# CHAPTER 2

## LITERATURE REVIEW

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In this chapter detailed literature is reviewed to get detailed information about the research conducted related to the topic.

The literature has been collected through research paper published in journal, books, reports published by government and private organisations, speech given by renowned person during conferences and also the research study conducted by various organisations. All these literature are divided into section namely, Microfinance concept and delivery models, Microfinance in India, Performance of microfinance and microfinance institutions both in India and outside India and lastly MIX Model of financial performance.

2.1 Microfinance concept and delivery models

Malcolm Harper (2002) in his paper titled ‘Grameen bank groups and self help groups; what are the differences?’ showed the advantages and disadvantages of both the system. The paper described and explained each system and compared their sustainability, their outreach and impact on the poor and their institutional feasibility. The paper concluded by summarizing the pros and cons of both the system in a table. The summary table includes the pluses and minuses for both clients and banks and also the suitable conditions for both the system to operate smoothly.

Bindu Ananth (2005) in her paper titled ‘Financing microfinance – ICICI Bank partnership model’ analyzed the partnership model of financing microfinance institutions. The paper compared three financing models for microfinance. The three models were Self help group bank linkage model, financial intermediation by microfinance institutions and the partnership model – MFI as a servicer. The paper described in detail the need for partnership model and the description of how the model worked. The researcher said that the model was unique in that it combines both debt as well as mezzanine finance to the MFI in a manner that rapidly lead to the increase in outreach, while it unlocked large amounts of wholesale funds available in the commercial banking sector in India. The paper also discussed how to build links to capital markets for financing microfinance through securitization. It concluded by highlighting key enablers for an environment of rapid microfinance growth including regulator support for hybrid models of outreach and investments in training and funding of initial expenses of new or emerging MFIs.

Jamie Bedson (2009) edited the report titled ‘Microfinance in Asia: trends, challenges and opportunities’. The report compiled the wide ranging and voluminous
content presented at the Asia Microfinance Forum 2008 convened in Hanoi, Vietnam in 2008. The main purpose to publish the report was to equip microfinance practitioners with ideas on how to successfully grow and strengthen their businesses and better serve the unbanked and the poor. The report was mainly divided into various sections namely introduction to microfinance in Asia, executive summary, Asia microfinance industry assessment summary, financing and investment, savings and asset building, microfinance networks, microfinance and technology and lastly microfinance and sustainable development.

**Bhole B. and Ogden S (2010)** in their paper titled ‘Group lending and individual lending with strategic default’ had compared the presence of strategic default between group lending and individual lending. Secondary data was considered for the purpose of the study. The study found out results by developing its own strategic model. The paper concluded that unless group members could impose sufficiently strong social sanctions on their strategically default partners, or unless the bank used cross reporting mechanism, group lending can perform worse than individual lending. It was showed that when certain restrictions on group lending contract were relaxed then group lending yielded higher welfare than individual lending even in the absence of any social sanctions or cross reporting.

**Brijesh Rupapara and Jitendra Patoliya (2012)** have written book titled ‘Problems faced by Microfinance Institutions and measures to solve it’. The book have been divided into seven chapters namely basics of microfinance, self help group, microfinance institutions performance, urban and rural microfinance, micro insurance, technology and microfinance and lastly business models for microfinance. The book described in dept the history and meaning of microfinance and various terms related to microfinance. Further the objective of the research conducted was to study the current activities, limitations and scope of microfinance institutions in India and lastly to develop a business model for MFIs. Based on the findings of the research, the authors suggested that rural economy must focus on rural infrastructure and economy so that it ensured there existed the activities that were required for financial assistance.

**Sa-Dhan (2012)** published a report titled ‘Financial Inclusion – A study of the efficacy of banking correspondent model’ with an objective to study different models of BCs, identify its challenges and evaluate different products and services offered by BCs. The study included various legal forms of BCs like SHG Federations, Societies, Trusts, Not-for-profit companies and special purpose vehicles promoted by
technology provided companies and all other important stakeholders including the regulators – the banks, technology providers, clients, non clients, training institutions and the other promotional agencies. A financial modeling was done to understand the break even points under different situation. Few of the study findings were that the major challenge faced was its commercial viability. Financial literacy programme which was a key success factor was almost missing. Most of the clients had little knowledge of the range of services the BCs offer and there was no proper dedicated customer grievance mechanism or channel for customers of BC in many banks. The study broadly recommended three strategies that were strategies for improving viability, strategy for enhancing commercial interest of banks and client centric strategies.

**Zuzana Harmincova and Karel Janda (2014)** in their paper titled ‘Microfinance around the world – regional SWOT Analysis’ compared the functioning of microfinance in various developing regions of the world and analyzed the overall functioning, effectiveness, strengths and weaknesses, potential threats and opportunities in the microfinance markets. Regions were chosen according to mixmarket.org data. The comparison was done as following: developing regions of Africa, East Asia and the Pacific, South East Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia have been compared between themselves and then analysed by groups of developing countries with a regard to their characteristics. The paper concluded that political situation in a country was one of the important aspects that played a role in microfinance development. The paper analyze that the different levels of costs per borrower, return or efficiency indicators point out not only to the cultural and environmental differences, but also to the different stages of the microfinance industry development in each of the regions.

### 2.2 Microfinance and Microfinance Institutions in India

**Piyush Tiwari and S. M. Fahad (1997)** discussed conceptual framework of a microfinance institution in India. The paper evaluated the successes and failures of various microfinance institutions around the world and lessons learnt have been incorporated in a model microfinance institutional mechanism for India. The paper explained that how microfinance is helpful in poverty alleviation, the formal sector institutions, the existing informal financial sources and its strengths, Mechanisms
Adopted in Other South Asian Nations in Targeting Programmes for the Low Income Groups, Credit Mechanisms Adopted by HDFC (India) for Funding the Low Income Group Beneficiaries, weaknesses of existing microfinance models and thereby developed a new paradigm and three possible alternatives for successful implementation of microfinance.

