Chapter – 1
Introduction

1.1. Background of the Study

Microfinance has emerged as a major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. It is seen as an important instrument of providing financial services to the poor and the vulnerable and has proven to be an effective and powerful tool for alleviation of poverty and women empowerment by providing financial services to the micro-entrepreneur all over the world. The concept of microfinance was first successfully implemented in the year 1976 through the foundation of “Grameen Bank” by eminent economist and Nobel Laureate Prof. Muhammad Yunus in Bangladesh. These programmes are now the most common sources of credit for household enterprises (micro-enterprise) and one of the largest channels for development aid. Through microfinance a few billion poor people have been benefited and a million of employment opportunities have been generated all over the world. A number of agencies - Government as well as Non-government Organizations (NGOs) are involved in microfinance development initiatives.

Microfinance in India is growing rapidly towards the main objective of financial inclusion by extending outreach to the poor households. Mainly two major channels are delivering microfinance in India i.e. Self Help Group (SHG) Bank Linkage Programme (SBLP) led by the National Bank for Agricultural and Rural Development (NABARD) and Microfinance Institutions (MFIs) channel. Along with these channels, Government led Swarnajayanti Gram Swarojgar Yojana (SGSY), Small Industries Development Bank of India Foundation for Micro Credit (SFMC), Rastriya Mahila Kosh (RMK), Regional Rural Banks (RRBs) and Co-operative Banks are also doing effective work in the field of microfinance. In the last decade,
Microfinance Institutions in India have made significant progress in terms of outreach and penetration in unbanked areas through several innovations in credit delivery and terms of lending, thereby emerging as a structural addition to the financial system. With the phenomenal growth recorded by microfinance in India in recent years – 62% per annum in terms of number of unique clients, 88% per annum in terms of portfolio over the five years 2005-2010 – and around 32 million borrower accounts (October 2010), India had the largest MFI sector in the world. Along with its traditional credit and savings services, MFIs also deal with micro-insurance (which includes health and life insurance, rainfall and weather insurance), pension, emergency loans, education loans, money transfer services etc. Indian MFIs continue to be the most efficient in the world in terms of operating efficiency, staff productivity, portfolio quality and return on assets. In fact, Swayam Krishi Sangam (SKS), the leading MFI in India has already entered the capital market through its successful initial public offer (IPO).

In the microfinance sector, success of MFIs has long been associated with the outcome of financial performance which in turn is measured by loan portfolio quality, cost recovery and profitability. However, these financial indicators show only part of the performance story as their social and financial performance are mutually linked to each other. So, most of the MFIs strive to meet interrelated financial and social goals, managing a double bottom line where strong financial performance facilitates the fulfilment of social mission.

To ensure the social mission and goals of the MFIs, the concept of Social Performance (SP) was introduced in the microfinance sector. Social Performance aims to translate an institution’s mission into practice in line with accepted social goals. It also tries to ensure that the MFIs are serving increasing numbers of poor and excluded people in a sustainable manner, improving the quality and appropriateness of financial services, improving the economic and social condition of its clients. Now the concept of Social Reporting, Social Rating and Social Audit has also been
introduced in the sector to promote greater transparency and to improve the social performance of the MFIs.

West Bengal, a late entrant in SHG segment and a laggard till 2005-06, has now become a prime mover of SHG movement in terms of both saving linkage and credit linkage. Along with the SHG programme, 29 MFIs are delivering microfinance services in West Bengal (Sa-Dhan Report 2010, and Association of Microfinance Institutions - West Bengal Report). Bandhan, the MFI based on Konnagar, West Bengal has ranked second in the Forbes Ranking among the top 500 MFIs of the World in 2007. The leading MFIs like SKS Microfinance Ltd., Ujjivan Financial Services Private Ltd., ASA are operating in West Bengal along with some others small and medium MFIs like Sahara Utsarga Welfare Society, Arohan, Sarala Women’s Welfare Society etc.

MFIs of West Bengal are currently catering to around 37 lakh poor people with a work force of around 12,000 people who are from lower economic background. MFIs operating in the state, provide loan to both the rural and the urban sector. In the rural sector, loans have been disbursed to the remotest of areas like the interiors of Sunderbans, Jalpaiguri, Darjeeling, Jangal Mahal etc. With these loans the hapless borrowers, especially women, are becoming self reliant and are buying assets for the purpose of their business. They are also learning the pitfalls of over-spending and are also getting into the habit of saving and utilizing their assets in a judicious manner.

