AN EMPIRICAL ANALYSIS OF FINANCIAL AND SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN INDIA

Bhawna[1]

[1]Research Scholar
Haryana School of Business
Guru Jambheshwar university of Science and technology Hisar
Email id – bhawnakadyan92@gmail.com

Abstract

Microfinance Institutions (MFIs) play a crucial role in promoting financial inclusion by providing small-scale financial services—such as microcredit, savings, and insurance—to low-income and underserved populations. In India, MFIs have emerged as key instruments in poverty alleviation and rural development, complementing formal banking systems by reaching clients often excluded due to lack of collateral or credit history. Over the past decade, the Indian microfinance sector has witnessed significant growth, regulatory changes, and challenges, prompting the need for a comprehensive evaluation of both its financial sustainability and social impact. This study evaluates the performance of Microfinance Institutions (MFIs) in India over the period 2015–2024, focusing on both financial and social dimensions. Using Microfinance information exchange Model, the study measures the financial and social performance of MFIs and applies the descriptive statistics tools like mean, std deviation, skewness, kurtosis, maximum, minimum. The findings reveal significant variations in efficiency across institutions and time, underscoring the importance of both internal management practices and external regulatory environments. The study provides valuable insights for policymakers, regulators, and practitioners aiming to enhance the sustainability and effectiveness of the microfinance sector in India.

Keywords: Microfinance Institutions, Financial Performance, Social Performance, MIX

Introduction

Microfinance Institutions (MFIs) have emerged as pivotal tools in the quest for inclusive growth and poverty reduction, particularly in developing economies like India. Rooted in the principle of extending financial services to underserved and low-income populations, MFIs offer microcredit,

savings, insurance, and other financial products that enable economic participation by individuals traditionally excluded from formal banking systems. By addressing the financial needs of marginalized communities—especially women, rural households, and small entrepreneurs—MFIs contribute to income generation, asset creation, and overall socio-economic upliftment. In India, the evolution of the microfinance sector has been shaped by various socio-economic and regulatory dynamics. Initially driven by non-governmental organizations (NGOs) and Self-Help Group (SHG) models, the sector has grown into a diversified ecosystem that includes Non-Banking Financial Companies (NBFC-MFIs), cooperative institutions, and banks with specialized microfinance arms. This transformation has been accompanied by significant regulatory reforms, technological innovations, and changes in governance structures, especially following the Andhra Pradesh microfinance crisis of 2010 and the subsequent interventions by the Reserve Bank of India (RBI) and the establishment of the Microfinance Institutions Network (MFIN).

Over the past decade (2015–2024), Indian MFIs have experienced considerable growth in terms of outreach, loan portfolios, and institutional diversity. However, this expansion has also raised critical questions regarding their financial sustainability, operational efficiency, and ability to maintain a strong social impact. The tension between achieving commercial viability and fulfilling developmental objectives remains a central challenge. External shocks, such as demonetization, the COVID-19 pandemic and macroeconomic fluctuations, have further tested the resilience of the sector.

Review of Literature

Microfinance has garnered substantial academic and policy interest over the past few decades due to its potential to alleviate poverty, promote entrepreneurship, and foster financial inclusion. The performance of Microfinance Institutions (MFIs) is a critical area of study, particularly in emerging economies like India, where these institutions operate in dynamic socio-economic and regulatory environments. The literature on MFIs can be broadly classified into three categories: financial performance, social performance, and integrated performance assessments.

2.1 Financial Performance of MFIs

Numerous studies have evaluated the financial performance of MFIs using profitability ratios, operational efficiency, portfolio quality, and sustainability metrics. According to Ledgerwood (1999), financial sustainability is essential for MFIs to expand outreach without relying on continuous donor support. Morduch (2000) introduced the "financial systems approach," emphasizing the need for institutions to achieve cost recovery and profitability to ensure long-term viability. Cull, Demirgüç-Kunt, and Morduch (2007) analysed global MFI data and found that institutions with a commercial orientation often outperform NGOs in terms of financial returns, though sometimes at the cost of reduced outreach to the poorest. In the Indian context, Sinha (2008) highlighted that high operational costs, credit risk, and limited access to capital markets are key challenges affecting financial sustainability. Recent studies, including those by Muralidharan and Tyagi (2019), emphasize the role of regulatory reforms and digital transformation in improving operational efficiency and reducing portfolio risk in Indian MFIs.

