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Assessing Sustainability and Its Determinants of Microfinance Institutions in India

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Abstract

The financial sector participates in the process of inclusive growth by way of financial inclusion activities. Of all the measures adopted so far, microfinance is considered to be one of the most powerful tools, which does most for the financially excluded people. Since microfinance is regarded as an important tool for combating financial exclusion, it is equally important to ensure sustainability of such institutions. For many years the term sustainability was viewed to be a crucial issue for only profit making entities, as for other development institutions and microfinance institutions (MFI), sustainability was deemed ensured through concessional lending and subsidies from government and donors. The present study attempts to assess the operational sustainability of 54 MFIs from 2009-2014 based on two broad parameters i.e. operational self-sufficiency and outreach. Further, the study also attempts to identify the determinants of operational sustainability. A panel data regression model was employed on 30 MFIs for six years from 2009-2014 to identify the influence of selected variables on operational self-sufficiency. Return on assets, return on equity, operating expenses to gross loan portfolio are found to be significantly and positively influencing operational self-sufficiency whereas debt to equity is found to be significantly and negatively influencing self-sufficiency. Impact of other variables was found insignificant.

Keyword: MFIs, Operational Self-Sufficiency, Outreach, Panel Data Regression, Sustainability

Introduction

India is now considered as one of the fastest growing economies, but even today, a substantial proportion of its total population lives a vulnerable life. Despite numerous development programme initiated by government from time to time, a big chunk of the total population is still poor, hungry, malnourished, uneducated, with shabby clothes, poor housing and so on and so forth. Thus in order to make the growth process more equitable, it is recognised that the growth should be inclusive such that it touches the lives of millions of people including the most vulnerable section of the population. The financial sector participates in this process of inclusive growth by way of financial inclusion activities. And of all the measures adopted so far, microfinance is considered to be one of the most powerful tools which contribute most for the financially excluded people. Since microfinance is regarded as an important tool for combating financial exclusion, it is equally important to ensure sustainability of such institutions. For many years, the term sustainability was viewed to be a crucial issue for only profit making entities, as for other development institutions and microfinance institutions (MFIs) sustainability was deemed ensured through concessional lending and subsidies from government and donors. However considering the evils associated with subsidy dependence of MFIs, it was felt desirable that the MFIs should strive to become self-sustainable. Further, it is also viewed that MFIs may require financial assistance at their initial stage, but as it matures it should move towards self-sufficiency and stability. The present paper addresses this issue of sustainability of selected MFIs in India based on some established parameters as well as attempts to identify the determinants of operational sustainability of the selected MFIs.

Understanding Sustainability of Microfinance Institutions

In almost all economies and more specifically in developing economies, sustainable microfinancing is prioritised. The term sustainability is variously defined in

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academic literature as well as by regulators. In context of microfinance institutions, sustainability in a plain sense refers to the extent to which MFIs are able to meet its costs through interest income and other income generated in the process of micro-lending. This takes into consideration the accounting approach and examines sustainability in terms of financial parameters like operating income to total cost ratio, ROA, ROE etc. Yet another commonly accepted definition of microfinance sustainability is the ability to function without relying on ongoing subsidy. Thus, this approach calls for the need to adjust returns and cost to reflect subsidy. Financial measures do not reflect nor does it distinguish between the target lending (reaching poor clientele) and lending to rich clientele and investments made in other financial instruments. Thus evaluating performance of microfinance institutions specifically in terms of its sustainability pose difficulties Effective performance evaluation requires factors like hidden costs of grants, subsidy and technical aids received to be adjusted for. Besides, measuring performance of MFIs on parameters common to other financial institutions would end up with fallacious conclusion as MFIs bear certain peculiarities as against other financial institutions. For example, most MFIs unlike banking institutions account for negative ROE. Further, these institutions are devoid of reserve requirements and are subject to adequate access to concessional interest rates. Yaron and Manos (2007) point out that unadjusted ROA and ROE indicate only administrative decision on the cost of borrowed funds and such returns are only the residual value of subsidies received by the MFIs. In fact ROA and ROE are dependent variables disguised as independent variables.

