2020-21 | 1.55 | 3.55 | 4.87 | 2.28 | 1.52 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (times) | 1.30 | 2.12 | 0.87 | 1.67 | 1.30 |
| Maximum (times) | 1.90 | 3.55 | 4.87 | 2.83 | 1.92 |
| Range | 0.60 | 1.43 | 4.00 | 1.16 | 0.62 |
| Mean (times) | 1.62 | 2.63 | 2.28 | 2.28 | 1.57 |
| Rank | 4 | 1 | 2 | 3 | 5 |
| SD (times) | 0.22 | 0.60 | 1.60 | 0.41 | 0.264 |
| CV (%) | 13.62 | 22.99 | 70.22 | 18.06 | 16.77 |
| Skewness | -0.32 | 1.01 | 1.35 | -0.36 | 0.43 |
| CAGR (%) | -1.95 | 10.86 | 21.36 | 6.43 | -4.56 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 4.28 | 4 | 1.07 | 1.664 | .198 |
| Within Groups | 12.85 | 20 | .64 | | |
| Total | 17.13 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Current Assets, and Current Liabilities) and the calculations made based on these details.

It is evident from the above that the amount of current liabilities increased at a higher rate than current assets (as reflected by CAGR) in the case of CAGL and IDFFSP. But in other three MFIs, it is reverse. In the case of CIFCPL, the CAGR is -15.34% in current liabilities and -6.39% in current assets implying higher rate of reduction current liabilities than in current assets. In the case of IIFLSFL, CAGR is positive in current assets (12.16%) but negative in current liabilities (-7.81%) – both are desirable. Of course, this is subject to the quality of current assets.

As far as the current ratio is concerned, one can observe reduction in one to three years – CAGL (2017-18 and 2019-20), CIFCPL (2019-20), IIFLSFL (2017-18 and 2018-19), NABFINS (2018-19 and 2020-21) and IDFFSP (2017-18 to 2019-20). However, the ratio in the last year is lower than in the first year in the case of CAGL and IDFFSP and therefore, the CAGR is negative at -1.95% and -4.56% respectively. In other three MFIs, it is positive implying that the ratio in the last year is higher than in the first year. Skewness value is negative in the case of CAGL and NABFINS at -0.32 and -0.36 respectively. And in the remaining three cases, it is positive – CIFCPL (1.01), IIFLSFL (1.35) and IDFFSP (0.43). Most importantly, all MFIs had more than ‘1’ current ratio.

In the case of CIFCPL, the ratio varied between 2.12 (2016-17) and 3.55 (2020-21) with a range of 1.43 and five-year annual average of 2.63 which is highest among five MFIs and therefore, it stands in the first place. On the other hand, IDFFSP had less than ‘2’ current ratio for all the five years of the study period during which the ratio varied between 1.30 (2019-20) and 1.92 (2016-17) with a range of 0.62 and five-year annual average of 1.57. Similarly, CAGL had less-than ‘2’ current ratio for all the five years during which the ratio varied between 1.30 (2019-20) and 1.90 (2018-19) with a range of 0.60 and five-year annual average of 1.62. But IIFLSFL had less than ‘1’ current ratio for one period (2018-19), less ‘2’ current ratio for two periods (2016-17 and 2017-18) and more than ‘2’ current ratio for the remaining two period (2019-20 and 2020-21). Therefore, the variation is wide as also indicated by SD of 1.60 and CV of 70.22%. But in the remaining four MFIs, the variation is not wide as both the SD and CV are on the lower side. These fluctuations become clear from the following figure (Figure – 4.10).

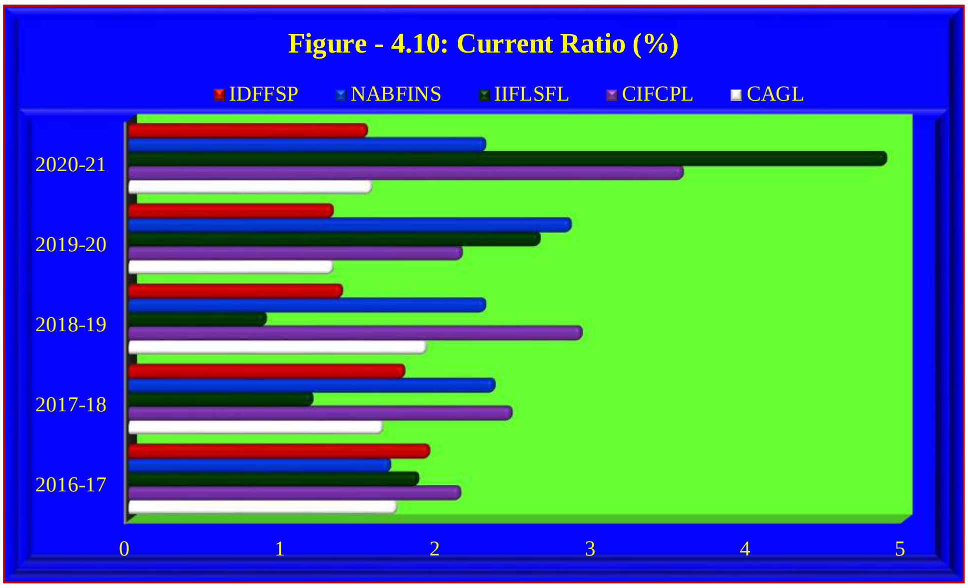


**Figure - 4.10: Current Ratio (%)**

Besides, for testing the hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Current Ratio), ANOVA test is carried out and the summary of results is presented in the above table (Table – 4.13). As $f_{cal}$ (1.664) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for *df* = 24, the null hypothesis is tested and accepted concluding that there is no significant difference in the performance of MFIs from the point of view of operating current ratio.

## (2) Debt-Equity Ratio

This ratio establishes the relationship between the creditors' claim on assets and the owners' claim. In other words, it examines the extent to which the assets of the entity are financed by outsiders and by owners. It is calculated by dividing the 'Debt Ratio' by the 'Equity Ratio' as shown below.

$$\left[\begin{array}{c}\text{Debt-Equity}\\ \text{Ratio}\end{array}\right] = \left[\frac{\text{Debt Ratio}}{\text{Equity Ratio}}\right]$$

$$= \left[\frac{\dfrac{\text{Debt}}{\text{Total Assets}}}{\dfrac{\text{Equity}}{\text{Total Assets}}}\right]$$

$$= \left[\frac{\text{Debt}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Equity}}\right]$$

$$= \left[\frac{\text{Debt}}{\text{Equity}}\right]$$

The degree of protection provided by MFIs' owners for their creditors is measured through this ratio. It shows how MFIs have leveraged own funds to finance their loan portfolio. Higher ratio indicates high risk for creditors and lower ratio indicates high financial safety (long term). However, creditors normally prefer lower Debt-Equity Ratio which provides protection for creditors for longer period. In this backdrop, using the relevant data presented in Annexure – 4.1 (Debt and Equity) and the above formula, Debt-Equity Ratio is computed for each MFI/year and the results are presented below together with a few descriptive statistics and test results (Table – 4.14).

Debt portion in the total capital has registered higher rate of increase, as reflected by CAGR, in the case of three MFIs viz., CAGL (109.28%), CIFCPL (52.05%) and IIFLSFL (86%) when compared to that in equity component. These MFIs have increased the share of debt at a higher rate than the rate of increase in equity. In the remaining two MFIs, it is reverse i.e., CAGR in equity is higher than that in debt – NABFINS (34.45% and 23.89%) and IDFFSP (2.95% and 0.84%).

A close observation of year-wise debt-equity ratio shows both increase and decrease in the ratio during the study period. In the case of CAGL and NABFINS, the ratio declined during three periods whereas in the case of IDFFSP, it declined during two periods. In the case of the remaining two MFIs (CIFCPL and IIFLSFL), the ratio declined only during one period. However, all MFIs have higher than '2' debt-equity ratio for all years (except for two periods in the case of IDFFSP) implying that they are depending more on loan which is, of course, desirable from the point of view of tax implication. But at the same time, this situation exposes them to more risk if they find it difficult to service their debts in accordance with the terms of debt.

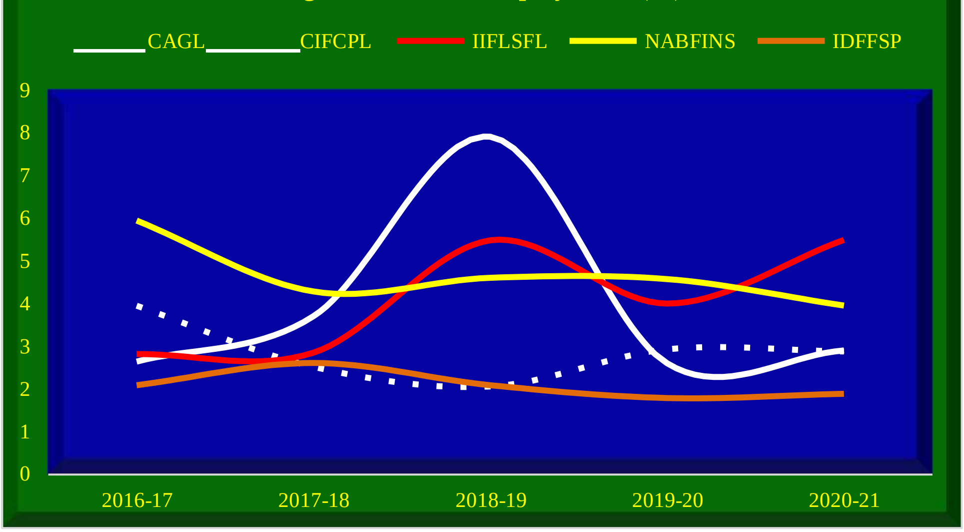
**Table – 4.14: Debt-Equity Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Debt | 109.28 | 52.05 | 86.00 | 23.89 | 0.84 |
| Equity | 39.39 | 49.18 | 62.85 | 34.45 | 2.95 |
| Debt-Equity Ratio (times): | | | | | |
| 2016-17 | 3.95 | 2.64 | 2.82 | 5.94 | 2.09 |
| 2017-18 | 2.52 | 3.70 | 2.85 | 4.28 | 2.61 |
| 2018-19 | 2.06 | 7.90 | 5.48 | 4.6 | 2.09 |
| 2019-20 | 2.93 | 2.60 | 4.00 | 4.57 | 1.79 |
| 2020-21 | 2.88 | 2.90 | 5.49 | 3.95 | 1.89 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (times) | 2.06 | 2.60 | 2.82 | 3.95 | 1.79 |
| Maximum (times) | 3.95 | 7.90 | 5.49 | 5.94 | 2.61 |
| Range | 1.89 | 5.30 | 2.67 | 1.99 | 0.80 |
| Mean (times) | 2.87 | 3.95 | 4.13 | 4.67 | 2.09 |
| Rank | 4 | 3 | 2 | 1 | 5 |
| SD (times) | 0.70 | 2.25 | 1.33 | 0.76 | 0.32 |
| CV (%) | 24.34 | 57.07 | 32.15 | 16.24 | 15.11 |
| Skewness | 0.85 | 2.04 | 0.12 | 1.56 | 1.33 |
| CAGR (%) | -6.12 | 1.89 | 14.25 | -7.84 | -1.99 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 21.64 | 4 | 5.41 | 3.381 | 0.029 |
| Within Groups | 32.00 | 20 | 1.60 | | |
| Total | 53.64 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (Amount of Debt, and Amount of Equity) and the calculations made based on these details.

In the case of NABFINS, the ratio is on the higher side and it varied between 3.95 (2020-21) and 5.94 (2016-17) with a range of 1.99 and five-year annual average of 4.67 which is highest among five MFIs. However, the CAGR is negative at -7.84% but the skewness value is positive (1.56) with no wide variation in the ratio during the study period. On the other hand, in the case of IDFFSP, the ratio varied between 1.79 (2019-20) and 2.61 (2017-18) with a range of 0.80 and five-year annual average of 2.09 – lowest among five MFIs but not exposed to high degree of risk. In this case, even the CAGR is negative (-1.99%) and skewness value is positive (1.33) with no wide variation in the ratio as both the SD and CV are on the lower side. IIFLSFL with second highest average ratio has resorted to more borrowings as evidenced from the continuous increase in the ratio except for one period (2019-20). Here, the ratio varied between 2.82 (2016-17) and 5.49 (2020-21) with a range of 2.67 and five-year annual average of 4.13. Both the CAGR (14.25%) and skewness (0.12) are positive. But in the case of CIFCPL, there is a wide variation in the ratio as reflected by the SD of 2.25 (against the mean value of 3.95) and CV of 57.07% - the ratio varying between 2.60 (2019-20) and 7.90 (2018-19) with a range of 5.30 and five-year annual average of 3.95. Again, both the skewness (2.04) and CAGR (1.89%) are positive. More or less, similar is the pattern of change in the case of CAGL as in NABFINS. All these calculations/figures show that there a difference in the performance of MFIs in terms of debt-equity ratio. However, the direction of change in the ratio becomes clear from the following figure (Figure – 4.11).

Figure - 4.11: Debt-Equity Ratio (%)



Although the descriptive statistics show some difference among five MFIs from the point of view of debt-equity ratio, it is not clear whether the difference is significant or not. Therefore, ANOVA test is carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Debt-Equity Ratio). Summary of test results is presented in the above table (Table – 4.14). As $f_{cal}$ (3.381) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected accepting the alternative hypothesis concluding that there is a significant difference in the performance of MFIs from the point of view of debt-equity ratio.

### (3) Capital Adequacy Ratio

One of the key areas is the Capital Adequacy and this is measured by Capital Adequacy Ratio (CAR). It is also called, Capital to Risk Weighted Assets Ratio (CRAR). This ratio is computed by dividing core equity capital (both Tier – I capital and Tier – II capital) by the total risk weighted assets.

$$\text{CAR or CRAR} = \left[\frac{\text{Tier - I Capital + Tier - II Capital}}{\text{Risk Weighted Assets or Exposures}} \times 100\right]$$

This Ratio measures the capital adequacy in terms of riskiness of loans/assets. The apex bodies specify the minimum amount of capital an MFI has to hold given the size of its risk-weighted assets. As per the guidelines of the Reserve Bank of India (RBI), a NBFC-MFI needs to maintain capital adequacy ratio of not less than 15% of its aggregate risk weighted assets. This means, the MFIs have to back every ` 100 of commercial loans with at least ` 15 of capital. Therefore, 'higher the loan assets, higher should be the capital of the bank'. This also means that, 'higher the CRAR of an MFI, the better capitalized it is'. In the light of this introduction, the details about the capital adequacy ratio are collected from the annual reports of MFIs and presented below together with a few descriptive statistics and test results (Table – 4.15).

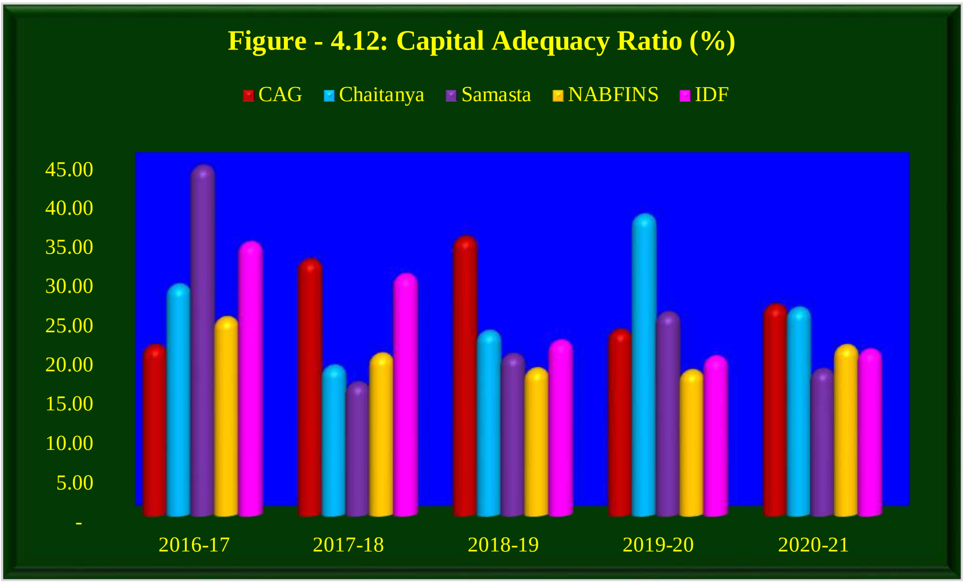
**Table – 4.15: Capital Adequacy Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Capital Adequacy Ratio (%): | | | | | |
| 2016-17 | 21.66 | 29.33 | 44.40 | 25.17 | 34.70 |
| 2017-18 | 32.52 | 19.03 | 16.90 | 20.56 | 30.62 |
| 2018-19 | 35.40 | 23.43 | 20.50 | 18.67 | 22.21 |
| 2019-20 | 23.60 | 38.21 | 25.80 | 18.44 | 20.19 |
| 2020-21 | 26.80 | 26.39 | 18.60 | 21.62 | 21.08 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 21.66 | 19.03 | 16.90 | 18.44 | 20.19 |
| Maximum (%) | 35.40 | 38.21 | 44.40 | 25.17 | 34.70 |
| Range | 13.74 | 19.18 | 27.50 | 6.73 | 14.51 |
| Mean (%) | 28.00 | 27.28 | 25.24 | 20.89 | 25.76 |
| Rank | 1 | 2 | 4 | 5 | 3 |
| SD (%) | 5.83 | 7.20 | 11.22 | 2.73 | 6.50 |
| CV (%) | 20.84 | 26.39 | 44.45 | 13.08 | 25.24 |
| Skewness | 0.33 | 0.78 | 1.79 | 1.08 | 0.77 |
| CAGR (%) | 4.35 | –2.09 | –15.97 | –2.99 | –9.49 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 153.689 | 4 | 38.422 | 0.735 | 0.579 |
| Within Groups | 1046.026 | 20 | 52.301 | | |
| Total | 1199.716 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

It is obvious from the above that the ratio varied between 16.90% (IIFLSFL, 2017-18) and 44.40% (again in the case of IIFLSFL, 2016-17) with a range of 27.50. In the case of CAGL, it varied between 21.66% (2016-17) and 35.40% (2018-19) with a range of 13.74 with five-year annual average of 28% which is satisfactory and which is highest among five MFIs. The ratio, in the case of CIFCPL, varied between 19.03% (2017-18) and 38.21% (2019-20) with a range of 19.18 and five-year annual average of

27.28% which is the second highest among five MFIs. On the other hand, in the case of NABFINS, the ratio declined during three periods and varied between 18.44% (2019-20) and 25.17% (2016-17) with a range of 6.73 and five-year annual average of 20.89%. Similar is the case with IDFFSP in which the ratio varied between 20.19% (2019-20) and 34.70% (2016-17) with a range of 14.51 and five-year annual average of 25.76%. However, the ratio in the last year of the study period is lower than in the first year in the case of all MFIs (except CAGL) and therefore, CAGR is negative in these MFIs. In the case of CAGL, CAGR is positive. But the skewness is positive in all the five MFIs indicating that the ratio moved towards positive value than negative during this five-year period which is desirable. In spite of these fluctuations, the MFIs are in comfortable position from the point of view of capital adequacy ratio as the ratio in all the five MFIs and for each of the five years of the study period is higher than the minimum of 15% prescribed by the apex bank of the country. However, the fluctuations in the ratio from one year to another become clear from the following figure (Figure – 4.12).




However, to determine whether difference in the performance of MFIs is statistically significant, ANOVA test is carried out and the summary of test results is presented in above table. As $f_{cal}$ (0.735) < $f_{tab}$ (2.87) at $\alpha$ = 0.05 for $df$ = 24, the null hypothesis, ‘*$H_0$: There exists no significant difference in the performance of MFIs*’ (from the point of view of Capital Adequacy Ratio), is tested and accepted concluding that there is no significant difference in the performance of MFIs from the point of view of capital adequacy ratio.

### V. Asset Quality

The MFIs should be very careful about the quality of their loans and advances as they (i.e., loans and advances) generate/earn interest income to the lending MFIs. As these loans and advances earn interest income, one of the features of assets, these loans and advances are also considered as ‘assets’. Hence, both the **asset quality** and **loan quality** are two different terms but with the same meaning.

As is known, government bonds, treasury bills (T-bills), etc., are of good quality loans as the risk is almost zero. On the other hand, bank loans to low credit score industrial houses are considered as loans with poor/bad quality. A poor/bad quality loan, therefore, has a higher probability of becoming a non-performing asset/advance (NPA) with no return/benefits. Therefore, asset quality is reflected by the NPA – higher the asset quality, lower the NPAs and vice-verse. For the purpose of evaluating the asset quality, three ratios/parameters are used. They are, Gross NPA Ratio, Net NPA Ratio and Write-off Ratio.

#### (1) Gross NPA Ratio

Gross NPA Ratio is computed by dividing the amount of gross NPAs by the amount of total loans and advances as presented below:

$$\text{Gross NPA Ratio} = \left[\frac{\text{Amount of Gross NPAs}}{\text{Total Outstanding Loans and Advances}} \times 100\right]$$

Higher Gross NPA Ratio is a reflection of poor asset quality. Therefore, the MFIs have to minimize this ratio, if it is not possible to reduce it to zero. In this backdrop, the details pertaining to the Gross NPA Ratio collected from the annual reports of MFIs are presented below with a few descriptive statistics and test results (Table – 4.16).

**Table – 4.16: Gross NPA Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Gross NPA Ratio (%): | | | | | |
| 2016-17 | 1.54 | 2.07 | 3.85 | 5.58 | 0.39 |
| 2017-18 | 0.58 | 5.29 | 0.92 | 3.54 | 1.32 |
| 2018-19 | 0.42 | 2.50 | 0.36 | 3.78 | 1.02 |
| 2019-20 | 1.28 | 0.83 | 1.50 | 5.69 | 0.89 |
| 2020-21 | 3.84 | 4.34 | 1.89 | 9.92 | 1.61 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 0.42 | 0.83 | 0.36 | 3.54 | 0.39 |
| Maximum (%) | 3.84 | 5.29 | 3.85 | 9.92 | 1.61 |
| Range | 3.42 | 4.46 | 3.49 | 6.38 | 1.20 |
| Mean (%) | 1.53 | 3.01 | 1.70 | 5.70 | 1.05 |
| Rank | 2 | 4 | 3 | 5 | 1 |
| SD (%) | 1.37 | 1.79 | 1.33 | 2.56 | 0.46 |
| CV (%) | 89.58 | 59.66 | 78.20 | 44.86 | 44.03 |
| Skewness | 1.62 | 0.22 | 1.23 | 1.44 | -0.37 |
| CAGR (%) | 20.05 | 15.96 | -13.26 | 12.19 | 32.79 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 70.73 | 4 | 17.68 | 6.49 | .002 |
| Within Groups | 54.52 | 20 | 2.73 | | |
| Total | 125.25 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

A close observation of the content of the above table reveals that the MFIs have succeeded in lowering the gross NPA ratio in one-two years and allowing it to increase in other years. In the case of CAGL, the ratio declined initially from 1.54% (2016-17) to 0.42% (2018-19) but allowed it to increase continuously during the last two years and increased to 3.84% in 2020-21. The five-year annual average works out to 1.53% which is the second lowest among five MFIs. However, the SD (1.37%) and CV (89.58%) indicate that the ratio varied widely during the study period. Most importantly, both the skewness (1.62) and CAGR (20.05%) are positive which should be a matter of concern though the ratio is at lower level. In the case of CIFCPL, the ratio varied between 0.83% (2019-20) and 5.29% (2017-18) with a range of 4.46 and five-year annual average of 3.01%. Further, the variation in the ratio is wide as reflected by SD (1.79%) and CV (59.66%). Besides, skewness (0.22) and CV (15.96%) are positive which is not a desirable development. Similar is the pattern of changes in the ratio in the case of IIFLSFL wherein the ratio varied between 0.36% (2018-19) and 3.85% (2016-17) with a range of 3.49 and five-year annual average of 1.70% with wide variation in the ratio during the study period (SD = 1.33% and CV = 78.20%). Although skewness value is positive (1.23), the CAGR is negative at -13.26% which is desirable. In the case of NABFINS, the ratio declined only in one period but in all other periods, it registered increase. However, the ratio varied between 3.54% (2017-18) and 9.92% (2020-21, highest among five MFIs and also highest in any of the years) with a range of 6.38 and five-year annual average of 5.70% (again, worst performer as the average ratio is highest among five MFIs). However, the variation is not wide. But both skewness value and CAGR are positive at 1.44 and 12.19% respectively. In the case of IDFFSP, the ratio increased from 0.39% in 2016-17 to 1.61% in 2020-21 with movements in both the directions during these periods. What is important is, the gross NPA ratio is on the lower side in all the five MFIs. However, the fluctuations in the ratio during the study period become clear from the following line graph (Figure – 4.13).

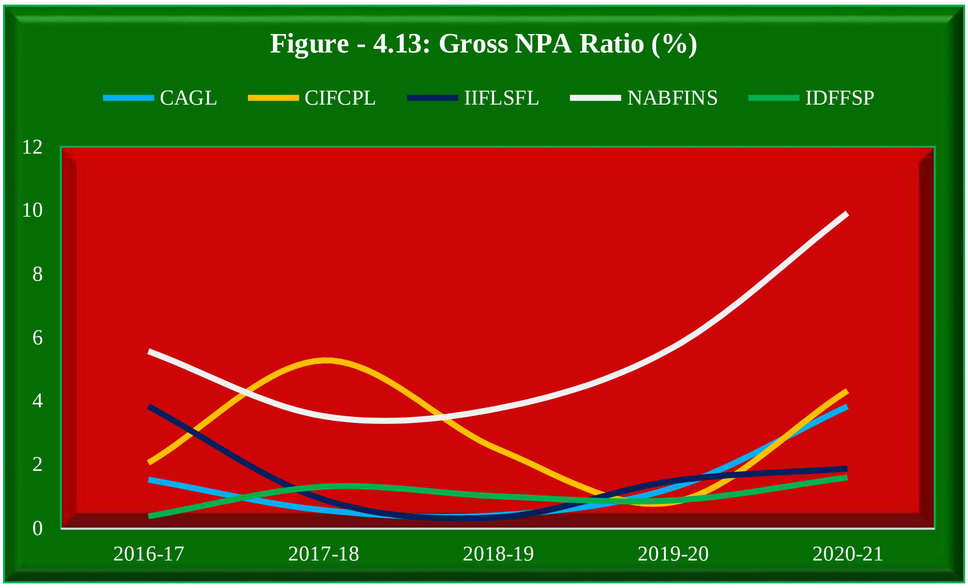



**Figure - 4.13: Gross NPA Ratio (%)**

Although the above analysis, based on descriptive statistics and others, provides an idea about the performance of MFIs from the point of view of gross NPA ratio indicating asset quality, it is not clear whether there is a significant difference in their performance. For this purpose and also for the purpose of testing the null hypothesis, '$H_0$: *There exists no significant difference in the performance of MFIs*' (from the point of view of Gross NPA Ratio), ANOVA test is carried out. Summary of test results is presented in the above table. As $f_{cal}$ (6.49) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected accepting the alternative hypothesis and concluded that there is a significant difference in the performance of MFIs from the point of view of gross NPA ratio.

## (2) Net NPA Ratio

Net non-performing advances/assets ratio (Net NPA Ratio) is widely used for measuring and evaluating the asset quality of banking/financial companies including MFIs. This ratio is computed by dividing the amount of net NPAs by the amount of net advances and usually, it is expressed in the form of percentage as presented below:

$$\text{Net NPA Ratio} = \left[\frac{\text{Amount of Net NPAs}}{\text{Amount of Net Advances}} \times 100\right]$$

When an advance ceases to generate income for the lender, it is considered as 'gross non-performing advance' (gross NPA). On the other hand, net NPA represents the excess of gross NPAs over the total provisions held. On the other hand, the amount of 'net advances' represents the difference between the gross advances and repayments of principal received as presented below.

$$\text{Net Advances} = \left[\begin{matrix}\text{Gross}\\\text{Advances}\end{matrix}\right] - \left[\begin{matrix}\text{Repayments}\\\text{of Principal}\end{matrix}\right]$$

In this backdrop the details about the net NPA ratio collected from the annual reports of MFIs for each of the five years of the study period are presented below together with a few descriptive statistics and test results (Table – 4.17).

It is obvious from Table – 4.17 that the MFIs have succeeded in keeping the net NPA ratio at the lower level. Most importantly, IIFLSFL has achieved 'zero' net NPA ratio by creating adequate provisions against its gross NPAs.

And three MFIs viz., CIFCPL, IDFFSP and CAGL have succeeded in keeping the net NPA ratio at less-than 1% (except for 2020-21 in the case of CAGL). In the case of CAGL, the ratio varied between 0.03% (2017-18) and 1.37% (2020-21) with a range of 1.34 and five-year annual average of 0.47%. As the ratio in the last year of the study period is higher than in the first year, CAGR is positive at 27.92%. Skewness is also positive at 1.78. Due to these fluctuations, the variation in the ratio is wide as reflected by SD (0.53%) and CV (112.48%). Similarly, in the case of CIFCPL, the ratio varied between 0.40% (2019-20) and 0.95% (2016-17) with a range of 0.55 and five-year annual average of 0.75%. However, there is no wide variation in the ratio. And both the skewness (-0.74) and CAGR (-0.42%) are negative which is desirable. IDFFSP has succeeded in lowering the net NPA ratio during two periods (2018-19 to 2019-20) but allowed it to increase to 0.04% in the last year of the study period. As the ratio in the last year is higher than in the first year, the CAGR is positive (35.68%) but the skewness value is negative at -1.03 which is desirable.