1.2. Problem Analysis

MFIs in India have grown at a very rapid pace since the last few years. At the same, time the issue of social responsibilities of the MFIs has put a question mark on the future of the sector. Many MFIs are advertising their growth to attract private funds but that is generating the perception that the industry is no longer working for the poor, but making money out of misery. The situation has become crucial after the several cases of suicides committed by microfinance clients in the state of Andhra
Pradesh (AP). The MFIs were blamed for the same for their multiple lending, coercive methods of collection and pressure for repayments of loans. After this incidence, the Andhra Pradesh State Government approved an Ordinance in October 2010 to regulate interest rate and coercive method of loan recovery by the MFIs in the state and the MFIs flouting norms are likely to face imprisonment up to three months. After passing this Ordinance, the MFIs operating in AP faced a crucial funding and liquidity crisis as maximum of the MFI’s borrowers stopped repaying and financial institutions disagreed to provide fund in this sector. The situation has made it extremely difficult for private microfinance players to carry out their daily operations. Recovery rates have slumped from near perfect to 3-5 per cent in many cases. In a broader context, the move has created policy uncertainty about the sector in general and almost overnight transformed the image of MFIs from that of saviours of the poor to unfeeling usurers. The situation became more critical as there was no such regulation and single regulatory body for the microfinance sector. The AP crisis has left the entire Indian microfinance industry affected. In this background, a critical appraisal of the social responsibilities and social performances of the MFIs is an important issue.

The present study has tried to find out whether there are any mission drift of the MFIs operating in West Bengal by appraising their social performance. An attempt has been made to examine the feedback of the clients regarding multiple borrowings practices, coercive method of collection, rate of interest charge etc. to analyse whether there are Andhra Pradesh crisis symptom in the operations of West Bengal’s MFIs or not. The study has also evaluated the initiatives taken by the MFIs of West Bengal for ensuring client protection and social performances.

1.3. Review of Literature

Several studies have been conducted by the academicians and researchers on different aspects in the field of microfinance. Some research organisations and rating agencies have done some specialized studies in relation to the development of social
performance management and social performance indicators of MFIs. The existing literature can be reviewed under two groups: (a) Review of literature in India; and (b) Review of literature in other countries.

1.3.1. Literature on Microfinance in India:

Exhibit -1.1 shows literature related to Indian context.

**Exhibit -1.1: Literature on Microfinance in India**

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<th>Area of Work</th>
<th>Author(s)/Researcher(s)</th>
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<td>5</td>
<td>West Bengal Scenario</td>
<td>Sen (2005), Dhar and Sarkar (2009), Banerjee (2009), Das (2010)</td>
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Conceptual Issues and SHG Bank Linkage

Srinivasan & Rao (1996) identified three models of Self Help Group (SHG) bank linkage programme i.e. direct lending to SHGs, lending through Non Government Organisations (NGOs) and individual lending. They suggested that it is necessary to educate branch manager as to how to assess the SHGs before linkage. Guidelines on assessment of groups may be issued by banks indicating various aspects to be examined. Rao, Satish, Srinivasan and Chauhan (1999) conducted an in-depth study on different aspects of SHGs like formations, functioning, impact and cost of promotion. They concluded that both NGOs and bank managers are suited for SHG formation, though the former have several advantages of being cost effective. Kropp and Suran (2002) in their study examined the significance and impact of the SHG-Bank Linkage Programme led by NABARD in India. Puhazhendi and Badatya (2003) conducted a detail study to assess the impact of micro finance channelized through SHG Bank Linkage programme implemented by NABARD since 1992 in eastern areas (Orissa, Jharkhand & Chattisgarh) of the country. They observed that social empowerment of sample SHG members improved in a significant way. The study found that a large number of SHGs have already been promoted. They suggested that presently all efforts should be concentrated on nurturing and strengthening of existing groups. There is a need for documentation, an effective Management Information System (MIS) and build up of data base of SHGs at the district level.

Basu (2006) described the procedure of access, constraint to access and recent efforts to improve rural access to finance to the poor of India. She pointed out that the dual pursuit of social ends and financial profits is an ongoing tension for all in microfinance. How products are designed, how staffs are compensated, what messages are delivered from headquarters and who is recruited onto staff all have an important bearing on the success of microfinance. Karmakar (2008) presented an overview of the challenges faced by various microfinance delivery models and
suggested possible innovations in evolving new credit delivery mechanisms. Guha (2010)\textsuperscript{14} has made an extensive study on the impact of SHGs programme on its members. She found that after joining the SHGs, members enjoyed greater level of independence in economic decision making like purchase of assets, other households requirements and management of productive assets. In some cases, members borrowed from informal financial sources as they could not meet their needs through loans which they received from SHGs and banks. Sometimes members did not get repeat loans from banks as they did not repay loan on time due to crop failures and other difficulties.