Indicators of Sustainability

The issue of sustainability of microfinance institutions can be addressed from varied perspectives. For example, a sustained MFI is a result of *institutional sustainability* (the extent to which the internal environment in the organisation is congenial in terms of its financial, human, and physical resources to keep it a going concern), *mission sustainability* (the extent to which a MFI works towards alleviating poverty and reaches poor clientele and avoids the possibility of mission drift), *market sustainability* (the extent to which there is demand driven supply of loans as against created demand for loans), *impact sustainability* (the extent to which MFIs bring positive changes in the lives of poor that are sustained throughout).

Ever since microfinance institutions gained momentum in terms of its wide potentialities in alleviating poverty and with increasing commercialisation of its activities, regulators as well as other stakeholders are constantly emphasizing on developing sound parameters for measuring its performance as distinct from the ones adopted for profit oriented organisations. Not only ROA and ROE as discussed above pose problem in cost-benefit analysis of MFIs if not adjusted for subsidies, but incorporating the opportunity cost of capital is more important in case of MFIs than other for-profit organisations. Realising the limitations of the traditional accounting approach to the measure of MFI performance, organisations like MIX Market and credit rating agencies have started relying on two established parameters of measuring performance of MFIs which by large captures the sustainability of MFIs. These are the *Financial Self Sufficiency* (FSS) and *Subsidy Development Index* (SDI). These measures are used to gauge and compare performance of MFIs serving similar clientele and offering similar services.

FSS method makes comparison of adjusted revenue of MFIs in relation to its adjusted costs. The word 'adjusted' requires further clarification. Here in case of MFIs adjustments are made with respect to *inflation, concessionary loans, and subsidies.* Adjustment for inflation is necessary to check whether the MFIs are able to maintain the real value of equity deemed necessary for sustainability. Adjustment for concessionary loans is required to reflect the real economic cost of such concessions/subsidies included in the loans. Adjustment for subsidies reflects adjustment made with regard to subsidies other than the ones included under concessional loans. This specifically includes subsidies extended in kind, other than cash.

$$\text{FSS} = \frac{\text{Adjusted Financial Revenue}}{\text{Adjusted Costs*}}$$

*Adjusted Costs = Adjusted [Financial Expenses + Net Loan Loss Provision Expenses + Operating Expenses]

The other measure i.e. Sustainability Development Index (SDI) captures two important aspects, i.e. *self-sustainability* and *outreach.* The self-sustainability measure specifically addresses the issue as to what extent a MFI is independent of subsidies whereas outreach represents the client reaching capacity. SDI indicates

through a single figure the percentage by which the average yield from the loan portfolio should increase in order to make it subsidy independent.

$$SDI = \frac{\text{Subsidy Received by MFIs Annually}}{\text{Outstanding Loan Portfolio} \times \text{i}}$$

where

i represents weighted average yield earned on loan portfolio.

In order to compute the amount of annual subsidy under SDI the following formulation is used:

$$S = A(m-c) + \left[(E \times m) - P\right] + K$$

S=Annual subsidy received

A= Average concessionary borrowed funds outstanding.

m= Rate of interest on borrowed funds supposed to be paid if concessionary loans were unavailable.

C = Rate of interest paid on concessional borrowed funds outstanding

E = Average annual equity.

P= Adjusted annual profit before tax.

K= other subsidies received.

Statement of the Problem

Microfinance institutions play a vital role towards poverty alleviation and inclusive growth. This role is of greater importance in developing economies where a large mass of populations are below poverty line. Microfinance institutions, to a large extent, have been successful in promoting thrift amongst the rural masses and bringing positive changes in the lives of the poor. Several studies have been made on microfinance institutions addressing varied dimensions like its role in poverty alleviation, financial inclusion and financial performance. But a very few studies have laid its emphasis on examining its sustainability. Many state owned and controlled development financial institutions have reached the extreme stage of criticality of its existence and many others have become defunct due to over-dependence on subsidies and concessions. Hence it is important, while measuring performance, the issue of sustainability be stressed. But measuring performance of MFIs is itself challenging. Also there are views that sustainability is not possible in process of reaching the poor as poor cannot ever be good borrowers. But this statement is critically viewed by others in light of the experience of banks like the Grameen Bank of Bangladesh which demonstrated the fact that such micro-loans can be sustainable. Low-income/ poor clients can make use of small loans productively and can even pay higher rates of interest for their loans. Although many studies are found internationally but the answer to the question that-are microfinance institutions self-sustainable still remains unanswered.