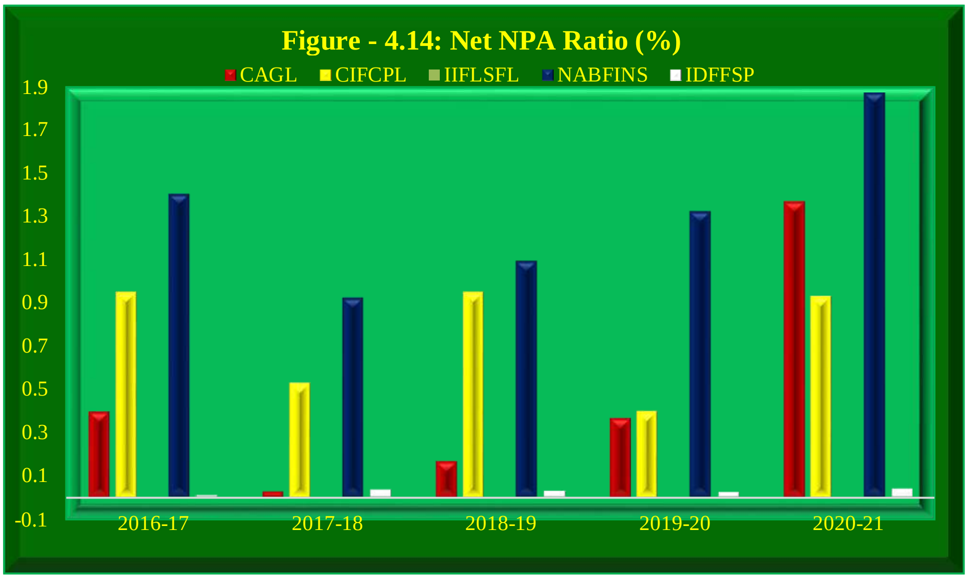
**Table – 4.17: Net NPA Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Net NPA Ratio (%): | | | | | |
| 2016-17 | 0.4000 | 0.9500 | 0 | 1.4000 | 0.0087 |
| 2017-18 | 0.0300 | 0.5300 | 0 | 0.9200 | 0.0360 |
| 2018-19 | 0.1700 | 0.9500 | 0 | 1.0900 | 0.0300 |
| 2019-20 | 0.3700 | 0.4000 | 0 | 1.3200 | 0.0240 |
| 2020-21 | 1.3700 | 0.9300 | 0 | 1.8700 | 0.0400 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 0.0300 | 0.4000 | 0 | 0.9200 | 0.0087 |
| Maximum (%) | 1.3700 | 0.9500 | 0 | 1.8700 | 0.0400 |
| Range | 1.3400 | 0.5500 | 0 | 0.9500 | 0.0300 |
| Mean (%) | 0.4700 | 0.7500 | 0 | 1.3200 | 0.0300 |
| Rank | 3 | 4 | 1 | 5 | 2 |
| SD (%) | 0.5300 | 0.2700 | 0 | 0.3600 | 0.0100 |
| CV (%) | 112.4800 | 35.3900 | 0 | 27.3600 | 44.1600 |
| Skewness | 1.7800 | -0.7400 | 0 | 0.8000 | -1.0300 |
| CAGR (%) | 27.9200 | -0.4200 | 0 | 5.9600 | 35.6800 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 6.0450 | 4 | 1.5110 | 15.7910 | .0000 |
| Within Groups | 1.9140 | 20 | .0960 | | |
| Total | 7.9590 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

On the other hand, in the case of NABFINS, the net NPA ratio is greater-than ‘1’ for all years except for 2017-18. However, the ratio varied between 0.92% (2017-18) and 1.87% (2020-21) with a range of 0.95 and five-year annual average of 1.32% - highest among five MFIs. Both the skewness value (0.80) and CAGR (5.96%) are positive.

The changes in the net NPA ratio of MFIs from one year to another becomes clear from the following figure (Figure – 4.14).




From the above analysis, it is obvious that the MFIs have achieved a commendable success in lowering their NPA ratio including the net NPA ratio. However, it is not clear whether there is a difference in the performance of MFIs from the point of view of net NPA ratio. For this purpose and also for the purpose of testing the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Net NPA Ratio), ANOVA test is carried out. Summary of test results is presented in the above table. As $f_{cal}$ (15.791) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of net NPA ratio.

### (3) Write-off Ratio

After making every effort to collect the loan amount from the borrowers, if the MFIs come to the conclusion that it is almost impossible to recover the amount from them, they (i.e., MFIs) write-off these loans and advances. This write-off is used more in the case of the third category of NPAs viz., Loss Advances/Assets [other two categories of NPAs are, Sub-Standard Loans (i.e., the loans that remained NPAs for a period of less-than 12 months) and Doubtful Loans (i.e., the loans that have remained in the sub-standard category for a period of 12 months or more)]. Although the MFIs write-off these advances in the third category of NPAs, they (i.e., MFIs) do not give up their efforts to recover these loans and advances. Hence, this write-off is only technical in nature. This ratio (i.e., write-off ratio) establishes the relationship between the amount of loan written-off during a year and the amount of average gross loan portfolio of that year as shown below:

$$\text{Write-off Ratio} = \left[\frac{\text{Amount of Loan Written-off}}{\text{Amount of Average Gross Loan Portfolio}} \times 100\right]$$

In the above backdrop, the details pertaining to the write-off ratio are presented below (Table – 4.18).

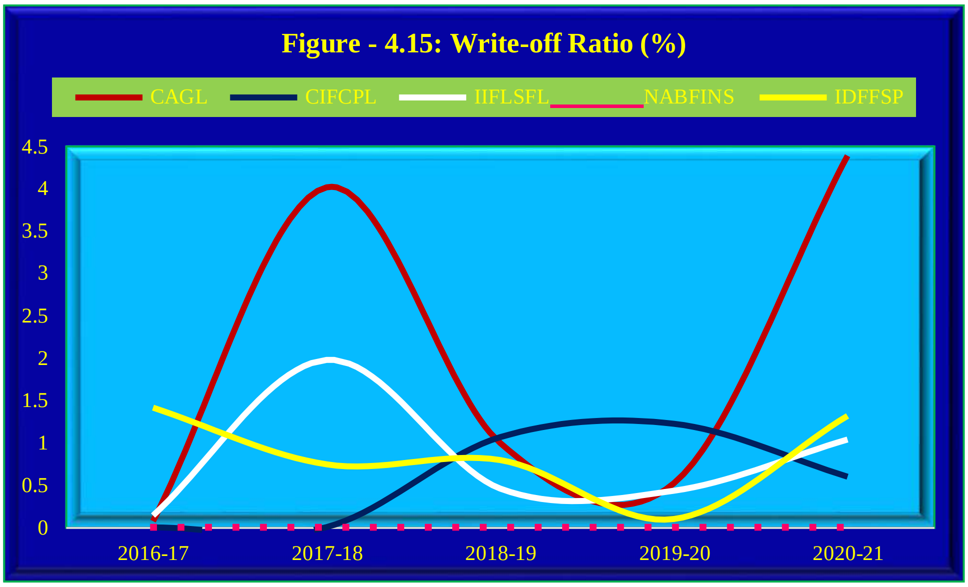
It is evident from the content of Table – 4.18 that the CAGR in the amount of loan written-off is higher than that in the amount of average gross loan portfolio for all MFIs except IDFFSP. This shows that the MFIs are writing-off higher amounts. But in the case of IDFFSP, it is reverse – CAGR in the write-offs (15.57%) is lower than in the average gross loan portfolio (17.23%).

**Table – 4.18: Write-off Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR: | | | | | |
| Write-off Amount (` crores) | 202.41 | 238.95 | 171.51 | 34.49 | 15.57 |
| Average Gross Loan Portfolio (` crores) | 35.43 | 37.6 | 83.44 | 13.02 | 17.23 |
| Write-off Ratio (%): | | | | | |
| 2016-17 | 0.079 | 0.007 | 0.147 | 0.006 | 1.419 |
| 2017-18 | 4.016 | 0.010 | 1.982 | 0.004 | 0.750 |
| 2018-19 | 1.000 | 1.071 | 0.465 | 0.012 | 0.801 |
| 2019-20 | 0.526 | 1.229 | 0.439 | 0.006 | 0.105 |
| 2020-21 | 4.389 | 0.605 | 1.044 | 0.014 | 1.321 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 0.079 | 0.007 | 0.147 | 0.004 | 0.105 |
| Maximum (%) | 4.389 | 1.229 | 1.982 | 0.014 | 1.419 |
| Range | 4.310 | 1.223 | 1.835 | 0.010 | 1.314 |
| Mean (%) | 2.002 | 0.584 | 0.816 | 0.008 | 0.879 |
| Rank | 5 | 2 | 3 | 1 | 4 |
| SD (%) | 2.039 | 0.574 | 0.729 | 0.004 | 0.526 |
| CV (%) | 101.877 | 98.204 | 89.349 | 52.845 | 59.869 |
| Skewness | 0.513 | 0.002 | 1.296 | 0.532 | -0.639 |
| CAGR (%) | 123.289 | 146.329 | 48.015 | 18.996 | -1.421 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 10.489 | 4 | 2.622 | 2.475 | .077 |
| Within Groups | 21.187 | 20 | 1.059 | | |
| Total | 31.676 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

With regard to year-wise write-off ratio, NABFINS stands in the first place with five-year annual write-off ratio of 0.008% and the ratio varied between 0.004% (2017-18) and 0.014% (2020-21) with a range of 0.01. During the study period, the ratio increased from 0.006% to 0.014% and therefore, CAGR is positive at 18.996% besides the positive skewness value of 0.532. On the other hand, in the case of CAGL, the ratio varied between 0.079% (2016-17) and 4.389% (2020-21) with a range of 4.31 and five-year annual average of 2.002% - highest among five MFIs. During the study period, the ratio declined twice (2018-19 and 2019-20). However, both the skewness value (0.513) and CAGR (123.289%) are positive. Similar pattern of changes can be observed in other three MFIs. The changes in the write-off ratio during the study period becomes clear from the following line graph (Figure – 4.15).




However, it is not clear from the above analysis as to whether the difference in the performance of MFIs is statistically significant from the point of view of write-off ratio. Therefore, to determine whether difference in the performance of MFIs is statistically significant, ANOVA test is carried out and the summary of test results is presented in above table. As $f_{cal}$ (2.475) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$, the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Write-off Ratio), is tested and accepted concluding that there is no significant difference in the performance of MFIs from the point of view of write-off ratio.

## VI. Profitability Ratios

One of the important objectives of MFIs is to earn higher profit and profitability while serving their members. All the above variables (discussed under five broad categories with a few parameters under each of the broad categories) influence the amount and rate of profit in one way or the other. Further, success of any MFI is measured on the basis of its profitability (besides number of members/clients of SHG/JLG served). Therefore, an attempt is made here to measure, evaluate and compare the performance of MFIs from the point of view of profitability. For this purpose, four important profitability ratios (as already identified) are used. They are, (i) Portfolio Yield Ratio, (2) Profit per Employee, (3) Return on Equity and (4) Return on Assets.

### (1) Portfolio Yield Ratio

Considering, (i) the amount of interest income earned and the amount of fees/ commission received/earned on the one hand, and (ii) the average amount of gross loan portfolio, this ratio is computed as presented below:

$$\text{Portfolio Yield Ratio} = [\frac{\text{Amount of Interest Income, Fees and Commission}}{\text{Amount of Average Gross Loan Portfolio}} \times 100]$$

Using the above formula and the data pertaining to the ‘amount of interest income, fees and commission’ and the ‘amount of average gross loan portfolio’ presented in Annexure – 4.1, the portfolio yield ratio is computed. The results are presented below together with a few descriptive statistics and test results (Table – 4.19).

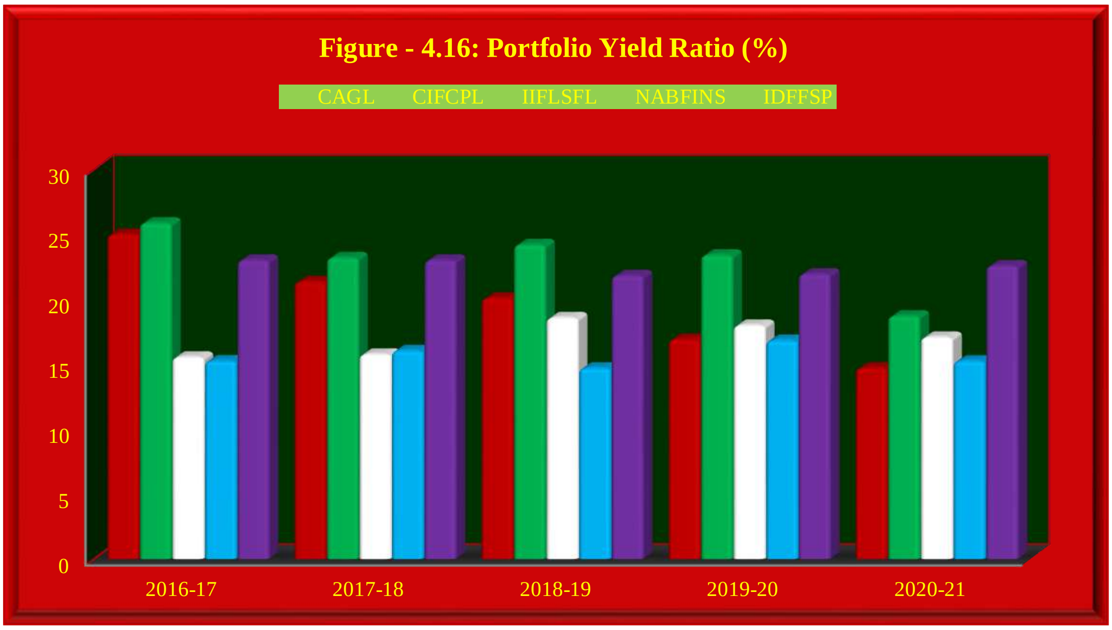
A close observation of the content of Table – 4.19 shows that the CAGR in both ‘interest income, fees and commission received’ and ‘average amount of gross loan portfolio’ is positive. However, the rate differs – in the case of CAGL, CIFCPL, NABFINS and IDFFSP, CAGR in average amount of gross loan portfolio is higher than that in ‘interest income, fees and commission received’. But in the case of IIFLSFL, CAGR in average amount of gross loan portfolio is lower than that in ‘interest income, fees and commission received’.

**Table – 4.19: Portfolio Yield Ratio**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Interest Income, Fees and Commission | 21.86 | 28.99 | 86.79 | 12.99 | 16.79 |
| Average amount of Gross Loan Portfolio | 35.43 | 37.60 | 83.44 | 13.02 | 17.23 |
| Portfolio Yield Ratio (%): | | | | | |
| 2016-17 | 25.00 | 25.87 | 15.58 | 15.29 | 23.02 |
| 2017-18 | 21.36 | 23.21 | 15.80 | 16.07 | 23.02 |
| 2018-19 | 20.10 | 24.21 | 18.60 | 14.73 | 21.83 |
| 2019-20 | 16.94 | 23.41 | 18.02 | 16.86 | 21.96 |
| 2020-21 | 14.74 | 18.73 | 17.10 | 15.27 | 22.59 |
| Descriptive Statistics and Others: | | | | | |
| Minimum | 14.74 | 18.73 | 15.58 | 14.73 | 21.83 |
| Maximum | 25.00 | 25.87 | 18.60 | 16.86 | 23.02 |
| Range | 8.86 | 6.34 | 2.80 | 2.14 | 1.19 |
| Mean | 19.63 | 23.09 | 17.02 | 15.64 | 22.48 |
| Rank | 3 | 1 | 4 | 5 | 2 |
| SD | 3.97 | 2.65 | 1.33 | 0.83 | 0.57 |
| CV | 20.25 | 11.48 | 7.81 | 5.31 | 2.52 |
| Skewness | 0.16 | -1.33 | 0.03 | 0.74 | -0.26 |
| CAGR | -10.02 | -6.25 | 1.88 | -0.026 | -0.38 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 213.87 | 4 | 53.47 | 10.44 | .000 |
| Within Groups | 102.42 | 20 | 5.12 | | |
| Total | 316.29 | 24 | | | |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (‘Interest Income, Fee and Commission Received’, and ‘Average Gross Loan Portfolio’) and the calculations made based on these details.

However, with regard to year-wise portfolio yield, one can observe movement in the ratio in both the directions in all MFIs during the study period. In the case of CAGL, the ratio declined continuously from 25% in 2016-17 to 14.74% in 2020-21 with a range of 8.86 and five-year annual average of 19.63%. As a result, CAGR is negative at -10.02% but the skewness value is positive at 0.16. In the case of CIFCPL, the ratio declined thrice during the study period and it varied between 18.73% (2020-21) and 25.87% (2016-17) with a range of 6.34 and five-year annual average of 23.09% - highest among the MFIs selected for the study. Still, both the skewness (-1.33) and CAGR (-6.25%) are negative which is not desirable. The ratio, in the case of IIFLSFL, varied between 15.58% (2016-17) and 18.60% (2018-19) with a range of 2.80 and five-year annual average of 17.02%. But both the skewness (0.03) and CAGR (1.88%) are positive. Similarly, in the case of NABFINS, the ratio declined twice during the study period – declining marginally from 15.29% in 2016-17 to 15.27% in 2020-21 and therefore, CAGR is negative at -0.026% but the skewness value is positive at 0.74%. And in the case of IDFFSP, the ratio varied between 21.83% (2018-19) and 23.02% (2016-17 and 2017-18) with a range of 1.19 and five-year annual average of 22.48% - second highest among five MFIs. But both the CAGR (-0.38%) and skewness value (-0.26) are negative. In all the five MFIs, there is no wide variation in the ratio during the study period as reflected by lower SD and CV. However, the fluctuations in the ratio become clear from the following graph (Figure – 4.16).




Still, it is not clear whether there is a difference in the performance of MFIs from the point of view of portfolio yield ratio. For this purpose and also for the purpose of testing the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of Portfolio Yield Ratio), ANOVA test is carried out. Summary of test results is presented in the above table. As $f_{cal}$ (10.44) > $f_{tab}$ (2.87) at $\alpha$ = 0.05 for *df* = 24, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of portfolio yield ratio.

**(2) Profit per Employee**

The success of MFIs depends upon the efficiency of their employees as they (i.e., employees) are able to obtain maximum benefit from each of the resources and from each Rupee spent. On the other hand, employee cost in the form of wages and salaries is unavoidable and inescapable. It is, therefore, necessary to obtain the maximum benefit from them. Employee productivity (also called, human resource productivity or man-power productivity) is measured in a few ways. However, ‘profit per employee’ is an important measure as it shows how much profit each employee brings to the MFI over the course of a given period. Higher ratio shows that, the MFI is efficient in translating its employee productivity into profitability. In this background, profit per employee is computed for each MFI/year and the results are presented below together with the results of a few descriptive statistics and ANOVA test (Table – 4.20).

**Table – 4.20: Profit per Employee**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| CAGR (%): | | | | | |
| Profit | 13.06 | 75.76 | 141.56 | -0.75 | 5.76 |
| Number of Employee | 23.79 | 15.94 | 57.99 | 25.37 | 5.98 |
| Profit per Employee (`): | | | | | |
| 2016-17 | 1,51,979 | 10,430 | 11,725 | 5,43,594 | 1,35,256 |
| 2017-18 | 1,76,195 | -60,957 | 32,076 | 5,06,700 | 34,787 |
| 2018-19 | 3,99,008 | 26,662 | 1,10,576 | 3,91,480 | 60,053 |
| 2019-20 | 3,10,984 | 22,617 | 1,82,427 | 3,03,399 | 71,799 |
| 2020-21 | 98,889 | 83,775 | 98,062 | 1,69,035 | 1,33,929 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (`) | 98,889 | -60,957 | 11,725 | 1,69,035 | 34,787 |
| Maximum (`) | 3,99,008 | 83,775 | 1,82,429 | 5,43,594 | 1,35,256 |
| Range | 3,15,544 | 1,44,732 | 1,70,703 | 3,74,559 | 1,00,471 |
| Mean (`) | 2,27,411 | 16,505 | 86,973 | 3,82,841 | 87,165 |
| Rank | 2 | 5 | 4 | 1 | 3 |
| SD (`) | 1,23,755 | 51,728 | 67,948 | 1,52,710 | 45316 |
| CV (%) | 54.42 | 313.40 | 78.12 | 39.89 | 51.99 |
| Skewness | 0.65 | -0.48 | 0.39 | -0.49 | 0.21 |
| CAGR (%) | 3.45 | 54.85 | 52.93 | -20.83 | -0.20 |

**Source**: Prepared the table based on the data presented in Annexure – 4.1 (‘Total Profit’, and ‘Number of Employees’) and the calculations made based on these details.

It is obvious from the above that the CAGR in profit and in number of employees is positive for all MFIs except for NABFINS (-0.75% for profit). In the case of two MFIs viz., CIFCPL and IIFLSFL, the CAGR in profit (75.76% and 141.56% respectively) is higher than that in number of employees (15.94% and 57.99% respectively). But in the remaining three MFIs, it is reverse.

However, comparison of year-wise profit per employee shows both increase and decrease. In the case of NABFINS, the top performer, the ratio declined continuously year after year during the study period. It declined from ` 5,43,594 in 2016-17 to ` 1,69,035 in 2020-21 with five-year annual average of ` 3,82,841 which is highest among all five MFIs. In spite of continuous decline, the variation is not wide as both the SD and CV are on the lower side. But both the CAGR (-20.83%) and skewness value (-0.49) are negative which is not desirable. On the other hand, in the case of CIFCPL, the least/worst performer from the point of view of profit per employee, the ratio declined twice including negative profit per employee for 2017-18. The profit per employee varied between -` 60,957 (2017-18) and ` 83,775 (2020-21) with a range of ` 1,44,732 and five-year annual average of ` 16,505. However, the CAGR is positive at 54.85% but the skewness value is negative at -0.48. Similarly, the ratio declined in one or two year/s in the remaining three MFIs viz., CAGL, IIFLSFL and IDFFSP. In all these cases, there is a wide variation in the ratio. The fluctuations in the year-wise ratio of MFIs become clear from the following line graph (Figure – 4.17).

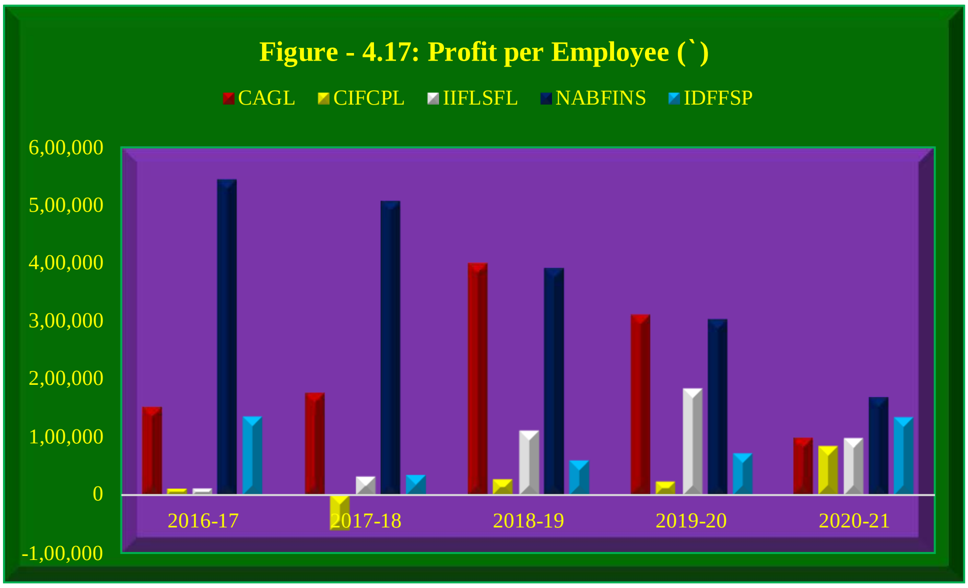



**Figure - 4.17: Profit per Employee (`)**

## (3) Return on Equity (RoE)

This ratio is computed by dividing the amount of profit earned in a year by the average capital wherein the capital of MFIs comprises share capital, and reserves and surplus as presented below:

$$\text{Return on Equity} = \left[ \frac{\text{Profit for the year}}{\left[\dfrac{\left(\begin{array}{c}\text{Capital, and Reserves}\\ \text{and Surplus at the}\\ \text{end of Previous Year}\end{array}\right) + \left(\begin{array}{c}\text{Capital, and Reserves}\\ \text{and Surplus at the end}\\ \text{of Current Year}\end{array}\right)}{2}\right]} \times 100 \right]$$

This ratio is an indicator of profitability of MFIs especially for NBFC-MFIs. It measures the ability of MFIs to reward for shareholders' investment, mobilize additional equity and also to build equity base through retained earnings. In this backdrop, the details about the Return on Equity Ratio (RoE Ratio) is computed by using the above formula for each MFI and for each year. The results are presented below together with a descriptive statistics and test results (Table – 4.21).

**Table – 4.21: Return on Equity Ratio (RoE)**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Return on Equity Ratio (%): | | | | | |
| 2016-17 | 13.02 | 2.60 | 2.10 | 9.82 | 10.41 |
| 2017-18 | 20.73 | -16.30 | 7.39 | 10.61 | 3.22 |
| 2018-19 | 16.92 | 8.40 | 29.17 | 12.79 | 6.03 |
| 2019-20 | 12.90 | 6.00 | 29.40 | 12.53 | 7.44 |
| 2020-21 | 4.00 | 8.29 | 11.80 | 6.48 | 12.64 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 4.00 | -16.3 | 2.1 | 6.48 | 3.22 |
| Maximum (%) | 20.73 | 8.4 | 29.4 | 12.79 | 12.64 |
| Range | 16.73 | 24.7 | 27.3 | 6.31 | 9.42 |
| Mean (%) | 13.51 | 1.80 | 15.97 | 10.45 | 7.95 |
| Rank | 2 | 5 | 1 | 3 | 4 |
| SD (%) | 6.22 | 10.39 | 12.63 | 2.55 | 3.69 |
| CV (%) | 46.03 | 577.70 | 79.07 | 24.40 | 46.39 |
| Skewness | -0.77 | -1.97 | 0.28 | -1.02 | 0.04 |
| CAGR (%) | -21.02 | 26.10 | 41.23 | -7.98 | 3.96 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 598.37 | 4 | 149.59 | 2.293 | .095 |
| Within Groups | 1304.72 | 20 | 65.24 | | |
| Total | 1903.09 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

It can be observed from the above that the RoE has declined for one or more years during the study period. No MFI has succeeded in improving the RoE continuously year after year. However, in the case of CAGL, the ratio varied between 4% (2020-21) and 20.73% (2017-18) with a range of 16.73 and five-year annual average of 13.51% - second highest average ratio. As the ratio in the last year of the study period is lower than in the first year, CAGR is negative (-21.02%) besides negative skewness (-0.77). However, the variation in the ratio from one year to another during the study period is not wide as both the SD and CV are on the lower side. In the case of CIFCPL, the ratio was negative for 2017-18 (-16.30%, the only MFI to report negative RoE in one of the years). Still this MFI was able to improve its performance during 2018-19 and 2020-21, and registered a positive CAGR of 26.10% but negative skewness value (-1.97). The five-year annual average works out to 1.80% which is the lowest among five MFIs. IIFLSFL has succeeded in improving its performance continuously year after year except for 2020-21. It increased its RoE ratio from 2.10% in 2016-17 to 29.4% (highest in any year by any other four MFIs) but allowed to decline to 11.80% in 2020-21. Still both CAGR and skewness value are positive at 41.23% and 0.28 respectively.

In the case of NABFINS, the ratio declined during the last two years of the study period, and it varied between 6.48% (2020-21) and 12.79% (2018-19) with a range of 6.31 and five-year annual average of 10.45%. However, there is no wide variation in the ratio during the study period as both SD and CV are on the lower side. Similarly, IDFFSP reported 3.22% (lowest, 2017-18) to 12.64% (highest, 2020-21) RoE with a five-year annual average of 7.95%. Further, both the skewness value (0.04) and CAGR (3.96%) are positive which is a sign of improvement.

These fluctuations in the year-wise RoE ratio become clear from the following figure (Figure – 4.18).

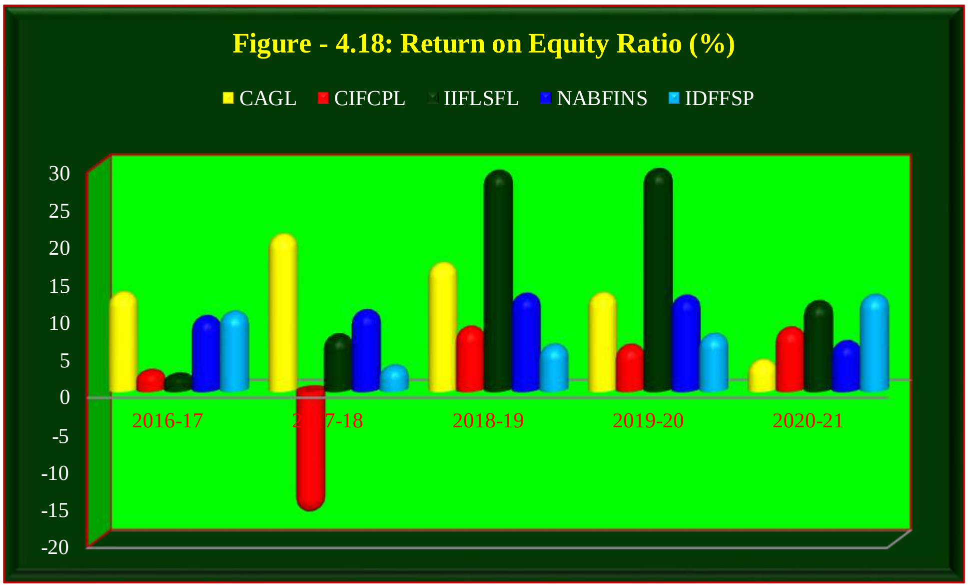



**Figure - 4.18: Return on Equity Ratio (%)**

As the ratio moved in both the directions during the study period, it is not clear to whether the difference in the performance of MFIs is statistically significant from the point of view of RoE ratio. Therefore, to determine whether difference in the performance of MFIs is statistically significant, ANOVA test is carried out and the summary of test results is presented in the above table. As $f_{cal}$ (2.293) < $f_{tab}$ (2.87) at $\alpha$ = 0.05 for $df$ = 24, the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of RoE Ratio), is tested and accepted concluding that there is no significant difference in the performance of MFIs from the point of view of RoE ratio.

### (4) Return on Assets (RoA)

This ratio is computed by dividing the amount of profit by the amount of average assets. It shows the efficiency with which the MFIs are utilizing their assets for generating profits. A higher ratio, therefore, indicates better income generating capacity of assets. In this background, Return on Assets Ratio (RoA Ratio) is computed and presented below (Table – 4.22) together with a few descriptive statistics and test results.