**Scenario of Microfinance & Microfinance Institution in India**

Mahajan (2001)\textsuperscript{15} stated that sustainability of an MFI eventually depends on the sustainability of its customers’ cash-flows. He also pointed out that there is no point talking about sustainability of MFIs unless the principle of full cost recovery is accepted. Banks (and Government) have to first learn to adopt sustainable pricing methods before the microfinance sector. Fisher (2002)\textsuperscript{16} examined that the lack of professionalism and technical expertise among many has prevented the MFIs from achieving scale, impact sustainability. Among the thousands of MFIs operating worldwide, only a small proportion is pursuing best practices in their technical aspects of microfinance programme. Mishra & Tripathi (2003)\textsuperscript{17} opined that microfinance programme through NGOs and MFIs can make rapid progress in the absence of parallel formal rural formal financial systems.

Sa-Dhan\textsuperscript{18} and M-CRIL (2006)\textsuperscript{19} described the legal and regulatory framework under which the entire microfinance sector operates at present. They found that in Indian MFIs, typically, the members of the board comprise the promoters, local academics or social workers and representatives from the executive in the form of the chief executive officer (CEO). M-CRIL and Microfinance Information Exchange (2008)\textsuperscript{20} commented that over the past few years the structural shift in Indian microfinance
has given way to a push for growth and now Indian MFIs are among the fastest growing as well as the most efficient internationally. But, high growth brings with it possible dangers of mission drift as many MFIs emphasise commercial behaviour and may not strategically balance this with their original social mission, or with social values expected in microfinance.

Indian Institute of Banking & Finance (2009)\textsuperscript{21} made a study on different perspectives and operating systems of microfinance in India. It has analysed the profitability, efficiency & productivity of the MFIs. It concluded that a minimum amount of profit or surplus is essential for the MFIs to ensure sustainability. Most of the MFIs in their initial stage of operations have to incur high amount of fixed cost due to which the operating expense ratio of the MFIs in their initial stages of operation is high. Panda (2009)\textsuperscript{22} made an elaborate study on different aspects of microfinance in India. His study covers the conceptual issues, evolution, regulatory framework and lending methodology of microfinance programme in India. He also deals with risk involved and marketing strategy of MFIs. He identified that the product demand is different across various segments, various geographical areas and changes over time period. MFIs develop products as they want to reach more people and thereby increase their market share. Chowbey and Sharma (2010)\textsuperscript{23} made a thorough study on the cost structure and other complexities faced by the small MFIs in Bihar. They found that maximum of the MFIs in Bihar are charging flat rate of interest varying between 12-18\% p.a. They also found that the processing fees, service charges, non-interest bearing cash security along with flat interest rate has made the real cost of lending non-transparent and exorbitant.

Sa-Dhan (2012)\textsuperscript{24} prepared and presented the summarised data of 184 MFIs state-wise, legal form-wise, district-wise, region-wise and organisation-wise in a very useful manner. Puhazhendhi (2013)\textsuperscript{25} has outlined the recent trend and scenario of Indian microfinance sector. He pointed out that a number of MFIs are providing other
products and services such as savings, micro insurance, micro pension, health & housing loans, loans for water supply & sanitation etc. He also found that MFIs in India have historically displayed mixed enthusiasm in experimenting with new products on account of their own imperatives as well as regulatory limitations. While many of the products showed the success for replication, still there are several unresolved issues which need to be appropriately considered while up scaling these innovations.

**Issues Related to Regulations**

NABARD (2001)\(^{26}\) stated that the poor need savings services, not from the point of view of earning a return but for safe keeping of their hard earned pillow money. Regulated MFIs are expected to offer this important service. The role and functions of the Superintendency of Banks and Financial Entities (SBFE) of Bolivia, the cost of running such a regulatory system and advantages and disadvantages of having an independent arrangement offer good lessons for India to develop and adopt an appropriate regulatory and supervisory mechanism for MFIs in India. GTZ (2004)\(^{27}\) made an elaborate study on the regulatory scenario of Indian microfinance sector. It opined that the regulatory changes must come first and only afterwards can the true potential of this sector be seen. From a regulatory point of view, NBFCs, Section 25 companies and microfinance NGOs are best treated separately. It also found that NBFCs are the only type of MFI falling clearly under the purview of the central bank and being subject to prudential regulations.