Review of Literature

Kinde (2012) studied financial sustainability of Ethiopian Microfinance Institutions. The major focus of the study was to identify the factors affecting financial sustainability. The study used panel regression on 14 MFIs for a period from 2002-2010. Out of the selected explanatory variables, factors like breadth and depth of outreach, dependency ratio, and cost per borrowers were found to be affecting the financial sustainability of microfinance institutions.

Wambugu and Ngugi (2012) endeavoured to investigate the factors influencing sustainability of microfinance institutions in Kenya with special focus on Kenya Women Finance Trust (KWFT). Their study was descriptive in nature. The studied relied on opinion of 135 lower and middle managers. The influence of factors like service delivery, branch network, staff training, and capital adequacy on financial sustainability was assessed. 5 point Likert scale was used and in order to know the combined effect of the independent variables on financial sustainability multiple regression model was run. The result of the study indicated that all the four factors significantly influenced financial sustainability of KWFT.

Rahman and Mazlan (2014) in their study on microfinance institutions in Bangladesh attempted to identify the determinants of financial sustainability. Multiple regression model was used to identify the determinants. Financial self-sufficiency ratio was taken as an indicator of financial sustainability and was the independent variable. Variables like size, cost per borrower, productivity of personnel, and yield on gross loan portfolio positively influenced sustainability whereas debt-equity ratio, average loan balance per borrowers, operating expenses

ratio and number of active borrowers negatively influenced sustainability. The study recommended adequate policy measure to reduce the MFIs dependence on borrowed funds. Further, they also felt the need to reduce the operating expenses and improve productivity of operation.

Tehulu (2013) attempted to identify the determinants of financial sustainability of microfinance institutions in East Africa. The study was carried on 23 MFIs for the period 2004-2009. Binary probit and ordered probit regressions were used in identifying the determinants of financial sustainability. The results revealed that MFI's financial sustainability is positively and significantly driven by loan intensity and size. On the other hand, portfolio at risk and management inefficiency negatively influenced sustainability.

Objectives

The objective of the present paper is to examine in Indian context the performance of the MFIs in terms of its sustainability. To this end, the paper examines operational sustainability and outreach. The study also attempts to identify the determinants of operational sustainability of MFIs.

Data, Variable and Methodology

The present study relies on secondary source of data collected from Microfinance Information Exchange (MIX), a non-profit organisation concerned with supporting the MFI industry and keeps database of MFIs. So far, MIX Market is most reliable database currently available on MFIs. MIX classifies the MFIs into star categories on the basis of reliability of the data. The study is mainly conducted over 54 MFIs that are rated 3 and above stars. The study is confined to five years cross-sectional data from 2009-2014. But while identifying the determinants of operational sustainability data on many MFIs was unavailable thus some of the MFIs were dropped and hence panel data regression to identify determinants was run on only 30 MFIs.

In order to ensure homogeneity in analysis as well as to facilitate comparison, the MFIs are further classified as large, medium, and small following the MIX classification based on their scale of operation.

The present study evaluates sustainability based on the following criterion:

1. Operational sustainability
2. Outreach

Operational Sustainability

i. **Operational Self-Sufficiency Ratio:** This ratio represents the extent to which enough revenue has been generated by microfinance institutions (MFIs) to meet its costs. It is proportion of operating income to total cost. Three types of costs are recognised for the purpose i.e. financial costs, operating costs, and loan-loss provision cost whereas income represents income from loans and investments.

$$\text{Operational Self} - \text{Sufficiency Ratio}\,(\text{OSSR}) = \frac{\text{Operating Income from Loans \& Investments}}{\text{Operating Costs} + \text{Loan Loss Provision Cost} + \text{Financial Costs}}$$

ii. **Operating Cost Ratio:** This ratio reflects efficiency of lending operation of microfinance institutions. This is expressed as a percentage of operating expenses to average performing assets. This indicates the ability of a microfinance institution to cover its cost of operation through internally generated income.

$$\text{Operating Cost Ratio}\,(\text{OCR}) = \frac{\text{Operating Expenses}}{\text{Average Performing Assets}}$$

Outreach

It reflects the degree to which the MFIs contribute towards the ultimate objective of reaching the poor. In other words, this indicator reflects moving forward towards social objectives and priorities in allocating scarce public fund. Outreach can be expressed in terms of breadth and depth.

