

Mission Drift in Microfinance : An Empirical Assessment of the Indian Situation

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Abstract

In recent years mission drift (MD) is one of the most discussed aspects in the sphere of micro finance. Numerous evidences worldwide support the claim of MD in the Micro Financing Institutions (MFIs) though from time to time it has been misinterpreted to profit orientation and commercialization. Since achieving double bottom line objectives has been growingly a challenge for MFIs, it is important to assess the aspect of MD with empirical tests. This paper while assessing the performance of Indian MFIs tries to examine the state of MD over a period of five years i.e. 2008-09 to 2012-13 by considering a sample of 41 young and mature organizations out of the total reported MFIs found in the international data base. The social performance over the years indicates gross loan portfolio has increased (143 percent) by overshadowing the outreach growth in terms of breadth (44 percent) which resulted in an increased loan size, a sign of MD. However, the poor return on assets and increasing cost per loan (13 per cent) indicates otherwise.

I. Introduction

UNLIKE OTHER FINANCIAL institutions serving the society, the dynamic perspicacity surrounding MFIs, is to eradicate poverty. It is widely claimed to be the universal mission statement of all the MFIs, where they provide banking services, usually in the form of lending small sums of money to the backward sections of the society and most significantly without any collateral (Mersland and Strom, 2010). However, the most undignified thing that came up recently and has been a burning topic ever since is mission drift in them. What is mission drift, why does it happen, and how it affects the MFIs as well the clients are the questions that pop up every now and then. There have been many claims all around about the various

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There are many theories relating to it where profit and cost are taken into consideration. However the Indian sector has a moderate effect of both profit and cost in mission drift with majority still unclear about the reasons. Further studies into it might bring some more elements that have a strong influence into the concept. The findings on MD are against the enshrined motive of this sector, which if not properly handled would compromise the social objective of MFIs and as a corollary would inflict serious repercussions on the micro finance industry as a whole. To avoid this type of situation the MFIs in India must try to achieve the double bottom line where both social and financial performances are properly balanced.

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