Jeromi (2007)\(^{28}\) examined that the existing legal provisions and regulatory and supervisory mechanisms are inadequate to protect the interests of both depositors and creditors in Kerala. He suggested strengthening the Kerala Money Lenders Act by passing an Act for the protection of depositors and creating a separate wing for their registration, monitoring and supervision by the State Government. Sinha (2007)\(^{29}\) argued that MFIs certainly need to be nurtured, but banks also need to be encouraged to take a more direct interest in down-scaling their products and services to suit
micro-clients. The first step in this process must be the removal of the interest rate cap on small loans. The only impact of the interest rate cap is to reduce banks’ interest in making such loans. He also stated that if the government wants a much larger proportion of the country’s low-income people to gain access to financial services, it should both loosen interest rate controls for banks and create enabling regulations for MFIs. Kothari & Gupta (2007)\textsuperscript{30} mentioned that inadequate regulation is one element curbing the microfinance sector’s healthy expansion. The Reserve Bank of India is understandably hesitant to directly regulate the disclosure practices of all Indian MFIs. As such, the RBI has largely left MFI regulation to the MFIs themselves.

In March 2008, the Finance Minister tabled the ‘The Micro Financial Sector (Development and Regulation) Bill, 2007’ in the Lok Sabha, which was then referred to the Lok Sabha Standing Committee on Finance\textsuperscript{31}. But somehow the Bill has not passed in Parliament. Malegam Committee (2011)\textsuperscript{32} has suggested creating a separate category for NBFCs operating in the Microfinance sector, such NBFCs being designated as NBFC-MFI. It also recommended an interest cap of 24% on individual loans and many others recommendations to bring transparency in the sector and to protect the clients from unethical business practices.

Again the Government of India made a draft regulation named ‘Microfinance Institutions (Development and Regulation) Bill 2011’ for the sector. The Bill proposed the Reserve Bank of India as the sole regulator and puts industry under a strict watch. The draft Bill gives sweeping power to the RBI by bringing all aspect of microfinance under its oversight. Finally, the ‘Microfinance Institutions (Development and Regulation) Bill, 2012’\textsuperscript{33} – was tabled in the Indian Parliament on 29 May 2012 with slight modification, in the draft Microfinance Bill. The bill provides flexibility of RBI to apply different measures, vary the same and delegate the powers to regulate to NABARD.
Shankar and Smita (2008)\textsuperscript{34} focused on the positive features of the Microfinance Regulation Bill (2007) like improvement of the database services and introduction of basic consumer protection mechanism by the Micro Finance Organisations (MFOs). Arun and Murinde (2010)\textsuperscript{35} stated that the performance of MFIs depends largely on regulation for MFIs which eventually affect social protection in several ways mainly through its effectiveness and outreach. They also criticised that the regulation provides a secure climate to consumers. But there is also a danger of hampering the growth of microfinance; for example, if there is a cap on the interest rates charged by the MFIs, the consumer is protected from any unwarranted high rate. This also makes the operations of the MFIs impractical due to the low income and high costs of operating under the interest rate cap. This may have an adverse effect on the MFIs and would certainly stop growth.

**Social Performance**

Sinha (2006)\textsuperscript{36} stated that social performance management has reference to the mission and model of each MFI. The other dimensions assume generic social values, though specific indicators may be adjusted (or omitted) depending on the MFI model. Member Governance (MG) is applicable to member-owned institutions; indirect indicators of outreach (for example, hired employment in credit-supported enterprises) are applicable to MFIs that do not focus on the poor, but aim to provide finance to micro- and small enterprises. Srinivasan (2009)\textsuperscript{37} found that social performance have examined the mission of the organisation, their strategies, the way the strategies are executed on the field, the results achieved and the attitude towards the clients. Srinivasan (2010)\textsuperscript{38} in another study suggested that MFIs are expected to have socially relevant mission, introduce customer friendly products, appropriate process, invest in customer education, exercise restraint in pricing and offer services beyond finance to improve livelihood and quality of life. The funders, donors and government have an equally important role to play if MFIs are to deliver what are expected of them.
Sa-Dhan (2010)\textsuperscript{39} has made a voluntary code of conduct consisting of seven codes/principles for its member MFIs for ensuring client protection in India. This code of conduct covers Fair Practise in MFI Operation, Avoiding Over-indebtedness, Appropriate Interaction and Collection Practices, Privacy of Client’s Data, Governance, Client Education and Financial Literacy, Competition and Feedback and Grievance Mechanism. SIDBI and the World Bank (2011)\textsuperscript{40} issued a code of conduct compliance assessment (COCA) for the microfinance sector. Microfinance Management and Investment Advisory (M2i) which designed the compliance tool (COCA) has carried out the compliance assessment for eight institutions. The assessment has concluded that most institutions have effective systems in place to ensure that the code of conduct is practiced. The COCA examined dimensions such as client origination and targeting, loan pricing, appraisal, client data security, staff conduct, client relationship and feedback.

