DELIVERING MICROFINANCE IN INDIA – AN OVERVIEW

SHANKARRAM. S

ABSTRACT

Efficiency of microfinance institutions is a socially optimal target because it reduces the average cost of financial transactions and increases the outreach of credit, which in turn enhances the society's welfare. This paper attempts to analyze the profit efficiency of Indian microfinance institutions (MFIs) using a stochastic profit frontier model which estimates causal factors of inefficiency. In the first stage estimation, factors like cost, number of borrowers, number of personnel, staff salary and the gross loan lent has significant impact on the efficiency of the profits. Further the inefficiency effects model indicates operational self-sufficiency and operational expenses to loan portfolio ratio influence the level of profit inefficiency of the MFIs. Thus any improvement in profit efficiency by increasing the staff and reducing the cost optimally could increase the outreach and the amount of loan lent. This achieves the main objective of financial inclusion by extending credit to the poor.