1. **Outreach Breadth:** This refers to the number of poor clients served by microfinance institutions. It is viewed that wider the spread of microfinance services, greater is its scope for sustainability. Generally the number of borrowers is considered to judge outreach breadth.
2. **Outreach Depth:** Depth signifies ability of MFIs to reach client poverty level. Since most of the microfinance projects have poverty reduction as an explicit

objective, they are, therefore expected to reach poor clients, therefore, average loan balance per borrower or average amount of loan sanctioned to per client etc. are often considered to measure the outreach depth. Percentage of female borrowers indicates the ratio of women clients, since empowering women is also considered to be a vital objective of the microfinance project therefore higher ratio of female borrowers represents better performance and vice versa.

Table 1: Outreach

Outreach Breadth	*Number of Active Borrowers*
Outreach Depth	Average Loan Balance per Borrowers
	Percentage of Female Borrowers

Results and Discussions

Table 2 presents the descriptive statistics of key variables of selected microfinance institutions. One crucial observation that follows from the table is that while the large and small MFIs exhibit negative growth in equity and positive growth in borrowings, the medium MFIs exhibit positive growth in equity and negative growth in borrowings. This is indicative of higher dependence of large and small MFIs on borrowed fund than the owners' fund whereas medium MFIs appear to be relatively self-sufficient in terms of supply of funds.

Table 2: Average Assets, Borrowings and Equity of Selected MFIs (2009-2014)

Year	*Large MFIs (Rs. In Lakhs)*			*Medium MFIs (Rs. In Lakhs)*			*Small MFIs (Rs. In Lakhs)*		
	TA	*BRW*	*EQ*	*TA*	*BRW*	*EQ*	*TA*	*BRW*	*EQ*
2009	975.946	711.101	185.806	63.453	17.418	13.024	12.014	5.404	5.93
2010	1143.324	767.496	276.953	50.968	32.109	13.727	10.735	6.648	3.923
2011	795.313	533.341	175.080	56.775	33.884	21.338	11.872	7.861	3.030
2012	735.258	558.459	117.90	80.980	24.437	17.317	11.647	7.490	3.070
2013	863.816	644.203	138.272	52.816	14.654	12.181	11.221	6.78	3.232
2014	1248.861	930.158	222.02	73.066	16.183	16.53	13.932	8.419	4.24
CAGR	0.899	2.497	-4.438	3.391	-8.340	1.801	2.471	6.571	-6.214
All (2009-2014)	TA			BRW			EQ		
	717.974			515.735			149.40		

Source: MIX database

Note: TA-Total Assets, BRW-Borrowings, EQ-Equity.

Table 3 exhibits the OSSR and OCR of the selected MFIs. With respect to OSSR it can be seen that in almost in all the years the proportion of operating income to total cost is found to be greater than 1 for all categories of MFIs. This reflects greater self-sufficiency on the part of these MFIs. The average OSSR is highest for large MFIs followed by small and medium MFIs respectively. The average OSSR for all the selected MFIs over the study period is estimated at 1.114 indicating revenue exceeding cost by 11.4 percent on an average. The average OCR of the MFIs indicates that operating expenses in all the years is adequately absorbed by the internally generated revenues. Thus in terms of OCR again the MFIs are found to be self-sufficient.

Table 3: Operational Self-Sufficiency Ratios of Selected MFIs (2009-2014)

Year	*OSSR*			*OCR*		
	Large	*Medium*	*Small*	*Large*	*Medium*	*Small*
2009	1.227	0.894	0.650	0.117	0.226	0.562
2010	1.134	1.050	1.146	0.133	0.153	0.113
2011	0.995	1.118	1.055	0.131	0.127	0.162
2012	1.072	1.106	1.071	0.114	0.122	0.132
2013	1.175	1.096	1.140	0.112	0.115	0.112
2014	1.178	1.121	1.305	0.107	0.131	0.131

Year	OSSR			OCR		
	Large	Medium	Small	Large	Medium	Small
All (2009-2014)	**1.114**			**0.137**		

Source: Computed using MIX database

Figures 1 and 2 reflect the year wise distribution of the percentage of MFIs based on the OSSR and OCR. The sample MFIs are classified as dependent, emerging, and self-sufficient. In case of OSSR, a higher ratio is desirable and as such those MFIs having a ratio of more than 1 is considered self-sufficient and all others having a ratio less than 1 is classified as dependent. Again within the category of self-sufficient, the MFIs falling below the mean OSSR of the self-sufficient category are classified as emerging and all others exhibiting OSSR more than the mean is classified as self-sufficient. Contrary to this, in case of OCR, a lower ratio is desirable and hence the MFIs having OCR less than one is classified as Self-Sufficient and within this category all MFIs reflecting OCR more than the mean OCR of the self-sufficient group is classified as emerging. MFIs exhibiting OCR more than one is classified as dependent.