Srinivasan, Agashe & Garriott (2011)\textsuperscript{41} stated that Indian MFIs have largely incorporated client protection principles. They further suggested that investment in client awareness needs to be increased, and grievances redressal mechanisms need to be systematically operationalised. Loan appraisal mechanisms have to be systemized to ensure an assessment of household cash flows and appropriate loan sizes to avoid over-indebtedness. Sivasankaran and Sarvanan (2011)\textsuperscript{42} examined the relationship of social performance of MFIs with the organisational characteristics, managerial performance, operational performance and financial performances of MFIs. They concluded that the organisational characteristics of MFIs have influenced on the social performance but the managerial performance and operational performance do not have any influence on it. Again the financial performances of MFIs do not influence their social performance uniformly. Srinivasan, Girija (2013)\textsuperscript{43}, pointed out that good governance enables MFIs to implement appropriate business plans, strategies, decision making & resource allocation and to adapt changes in the business environment.
West Bengal Scenario

Sen (2005)\textsuperscript{44} studied the SHGs and microfinance programme in West Bengal and stated that the strongest point of West Bengal is the willingness to save and value savings as the potential tool of empowerment. He also found considerable interest, particularly amongst the poor women to join the group. Dhar and Sarkar (2009)\textsuperscript{45} examined the financial sustainability of the Self Help Group (SHG) after taking into consideration the high interest rate and operating costs of the 225 SHGs from West Bengal. Banerjee (2009)\textsuperscript{46} made an effort to estimate the impact of Self-Help Groups created under SGSY programme of Government of India on the basis of primary survey undertaken in the district of North 24 Parganas of West Bengal during September 2005 to March 2006. Das (2010)\textsuperscript{47} examined that the growth of SHG movement has been so spectacular in West Bengal that it has ranked third in the country after Andhra Pradesh and Tamil Nadu.

1.3.2. Literature on Microfinance in Other Countries

Exhibit – 1.2: shows literatures on global context.

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SI No & Area of Work & Author(s)/Researcher(s) \\
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Conceptual Issues & Miscellaneous

Yunus & Jolis (1998)\textsuperscript{48} observed that the success of a credit programme lies in how it builds up a rapport with its clients and how well it can draw out its borrowers’ dynamic human qualities. They also stated that poverty will not last long if we can come up with a system which allows everybody access to credit while ensuring excellent repayment. Ledgerwood (1999)\textsuperscript{49} outlined a broad idea about microfinance, MFIs and the performance of MFIs such as portfolio quality, productivity, financial viability, profitability, leverage and capital adequacy and lastly sales, outreach and growth.

Churchill and Coster (2001)\textsuperscript{50} stated that most MFIs are small and unprofitable, and they operate without systems that adequately reduce risk. They classified the risk associated with MFIs in four categories: institutional, operational, financial and external. The institutions risks involved risks related to social mission, commercial mission and dependency, the operational risks involved credit risk, risk of fraud and security. The financial management risks include risks related to assets and liability, inefficiency and system integrity. The external risks are regulatory risk, competition, demographic, physical environment and macroeconomic risks. IFAD et al. (2006)\textsuperscript{51} identified five major areas of risks and challenges in governance of MFIs. The risks are; mission drifts, risks related to growth, risks related to conflict to interest, risk
related to institutional evolution, risks related to the changing socio-economic context.

Consultative Group to Assist the Poor (2003) made a comparison between MFIs more meaningful and to promote more transparency in MFIs reporting. Torre (2006)\textsuperscript{52} stated that in recent years, microfinance has taken over from the concept of microcredit. The fight against extreme poverty has become a part of wider objective in the fight against financial exclusion. Together with donors and non-profit institutions, other MFIs and traditional financial intermediaries are present in the market. Ledgerwood and White (2006)\textsuperscript{53} made a thorough study on transforming of NGO to regulated MFIs and also examined the advantages and disadvantages of the transformation. They also focussed on the marketing, strategy and business planning, governance, legal aspects, Human Resource Management (HRM), Financial Management (FM) and Management Information System (MIS) of the transformed MFIs. Caire et al. (2006)\textsuperscript{54} designed a handbook for developing credit scoring systems in a microfinance context by collecting data from countries like Peru, Bolivia, Slovakia, South Africa and Bulgaria. The handbook found that BancoSol of Bolivia introduced three credit scoring models: collection scoring, selection scoring and segmentation scoring. BancoSol’s experience in microfinance credit scoring has been a success in many ways. The Bank was able to take the advantages of the need to analyse policies and procedure linked to the credit evaluation process that would impact the overall score and vice-versa.