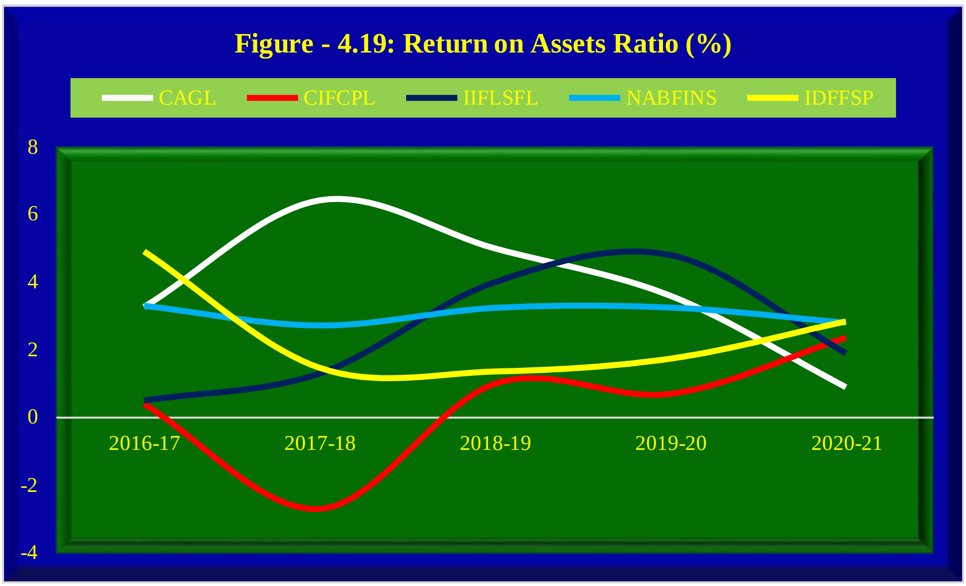
**Table – 4.22: Return on Assets Ratio (RoA)**

| Year | Ratios and Descriptive Statistics | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NABFINS | IDFFSP |
| Return on Assets Ratio (%): | | | | | |
| 2016-17 | 3.27 | 0.40 | 0.50 | 3.30 | 4.91 |
| 2017-18 | 6.42 | -2.70 | 1.30 | 2.72 | 1.47 |
| 2018-19 | 5.00 | 1.00 | 4.00 | 3.24 | 1.36 |
| 2019-20 | 3.60 | 0.70 | 4.80 | 3.25 | 1.74 |
| 2020-21 | 0.90 | 2.36 | 1.90 | 2.80 | 2.84 |
| Descriptive Statistics and Others: | | | | | |
| Minimum (%) | 0.90 | -2.70 | 0.50 | 2.72 | 1.36 |
| Maximum (%) | 6.42 | 2.36 | 4.80 | 3.30 | 4.91 |
| Range | 5.52 | 5.06 | 4.30 | 0.58 | 3.55 |
| Mean (%) | 3.84 | 0.35 | 2.50 | 3.06 | 2.46 |
| Rank | 1 | 5 | 3 | 2 | 4 |
| SD (%) | 2.06 | 1.86 | 1.83 | 0.28 | 1.49 |
| CV (%) | 53.76 | 529.39 | 73.05 | 9.08 | 60.39 |
| Skewness | -0.32 | -1.29 | 0.38 | -0.62 | 1.52 |
| CAGR (%) | -22.74 | 42.62 | 30.60 | -3.23 | -10.37 |
| ANOVA Test Results: | Sum of Squares | *df* | Mean Square | *f* | Sig. |
| Between Groups | 33.53 | 4 | 8.38 | 3.138 | .037 |
| Within Groups | 53.42 | 20 | 2.67 | | |
| Total | 86.95 | 24 | | | |

**Source**: Prepared the table based on the data collected from the annual reports of MFIs and the calculations made based on these details.

It is obvious from the content of the above table that the RoA ratio has moved in both the directions during the study period in all the five MFIs. However, in the case of CAGL, the ratio declined continuously during the last three years. It varied between 0.90% (2020-21) and 6.42% (2017-18) with a range of 5.52 and five-year annual average of 3.84% which is highest among five MFIs. But the ratio varied widely during the study period as both the SD and CV are on the higher side of 2.06% and 53.76% respectively. As the ratio in the last year of the study period is lower than in the first year, CAGR is negative (-22.74%) besides the negative skewness (-0.32) – both are not desirable. However, in terms of five-year annual average, it stands first in the rank list. CIFCPL has reported positive RoA for all years except for 2017-18 for which is has suffered loss and reported negative RoA ratio (-2.70%). In the last year of the study period, it improved its performance substantially to 2.36% and therefore, the five-year annual average works out to 0.35% which is lowest among five MFIs. Even the skewness value is negative (-1.29) but the CAGR is positive at 42.62%. But the ratio varied widely during the study period as the SD is 1.86% and CV is 529.39%.

On the other hand, in the case of IIFLSFL, the ratio increased continuously during the study period except for substantial reduction in the last year to 1.90%. Still, it is higher than in the first year of 0.50% and therefore, CAGR is positive at 30.60% besides the positive skewness value of 0.38. Again, there is a wide variation in the ratio during the study period as both the SD and CV are on higher at 1.83% and 73.05% respectively. And the five-year annual average works out to 2.50%. Comparatively, the performance of NABFINS is better where the ratio varied between 2.72% (2017-18) and 3.30% (2016-17) with a range of 0.58 and five-year annual average of 3.06% - the second highest average ratio. But both the skewness (-0.62) and CAGR (-3.23%) are negative. Similarly, IDFFSP reported positive RoA ratio for all years during which the ratio declined for two years and increased during the last two years of the study period. However, the ratio in the last year of 2.84% is lower than in the first year of 4.91% and therefore, the CAGR is negative at -10.37% but with positive skewness value of 1.52. Even in this case, the ratio varied widely as both the SD (1.49%) and CV (60.39%) are on the higher side. However, the changes in the year-wise ratio become clear from the following line graph (Figure – 4.19).




The above analysis shows both success and failure on the part of MFIs from the point of view of RoA ratio. However, it is not clear whether there is a significant difference in the performance of MFIs from the point of view of RoA ratio. For this purpose and also for the purpose of testing the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of RoA Ratio), ANOVA test is carried out. Summary of test results is presented in the above table. As $f_{cal}$ (3.138) > $f_{tab}$ (2.87) at $\alpha$ = 0.05 for *df* = 24, the null hypothesis is tested and rejected. Therefore, the alternative hypothesis, '*$H_a$: There exists significant difference in the performance of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of RoA ratio.

## Conclusion

Summary of the analysis/evaluation of performance of MFIs using different parameters/ratios is presented below in the form of ranks assigned to them (based on the five-year averages) together with the results/outcome of ANOVA test (Table – 4.23).

**Table – 4.23: Ranking of MFIs based on Performance against different Parameters (Five-year Averages) and the Outcome/Result of ANOVA Test**

| Sl. No. | Parameter/Ratio | Rank | | | | | Difference in Performance (ANOVA Test) |
|---|---|---|---|---|---|---|---|
| | | CA GL | CIF CPL | IIFL SFL | NAB FINS | IDF FSP | |
| | **Business-related Performance:** | | | | | | |
| (1) | Total Advances to Total Assets Ratio | 1 | 4 | 3 | 2 | 5 | Significant |
| (2) | Business per Employee | 2 | 5 | 4 | 1 | 3 | - |
| (3) | Loan per SHG/JLG Member | 1 | 5 | 2 | 4 | 3 | - |
| | **Cost Effectiveness/Management:** | | | | | | |
| (4) | Total Cost | 3 | 2 | 1 | 5 | 4 | Significant |
| (5) | Interest Cost and Non-interest Cost - Relative Share: | | | | | | |
| | Relative Share of Interest Cost | 3 | 1 | 2 | 4 | 5 | Significant |
| | Relative Share of Non-interest Cost | 3 | 5 | 4 | 2 | 1 | Significant |
| (6) | Interest Coverage Ratio | 1 | 4 | 3 | 2 | 5 | Not Significant |
| (7) | Operating Expenses Ratio | 1 | 5 | 3 | 2 | 4 | Significant |
| | **Income-related Performance:** | | | | | | |
| (8) | Total Income | 1 | 4 | 2 | 3 | 5 | Significant |
| (9) | Interest Income to Total Income Ratio | 2 | 4 | 5 | 1 | 3 | Not Significant |
| (10) | Other Incomes to Total Income Ratio | 5 | 3 | 4 | 1 | 2 | Significant |
| (11) | Operating Self Sufficiency Ratio | 1 | 4 | 3 | 2 | 5 | Significant |
| | **Liquidity, Long-term Solvency and Capital Adequacy:** | | | | | | |
| (12) | Current Ratio | 4 | 1 | 2 | 3 | 5 | Not Significant |
| (13) | Debt-Equity Ratio | 4 | 3 | 2 | 1 | 5 | Significant |
| (14) | Capital Adequacy Ratio | 1 | 2 | 4 | 5 | 3 | Not Significant |
| | **Asset Quality Evaluation:** | | | | | | |
| (15) | Gross NPA Ratio | 2 | 4 | 3 | 5 | 1 | Significant |
| (16) | Net NPA Ratio | 3 | 4 | 1 | 5 | 2 | Significant |
| (17) | Write-off Ratio | 5 | 2 | 3 | 1 | 4 | Not Significant |
| | **Profitability Ratios:** | | | | | | |
| (18) | Portfolio Yield Ratio | 3 | 1 | 4 | 5 | 2 | Significant |
| (19) | Profit per Employee | 2 | 5 | 4 | 1 | 3 | - |
| (20) | Return on Equity | 2 | 5 | 1 | 3 | 4 | Not Significant |
| (21) | Return on Assets | 1 | 5 | 3 | 2 | 4 | Significant |

From the comprehensive performance evaluation and comparison made till now, it can be concluded that CAGL has achieved better performance in majority of the parameters except asset quality. In the case of asset quality, IDFFSP is the better performer as it has been able to keep the NPA ratios at lower level. And NABFINS, in terms of asset quality, is the poor performer as the NPA-related ratios are on the higher side although they are lower than the upper limit fixed by the apex bank of the country. In terms of profitability, CAGL is the better performer and the poor performer is CIFCPL.

Further, there exists significant difference in the performance of five MFIs from the point of view of majority of the parameters used and this is true in all the six broad categories of parameters used. In the case only six parameters viz., Interest Coverage Ratio, Interest Income to Total Income Ratio, Current Ratio, Capital Adequacy Ratio, Write-off Ratio and Return on Equity, the difference in the performance of MFIs is not significant.

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## Annexure – 4.1

### Performance Statistics of MFIs, 2016-17 to 2020-21

| Year | Total Loans and Advances (` crores) (cumulative, end of year) | | | | | Total Assets (` crores) (cumulative, end of year) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 3,089.07 | 215.05 | 144.07 | 888.14 | 61.73 | 3,338.06 | 301.38 | 225.93 | 1,034.47 | 80.96 |
| 2017-18 | 6,404.18 | 319.15 | 640.04 | 1,134.75 | 80.32 | 5,113.57 | 367.68 | 740.53 | 1,357.90 | 94.93 |
| 2018-19 | 9,172.64 | 475.56 | 1,789.80 | 1,382.99 | 118.28 | 7,357.36 | 579.23 | 1,930.90 | 1,620.77 | 145.79 |
| 2019-20 | 11,098.91 | 828.91 | 2,287.39 | 1,554.16 | 132.80 | 10,661.66 | 914.40 | 2,661.94 | 1,706.59 | 161.23 |
| 2020-21 | 11,720.48 | 1,131.94 | 3,963.03 | 1,432.64 | 131.18 | 12,696.79 | 1,432.92 | 4,408.21 | 1,617.59 | 157.94 |
| CAGR | 30.56 | 39.39 | 94.04 | 10.03 | 16.27 | 30.62 | 36.59 | 81.16 | 9.35 | 14.3 |

| Year | Total Revenue (` crores) | | | | | Number of Employees (including Loan Officers) (cumulative, end of year) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 709.26 | 65.58 | 32.84 | 144.75 | 18.93 | 4,952 | 1,175 | 690 | 389 | 199 |
| 2017-18 | 871.53 | 76.30 | 96.78 | 173.74 | 15.03 | 7,074 | 1,313 | 1,900 | 506 | 235 |
| 2018-19 | 1,283.32 | 1,17.14 | 339.75 | 204.14 | 20.91 | 8,064 | 1,582 | 4,812 | 802 | 262 |
| 2019-20 | 1,684.36 | 1,75.17 | 582.11 | 270.26 | 28.55 | 10,788 | 2,241 | 5,882 | 1,191 | 279 |
| 2020-21 | 2,031.14 | 2,33.74 | 702.13 | 255.54 | 31.43 | 14,399 | 2,462 | 6,794 | 1,205 | 266 |
| CAGR | 23.42 | 28.94 | 84.50 | 12.04 | 10.67 | 23.79 | 15.94 | 57.99 | 25.37 | 5.98 |

| Year | Number of Active Borrowers (cumulative, end of year) | | | | | Number of Loan Officers (cumulative, end of year) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 12,05,974 | 1,71,648 | 79,559 | 6,60,000 | 45,856 | 3,668 | 882 | 518 | 192 | 89 |
| 2017-18 | 18,51,324 | 2,59,292 | 3,75,684 | 8,38,000 | 41,801 | 4,544 | 985 | 1,425 | 380 | 104 |
| 2018-19 | 24,69,837 | 3,33,419 | 10,14,145 | 6,45,000 | 58,083 | 5,768 | 1,187 | 3,609 | 602 | 139 |
| 2019-20 | 29,05,036 | 4,27,339 | 15,42,573 | 7,15,000 | 69,453 | 9,688 | 1,681 | 4,412 | 894 | 149 |
| 2020-21 | 39,10,000 | 5,14,580 | 16,26,705 | 7,78,849 | 68,559 | 9,559 | 1,847 | 5,096 | 904 | 157 |
| CAGR | 26.52 | 24.56 | 82.86 | 3.37 | 8.38 | 21.11 | 15.93 | 57.97 | 36.32 | 12.02 |

| Year | Average Gross Loan Portfolio (` crores) (cumulative, end of year) | | | | | Average Number of SHG/JLG Members (cumulative, end of year) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 2,807.23 | 230.82 | 197.30 | 866.00 | 69.06 | 14,18,149 | 1,51,168 | 62,785 | 6,07,000 | 47,996 |
| 2017-18 | 4,025.05 | 301.63 | 608.97 | 1,024.50 | 70.62 | 15,28,649 | 2,15,470 | 1,86,230 | 7,49,000 | 43,829 |
| 2018-19 | 6,067.00 | 465.11 | 1,736.70 | 1,311.50 | 98.57 | 21,60,581 | 2,96,356 | 6,94,915 | 7,41,500 | 49,942 |
| 2019-20 | 9,577.70 | 726.39 | 2,937.83 | 1,540.50 | 133.42 | 26,87,437 | 3,80,379 | 12,78,359 | 6,80,000 | 63,768 |
| 2020-21 | 12,791.50 | 1,138.66 | 4,097.71 | 1,597.00 | 152.91 | 34,07,518 | 4,70,960 | 15,84,639 | 7,46,925 | 69,006 |
| CAGR | 35.43 | 37.60 | 83.44 | 13.02 | 17.23 | 19.16 | 25.52 | 90.73 | 4.24 | 7.53 |

**Annexure – 4.1 (contd)**

| Year | Operating Cost/Expenses (` crores) | | | | | Operating Income/Revenue (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 155.39 | 27.64 | 16.54 | 46.97 | 6.15 | 701.75 | 61.99 | 32.04 | 132.35 | 18.13 |
| 2017-18 | 197.91 | 37.90 | 41.58 | 68.37 | 6.23 | 865.55 | 71.47 | 96.46 | 164.62 | 14.2 |
| 2018-19 | 293.97 | 51.14 | 124.77 | 57.83 | 7.24 | 1,281.33 | 1,17.13 | 333.65 | 202.54 | 19.93 |
| 2019-20 | 421.82 | 77.34 | 201.58 | 91.16 | 8.03 | 1,683.49 | 1,75.17 | 574.83 | 268.25 | 27.61 |
| 2020-21 | 423.44 | 79.61 | 224.90 | 97.92 | 7.97 | 2,027.53 | 2,33.66 | 698.88 | 243.88 | 28.95 |
| CAGR | 22.20 | 23.56 | 68.54 | 15.83 | 5.32 | 23.64 | 30.39 | 85.24 | 13.00 | 9.81 |

| Year | Profit before Tax or Net Operating Income or Net Income before Tax (` crores) | | | | | Interest Cost/Expense (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 116.59 | 1.74 | 0.62 | 34.13 | 3.98 | 323.62 | 31.17 | 14.63 | 63.65 | 7.06 |
| 2017-18 | 192.86 | -10.77 | 9.39 | 36.95 | 1.40 | 353.65 | 35.12 | 34.51 | 68.41 | 6.15 |
| 2018-19 | 497.74 | 5.32 | 72.43 | 50.14 | 1.98 | 416.75 | 10.53 | 118.23 | 78.24 | 10.01 |
| 2019-20 | 461.60 | 71.33 | 143.43 | 55.40 | 2.80 | 571.03 | 70.53 | 176.58 | 102.69 | 15.63 |
| 2020-21 | 194.29 | 25.16 | 82.15 | 45.37 | 4.50 | 740.07 | 76.69 | 253.58 | 95.24 | 14.95 |
| CAGR | 10.75 | 70.62 | 165.73 | 5.86 | 2.49 | 17.99 | 19.73 | 76.92 | 8.39 | 16.19 |

| Year | Non-Interest Expenses (` crores) | | | | | Average Assets (` crores) (end?) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 268.42 | 29.28 | 18.37 | 46.97 | 7.15 | 3,188.55 | 257.21 | 162.12 | 1,098.49 | 84.31 |
| 2017-18 | 327.78 | 49.65 | 53.20 | 68.37 | 6.95 | 4,225.82 | 334.53 | 479.02 | 1,196.19 | 87.95 |
| 2018-19 | 368.83 | 52.48 | 148.87 | 74.87 | 8.41 | 6,235.47 | 473.46 | 1,331.73 | 1,489.34 | 120.36 |
| 2019-20 | 663.90 | 97.52 | 261.10 | 112.16 | 9.31 | 9,009.51 | 746.82 | 2,296.42 | 1,663.68 | 153.51 |
| 2020-21 | 1,096.78 | 131.89 | 365.41 | 114.93 | 10.58 | 11,679.20 | 1,173.66 | 3,535.08 | 1,662.09 | 159.59 |
| CAGR | 32.51 | 35.12 | 81.86 | 19.59 | 8.15 | 29.65 | 35.47 | 85.23 | 8.64 | 13.61 |

| Year | Average Number of Borrowers (cumulative, end of year) | | | | | Interest and Fees Expenses (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 14,18,149 | 1,51,168 | 62,785 | 6,07,000 | 47,996 | 324.25 | 34.56 | 14.63 | 77.62 | 7.80 |
| 2017-18 | 15,28,649 | 2,15,470 | 1,86,230 | 7,49,000 | 43,829 | 353.65 | 37.43 | 34.51 | 83.58 | 6.68 |
| 2018-19 | 21,60,581 | 2,96,356 | 6,94,915 | 7,41,500 | 49,942 | 398.68 | 59.35 | 118.23 | 96.17 | 10.53 |
| 2019-20 | 26,87,437 | 3,80,379 | 12,78,359 | 6,80,000 | 63,768 | 571.03 | 70.53 | 176.58 | 123.70 | 16.44 |
| 2020-21 | 34,07,518 | 4,70,960 | 15,84,639 | 7,46,925 | 69,006 | 928.73 | 76.69 | 253.58 | 110.03 | 16.35 |
| CAGR | 19.16 | 25.52 | 90.73 | 4.24 | 7.53 | 23.42 | 17.28 | 76.92 | 7.23 | 15.95 |

**Annexure – 4.1 (contd)**

| Year | Gross Loan Portfolio (` crores) (cumulative, end of year) | | | | | Interest Income or Financial Revenue (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 3,075.40 | 244.84 | 220.37 | 871.00 | 61.05 | 656.69 | 56.63 | 21.03 | 124.02 | 17.55 |
| 2017-18 | 4,974.70 | 358.41 | 997.58 | 1,178.00 | 80.18 | 795.45 | 66.13 | 80.74 | 152.83 | 13.48 |
| 2018-19 | 7,159.30 | 571.80 | 2,475.81 | 1,445.00 | 116.95 | 1,163.08 | 107.56 | 283.11 | 202.54 | 18.86 |
| 2019-20 | 11,996.10 | 880.98 | 3,399.85 | 1,636.00 | 149.89 | 1,610.28 | 159.51 | 510.19 | 259.75 | 25.80 |
| 2020-21 | 13,586.90 | 1,396.33 | 4,795.57 | 1,558.00 | 155.92 | 1,877.13 | 209.93 | 688.59 | 243.88 | 26.46 |
| CAGR | 34.60 | 41.65 | 85.16 | 12.33 | 20.63 | 23.37 | 29.96 | 100.92 | 14.48 | 8.59 |

| Year | Interest and Fees Received (` crores) | | | | | Operating Expenses + Loan Loss Provision + Financial Cost (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 701.75 | 59.72 | 30.73 | 132.41 | 15.89 | 588.24 | 45.30 | 31.76 | 109.56 | 14.32 |
| 2017-18 | 859.69 | 70.00 | 96.25 | 164.70 | 16.26 | 538.14 | 60.69 | 86.41 | 135.60 | 12.87 |
| 2018-19 | 1,219.66 | 112.60 | 323.07 | 193.19 | 21.52 | 777.79 | 110.42 | 261.86 | 134.77 | 18.05 |
| 2019-20 | 1,622.14 | 170.04 | 529.42 | 259.75 | 29.29 | 1,213.83 | 166.50 | 430.93 | 190.03 | 25.00 |
| 2020-21 | 1,885.62 | 213.30 | 698.88 | 243.88 | 34.54 | 1,813.42 | 207.11 | 613.65 | 187.93 | 26.11 |
| CAGR | 21.86 | 28.99 | 86.79 | 12.99 | 16.79 | 25.25 | 35.53 | 80.80 | 11.39 | 12.76 |

| Year | Current Year Profit (` crores) | | | | | Previous Year Profit (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 75.26 | 1.23 | 0.81 | 21.15 | 2.69 | 83.77 | 1.49 | 1.47 | 8.70 | 1.46 |
| 2017-18 | 124.64 | -8.00 | 6.09 | 25.64 | 0.82 | 0.75 | 1.23 | 0.81 | 21.15 | 2.69 |
| 2018-19 | 321.76 | 4.23 | 53.21 | 31.39 | 1.57 | 1.25 | -8.00 | 6.09 | 25.64 | 0.82 |
| 2019-20 | 335.49 | 5.07 | 107.30 | 36.13 | 2.00 | 3.22 | 4.22 | 53.21 | 31.39 | 1.57 |
| 2020-21 | 142.39 | 20.63 | 66.62 | 20.37 | 3.56 | 3.35 | 5.07 | 107.30 | 36.13 | 2.00 |
| CAGR | 13.06 | 75.76 | 141.56 | -0.75 | 5.76 | -47.47 | 27.75 | 135.86 | 32.94 | 6.49 |

| Year | Net Profit after Tax (` crores) | | | | | Capital Adequacy Ratio (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 75.26 | 1.23 | 0.81 | 21.15 | 2.69 | 21.66 | 29.30 | 44.40 | 25.17 | 34.70 |
| 2017-18 | 124.64 | -8.00 | 6.09 | 25.64 | 0.82 | 32.52 | 19.03 | 16.90 | 20.56 | 30.62 |
| 2018-19 | 321.76 | 4.22 | 53.21 | 31.39 | 1.57 | 35.4 | 23.43 | 20.50 | 18.67 | 22.21 |
| 2019-20 | 335.49 | 5.07 | 107.30 | 36.13 | 2.00 | 23.6 | 38.21 | 25.80 | 18.44 | 20.19 |
| 2020-21 | 142.39 | 20.63 | 66.62 | 20.37 | 3.56 | 26.8 | 26.39 | 18.60 | 21.62 | 21.08 |
| CAGR | 13.6 | 75.76 | 141.56 | -0.75 | 5.76 | -2.07 | -15.97 | -2.99 | -9.49 | -2.07 |

**Annexure – 4.1 (contd)**

| Year (end) | Current Assets (` crores) | | | | | Current Liabilities (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 28,505.12 | 275.50 | 167.59 | 801.87 | 69.00 | 16,666.70 | 129.83 | 90.78 | 478.89 | 35.94 |
| 2017-18 | 35,699.50 | 334.68 | 487.55 | 1,002.45 | 66.00 | 21,879.20 | 136.55 | 417.86 | 429.09 | 37.49 |
| 2018-19 | 51,824.51 | 73.41 | 95.29 | 1,085.91 | 92.29 | 27,270.62 | 25.27 | 109.02 | 475.85 | 68.04 |
| 2019-20 | 59,583.75 | 59.73 | 308.19 | 1,211.07 | 119.42 | 45,766.66 | 28.01 | 117.41 | 428.29 | 92.57 |
| 2020-21 | 99,919.02 | 200.51 | 294.14 | 1140.40 | 113.91 | 64,532.47 | 56.45 | 60.44 | 499.97 | 74.95 |
| CAGR | 28.51 | -6.39 | 12.16 | 7.30 | 10.45 | 31.09 | -15.34 | -7.81 | 0.87 | 15.84 |

| Year (end) | Debt (` crores) | | | | | Equity (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 2,725.29 | 124.28 | 160.13 | 438.11 | 52.99 | 690.79 | 47.13 | 56.71 | 73.79 | 25.25 |
| 2017-18 | 3,623.47 | 182.00 | 333.30 | 1,046.41 | 66.76 | 1,437.48 | 49.12 | 116.94 | 244.66 | 25.59 |
| 2018-19 | 4,866.57 | 485.67 | 1,459.70 | 1,252.83 | 55.73 | 2,365.06 | 61.47 | 266.58 | 272.15 | 26.63 |
| 2019-20 | 78,225.52 | 823.93 | 2,034.88 | 1,391.26 | 48.76 | 26,690.76 | 316.89 | 509.16 | 304.44 | 27.18 |
| 2020-21 | 1,09,413.27 | 1,009.88 | 3,564.90 | 1,278.90 | 55.24 | 3,634.81 | 348.23 | 649.51 | 324.17 | 29.20 |
| CAGR | 109.28 | 52.05 | 86.00 | 23.89 | 0.84 | 39.89 | 49.18 | 62.85 | 34.48 | 2.95 |

| Year | Amount of Loans Written-off (in crores) | | | | | Average GLP (in crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 2.22 | 0.0154 | 0.29 | 0.05 | 0.98 | 28.07 | 2.31 | 197.30 | 866..00 | 69.06 |
| 2017-18 | 161.63 | 0.0291 | 12.07 | 0.04 | 0.53 | 40.25 | 3.02 | 608.97 | 1,024.50 | 70.62 |
| 2018-19 | 60.64 | 4.9800 | 8.08 | 0.16 | 0.79 | 60.67 | 4.65 | 1736.70 | 1,311.50 | 98.57 |
| 2019-20 | 50.34 | 8.9300 | 12.91 | 0.09 | 0.14 | 95.78 | 7.26 | 2937.83 | 1,540.50 | 133.42 |
| 2020-21 | 561.48 | 6.8900 | 42.79 | 0.22 | 2.02 | 127.92 | 11.39 | 4097.71 | 1,597.00 | 152.91 |
| CAGR | 202.41 | 238.9500 | 171.51 | 34.49 | 15.57 | 35.44 | 37.59 | 83.44 | 13.02 | 17.23 |

| Year | RoA (%) | | | | | RoE (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 3.27 | 0.40 | 0.50 | 3.30 | 4.91 | 13.02 | 2.60 | 2.10 | 9.82 | 10.41 |
| 2017-18 | 6.42 | -2.70 | 1.30 | 2.72 | 1.47 | 20.73 | -16.30 | 7.39 | 10.61 | 3.22 |
| 2018-19 | 5.00 | 1.00 | 4.00 | 3.24 | 1.36 | 16.92 | 8.40 | 29.17 | 12.79 | 6.03 |
| 2019-20 | 3.60 | 0.70 | 4.80 | 3.25 | 1.74 | 12.90 | 6.00 | 29.40 | 12.53 | 7.44 |
| 2020-21 | 0.90 | 2.36 | 1.90 | 2.80 | 2.84 | 4.00 | 8.29 | 11.80 | 6.48 | 12.64 |
| CAGR | -22.74 | 42.62 | 30.60 | -3.23 | -10.37 | -21.02 | 26.10 | 41.23 | -7.98 | 3.96 |

**Annexure – 4.1 (contd)**

| Year | Gross NPA (%) | | | | | Net NPA (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 1.54 | 2.07 | 3.85 | 5.58 | 0.39 | 0.40 | 0.95 | 0.00 | 1.40 | 0.01 |
| 2017-18 | 0.58 | 5.29 | 0.92 | 3.54 | 1.32 | 0.03 | 0.53 | 0.00 | 0.92 | 0.04 |
| 2018-19 | 0.42 | 2.50 | 0.36 | 3.78 | 1.02 | 0.17 | 0.95 | 0.00 | 1.09 | 0.03 |
| 2019-20 | 1.28 | 0.83 | 1.50 | 5.69 | 0.89 | 0.37 | 0.40 | 0.00 | 1.32 | 0.02 |
| 2020-21 | 3.84 | 4.34 | 1.89 | 9.92 | 1.61 | 1.37 | 0.93 | 0.00 | 1.87 | 0.04 |
| CAGR | 20.05 | 15.96 | -13.26 | 12.20 | 32.79 | 27.92 | -0.42 | 0.00 | 5.96 | 31.95 |

| Year | Total Cost (` crores) | | | | | Profit before Interest, Tax and Dividend (` crores) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 592.04 | 60.45 | 33.00 | 110.62 | 14.21 | 440.21 | 32.91 | 15.25 | 97.78 | 11.04 |
| 2017-18 | 681.43 | 84.77 | 87.71 | 136.78 | 13.10 | 546.51 | 24.35 | 43.90 | 105.36 | 7.55 |
| 2018-19 | 785.58 | 63.01 | 267.10 | 153.11 | 18.42 | 914.49 | 15.85 | 190.66 | 128.38 | 11.99 |
| 2019-20 | 1234.93 | 168.05 | 437.68 | 214.85 | 24.94 | 1032.63 | 141.86 | 320.01 | 158.09 | 18.43 |
| 2020-21 | 1836.85 | 208.58 | 618.99 | 210.17 | 25.53 | 934.36 | 101.85 | 335.73 | 140.61 | 19.45 |
| CAGR | 25.40 | 28.11 | 79.74 | 13.70 | 12.43 | 16.24 | 25.35 | 85.59 | 7.54 | 11.99 |

| Year | Other Incomes (` crores) | | | | |
|---|---|---|---|---|---|
| | CAGL | CIFCPL | IIFLSFL | NAB FINS | IDF FSP |
| 2016-17 | 7.52 | 3.5900 | 0.81 | 12.39 | 0.80 |
| 2017-18 | 0.95 | 4.1900 | 0.65 | 9.12 | 0.83 |
| 2018-19 | 1.99 | 0.0110 | 6.10 | 12.63 | 0.98 |
| 2019-20 | 1.17 | 0.0026 | 7.28 | 10.50 | 0.93 |
| 2020-21 | 5.33 | 0.0847 | 3.25 | 11.67 | 2.48 |
| CAGR | -6.65 | -52.7300 | 32.03 | -1.19 | 25.39 |

# CHAPTER – V

# MFIS AND THEIR SERVICES – AN ANALYSIS OF PERCEPTION OF RESPONDENTS

**Chapter Outline**

**Introduction**

Microfinance institutions (MFIs) are facing a lot of competition from both commercial banks and newly established MFIs. More number of MFIs are now targeting the same microfinance customers. This increase in the demand for microfinance customers has made them (i.e., the customers) to become more sophisticated in terms of quality of services they expect from MFIs. This factor is negatively affecting the existing MFIs. However, they are losing their customers due to stiff competition in the microfinance industry and failed to satisfy customers' expectations.

