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An Analytical Study of Outreach and Financial Performance of Selected Micro Finance Institutions in India

Vinay Pal Singh[a*], Hari Om Gupta[b]
[a]*Faculty of Commerce & Finance, Quantum University, Roorkee, Uttarakhand, India*
E-mail: vpsingh213@gmail.com
[b]*Faculty of Commerce, J.V. Jain College, Saharanpur, Uttar Pradesh, India*
E-mail: hogupta1965@yahoo.in

Abstract

Poverty is one of the foremost challenges facing the Indian government; various measures have been taken to eradicate poverty. The microfinance model hopes to raise funds by lending the money using different models in this situation. Several studies have been conducted worldwide, and it is widely accepted that microfinance initiatives have made a significant difference to target groups that do not have easy access to credit. However, the financial feasibility of microfinance institutions is increasingly questioned. In the long run, MFI must be economically viable and sustainable.

This white paper examines MFI's performance in terms of outreach and financial performance. It examines the reach and profitability of selected microfinance institutions operating in India between 2010 and 2017. These institutions need to pursue high goals through superior financial performance that operate financially efficiently for disadvantaged groups' benefit to continue their operations.

Key Words: *Microfinance, financial sustainability, Return on equity, Operational self-sufficiency, Return on Assets.*

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**Corresponding Author*
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1. Introduction

Traditionally, formal financial institutions such as rural development banks have been unable to provide reliable financial services in rural areas (ILO, 2012; RBZ, 2007). Microfinance involves financial intermediation outside the city center. The primary purpose of microfinance is to improve the living standards of the poor and lift them out of poverty. Microfinance has become a vital poverty alleviation program because it provides poor people with the capital to start their businesses. Yadagiri and Gangadhar (2008).Finance is an essential tool for spreading economic opportunities and combating poverty. Access to funds allows poor people to harness their wealth of talent or pave the way for more significant opportunities. Indian economy Faced with immense poverty and unemployment. According to a World Bank report (2013), one-third of the world's poorest people live in India. Banks are reluctant to lend to the poor and the people without a land. About half of India's population does not yet have it Deprived of savings account and all bank transactions service. Poor people also need financial services to meet their Consumption, wealth accumulation; Protection against Risk. Microfinance is seen as a powerful instrument for enabling self-employment in low-income rural areas. The idea of microfinance, an actual vaccine for the poor, emerged in the late 1970s:Professor Mohammad, a pioneer of microfinance, and Grameen Bank, Bangladesh. Prof. Yunus started and transformed the modern microfinance industry. Prof. Mohammad Yunus was the first to realize that poor people and women also need loans. Microfinance is an approach to economic development that provides financial services to low-income people through institutions.

2. Objectives of the Study

To study the outreach and financial performance of selected microfinance institutions in India.

3. Scope of the Study

This study focuses on selected microfinance institutions in India. An inclusive financial performance indicator model used by the Microfinance Information Exchange (MIX) was chosen for the study. For the Analysis of outreach and financial performance, variables include capital-asset ratio, return on asset, return on equity, the yield on the gross portfolio, operating expenses, borrower per staff member, portfolio at Risk, and women borrowers.

4. Data and Research Methodology

4.1 Source of Data

This study is primarily based on secondary data. The Data is provided by the Microfinance Information Exchange (MIX). www.mixmarket.org. The survey period is the fiscal year (2010-2017).

4.2 Sample and Sampling Design

MFI followed disclosure guidelines established by the Advisory Group for the Poor (CGAP), a global organization of major microfinance donors that provides detailed information on all financial reporting measures covered in this study. MFI financial data has been identified for at least seven consecutive years. It should be noted that only 40 MFIs from India that met the requirements of the study were selected.

4.3 Tools for Analysis

The data were analyzed using the following statistical tools. Descriptive statistics, i.e., mean, standard deviation used to calculate the dynamics of outreach and overall growth of MFIs during the study period from 2010 to 2017.

4.4 Limitations of the Study

This study is subject to the following limitations:

- The limitations of statistical tools also apply to this study.
- Lack of continuous MIX data over five years limited the duration of selecting the number of MFIs in this study up to 40.

5. Literature Review

Several studies about different aspects of Microfinance institutions have been taken in India and around the globe. Micro finance institutions' financial performance can be measured by using various dimensions. However, the researchers evaluated the financial performance by using a single aspect. Overall performances of MFIs are assessed through financial performance. (On the other side, various researchers pointed out that financial performance is insufficient to assess the overall performance. (Mwangi and Brown, 2005) used 22 indicators to assess the outreach and financial performance of MFIs in Africa. (Luzzi and Weber 2006) offered new dimensions in evaluating MFIs performance by illustrating statistical tools such as factor analysis and cluster analysis.