Table 4: Distribution of MFIs based on OSSR and OCR

Year	Number of MFIs with OSSR>1			Number of MFIs with OCR<1		
	Large	***Medium***	***Small***	***Large***	***Medium***	***Small***
2009	30 (94%)	03(60%)	02(40%)	31(97%)	5(100%)	3(75%)
2010	29(94%)	12(80%)	06(100%)	30(97%)	15(100%)	5(100%)
2011	25(80%)	9(75%)	8(72%)	30(97%)	12(100%)	11(100%)
2012	32(80%)	7(100%)	6(85%)	40(100%)	7(100%)	7(100%)
2013	39(95%)	9(100%)	4(100%)	41(100%)	9(100%)	4(100%)
2014	39(93%)	6(86%)	6(100%)	42(100%)	8(100%)	6(100%)

Source: Computed using MIX database

From Fig. 1 it can be seen that the percentage of emerging MFIs is highest for all the years. The percentage of self-sufficient MFIs registered a sharp decline from the year 2010 to 2011 which is followed by consistent increase for rest of the period under study. In case of OCR, as can be seen from Fig. 2, in most of the years the percentage of self-sufficient MFIs is found to be highest. A very negligible percentage of MFIs are observed under the category of dependent.

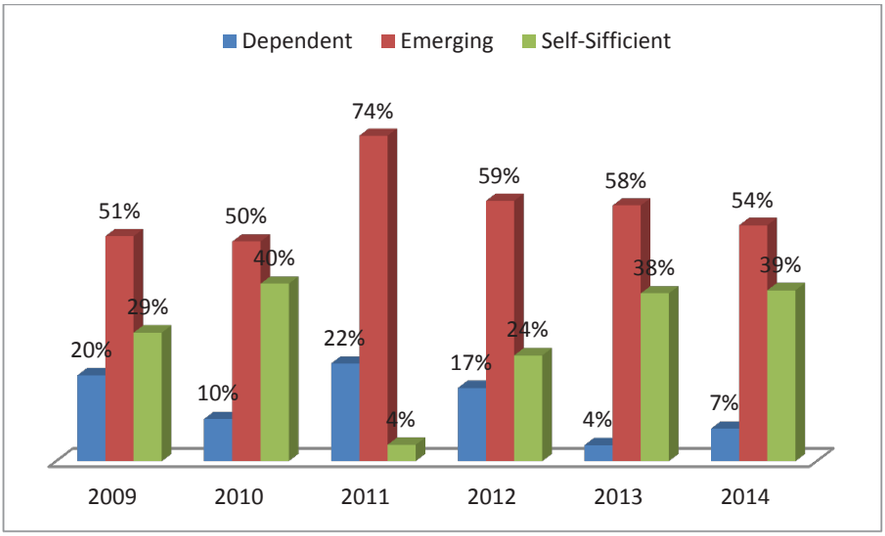

Fig. 1: Year-Wise Distribution of Percentage of MFIs based on OSSR

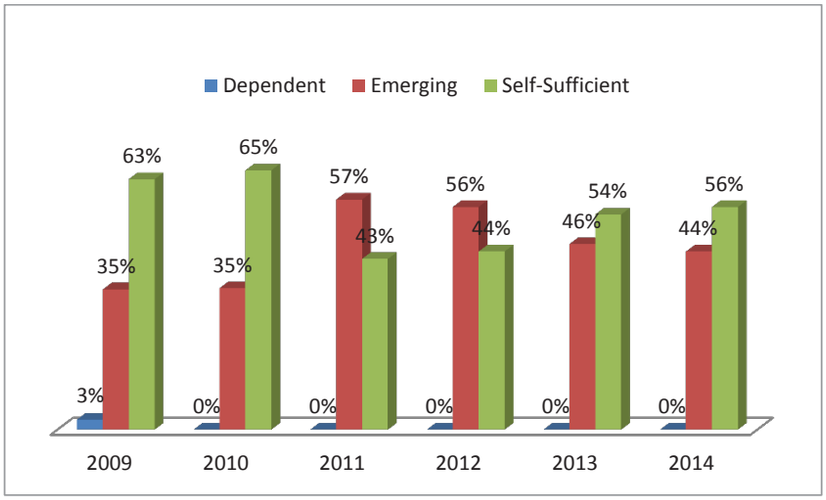

Fig. 2: Year-Wise Distribution of Percentage of MFIs based on OCR

Table 5: Outreach of MFIs

Year	*Breadth*				*Depth*							
	Number of Active Borrowers (Average Numbers)				*Average Loan Balance per Borrowers (Rs)*				*Percentage of Female Borrowers (%)*			
	Large	*Medium*	*Small*	*All*	*Large*	*Medium*	*Small*	*All*	*Large*	*Medium*	*Small*	*All*
2009	563341	19219	6471	338518	155	163	139	147	95	99	99	96
2010	688338	30716	13801	405734	147	135	135	142	96	97	100	96
2011	534409	42525	7697	320538	154	137	149	151	97	98	94	97
2012	454980	20651	5844	340457	153	205	179	163	97	98	93	97
2013	539697	14462	5607	417847	160	213	163	169	97	99	91	97
2014	618078	21605	6854	492541	180	267	163	191	98	100	91	97
Mean	**566474**	**24863**	**7712**	385939	158	187	155	160	97	99	95	97
CAGR	-1.213	-6.619	-7.398	5.952	2.88	12.87	4.51	5.60	0.53	0.312	-2.02	.23

Source: Computed using MIX database