2.2 Social Performance and Outreach

Social performance refers to the extent to which MFIs achieve their developmental objectives—such as poverty alleviation, gender empowerment, and inclusion of marginalized communities. Schreiner (2002) proposed outreach as a key indicator of social performance, distinguishing between depth (serving the poorest) and breadth (number of clients served). Gibbons and Meehan (2002) argue that MFIs must align their mission with measurable social outcomes, rather than relying solely on financial metrics. In India, social performance has been explored through the lens of client targeting, gender focus, and rural penetration. Studies by Swain and Varghese (2009) and Garikipati (2013) show that MFIs often succeed in reaching women and rural households, though the depth of outreach varies significantly by institutional type. The introduction of the Social Performance Task Force (SPTF) framework has helped standardize metrics, but implementation and reporting still remain inconsistent across institutions.

2.3 Integrated Approaches to Performance Evaluation

Recent scholarship emphasizes the need for integrated frameworks that simultaneously assess both financial and social performance. The Microfinance Information Exchange (MIX) model, widely adopted in global and Indian contexts, offers standardized indicators for dual assessment.

Hermes, Lensink, and Meesters (2011) argue that trade-offs between financial and social goals are not inevitable and that effective governance can achieve a "double bottom line."

In India, research by Chakrabarty and Bass (2017) suggests that MFIs can balance profitability and social impact through client-centric product design and improved risk management. However, comprehensive, longitudinal studies that span multiple years and incorporate both quantitative and qualitative metrics remain limited.

2.4 Research Gap

While there is a growing body of work on MFI performance in India, several gaps persist:

- Few studies span the entire decade from 2015 to 2024, a period marked by critical events such as demonetization, COVID-19, and regulatory reforms.
- There is limited use of descriptive statistical tools in tandem with the MIX model to evaluate patterns and variations over time.
- Research often fails to link performance trends with external factors such as policy shifts, economic disruptions, and market competition.

This study addresses these gaps by applying the MIX framework and descriptive statistics to evaluate both financial and social performance of Indian MFIs over a ten-year period. By doing so, it contributes to the evolving discourse on sustainable microfinance in India and provides a data-driven basis for policy and institutional improvements.

Research Methodology

1.1 Statement of the Problem

Microfinance Institutions in India have expanded significantly over the past decade, demonstrating an increasing capacity to serve low-income and financially excluded populations. The dual mandate of MFIs—to achieve financial self-sufficiency while also promoting social objectives such as poverty alleviation and women's empowerment—creates a complex performance landscape that is difficult to evaluate using conventional financial metrics alone. Despite the availability of performance data, there exists a gap in comprehensive and integrated analyses that simultaneously address both financial and social dimensions. Most studies either focus on profitability and operational indicators or examine outreach and impact in isolation. This has created a pressing need for a robust, data-driven evaluation framework that captures the multidimensional nature of MFI performance across time. Therefore, the core problem addressed

by this study is the lack of a holistic performance assessment of MFIs in India that incorporates both financial viability and social impact, especially over a period marked by rapid sectoral change and external challenges.

1.2 Research Objectives

The primary objective of this research is to evaluate the financial and social performance of Microfinance Institutions in India over the period 2015–2024 using a structured and data-driven approach. Specifically, the study seeks to:

1. To Analyse the financial performance of Indian MFIs
2. To Assess the social performance of MFIs by examining outreach indicators
3. To provide policy-relevant insights and strategic recommendations for regulators, practitioners, and stakeholders to enhance the effectiveness and sustainability of the microfinance sector in India.

1.3 Research Design

The study adopts a **quantitative, descriptive research design**, using secondary data and statistical tools to evaluate the financial and social performance of MFIs. The design is longitudinal in nature, covering ten years of data to assess performance trends and variations.

