

ANALYZING THE TRADE-OFF BETWEEN OUTREACH AND FINANCIAL PERFORMANCE FOR INDIAN MFIS

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ABSTRACT

This dissertation attempts to bring out the factors underlying the performance of Indian Microfinance Institutions (MFIs) in a multidimensional setting. The increasing competitiveness in this sector calls for prudent design of management policies. A growing need has been felt for the broader objectives of outreach and poverty alleviation to be complemented by financial sustainability. The method of factor analysis has been used to create a synthetic index for each MFI and for each of the dual dimensions of performance – *outreach* and *financial stability*. The factor scores so extracted have then been used as dependent variables of a Seemingly Unrelated Regression (SUR) model in order to explain the positions of the MFIs with respect to both measures of performance. The results suggest that financial constraints seem to be binding on the outreach dimension for an MFI. The maturity of the MFI sector in India alongwith a high degree of competitiveness is also evident from the analysis.

Key words: Microfinance, performance, factor analysis.