CAGR- Compound Annual Growth Rate.

Table 5 exhibits performance of MFIs in terms of outreach. The breadth of outreach represented by number of active borrowers indicates a positive growth (CAGR) to the extent of 5.95 percent. But all types of MFIs i.e. large, medium, and small witnessed a negative growth of -1.2, -6.6 and -7.4 respectively. The year 2011 is marked by a sharp decline in the number of active borrowers for all types of MFIs except for Medium MFIs and 2012 exhibited decline in active borrowers for all categories of MFIs. A paradoxical finding is associated with the average loan balance per depositors where for all the MFIs taken together, a positive growth of 5.6 percent is observed. All categories of MFIs accounted for positive growth. It can be further observed that the average loan balance per borrowers have consistently increased from 2012 to 2014. Most of the MFIs account for an average loan balance per borrowers of Rs100-200. Small MFIs however reflected a declining trend after 2012. The percentage of female borrowers dominated the entire industry except for the fact that the small sized MFIs displayed a negative growth in this percentage.

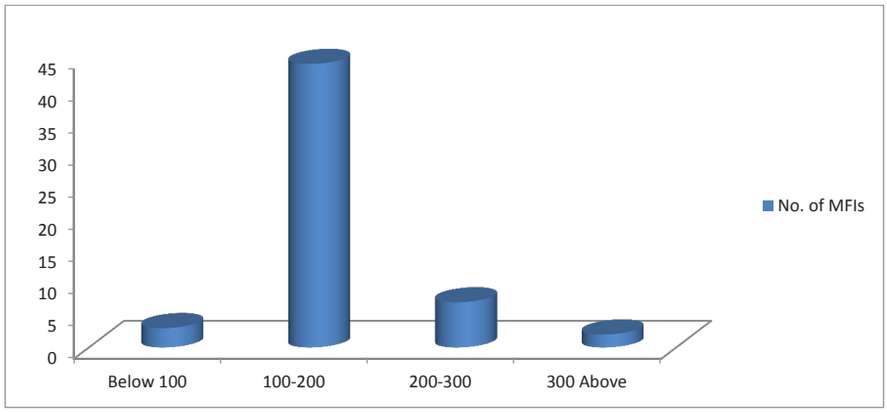

Fig. 3: Distribution of MFIs based on Average Loan Balance per Borrowers

Determinants of Sustainability

The sustainability of microfinance institutions is result of certain macro-economic and MFI related factors. The present section attempts to identify the determinants of operational sustainability of microfinance institutions. A panel data regression model is used for five years over 30 MFIs. Since the relevant data on dependent and independent variables for many MFIs could not be obtained so, the sample size is reduced to 30 on which full data is available. Based on the survey of existing literature and considering the existing state of affairs of MFIs in the country, the variables shown in Table 6 are taken as explanatory variables which can potentially influence operational sustainability.