However, MFIs are working hard to satisfy their customers and to retain them. To survive in the present-day competitive environment, MFIs have to understand their customer needs and preferences by paying more attention for their preferences and priorities. Customer satisfaction has become an important tool for achieving the objectives of MFIs. In this regard, employees (of MFIs) play an important role. Employees always assist MFIs in designing suitable products and services to retain the existing customers and to attract new customers.

From the above, it is imperative that the success of MFIs depends upon both the customers and employees/officials of MFIs – customers provide business to MFIs, and employees bring customers, and create business, to MFIs. In this backdrop and in the light of evaluation of financial performance of MFIs in the last chapter, an attempt is made in this chapter to analyze the perceptions of both the officials and customers of MFIs about the microfinance and other related services provided by the MFIs. For this purpose, as already stated in Chapter – II,

(a) 340 officials/officers from five MFIs selected for the present study (68 officers from each of the five MFIs) are selected. Chaitanya India Fin Credit Private Limited (CIFCPL), IDF Financial Services Private Limited (IDF FSP), IIFL Samasta Finance Limited (IIFISFL), NABARD Financial Services Limited (NABFINS) and Credit Access Grameen Limited (CAGL) are the five MFIs selected for the present study. To obtain their responses about the services they are providing, a comprehensive questionnaire was prepared and administered.

(b) Besides, 500 customers of these five MFIs (100 customers from each of the five MFIs) are selected for the present study. The purpose of customer survey is to ascertain their perception about the microfinance and other related services provided/rendered by the MFIs. For this purpose, another questionnaire was prepared and administered.

In the above backdrop, the responses obtained from the officials are analyzed first followed by analysis of responses from the customers of MFIs. The responses are analyzed with the help of statistical tools such as Mean, Standard Deviation (SD), etc. Further, statistical tests viz., Chi-square, one-way ANOVA and Correlation are carried out to test the hypotheses.

## Section – I: Perception of Officer-Respondents of MFIs – An Analysis

Before analyzing the perception of officials about the services they (i.e., their MFIs) are providing, a few details (such as gender, age, level of management, and experience) about the officials selected for the study are presented below.

### I (a) A Brief Profile of Officer-Respondents

A few aspects of officials who participated in the survey are presented below covering gender, age, designation/cadre and work experience.

### (1) Gender-wise Classification of Officer-Respondents

The details about the male and female officials who responded to the questionnaire are presented below (Table – 5.1). It may be noted here that, with regard to the selection of officials, the researcher had no choice as it was the MFIs that assigned the work of responding the questionnaire to their appropriate managerial personnel.

**Table – 5.1: Gender-wise Classification of Officer-Respondents**

| Name of MFI | Number of Respondents | | | Relative Share (%) | |
|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female |
| CIFCPL | 68 | 0 | 68 | 100.00 | 0.00 |
| IDFFSPL | 68 | 0 | 68 | 100.00 | 0.00 |
| IIFLSFL | 66 | 2 | 68 | 97.10 | 2.90 |
| NABFINS | 68 | 0 | 68 | 100.00 | 0.00 |
| CAGL | 64 | 4 | 68 | 94.10 | 5.90 |
| Total | 334 | 6 | 340 | 98.24 | 1.76 |

Source: Survey results

From the above, it is obvious that majority of the official-respondents are male – 334 respondents out of a total of 340 accounting for 98.24%. And only six official-respondents are female working out to mere 1.76% of total official-respondents. Out of five MFIs, all official-respondents are male in the case of three MFIs (CIFCPL, IDF FSPL and NABFINS). In the remaining two MFIs, six respondents are female. One of the reasons for this difference is the fact that the MFIs prefer to recruit male candidates than female due to the nature of work – visiting villages including remote places, interacting with diverse categories of people/customers, etc.

**(2) Age-wise Classification of Officer-Respondents**

The relevant details about the age-wise distribution of respondents (i.e., officials) from five MFIs are collected and presented below (Table – 5.2).

A close observation of the content of Table – 5.2 shows that majority of officials are in the age group of 26-40 years accounting for 64.71% (average for all five MFIs) – it is more than 55% if each of the five MFIs. However, the ratio varied between 55.88% (CAGL) and 76.47% (NABFINS). And the officers aged above 55 years are very few (only five officers out of 340) – their number works out to mere 2.35%.

**Table – 5.2: Age-wise Classification of Officer-Respondents**

| Name of MFI | Age (years) - Number of Respondents | | | | Relative Share (%) | | | |
|---|---|---|---|---|---|---|---|---|
| | < 25 | 26-40 | 41-55 | > 55 | < 25 | 26-40 | 41-55 | > 55 |
| CIFCPL | 19 | 40 | 8 | 1 | 27.94 | 58.82 | 11.76 | 1.47 |
| IDFFSPL | 14 | 41 | 11 | 2 | 20.59 | 60.29 | 16.18 | 2.94 |
| IIFLSFL | 7 | 49 | 11 | 1 | 10.29 | 72.06 | 16.18 | 1.47 |
| NABFINS | 4 | 52 | 11 | 1 | 5.88 | 76.47 | 16.18 | 1.47 |
| CAGL | 23 | 38 | 4 | 3 | 33.82 | 55.88 | 5.88 | 4.41 |
| Total | 67 | 220 | 45 | 8 | 19.71 | 64.71 | 13.24 | 2.35 |

Source: Survey results

However, the persons with less-than 25 years of age account for the second highest of 19.71% - the percentage varied between 5.88% (NABFINS) and 33.82% (CAGL). And another 13.24% of the officers are in the age group of 41-55 years with the percentage varying between 5.88% (CAGL) and 16.18% (IDFFSPL, IIFLSFL and NABFINS). All these details bring the point to the fore that the MFIs have both experienced persons and fresh recruitments.

### (3) Designation-wise Classification of Officer-Respondents

The respondents comprise the officers in different cadres (or with different designations). The relevant details about the designation-wise distribution of respondents (i.e., officials) from five MFIs are collected and presented below (Table – 5.3).

**Table – 5.3: Designation-wise Classification of Officer-Respondents**

| Name of MFI | Number of Respondents | | | Relative Share (%) | | |
|---|---|---|---|---|---|---|
| | Top Level | Middle Level | Lower Level | Top Level | Middle Level | Lower Level |
| CIFCPL | 43 | 5 | 20 | 63.20 | 7.40 | 29.40 |
| IDFFSPL | 44 | 18 | 6 | 64.70 | 26.50 | 8.80 |
| IIFLSFL | 28 | 24 | 16 | 40.60 | 34.80 | 24.60 |
| NABFINS | 21 | 7 | 40 | 31.30 | 10.40 | 58.20 |
| CAGL | 34 | 16 | 18 | 50.00 | 23.50 | 26.50 |
| Total | 170 | 70 | 100 | 50.00 | 20.60 | 29.40 |

Source: Survey results

Out of 340 officers who are the respondents for the present study, 170 persons are in the top management cadre (50%). However, the percentage of top level officers to total officers varied between 31.30% (NABFINS) and 64.70% (IDFFSPL). On the other hand, middle level officers are few accounting for 20.60% of the total number of officer-respondents. As far as the middle level officers are concerned, CIFCPL has only five officers accounting for 7.40% of total officer-strength as against 34.80% of the officers of IIFLSFL in the middle level management. The second highest number of officers are in lower level management (100 officers) and they account for 29.40% of the total officer-strength. What is apparent from the analysis is that there are more number of persons in the top level management, and less number of persons in the middle level management.

### (4) Experience-wise Classification of Officer-Respondents

The perception of officials depends upon the experience in the field of MFIs. Therefore, the relevant details about the work experience-wise respondents (i.e., officials) from five MFIs are collected and tabulated below (Table – 5.4).

**Table – 5.4: Classification of Officer-Respondents based on Experience**

| Name of MFI | Experience (years) - Number of Respondents | | | | | Relative Share (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | < 1 year | 1-5 years | 5-10 years | 10-15 years | > 15 years | < 1 year | 1-5 years | 5-10 years | 10-15 years | > 15 years |
| CIFCPL | 26 | 30 | 10 | 2 | 0 | 38.20 | 44.10 | 14.70 | 2.90 | 0.00 |
| IDFFSPL | 31 | 28 | 9 | 0 | 0 | 45.60 | 41.20 | 13.20 | 0.00 | 0.00 |
| IIFLSFL | 20 | 21 | 21 | 3 | 3 | 29.00 | 30.40 | 30.40 | 4.30 | 5.80 |
| NABFINS | 16 | 34 | 17 | 0 | 1 | 23.90 | 50.70 | 25.40 | 0.00 | 1.47 |
| CAGL | 40 | 23 | 5 | 0 | 0 | 58.80 | 33.80 | 7.40 | 0.00 | 0.00 |
| Total | 133 | 136 | 62 | 5 | 4 | 39.10 | 40.00 | 18.20 | 1.50 | 1.20 |

Source: Survey results

It is unequivocal from the above that majority of the officials are with less-than five years of experience in the field of MFIs. Out of 340 official-respondents, 136 officials accounting for 40% of the total official respondents are having 1-5 years of experience whereas another 133 respondents have less-than one year of experience. Among five MFIs, only in the case of NABFINS, the percentage of officials with 1-5 years of experience is 50.70% and in all other four MFIs, it is less-than 45% each. In the case CAGL, the percentage of officials with less-than one year of work experience is high at 58.80% and it is minimum at 23.90% in the case of NABFINS. There are only four officials with more than 15 years of experience – these four officers are with IIFLSFL and NABFINS. And in the remaining three MFIs, there are no officer with more than 15 years of experience. Similarly, there are no officer with 10-15 years of experience in IDFFSPL, NABFINS and CAGL.

However, an analysis of a brief profile of officer-respondents brings the point to the fore that these respondents are competent persons to comment on the working of MFIs as they are working in MFIs. In this backdrop, an attempt is made in the following paragraphs to evaluate the performance of MFIs as perceived by the MFI officials/officers.

## I (b) Perception of Officer-Respondents about Financial Services provided by MFIs – An Analysis

The opinions/responses of officers of MFIs are collected on different aspects of services provided by their MFIs. These responses are presented and analysed below under a few heads.

### (1) Target Clients of MFIs

The officer-respondents were asked to provide the information about whether their MFIs are serving only women or only men or both men and women-members in their financial needs. The responses about the types of clients targeted by the MFIs are tabulated below together with their relative shares (Table - 5.5).

**Table - 5.5: Target Clients of MFIs**

| Name of MFI | Targeted clients of MFIs | | | Relative Share (%) | | |
|---|---|---|---|---|---|---|
| | Only Women | Only Men | Both Men and Women | Only Women | Only Men | Both Men and Women |
| CIFCPL | 65 | 0 | 3 | 95.59 | 0 | 4.41 |
| IDFFSPL | 63 | 0 | 5 | 92.65 | 0 | 7.35 |
| IIFLSFL | 64 | 0 | 4 | 94.12 | 0 | 5.88 |
| NABFINS | 64 | 0 | 4 | 94.12 | 0 | 5.88 |
| CAGL | 59 | 0 | 9 | 86.76 | 0 | 13.24 |
| Total | 315 | 0 | 25 | 92.65 | 0 | 7.35 |

Source: Survey results

It is evident from the above that the MFIs are targeting/serving the women-members. Out of 340 officer-respondents, 315 respondents accounting for 92.65% of total officer-respondents replied stating their MFIs are serving/targeting only the women. And only 7.35% of the respondents felt that their MFIs are serving both men and women members. In all the MFIs, except one, more than 92% of the respondents felt that they are targeting only the women and less-than 8% felt that they are serving both men and women members. But in the case of CAGL, 13.24% of the respondents felt that their MFI is serving both men and women members in the financial needs. However, what is obvious is that the MFIs are primarily focusing on serving for the economic empowerment of women.

**(2) Factors influencing MFIs to focus on Women**

As the MFIs are focusing on the women members, the officer-respondents were asked to provide their responses as to what factors influence them to focus on the women members. The respondents were asked to rate different factors that influenced to focus on women on a Likert scale of 1-5 points. The scale was defined as,

1 = Strongly Agree, 2 = Agree, 3 = Neither Agree nor Disagree (i.e., Neutral),
4 = Disagree and 5 = Strongly Disagree.[1]

The responses obtained from the officers of five MFIs are used to calculate the mean values for each of the variables to evaluate the performance of MFIs. The mean values are presented below (Table – 5.6).

**Table – 5.6: Factors influencing MFIs to focus on Women**

| Sl. No. | Influencing Factors | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CAGL |
| (1) | Promptness in repayment of loan | 1.20 | 1.07 | 1.08 | 1.11 | 1.08 |
| (2) | Use loan for income generating activities | 1.48 | 1.44 | 1.32 | 1.58 | 1.23 |
| (3) | More credit discipline compared to men | 1.41 | 1.42 | 1.22 | 1.27 | 1.30 |
| (4) | Wise spending for family/children welfare | 1.48 | 1.50 | 1.32 | 1.85 | 1.61 |
| (5) | Always have saving/investment habit | 1.22 | 1.51 | 1.25 | 1.38 | 1.58 |
| (6) | Regularly attend group meeting | 1.22 | 1.13 | 1.14 | 1.26 | 1.16 |
| (7) | Availability for the workshops, etc | 1.11 | 1.11 | 1.14 | 1.27 | 1.07 |

Source: Survey results

Among six reasons as to why the MFIs focus on women-members, the respondents felt that the women are prompt in repaying the borrowed sums as the mean values range between 1.07 (IDFFSPL) and 1.20 (CIFCPL) i.e., the mean value is in between '1' (strongly agreeing) and '2' (agreeing) tilting more towards '1' than '2'. Therefore, it can be concluded that, 'promptness of women in repaying borrowed money' is the most important factor that is influencing the MFIs to focus on women. The next most important determinant or influencing factor is the 'availability' of women when MFI officials visit villages for recovery of loan and also for training members about financial discipline and management. Here also, the mean value varied between '1' and '2' but leaning more towards '1' (strongly agreeing). Similarly, importance is also given

[1] This Likert Scale of 1-5 points are used in all subsequent sections wherever applicable and the mean values are ascertained based on the responses obtained from the respondents.

by MFIs for the ‘regularity of members in attending group meeting wherein the mean value of opinions of officer-respondents varied between 1.16 (CAGL) and 1.26 (NABFINS). Although importance is given to ‘wise spending of borrowed money by women for the welfare of their families and/or children’, it is comparatively less important factor as the mean value ranged between 1.32 (IIFLSFL) and 1.85 (NABFINS). In the remaining MFIs also, for majority, the mean value is less-than 1.50 e.g., ‘use/invest the borrowed money for the purpose of undertaking income generating activities’ has mean value ranging from 1.23 (CAGL) and 1.58 (NABFINS). The respondents also felt that the women-members have the habit to save and invest with mean value of 1.22 (CIFCPL) to 1.58 (CAGL). All these show that the MFIs are focusing on women for many reasons (not just one) including six reasons stated in the above table for their lending activities aimed at economic empowerment of women.

**(3) Credit Delivery Methods by MFIs**

There are different methods of lending by MFIs to their clients/customers. However, the important methods are three viz., lending to self-help groups (SHG), lending to joint liability groups (JLG) and lending to individuals. It may be noted here that the MFIs, under the first two methods, lend money to the members/individuals through their SHGs/JLGs. In this backdrop, the officer-respondents were asked to provide their response about the lending method followed by MFIs. The responses obtained from them are analyzed and the mean values are computed. The responses received from them are presented below (Table – 5.7).

As the MFIs are lending through different modes, the respondents were allowed to mark for more than one method, if necessary, and therefore, the number of responses exceeds 340. It is obvious from the above that all MFIs are lending through all three modes. However, the most important mode is lending through joint liability group (JLG) – 315 responses out of 433 (i.e., 87 + 315 + 31). This is true with regard to all the five MFIs except minor difference in the ratio from one MFI to another. For instance, 59 responses from IDFFSPL are in favour of lending through JLG as against 66 responses from IIFLSFL in favour of JLG.

**Table – 5.7: Credit Delivery Methods by MFIs**

| Name of MFI | Number of Respondents | | |
|---|---|---|---|
| | SHG (Self Help Group) | JLG (Joint Liability Group) | Indivi -duals |
| CIFCPL | 5 | 65 | 5 |
| IDFFSPL | 6 | 59 | 9 |
| IIFLSFL | 8 | 66 | 2 |
| NABFINS | 63 | 65 | 7 |
| CAGL | 5 | 60 | 8 |
| Total | 87 | 315 | 31 |

Source: Survey results

However, in the case of NABFINS, lending through both JLGs and SHGs are important as, more or less, an equal number of responses signify this. All these bring the point to the fore that the MFIs are focusing on lending through JLGs or SHGs or both, and only an insignificant portion of loan is granted to the individual borrowers directly.

**(4) Factors considered by MFIs for sanction and disbursement of Loan**

The financial institutions including MFIs considers various factors before they sanction and disburse the loans to the applicants. In this backdrop, the officer-respondents were requested to provide their responses as to what factors they consider while sanctioning and disbursing loan to the applicants. The responses received from them are analysed and the mean values are computed, and the same are presented below (Table – 5.8).

**Table – 5.8: Factors considered by MFIs for Sanction/Disbursement of Loan**

| Sl. No. | Influencing Factors | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Whether the loan is for income generating activities | 1.00 | 1.11 | 1.00 | 1.11 | 1.03 |
| (2) | Know your customer (KYC) norms | 1.00 | 1.00 | 1.00 | 1.03 | 1.00 |
| (3) | Size and composition of the group (JLG/SHG) | 1.02 | 1.09 | 1.00 | 1.03 | 1.03 |
| (4) | CIBIL score of group members | 1.20 | 1.00 | 1.00 | 1.04 | 1.09 |
| (5) | Assessment of group before providing credit | 1.02 | 1.26 | 1.09 | 1.13 | 1.19 |
| (6) | Age of the JLG/SHG | 1.75 | 1.47 | 1.82 | 1.81 | 1.97 |
| (7) | Saving habit of the group | 4.27 | 2.13 | 4.35 | 1.29 | 4.37 |
| (8) | Group's internal loan recovery rate | 1.67 | 1.44 | 1.26 | 1.35 | 1.36 |
| (9) | Maintenance of books of account by SHG/JLG group | 1.60 | 1.86 | 1.70 | 1.00 | 1.97 |
| (10) | Regularity of member attending the group's meetings | 1.20 | 1.48 | 1.14 | 1.29 | 1.14 |
| (11) | Appropriate utilization of previous group loan | 1.80 | 1.41 | 1.12 | 1.24 | 1.34 |
| (12) | Knowledge about banking transactions | 1.92 | 1.79 | 1.81 | 1.54 | 2.16 |
| (13) | Insurance for group members and nominees | 1.02 | 1.10 | 1.03 | 1.00 | 1.21 |
| (14) | Signature of the group members | 1.91 | 1.51 | 1.28 | 1.34 | 2.25 |

Source: Survey results

In the questionnaire, 14 factors were identified as the factors that the MFIs consider while sanctioning and disbursing loan amount, and the officer-respondents were asked to respond to the question. Out of 14 factors, KYC appears to most important factor for all MFIs wherein the mean value is either '1' (all MFIs except NABFINS) or slightly higher than '1' (i.e., 1.03 in the case of NABFINS). Similar importance is attached by the MFIs to (i) size and composition of SHG/JLG with mean value of '1' (IIFLSFL) to 1.09 (IDFFSPL), (ii) use of loan for income generating activities with mean value of '1' (CIFCPL and IIFLSFL) to 1.11 (IDFFSPL and NABFINS), (iii) CIBIL score of group members with mean value ranging from '1' (IDFFSPL and (IIFLSFL) to 1.20 (CIFCPL), etc. In all these cases, the mean value is slightly higher than '1' (indicating 'strong agreement'). Other important factors are, (i) group's internal loan recovery rate with mean value varying from 1.26 (IIFLSFL) and 1.67 (CIFCPL), (ii) appropriate utilization of previous loan with mean value ranging from 1.12 (IIFLSFL) and 1.80 (CIFCPL), (iii) signature of group members (i.e., recommendation) wherein the mean value varied between 1.28 (IIFLSFL) and 2.25 (CAGL), (iv) maintenance of books of account by the group (SHG/JLG) with the mean value varying from 1.00 (NABFINS) and 1.97 (CAGL), (v) knowledge about banking transactions with mean value ranging from 1.54 (NABFINS) and 2.16 (CAGL), etc. However, the pattern of responses to different influencing factors is, more or less, same among the officials of different MFIs e.g., for the purpose of taking loan (i.e., loan taken for income generating activities), officer-respondents of all the five MFIs have assigned, more or less, the same value as reflected the mean value varying between 1.00 (CIFCPL and IIFLSFL) and 1.11 (IDFFSPL and NABFINS). In certain cases, one can also find wider difference in their opinion e.g., saving habit of the group wherein the mean value differs from 1.29 (NABFINS) to 4.37 (CAGL). On the other hand, the mean value is very high ranging from 2.13 (IDFFSPL) to 4.37 (CAGL) in the case of 'saving habit of the group' reflecting that the MFIs are not considering this factor as an important factor while sanctioning loans and advances to the clients through their SHGs/JLGs. However, what is important, all the 14 factors are considered by the MFIs while sanctioning and disbursing loan the clients through their SHGs/JLGs though the degree of importance attached to these factors differs marginally from one factor to another.

### (5) Reasons for the Delay in the Sanction and Disbursement of Loan

With regard to banking and financial institutions, there is a common complaint that they take more time (than required) to sanction and disburse the loan amount. This may also be true in the case of MFIs. Of course, the reasons differ. In this background, the officer-respondents were asked to rank the identified reasons. The responses obtained from them are analysed and the mean values are computed and presented below (Table – 5.9).

**Table – 5.9: Reasons for the Delay in the Sanction and Disbursement of Loan**

| Sl. No. | Reasons for the delay in the sanction and disbursement of Loan | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Limited/shortage of staff in the branches | 2.79 | 2.16 | 3.26 | 3.67 | 2.10 |
| (2) | Delay in the submission of NOC from the SHG/JLG by the members | 2.19 | 1.38 | 2.00 | 1.54 | 1.92 |
| (3) | Limited financial resources with the MFIs | 4.07 | 2.23 | 4.17 | 4.48 | 2.69 |
| (4) | Procedural delay - to compute CIBIL score | 3.73 | 3.50 | 4.01 | 3.79 | 3.66 |

Source: Survey results

As can be observed from the content of the above table, only in the case of 'delay in the submission of NOC from the SHG/JLG by the members', the officer-respondents agree as the mean value ranges from 1.38 (IDFFSPL) to 2.19 (CIFCPL). For all other reasons by all MFIs, the officer-respondents are either neutral or disagreed or strongly disagreed with reasons cited. However, the most important reason is from the applicant's side for not submitting the NOC in time. The next most important reason is the inadequacy of staff with the branches of MFIs leading to delay in the appraisal of loan applications which in turn lead to delay in the sanction and disbursement of loan. With regard to 'limited financial resources with the MFIs' as the reason for the delay in sanctioning and disbursing loan, the officer-respondents either disagreed or strongly disagreed as the mean value ranges from 2.23 (IDFFSPL) to 4.48 (NABFINS). The respondents also disagreed with the reason that, 'time required to computing CIBIL score' for the delay in sanctioning and disbursing loan as the mean value ranges from 3.50 (IDFFSPL) to 4.01 (IIFLSFL). The officers, during interaction, stated that they normally taken 7 days for sanction of new/fresh loan and 3-4 days for repeated loan if the applicants submit all necessary documents and if they secure better CIBIL score. This is appreciable as it is shorter than the time normally taken by the commercial banks.

### (6) Officer-Respondents on the Interest Rate charged by MFIs

The rate of interest charged by the MFIs on their loans and advances has impact on different aspects. Therefore, the officers were asked to provide their views on four interest-related aspects, and the responses obtained from them are analyzed and the mean values are computed. These mean values are presented below (Table – 5.10).

**Table – 5.10: Officer-Respondents on the Interest Rate charged by MFIs**

| Sl. No. | Perception about Interest Rate | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Majority of customers are very conscious about interest rate | 1.66 | 1.36 | 1.58 | 1.64 | 1.86 |
| (2) | MFI's interest rate is competitive in the market. | 1.14 | 1.77 | 1.33 | 1.02 | 1.51 |
| (3) | MFI's Interest rate influences the repayment rate of borrowers | 3.29 | 2.67 | 3.23 | 2.98 | 2.97 |
| (4) | The interest rate charged by MFI is fair enough to cover all costs | 1.45 | 1.75 | 1.13 | 1.13 | 1.47 |

Source: Survey results

It may be noted here that the rate of interest charged by the MFIs should be adequate enough to meet their interest costs besides other legitimate expenses and to earn at least reasonable profits.

- In all MFIs (except IDFFSPL), the respondents strongly agreed with the view the rate of interest charged by MFIs is fair enough to cover all their costs as the mean values varied between 1.13 (IIFLSFL and NABFINS) and 1.47 (CAGL). Even in the case of IDFFSPL, the respondents agreed with the view as the mean value is 1.75.
- However, it appears that the rate of interest charged by MFIs is very high. The officer-respondents agreed (all MFIs except IDFFSPL) or strongly agreed (IDFFSPL) with the view that the customers are very conscious about the interest rate as the mean values range from 1.36 (IDFFSPL – closer to strong agreement) to 1.86 (CAGL – closer to agreement with the statement).

- However, majority of officer-respondents strongly feel that the interest rate charged by MFIs is competitive – the rate/s fixed after considering the market forces. The officer-respondents of CIFCPL, IIFLSFL and NABFINS strongly agreed with this view as the mean values are between 1.02 (NABFINS) and 1.33 (IIFLSFL). In other two cases also, the respondents agreed with the view as the mean value are 1.51 (CAGL) and 1.77 (IDFFSPL).
- As far as the impact of interest rate on the repayment by the borrowers, majority of the respondents are either neutral in their response or disagreed indicating that interest rate has no impact on the repayment.

However, what is important is, interest rate is on the higher side when compared to the rate charged by commercial banks. Further, it is difficult to accept the view that there is no correlation between the interest rate and repayment.

**(7) Officers on Recovery of Loan**

Opinions of officer-respondents about the loan recovery rate were collected and analyzed the same. Based on the opinions obtained, mean values are computed and presented below (Table – 5.11).

**Table – 5.11: Opinion of Officer-Respondents on Loan Recovery**

| Sl. No. | Particulars | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Borrowers behave impolitely with officials during recovery process | 2.69 | 2.69 | 2.77 | 2.69 | 2.51 |
| (2) | Lack of loan monitoring system | 4.20 | 3.04 | 4.52 | 4.44 | 3.98 |
| (3) | Sending timely reminder to loanees | 1.23 | 1.60 | 1.16 | 1.16 | 1.51 |
| (4) | Recovery of loan causes physical and mental stress for field officers | 2.52 | 2.11 | 2.97 | 2.69 | 2.25 |
| (5) | Legal action involves more cost and lengthy process | 2.23 | 2.70 | 2.17 | 1.91 | 2.20 |

Source: Survey results

Opinions obtained from the respondents about a few aspects of loan recovery and their analysis show that, majority of borrowers do not behave impolitely during the recovery process. This is evident from the mean value of greater-than ‘2’ – ranging from 2.51 (CAGL) to 277 (IIFLSFL – disagreeing with the view that the borrowers behave impolitely during the recovery process). The officer-respondents denied that there is a lack of loan monitoring system at the MFIs. This is reflected by the mean values ranging from 3.04 (IDFFSPL – neutral to disagreeing) to 4.52 (IIFLSFL – disagreeing to strongly disagreeing). The MFIs send the reminders to loanees periodically as evident from the mean values of 1.16 (IIFLSFL and NABFINS – agreeing to strongly disagreeing) to 1.60 (IDFFSPL – agreeing to neutral). Further, majority of the respondents felt that the loan recovery is causing physical and mental stress for the field officers of MFIs as the mean values range from 2.11 (IDFFSPL – agreeing to neutral) to 2.97 (IIFLSFL – agreeing to neutral). They are felt that legal action to recover the amount due from the loanees is a lengthy process involving more cost. This is evident from the mean values which vary from 1.91 (NABFINS – agreeing to strongly agreeing) to 2.70 (IDFFSPL – ‘agreeing’ to ‘neutral’).

From the above, it is obvious that the MFIs taking necessary steps to recover the amounts due from the loanees. However, one of the major problems is the lack adequate collaterals for the loan provided and the large number of borrowers to handle.

### (8) Loan Recovery Rate of MFIs

It is an established truth that the success of any financial institution depends upon the timely recovery of loans and advances provided by them. This is true even in the case of MFIs. In this backdrop, the officer-respondents were asked to rate the recovery performance. The responses obtained from them are analyzed and the mean values are ascertained and presented below (Table – 5.12).

**Table - 5.12: Loan Recovery Rate of MFIs**

| Name of MFI | Rate of Recovery | | | | Relative Share (%) | | | |
|---|---|---|---|---|---|---|---|---|
| | < 50% | 50% - 70% | 70% - 90% | 90% - 100% | < 50% | 50% - 70% | 70% - 90% | 90% - 100% |
| CIFCPL | 2 | 5 | 7 | 54 | 2.94 | 7.35 | 10.29 | 79.41 |
| IDFFSPL | 2 | 4 | 41 | 21 | 2.94 | 5.88 | 60.29 | 30.88 |
| IIFLSFL | 3 | 3 | 3 | 59 | 4.41 | 4.41 | 4.41 | 86.76 |
| NABFINS | 2 | 6 | 3 | 57 | 2.94 | 8.82 | 4.41 | 83.82 |
| CAGL | 2 | 4 | 4 | 58 | 2.94 | 5.88 | 5.88 | 85.29 |
| Total | 11 | 22 | 58 | 249 | 3.24 | 6.47 | 17.06 | 73.24 |

Source: Survey results

It is evident from the above that the recovery rate is between 90-100% of the amounts due as felt by majority of the respondents of all MFIs except IDFFSPL. In the case of CIFCPL, 79.41% of the respondents of this MFI felt that the recovery rate is 79.41% whereas in the case IIFLSFL, NABFINS and CAGL, 86.76%, 83.82% and 85.29% of the respondents respectively felt that their recovery rate is between 90-100%. But in the case of IDFFSPL, only 21 respondents out of 68 accounting for 30.88% felt that the recovery rate is 90-100%. And 60.29% of the officer-respondents of this MFI felt that their recovery rate is 70-90%. What is important is, in majority of MFIs, the recovery rate is satisfactory as about 80% of the officers felt that the recovery rate is 90-100%. Only, about 6.47% of the respondents (22 respondents) and 3.24% of the respondents (11 respondents) of all 340 respondents from all five MFIs felt that the recovery rate is 50-70% and less-than 50% respectively. This is appreciable.