Tenikue and Sureda (2008) evaluated the financial performance of 42 MFIs to find the determinants of sustainability using regression analysis. Three aspects were discussed: cost recovery from income, loan repayment, and cost control. Cull (2007) analyzed the coverage and financial performance of the world's leading micro-banks and examined various aspects such as loan repayment profitability and cost reduction of 124 micro-banks from 49 countries.

Some researchers identified that financial sustainability is only the measure of the overall performance of MFIs. (Crabb, 2006, Schiks 2007). (Sinha, 2006) used cost-effectiveness and operational competence to calculate the financial performance of the MFIs. Olszyna- Marys (2006) Central and Eastern region analysis uses two econometric dimensions: scope and profitability. According to the author, both financial self-sufficiency and depth of coverage can be achieved in the medium term. Depth of reach has a positive impact on MFI's profitability. There is no clear trade-off between financial self-sufficiency and outreach.

It is widely recognized that these MFIs would not be possible without good financial conditions, as funding costs would rise, sufficient margins would be available to cover operating costs, and still, some profits could be made. (Arsyad, 2005). Various researchers have found a strong link between MFI's financial sustainability and the achievement of social goals. (Zeller et al., 2003) researchers noted that low-income groups are more likely to get loans from these organizations. MFI's current business model entails high operating costs as it requires much contact with the intended beneficiaries. MFIs require funding other than grants/concessional loans, etc. Commercial finance requires risk capital along with market interest rates. Against this background, the sustainability of MFIs should be considered very carefully in terms of social impact. Achieving these results in alleviating poverty will require sustained and long-term efforts by these companies.(Cull, 2007) explores profitability and outreach patterns for 124 institutions in 49 countries. Testimonies have shown the potential to benefit from serving the poor. Mersland and Strom (2008) used ten ratios to measure average loan value and outreach by sustainability. (Culll and Morduch, 2007) While some institutions have achieved both profitability and meaningful outreach to the poor, Analysis by loan type reveals a compromise between the two goals. They also looked at these institutions and their impact on small borrowers and women. This author measured average loan size, percentage of female borrowers, and profitability using FSS, OSS, and ROA.

6. Financial Performance of MFIs in India

6.1 Capital/Asset Ratio of MFIs

The present study analyzes the Capital/Asset ratio of Micro Finance Institutions in India having Capital/Asset ratio of 15.5 in 2010, 16.3 in the year 2013 and 17.3

Table 1: Capital/Asset Ratio

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	15.5	15.7	16.4	16.3	16.7	17.1	17.2	17.3	16.53	0.68

Source: Secondary Data from Mix Market

6.2 Return on Asset of MFIs

Return on assets is a standard measure of profitability that reflects the amount of profit. It measures how well an institution uses all its assets to generate income. Return on assets is a relatively simple indicator.

Table 2: Return on Asset

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	2.5	2.6	2.5	2.8	2.6	2.7	3	2.9	2.70	0.19

Source: Secondary Data from Mix Market

An accurate estimate of ROA depends on the components that determine MFI net income. After the profit margin component is removed, taxes, special provisions, and high income and expenses remain. These three components provide deep insight to help the institutions compare the ROAs of different MFIs.

6.3 Return on Equity of MFIs

Return on equity is the essential measure that measures an owner's investment in an institution.

Table 3: Return on Equity

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	20.1	22	24	23	22	26	29	28	24.26	3.13

Source: Secondary Data from Mix Market

However, many microfinance institutions are not-for-profit organizations that do not distribute profits. Return on equity (ROE) is most commonly used to indicate commercial viability and strength of equity. Micro finance institutions' average return on equity is 24.26, and the standard deviation is 3.13.

6.4 Operational Self Sufficiency (OSS) of MFIs

Operating self-sufficiency, expressed as a percentage, indicates whether a microfinance institution generates sufficient income (from interest, fees, and commission income) to cover its total costs, financial expenses, operating expenses, and possible bad debt.

Table 4: OSS of MFIs

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	119.9	120.4	122.1	121.3	122.2	125.3	124.6	125.1	122.61	2.13

Source: Secondary Data from Mix Market

Microfinance institutions can achieve 100% operational sustainability by increasing operating income or reducing overall costs. Operational self-sufficiency helps to determine whether the MFI can cover all business-related expenses. OSS also provides a subjective and global picture of institutions in terms of financial performance.