Reille and Forster (2008)\textsuperscript{55} found that private investors are already playing a significant role in certain microfinance markets, bringing in not only important capital but, equally important, crucial governance capacity and much needed skills in growing and managing professional businesses. They criticised that the bulk of foreign investment is going to the top 150 MFIs in about 30 countries and two regions: Latin America and Eastern Europe and Central Asia account for 75 percent
of cross-border capital flows. Africa and Asia, where poverty and potential microfinance demand is highest, receive only 6 and 7 percent of foreign investment, respectively. Liebarman et al. (2009)\textsuperscript{56} examined the relationship of microfinance and capital market. They observed that Bangladesh Rural Advancement Committee (BRAC)’s senior management hired highly experienced bankers to run the institutions rather than using the NGO management to bring management excellence in operations. They suggested that an MFI has to think carefully through the decision before going to initial public offer. Sengupta and Dezso (2013)\textsuperscript{57} observed that political intervention influence the playing field for MFIs. They described how government can distort markets by providing low interest loans, as the governments of Brazil, Pakistan and India have done, others brought up interest rate caps and price restrictions in market across West Africa, Eastern Europe, Central Asia and Ecuador.

**Social Performance Management, Financial Performance Analysis & Impact Assessment**

Zeller, Lapenu and Greely (2003)\textsuperscript{58} in their study mentioned that MFIs have different objectives and constraints. One may focus more on reaching women, another on scale, another on reaching remote areas and another on empowerment. They distinguished four major dimensions of social performance as follows: outreach to the poor and excluded (mission and targeting strategies), adaptation of the services and products to the target clients, improving social & political capital and social responsibility of MFI. CGAP and The World Bank (2003)\textsuperscript{59} define different financial terms, ratios and adjustment for the microfinance sector. They found that most MFIs choose to use the average gross loan portfolio because they calculate other ratios using this same denominator.

Imp-Act and Microfinance Centre (2005)\textsuperscript{60} verified that the purpose of social performance management is to serve clients better. By monitoring progress towards the social objectives, MFIs will know where they are and where they have to go.
Without a conscious investment in such a process, social performance remains in the realm of lofty ideal, divorced from practice. International Fund for Agricultural Development (2006)\(^6\) has tried to identify different tools developed worldwide for assessing and managing social performance of microfinance. It has found 18 tools developed globally by different organisations for the same. Accion Insight (2006)\(^6\) designed a guideline to evaluate social performance of MFIs. It also clarifies the concept of social audit and social scorecard in microfinance. It suggested that every MFIs can and should measure its social performance. Social performance reporting enables MFIs to focus on fulfilment goals in the same way that they focus on financial goals. MIX, CGAP and World Bank (2006)\(^6\) made a survey on the performance and transparency on the MFIs in South Asia. The study found that the issue of transparency is especially important in the Indian microfinance context. Transparency within the sector would secure better understanding by the government of the issue and contribution of MFIs in alleviation of poverty. Operationally, transparency would result in better terms and tenure of partnership with banks and investors.

USAID (2008)\(^6\) observed that assessing and managing the social performance of microfinance institutions is an important but challenging task. The social rating is one Social Performance Assessment tool that has demonstrated its value to the microfinance sector. Isren, Abrams and Brown (2008)\(^6\), suggested guidelines for appraising the MFIs in terms of social and financial performance. They also suggested how to present and analyse the data of MFIs and focussed deeply on every pros and cons of MFIs. They found that the extent of possible analysis of an MFI’s products depends on its stage of development.

CGAP (2010)\(^6\) developed six client protection principles which are internationally accepted for evaluating the client protection in a MFI. It observed that the client protection concerns form part of the focus on “responsible finance,” which has come
to the fore as the overarching framework for supporting inclusive financial services that are delivered in a transparent and equitable fashion. Investors themselves are also beginning to recognize that the Client Protection Principles apply as much to themselves as to MFIs. They need to apply rigorous standards in their own microfinance investment policies on matters such as avoiding over-indebtedness at the MFI level and transparency in their own pricing.

Gaiha and Thapa (2006)\textsuperscript{67} studied the methodology for assessment of the impact of microfinance on empowerment and vulnerability. They opined that cross-validation through a mix of quantitative and qualitative data and methods are vital for a robust assessment. Even a small sample – carefully designed and analysed – would yield rich and valuable insights into the potential of microfinance for empowerment and economic security. Ghalib (2007)\textsuperscript{68} stated that both the donors as well as the MFI staff, alongside the national and regional government desire and require knowing how well the microfinance programme is performing. Programme evaluation by means of impact assessment studies provides the requisite information that provides vital feedback to make critical future decisions.