**(9) Reasons for Lower Recovery Rate**

Although the recovery rate is good, still there are a few defaulters leading to less-than 100% recovery rate. The reasons differ from willful default to inability to service their debts and to repay the borrowed amounts. In this background nine probable reasons were identified and the officer-respondents were asked to provide their views on these reasons. The responses obtained from them are analyzed and the mean values are ascertained and presented below (Table – 5.13).

**Table - 5.13: Reasons for Low Recovery Rate**

| Sl. No. | Reasons for Low Recovery Rate by MFIs | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Weak credit policy of MFIs | 3.57 | 2.19 | 4.41 | 4.31 | 3.62 |
| (2) | Willful defaults | 2.85 | 2.24 | 3.24 | 2.35 | 2.76 |
| (3) | Irregular income and/or diversion of loans by borrowers | 1.38 | 1.39 | 1.29 | 1.50 | 1.44 |
| (4) | Migration of borrowers | 1.25 | 1.22 | 1.26 | 1.13 | 1.32 |
| (5) | Borrowers' expectation of government waive-off loans | 4.01 | 4.14 | 4.44 | 3.59 | 3.79 |
| (6) | High interest rate | 4.10 | 3.91 | 4.19 | 3.88 | 4.32 |
| (7) | Demonetization | 1.35 | 1.29 | 1.00 | 1.35 | 1.59 |
| (8) | Covid -19 pandemic | 1.37 | 1.16 | 1.04 | 1.26 | 1.20 |
| (9) | Natural calamities | 1.82 | 1.34 | 1.14 | 1.47 | 1.18 |

Source: Survey results

It is evident from the above that out of nine probable reasons identified, three (viz., weak/poor credit appraisal policy of MFIs, high interest rate and expectation of borrowers of government waiving-off the loan) are not considered, by the officer-respondents as the probable/possible reasons for the lower recovery rate as the mean values are on the higher side. For example, for 'higher interest rate', the mean values vary from 3.91 (IDFFSPL indicating disagreeing) to 4.32 (CAGL implying strongly disagreeing). Even with regard to another probable/possible reason viz., willful default, the respondents are either neutral or disagreed as the mean values range from 2.24 (IDFFSPL) to 3.24 (IIFLSFL).

Other reasons are important/pertinent for the customers failure to repay the borrowed amounts. These reasons include, (i) irregular income and/or diversion of funds by borrowers for other purposes than the purpose for which they borrowed from MFIs (mean values ranging from 1.29 in the case of IIFLSFL to 1.50 in the case of NABFINS), (ii) migration of borrowers to other places [mean values varying from 1.13 (NABFINS) to 1.32 (CAGL)], (iii) demonetization with mean values ranging from '1' (IIFLSFL – strongly agreeing) to 1.59 (CAGL – agreeing to strongly agreeing), (iv) COVID-19 pandemic with mean values varying from 1.04 (IIFLSFL – close to strong agreement) to 1.37 (CIFCPL – agreeing to strongly agreeing), and (v) natural calamities with mean values ranging from 1.14 (IIFLSFL – agreeing to strongly agreeing) to 1.82 (CIFCPL – agreeing to strongly agreeing).

From the above, it is unequivocal that one of the reasons for a few borrowers unable to repay the borrowed sums on time is the external factors on which the borrowers have no control.

**(10) Financial and Non-financial Services of MFIs**

Using a comprehensive questionnaire, opinions of officer-respondents are collected about the financial and non-financial services provided by MFIs. The responses obtained from the officials of five MFIs are used to calculate the mean values for each of variables used to evaluate the performance of MFIs. The results are presented below (Table – 5.14).

It is obvious from the content of Table - 5.14 that the MFIs are providing, more or less, equal importance for both the financial services and non-financial services as the mean value varied between 0.97 (NABFINS for home improvement loan) and 2 (IDFFSP for home improvement loan, emergency loan, etc., and NABFINS for individual retail finance etc). For most of the variables and for majority of MFIs, the mean values are between '1' and '2'.

**Table – 5.14: Financial and Non-Financial Services of MFIs – Mean Values of Perception of Officers**

| Sl. No. | Services | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDF FSPL | IIFL SFL | NAB FINS | CAGL |
| **Financial Services:** | | | | | | |
| (1) | Income generation loan | 1.00 | 1.07 | 1.05 | 1.14 | 1.02 |
| (2) | Family welfare loan | 1.07 | 1.95 | 1.92 | 1.97 | 1.01 |
| (3) | Home improvement loan | 1.07 | 2.00 | 1.95 | 0.97 | 1.00 |
| (4) | Emergency loan | 1.05 | 2.00 | 1.95 | 2.00 | 1.01 |
| (5) | Individual retail finance | 1.83 | 1.95 | 1.97 | 2.00 | 1.01 |
| (6) | Any other | 1.94 | 2.00 | 1.63 | 2.00 | 1.01 |
| **Non-financial Services:** | | | | | | |
| (1) | Awareness about health nutrition and sanitization | 1.02 | 1.91 | 1.04 | 1.94 | 1.04 |
| (2) | Financial literacy programme | 1.00 | 2.00 | 1.10 | 1.91 | 1.00 |
| (3) | Skill development programmes for entrepreneurship | 1.14 | 1.95 | 1.79 | 1.94 | 1.08 |
| (4) | Agricultural and business development services | 1.10 | 1.70 | 1.73 | 1.83 | 1.05 |
| (5) | Group promotion and training | 1.32 | 1.16 | 1.05 | 1.16 | 1.11 |
| (6) | Any other | 1.94 | 1.83 | 1.64 | 1.89 | 1.05 |

Source: Prepared the table based on the responses obtained from the officer-respondents

And the same holds good even in the case of non-financial services. Among six variables used for evaluating the performance of MFIs from the point of view of non-financial services, only in one variable viz., financial literacy programme by IDFFSP the mean value is 2 but in all other cases it is less-than 2 and it varied between '1' (again in the case of financial literacy programme by CIFCPL) and 1.94 (in the case of other services by CIFCPL, awareness programme about health, nutrition and sanitization by NABFINS, etc). As far as skill development programme for entrepreneurship, three MFIs viz., IDFFSP, IIFLSFL and NABFINs, the mean value is higher than 1.75 (but less-than 2). In the remaining two cases viz., CIFCPL and CAGL, the mean value is on lower side at 1.14 and 1.08 respectively. But the mean values with respect to agricultural and business development services are lower than for skill development programme for entrepreneurship. Similar type of lower mean values can be observed for ‘group promotion and training’ variable where in the mean value varied between 1.05 (IIFLSFL) and 1.32 (CIFCPL).

Similar is the perception of officer-respondents with regard to other variables. However, what is common is the fact that the mean value is on the lower level as it is less than ‘2’ (on a 5-point scale) for majority of the variables and MFIs. This shows that the MFIs are providing quality services (both financial and non-financial services) to their clients.

**(11) Challenges faced by MFIs**

In the process of providing microfinance services, the MFIs also face certain problems which can also be termed as challenges. These problems/challenges relate to operations, finance, human resource, management of credit risk and others of MFIs. Under each of these broad categories, a few problems are identified and the officer-respondents were asked to rate them (by allowing multiple responses). These responses are analyzed and mean values are computed and presented below (Table – 5.15).

A careful observation of content of Table – 5.15 shows that with regard to the operational challenges, the officer-respondents felt that, (i) too much of paper work, (ii) lack of digitalization of work and (iii) poor management information system (MIS) are not the actual problems faced by the MFIs as the mean values are on higher side e.g., with regard to ‘poor MIS’, the mean value ranged between 3.51 (IDFFSPL – neutral to disagreeing) and 4.48 (IIFLSFL – disagreeing to strongly disagreeing). On the other hand, the remaining three factors viz., (i) high operating costs with mean values from 1.65 (NABFINS – agreeing to strongly agreeing) to 2.10 (IIFLSFL – agreeing to neutral), (ii) clients’ drop-out with mean values varying from 1.06 (IIFLSFL – agreeing to strongly agreeing) to 1.75 (IDFFSPL – agreeing to strongly agreeing), and (iii) distant area of operation with mean values 1.41 (IIFLSFL – agreeing to strongly agreeing) to 2.81 (NABFINS – agreeing to neutral) – the officer-respondents felt that these three factors are the real problems faced by the MFIs.

**Table - 5.15: Challenges faced by MFIs**

| Sl. No. | Services | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDF FSPL | IIFL SFL | NAB FINS | CA GL |
| **Operational Challenges:** | | | | | | |
| (1) | High operating cost | 1.94 | 1.94 | 2.10 | 1.65 | 1.78 |
| (2) | Too much of paper work | 3.35 | 3.60 | 3.53 | 2.39 | 3.22 |
| (3) | Clients' dropout | 1.60 | 1.75 | 1.06 | 1.53 | 1.65 |
| (4) | Collection and delivery of money from new and distant area | 1.93 | 2.31 | 1.41 | 2.81 | 1.50 |
| (5) | Lack of digitalization of work | 3.58 | 3.38 | 4.22 | 3.07 | 3.87 |
| (6) | Poor MIS | 3.85 | 3.51 | 4.48 | 4.25 | 3.87 |
| **Financial Challenges:** | | | | | | |
| (1) | High default rate | 4.36 | 1.77 | 4.66 | 4.11 | 2.27 |
| (2) | Low outreach and accessibility | 3.77 | 2.36 | 4.22 | 3.48 | 3.04 |
| (3) | Over indebtedness | 3.36 | 2.23 | 3.76 | 4.01 | 2.97 |
| (4) | High personal and administration expenses especially related to loan portfolio | 2.02 | 1.77 | 1.82 | 2.48 | 1.92 |
| (5) | Heavy dependence on banks and financial institutions | 1.95 | 1.77 | 1.47 | 2.54 | 1.89 |
| (6) | Inadequate financial resources at cheaper cost | 1.83 | 1.47 | 1.98 | 2.69 | 2.05 |
| (7) | Higher transaction cost | 1.63 | 2.35 | 1.3 | 2.77 | 1.82 |
| (8) | Difficulty in recovering cost from operating revenue | 1.72 | 1.97 | 1.57 | 2.72 | 1.86 |
| (9) | High rate of interest compared to banks | 1.82 | 1.22 | 1.63 | 2.60 | 1.83 |
| (10) | Lack of good portfolio quality | 3.25 | 2.72 | 3.69 | 3.42 | 2.81 |
| **Credit Risk Management** | | | | | | |
| (1) | Lack of training to customers before disbursement of loan amount | 3.64 | 3.34 | 4.07 | 3.63 | 3.66 |
| (2) | Loan used for consumption expenditure and not for investment | 1.67 | 1.75 | 1.63 | 1.54 | 1.48 |
| (3) | Multiple borrowings and over-indebtedness | 1.39 | 1.51 | 1.44 | 1.47 | 1.50 |
| (4) | Failure of business due to inadequate skills to manage loan amount | 2.14 | 1.89 | 1.92 | 2.13 | 2.10 |
| (5) | Inadequate loan amount for carrying income generating activities | 1.69 | 1.97 | 1.22 | 1.73 | 1.41 |

| | | | | | | |
|---|---|---|---|---|---|---|
| (6) | Unforeseen contingencies like illness, natural calamities, death, etc | 2.16 | 2.22 | 1.95 | 2.04 | 2.16 |
| **Human Resource Challenges:** | | | | | | |
| (1) | Insufficient skills | 3.72 | 3.47 | 3.73 | 3.73 | 3.06 |
| (2) | Lack of training and professional development opportunities for staff | 4.01 | 3.26 | 3.79 | 3.54 | 3.23 |
| (3) | High labour turnover | 2.82 | 1.91 | 2.63 | 3.50 | 2.07 |
| (4) | Shortage of workers | 3.17 | 2.45 | 3.32 | 3.25 | 2.16 |
| **Other Challenges:** | | | | | | |
| (1) | Competition from other MFIs | 1.52 | 1.69 | 1.73 | 1.69 | 1.47 |
| (2) | Absence of product/service diversification | 2.08 | 1.78 | 1.85 | 2.26 | 1.72 |
| (3) | Government regulatory actions for MFIs | 3.67 | 2.73 | 2.88 | 3.61 | 3.05 |
| (4) | Lack of basic infrastructure | 3.37 | 3.14 | 3.31 | 4.07 | 2.82 |
| (5) | No immediate follow up of loan | 4.64 | 3.14 | 4.26 | 4.41 | 3.94 |
| (6) | Weak risk management system | 4.79 | 2.67 | 4.79 | 4.37 | 384 |
| (7) | Lack of proper governance and accountability | 4.75 | 2.62 | 4.67 | 4.31 | 3.63 |
| (8) | Inadequate investment validation | 3.93 | 2.39 | 4.62 | 3.84 | 3.07 |
| (9) | Negligence of urban poor | 2.34 | 2.23 | 2.39 | 2.66 | 1.88 |
| (10) | Lack of technology and digitalization of data for monitoring customer loans | 2.62 | 2.16 | 2.32 | 1.95 | 1.78 |
| (11) | Pressure on employees to reach the target | 3.22 | 2.00 | 2.98 | 2.25 | 2.26 |
| (12) | Local political leaders' interference | 4.14 | 3.10 | 4.15 | 4.26 | 3.4 |

Source: Prepared the table based on the calculations made using the responses obtained from the officer-respondents.

As far as the financial challenges are concerned, out of 10 problems identified as possible challenges, five are not considered by the officer-respondents as the real financial challenges and they are, (i) high default rate, (ii) low outreach and accessibility, (iii) over indebtedness, (iv) lack of good portfolio quality and (v) high personal and administration expenses especially those relating to loan portfolio. In each of these cases, the mean values are, comparatively, on higher side ranging from 1.77 (in the case of IDFFSPL with regard to 'higher default rate' and 'high personal and administration expenses') to 4.66 (IIFLSFL with regard to high default rate meaning disagreeing to strongly disagreeing). On the other hand, in the case of the remaining five aspects/area, the officer-respondents reckoned them as the real challenges as the mean values are lower side – varying from 1.22 (IDFFSPL with regard to high rate of interest compared to banking companies signifying agreeing to strongly agreeing) to 2.77 (NABFINS with regard to higher transaction cost indicating agreeing to neutral).

In the case of credit risk management, six factors were identified as possible challenges of MFIs and out of these six factors, 'lack of training to customers before disbursement of loan' is not considered by the officer-respondents as the real challenge faced by the MFIs as the mean values are on higher side (3.34 IDFFSPL to 4.07 IIFISFL). However, the remaining five factors are considered as the real problems faced by the MFIs as the mean values are on lower side – mean values ranging from 1.22 (IIFLSFL with regard to 'inadequate loan amount for carrying out income generating activities' indicating agreeing to strongly agreeing) to 2.57 (NABFINS with regard to 'failure of business due to inadequate skills to management loan amount' implying agreeing to neutral).

Out of four aspects in the area of human resources, the officer-respondents felt that three are not the real challenges and these are (i) insufficient skills, (ii) lack of training and professional development opportunities for staff, and (iii) shortage of workers as the mean values are on higher side varying from 2.16 (CAGL with regard to shortage of workers) to 4.01 (CIFCPL with regard to lack of training and professional development for staff). However, (higher) labour turnover appears to the real challenge faced by the MFIs as the mean values ranged from 1.91 (IDFFSPL indicating agreeing to strongly agreeing) to 3.50 (NABFINS implying neutral to disagreeing).

As far as the other challenges are concerned, only five viz., (i) competition from other MFIs, (ii) lack of product/service diversification, (iii) negligence of urban poor, (iv) lack of technology and digitalization of data for monitoring customer loans, and (v) pressure on employees to reach the target are considered as the real challenges before the MFIs as the mean values are on higher side.

### (12) Achievement of Social Mission by MFIs

As already stated, the MFIs aim at both the economic and societal welfare. Therefore, nine social welfare activities were identified and the officer-respondents were requested to comment the achievement of these social welfare objectives (they were allowed multiple responses). The responses from them are analyzed and the mean values are calculated and presented below (Table – 5.16).

**Table – 5.16: Opinion on achievement of Social Mission by MFIs**

| Sl. No. | Social Mission of MFIs | Mean Values | | | | |
|---|---|---|---|---|---|---|
| | | CIF CPL | IDFF SPL | IIFL SFL | NAB FINS | CA GL |
| (1) | Poverty eradication | 1.10 | 1.29 | 1.00 | 1.29 | 1.07 |
| (2) | Socio-economic development | 1.10 | 1.08 | 1.00 | 1.07 | 1.10 |
| (3) | Employment generation | 1.13 | 1.00 | 1.03 | 1.28 | 1.06 |
| (4) | Women empowerment | 1.39 | 1.32 | 1.03 | 1.13 | 1.38 |
| (5) | Growth of agriculture sector | 1.59 | 1.54 | 1.47 | 1.36 | 1.57 |
| (6) | Upliftment of living standard | 1.50 | 1.67 | 1.47 | 1.45 | 1.63 |
| (7) | Upliftment of weaker sections | 1.50 | 1.61 | 1.51 | 1.79 | 1.35 |
| (8) | Unemployment reduction | 1.54 | 1.57 | 1.73 | 1.76 | 1.50 |
| (9) | Rural development | 1.59 | 1.57 | 1.76 | 1.79 | 1.48 |

Source: Survey results

From the above, it is obvious that the officer-respondents felt the MFIs have been working towards the achievement of social welfare objectives such as poverty eradication, socio-economic development, employment generation, women empowerment, growth of agriculture sector, upliftment of living standard, upliftment of weaker sections, unemployment reduction and rural development as the mean values are on the lower side – varying between '1' (IDFFSPL with regard to employment generation, and IIFLSFL with regard to both poverty eradication and socio-economic development indicating 'strongly agreeing') to 1.79 (NABFINS with regard to both upliftment of weaker sections and rural development).

After analyzing the responses of officer-respondents about the operations of MFIs and the services provided by them, an attempt is made now to evaluate the perception of customers about the services provided by MFIs.

## Section – II: Perception of Customers of MFIs about the Services provided by MFIs

Before analyzing the perception of customers about the services provided by the MFIs, a brief profile of customer-respondents covering gender, age, marital status, education, occupation, income and family size is presented below.

### I (a) A Brief Profile of Beneficiaries

As already stated, for the purpose of the present study, 500 beneficiaries/ customers of MFIs are selected – 100 beneficiaries from each of the five MFIs. A few details about the demographic profile of these beneficiary-respondents of MFIs are presented below (Table – 5.17).

As the MFIs are focusing on women for their economic empowerment, only women-clients of MFIs are selected for the purpose of the survey. That means, all 500 customer-respondents are women.

Although the respondents are, more or less, equally distributed amount four age groups, comparatively more number of respondents (165 accounting for 33% of the total customer-respondents) are in the age group of 21-30 years. Another 125 customer-respondents accounting for 25% are in the age group of 31-40 years followed by 115 respondents (23%) in the age group of 41-50 years. And the lowest number of respondents (95 accounting for 19%) are in the age group of 20 years or less-than 20 years. This shows, the respondents are, more or less, equally distributed among four age groups.

**Table – 5.17: Demographic Profile of Beneficiary-Respondents**

| Demographic Factor | Number of Respon-dents | Relative Share (%) | Demographic Factor | Number of Respon-dents | Relative Share (%) |
|---|---|---|---|---|---|
| **Gender:** | | | **Marital Status:** | | |
| Female | 500 | 100 | Married | 400 | 80 |
| **Age (years):** | | | Single | 5 | 1 |
| ≤ 20 | 95 | 19 | Widow | 90 | 18 |
| 21-30 | 165 | 33 | Divorcee | 5 | 1 |
| 31-40 | 125 | 25 | Total | 500 | 100 |
| 41-50 | 115 | 23 | **Occupation:** | | |
| Total | 500 | 100 | Daily Wager | 75 | 15 |
| **Education:** | | | Agriculture | 150 | 30 |
| Illiterate | 145 | 29 | Salaried | 105 | 21 |
| SSLC | 175 | 35 | Business | 125 | 25 |
| Degree | 100 | 20 | Agri. labourers | 40 | 8 |
| Post-Graduation | 80 | 16 | Others | 5 | 1 |
| Total | 500 | 100 | Total | 500 | 100 |
| **Annual Family Income (`):** | | | **Earning Family Members:** | | |
| < 1,00,000 | 10 | 2 | ≤ 2 | 150 | 30 |
| 1,00,001 - 1,50,000 | 240 | 48 | 3-4 | 350 | 70 |
| 1,50,001 - 2,00,000 | 200 | 40 | Total | 500 | 100 |
| > 2,00,000 | 50 | 10 | | | |
| Total | 500 | 100 | | | |

Source: Survey results

Out of 500 respondents, 400 accounting for 80% of the total customer-respondents are married. Out of the remaining, 90 are widows (accounting for 18%), five each are single and divorcees (1% each).

Majority of the customer-respondents (355 accounting for 71%) are literate/ educated. Among these literate-respondents, majority (175 respondents accounting for 35%) have studied up to SSLC followed by 100 respondents (20%) who are graduates and the remaining 80 respondents (16%) are post-graduates. However, the remaining 145 respondents (29%) are illiterates. It is obvious that majority of the respondents (355 accounting for 71%) are literates.

Further, 150 customer-respondents accounting for 30% of the total respondents are from the agricultural families and the next highest number (125 respondents working out to 25% of total customer-respondents) are in the business field. Of the remaining, 105 respondents working out to 21% of total customer-respondents are salaried persons, 75 respondents (15%) are daily wagers, and 40 respondents (8%) are agricultural labourers.

Majority of the respondents (440 respondents accounting for 88%) are from families earning ` 1 lakh to ` 2 lakh of income annually – 240 respondents (48%) from families with annual income of ` 1 lakh - ` 1.50 lakh, and 200 respondents (40%) are from families with annual income of ` 1.50 lakh - ` 2 lakh. Of the remaining, 50 respondents (10%) are from families with annual income of more than ` 2 lakh, and the remaining 10 respondents (2%) are from families with less than ` 1 lakh of annual income.

Families of majority of respondents (350 accounting for 70% of total customer-respondents) have three or more than three earning members in their families and the remaining 150 respondents (30%) have only 1-2 earning members in their families.

In the light of the above, the perception of customer/beneficiary-respondents on different dimensions of services provided by MFIs is analysed below.

## II (b) Perception of Beneficiaries about Financial Services provided by MFIs – An Analysis

As stated above, an analysis of views/opinions of customers/beneficiaries of MFIs is made in the following paragraphs under a few heads. It may be noted here that in the case of the illiterate-respondents, the questions were explained to them by the researcher in Kannada and their responses were marked by the researcher.

### (1) Factors influenced to join the MFIs through their SHGs/JLGs

There are many factors that influence an individual to join SHG/JLG and to avail financial services provided by MFIs. However, 16 factors are identified and the respondents were asked to mark their responses. Multiple responses are allowed as more than one factor influence the decision of individuals. The responses so obtained are analysed and mean values are ascertained as presented below (Table – 5.18).

**Table – 5.18: Factors influenced to join the MFIs through SHGs/JLGs**

| Sl. No. | Influencing Factors | Number of Respondents | Mean | Standard Deviation |
|---|---|---|---|---|
| (1) | Door-step services | 500 | 1.01 | 0.10 |
| (2) | To initiate group activities | 500 | 1.10 | 0.41 |
| (3) | Less documentation for obtaining loan | 500 | 1.05 | 0.22 |
| (4) | Women can get loan without collateral security | 500 | 1.02 | 0.14 |
| (5) | Easy lending process | 500 | 1.04 | 0.24 |
| (6) | Provides training before lending loan | 500 | 1.04 | 0.20 |
| (7) | Reasonable rate of interest | 500 | 2.31 | 1.11 |
| (8) | Easy and flexible repayment schedule | 500 | 1.50 | 0.69 |
| (9) | Provides loan foreclosure facility | 500 | 1.41 | 0.57 |
| (10) | Promote saving habit | 500 | 2.46 | 1.41 |
| (11) | Provides loan card | 500 | 1.10 | 0.30 |
| (12) | Friendly approach of staff | 500 | 1.07 | 0.26 |
| (13) | Quick response | 500 | 1.24 | 0.43 |
| (14) | Goodwill of MFI | 500 | 1.50 | 0.56 |
| (15) | Improves socio-economic status | 500 | 1.35 | 0.48 |
| (16) | Provides loan to low-income people | 500 | 1.41 | 0.49 |

Source: Survey results

It is obvious from the above that out of 16 factors, two factors viz., reasonable interest rate and promotion of saving habit are not considered as the important influencing factors as the mean values are 2.31 and 2.46 respectively indicating that the respondents either agreed or neutral in their responses. This supports the earlier conclusion that the MFIs charge higher rate of interest. However, in the case of 'promotion of saving habit', there is wide variation in the responses of customers as reflected by standard deviation of 1.41. Among the remaining, in the case of two more factors viz., easy and flexible repayment schedule, and goodwill of MFIs, the mean value is 1.50 (in both the cases) indicating that the respondents either agreed or strongly agreed as the influencing factors. With regard to each of all other 12 factors, the mean value is less-than 1.50 implying that the respondents are either agreeing or strongly agreeing – but their responses are tilting more towards 'strong agreement' than 'agreement'. This analysis shows that the customers (of MFIs) were influenced by more than one factor to join MFIs through SHGs/JLGs.

### (2) Number of Members in the Group

The details about the number of members in each of SHG/JLG are collected and the same are tabulated below (Table – 5.19).

**Table – 5.19: Number of Members in the Group**

| Number of Members in the Group | Number of Respondents | Relative Share (%) |
|---|---|---|
| < 10 | 435 | 87 |
| 10-20 | 65 | 13 |
| Total | 500 | 100 |

Source: Survey results

It is clear from the above that majority of SHGs/JLGs have less-than 10 members each as stated by 435 respondents accounting for 87% of total number of customer-respondents. In the case of other SHGs/JLGs, the number of members is between 10 and 20 each as stated by 65 respondents working out to 13% of the total respondents. This shows, a very number of SHGs/JLGs are small units with less-than 10 members each. This also shows that, majority of the MFIs are lending loans under JLG model where less than 10 members are allowed to formulate a group and to obtain financial services.

### (3) Sources of Borrowing

There are a few sources from which one can borrow. Of course, terms and conditions, eligibility criteria, eligible loan amount, etc., differ from one source to another. In this backdrop, the customer-respondents were asked to specify the sources from which they borrowing for the purpose of meeting their expenses, etc. The views/ responses (allowed multiple responses/options) obtained from them are tabulated below (Table – 5.20).

**Table – 5.20: Sources of Borrowing**

| Sources of Borrowing | Number of Respondents | Relative Share (%) |
|---|---|---|
| Public Sector Banks | 55 | 7.53 |
| Private Sector Banks | 10 | 1.37 |
| Regional Rural Banks (RRBs) | 150 | 20.55 |
| MFIs | 500 | 67.61 |
| Informal Money Lenders | 15 | 2.05 |

Source: Survey results

A close observation of the content of the above table shows that, for majority of respondents (500 respondents accounting for 67.61% of total number of respondents), MFIs are the sources of borrowing. Another important source is the regional rural banks and 20.55% of the respondents borrowed from these RRBs. And the next most important source is the public sector banks from where 55 respondents accounting for 7.53% of total respondents borrowed money. And the remaining two sources viz., private sector banks (1.37%) and informal money lenders (2.05%) are not effective as only a very few (10 and 15 respondents respectively) borrowed from these sources. What is apparent from the above table is that the many respondents have borrowed from more than one source. The fact that only 15 respondents are borrowing from informal money lenders is a good sign as the people are coming out of the clutches of these informal money lenders who (many) charge exorbitant interest rate. However, one of the reasons for the popularity of MFIs as the source of borrowing by the customers/clients is the fact that they (i.e., MFIs) prefer women and provide loans and advances without any collateral securities and within shorter duration and less loan formalities.

### (4) Category of Borrowers

As already pointed out, the MFIs provide loans and advances (to their clients) through their SHGs and JLGs depending upon whether the clients are the members of SHGs or JLGs. In order to ascertain which form of association of people is more popular, the responses from the beneficiary-respondents were obtained and the same are tabulated below with few calculations (Table – 5.21).

**Table – 5.21: Category of Borrowers**

| Category of Borrowers | Number of Respondents | Relative Share (%) |
|---|---|---|
| SHGs | 85 | 17 |
| JLGs | 415 | 83 |
| Total | 500 | 100 |

Source: Survey results

Between two groups, JLGs are more popular as the majority of the respondents (415 respondents working out to 83%) are the members of JLGs and obtaining the loans and advances from MFIs through their JLGs. One of the reasons for their popularity is the fact that majority of NBFC-MFIs are using JLG model to provide microfinance services to their customers as it is very easy involving less formalities, and convenient to monitor the groups with less members. However, the remaining 85 respondents (working out to 17%) are the members of SHGs and through these SHGs, the customers obtain micro-finance services from MFIs. It may be noted here that NABFINS is the only MFI, out of five MFIs selected for the present study, which uses both JLG and SHG lending methodology.

### (5) Type of Loan Borrowed

The customers need finance for different purposes and therefore, they borrow different types of loan from MFIs through their SHGs/JLGs. In this background, the responses from customer-respondents were obtained (multiple responses allowed) and the same are tabulated below (Table – 5.22).