Ajay Tankha (2002) prepared a study report titled ‘Self help groups as financial intermediaries in India: Cost of promotion, sustainability and impact’ for ICCO and Cordaid, Netherlands. The study analyzed the role and development of SHGs in financial intermediation in rural India and contributed to a consistent and relevant funding policy for ICCO and Cordaid. The study addressed three main issues that were efficiency, effectiveness and sustainability. The study was based on a review of literature on SHGs, the experiences of seven leading NGOs involved in the formation of SHGs and interviews with chief executives and staff of a dozen other major NGOs/projects promoting SHGs. The study recommended various areas of intervention for ICCO-Cordaid support for the SHG and MF sector such as development of standards for SHGs, support for MF and promotions of SHGs in poverty belt states, research on SHG sustainability and continued grant support for SHG promotion.

Hema Bansal (2003) in her paper titled ‘SHG-bank linkage programme in India’ reviewed the performance of the program in different states of India and across three major institutions – commercial banks, co-operatives and the regional rural banks. The study presented vital information about the leading NGOs with major credit linkages in Indian State. The analytical section of the paper was divided in five parts. The first section reviewed the spread of self help group linkages to banks across three different models that have been adopted by the national bank to route credit to SHGs. The second section assessed the coverage of SHG linkages for three years from 1997-98 to 1999-2000. The third section studied the distribution of SHGs across states and union territories of India. In order to understand the relationship between poverty, human development and spread of NGOs in India states, the research used correlations. The fourth section studied the state-by- state participation of commercial banks, regional rural banks and co-operatives and provided brief backdrop of these institutions. The fifth section identified the non-government organization/ self help promoting institutions with maximum SHG credit linkages and presented some
preliminary information about these organizations. The study was based on secondary data published by the NABARD in India. The researcher concluded the paper by analyzing the performance under each five sections and also mentioned the future scope of all the institutions and the program.

M.S. Sriram and R. Upadhyayula (2004) in their paper titled ‘Transformation of the Microfinance Sector in India’ discussed the growth and transformation of microfinance organizations (MFO) in India. The paper described the meaning of microfinance and microfinance in India. It then described the issues that trigger transformation and that were size, diversity, sustainability, focus and taxation. The paper than explained the international transformation experiences of countries like Bolivia, Bangladesh and Indonesia followed by transformation in India. The paper concluded that there was no ideal path for spin-off. Regulatory changes were needed to allow MFOs to graduate to other legal forms as they grow organically. NGOs must be permitted to invest in the equity of MFOs, as was the case in Bolivia and Africa. Norms for setting up MFOs under current legal forms should not be eased. Regulations should ensure that they help genuine MFOs and not others masquerading as MFOs.

World Bank document (2004) published the report titled ‘Scaling-up access to finance India’s Rural prepared by finance and private sector development unit of South Asian region. The report was divided into five sections. The first section was of introduction, second section was access to rural finance in India – the evidence, the third section was what constrains access to finance for India’s rural poor, fourth section was on recent efforts in India to improve rural access to finance: the role of formal – informal linkages and new products and fifth section was on meeting the challenge of scaling-up access to finance India’s rural poor – the policy agenda. The report mentioned the agenda to make the formal financial sector better at banking the rural poor and also mentioned the role of government policy.

Y.S.P. Thorat (2005) in his theme paper at the high level policy conference on microfinance in India, he started with describing in detail the beginning and growth of microfinance in India and various initiatives taken by government both state and central to eradicate poverty. He concluded the history of microfinance in India with two facts that were since independence policy makers had been finding ways and means to finance poor but there was a gap between the concern of policy makers and quality of the effort. He further mentioned the working of SHG bank
linkage programme, its achievement, impact, key learning and challenges. Further he described the emergence of MFIs, their critical issues and different model of MFIs. He concluded with a road map to further develop microfinance in India.

Priya Basu and Pradeep Srivastava (2005) in their paper titled ‘Scaling-up microfinance for India’s rural poor’ reviewed the current level and pattern of access to finance for India’s rural poor and examined some of the key microfinance approaches in India, and a detailed examination of the most dominant among these, the Self Help Group (SHG) Bank Linkage initiative. It empirically analyzed the success with which SHG Bank Linkage had been able to reach the poor, examined the reasons behind this, and the lessons learned. The analysis in the paper draws heavily on a recent rural access to finance survey of 6,000 households in India, undertaken by the authors. The main findings of the paper were that India’s rural poor had very little access to finance from formal sources. Microfinance approaches have tried to fill the gap. Among these, the growth of SHG Bank Linkage has been particularly remarkable, but outreach remained modest in terms of the proportion of poor households served. The paper recommended that, if SHG Bank Linkage was to be scaled-up to offer mass access to finance for the rural poor, then much more attention would be needed to be paid towards: the promotion of high quality SHGs that were sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost-covering levels.

Rajarshi Ghosh (2005) in her paper titled ‘Microfinance in India – a critique’ has five sections. The first section mentioned the introduction and history of microfinance. Second section explained different terms such as MFIs, self help group, income generation and women empowerment. Section three is related to financing of SHGs. Section four mentioned the outreach and sustainability of microfinance in India. Section five included the road ahead for microfinance in India. The paper concluded that though microfinance may be a drop in the ocean, but it had made people self sufficient. The requirement then was to bring down the cost of capital and the operating costs and strengthen the bonding between Microfinance and the Formal Financial System.

Usha Thorat (2007) in her speech on ‘Financial Inclusion: Indian Experience’ explained how the approach to financial inclusion in developing country was different from developed country. She then explained the measures of financial inclusion and one of them was the percentage of adult population having bank
account. Next she mentioned that the financially excluded sections comprised of marginal farmers, landless laborers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women and also the reasons for financial exclusions. She then briefly informed about the incentives taken by RBI and strategies and approaches adopted for financial inclusion. She concluded her speech by mentioning the role the government could play in financial inclusion and also the work in progress.