Table 6: Dependent and Independent Variables

Dependent Variable: Operation Self Sufficiency Ratio (OSSR)			
Independent Variables			
Sl. No	*Variable*	*Description*	*Expected Sign*
1	CAR	Capital Assets Ratio	+
2	OPELP	Operating Expenses to Loan Portfolio	–
3	ACTBRW	Number of Active Borrowers	+
4	PRTRSK	Portfolio at Risk	–
5	GLPTA	Gross Loan Portfolio to Total Assets	+
6	DBTEQ	Debt to Equity	–
7	ROA	Return on Assets	+
8	ROE	Return on Equity	+
9	YDGLP	Yield in Gross Loan Portfolio	+

The results of panel data regression model is used to identify the determinants of operational sustainability of selected MFIs. Hausman test was done in order to check whether fixed effect or random effect model better suits the model. The null hypothesis that the random effect model is the best model is checked and the p value is found to be less than 0.05 and hence the fixed effect model is found to be the best model. The result of fixed effect model is exhibited in Table 7.

Table 7: Results of Regression

Dependent Variable= OSSR		*N=30*	
Variable	*Coefficient*	*Standard Error*	*P>t*
CAR	-0.0078026	0.0739518	0.916
OPELP	0.362904	0.1033973	0.001
ACTBRW	2.65e-08	2.77e-08	0.341
PRTRSK	0.0079309	0.0180623	0.661
GLPTA	-0.0206966	0.0618385	0.738
DBTEQ	-0.0022444	0.000959	0.021
ROA	2.466534	0.1340165	0.000
ROE	0.0021217	0.0006076	0.001
YDGLP	-0.0660214	0.1492872	0.659
-CONS	1.082412	0.0727668	0.000

Source: Estimated using STATA-11

The results in Table 7 reflect that the variable DBTEQ (debt to equity) is found to be having a negative impact on OSSR. This is also found to be significant at 5 percent level of significance. One unit increase in DBTEQ will decrease the OSSR by 0.0022 times. Thus increasing proportion of debt to equity enhances the financial burden

of MFIs which impairs their self-sufficiency. Both ROA and ROE are found to be having positive significant impact on OSSR. One unit increase in ROA and ROE is likely to increase the OSSR by 2.467 and 0.002 times respectively. Thus, increase in per unit of returns in proportion to investments in Assets as well as increase in per unit returns in proportion to equity is likely to enhance self-sufficiency of the MFIs. But, as opposed to the expected sign, variable OPELP exhibited a positive sign which again is found significant at 5 percent. Thus, a unit increase in OPELP is expected to increase OSSR by 0.036 times. Other variables reflected insignificant impact on returns.

Summary of Findings

Overall, operational self-sufficiency expressed in terms of OSSR (operational self-sufficiency ratio) is found to more than 1 for most of the years and for most of the MFIs. This implies that the operating revenue generated by the MFIs is ahead of the total cost making them operationally self-sufficient. Likewise in terms of OCR also, where for most of the years and for most of the MFIs, this ratio is found to be less than 1 indicating self-sufficiency. The results of outreach of MFIs reveal that there has been a larger spread of services in terms of number of active borrowers which on a whole registered a positive growth rate. Similarly, the percentage of women borrowers is also found to dominating as for most of the MFIs and for almost all the years this percentage is found to be more than 95 percent. But, the average loan balance per borrowers is found to exhibiting a positive growth which indicates MFIs diverting its thrust from very poor clients to relatively wealthy clients. Investigating the determinants of operational self-sufficiency revealed that factors like DBTEQ, ROA and ROE displayed the expected sign. But as against expectation, the variable OPELP is found to be having a positive impact on OSSR.

Conclusion

Since microfinance is regarded as an important tool for combating financial exclusion, therefore, it is of much importance to ensure sustainability of such microfinance institutions. However, as most of these institutions are largely dependent on subsidies, grants and donations, measuring sustainability through conventional financial measures pose problems. Hence there is a need to adjust the financial variables for such subsidies and donations in order to reflect the exact state of affairs. However, non-availability of adequate financial data as well as limited reliability of such data discourages such studies. The empirical analysis from the study reveals that the selected MFIs in India are operationally self-sufficient. However, there is a need to go deeper and reach the poorest clientele in order to remain committed to the ultimate mission. Further, another important contribution of the paper is highlighting the factors influencing operational self-sufficiency. It is found that OPELP, ROA, ROE has a positive significant impact on operational self-sufficiency whereas DBTEQ has a negative significant impact on operational self-sufficiency.

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