**Table – 5.22: Type of Loan Borrowed**

| Type of Loan Borrowed | Number of Respondents | Relative Share (%) |
|---|---|---|
| Income generation loan | 485 | 90.65 |
| Family welfare loan | 30 | 5.61 |
| Individual retail finance | 5 | 0.93 |
| Emergency loan | 5 | 0.93 |
| Home improvement loan | 5 | 0.93 |
| Others | 5 | 0.93 |

Source: Survey results

It can be observed from the above that majority of the respondents (485 respondents accounting for 90.65% of total respondents) borrowed money from MFIs through their SHGs/JLGs for the purpose of undertaking income generating activities. This is a good sign as they are able to earn a stream of revenue/income for a number of years. Another 30 respondents working out to 5.61% of total beneficiary-respondents borrowed from MFIs for family welfare activities. And five respondents each also borrowed money for (i) individual retail finance, (ii) emergency loan, (iii) home improvement and (iv) other reasons accounting for mere 0.93% each. This brings the point to the fore that majority of the beneficiary-respondents have borrowed money and invested the same on income-generating activities - to start up business, expand/develop their business activities or for other income generation activities.

**(6) Loan from Single or Multiple MFIs**

The relevant details about whether the respondents borrowed money from one MFI or from more than one are collected from them and same are tabulated below with a few calculations (Table – 5.23).

**Table – 5.23: Loan from Multiple MFIs**

| Borrowed Loan from Multiple MFIs | Number of Respondents | Relative Share (%) |
|---|---|---|
| Yes | 395 | 79 |
| No | 105 | 21 |
| Total | 500 | 100 |

Source: Survey results

It is evident from the above that majority of the respondents (395 respondents working out to 79% of total respondents) have borrowed money from more than one MFI. On the other hand, the remaining 105 respondents accounting for 21% of total respondents have borrowed only from one MFI. However, multiple borrowings may create problems to the lender-MFIs at the time of recovery.

**(7) Number of times borrowed from MFIs**

Usually, the customers who continue to be the members of SHGs/JLGs and who need money continue to fresh borrowings after clearing the amounts borrowed earlier. In order to obtain a clear idea about this aspect, the respondents were asked to specify the number of times they borrowed from MFIs (after joining SHGs/JLGs). The responses obtained from them are tabulated below with a few calculations (Table – 5.24).

**Table – 5.24: Number of times borrowed from MFIs**

| Number of times borrowed from MFIs | Number of Respondents | Relative Share (%) |
|---|---|---|
| Only once | 140 | 28 |
| 2-3 times | 265 | 53 |
| 4-5 times | 90 | 18 |
| > 5 times | 5 | 1 |
| Total | 500 | 100 |

Source: Survey results

It is obvious from the above that majority of the respondents (265 respondents working out to 53% of total beneficiary-respondents) have borrowed 2-3 times after they joined the group. Another 140 respondents accounting for 28% of total respondents borrowed only once from MFIs through their SHGs/JLGs. Of the remaining, 90 respondents (18%) borrowed 4-5 times from MFIs and the remaining five respondents accounting for mere 1% borrowed more than five times from MFIs after they joined SHGs/JLGs. The responses clearly indicate that majority of respondents (360 respondents working out to 72% of total beneficiary-respondents) have borrowed 2-3 times. It may be noted here that, the apex bank of the country (Reserve Bank of India, RBI) allows the MFIs to give minimum 12-24 months to the borrowers to repay their loans.

**(8) MFI Services**

MFIs are providing a few kinds of services and the respondents may avail one or more of these services. The table presented below provides an idea about the services provided by MFIs and the number of respondents who availed-off these services (Table – 5.25). It may be noted here that the multiple responses were allowed.

**Table – 5.25: MFI Services and Number of Respondents**

| MFI Services | Number of Respondents | Relative Share (%) |
|---|---|---|
| Loan | 500 | 92.59 |
| Savings | 30 | 5.56 |
| Micro-insurance | 5 | 0.93 |
| Other products | 5 | 0.93 |

Source: Survey results

The MFIs are providing four broad categories of services viz., loans and advances, saving schemes, micro-insurance, and other products. Among four types of services, all respondents have availed loans and advances from MFIs through their SHGs/JLGs. However, 30 of these respondents (5.56% of total respondents) are saving a part of their earnings with the MFIs. And another five respondents each (0.93% of total respondents) have also taken micro- insurance from MFIs, and other products/services. It is obvious from the above that among four categories of services, ‘loans and advances’ is most widely utilized services by the customers.

### (9) Average Amount of Loan Borrowed

The amount of loan borrowed by the beneficiary-respondents depends upon their eligibility, requirements and the credit limits of MFIs (among others). In this backdrop, the details about the amount of loan borrowed by the beneficiary-respondents are collected and tabulated below with a few calculation (Table – 5.26). It may be noted here that, as per RBI guidelines, MFIs are allowed to lend loan up to ` 1,20,000 (including multiple lending) for each group member subject to their repayment capacity. Even the borrowers are conscious while borrowing as the higher loan amount leads to higher repayment obligation for long period with higher interest.

**Table – 5.26: Average Amount of Loan Borrowed**

| Average Amount of Loan Barrowed (`) | Number of Respondents | Relative Share (%) |
|---|---|---|
| < 25,000 | 10 | 2 |
| 25,000-50,000 | 245 | 49 |
| 50,000-1,00,000 | 210 | 42 |
| 1,00,000-1,25,000 | 35 | 7 |
| Total | 500 | 100 |

Source: Survey results

It is clear from the content of the above table that 245 respondents accounting for 49% of total respondents have borrowed ` 25,000 to ` 50,000 at a time from MFIs through their SHGs/JLGs. And another 210 respondents working out to 42% of respondents have taken loan of ` 50,000 to ` 1,00,000 each time. That means, totally, 455 respondents (91%) have availed off the loan to the tune of ` 25,000 to ` 1,00,000. Of the remaining, 35 respondents (7%) have borrowed ` 1,00,000 to ` 1,25,000 and the remaining 10 respondents (i.e., 2% of respondents) have taken loan of less-than ` 25,000 each and each time from MFIs through their SHGs/JLGs.

### (10) Time taken to sanction Loan by MFIs

One of the common allegations against financial institutions is that they take longer period for the sanction and disbursement of loan. In this backdrop, relevant details are collected from the beneficiary-respondents and the same are tabulated below with a few calculations (Table – 5.27).

**Table – 5.27: Time taken to sanction Loan by MFIs**

| Time taken to sanction Loan | Number of Respondents | Relative Share (%) |
|---|---|---|
| 3-7 days | 385 | 77 |
| 7-15 days | 105 | 21 |
| > 15 days | 10 | 2 |
| Total | 500 | 100 |

Source: Survey results

It is obvious from the above that the common allegations about delay for the sanction of loans and advances is not true in the case of MFIs as 385 respondents accounting for 77% of total respondents felt that the MFIs take 3-7 days for the sanction of loan. Of the remaining, 105 respondents felt that the MFIs normally take 7-15 days for the sanction of loan once the application along with all required documents are submitted. However, the remaining 10 respondents stated that the MFIs take more than 15 days to sanction the amount of loan. However, it is apparent as per majority opinion (490 respondents working out to 98% of total respondents) that the MFIs usually take not more than 15 days for the sanction of loan which is appreciable.

### (11) Purpose of Borrowing from MFIs

The purpose for which the beneficiaries borrow from MFIs differs from one customer/beneficiary to another. Therefore, the details about the purpose for which the respondents borrowed from MFIs are obtained (allowing multiple responses) and the same are tabulated below with a few calculations (Table – 5.28).

**Table – 5.28: Purpose of Borrowing from MFIs**

| Sl. No. | Purpose of Borrowing Loan | Number of Respondents | Relative Share (%) |
|---|---|---|---|
| (1) | Self-consumption | 60 | 2.43 |
| (2) | Emergency | 160 | 6.48 |
| (3) | Education | 250 | 10.12 |
| (4) | Marriage | 160 | 6.48 |
| (5) | Construction of house | 130 | 5.26 |
| (6) | Purchase of machines/equipment | 175 | 7.05 |
| (7) | Commencement of business | 240 | 9.72 |
| (8) | Agriculture | 240 | 9.72 |
| (9) | Animal husbandry | 290 | 11.74 |
| (10) | Income generating activities | 370 | 14.98 |
| (11) | Medical expenditure | 205 | 8.30 |
| (12) | Acquisition of property (assets) | 90 | 3.61 |
| (13) | Repayment of existing loan | 30 | 1.21 |
| (14) | Others | 70 | 2.87 |

Source: Survey results

It may be noted here that the beneficiaries borrow from MFIs for multiple purposes and it is obvious from the content of the above table that out of 14 purposes, majority of the respondents (370 respondents working out to 14.98%) have borrowed from MFIs for the purpose of undertaking income-generating activities followed by another 290 respondents (accounting for 11.74% of total respondents) borrowing for taking up animal husbandry. Further, 250 respondents (10.12% of total respondents) borrowed for the purpose of meeting the educational expenses of their children. Besides 240 respondents (9.72%) have borrowed for the purpose of commencing business and an equal number for agricultural activities. And 205 respondents accounting for 8.30% of total respondents have borrowed for the purpose of meeting the medical expenses of members of their families. Other purposes for which the respondents borrowed from MFIs include, (i) purchase of machines/equipment (175 respondents, 7.05%), (ii) meeting emergency needs (160 respondents, 6.48%), (iii) construction of house (130 respondents, 5.26%), etc. However, what is apparent is that majority of respondents have resorted to borrowing from MFIs for the purpose of undertaking income-generating activities either directly or indirectly.

### (12) Opinion on Documentation Procedure of MFIs

There is a general perception/impression that the documentation procedure (i.e., the documents to be enclosed with the loan application by the loan applicants) is cumbersome. The loan providers need many documents to be appended to the loan applications. In this backdrop, the respondents were asked to respond to the question relating to documents that the MFIs require for processing the loan applications. The responses obtained from them are tabulated below with a few calculations (Table – 5.29).

**Table – 5.29: Opinion on Documentation Procedure of MFIs**

| Opinion on Documentation Procedure of MFIs | Number of Respondents | Relative Share (%) |
|---|---|---|
| Easy | 495 | 99 |
| Complicated | 5 | 1 |
| Total | 500 | 100 |

Source: Survey results

It is apparent from the above that majority of respondents (495 respondents accounting for 99% of total respondents) felt that the documentation procedure is easy which is a positive sign. Only the remaining five respondents accounting for mere 1% felt that the documentation procedure is complicated/cumbersome. This indicates that the MFIs insist on only the minimum documents for processing loan applications followed by sanction and disbursement of loan.

### (13) Credit Period or Duration of Loan

The period for which loan is provided depends upon many factors such as purpose of loan, amount of loan, etc. However, the applicants prefer longer credit period so that they can repay without much difficulty. In this backdrop, the respondents were asked to specify the period for which they have taken loan from MFIs through their SHGs/JLGs.

The responses obtained from them are tabulated below with a few calculations (Table – 5.30).

**Table – 5.30: Credit Period or Duration of Loan**

| Duration of the Loan | Number of Respondents | Relative Share (%) |
|---|---|---|
| 12-24 months | 455 | 91 |
| 24-36 months | 35 | 7 |
| > 36 months | 10 | 2 |
| Total | 500 | 100 |

Source: Survey results

It is evident from the above that majority of the respondents (455 respondents accounting for 91% of total respondents) have been given 12-24 months for the repayment of loan (i.e., credit period is 12-24 months). Another 35 respondents (accounting for 7% of total respondents) were given 24-36 months of credit period. And the remaining 10 respondents (2% of total respondents) were given more than 36 months' time for repayment. This appears to be reasonable as the borrowers get reasonable time to repay the borrowed sum. This (i.e., reasonably longer credit period) is also influenced by the RBI's guidelines which stipulate the MFIs to give at least a minimum of 24 months for the borrowers to repay their loans.

**(14) Opinion on Interest Rate charged by MFIs**

The respondents were also asked to comment on the rate of interest charged by the MFIs for the loans taken by the respondents from MFIs. The opinions obtained from them are tabulated below together with a few calculations (Table – 5.31).

**Table – 5.31: Opinion on Interest Rate charged by MFIs**

| Opinion on Interest Rate charged by MFIs | Number of Respondents | Relative Share (%) |
|---|---|---|
| Very high | 140 | 28 |
| High | 280 | 56 |
| Neutral | 75 | 15 |
| Low | 5 | 1 |
| Total | 500 | 100 |

Source: Survey results

It is evident from the above that majority of the respondents (280 respondents accounting for 56% of total respondents) felt that the rate of interest charged by MFIs on the loans taken by them is high. Adding to this, another 140 respondents accounting for 28% of total respondents felt that interest rate is very higher. This means, 420 respondents (working out to 84% of total respondents) are of the opinion that the rate of interest charged by the MFIs is 'high' to 'very high'. However, 75 respondents accounting for 15% of the respondents are non-committal as they are neutral. And the remaining five respondents (accounting for 1% of total respondents) said that the rate of interest charged by MFIs is low.

### (15) Frequency of Repayment of Loan

The details about the frequency of repayment of loan borrowed by respondents are collected from them and the same are tabulated below with a few calculations (Table – 5.32).

**Table – 5.32: Frequency of Repayment of Loan**

| Frequency of Repayment of Loan | Number of Respondents | Relative Share (%) |
|---|---|---|
| Weekly | 25 | 5 |
| Every 14 days | 180 | 36 |
| Monthly | 295 | 59 |
| Total | 500 | 100 |

Source: Survey results

Although the MFIs have monthly collection system, some are giving option to customers to select their convenient repayment period. However, it is evident from the content of the above table that majority of the respondents (295 respondents accounting 59%) are repaying the loan amount on monthly basis. Another 180 respondents accounting for 36% of total respondents are repaying every 14 days. The remaining 25 respondents accounting for 5% of total respondents are repaying on weekly basis. This flexible repayment option is helpful to the borrowers as they are able to repay the borrowed sums according their convenience.

### (16) Customer Opinion on Repayment of Loan

Opinions of respondents on a few aspects pertaining to repayment of loan are obtained from the respondents. These responses are tabulated below with mean values (Table – 5.33). It may be noted here that the respondents were given option for multiple responses.

**Table – 5.33: Customer Opinion on Repayment of Loan**

| Sl. No. | Customer Opinion on Repayment of Loan | Number of Respondents | Mean | Standard Deviation |
|---|---|---|---|---|
| (1) | Prompt and regular in repaying loan installments | 500 | 1.22 | 0.64 |
| (2) | Settled loan amount on or before due date | 500 | 2.41 | 1.09 |
| (3) | Planned for repayment even at the time of taking loan | 500 | 1.10 | 0.46 |
| (4) | Difficulty in repaying multiple loans taken from different MFIs | 500 | 1.19 | 0.67 |
| (5) | MFIs offer flexible loan repayment terms | 500 | 2.31 | 1.29 |
| (6) | Income influences on-time loan repayment | 500 | 1.19 | 0.52 |
| (7) | Interest on loan is favourable for repayment of loan | 500 | 2.17 | 0.88 |
| (8) | MFIs give grace period for repayment of loan | 500 | 1.61 | 0.79 |
| (9) | MFIs provide loan foreclosure facility | 500 | 1.38 | 0.66 |
| (10) | MFIs charge additional interest or fine for delay in repayment of loan | 500 | 1.66 | 1.29 |

Source: Survey results

From the close observation of the content of the above table reveals that out of 10 variables, in the case of three variables (viz., settlement of loan on or before due date, provision of flexible repayment terms, and favourable interest rate encourages repayment of loan), the respondents' responses were between 'disagreeing' and 'neutral' as the mean values are 2.41, 2.31 and 2.17 respectively. With regard to all other variables/factors, the opinions of respondents are either 'agreeing' or 'strongly agreeing' as the mean values range from 1.10 (planning for repayment even at the time of taking loan) to 1.66 (penalty for delay in repayment of loan).

However, in four cases (viz., prompt and regular in repayment, difficulty in repaying loan as borrowed multiple loans from multiple MFIs, flexible repayment terms and penalty for delay in repayment), the opinions of respondents vary widely as the standard deviations are 0.64 (against mean value of 1.22), 0.67 (against mean value of 1.19), 1.29 (against the mean value of 2.31) and 1.29 (against the mean value of 1.66) respectively.

**(17) Challenges faced by Borrowers while availing and repaying Loan**

A few possible problems/challenges faced by the borrower-respondents were placed before them and asked to mark their responses. It may be noted here that the respondents were given option to multiple responses. The responses obtained from them are used to compute the mean value and standard deviation, and the same are presented below (Table – 5.34).

**Table – 5.34: Challenges faced by barrowers while availing and repaying Loan**

| Sl. No. | Challenges faced by barrowers while availing and repaying Loan | Number of Respondents | Mean | Standard Deviation |
|---|---|---|---|---|
| | **Challenges faced at the time of availing Loan:** | | | |
| (1) | Lack of information about group formation | 500 | 4.53 | 0.77 |
| (2) | Lack of information about loan and interest rate | 500 | 4.36 | 0.66 |
| (3) | Difficulty in filling the application and approaching the authorities for getting loan | 500 | 4.65 | 0.81 |
| (4) | Delay in sanctioning loan | 500 | 4.49 | 0.94 |
| (5) | Required loan amount is not sanctioned | 500 | 2.01 | 1.25 |
| (6) | Lack of transparency in charging processing fees and insurance premium | 500 | 3.94 | 1.30 |
| (7) | Lack of cooperation among the members while getting loan | 500 | 1.67 | 1.23 |
| | **Challenges faced at the time of Repayment of Loan:** | | | |
| (1) | Loan installment amount is heavy | 500 | 3.53 | 0.83 |
| (2) | Repayment period is very short | 500 | 3.73 | 0.77 |
| (3) | Not sending timely reminder by officials | 500 | 4.25 | 0.84 |
| (4) | Additional interest or fine charged on loan default | 500 | 1.97 | 1.09 |
| (5) | Lack of sympathetic approach from MFI officials | 500 | 4.12 | 1.29 |
| (6) | Demonetization became problem for repayment | 500 | 1.19 | 0.72 |
| (7) | COVID-19 pandemic created problem for repayment | 500 | 1.13 | 0.44 |
| (8) | Natural calamities lead to problem in repayment | 500 | 1.33 | 0.67 |
| (9) | Loan default affects CIBIL score of customers | 500 | 1.16 | 0.50 |

Source: Survey results

It is evident from the above that with respect to the problems/challenges expected to be faced by the respondents at the time of availing loan from MFIs, the respondents either disagreed or strongly disagreed with regard to, (i) lack of information about group formation, (ii) lack of information about interest amount and rate of interest, (iii) difficulty in filling loan application form and/or in approaching the authorities for getter loan, and (iv) delay in sanctioning loan as the mean values on higher side at 4.53, 4.36, 4.65 and 4.49 respectively. With regard to another possible problem/challenge viz., lack of transparency in charging processing fees and insurance premium, the respondents' responses are between 'neutral' and 'disagreeing' as the mean value is 3.94. As far as the remaining two problems are concerned (viz., not sanctioning required amount of loan, and lack of co-operation among members of SHGs/JLGs while getting loan), the respondents agreed (few are 'neutral' in their opinions) as the mean values are 2.01 and 1.67 respectively. However, in the case of, (i) not sanctioning required amount of loan and (ii) lack of co-operation among members of SHGs/JLGs while getting loan, the opinions of respondents vary widely as reflected by the standard deviation of 1.25 (against the mean value of 2.01) and 1.23 (against the mean value of 1.67) respectively.

Out of nine possible problems/challenges before the borrower-respondents pertaining to the repayment, the respondents did not agree with two and they are, (i) not sending timely reminders by the officials, and (ii) lack of sympathetic approach of officers of MFIs as the mean values are 4.25 and 4.12 respectively signifying 'disagreeing' to 'strongly disagreeing'. With regard to two more possible problems viz., (i) loan instalment amount is high, and (ii) repayment period is very short, the responses from respondents are between 'neutral' and 'disagreeing' as the mean values are 3.53 and 3.73 respectively. On the other hand, with regard to the remaining five possible problems/challenges viz., (i) additional interest or fine charged on loan default, (ii) demonetization, (iii) COVID-19 pandemic, (iv) natural calamities, and (v) adverse impact on CIBIL score of customers, the respondents 'agreed' or 'strongly agreed' as the mean values are 1.97, 1.19, 1.13, 1.33 and 1.16 respectively. However, with regard to three possible problems viz., additional interest or fine on loan default, demonetization and natural calamities, the there is wide variation in the opinions of respondents as reflected by standard deviation –

1.09 (as against the mean value of 1.97), 0.72 (as against the mean value of 1.19) and 0.67 (as against the mean value of 1.33) respectively.

### (18) Non-financial Services offered by MFIs

The details about the non-financial services offered by MFIs are collected from the respondents and the same are tabulated below with a few calculations (Table – 5.35). it may be noted here that the respondents were allowed multiple responses.

**Table – 5.35: Non-financial Services offered by MFIs**

| Sl. No. | Additional services offered by MFIs | Number of Respondents | Relative Share (%) |
|---|---|---|---|
| (1) | Entrepreneurship skills-based programmes | 85 | 9.88 |
| (2) | Development programmes especially for women | 65 | 7.56 |
| (3) | Mobilization of local resources | 20 | 2.32 |
| (4) | Drinking water, health and sanitation | 95 | 11.05 |
| (5) | Enterprise development assistance | 50 | 5.81 |
| (6) | Marketing and managerial assistance | 10 | 1.16 |
| (7) | Providing technical assistance through workshops | 15 | 1.74 |
| (8) | Agricultural/business development services | 40 | 4.65 |
| (9) | Training while lending loan | 480 | 55.81 |

Source: Survey results

It can be seen from the above that out of nine non-financial services, majority of the respondents (480 respondents accounting for 55.81% of total respondents) felt that the MFIs provide comprehensive training while providing loans for 4-5 days. Other important non-financial services include training in the area of, (i) drinking water, health and sanitation (95 respondents accounting for 11.05% of total respondents), (ii) entrepreneurship skill-based programmes (85 respondents accounting for 9.88% of total respondents), (iii) development programmes for women (65 respondents accounting for 7.56% of total respondents), (iv) enterprise development assistance (50 respondents accounting for 5.81% of total respondents), (v) agricultural/business development services (40 respondents accounting for 4.65% of total respondents), (vi) mobilization of local resource (20 respondents accounting for 2.32% of total respondents), (vii) provision of technical assistance (15 respondents accounting for 1.74% of total respondents), and (viii) marketing and managerial assistance (10 respondents accounting for 1.16% of total respondents). This analysis shows that among many non-financial services rendered by MFIs, the important service is the training imparted at the time of sanction and disbursement of loan to the loanees. However, as these non-financial services are associated with costs to the MFIs, only the self-sustained MFIs provide these services.

**(19) Service Quality of MFIs**

Opinions were collected from the respondents about the quality of services at different times and based on these responses, mean and standard deviation are ascertained and presented below (Table – 5.36).

**Table – 5.36: Service Quality of MFIs**

| Sl. No. | Service Quality of MFIs | Number of Respondents | Mean | Standard Deviation |
|---|---|---|---|---|
| (1) | Processing applications | 500 | 1.03 | 0.17 |
| (2) | Sanction of loan | 500 | 1.11 | 0.34 |
| (3) | Disbursement of loan | 500 | 1.24 | 0.49 |
| (4) | Repayment procedure | 500 | 1.51 | 0.62 |
| (5) | Foreclosure formalities | 500 | 1.26 | 0.50 |
| (6) | Training before lending loan | 500 | 1.10 | 0.41 |
| (7) | Managerial assistance for women entrepreneurship | 500 | 1.30 | 0.59 |
| (8) | Post-loan grant services | 500 | 1.4 | 0.62 |
| (9) | Non-financial services | 500 | 1.56 | 0.80 |
| (10) | Executives' availability and approach | 500 | 1.11 | 0.31 |

Source: Survey results

It is apparent from the above that the beneficiary-respondents opined that the MFI services are moderate/easy/very easy as the mean values range from 1.03 (processing loan applications – tilting heavily towards 'very easy') and 1.56 (non-financial services – tilting towards 'moderately easy'). However, there is no wide variation in the responses with regard to all types of services (except one) provided by MFIs as the standard deviation is on the lower side. But in the case of 'non-financial services', there is a wide variation in the responses of beneficiary-respondents as the standard deviation is 0.80 against the mean value of 1.56.

**(20) Impact on beneficiaries after Joining MFI**

Responses/views of beneficiary-respondents were also collected about the changes/improvements in their status after started receiving services from MFIs (through SHGs/JLGs). The responses obtained are used to determine mean and standard deviation and the same are presented below (Table – 5.37).

**Table – 5.37: Impact on Beneficiaries after joining MFIs**

| Sl. No. | Impact on Beneficiaries after joining MFIs | Number of Respondents | Mean | Standard Deviation |
|---|---|---|---|---|
| | **Impact on Economic status of Clients:** | | | |
| (1) | Engaged in income-generating activities | 500 | 1.06 | 0.28 |
| (2) | Upliftment of living standards | 500 | 1.30 | 0.50 |
| (3) | Acquiring assets (land, building, vehicle, etc) | 500 | 1.42 | 0.68 |
| (4) | Created opportunity to become self-employed | 500 | 1.28 | 0.65 |
| (5) | Improved savings and investment habit | 500 | 1.26 | 0.52 |
| (6) | Empowered economically (women) | 500 | 1.17 | 0.40 |
| (7) | Growth in agricultural and allied activities | 500 | 1.11 | 0.49 |
| | **Impact on Social status of Clients:** | | | |
| (1) | Improvement educational level of children | 500 | 1.08 | 0.27 |
| (2) | Awareness about women protection and other social issues | 500 | 1.22 | 0.41 |
| (3) | Attending various social awareness programmes | 500 | 1.35 | 0.65 |
| (4) | Improved communication skills and confidence to interact with group members | 500 | 1.29 | 0.48 |
| (5) | Better health and sanitization | 500 | 1.46 | 0.69 |
| (6) | Improvement in social status and security | 500 | 1.17 | 0.40 |

| | | | | |
|---|---|---|---|---|
| | **Impact on Political Empowerment of Clients:** | | | |
| (1) | Participation in the meetings of village panchayat and Grama Sabha | 500 | 1.08 | 0.31 |
| (2) | Regular voting in elections | 500 | 1.21 | 0.52 |
| (3) | Regular interaction with politicians | 500 | 2.39 | 1.75 |
| (4) | Contesting election as a candidate | 500 | 2.56 | 1.77 |
| (5) | Selected as a member of government body | 500 | 2.16 | 1.82 |
| (6) | Freedom for women to participate political activities | 500 | 1.63 | 0.61 |
| | **Impact on Family Decision-making:** | | | |
| (1) | Positive impact on education of girl child | 500 | 1.04 | 0.24 |
| (2) | Increase in decision-making power in the family | 500 | 1.15 | 0.38 |
| (3) | Taken family decisions against dowry system, domestic violence and child marriage | 500 | 1.35 | 0.52 |
| (4) | Taking independent decisions related to family savings, investment, etc | 500 | 1.36 | 0.50 |
| (5) | Able to manage family business and cash flows effectively | 500 | 1.20 | 0.42 |
| (6) | Managing household activities effectively after taking loan from MFIs | 500 | 1.12 | 0.35 |

Source: Survey results

It is obvious from the above that the beneficiary-respondents agreed and strongly agree with all seven economic implications favourably after started receiving the services from MFIs as the mean value ranges from 1.06 (engagement in income generating activities) to 1.42 (acquisition of assets such as land, building, vehicle, etc). However, with regard to ‘creation of opportunity to become self-employed’, there is wide variation in the responses of beneficiary-respondents as the standard deviation is on higher side at 0.65 against the mean value of 1.28.

As far as the changes in social status of beneficiary-respondents after started availing the benefits from MFIs, the respondents either agreed or strongly agreed with all six areas as the mean value varied between 1.08 (improvement in educational level of children) and 1.46 (better health and sanitization). And there is no wide variations in the responses of beneficiary respondents as the standard deviation in on the lower side.

With regard to political empowerment, the responses of beneficiary-respondents varied between ‘strongly agreeing’ to ‘neutral’ as the mean value varied between 1.08 (participation in the meetings of village panchayats and grama sabha) and 2.56 (contesting election as a candidate). However, in the case of three areas viz., regular interaction with politicians, contesting election as a candidate and selected as a member of government body, the responses vary widely as the standard deviation is on higher side at 1.75 (against mean value of 2.39), 1.77 (against mean value of 2.56) and 1.82 (against mean value of 2.16) respectively.

As far as the fourth category (viz., impact on family decision-making) implications are concerned, it can be observed from the above table that the beneficiary-respondents either agreed or strongly agreed with all six areas of improvement after started receiving services from MFIs. Association with MFIs through SHGs/JLGs has favourably influenced on family decision-making processes with regard to education of children, decisions against social evils, savings and investment, management of family business and cash flows, management of household activities, etc. Most importantly, there is no wide variation in the responses of beneficiary-respondents as the value of standard deviation is on the lower side.

**Conclusion**

From the above comprehensive analysis of responses obtained from both the officers of MFIs and also beneficiaries of these MFIs, it is obvious that the MFIs are doing commendable job to assist the economically poorer sections of the society more particularly women from rural area. Further, the customers/beneficiaries are also satisfied in majority of the cases except a few such as interest rate, penalty for the delay in the repayment of loan, etc. And the MFIs have to address these issues and resolve them to serve the deprived classes better.

# CHAPTER – VI

# SUMMARY OF MAJOR FINDINGS, CONCLUSION AND SUGGESTIONS

**Chapter Outline**

- Introduction
- Major Findings of the Study:
  - Major Findings based on Financial Performance Evaluation
    - Findings based on Business-related Performance Evaluation
    - Findings based on Cost Effectiveness/Management
    - Major Findings based Income-related Performance Evaluation
    - Major Findings based on Liquidity, Long-term Solvency and Capital Adequacy Evaluation
    - Major Findings based on Asset Quality Evaluation
    - Findings based on the Profitability Evaluation
  - Major Findings based on the Analysis of Perceptions of,
    - I. Officials of MFIs
    - II. Beneficiaries of MFIs
- Conclusion
- Suggestions
- Areas for further Research

## Introduction

The present work (as stated in Chapter – II) is taken up for the purpose of addressing a few objectives and also for testing the hypotheses. The performance of five MFIs has been examined in the previous chapters from the point of view of their financial performance, and also their financial and allied services to the needy. In the process, perceptions of both officer- respondents and beneficiary-respondents are also analyzed. Besides, a comparison of performance of five MFIs is made from the point of view of different aspects financial performance. For this purpose, relevant data for a period of five years, 2016-17 to 2020-21, are used and analysed them with the help of accounting ratios and descriptive statistics besides CAGR and trend analysis. For testing the hypotheses, one-way ANOVA test is carried out. In this backdrop, the objectives, hypotheses and the chapters where attempts are made to address these objectives and to test the hypotheses are summarized below:

**Objectives of the Study, Hypotheses and Chapters**

| Sl. No. | Objectives | Hypotheses | Chapter where addressed/ tested |
|---|---|---|---|
| (1) | Analysis and presentation of theoretical framework including regulatory framework of microfinance and MFIs. | - | I |
| (2) | Brief profile of MFIs selected for the study | - | III |
| (3) | Evaluation of sources and adequacy of funds of MFIs besides the evaluation of financial performance of MFIs in Karnataka. | Formulated a broader null hypothesis and tested it from the point of view 18 parameters | IV |
| (4) | Analysis of the problems of MFIs and their clients based on the responses/ perceptions of officers and beneficiaries. | - | V |
| (5) | Suggestions for improving the working/ performance of MFIs | - | VI |

Note: Chapter – II presents the technical aspects of research report i.e., research design including literature review and identification of research gap.