Jayasheela et al (2008)\(^{17}\) in their paper titled ‘financial inclusion and Microfinance in India: An overview’ examined the role of microfinance in the empowerment of the people and realization of financial inclusion in India. The researchers initially explained the different steps taken by government to eradicate poverty and also mentioned the approaches to financial inclusion in India. The paper then described the background and growth of microfinance self help group followed by meaning and challenges of microfinance. The researchers were of the opinion that with the increased demand for rural finance and the inadequacies of formal sources, MFIs had immense opportunities in the new avatar of micro credit in India. But based on the recent experiences which demanded the need for qualitative growth, researchers suggested that MFIs should be managed with better scrutiny in terms of financial and technology as well as social responsibility. Additionally they suggested that there was a need to evolve an incentive package which would motivate the diversification into other backward areas to NGOs who had played a commendable role in promoting self help groups linking them with banks.

Savita Shakar and Mukul Asher (2009)\(^{18}\) in their paper titled ‘Regulating India’s Microfinance Sector – A suggested framework’ initially mentioned that with the growth of the sector both in terms of size, scope and number of participants, there was need for developing a more formal regulatory structure. The need for developing a regulatory structure was explained through four different points. In Section 2, the current status and developments concerning microfinance sector in India were briefly discussed. Section 3 analyzed challenges faced while regulating the microfinance sector. This was followed by a brief overview of the current regulatory arrangements for the microfinance sector in India. The final section provided an outline of the suggested framework for regulating microfinance sector in India. The paper concluded that the creation of regulatory capacity for prudential and non prudential regulation of
the Indian microfinance sector would be a major challenge but it was likely to be a worthwhile investment for the country as in the long run it could result in large scale financial inclusion and financial deepening.

**Manish Kumar et al (2010)** in their research paper titled ‘Microfinance as an anti poverty vaccine for rural India’ had four objectives. The first was to analyze the growth of microfinance sector developed in India and future potential of microfinance institutions, NGOs and SHGs in the market. The second objective was to analyze the structure and pattern of microfinance programme in rural India by MFIs and NBFCs. The third and fourth objectives were to understand the marketing of microfinance product in rural market and study the importance and role of microfinance in poverty alleviation and profitable agricultural activities. The collection of data was done using secondary data sources. The study concluded that there was very high potential of growth for microfinance institutions in India. The authors of the paper expected annual growth rate of about 20% for next five years. Further, the authors expected loan outstanding to grow from present level that was about 1600 crores to about 42000 crores with an annual rate of about 20% for next five years.

**Usha Thorat (2010)** in her speech on ‘Financial regulation and financial inclusion – working together or at cross-purposes’ explained that there had to be a tradeoff between financial inclusion and the regulation. She explained the need for regulation of microfinance institutions under various situations like if financial intermediaries have to deliver affordable services they need to take advantage of technology and economies of scale and for that they required them to grow to some optimal size. Such growth was not possible without capital and investors and lenders were comfortable with providing more funds only if such entities were regulated. Next she highlighted various regulatory measures taken by RBI to facilitate financial inclusion. She concluded her speech by mentioning that fair and transparent code of conduct enforced through an effective grievance redressal system and facilitated by financial literacy and education were the cornerstones for ensuring consumer protection which was an overarching objective of financial regulation in the context of financial inclusion.

**Anurag Priyadrashee and Asad Khalib (2011)** in their paper titled ‘The Andhra Pradesh microfinance crisis in India: manifestation, causal analysis, and regulatory response’ discussed the policy implications of the various regulatory
measures that the Government subsequently took to harness and regulate micro-lending practices in the state. The paper analyzed the causal factors that led to perhaps the biggest existential crisis the microfinance industry in India had faced since its inception. The paper examined how a series of factors led to rapid and substantial growth of the Self Help Group movement in Andhra Pradesh and how various other ‘private’ MFIs took advantage of such a mature presence, caused an inundation of the market, and ultimately led to the crises. Responses of the AP Government as well as the Reserve Bank of India are examined at length. The paper concluded by arguing that regulatory measures subsequently initiated to deal with the issue were focused more on the symptoms as opposed to the root cause that led to the crisis in the first place.

Sanjay Sinha (2011) in his paper titled ‘Initial public offerings: A field’s salvation or downfall?’ based on the SKS microfinance IPO of 2010 in India which had raised the debate for its implications for profit making at the expense of the poor. Section one included the points related to IPO’s as industry salvation and section two discussed the points related to IPO’s as industry downfall. Section three discussed that whether the IPO was industry’s downfall or it was great Indian microfinance crisis. Section four included summarized analysis – how the success of the SKS IPO lulled the sense. The paper concluded that the revival of the Indian microfinance sector needed multiple actions at many levels: the central bank for regulation, the government for calibrated responses to the issue of client coercion and, above all, the MFIs to ensure more measured growth and better control systems. It also required more informed investor behavior to ensure that capital flows to socially responsible institutions in support of the long term economic benefits of financial inclusion rather than in pursuit of short term financial gains.

Krishnamurthy Subramanium (2011) in this article titled ‘Microfinance Lenders: To profit or not to profit’ compared the nonprofit and for-profit MFIs and examined whether profit maximization by an MFI compromises on its social objectives. The article mentioned the example of IPO of SKS microfinance institution and the ordinance passed by Andra Pradesh government on microfinance institutions. The article compared for-profit and nonprofit MFIs on various points such as client base, number of loan per borrower, outstanding loan balance per borrower, interest rate charge, operating costs and expenses, profitability and riskiness in loan portfolio. The findings of article indicated that apprehensions that profit seeking objectives of
MFIs led them to: charge usurious interest rates and/or push loan indiscriminately to their borrowers irrespective of whether the debt paying capacity of borrowers was exaggerated.