6.5 Yield on Gross Portfolio of MFIs

First, total portfolio return is an initial indicator of an institution's ability to generate income to cover its financial and operating expenses.

Table 5: Yield on Gross Portfolio

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	24.5	25.1	25.8	25.2	26.1	26.4	25.9	26.2	25.65	0.65

Source: Secondary Data from Mix Market

However, while MFIs tend to hide interest rates, total portfolio return is the best way to calculate the actual interest rate an institution receives. MFIs used many tricks to cut the yield on gross portfolio by using flat rates, fees discounts on disbursed loans, and training fees. The average yield is 25.65 of MFIs operating in India.

6.6 Operating Expense/Loan Portfolio of MFIs

Operating costs show the cost of providing a loan to the average loan portfolio. A downward trend may indicate a more efficient organization or an increase in average loan size.

Table 6: Operating Expense/Loan Portfolio (%)

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	10.6	11.4	11.9	11.1	10.9	12.2	14.3	13.5	11.99	1.31

Source: Secondary Data from Mix Market

From 2010 to 2012, the trend of the operating cost was increasing, but in 2014 it showed some improvement, but in 2016-2017 it increased, which shows inefficient.

6.7 Borrowers per Staff Member of MFIs

The borrower-to-employee ratio measures the performance of an institution's staff. Isa Higher ratio means the employees of microfinance organizations are more productive?

Table 7: Borrowers Per Staff Member

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	297.6	245.6	298.3	289.1	297.8	234.4	302.3	309.1	284.28	28.04

Source: Secondary Data from Mix Market

In addition, the total workforce is the total number of people working full-time at MFI. The total number of borrowers is the borrower who can identify the individual with at least one currently outstanding loan to the facility. Consequently, a solidarity loan with two members is considered as two borrowers. Multiple loans to the same borrower are considered as one borrower. The average borrower per staff is 284.28.

6.8 Portfolio at Risk > 30 Days of MFIs

Portfolio at Risk > 30 Days tells us how much the party's capacity is based on his/her portfolio. So, when the party tries to renegotiate the loan, Micro Finance Institutions tries to reschedule the loan at a significantly higher level of Risk with the party that had the problem to repay the loan to Micro Finance Institutions.

Table 8: Portfolio at Risk > 30 Day

PAR>30 DAYS	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	2.41	2.56	3.12	3.90	2.10	3.11	4.10	3.50	3.10	0.71

Source: Secondary Data from Mix Market

When a party becomes Non Performing Assets, it is hazardous to repay the loan or reschedule the loan because there is a meager chance to pay it again, so it is hazardous for the Micro Finance Institutions.

6.9 Outreach Indicators of MFIs in India

Outreach indicators are significant in Micro Finance Institutions. As outreach indicators primarily signify the number of loans extended per year by the institution and it reflects the ability of the Micro Finance Institutions to reach more and more clients within a specified area.

Table 9: Number of Active Borrowers

GROWTH RATE (YEAR)	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	72%	74%	75%	78%	73%	82%	78%	79%	76%	0.03

Source: Secondary Data from Mix Market

Reach is the depth and breadth of service of major microfinance institutions, including credit provision, savings mobilization, micro insurance, remittance, and payment services. It is a hybrid metric that assesses how well a local financial institution has successfully reached a target customer and how well the rural financial inclusion has met its demand for financial services. In 2010 it was 72%, and every year it showed a significant improvement, but in 2015 it was highest to 82%.

6.10 Women Borrowers of MFIs in India

The present study tries to analyze the figure of women borrowers of microfinance institutions in society.

Table 10: Percent of Women Borrowers

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	Mean	S.D
INDIA	93%	95%	96%	95%	98%	99%	97%	98%	96%	0.02

Source: Secondary Data from Mix Market

The percentage of women borrowers of Micro Finance Institutions in India in 2011 was 95%,and in 2017 it was 98%. The present study specifies that the percentage of women borrowers of Micro Finance Institutions in India

7. Conclusion:

Micro finance institutions are such a special kind of supportive financial institution for uplifting poor people. They have worked on social and profit motive parameters. Therefore, managing such an institution is a very challenging task compared to another business model. This paper tries to examine the outreach and financial performance of selected microfinance institutions having Data on the market mix. It is an endeavor that has been done to find out financial performance using various indicators such as capital asset ratio, ROA, ROE, and outreach indicators.Number of borrowers and specially focused on women borrowers, which shows a significant share in micro finance lending. This study concludes that microfinance has a more expansive potentiality to cater to the financial requirement of poor people and bring them into the mainstream economy if MFIs of India are financially sustainable and sound.

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