As already stated, in the previous chapters, the analysis, interpretation and comparison of different aspects financial performance evaluation of MFIs have been discussed with the help of different accounting ratios, statistical tools and techniques. Further, an attempt has also been made to evaluate the perceptions of both MFIs (through their officers) and their clients (i.e., beneficiaries of MFIs). Based on this analysis and interpretation, many findings have come to the light. These findings have been presented in the earlier chapters at the appropriate places. However, in the present chapter, summary of major research findings is brought into one heading viz., Summary of Major Findings followed by suggestions to improve the working of MFIs.

## Major Findings of the Study

Major findings of the study are presented under two sections viz., findings based on the analysis of financial performance of MFIs (using the financial data from their annual reports, 2016-17 to 2020-21), and findings based on the perceptions of officers and clients/customers/beneficiaries of MFIs.

## I. Major Findings based on Financial Performance Evaluation

The following are the major findings based on the comprehensive evaluation of financial performance of selected MFIs from 2016-17 to 2020-21 (five years) are summarized below. The financial performance of MFIs are measured through six broad parameters and in each parameter, 3 - 4 ratios are computed and analyzed with the help of accounting ratios and descriptive statistics besides trend analysis and CAGR. One-way ANOVA is also used to test the null hypothesis, '*there exists no significant difference in the performance of MFIs*'.

**(1) Findings based on Business-related Performance Evaluation** – As discussed in Chapter – IV, three ratios viz., Total Advances to Total Assets Ratio, Business per Employee and Loan per SHG/JLG Member are measured to evaluate and compare the business-related performance of MFIs.

(a) With regard to ‘Total Advances to Total Assets Ratio’, it is found that all the five MFIs have improved their performance during the study period. However, the improvement in the ratio differed from one MFI to others – 8.49% (IDFFSPL) and 107.77% (CAGL). And this difference in the performance is statistically significant as established by ANOVA test results.

(b) In terms of ‘Business per Employee’, NABFINS has achieved the highest ratio, among five MFIs, and the CIFCPL is the poor performer as its business (i.e., loans and advances) per employee is lowest.

(c) Although all the five MFIs have improved their performance in terms of ‘Loan per SHG/JLG Member’ during the study period, the performance differs from one MFI to others – CAGL is the top performer with five-year average of ` 29,476.80 of loan per SHG/JLG member and CIFCPL is the poor performer with only ` 17,647.10 loan per SHG/JLG member.

**(2) Findings based on Cost Effectiveness/Management** – For the purpose of evaluating the cost effectiveness/management, four ratios are used and they are (a) Total Cost, (b) Interest and Non-interest Costs – Relative Share, (c) Interest Coverage Ratio, and (d) Operating Expenses Ratio.

(a) It is natural that the cost increases with the increase in the volume of business. In this regard, in four MFIs, CAGR in total cost is lower than that in loans and advances. But in the case of NABFINS, it is reverse – CAGR in loans and advances is 10.04% as against in total cost of 13.70% indicating an element of inefficiency. Even the ANOVA test results establish the significant difference in performance of MFIs in terms of total cost as the $f_{cal}$ (12.32) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$.

(b) Out of total cost, non-interest cost has registered continuous increase in majority of MFIs during the study period when compared to interest cost. However, CIFCPL has succeeded in controlling non-interest cost but failed to control interest cost. But in the case of IDFFSPL, reverse is true. Even the ANOVA test results established the existence of significant difference among MFIs as $f_{cal}$ (4.29) > $f_{tab}$ (2.87) in the case of interest cost ratio, and $f_{cal}$ (4.28) > $f_{tab}$ (2.87) in the case of non-interest cost ratio at $\alpha = 0.05$ for $df = 24$. Therefore, the alternative hypothesis, ‘$H_a$: *There exists significant difference in the performance* *of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of each of interest cost ratio and non-interest ratio.

(c) For majority of the years, MFIs have 'interest coverage ratio' of higher than '1' but the excess is marginal. This indicates that if their profits decline marginally, it becomes difficult for them to meet their interest obligations. And no MFI has succeeded in improving its interest coverage ratio consistently year after year during the study period. Among five MFIs, CAGL is in the first place with the five-year annual average of 1.63 times followed by NABFINS, IIFLSFL, CIFCPL, IDFFSP with five-year annual averages of 1.55 times, 1.41 times, 1.32 times and 1.29 times respectively. However, the difference among five MFIs is statistically not significant as shown by ANOVA test results - $f_{cal}$ (1.064) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$ and therefore, the null hypothesis is tested and accepted and concluded that there is no significant difference in the performance of MFIs in terms of interest coverage ratio.

(d) Operating expenses ratio shows that, CAGL and IDFFSP have succeeded in lowering their ratios continuously year after year. During the 2020-21, CAGL and IDFFSP have reduced the ratio to 3.31% and 5.2% respectively and the same trend has continued in all the MFIs except NABFINS. Therefore, except in NABFINS, in all the four MFIs, CAGR is negative which is desirable. Even the ANOVA test results establish the existence of significant difference in the performance of MFIs as evident from $f_{cal}$ (13.05) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$.

**(3) Major Findings based Income-related Performance Evaluation** – For the purpose of evaluating and comparing the performance of MFIs from the point of view of income, (a) Total Income, (b) Interest Income to Total Income Ratio, (c) Other Incomes to Total Income Ratio, and (d) Operating Self Sufficiency Ratio are used.

(a) All the five MFIs have improved their total revenue/income during the study period with positive CAGR with a few exceptions - downward trend in NABFINS (2020-21) and IDFFSP (2017-18) compared to previous year. However, CAGL stands in the first place with highest amount of total income compared to other four MFIs. On the other hand, IDFFSP is the smallest MFI in terms of total income when compared to other selected MFIs. ANOVA test carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of total income) shows that, $f_{cal}$ (17.168) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$. This signifies the existence of a significant difference in the performance of MFIs from the point of view of total income.

(b) Interest income to total income ratio has moved in both the directions during the study period in all the five MFIs. NABFINS is in the first position with the highest five-year average ratio of 92.88% and IIFLSFL is the least performer with 83.30%. Even ANOVA test results establish that the existence of no significant difference in the performance of MFIs from the point of view of interest income to total income ratio [$f_{cal}$ (1.797) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$].

(c) In terms of 'other incomes to total income ratio', NABFINS is better performer with 5.69% and CAGL is the poor performer with 0.33%. Similarly, the performance of other MFIs differs. Further, the difference in the performance of MFIs in terms of 'other incomes to total income ratio' is statistically significant ($f_{cal}$ (6.425) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(d) In terms of 'operating self-sufficiency ratio' (i.e., the ratio of aggregate of interest income and fee received on the one hand, and the aggregate of operating expenses, loan loss provisions and financial cost on the other), CAGL is more efficient with five-year annual average of 139% and the least efficient is IDFFSP with 113.73%. This shows that, MFIs have adequate revenue to meet all operating essences including loan loss provisions and financial cost. However, ANOVA test results signify the existence of significant difference in the performance of MFIs from the point of view of operating self-sufficiency ratio.

**(4) Major Findings based on Liquidity, Long-term Solvency and Capital Adequacy Evaluation** – For this purpose, three important ratios (Current Ratio for Liquidity evaluation, Debt-Equity Ratio of evaluating Long-term Solvency, and Capital Adequacy Ratio for Capital Adequacy) are used.

(a) As far as the Current Ratio is concerned, all the five MFIs have higher than 1.50 current ratio – with 2.63 current ratio in the case of CIFCPL and 1.57 ratio in the case of IDFFSP. Although there is a difference in the performance of MFIs in terms of liquidity, the difference is statistically not significant as evident from ANOVA test results ($f_{cal}$ (1.664) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(b) The Debt-Equity Ratio used to evaluate and compare the long-term solvency of MFIs showed that the ratio is higher than '2' in all the five MFIs. The ratio moved in the both directions in all the MFIs during the study period. However, the five-year annual ratio is highest in the case of NABFINS at 4.67 times and the lowest is in the case of IDFFSP with 2.09 times. This shows the dependency of MFIs on loans and advances for their lending business. Even the ANOVA test results establish the existence of a significant difference in the performance of MFIs from the point of view of debt-equity ratio ($f_{cal}$ (3.381) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(c) In terms of capital adequacy, the performance of all MFIs is better as they have higher than the minimum prescribed by the Reserve Bank of India of 15%. Among the five MFIs, CAGL has highest five-year annual average of 28% followed by CIFCPL, IDFFSP and IIFLSFL with 27.28%, 25.76% and 25.54% respectively. The ratio is lowest at 20.80% in the case of NABFINS. In spite of this, the difference is statistically not significant as the ANOVA test results of $f_{cal}$ (0.735) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$ establish.

**(5) Major Findings based on Asset Quality Evaluation** – In order to evaluate the asset quality of MFIs (i.e., of loans and advances provided by MFIs), three important ratios are used. They are, Gross NPA Ratio, Net NPA Ratio, and Write-off Ratio.

(a) CAGR in gross NPA ratio of all MFIs is positive except for IIFLSFL. It is lowest in the case of IDFFSP at 1.05% (five-year annual average) and highest at 5.70% (five-year annual average) in the case of NABFINS. In other three MFIs, the ratio is in between the lowest and highest. What is important is, in all MFIs, the ratio is lower than the maximum set by the apex bank of the country. However, ANOVA test results ($f_{cal}$ 6.49 > $f_{tab}$

2.87 at 5% level of significance with the *df* of 24) reject the null hypothesis accepting the alternative hypothesis. Hence, there exists a significant difference in the performance of MFIs (from the point of view of gross NPA ratio).

(b) IDFFSP, CAGL and CIFCPL have kept the net NPA ratio at less-than 1%. And in the case of NABFINS, it is higher than 1% (at 1.32% of five-year annual average). This shows the difference in the performance of MFIs. Even the ANOVA test results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) establish that the difference is statistically significant (i.e., existence of significant difference in the performance of MFIs).

(c) In terms of write-off ratio, there exists no significant difference as the ratio varied between 0.008% in the case of NABFINS and 2.002% in the case CAGL. In other three MFIs, it is at 0.584%, 0.816% and 0.879% (CIFCPL, IIFLSFL and IDFFSP respectively). Even the ANOVA test results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) establish the existence of no significant difference in the performance of MFIs (from the point of view of write-off ratio).

**(6) Findings based on the Profitability Evaluation** – For the purpose of evaluating the profitability of MFIs, four important profitability ratios are used. They are, Portfolio Yield Ratio, Profit per Employee, Return on Equity and Return on Assets.

(a) In all the five MFIs, the Portfolio Yield Ratio moved in both the directions during the study period. However, the five-year annual average is highest at 23.09% in the case of CIFCPL and NABFINS reported the lowest ratio of 15.64% indicating wide difference between one MFI and another in terms of Portfolio Yield Ratio. Even the ANOVA rest results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) signify the existence of difference in the performance of MFIs in terms of portfolio yield ratio. And this difference is statistically significant.

(b) The five-year annual average profit per employee is highest in NABFINS of ` 3,82,841 followed by CAGL with ` 2,27,441, IDFFSP ` 87,165, and IIFSFL with ` 16,505 of profit per employee. And it is lowest at ` 16,505 in the case of IDFFSP. In spite of this difference, the difference is statistically not significant as the $f_{cal}$ 2.2931 < $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24.

(c) No MFI has succeeded in improving its Return on Equity Ratio consistently year after year during the study period – instead, they allowed the ratio to decline for one or more years. However, the five-year annual average ratio is highest at 15.97% in the case of IIFLSFL followed by CAGL with 13.51%, NABFINS with 10.45%, IDFFSP with 7.95% and the poor performance is registered by CIFCPL at 1.80%. However, the difference is statistically not significant as $f_{cal}$ (2.293) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for *df* = 24. Therefore, there is no significant difference in the performance of MFIs from the point of view of RoE ratio.

(d) Even the overall profitability ratio viz., Return on Assets Ratio moved in both the directions during the study period in all five MFIs. However, CAGL reported the highest five-year annual average of 3.84% followed by NABFINS with 3.06%, IIFLSFL with 2.50% and IDFFSP with 2.46%. And the CIFCPL is the poor performer with five-year annual average of only 0.35%. This indicates wide difference in the performance of MFIs from the point of view of return on assets ratio. And this difference is statistically significant as the ANOVA test results ($f_{cal}$ 3.138 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24).

## II. Major Findings based on the Analysis of Perceptions of Officers and Beneficiaries of MFIs

As discussed in Chapter – V, perceptions of both officers (68 officers from each of five MFIs = 340) and beneficiaries/clients/customers (100 customers from each of five MFIs = 500) are obtained and analysed. And the detailed findings are also presented in the same chapter. However, an attempt is made here to present the summary of these findings.

It may be noted here that for both the categories of respondents (i.e., for both officers and beneficiaries), the same questions were asked for their response (of course, changing the tone of the questions). These questions focused on different dimensions of services provided by the MFIs – officers providing their opinions on the quality of services provided by them (i.e., by MFIs), and beneficiaries providing their opinions on the quality of services received by them from the MFIs. In this backdrop, summary of major findings is presented below:

## II (a). Major Findings based on the Analysis of Perceptions of Officials of MFIs:

(1) All MFIs are primarily focusing on the empowerment of women. 92.65% of the officer-respondents felt that they are targeting women as against only the remaining 7.35% officers stating that they are focusing on both the men and women for their business and to provide financial services – only CAGL has designed a few schemes targeting both men and women customers.

(2) One of the reasons for targeting women by the MFIs is, as felt by the officer-respondents, is the fact that the women-customers are more prompt in repayment of borrowed sums – the mean value is between 1 and 1.2. Further, the women customers are regular in attending group meetings (mean value is between 1.16 and 1.76), wise spending of loan amount (mean value between 1.32 and 1.85), and investment of borrowed sums in income-generating activities, habit of savings and investment (mean value of less-than 1.50). All these factors are in favour of MFIs focusing on the women-customers.

(3) Majority of the MFIs are using JLG method for lending as it is very easy, convenient, less number of members and minimum documentation for are lending in short span of time. However, NABFINS is using both SHG and JLG modes.

(4) Among 14 factors considered for evaluation of loan applications and for sanctioning loans, KYC is an important factor with mean value of 1-1.3, size and composition of SHG/JLG (mean value between 1 and 1.9), use of borrowed money for income generation activities (with mean value between 1 and 1.11), CIBIL score of group means (mean value of 1-1.2), etc.

(5) There is a complaint against MFIs to the effect that they take more time for the sanction and disbursement of loan. For this, the officer-respondents stated that the delay in the submission of NOC from SHG/JLG is an important reason for the delay with mean value of 1.38 to 2.19. Another reason is the inadequate staff of MFIs.

However, the officers denied that limited financial resources with MFIs and procedural delay at the MFIs as the reasons for the delay in the sanction and disbursement of loans with mean value of higher than 2.69.

The officers stated that they/MFIs take 3-4 days for the renewal of loans and 7 days for new loans after considering CIBIL score, earning members of the family, repayment capacity of applicants, nature of income generating activities they intend to take with the help of loan, etc.

(6) Official-respondents strongly felt that the interest rate charged by MFIs is reasonable to cover their costs (mean value of less than 1.75). They also felt that the customers are aware about the interest rate charged by MFIs (mean value is 1.36-1.86). And the official-respondents also felt that the interest rate charged by MFIs is competitive and it is fixed after considering the market forces - CIFCPL, IIFLSFL and NABFINS have mean value of 1.02-1.33. But IDFFSPL is charging high rate of interest (up to 24%) which is comparatively higher than other MFIs.

Further, they felt that the interest rate has not affected the repayment of loans by the customers/borrowers as there is flexibility in repayment schedule - repayment period up to 24 months, weekly repayment facility, etc. Another reason is the liability of all members of the group (SHG/JLG) for the failure any member to repay the loan.

(7) All official-respondents felt that the borrowers do not behave impolitely during the recovery process as majority of borrowers are women and from rural area with respect towards the officials of MFIs. And there is no stress on them i.e., while working with the MFIs.

Officials denied that the MFIs lack loan monitoring system with the mean value between 3.04 and 4.52).

The percentage of loan recovery rate is 90 - 100% in all MFIs except IDFFSPL. In the case of IDFFSPL, the recovery rate low at 70-90%. Only in a very few cases, they (MFIs) resorted to legal action (including ‘lok Adalats’) for recovery of loan. And officials felt that, legal action for the loan recovery involves higher cost and lengthy process with mean value between 1.91 and 2.70.

(8) Higher interest and the possibility of government waiving-off the loan are not important reasons for low recovery rate as mean value for these reasons are higher than 3.50. However, irregular income, diversion of loan amount, migration of borrowers (especially urban borrowers),

demonetization are the major reasons for low recovery rate (mean value of 1 to 1.59).

(9) MFIs are providing both financial and non-financial services. As far as the financial services are concerned, the most important service is the loan provided for income generation purpose with mean value of 1 to 1.14). However, during Covid-19 lockdown, some of the financial services such as, individual retail finance, emergency loan, family welfare loans, home improvement loan (with mean value of 1.95 to 2) are temporarily suspended.

MFIs are also providing financial literacy programmes and other programmes based on the customers' needs and requirements.

(10) MFIs are facing many operational challenges including high operational cost, clients' dropouts and collection and delivery of services to new and distant area.

Of the financial challenges, five are considered as not the real financial challenges and they are, high default rate, low outreach accessibility, over indebtedness and lack of good portfolio quality, and high personal and administration expenses where mean value is on the higher side of 1.77 to 4.66. The remaining challenges are high rate of interest compared to bank, high transaction cost, inadequate financial resources at cheaper cost, heavy dependence on banks and financial institutions, and difficulty in recovering cost from operational resources where mean value is between 1.22 and 2.77.

Among six challenges in credit risk management, five are considered as real problems and they are, loan used for consumption purpose rather than investment, multiple borrowings and over indebtedness, failure of business due to inadequate skills to manage loan amount, inadequate loan for carrying income generation activities, and unforeseen contingencies with mean value of 1.22 to 2.57. However, inadequate training to customers before disbursement of loan is not a challenge in the credit risk management with the mean value of 3.34 to 4.07.

As far as challenges in human resource management, insufficient skills, lack of training and professional development opportunities for staff and shortage of workers are not considered as the real challenges with mean value of 2.16 to 4.01. However, higher labour turnover rate is the real challenge faced by MFIs with mean value of 1.91 to 3.50.

## II (b). Major Findings based on the Analysis of Perceptions of Beneficiaries of MFIs:

(1) MFIs are providing loans for all economic activities and to different sections of the society. Majorities (30%) of the respondents are agriculturist, 25% of them are businessmen, 21% are salaried persons and only 15% and 9% of them are daily wagers and agricultural labourers respectively.

(2) The beneficiary-respondents felt that the MFIs consider the annual income of the members while lending loans. As per the RBI regulations, for rural customers, their annual income should be more than ₹ 1,50,000 and for urban customers, it should be more than ₹ 2,00,000. However, 88% of the beneficiary-respondents have income between ₹ 1 lakh and ₹ 2 lakh each, whereas 10% of the respondents have income of more than ₹ 2 lakh and only 2% of respondents have income less than ₹ 1 lakh.

However, before providing loans, MFIs consider number of earning members in the family - 70% of the respondents have more than three earning members in the family and only 30% of the respondents have 1-2 earning members in their families.

(3) Factors such as door step services, initiation for group activities, less documentation, loan without collateral security, easy lending process, training before lending loan, easy and flexible repayment schedule, provision for loan foreclosure facility, loan cards provided with details about loan policy with EMI information, friendly and quick response from staff, MFI’s goodwill, improvement for socio-economic status and provision of loan to low income people are stated to be driving forces behind the respondents joining SHGs/JLGs with mean value between 1.02 and 1.50.

(4) Majority (83%) of the beneficiaries of MFIs are JLG members and only a few beneficiaries are SHG members (17%).

Majority of the respondents (91%) borrowed loan for income generation purpose, 6% for family welfare purpose and the rest of them borrowed for individual retail loan, emergency loan, home improvement loan and other purpose (multiple responses allowed in the questionnaire).

Majority (79%) of the beneficiaries have borrowed loan from multiple MFIs and only 21% of them have borrowed only one MFI.

Majority (53%) of the beneficiaries borrowed loan for 2-3 times, 28% borrowed only once, 18% borrowed for 4-5 times and only 1% borrowed for more than 5 times.

Majority (49%) of the beneficiaries have borrowed loan of ` 25,000 to ` 50,000 from MFIs, 42% from ` 50,000 to ` 1 lakh, 7% from ` 1 lakh to ` 2 lakh and only 2% of the respondents borrowed less than ` 25,000 loan at a time.

(5) Majority (77%) of the respondents opined that, MFIs take 3-7 days to sanction loan, 2% opined that 7-15 days are taken they take and only 2% of the respondents felt that the MFIs take more than 15 days to sanction the loan amount. This opinion is, more or less, similar the one provided by the officer-respondents.

Further, majority (99%) of the beneficiary-respondents felt that, documentation requirement for obtaining loan from MFIs is easy and only 1% felt that documentation procedure is complicated.

(6) Majority (370 responses) of the respondents borrowed money from MFIs for income generation activities followed by animal husbandry, education, commencement of business and agriculture, meeting medical expenditure. And a few (less than 175 responses received) have borrowed for emergency, marriage, purchase of equipment, construction of house, acquisition of property, repayment of existing loan, self-consumption, and other purposes (multiple responses allowed in the questionnaire).

(7) Majority of the respondents (91%) have taken 12-24 months to repay their loan, 7% have taken 24-36 months and only 2% of the respondents have taken more than 36 months for repayment of loans they borrowed.

Majority (56%) of the respondents opined that the interest rate charged by MFIs is high, 28% felt that it is very high, 15% of the respondents are neutral and only 1% felt that it is low.

Majority of the respondents (59%) are repaying loan EMI monthly, 36% of them are repaying every 14 days and only 5% of them are repaying weekly.

(8) On the problems/challenges faced by the respondents while availing loans and advances from MFIs, they stated that the lack of information about group formation, loan and interest rate, difficulty in filling the application and in approaching appropriate officer/s for getting loan, delay in sanctioning loan are assigned with mean value of 4.65 to 4.39 implying that these are not the challenges.

However, lack of transparency in charging processing fees and insurance premium were assigned with mean value of 3.94. But the lack of co-operation among SHG/JLG members while getting loans and the MFIs not sanctioning the required loan amount were considered by the respondents are the real problems with mean value of 1.67 and 2.01 respectively.

And the beneficiary-respondents disagreed with the official-respondents and they felt that the MFIs are not sending timely reminders for repayment of loans, and also about the absence of sympathetic approach of officials of MFIs – however, the mean value are 4.25 and 4.12 respectively. Similarly, higher loan instalment amount and shorter repayment period are also considered as the difficulties faced by the beneficiaries while repaying loan - however, the mean values are 3.53 and 3.73 respectively.

(9) Majority of the respondents have agreed and strongly agreed about the quality of services offered by MFIs such as timely processing of loan applications, sanction and disbursement of loan, repayment procedure, foreclosure formality, training before lending loans, managerial assistance for women entrepreneurship, post-loan grant services and availability of executives availability as the mean values are between 1.03 and1.56.

Beneficiary-respondents agreed and strongly agreed with the view that the availing of loans and advances from MFIs has improved their economic status and this is evident from the mean values of 1.06 to 1.42.

Beneficiary-respondents agreed and strongly agreed with the view that loans and advances from MFIs enabled them to acquire and improve their social status as indicated by the mean values of 1.08 to 1.46.

Beneficiary-respondents have also agreed and strongly agreed with the view that the loans and advances have enabled them to acquire political status such as participation in meetings of village panchayats and gram sabha, regular voting in elections as the mean values are 1.08 and 1.21 respectively. It has also helped the members to interact with politicians, contesting election as candidates, and selection as members of government bodies and freedom for women to participate political activities as the mean values are between 1.63 and 2.56.

(10) It (i.e., MFI loan) enhanced the ability of beneficiaries in family-related decisions as the mean values are between 1.04 and 1.36.

## Conclusion

Microfinance cannot be undermined in the countries like India. It is playing a vital role in socio-economic upliftment of the poor. Since 1990s, national and international agencies/institutions have undertaken various programmes for alleviation of poverty. Microfinance is one of the programmes in this direction and it is fast emerging tool for poverty reduction, socio-economic development, and for increasing earning capacity of young entrepreneurs. It has wide range of financial services which serves low and marginal groups.

In India, MFIs are playing key role in providing microfinance especially in rural area and to the economically backward sections of the society. With all positive outcomes, microfinance comes with a set of challenges which need to be dealt in a systematic manner. They contribute immensely towards country's journey to attain sustainable economic growth. Both the central government and the RBI have taken steps for growth of this sector.

Still, it is necessary for both the central and the state governments to create necessary awareness about the services of MFIs. This could strengthen economic status of India. Covid-19 pandemic in the last quarter of 2019-20 has hit the growth of microfinance industry in the country which has registered only 31% growth as against the growth rate of 41% in 2018-19. It is, therefore, foremost important to facilitate the industry for putting the sector back on rolls to overcome the effects of Covid-19 pandemic. The regulatory authorities like, IRDAI, SEBI, PFRDAI, IBBI, etc., have to ensure a congenial environment for the microfinance sector for carrying on its activities. Banks and other financial institutions have to ensure adequate funds flow to the sector for continuation of its operations unhindered.

**Suggestions**

The MFIs in the country are contributing, in many ways, to eradicate poverty through strengthening the hands of poor by providing necessary financial assistance/ services and also by imparting necessary training as to how to manage the funds and also business units. And most importantly, the recovery performance is much higher when compared to the commercial banking companies in the country. Further, the NPA ratios are much lower and they have higher than the minimum capital adequacy ratio. And they are working to empower the poorer sections of the society who were hitherto deprived of formal institutional banking/financial services. However, for MFIs to continue and expand their service to the poor, the following suggestions are offered.

(1) The rate of interest charged by the MFIs on their loans and advances to their clients/customers is comparatively higher. This is true in the case of all MFIs selected for the present study. These MFIs are charging interest at '18%+' which is on the higher side as compared to the interest rates charged by the commercial banks of around 15%. It is, therefore, suggested to reduce the interest rate and make it competitive. There are at least two avenues to achieve this – one, by reducing non-interest costs and two, by improving the non-interest incomes. Both provide scope for minimizing/ maximizing the performance of MFIs. And a part of these benefits may be passed on to the members of SHGs/JLGs in the form of reduction in the interest rate. This ensures more business to MFIs and also scale economies.

(2) Most of the MFIs are depending on subscriptions, donations and own fund for the purpose of their lending activities and for providing other financial services to the economically poorer sections of the society more particularly, women. However, the analysis shows wider gap between the funds available and required for lending. As the fund required is higher

than available, many clients are denied institutional credit service. It is, therefore, suggested that the government and the apex bank should make an arrangement for ‘refinancing’ facility at comparatively lower interest rate. This refinancing facility may be subject to the following conditions:

- The refinancing may be restricted to 50-75% of the loans and advances provided during an accounting year.
- The maximum rate of interest charged by the MFIs may be fixed by the authorities. For example, the MFIs not to charge higher than 16% interest per annum.
- Eligibility of MFIs for refinance facility may be calculated on yearly basis on the fresh loans and advances disbursed during that accounting year.

(3) Keeping in the mind interest of the customers/clients, the MFIs may earmark certain percentage of their loanable funds (say, 60%) for providing loans and advances for income-generating activities. This helps the economically poorer sections to develop their own business, however small it is, which ensures a stream of income for a longer period. This in turn strengthens and empowers the borrowers economically which is one of the primary objectives of MFIs.

For income-generating activities, the amount of loans and advances may be increased keeping in the current price level. Because, it is very difficult to take up any income-generating activities with the help of small amount of loan say, ` 5,000 to ` 10,000.

(4) MFIs should strengthen their monitoring system i.e., to ensure the amount of loan borrowed is used by the borrower for the purpose for which it was provided by the MFIs. It may be noted here that the diversion of borrowed money for other purposes defeats the very purpose of provision of loans and advances by the MFIs. Therefore, it is necessary to monitor the post-loan activities of borrowers.

(5) Although the MFIs are taking less time for the sanction of loans and advances, there is scope for further reduction in the time taken for sanctioning loans and advances. For this purpose, it is necessary for MFIs to use information technology to a larger extent which is, in the long-run, is cost economical. Further, this technology can be used extensively for credit appraisal, credit monitoring, etc. This also saves lot of time and also ensures more benefits not only for MFIs but also for their borrowers.

(6) Although the problem of non-performing advances is below the level prescribed by the apex bank of the country, and also substantially lower than in the case of commercial banks, still there is scope for further reduction the non-performing advances. In this regard, it is suggested that the MFIs should obtain some kind of collaterals/surety for the loans and advances provided. In the absence of this, it is very difficult for the MFIs to recover the loan amount.

## Areas for further Research

Although a few studies have been undertaken and completed by the researchers in the past, there are many areas which deserve thorough investigation/research. Some of these areas are identified below:

(1) Sources of fund of MFIs and the costs of capital

(2) Post-loan Socio-Economic Status of Borrowers

(3) A Comparative Study of Cost of Capital and Return on Investment of MFIs

(4) Cost Structure and Composition (identifying unnecessary costs for elimination)

(5) Problems of MFIs

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# WORKING OF MICRO FINANCIAL INSTITUTIONS IN KARNATAKA WITH SPECIAL REFERENCE TO FINANCIAL PERFORMANCE

**Thesis submitted to Kuvempu University in fulfillment of requirement for the award of**

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## Introduction

The present work (as stated in Chapter – II) is taken up for the purpose of addressing a few objectives and also for testing the hypotheses. The performance of five MFIs has been examined in the previous chapters from the point of view of their financial performance, and also their financial and allied services to the needy. In the process, perceptions of both officer- respondents and beneficiary-respondents are also analyzed. Besides, a comparison of performance of five MFIs is made from the point of view of different aspects financial performance. For this purpose, relevant data for a period of five years, 2016-17 to 2020-21, are used and analysed them with the help of accounting ratios and descriptive statistics besides CAGR and trend analysis. For testing the hypotheses, one-way ANOVA test is carried out. In this backdrop, the objectives, hypotheses and the chapters where attempts are made to address these objectives and to test the hypotheses are summarized below:

**Objectives of the Study, Hypotheses and Chapters**

| Sl. No. | Objectives | Hypotheses | Chapter where addressed/ tested |
|---|---|---|---|
| (1) | Analysis and presentation of theoretical framework including regulatory framework of microfinance and MFIs. | - | I |
| (2) | Brief profile of MFIs selected for the study | - | III |
| (3) | Evaluation of sources and adequacy of funds of MFIs besides the evaluation of financial performance of MFIs in Karnataka. | Formulated a broader null hypothesis and tested it from the point of view 18 parameters | IV |
| (4) | Analysis of the problems of MFIs and their clients based on the responses/ perceptions of officers and beneficiaries. | - | V |
| (5) | Suggestions for improving the working/ performance of MFIs | - | VI |

Note: Chapter – II presents the technical aspects of research report i.e., research design including literature review and identification of research gap.