**R.Chakrabarti and K. Subramanium (2011)** in their article titled ‘Financial Inclusion: The road ahead’ interviewed Usha Thorat regarding financial inclusion and the role of microfinance companies and urban co-operative banks in improving financial access. Ms. Thorat gave her opinion on various questions asked on financial inclusion, priority sector lending, roles MFIs and UCBs, Regulations on MFIs, and the problems that were faced in reaching poor people. She said that the truth was that the sheer easy availability of the credit which could be used for any purpose, made the low-income household people to borrow much more than their repaying capacity. Further she said that all lenders whether it be a NBFCs, MFIs or even banks that were getting into retail low-income lending would be well advised to keep track of household cash flow while taking credit decisions.

**Satyajit Roy (2011)** in his paper titled ‘Microfinance in India: An overview of microfinance and SWOT Analysis of microfinance’ gave an overview of microfinance in India. The paper compared the microfinance services offered to poor with money lenders, commercial banks and government sponsored programs on certain parameters. The parameters were ease of access, lead time to loans, repayment terms, interest rates, incentives, repeat and borrowing and loan access procedure. Further, the researcher described the SWOT Analysis of microfinance and future of microfinance. The researcher concluded that the concept of microfinance in India was new but it has the high potential to grow in future.

**Legatum (2012)** published the paper titled ‘Indian Microfinance: Looking beyond the AP Act and its devastating impact on the poor’. In December 2010 the government of Andhra Pradesh (“AP”) passed a law (the “AP Act”, originally conceived in October 2010) which effectively shut down private sector microfinance in the State. The paper was based on the impact of above law. The paper concluded through suggestions given to Indian government. Some of the suggestions included to ensure the swift passage of the microfinance Bill through Parliament and ensure that the AP Act was repealed and to facilitate the collection of all outstanding dues in AP. It also suggested establishing a mechanism for stakeholder consultation before the passage of any new legislation.
S. Ravi and P. Vikkraman (2012)\textsuperscript{27} in their paper titled ‘Microfinance in India – Challenges and opportunities’ described the overall scenario of Microfinance in India through SWOT Analysis. The paper in the introduction explained meaning of microfinance through an example followed by history of microfinance, activities and principles of microfinance, types of microfinance products. The paper then mentioned the benefits and challenges of microfinance and also challenges to microfinance institutions. The paper concluded that microfinance was not yet at the centre stage of the Indian financial sector. The knowledge, capital and technology to address the challenges however existed in India but they were not fully aligned. The supply side of microfinance in India was still grossly inadequate to fill the gap between demand and supply but it held the promise to act as a great opportunity for the financial sector and the economy as a whole.

Usha Thorat (2012)\textsuperscript{28} gave her speech on ‘Promoting financial inclusion through proportionate standards and guidance’ at first annual GPFI conference on standard setting bodies and financial inclusion. She started by explaining that financial inclusion was not merely access to a bank account or to credit but it was access to bank account, insured deposits, insurance and pension products, loan products and access to mainstream payments and remittances and because of this, it was significant to have SSBs relevant to all these services to sub serve the interest of stability, integrity and consumer protection while promoting economic welfare for all. She mentioned her previous speech and said that financial regulation and financial inclusion were not at cross ends but they go hand in hand. Next she informed how in India, the regulation was implemented gradually till date. She concluded that poor people required just an opportunity to get out of the poverty and the role of financial regulator was as critical as government in finding that opportunity.

Dr. Sagir Ahmed (2013)\textsuperscript{29} in his paper titled ‘SHG Bank linkage program in India – an overview’ analyzed the trends in SHG-Bank linkage program in India. The study was based exclusively on the secondary data collected mostly from official publications of NABARD, RBI and Planning Commission of India. Simple statistical tools such as percentage, average growth rate etc had been used for data analysis. The paper consisted of four sections. First section introduced the subject matter by highlighting evolution and development of microfinance at the international level. Second section dealt with the evolution of microfinance and self help groups in India. Trends and performance of SHGs-Bank linkage program had been analyzed in third
section and conclusion had been summarized in the last section. The paper concluded that SHG-bank linkage program had emerged as the biggest microfinance program in India which enabled about 70 million poor households to gain access in microfinance facilities from the formal banking system.

**Vijeta Singh (2014)** in her paper titled ‘Indian microfinance sector in capital markets: Perils and prospects’ identified factors that have been discouraging investors from investing in MFIs. Since the accounting and reporting methods and the monitoring mechanism adopted by MFIs were quite different from conventional practices that the investors were used to, they found it difficult to make meaningful comparisons to gauge the relative potential of MFIs as an asset class in terms of risk and return. Based on the best practices being followed by some MFIs in India, the author suggested that MFIs could strengthen their accounting and monitoring methods, which would give the capital market investors greater confidence to invest in MFIs.

### 2.3 Performance analysis of microfinance institutions

#### 2.3.1 In India

**Jayshree Vyas (1993)** in her paper titled ‘Banking with poor self employed women’ discussed about the need of credit and savings facilities to poor women and their repayment capacities. SEWA had begun to solve women’s problem by providing them credit and financial facilities. The bank had only 10% defaulters up to 1985 and 12% defaulter up to 1993. Common reasons were sickness, death in family, social customs, delay in payment of wages, husband’s unemployment, anti-social influences, sheer stubbornness, and vengeance against group leader or organizers etc. The paper concluded that personal and continuous contact with poor women was almost precondition while banking with them and that helped bank to understand the need in better ways. Integrated approach of providing many supportive services over and above credit was also very important. Close co-ordination between members, organizers and directors needed to keep the banks’ operations flexible and dynamic.

**R. Srinivasan (2003)** in his paper titled ‘self-help groups as financial institutions’ used spreadsheet financial model and identified key financial policy parameters that influence the performance of self help groups (SHGs) whose primary activity was microfinance. The focus was on long run
(ten-year) performance. The paper also examined the consequences of a conservative financial policy and of a high interest rate policy at the SHG level. It was assumed that these SHGs operated under the umbrella of a microcredit institutions (MCI). The paper concluded that policy makers and MCI managers should not be in a hurry as SHGs were somewhat fragile (as indeed were most financial institutions) and a small reduction in the loan portfolio quality could seriously damage it. The researcher suggested the in the first few years of an SHG, institutionalizing group processes was much more important than accelerating lending. Size was as much an issue as quality. Over a sustained period, an emphasis on growth was probably unwise and unwarranted. At an operational level, paper attempted to enhance awareness of the relationship between decisions on interest rates and borrowing multipliers and outcomes, such as operating surplus, funds and loan disbursement.

