PERFORMANCE EVALUATION OF MICROFINANCE INSTITUTIONS IN SELECTED STATES OF INDIA

Thesis

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By

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RECOMMENDATION FOR FUTURE RESEARCH

The microfinance industry comprising of institutional structures like NBFC-MFIs, Small Finance Banks(SFBs), Non Banking Finance Companies (NBFCs) and other Microfinance institutions (including non-profit MFIs) have reported loan outstanding of approximately rupees one lakh fifty thousand crores as on 30th September 2018 (Micrometer Issue 27). Reserve Bank of India (RBI) is the sole regulatory authority for the NBFC-MFIs operating in India. The NBFC-MFIs follow the regulatory norms formulated by RBI and report their financial operations to the regulator. But no such regulatory body has been established for other forms of MFIs operating in the country. A proper regulatory authority encompassing all institutional structures working in the microfinance sector needs to be established to primarily protect the interests of the borrowers and other stakeholders involved in the industry. Furthermore, MFIs have been witnessed to provide only microcredit to the clients neglecting all other financial and non-financial services like savings, remittance of funds, insurance, financial advice, business training, technical support, etc. More than 55 percent of the clients claimed in the study that no kind of non-financial service has been provided to them so far. Also, only microcredit is being provided out of the wide variety of financial services offered to the general public by commercial banks and other financial institutions. To curb the issues of multiple lending, cluster formation, and over-indebtedness on the part of the clients, institutions should restrict opening branches in those rural and semi-urban areas which already have few operating MFIs. The present study has been constricted to the operations of the NBFC-MFIs in Delhi and nearby areas, including Haily Mandi, Pataudi, Hapur, Kaithal, and the like. On the contrary, institutions should attempt to reach out to those areas of the states which have low microfinance penetration to enhance outreach. Lastly, the operating institutions in the microfinance industry are desperately required to reduce their operating costs using new techniques and Information Technology (IT) tools and applications to manage information and make their operations more transparent. Reducing operating costs will eventually reduce the cost per unit of the amount lent to the customers. Also, the reduced interest rates will prove beneficial for the borrowers and serve them more efficiently. Thus, the institutions need to strike that perfect balance of penetrating deeper into the market with varied financial and non-financial services without incurring high operating and other costs to the institutions. In this manner, the microfinance industry as a poverty alleviation tool will serve society most efficiently (Vivek Kumar Tripathi, 2015).

The Indian economy has witnessed various structures of MFIs to date from cooperative societies, Non-Government Organizations (NGOs), Section 25 companies to Non Banking Finance Companies (NBFCs). All the different structures co-exist in harmony with each other to cater to the diverse needs of the poor. The present study focused only on the NBFC-MFIs operating in India, which are registered and regulated by the Reserve Bank of India (RBI). The other structures are not compulsorily required to report their financial statements and other activities to any apex institution. Thus, it was difficult to determine their sampling frame and include them in the study. Future researchers can include all forms of existing Microfinance institutions (MFIs) for a holistic picture of the entire industry. Moreover, only the financial performance parameter has been incorporated in the integrated model, while issues like governance mechanisms, sustainability, outreach, social efficiency had to be neglected due to time constraints.

Furthermore, the clients of NBFC-MFIs had been restricted to the regions of Delhi and the National Capital Region (NCR). Due to time and cost constraints, it was impractical to cover the entire country's MFI clientele through personal visits. Further studies can be undertaken, including the borrower base of different states to understand their issues and concerns and make it heard by the operating institutions and regulatory bodies. More primary data research needs to be done in the microfinance sector to cover the perception of top management who are responsible for making policies for the clients as well as loan officers who enter the field and deal with the clients. Such primary data research through structured questionnaires and interviews would give more profound insights into the evolving industry. Lastly, the proposed integrated model can be adapted and applied in various other states of the Indian economy or other similar developing economies for validation and refinement of the model. Additionally, many different statistical techniques apart from PLS-SEM can be applied to the present study to enhance the scope of the research.