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Performance Analysis of Microfinance Institutions in India: What Drives their Valuation

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Microfinance in India started in the early 1980s with small efforts at forming informal Self-Help Groups (SHGs) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. National bodies like the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development are devoting significant time and financial resources to microfinance. One of the most interesting and important evolutions in microfinance is the growing resource of analytical tools and financial information available. Since some MFIs have started to transform into a specialized type of bank or company such as an NBFC in India, many of these tools are analytical tools often used in commercial banking or finance. However, since MFIs often have social impact or poverty alleviation as a critical component of their mission, the proper analysis of MFIs is a marriage of traditionally used methods of assessing commercial banks as well as poverty impact assessment methods used in the development field. Various institutions have already developed a body of knowledge on how to analyze microfinance institutions. However, various rating methodologies used to compare MFIs do not provide a complete picture, as their focus is primarily financial and strategic and they are most commonly used to help the donor community evaluate investments in MFIs. Therefore, they leave out assessment of the social value created by the MFI, making it important to look at social indicators and outreach per MFI to understand the complete picture. In this research, we have tried to understand the MFI rating model developed by CRISIL and then developed our own model (to rate MFIs in India) which takes both social impact and financial indicators into consideration. For the study, we have used SPSS software for running multivariate regression and factor analysis. We have used the same indicators which are used by M-Cril for rating MFIs.

Broad objectives of the study are: *(a)* To understand why microfinance sector has evolved in India and what is their operational model; *(b)* to analyze why ranking of MFIs is important and what are key financial and social impact indicators relevant for MFI analysis; *(c)* to develop an MFI ranking model to evaluate and find top 50 MFIs in India; and *(d)* to compare the proposed model's ranking with the CRISIL ranking.

Can Risk Monitoring of Banks by Subordinate Debt be made Effective by Non-Diversified Investors? Investigation of Non-Diversified Investments by Sector Specific Mutual Funds in India

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Recent financial crisis has demonstrated the inability of public regulators to check the risk shifting incentives of banks. Avid search for effective market participation is, therefore, called for in several contemporary proposals stressing towards market discipline in bank regulation. While subordinate debt can be an effective instrument for market discipline, it can do so if it can monitor total risk consisting of systematic and non-systematic risk of a bank. The issuance of subordinate debt to diversified investors may not serve the purpose, as diversified investors lack the necessary incentive to monitor the firm specific risk of a bank. This is all the more important in case of banks where the inherent opacity of banking portfolios entails large firm specific risk to be kept by banks. The paper here explores whether non-diversified investors price firm-specific risk in their investments; and if so, what can be an effective market configuration for subordinate debt using non-diversified investors.

Brief Articles, Notes and Comments

Queuing Theory: A Model for Improving Customer Satisfaction in the Nigerian Banking Industry

Mayowa Gabriel Ajao

Queuing and waiting for services is a reality of daily life in every situation where demand exceeds the supply of services. This paper focuses on the problem of long queues in banks, why the managers find it difficult to eliminate and its effect on customer satisfaction and service delivery. The paper aimed at application of queuing theory to provide solution to the problems of overcrowding and waiting-lines in banks. For our analysis the case study design method was adopted in this study with First Bank Plc, Ugbowo Branch, Benin City, Nigeria as the case study. The findings revealed that insufficient facilities (physical and manpower) and technological deficiencies are the major causes of long queues in banks and this has negative impact on customer satisfaction and efficient service delivery. Based on these findings, the paper recommends that banks should among other things improve and upgrade all their facilities, regularly train and re-train staff in modern technologies in use, decentralize their operations into different departments or sections and reconfigure their service delivery to multiple channels system (where such system is not previously in operation) with different staff serving the need of customers at the same time.

Telegraphic Reviews