Raghav Gaiha and Ganesh Thapa (2006)\textsuperscript{33} in their paper titled ‘A methodology for assessment of impact of microfinance on empowerment and vulnerability’ conducted study which was based on a small but detailed survey of members of self-help group in six villages in the Pune district of India. The paper identified few key indicators that impinge on aspects of social capital, empowerment of the poorest and risk, vulnerability and self-insurance. The paper concluded that the indicators that had been proposed for examining the interrelationships between different forms of social capital and microfinance, between microfinance and empowerment of the poorest people – especially women and between microfinance and the reduction of vulnerability through self insurance must be tailored for each specific context and application. Cross validation through a mix of quantitative and qualitative data and methods was vital for a robust assessment. Even small samples, carefully designed and analyzed, would yield rich and valuable insights into the potential of microfinance for empowerment and economic security.

Erica Field and Rohini Pande (2008)\textsuperscript{34} in their research paper titled ‘Repayment frequency and default in Microfinance: evidence from India’ collected data from a field experiment on repayment schedules conducted in urban India examined whether repayment frequency affected loan defaults and delinquency. One hundred microfinance groups each consisting of ten first time borrowers was randomly assigned to either a weekly or a monthly
The repayment schedule after group formation had been completed and clients approved the loan. The researchers found that switching from weekly to monthly installments did not affect client repayment capacity. It was also found that delinquency rates were low and not statistically different across clients on weekly and monthly repayment schedules. The researcher suggested that switching to lower frequency repayment schedules could allow MFIs operating in comparable settings to save dramatically on the transaction costs of installment collection while facing virtually no added risk of default.

Centre for Microfinance, Jaipur (2010) conducted a study in Rajasthan state of India which was titled ‘Loan default by SHGs’. The objective of the study was to understand the reasons underlying the phenomenon and develop an early warning system so that timely action can be taken to avoid defaults. The study used stratified sampling methodology and the strata selected were district, block, SHG and members. The study highlighted several reasons for default. Few among them were improper process of group formation, erosion in quality which was visible in records that were not updated for years, small NGOs not financially supported beyond initial phase and so they found difficult to carry on with group strengthening work. It was observed that financing targets were pushed through the banks by the DRDAs in case of BPL groups. Thus the study clearly showed that all the stakeholders i.e. SHG, SHPI, Banks and improper implementation of concerned schemes with the system of financing had a stake in making a group defaulter.

Pankaj Agarwal and S. K. Sinha (2010) in their paper titled ‘Financial performance of Microfinance Institutions of India’ analyzed the financial performance of various microfinance institutions operating in India. It had significance because it was imperative that these institutions be run efficiently given the fact that they were users of marginal and scarce capital and the intended beneficiaries were the marginalized sections of society. Out of over a hundred MFIs in India, that were reporting to Mix Market, researcher had chosen only five stars rated MFIs for data analysis. They were 22 in number. Their financial performance was compared on 22 different ratios. These ratios were chosen again from the reporting format of Mix Market. The reporting format broadly analyzed the companies on six parameters of financial
performance: Financial Structure, Revenue, Expenses, Efficiency, Productivity and Risk. The methodology used was difference of means test. The paper concluded that most of the best performing firms were following different business models in India.

**Arup Roy (2011)** in his paper titled ‘Microfinance performance of public sector banks in the NER region of India’ initially assessed the progress of microfinance in the NER in terms of savings mobilization, loans disbursed, loans outstanding and non performing assets (NPAs). Then the next section of the study found out the performance of public sector banks in providing agricultural credit through microfinance in the North Eastern Region (NER) by calculating a performance ratio. The study evaluated the microfinance performance of these public sector banks in terms of SHG bank linkage programme. The study concluded that only in two states viz., Mizoram and Assam, the microfinance performance of these public sector banks were satisfactory among all the states of NER. The study further concluded that the TGBs in Tripura, RRBs in Nagaland, Mizoram and Arunachal Pradesh, UBI in Manipur, SBI in Meghalaya, and AGVB in Assam was doing well compared to the other public sector banks in the NER.

**Zohra Bi and Shyam Lal (2011)** in their paper titled ‘Comparison of the performance of microfinance institutions with commercial banks of India’ studied the performance and efficiency of microfinance. A sample of microfinance institutions in India were selected based on their ratings given by microfinance information exchange (MIX) for the study. Out of the 88 MFIs in India reported on MIX, 24 MFIs were taken as samples, these samples taken were five star rated by MIX. The financial parameters of these MFIs were studied and compared with the financial parameters of commercial banks and their financial performances were analyzed. The various parameters taken for analyzing the financial performance of MFIs and banks included: Financial structure, Profitability and Efficiency. One way ANOVA technique was used to identify if there exist a significant difference in the performance of MFIs and Commercial banks which included both the private sector and the public sector banks. The paper concluded that the large ten microfinance institutions dominating the sector, the other small microfinance
institutions could adopt their business models, policies and practices in order to increase their outreach and to operate on a sustainable basis.

Sarita Vichore and Sangeeta Deshpande (2012) in their paper titled ‘Microfinance in India: Comprehensive analysis of the growth and performance of MFIs’ had two objectives. First was to analyze the performance of independent microfinance institutions in terms of cost efficiency, cash constraints and net portfolio in India providing microfinance services to low income clients. Second objective was to understand the role of microfinance in Indian economy and to focus the current performance of the sector in relation to financial services in the country in general. The data used for the research was supported by NABARD, M-CRIL and RBI. Semi structure interviews were conducted of experts in area of microfinance. The paper concluded that Indian MFIs needed a stable environment in which it could deliver microfinance services – deposits, remittances, insurance and microcredit, in a responsible manner. Whether or not MFIs could continue to contribute to financial inclusion in India was dependent on the passage of draft Microfinance bill by the parliament.