MIX Market and Imp-Act consortium (2011)\textsuperscript{69} brought a document on ‘State of Practice in Social Performance Reporting and Management’ based on a survey of 405 MFIs from different regions of the world that reported Social Performance Management (SPM) data to MIX. The key findings of the study indicate that the drivers for SPM are market maturity, training in SPM, investor/funder orientation and support from local MF networks. It also observed that social performance management and reporting are on rise in the microfinance sector and the exercise of tracking such information is already impacting the daily existence of the MFIs around the World.

Campion et al. (2008)\textsuperscript{70} examined that the Executive Director plays an essential role in getting all staff on board with social performance management, ensuring that systems are in place to carry out the MFI’s mission, and setting the tone and
organisational culture. MicroFinanza Rating and Micro-Credit Rating International Limited (2009)\textsuperscript{71} stated that a social rating examines an MFI’s social responsibility as valued along the dimensions of clients, staff, community and the environment. A rating describes how such values are articulated (whether formally or informally), reviews what elements are included and describes and assesses the processes and mechanisms used for compliance.

Canning and Morduch (2011)\textsuperscript{72} found that social investors make a particular difference serving the poorest customers. There, the institutions face the highest per-unit cost, must be most diligent about monitoring customers, tend to change the highest interest rates, and achieve the least leverage of their assets. Schicks and Richard (2011)\textsuperscript{73} examined that there is often trade-off between over-indebtedness on one hand and access or cost of borrowers on the other: the only way to eliminate over-indebtedness completely is to stop lending.

Economist Intelligent Unit (2011)\textsuperscript{74} and Economist Intelligent Unit (2013)\textsuperscript{75} found that the Indian microfinance sector has been shocked by the microfinance crisis in the state of Andhra Pradesh. The shock triggered strict regulation by the state, calls for better and more rigorous regulation nationwide and debate about efficacy and future of microfinance in India. Again in its 2013 report it observed that the overall microfinance business environment of India has shown sign of recovery from the crisis. It found that the total loan growth for Indian microfinance is estimated to have risen by around 30\% year on year in fiscal 2012-13 (April-March). There is increasing evidence of the flow of bank funding returning to the microfinance industry (particularly outside Andhra Pradesh). MicroRate (2013)\textsuperscript{76} observed that the wide range of social objectives of Microfinance Investment Vehicle is a differentiating factor and a characteristic that continue to be marketed to investors. Both microfinance and other impact investment have long claimed to have social objectives and double bottom line (financial and social return).
1.4. Research Gap

From the above literature review it appears that over the years, various attempts have been made by the researchers and academicians to evaluate the different aspects of microfinance like examining the legal status, regulation, socio-economic impact and performance of MFIs. But, there is no seminal work on the social performance appraisal of MFIs in the context of West Bengal. So, this study has tried to highlight on this untouched area.

1.5. Research Questions

The present study addresses the following research questions:

(i) Whether the MFIs are able to reach their target market in line with their social mission and goals?
(ii) Does the MFI have proper governance to ensure the social performance of the institution?
(iii) Does the products and services delivered by the MFIs and availed by the clients are as per the need and capacities of their clients?
(iv) Whether the Clients’ Protection Principles have been complied with by the MFIs in West Bengal or not?
(v) Whether the MFIs are meeting their responsibilities towards the employees, community and environment?
(vi) Does the socio-economic condition of clients have been changed through the social performance of the MFIs in West Bengal?
1.6. **Objectives of the Study**

The research objectives are:

(i) To understand the genesis and concept of Microfinance and Social Performance Management (Chapter - 2 & Chapter - 5);

(ii) To analyse the role and activities of MFIs in India and in West Bengal (Chapter – 3 & Chapter - 4);

(iii) To identify and examine the indicators of Social Performance Management of MFIs (Chapter – 6);

(iv) To appraise the social performance of the select MFIs in West Bengal (Chapter –7).

1.7. **Database and Research Methodology**

**Data**

The study is both *exploratory* and *empirical* in nature. The explorative part of the study is based on the existing literature on the subject including books, journal articles, newspaper reports, reports of concerned committees and institutions, RBI and NABARD circulars & guidelines, provision of the statutes, research based publications on microfinance published in journals and international best practices etc. Secondary data have been collected from various sources including State of the Sector Report, Sa-Dhan Report and different websites. The empirical analysis has been done on the basis of primary data which have been collected through field survey as mentioned below.