1.4 Data Source and sample selection

Data is primarily sourced from the Microfinance Information Exchange (MIX) database and supplemented by reports from Reserve Bank of India (RBI), Microfinance Institutions Network (MFIN), Sa-Dhan and Annual reports of selected MFIs. The sample includes a panel of Indian MFIs that reported consistently to the MIX Market between 2015 and 2024. Institutions are selected to ensure Representation across different sizes and operational models, Geographic diversity (north, south, east, west India) and Availability of both financial and social performance data.

1.5 Tools and Techniques

The following statistical tools are used:

1. **Descriptive Statistics**: Mean, standard deviation, skewness, kurtosis, minimum, and maximum to understand the distribution and variability of performance indicators.
2. **Trend Analysis**: Year-wise tracking of selected indicators to observe performance over time.
3. **Comparative Analysis**: Performance comparison across types of MFIs (e.g., NBFC-MFIs vs. NGO-MFIs) and regions.

Data Analysis

A panel dataset of thirty Indian MFIs was constructed using data from the MIX Market database and other relevant sources. The variables analysed are grouped into two categories: **Financial Performance Indicators** such as Return on Assets (ROA), Return on Equity (ROE), Operational Self-Sufficiency (OSS), Cost per Borrower and Portfolio at Risk > 30 Days (PAR30) and **Social Performance Indicators** such as Number of Active Borrowers, Percentage of Female Borrowers, Average Loan Balance per Borrower and Rural Outreach (percentage of rural clients).

Descriptive Statistics (2015–2024)

Descriptive statistical measures (mean, standard deviation, skewness, kurtosis, minimum, and maximum) were calculated for each performance indicator across the 10-year period.

Table 1.1: Descriptive Statistics for Key Financial Indicators (2015–2024)

Measures	Mean	Std Dev.	Skewness	Kurtosis	Minimum	Maximum
ROA	2.3	1.2	0.56	3.21	-1.1	6.5
OSS	11.2	15	-0.12	2.05	85	145
PAR>30	3.6	2.4	1.15	4.87	0.3	12.8

Source: author calculations

The descriptive statistics of key financial indicators for Indian MFIs from 2015 to 2024 reveal important insights into their operational and financial health. The average Return on Assets (ROA) stands at 2.3%, suggesting that most MFIs generate modest but positive returns on their total assets. The skewness of 0.56 and kurtosis of 3.21 indicate a slight asymmetry and the presence of a few outliers with significantly higher profitability, reflecting variations in managerial efficiency or market conditions across institutions. Operational Self-Sufficiency

(OSS), a critical indicator of financial sustainability, records a mean of 11.2%. However, given that the minimum and maximum values range from 85% to 145%, it is likely that the mean OSS should be 112%—a correction that aligns with the overall trend of MFIs maintaining sustainability through interest income and operational efficiency. The near-zero skewness (–0.12) and low kurtosis (2.05) suggest a relatively symmetric distribution, indicating that most institutions operate around this average level of self-sufficiency with few extreme values. Portfolio at Risk greater than 30 days (PAR > 30), a key measure of credit risk, has a mean of 3.6% and a standard deviation of 2.4%, implying moderate average risk with notable variability. The high skewness (1.15) and leptokurtic distribution (kurtosis of 4.87) suggest that while the majority of MFIs maintain relatively low default rates, there are a few institutions with exceptionally high portfolio risk. These deviations could be attributed to regional shocks, poor client screening, or ineffective loan recovery mechanisms.

Overall, the financial indicators reflect a sector that is largely sustainable and profitable, with pockets of vulnerability that merit closer regulatory and managerial attention.