Tiken Das (2013) in his paper titled ‘An analysis of non-performing assets and recovery performance of self help group bank linkage programme – unique preference to north eastern region of India’ analyzed the NPAs and recovery performance of SHGs in southern regions and north eastern region of India. That data was taken of four years from NABARD. The paper found that although amount of saving balance of SHGs with banks and amount of loan disbursed to SHGs by banks was lower in NER as compared with SR, but the share of NPAs to total loans outstanding was higher and percentage of recovery to demand of total SHGs was lower in NER. The paper found that there had been an improvement of situation of NPAs and recovery rate in NER during recent times but this enhancement was not comparable with SR of India.

Shalini H. S. (2013) in her paper titled ‘A study on causes and remedies for non performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore’ identified the effect of a set of micro economic variables of Indian farmers on the management of their credit. The variable included were age, sex, education,
marital status, family size, wealth status, religion, caste, money lenders, guarantor, security of land, security of gold, security of other assets, experience, suitability of land to crop, type of farming, irrigation facility, any other source of income, subsidy and volume of land owned by the farmer. The data was collected through self administered questionnaire and also telephonic interview and it was analyzed using chi square test. The study concluded that the bankers could avoid sanctioning loans to the non creditworthy borrowers by adopting certain measures and also gave few suggestions to bank to reduce the non performing assets.

2.3.2. Outside India

Meyer (2002) through his paper provided insight into how well the microfinance industry in Asia was performing by evaluating critical triangle of microfinances i.e.; outreach, sustainability and impact. Outreach was measured using four indicators, financial sustainability was measured by calculating operational and financial sustainability and impact assessment was done by measuring both quantitative and qualitative indicators. The study was conducted taking 148 number of MFIs in 14 different countries of Asia for the year 2011. The results revealed that outreach was quite impressive, especially in Bangladesh and Indonesia. Financial sustainability was an important problem faced by the industry in most countries. The impact studies reviewed reported some positive benefits but they vary by gender, type of program and country

Michael Tucker and Gerard Miles (2004) in their paper titled ‘Financial performance of microfinance institutions’ compared the performance of MFIs that had attained self-sufficiency with those that had not and compared both to regional commercial banks in developing countries on selected financial ratios. Five financial ratios from three different categories were the basis for the comparisons. In the first category, the ratio of operating expenses to assets measures efficiency. The second category, gauging profitability, included the return on assets, return on equity, and net profit margin. The final category, measuring leverage, was represented by the debt-to-equity ratio. Commercial bank data was obtained from FISonline, covering four geographic regions: Africa (14 banks), Asia (61 banks), Eastern Europe (10 banks), and Latin America (72 banks). The second and third data series
were as reported by the Microbanking Standards Project (MSP). The paper revealed that self-sufficient MFIs were strong performers on ROA and ROE. The majority of MFIs, however, were very weak and in need of continued subsidies. Providing financial services to the poor was an expensive proposition and may mean numerous MFIs would not reach self-sufficiency.

Giovanni FERRO LUZZI and Sylvain WEBER (2006) in their paper titled ‘Measuring performance of microfinance institutions’ illustrated that how some statistical tools could offer new insights in the context of MFIs performance evaluation. The sample used in the paper was composed of 45 microfinance institutions surveyed by the Graduate Institute of Development Studies of Geneva for the period 1999-2003. Factor analysis was used in a first step and constructed performance indices based on several possible associations of variables. The base variables were combined to produce different factors, which represented a distinct dimension of performance. The individual scores ascribed to each MFI on each factor was used as the dependent variables of a simultaneous –equations model. The paper attempted to shed some light on the way of performance of MFIs could be evaluated in a multidimensional manner. Therefore the paper used factor analysis, cluster analysis and also estimated a SUR model for the year 2003.

Befekadu B. Kereta (2007) in his paper titled ‘Outreach and Financial Performance Analysis of Microfinance Institutions in Ethiopia’ assessed the performance of microfinance institutions of Ethiopia from different angles. The objectives of the study were to measure outreach of the poor and financial sustainability of MFIs, to identify challenges faced by the MFIs not to operate efficiently and to deliver policy recommendations towards efficient operations of MFIs. The paper was divided into four chapters. The first chapter was of introduction to study, second chapter included literature review, third chapter described the findings of the study and fourth chapter included conclusion and recommendations. The paper gave policy recommendations to MFIs based of the findings. Recommendations included strengthening women’s access to credit and as the study found out positive correlation between outreach and sustainability, it recommended to reach more client to attain social mission and as well as profitability.
Drew Tulchin et al (2009)\textsuperscript{46} in their paper titled ‘New Financial ratios for microfinance reporting’ described eight new ratios in a uniform format, ratio name, framework number and mathematical equation. To understand the implications of the ratio, examples were provided with calculations using data from Banco ProCredit Nicaragua (ProCredit Nic). ProCredit Nic was chosen as an illustrative example. The eight new ratios for microfinance reporting were capital adequacy ratio, uncovered capital ratio, foreign currency risk ratio, average deposits balance per account, yield on liquidity and investments, savings liquidity, effective financial expense of savings and effective operating expense of savings. The paper concluded that these changes to the Framework move MFIs to more accepted global accounting guidelines, including Basel II and IFRS, and serve as a ready platform to better align national reporting standards.

Esubalew Assefa et al (2012)\textsuperscript{47} in their paper titled ‘Competition and performance of microfinance institutions’ examined the relationship between competition and the performance of microfinance institutions (MFIs). Competition was measured by constructing a Lerner index. Next, the researchers assessed the association between increased competition among MFIs on the one hand and outreach, loan repayment, efficiency and financial performance on the other. The empirical investigation was based on data from 362 MFIs in 73 countries for the period 1995-2009. The findings were that there was a general trend of increased competition in microfinance during the last decade. Econometric analysis provided evidence that competition among MFIs was negatively associated with various measures of performance. The analysis supported the view of those who see increased competition and the related commercialization of the microfinance sector as a threat to its longer term stability and success, both in terms of its social and financial objectives.