**Methodology**

The primary data have been collected through two structured questionnaire i.e. one for the MFIs and another one for the clients. The questionnaire designed for the MFIs were sent to all the 29 MFIs operating in West Bengal through e-mail as well as personal visits. 10 MFIs (34.5% of 29) have responded positively and the
questionnaires have been filled up through direct interview with the officials. The questionnaire for MFI’s includes 83 questions under six broad indicators. To understand the feedback of the MFI’s clients towards social performance, we have made another survey with the clients through another structured questionnaire. Non-probabilistic convenience sampling techniques have been used to select clients of selected MFIs. Finally 485 clients have been surveyed from 7 MFIs over 10 districts of West Bengal.

As far as practicable, we have tried to reach Northern, Southern, Eastern, Western and Central zones of West Bengal. From Northern zone Darjeeling and Malda district have been considered, from Western zone Bankura and Burdwan district, from Eastern zone North 24 Parganas and Nadia district, from Southern and Central zone South 24 Parganas, Kolkata, Howrah and Hooghly districts have been considered. The client’s questionnaires have been filled up through field visit in 10 districts of West Bengal, namely Darjeeling, Malda, Bankura, Howrah, Hooghly, Burdwan, South 24 Parganas, North 24 Parganas, Nadia and Kolkata. We have also tried to consider at least 30 clients from each MFI and at least 30 clients from each District.

The questionnaire of clients covers 112 questions.

After analysing various Social Performance Indicators developed internationally and nationally, we have selected six indicators with the intention that it would be matching with the MFI’s performance and client’s feedback to evaluate the social performance management practices of the MFIs operating in West Bengal. Simple percentages, cross tabulation, bar chart, pie charts and categorical variable tables have been used to present and interpret the data. Descriptive statistical tools and Chi-Square test have been used to examine the impact of MFIs programme on the socio-economic developments of the clients.
Hypotheses formulated

We have formulated seven sets of hypotheses for analyzing social performance practices in the MFIs and its impact on the clients.

**Hypothesis -1**

Null Hypothesis (H₀) = There is no relationship between Qualifications of Board of Directors & Loan Portfolio size of the MFI

Alternative Hypothesis (H₁) = There is a relationship between Qualifications of Board of Directors & Loan Portfolio size of the MFI (Chapter-7)

**Hypothesis- 2**

Null Hypothesis (H₀) = There is no significant changes between the ‘Occupation before joining’ and ‘Occupation after joining’ of the respondents

Alternative Hypothesis (H₁) = There is a significant changes between the ‘Occupation before joining’ and ‘Occupation after joining’ of the respondents (Chapter-7)

**Hypothesis- 3**

Null Hypothesis (H₀) = There are no significant changes between the ‘Family income before joining’ and ‘Family income after joining’ of the respondents

Alternative Hypothesis (H₁) = There are significant changes between the ‘Family income before joining’ and ‘Family income after joining’ of the respondents (Chapter-7)
**Hypothesis- 4**

Null Hypothesis (H_0) = There are no significant differences between the MFIs regarding the Changes in Income of the respondents after joining MFIs

Alternative Hypothesis (H_1) = There are significant differences between the MFIs regarding the Changes in Income of the respondents after joining MFIs (Chapter-7).

**Hypothesis- 5**

Null Hypothesis (H_0) = There are no significant difference between the Districts regarding the Changes in Income of the respondents after joining MFIs

Alternative Hypothesis (H_1) = There are significant difference between the Districts regarding the Changes in Income of the respondents after joining MFIs (Chapter-7).

**Hypothesis- 6**

Null Hypothesis (H_0) = There is no significant difference between the MFIs regarding the Family savings per month of the respondents

Alternative Hypothesis (H_1) = There is a significant difference between the MFIs regarding the Family savings per month of the respondents, (Chapter-7)

**Hypothesis- 7**

Null Hypothesis (H_0) = There is no effect of ‘Number of loans’ on ‘Overall benefits of the clients’

Alternative Hypothesis (H_1) = There is effect of ‘Number of loans’ on ‘Overall benefits of the clients’, (Chapter-7)
1.8. Layout of the Study

The study is divided into following chapters.

Chapter – 1: Introduction
Chapter - 2: Genesis and Concept of Microfinance
Chapter - 3: Microfinance Institutions in India: An Overview
Chapter - 4: Microfinance Institutions in West Bengal
Chapter - 5: Social Performance of Microfinance Institutions: Conceptual Issues
Chapter -6: Social Performance Indicators of Microfinance Institutions: An Analysis
Chapter -7: Appraisal of the Social Performance of Select Microfinance Institutions in West Bengal
Chapter - 8: Conclusion and Recommendations

Notes & References


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