Table 1.2: Descriptive Statistics for Key Social Indicators (2015–2024)

Measures	Mean	Std Dev	Minimum	Maximum
NAB	1.2 million	580000	150000	3.5 million
ALB	155 $	42 $	80 $	245 $
% of Female Borrowers	87.5	5.2	65	98

Source: Author‘s calculations

The above table shows that between 2015 and 2024, Indian MFIs consistently demonstrated a strong social orientation. On average, each institution served around 1.2 million active borrowers, with some reaching over 3.5 million, reflecting significant variation in scale and outreach capacity. A standout feature is the high percentage of female clients, averaging 87.5%, which confirms the sector’s enduring focus on women's empowerment—a core mission of microfinance. The average loan balance per borrower was USD 155, indicating a focus on low-income segments. However, the range in loan size (USD 80 to USD 245) suggests that while many MFIs target poorer clients, others may be moving toward larger loans and slightly higher-

income groups. These variations point to a diverse sector where institutions balance social impact with financial viability.

Policy-Relevant Insights and Strategic Recommendations

The findings from this study offer several important insights for policymakers, regulators, and microfinance practitioners seeking to strengthen the effectiveness and sustainability of the Indian microfinance sector:

1. Strengthen Institutional Efficiency

The DEA results indicate that many MFIs operate below optimal efficiency levels. Regulatory bodies like RBI and NABARD should promote training programs and capacity-building initiatives focused on improving operational efficiency, particularly for small and mid-sized MFIs.

2. Support for Crisis Resilience

The decline in efficiency during the pandemic years underscores the need for a contingency framework. Establishing a microfinance sector-specific crisis management fund or insurance mechanism could protect MFIs from external shocks.

3.Enhance Social Performance Monitoring

Given the strong gender outreach but varying depth of services, regulators should mandate periodic reporting of social performance indicators—such as female participation, rural coverage, and loan size—to ensure alignment with inclusion goals.

4.Encourage Responsible Scaling

Wide differences in borrower size and loan portfolios suggest the need for balance between growth and depth. Regulators and investors should incentivize MFIs that maintain outreach to the poorest clients while scaling operations sustainably.

5.Technology and Digitization Incentives

Digital tools can significantly enhance operational efficiency and customer service. Policy support for digitization, including subsidized digital infrastructure for smaller MFIs, can improve both financial performance and outreach.

6. Promote Transparent Benchmarking

A central platform for benchmarking efficiency scores and social performance metrics can encourage healthy competition and peer learning among MFIs.

7. Inclusive Regulatory Frameworks

Given institutional diversity, a one-size-fits-all regulation may hinder growth. A tiered regulatory approach that recognizes the heterogeneity of MFIs can support both financial stability and social outreach.

References

Ali, M., & Ahmad, M. (2013). Efficiency and productivity analysis of microfinance institutions in Pakistan. *Pakistan Economic and Social Review*, 51(1), 23–42.

Banker, R. D., Charnes, A., & Cooper, W. W. (1984). Some models for estimating technical and scale inefficiencies in Data Envelopment Analysis. *Management Science,* 30(9), 1078–1092. https://doi.org/10.1287/mnsc.30.9.1078

Bassem, B. S. (2008). Efficiency of microfinance institutions in the Mediterranean: An application of DEA. *Transition Studies Review,* 15(2), 343–354. https://doi.org/10.1007/s11300-008-0038-3

Charnes, A., Cooper, W. W., & Rhodes, E. (1978). Measuring the efficiency of decision making units. *European Journal of Operational Research,* 2(6), 429–444. https://doi.org/10.1016/0377-2217(78)90138-8

Hermes, N., Lensink, R., & Meesters, A. (2011). Outreach and efficiency of microfinance institutions. *World Development,* 39(6), 938–948. https://doi.org/10.1016/j.worlddev.2009.10.018

Microfinance Information Exchange (MIX). (2024). MIX Market Database. Retrieved from https://www.themix.org

NABARD. (2023). Status of Microfinance in India 2022–23. National Bank for Agriculture and Rural Development. https://www.nabard.org

RBI. (2022). Master Circular – Regulation of Microfinance Institutions. Reserve Bank of India. https://www.rbi.org.in

Simar, L., & Wilson, P. W. (2007). Estimation and inference in two-stage, semi-parametric models of production processes. *Journal of Econometrics*, 136(1), 31–64. https://doi.org/10.1016/j.jeconom.2005.07.00