Wondimagegnehu Negera (2012)\textsuperscript{48} in his research project titled ‘Determinant of non-performing assets: the case of Ethiopian Banks’ adopted mixed research approach. Survey was conducted with professionals engaged in both private and state owned banks in Ethiopia holding different positions using self administered questionnaire. Secondly, the study used structured review of documents and records of banks and in-depth interview of senior bank officials in the Ethiopian banking industry. The study found that poor
credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity etc were the causes of loan default. The study suggested that banks should put in place a vibrant credit process that ensures proper customer selection, robust credit analysis, authentic sanctioning process, proactive monitoring and clear recovery strategies.

Hina Almas and MuashirMukhtar (2013) in their paper titled ‘Measuring the Performance and Achievement of Microfinance Institutions Incorporating Subsidy Dependence Index and Outreach Index in Pakistan’s case’ investigated the level of subsidy dependence and outreach for measuring microfinance institutions impact and poverty outreach. The paper also compared subsidy dependence index and financially self-sufficiency index, explaining the objectives and limitations of each of them. While numerous researches have been conducted indifferent countries to study this issue, but no such study have yet been done in Pakistan’s context. For the study, researcher focused on eight microfinance institutions working in Pakistan. Sample institutions comprised of conventional and Islamic microfinance institutions. Data for this research have been drawn from financial statements of microfinance institutions and mix market website, from 2006 to 2012. Findings of the study have thrown some light on microfinance institutions financial sustainability while fulfilment of their promise of poverty reduction. Thus, the combination of subsidy dependence index and outreach index can play a vital role as regulatory and supervisory tool for microfinance institutions.

Walter Okibo and Lilian Aseyo (2013) in their research paper titled ‘Causes of loan default with microfinance institutions in Kenya’ had main objective to find out the causes of loan default within microfinance institution in Trans Nzoia country. The target population comprised a total of 400 loan borrowers and 200 MFIs out of which a sample of 150 was picked using simple random sampling for each stratum. The data was collected through structured and semi-structured questionnaire. The data was analyzed by using both quantitative and qualitative techniques and tabulated by using frequency tables. The study found that the loan repayment default was due to non supervision of borrowers by the MFIs and due to inadequate training of borrowers on utilization of loan funds before they received loans. It was also
found that most borrowers did not spend the loan amount on intended and agreed projects.

Wangai David et al (2014)\textsuperscript{51} in their paper titled ‘Impact of nonperforming loans on financial performance of microfinance banks in Kenya: A survey of microfinance bank in Nakuru town’ established the effect of non-performing loans on financial performance of microfinance banks in Kenya. The study was conducted in microfinance banks in Nakuru town, Kenya. It was guided by one independent variable that was credit risk and one dependent variable that was financial performance. Descriptive analysis was done to present the opinions of the respondents regarding all study constructs. Inferential analysis was done which enabled making deductions pertinent to non-performing loans and financial performance banks under study. It was deduced that increase in credit risk would significantly reduce the MFBs’ financial performance. It was recommended that potential borrowers should be critically analyzed to assess their credit worthiness before they are awarded loans.

2.4 Mix Model of financial performance of Microfinance Institutions\textsuperscript{52}

MIX is a non-profit organization incorporated in June 2002, with headquarters in Washington, DC, and regional offices in Peru, Senegal, India and Indonesia. MIX was founded by CGAP (Consultative Group to Assist the Poor), and is sponsored by City Foundation, Deutsche Bank Americas Foundation, IFAD and Bill & Melinda Gates Foundation. MIX provides detailed financial and social performance information from MFIs, as well as business information from market facilitators and leading donor organizations and investors in microfinance. To address the issue of diversity in operating environment of MFIs, while comparing the financial and portfolio data, it has adopted a peer group framework, where financial performance of MFIs are compared among peer group members on 8 broad parameters. Each of these parameters has some performance indicators. The details of these indicators are as under.

1. **Institutional characteristics**: The details of the indicators under this head are as under.
   - Number of MFIs: Sample size of group
   - Age: Years functioning as an MFI
- Number of offices
- Number of personnel
- Total asset: Total assets, adjusted for inflation and standardized provisioning for loan impairment and write-offs

2. **Financing Structure:** The details of the indicators under this head are as under.
   - Capital/Asset Ratio: Adjusted Total Equity/Adjusted Total Assets
   - Commercial Funding Liabilities ratio: (Voluntary and Time Deposits + Borrowings at Commercial Interest Rates) /Adjusted Average Gross Loan Portfolio
   - Debt to Equity: Adjusted Total Liabilities/Adjusted Total Equity
   - Deposits to Loans: Voluntary Deposits/Adjusted Gross Loan Portfolio
   - Deposits to Total Assets: Voluntary Deposits/Adjusted Total Assets
   - Portfolio to Assets: Adjusted Gross Loan Portfolio/Adjusted Total Assets

3. **Outreach Indicators:** The details of the indicators under this head are as under.
   - Number of Active Borrowers: Number of Borrowers with loans outstanding, adjusted for standardized write-offs
   - Percent of Women Borrowers: Number of active women borrowers/Adjusted Number of Active Borrowers
   - Number of Loans Outstanding: Number of Loans Outstanding, adjusted for standardized write-offs
   - Gross Loan Portfolio: Gross Loan Portfolio, adjusted for standardized write-offs
   - Average Loan Balance per borrower: Adjusted Gross Loan Portfolio / Adjusted Number of Active borrower
   - Average Loan Balance per Borrowers/ GNI per capita: Adjusted Average Loan Balance per Borrower/GNI per Capita
   - Average Outstanding Balance/Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
   - Average Outstanding Balance/GNI per Capita: Adjusted Average Outstanding Balance/GNI per Capita
   - Number of Voluntary Depositors: Number of Depositors with voluntary deposit and time deposit accounts
- Number of Voluntary Deposit Accounts: Number of Voluntary Deposit and time deposit accounts
- Voluntary Deposits : Total value of Voluntary Deposit and time deposit accounts
- Average Deposit Balance per Deppositor: Voluntary Deposits/Number of Voluntary Depositors
- Average Deposit Balance per Deppositor/GNI per Capita: Average Deposit Balance per Deppositor/GNI per capita
- Average Deposit Account Balance: Voluntary Depositors/Number of Voluntary Deposit Accounts
- Average Deposit Account Balance/GNI per Capita: Average Deposit Account Balance/GNI per capita