As already stated, in the previous chapters, the analysis, interpretation and comparison of different aspects financial performance evaluation of MFIs have been discussed with the help of different accounting ratios, statistical tools and techniques. Further, an attempt has also been made to evaluate the perceptions of both MFIs (through their officers) and their clients (i.e., beneficiaries of MFIs). Based on this analysis and interpretation, many findings have come to the light. These findings have been presented in the earlier chapters at the appropriate places. However, in the present chapter, summary of major research findings is brought into one heading viz., Summary of Major Findings followed by suggestions to improve the working of MFIs.

## Major Findings of the Study

Major findings of the study are presented under two sections viz., findings based on the analysis of financial performance of MFIs (using the financial data from their annual reports, 2016-17 to 2020-21), and findings based on the perceptions of officers and clients/customers/beneficiaries of MFIs.

## I. Major Findings based on Financial Performance Evaluation

The following are the major findings based on the comprehensive evaluation of financial performance of selected MFIs from 2016-17 to 2020-21 (five years) are summarized below. The financial performance of MFIs are measured through six broad parameters and in each parameter, 3 - 4 ratios are computed and analyzed with the help of accounting ratios and descriptive statistics besides trend analysis and CAGR. One-way ANOVA is also used to test the null hypothesis, '*there exists no significant difference in the performance of MFIs*'.

**(1) Findings based on Business-related Performance Evaluation** – As discussed in Chapter – IV, three ratios viz., Total Advances to Total Assets Ratio, Business per Employee and Loan per SHG/JLG Member are measured to evaluate and compare the business-related performance of MFIs.

(a) With regard to 'Total Advances to Total Assets Ratio', it is found that all the five MFIs have improved their performance during the study period. However, the improvement in the ratio differed from one MFI to others – 8.49% (IDFFSPL) and 107.77% (CAGL). And this difference in the performance is statistically significant as established by ANOVA test results.

(b) In terms of 'Business per Employee', NABFINS has achieved the highest ratio, among five MFIs, and the CIFCPL is the poor performer as its business (i.e., loans and advances) per employee is lowest.

(c) Although all the five MFIs have improved their performance in terms of 'Loan per SHG/JLG Member' during the study period, the performance differs from one MFI to others – CAGL is the top performer with five-year average of ` 29,476.80 of loan per SHG/JLG member and CIFCPL is the poor performer with only ` 17,647.10 loan per SHG/JLG member.

**(2) Findings based on Cost Effectiveness/Management** – For the purpose of evaluating the cost effectiveness/management, four ratios are used and they are (a) Total Cost, (b) Interest and Non-interest Costs – Relative Share, (c) Interest Coverage Ratio, and (d) Operating Expenses Ratio.

(a) It is natural that the cost increases with the increase in the volume of business. In this regard, in four MFIs, CAGR in total cost is lower than that in loans and advances. But in the case of NABFINS, it is reverse – CAGR in loans and advances is 10.04% as against in total cost of 13.70% indicating an element of inefficiency. Even the ANOVA test results establish the significant difference in performance of MFIs in terms of total cost as the $f_{cal}$ (12.32) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$.

(b) Out of total cost, non-interest cost has registered continuous increase in majority of MFIs during the study period when compared to interest cost. However, CIFCPL has succeeded in controlling non-interest cost but failed to control interest cost. But in the case of IDFFSPL, reverse is true. Even the ANOVA test results established the existence of significant difference among MFIs as $f_{cal}$ (4.29) > $f_{tab}$ (2.87) in the case of interest cost ratio, and $f_{cal}$ (4.28) > $f_{tab}$ (2.87) in the case of non-interest cost ratio at $\alpha = 0.05$ for $df = 24$. Therefore, the alternative hypothesis, '$H_a$: *There exists significant difference in the performance* *of MFIs*' is accepted and concluded that there is a significant difference in the performance of MFIs from the point of view of each of interest cost ratio and non-interest ratio.

(c) For majority of the years, MFIs have 'interest coverage ratio' of higher than '1' but the excess is marginal. This indicates that if their profits decline marginally, it becomes difficult for them to meet their interest obligations. And no MFI has succeeded in improving its interest coverage ratio consistently year after year during the study period. Among five MFIs, CAGL is in the first place with the five-year annual average of 1.63 times followed by NABFINS, IIFLSFL, CIFCPL, IDFFSP with five-year annual averages of 1.55 times, 1.41 times, 1.32 times and 1.29 times respectively. However, the difference among five MFIs is statistically not significant as shown by ANOVA test results - $f_{cal}$ (1.064) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$ and therefore, the null hypothesis is tested and accepted and concluded that there is no significant difference in the performance of MFIs in terms of interest coverage ratio.

(d) Operating expenses ratio shows that, CAGL and IDFFSP have succeeded in lowering their ratios continuously year after year. During the 2020-21, CAGL and IDFFSP have reduced the ratio to 3.31% and 5.2% respectively and the same trend has continued in all the MFIs except NABFINS. Therefore, except in NABFINS, in all the four MFIs, CAGR is negative which is desirable. Even the ANOVA test results establish the existence of significant difference in the performance of MFIs as evident from $f_{cal}$ (13.05) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$.

**(3) Major Findings based Income-related Performance Evaluation** – For the purpose of evaluating and comparing the performance of MFIs from the point of view of income, (a) Total Income, (b) Interest Income to Total Income Ratio, (c) Other Incomes to Total Income Ratio, and (d) Operating Self Sufficiency Ratio are used.

(a) All the five MFIs have improved their total revenue/income during the study period with positive CAGR with a few exceptions - downward trend in NABFINS (2020-21) and IDFFSP (2017-18) compared to previous year. However, CAGL stands in the first place with highest amount of total income compared to other four MFIs. On the other hand, IDFFSP is the smallest MFI in terms of total income when compared to other selected MFIs. ANOVA test carried out to test the null hypothesis, '*$H_0$: There exists no significant difference in the performance of MFIs*' (from the point of view of total income) shows that, $f_{cal}$ (17.168) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$. This signifies the existence of a significant difference in the performance of MFIs from the point of view of total income.

(b) Interest income to total income ratio has moved in both the directions during the study period in all the five MFIs. NABFINS is in the first position with the highest five-year average ratio of 92.88% and IIFLSFL is the least performer with 83.30%. Even ANOVA test results establish that the existence of no significant difference in the performance of MFIs from the point of view of interest income to total income ratio [$f_{cal}$ (1.797) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$].

(c) In terms of 'other incomes to total income ratio', NABFINS is better performer with 5.69% and CAGL is the poor performer with 0.33%. Similarly, the performance of other MFIs differs. Further, the difference in the performance of MFIs in terms of 'other incomes to total income ratio' is statistically significant ($f_{cal}$ (6.425) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(d) In terms of 'operating self-sufficiency ratio' (i.e., the ratio of aggregate of interest income and fee received on the one hand, and the aggregate of operating expenses, loan loss provisions and financial cost on the other), CAGL is more efficient with five-year annual average of 139% and the least efficient is IDFFSP with 113.73%. This shows that, MFIs have adequate revenue to meet all operating essences including loan loss provisions and financial cost. However, ANOVA test results signify the existence of significant difference in the performance of MFIs from the point of view of operating self-sufficiency ratio.

**(4) Major Findings based on Liquidity, Long-term Solvency and Capital Adequacy Evaluation** – For this purpose, three important ratios (Current Ratio for Liquidity evaluation, Debt-Equity Ratio of evaluating Long-term Solvency, and Capital Adequacy Ratio for Capital Adequacy) are used.

(a) As far as the Current Ratio is concerned, all the five MFIs have higher than 1.50 current ratio – with 2.63 current ratio in the case of CIFCPL and 1.57 ratio in the case of IDFFSP. Although there is a difference in the performance of MFIs in terms of liquidity, the difference is statistically not significant as evident from ANOVA test results ($f_{cal}$ (1.664) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(b) The Debt-Equity Ratio used to evaluate and compare the long-term solvency of MFIs showed that the ratio is higher than '2' in all the five MFIs. The ratio moved in the both directions in all the MFIs during the study period. However, the five-year annual ratio is highest in the case of NABFINS at 4.67 times and the lowest is in the case of IDFFSP with 2.09 times. This shows the dependency of MFIs on loans and advances for their lending business. Even the ANOVA test results establish the existence of a significant difference in the performance of MFIs from the point of view of debt-equity ratio ($f_{cal}$ (3.381) > $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$).

(c) In terms of capital adequacy, the performance of all MFIs is better as they have higher than the minimum prescribed by the Reserve Bank of India of 15%. Among the five MFIs, CAGL has highest five-year annual average of 28% followed by CIFCPL, IDFFSP and IIFLSFL with 27.28%, 25.76% and 25.54% respectively. The ratio is lowest at 20.80% in the case of NABFINS. In spite of this, the difference is statistically not significant as the ANOVA test results of $f_{cal}$ (0.735) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for $df = 24$ establish.

**(5) Major Findings based on Asset Quality Evaluation** – In order to evaluate the asset quality of MFIs (i.e., of loans and advances provided by MFIs), three important ratios are used. They are, Gross NPA Ratio, Net NPA Ratio, and Write-off Ratio.

(a) CAGR in gross NPA ratio of all MFIs is positive except for IIFLSFL. It is lowest in the case of IDFFSP at 1.05% (five-year annual average) and highest at 5.70% (five-year annual average) in the case of NABFINS. In other three MFIs, the ratio is in between the lowest and highest. What is important is, in all MFIs, the ratio is lower than the maximum set by the apex bank of the country. However, ANOVA test results ($f_{cal}$ 6.49 > $f_{tab}$

2.87 at 5% level of significance with the *df* of 24) reject the null hypothesis accepting the alternative hypothesis. Hence, there exists a significant difference in the performance of MFIs (from the point of view of gross NPA ratio).

(b) IDFFSP, CAGL and CIFCPL have kept the net NPA ratio at less-than 1%. And in the case of NABFINS, it is higher than 1% (at 1.32% of five-year annual average). This shows the difference in the performance of MFIs. Even the ANOVA test results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) establish that the difference is statistically significant (i.e., existence of significant difference in the performance of MFIs).

(c) In terms of write-off ratio, there exists no significant difference as the ratio varied between 0.008% in the case of NABFINS and 2.002% in the case CAGL. In other three MFIs, it is at 0.584%, 0.816% and 0.879% (CIFCPL, IIFLSFL and IDFFSP respectively). Even the ANOVA test results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) establish the existence of no significant difference in the performance of MFIs (from the point of view of write-off ratio).

**(6) Findings based on the Profitability Evaluation** – For the purpose of evaluating the profitability of MFIs, four important profitability ratios are used. They are, Portfolio Yield Ratio, Profit per Employee, Return on Equity and Return on Assets.

(a) In all the five MFIs, the Portfolio Yield Ratio moved in both the directions during the study period. However, the five-year annual average is highest at 23.09% in the case of CIFCPL and NABFINS reported the lowest ratio of 15.64% indicating wide difference between one MFI and another in terms of Portfolio Yield Ratio. Even the ANOVA rest results ($f_{cal}$ 15.791 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24) signify the existence of difference in the performance of MFIs in terms of portfolio yield ratio. And this difference is statistically significant.

(b) The five-year annual average profit per employee is highest in NABFINS of ` 3,82,841 followed by CAGL with ` 2,27,441, IDFFSP ` 87,165, and IIFSFL with ` 16,505 of profit per employee. And it is lowest at ` 16,505 in the case of IDFFSP. In spite of this difference, the difference is statistically not significant as the $f_{cal}$ 2.2931 < $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24.

(c) No MFI has succeeded in improving its Return on Equity Ratio consistently year after year during the study period – instead, they allowed the ratio to decline for one or more years. However, the five-year annual average ratio is highest at 15.97% in the case of IIFLSFL followed by CAGL with 13.51%, NABFINS with 10.45%, IDFFSP with 7.95% and the poor performance is registered by CIFCPL at 1.80%. However, the difference is statistically not significant as $f_{cal}$ (2.293) < $f_{tab}$ (2.87) at $\alpha = 0.05$ for *df* = 24. Therefore, there is no significant difference in the performance of MFIs from the point of view of RoE ratio.

(d) Even the overall profitability ratio viz., Return on Assets Ratio moved in both the directions during the study period in all five MFIs. However, CAGL reported the highest five-year annual average of 3.84% followed by NABFINS with 3.06%, IIFLSFL with 2.50% and IDFFSP with 2.46%. And the CIFCPL is the poor performer with five-year annual average of only 0.35%. This indicates wide difference in the performance of MFIs from the point of view of return on assets ratio. And this difference is statistically significant as the ANOVA test results ($f_{cal}$ 3.138 > $f_{tab}$ 2.87 at 5% level of significance with the *df* of 24).

## II. Major Findings based on the Analysis of Perceptions of Officers and Beneficiaries of MFIs

As discussed in Chapter – V, perceptions of both officers (68 officers from each of five MFIs = 340) and beneficiaries/clients/customers (100 customers from each of five MFIs = 500) are obtained and analysed. And the detailed findings are also presented in the same chapter. However, an attempt is made here to present the summary of these findings.

It may be noted here that for both the categories of respondents (i.e., for both officers and beneficiaries), the same questions were asked for their response (of course, changing the tone of the questions). These questions focused on different dimensions of services provided by the MFIs – officers providing their opinions on the quality of services provided by them (i.e., by MFIs), and beneficiaries providing their opinions on the quality of services received by them from the MFIs. In this backdrop, summary of major findings is presented below:

## II (a). Major Findings based on the Analysis of Perceptions of Officials of MFIs:

(1) All MFIs are primarily focusing on the empowerment of women. 92.65% of the officer-respondents felt that they are targeting women as against only the remaining 7.35% officers stating that they are focusing on both the men and women for their business and to provide financial services – only CAGL has designed a few schemes targeting both men and women customers.

(2) One of the reasons for targeting women by the MFIs is, as felt by the officer-respondents, is the fact that the women-customers are more prompt in repayment of borrowed sums – the mean value is between 1 and 1.2. Further, the women customers are regular in attending group meetings (mean value is between 1.16 and 1.76), wise spending of loan amount (mean value between 1.32 and 1.85), and investment of borrowed sums in income-generating activities, habit of savings and investment (mean value of less-than 1.50). All these factors are in favour of MFIs focusing on the women-customers.

(3) Majority of the MFIs are using JLG method for lending as it is very easy, convenient, less number of members and minimum documentation for are lending in short span of time. However, NABFINS is using both SHG and JLG modes.

(4) Among 14 factors considered for evaluation of loan applications and for sanctioning loans, KYC is an important factor with mean value of 1-1.3, size and composition of SHG/JLG (mean value between 1 and 1.9), use of borrowed money for income generation activities (with mean value between 1 and 1.11), CIBIL score of group means (mean value of 1-1.2), etc.

(5) There is a complaint against MFIs to the effect that they take more time for the sanction and disbursement of loan. For this, the officer-respondents stated that the delay in the submission of NOC from SHG/JLG is an important reason for the delay with mean value of 1.38 to 2.19. Another reason is the inadequate staff of MFIs.

However, the officers denied that limited financial resources with MFIs and procedural delay at the MFIs as the reasons for the delay in the sanction and disbursement of loans with mean value of higher than 2.69.

The officers stated that they/MFIs take 3-4 days for the renewal of loans and 7 days for new loans after considering CIBIL score, earning members of the family, repayment capacity of applicants, nature of income generating activities they intend to take with the help of loan, etc.

(6) Official-respondents strongly felt that the interest rate charged by MFIs is reasonable to cover their costs (mean value of less than 1.75). They also felt that the customers are aware about the interest rate charged by MFIs (mean value is 1.36-1.86). And the official-respondents also felt that the interest rate charged by MFIs is competitive and it is fixed after considering the market forces - CIFCPL, IIFLSFL and NABFINS have mean value of 1.02-1.33. But IDFFSPL is charging high rate of interest (up to 24%) which is comparatively higher than other MFIs.

Further, they felt that the interest rate has not affected the repayment of loans by the customers/borrowers as there is flexibility in repayment schedule - repayment period up to 24 months, weekly repayment facility, etc. Another reason is the liability of all members of the group (SHG/JLG) for the failure any member to repay the loan.

(7) All official-respondents felt that the borrowers do not behave impolitely during the recovery process as majority of borrowers are women and from rural area with respect towards the officials of MFIs. And there is no stress on them i.e., while working with the MFIs.

Officials denied that the MFIs lack loan monitoring system with the mean value between 3.04 and 4.52).

The percentage of loan recovery rate is 90 - 100% in all MFIs except IDFFSPL. In the case of IDFFSPL, the recovery rate low at 70-90%. Only in a very few cases, they (MFIs) resorted to legal action (including ‘lok Adalats’) for recovery of loan. And officials felt that, legal action for the loan recovery involves higher cost and lengthy process with mean value between 1.91 and 2.70.

(8) Higher interest and the possibility of government waiving-off the loan are not important reasons for low recovery rate as mean value for these reasons are higher than 3.50. However, irregular income, diversion of loan amount, migration of borrowers (especially urban borrowers),

demonetization are the major reasons for low recovery rate (mean value of 1 to 1.59).

(9) MFIs are providing both financial and non-financial services. As far as the financial services are concerned, the most important service is the loan provided for income generation purpose with mean value of 1 to 1.14). However, during Covid-19 lockdown, some of the financial services such as, individual retail finance, emergency loan, family welfare loans, home improvement loan (with mean value of 1.95 to 2) are temporarily suspended.

MFIs are also providing financial literacy programmes and other programmes based on the customers' needs and requirements.

(10) MFIs are facing many operational challenges including high operational cost, clients' dropouts and collection and delivery of services to new and distant area.

Of the financial challenges, five are considered as not the real financial challenges and they are, high default rate, low outreach accessibility, over indebtedness and lack of good portfolio quality, and high personal and administration expenses where mean value is on the higher side of 1.77 to 4.66. The remaining challenges are high rate of interest compared to bank, high transaction cost, inadequate financial resources at cheaper cost, heavy dependence on banks and financial institutions, and difficulty in recovering cost from operational resources where mean value is between 1.22 and 2.77.

Among six challenges in credit risk management, five are considered as real problems and they are, loan used for consumption purpose rather than investment, multiple borrowings and over indebtedness, failure of business due to inadequate skills to manage loan amount, inadequate loan for carrying income generation activities, and unforeseen contingencies with mean value of 1.22 to 2.57. However, inadequate training to customers before disbursement of loan is not a challenge in the credit risk management with the mean value of 3.34 to 4.07.

As far as challenges in human resource management, insufficient skills, lack of training and professional development opportunities for staff and shortage of workers are not considered as the real challenges with mean value of 2.16 to 4.01. However, higher labour turnover rate is the real challenge faced by MFIs with mean value of 1.91 to 3.50.

## II (b). Major Findings based on the Analysis of Perceptions of Beneficiaries of MFIs:

(1) MFIs are providing loans for all economic activities and to different sections of the society. Majorities (30%) of the respondents are agriculturist, 25% of them are businessmen, 21% are salaried persons and only 15% and 9% of them are daily wagers and agricultural labourers respectively.

(2) The beneficiary-respondents felt that the MFIs consider the annual income of the members while lending loans. As per the RBI regulations, for rural customers, their annual income should be more than ` 1,50,000 and for urban customers, it should be more than ` 2,00,000. However, 88% of the beneficiary-respondents have income between ` 1 lakh and ` 2 lakh each, whereas 10% of the respondents have income of more than ` 2 lakh and only 2% of respondents have income less than ` 1 lakh.

However, before providing loans, MFIs consider number of earning members in the family - 70% of the respondents have more than three earning members in the family and only 30% of the respondents have 1-2 earning members in their families.

(3) Factors such as door step services, initiation for group activities, less documentation, loan without collateral security, easy lending process, training before lending loan, easy and flexible repayment schedule, provision for loan foreclosure facility, loan cards provided with details about loan policy with EMI information, friendly and quick response from staff, MFI’s goodwill, improvement for socio-economic status and provision of loan to low income people are stated to be driving forces behind the respondents joining SHGs/JLGs with mean value between 1.02 and 1.50.

(4) Majority (83%) of the beneficiaries of MFIs are JLG members and only a few beneficiaries are SHG members (17%).

Majority of the respondents (91%) borrowed loan for income generation purpose, 6% for family welfare purpose and the rest of them borrowed for individual retail loan, emergency loan, home improvement loan and other purpose (multiple responses allowed in the questionnaire).

Majority (79%) of the beneficiaries have borrowed loan from multiple MFIs and only 21% of them have borrowed only one MFI.

Majority (53%) of the beneficiaries borrowed loan for 2-3 times, 28% borrowed only once, 18% borrowed for 4-5 times and only 1% borrowed for more than 5 times.

Majority (49%) of the beneficiaries have borrowed loan of ` 25,000 to ` 50,000 from MFIs, 42% from ` 50,000 to ` 1 lakh, 7% from ` 1 lakh to ` 2 lakh and only 2% of the respondents borrowed less than ` 25,000 loan at a time.

(5) Majority (77%) of the respondents opined that, MFIs take 3-7 days to sanction loan, 2% opined that 7-15 days are taken they take and only 2% of the respondents felt that the MFIs take more than 15 days to sanction the loan amount. This opinion is, more or less, similar the one provided by the officer-respondents.

Further, majority (99%) of the beneficiary-respondents felt that, documentation requirement for obtaining loan from MFIs is easy and only 1% felt that documentation procedure is complicated.

(6) Majority (370 responses) of the respondents borrowed money from MFIs for income generation activities followed by animal husbandry, education, commencement of business and agriculture, meeting medical expenditure. And a few (less than 175 responses received) have borrowed for emergency, marriage, purchase of equipment, construction of house, acquisition of property, repayment of existing loan, self-consumption, and other purposes (multiple responses allowed in the questionnaire).

(7) Majority of the respondents (91%) have taken 12-24 months to repay their loan, 7% have taken 24-36 months and only 2% of the respondents have taken more than 36 months for repayment of loans they borrowed.

Majority (56%) of the respondents opined that the interest rate charged by MFIs is high, 28% felt that it is very high, 15% of the respondents are neutral and only 1% felt that it is low.

Majority of the respondents (59%) are repaying loan EMI monthly, 36% of them are repaying every 14 days and only 5% of them are repaying weekly.

(8) On the problems/challenges faced by the respondents while availing loans and advances from MFIs, they stated that the lack of information about group formation, loan and interest rate, difficulty in filling the application and in approaching appropriate officer/s for getting loan, delay in sanctioning loan are assigned with mean value of 4.65 to 4.39 implying that these are not the challenges.

However, lack of transparency in charging processing fees and insurance premium were assigned with mean value of 3.94. But the lack of co-operation among SHG/JLG members while getting loans and the MFIs not sanctioning the required loan amount were considered by the respondents are the real problems with mean value of 1.67 and 2.01 respectively.

And the beneficiary-respondents disagreed with the official-respondents and they felt that the MFIs are not sending timely reminders for repayment of loans, and also about the absence of sympathetic approach of officials of MFIs – however, the mean value are 4.25 and 4.12 respectively. Similarly, higher loan instalment amount and shorter repayment period are also considered as the difficulties faced by the beneficiaries while repaying loan - however, the mean values are 3.53 and 3.73 respectively.

(9) Majority of the respondents have agreed and strongly agreed about the quality of services offered by MFIs such as timely processing of loan applications, sanction and disbursement of loan, repayment procedure, foreclosure formality, training before lending loans, managerial assistance for women entrepreneurship, post-loan grant services and availability of executives availability as the mean values are between 1.03 and1.56.

Beneficiary-respondents agreed and strongly agreed with the view that the availing of loans and advances from MFIs has improved their economic status and this is evident from the mean values of 1.06 to 1.42.

Beneficiary-respondents agreed and strongly agreed with the view that loans and advances from MFIs enabled them to acquire and improve their social status as indicated by the mean values of 1.08 to 1.46.

Beneficiary-respondents have also agreed and strongly agreed with the view that the loans and advances have enabled them to acquire political status such as participation in meetings of village panchayats and gram sabha, regular voting in elections as the mean values are 1.08 and 1.21 respectively. It has also helped the members to interact with politicians, contesting election as candidates, and selection as members of government bodies and freedom for women to participate political activities as the mean values are between 1.63 and 2.56.

(10) It (i.e., MFI loan) enhanced the ability of beneficiaries in family-related decisions as the mean values are between 1.04 and 1.36.

**Conclusion**

Microfinance cannot be undermined in the countries like India. It is playing a vital role in socio-economic upliftment of the poor. Since 1990s, national and international agencies/institutions have undertaken various programmes for alleviation of poverty. Microfinance is one of the programmes in this direction and it is fast emerging tool for poverty reduction, socio-economic development, and for increasing earning capacity of young entrepreneurs. It has wide range of financial services which serves low and marginal groups.

In India, MFIs are playing key role in providing microfinance especially in rural area and to the economically backward sections of the society. With all positive outcomes, microfinance comes with a set of challenges which need to be dealt in a systematic manner. They contribute immensely towards country's journey to attain sustainable economic growth. Both the central government and the RBI have taken steps for growth of this sector.

Still, it is necessary for both the central and the state governments to create necessary awareness about the services of MFIs. This could strengthen economic status of India. Covid-19 pandemic in the last quarter of 2019-20 has hit the growth of microfinance industry in the country which has registered only 31% growth as against the growth rate of 41% in 2018-19. It is, therefore, foremost important to facilitate the industry for putting the sector back on rolls to overcome the effects of Covid-19 pandemic. The regulatory authorities like, IRDAI, SEBI, PFRDAI, IBBI, etc., have to ensure a congenial environment for the microfinance sector for carrying on its activities. Banks and other financial institutions have to ensure adequate funds flow to the sector for continuation of its operations unhindered.

**Suggestions**

The MFIs in the country are contributing, in many ways, to eradicate poverty through strengthening the hands of poor by providing necessary financial assistance/ services and also by imparting necessary training as to how to manage the funds and also business units. And most importantly, the recovery performance is much higher when compared to the commercial banking companies in the country. Further, the NPA ratios are much lower and they have higher than the minimum capital adequacy ratio. And they are working to empower the poorer sections of the society who were hitherto deprived of formal institutional banking/financial services. However, for MFIs to continue and expand their service to the poor, the following suggestions are offered.

(1) The rate of interest charged by the MFIs on their loans and advances to their clients/customers is comparatively higher. This is true in the case of all MFIs selected for the present study. These MFIs are charging interest at ‘18%+’ which is on the higher side as compared to the interest rates charged by the commercial banks of around 15%. It is, therefore, suggested to reduce the interest rate and make it competitive. There are at least two avenues to achieve this – one, by reducing non-interest costs and two, by improving the non-interest incomes. Both provide scope for minimizing/ maximizing the performance of MFIs. And a part of these benefits may be passed on to the members of SHGs/JLGs in the form of reduction in the interest rate. This ensures more business to MFIs and also scale economies.

(2) Most of the MFIs are depending on subscriptions, donations and own fund for the purpose of their lending activities and for providing other financial services to the economically poorer sections of the society more particularly, women. However, the analysis shows wider gap between the funds available and required for lending. As the fund required is higher

than available, many clients are denied institutional credit service. It is, therefore, suggested that the government and the apex bank should make an arrangement for 'refinancing' facility at comparatively lower interest rate. This refinancing facility may be subject to the following conditions:

- The refinancing may be restricted to 50-75% of the loans and advances provided during an accounting year.
- The maximum rate of interest charged by the MFIs may be fixed by the authorities. For example, the MFIs not to charge higher than 16% interest per annum.
- Eligibility of MFIs for refinance facility may be calculated on yearly basis on the fresh loans and advances disbursed during that accounting year.

(3) Keeping in the mind interest of the customers/clients, the MFIs may earmark certain percentage of their loanable funds (say, 60%) for providing loans and advances for income-generating activities. This helps the economically poorer sections to develop their own business, however small it is, which ensures a stream of income for a longer period. This in turn strengthens and empowers the borrowers economically which is one of the primary objectives of MFIs.

For income-generating activities, the amount of loans and advances may be increased keeping in the current price level. Because, it is very difficult to take up any income-generating activities with the help of small amount of loan say, ` 5,000 to ` 10,000.

(4) MFIs should strengthen their monitoring system i.e., to ensure the amount of loan borrowed is used by the borrower for the purpose for which it was provided by the MFIs. It may be noted here that the diversion of borrowed money for other purposes defeats the very purpose of provision of loans and advances by the MFIs. Therefore, it is necessary to monitor the post-loan activities of borrowers.

(5) Although the MFIs are taking less time for the sanction of loans and advances, there is scope for further reduction in the time taken for sanctioning loans and advances. For this purpose, it is necessary for MFIs to use information technology to a larger extent which is, in the long-run, is cost economical. Further, this technology can be used extensively for credit appraisal, credit monitoring, etc. This also saves lot of time and also ensures more benefits not only for MFIs but also for their borrowers.

(6) Although the problem of non-performing advances is below the level prescribed by the apex bank of the country, and also substantially lower than in the case of commercial banks, still there is scope for further reduction the non-performing advances. In this regard, it is suggested that the MFIs should obtain some kind of collaterals/surety for the loans and advances provided. In the absence of this, it is very difficult for the MFIs to recover the loan amount.

**Areas for further Research**

Although a few studies have been undertaken and completed by the researchers in the past, there are many areas which deserve thorough investigation/research. Some of these areas are identified below:

(1) Sources of fund of MFIs and the costs of capital

(2) Post-loan Socio-Economic Status of Borrowers

(3) A Comparative Study of Cost of Capital and Return on Investment of MFIs

(4) Cost Structure and Composition (identifying unnecessary costs for elimination)

(5) Problems of MFIs