Chapter 12

Efficiency Analysis of Microfinance Institutions (MFIs) in India Using DEA

Sebak Kumar Jana
Vidyasagar University, India

Asim Kumar Karmakar
Jadavpur University, India

Kaveri Sarkar
Gobardanga Hindu College, India

ABSTRACT

Microfinance institutions (MFIs) are defined as organizations delivering economic services to low-income and poor families who do not have access to proper financial organizations. Many MFIs are offering financial services in different part of India, but only a few of them are performing well. The present chapter attempts to measure the efficiency level and its determinants of a sample of 25 microfinance institutions (MFIs) operating in India for 2014 by applying data envelopment analysis (DEA) approach. It is found that there are wide variations of the efficiency levels of the selected MFIs and the efficiency is found to vary with age and the number of branches of these institutions.

INTRODUCTION

The winds and the waves are always on the side of the ablest navigators. Edward Gibbon

Poverty is the main cause of concern in improving the economic status of developing countries. A microfinance institution (MFI) is an organization that offers financial services to low income populations. Microfinance Institutions (MFIs) provide small loans to poor people, who can offer little or no collateral for getting loans. Most of them give loans to their members and many offer insurance, deposit and other services. They deliver economic services to low-income and poor families who do not have access to
Efficiency Analysis of Microfinance Institutions (MFIs) in India Using DEA

proper financial organizations (Qayyum & Ahmed 2006). The term microfinance refers to small-scale financial services (both credit and savings) that are extended to the poor in rural, urban and semi-urban areas. The poor people need microfinance for undertaking economic activities, smoothening consumption and mitigating vulnerability to income shocks (in times of illness and natural disasters), and increasing savings and supporting self-empowerment. The MFIs have been providing the rural poor access to the formal banking system and have made commendable achievements in terms of gender sensitization, empowerment and poverty alleviation.

Though MFI in India was introduced in 1974 Self Employed Women’s Association (SEWA) in Gujrat, the momentum was achieved only during the 1990s. These have pumped huge funds to the sector and have subsequently enabled MFIs to increase their scale of operations of MFIs have increased through innovative partnership models between the banks and the MFIs. Microfinance in India is synonymous with micro credit. In India most micro finance loans are in the range of Rs.5000 to Rs.20000. CRISIL (Credit Rating Information Services of India Limited) estimates that around 120 million households in India continue to face financial exclusion. A total of 166 MFIs are currently operating in the 29 States in India with number of being branches 11,644. Of those MFIs, 62 MFIs (38%) are operating in two to five states, while 79 MFIs (48%) have confined their operations to only one state. Women clients constitute 97% of the total clients of MFIs. A very interesting trend is seen in the rural-urban focus of MFIs in India. The share of rural clientele which was 69% in 2012 come down to 38% in 2016. Gross Loan Portfolio in Urban areas is RS.63853 crore which constitute 28% in 2016. States with higher portfolio are Karnataka, Tamil Nadu, Uttar Pradesh, Maharashtra, Madhya Pradesh, Bihar, West Bengal (Sa-Dhan, 2016). The growth of the MFIs in terms of outstanding loan, loan disbursed and client outreach is presented in Figure 1.

Micro Finance Institutions (MFIs) are playing an important role of financial intermediaries in microfinance sector. MFIs in India operate under various legal forms, viz., (i) NGO MFIs – (ii) Cooperative

Figure 1. Growth in microfinance sector in India
Source: NABARD (2016)
Related Content

Opening the Black Box of the Venture Capital-Entrepreneur Relationship: Evidence from a Process Study  
www.igi-global.com/chapter/opening-the-black-box-of-the-venture-capital-entrepreneur-relationship/127740?camid=4v1a

Breaking Out from Lock-In: Regional Innovation Strategies in the German Ruhrgebiet  
www.igi-global.com/article/breaking-out-lock/51598?camid=4v1a

Concept and Application of Entrepreneurship Business Canvas Abstract  
www.igi-global.com/article/concept-and-application-of-entrepreneurship-business-canvas-abstract/207735?camid=4v1a

E-Entrepreneurship and Innovation in Franchising  
www.igi-global.com/article/e-entrepreneurship-and-innovation-in-franchising/218278?camid=4v1a