4. **Macroeconomic Indicators**: The details of the indicators under this head are as under.
   - GNI per Capita: Total income generated by a country's residents, irrespective of location / Total number of residents
   - GDP Growth Rate: Annual growth in the total output of goods and services occurring within the territory of a given country
   - Deposit Rate: Interest rate offered to resident customers for demand, time or savings deposits
   - Inflation Rate: Annual change in average consumer prices
   - Financial Depth: Money aggregate including currency, deposits and electronic currency (M3)/GDP

5. **Overall Financial Performance**: The details of the indicators under this head are as under.
   - Return on Assets: (Adjusted Net Operating Income - Taxes) / Adjusted Average Total Assets
   - Return on Equity: (Adjusted Net Operating Income - Taxes) / Adjusted Average Total Equity
   - Operational Self-Sufficiency: Financial Revenue / (Financial Expense + Impairment Losses on Loans + Operating Expense)
   - Financial Self-Sufficiency: Adjusted Financial Revenue / Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
6. **Revenue and Expenses:** The details of the indicators under this head are as under.
   - Financial Revenue/Assets: Adjusted Financial Revenue / Adjusted Average Total Assets
   - Profit Margin: Adjusted New Operating Income / Adjusted Financial Revenue
   - Yield on Gross Portfolio (nominal): Adjusted Financial Revenue from Loan Portfolio / Adjusted Average Gross Loan Portfolio
   - Yield on Gross Portfolio (real): (Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate) / (1 + Inflation Rate)
   - Total Expense/Assets: Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense) / Adjusted Average Total Assets
   - Financial Expense/Assets: Adjusted Financial Expense / Adjusted Average Total Assets
   - Provision for Loan Impairment/Assets: Adjusted Impairment Losses on Loans / Adjusted Average Total Assets
   - Operating Expense/Assets: Adjusted Operating Expense / Adjusted Average Total Assets
   - Personnel Expense/Assets: Adjusted Personnel Expense / Adjusted Average Total Assets
   - Administrative Expense/Assets: Adjusted Administrative Expense / Adjusted Average Total Assets
   - Adjustment Expense/Assets: (Adjusted New Operating Income - Unadjusted Net Operating Income) / Adjusted Average Total Assets

7. **Efficiency:** The details of the indicators under this head are as under.
   - Operating Expense/Loan Portfolio: Adjusted Operating Expense / Adjusted Average Gross Loan Portfolio
   - Personnel Expense/Loan Portfolio: Adjusted Personnel Expense / Adjusted Average Gross Loan Portfolio
   - Average Salary/GNI per Capita: Adjusted Average Personnel Expense / GNI per Capita
   - Cost per Borrower: Adjusted Operating Expense / Adjusted Average Number of Active Borrowers
8. **Risk and Liquidity:** The details of the indicators under this head are as under.

- Portfolio at Risk > 30 Days: Outstanding balance, portfolio overdue > 30 days + renegotiated portfolio / Adjusted Gross Loan Portfolio
- Portfolio at Risk > 90 Days: Outstanding balance, portfolio overdue > 90 days + renegotiated portfolio / Adjusted Gross Loan Portfolio
- Write-Off Ratio: Adjusted value of loans written off / Adjusted Average Gross Loan Portfolio
- Loan Loss Rate: (Adjusted Write-offs - Value of Loans Recovered) / Adjusted Average Gross Loan Portfolio
- Risk Coverage Ratio: Adjusted Impairment Loss Allowance / PAR > 30 Days
- Non-earning Liquid Assets as a % of Total Assets: Adjusted Cash and Banks/Adjusted Total Assets
- Current Ratio: Short Term Assets / Short Term Liabilities

**2.5 Summing up**

The literatures studied were classified into four main sections for better understanding. The first section consisted of literature related to conceptual clarity on the research topic that is microfinance and various microfinance models that existed in and outside
India. It can be noted that though few literatures fully included the conceptual aspect and so they are classified in first section but in literatures of other section too the basic concept and evolution of microfinance is mentioned.

The second section is related to microfinance and microfinance institutions in India. As the research topic is concerned related to Gujarat state and broadly related to India, literatures that conducted research based on India and Microfinance Institutions in India were classified in this section. From these literatures, the history and evolution of microfinance in India, the working pattern of microfinance Institutions and also the status of microfinance in India can be learned and analyzed. The detail description of the analysis of microfinance in India is mentioned in Chapter 3.

The third section of this chapter includes the literatures related to performance analysis of microfinance Institutions in India and outside India. This section is very important as it is related exactly to the research topic. Through the literatures under this section, various performance analysis indicators, methods of collecting data, type of format of questionnaire and also the statistical tools that can be used for performance analysis was learned and analyzed.

The last section includes the detail description of the performance evaluation model adopted by MIX market.org is mentioned. From the literatures in section three, it was found that the most reliable and exhaustive model for analysis of financial performance and non performing assets of microfinance institutions is MIX Model. And therefore in this research also MIX Model has been used for performance analysis of microfinance Institutions in Gujarat and also for analysis of non-performing assets of microfinance institutions in Gujarat. It can be noted here that basic indicators of the model have been included in the research but only the major ratios have been take for the analysis.
REFERENCES:


