Microfinance and Mission Drift: Navigating the Ethical Tensions Between Financial Self-Sufficiency and Poverty Alleviation

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ABSTRACT

Indian Microfinance Institutions (MFIs) have historically worked towards generating social benefits through activities aimed at poverty reduction and financial inclusion, while maintaining financial stability. However, growing commercialisation and structural transformation within the sector can lead to mission drift, the gradual departure of an organisation from its founding social objectives. Through comparative case studies of SKS Microfinance, CreditAccess Grameen Ltd, Bandhan Bank and SEWA, this paper examines how institutional transitions, from NGOs to NBFCs or universal banks, impact client targeting, lending practices, and governance priorities. Findings suggest that organisational structure plays a key role in either safeguarding or undermining mission integrity. This study highlights the tension between financial sustainability and poverty outreach, offering insights for policymakers, social investors, and MFI leaders on how to preserve social purpose while scaling operations in competitive markets.

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INTRODUCTION

1.1 What are Microfinance Institutions

Microfinance Institutions (MFIs) are specialised financial entities established to provide services to individuals and households traditionally excluded from mainstream banking, such as those from low-income backgrounds, rural areas, and the informal employment sector. These institutions offer a range of financial products, including microloans, savings accounts, insurance, and remittance services, specifically designed for clients who lack collateral, have irregular incomes, or lack formal credit histories (Armendáriz & Morduch, 2010; Ledgerwood, Earne, & Nelson, 2013).

MFIs are structured in various forms, including non-profit organisations, cooperatives, Non-Banking Financial Companies (NBFCs), and commercial banks with dedicated microfinance divisions. Despite these structural differences, their overarching objective remains to expand financial access for underserved populations and advance poverty reduction initiatives (Gobezie & Mussie, 2009; Morduch, 2002).

MFIs offer savings instruments that help clients manage irregular income streams, accumulate assets, and mitigate unforeseen financial shocks. Many institutions further extend microinsurance products covering health, life, and agricultural risks, thereby strengthening clients' resilience against economic vulnerabilities and promoting long-term financial security (Ledgerwood et al., 2013; Morduch, 2002).

Crucially, MFIs also deliver a range of non-financial interventions, including business development training, financial literacy programs, and community support initiatives, all of which are essential for enhancing clients' financial decision-making and fostering sustainable economic empowerment. These supplementary services amplify the developmental impact of microfinance interventions. (ILO, 2012)

A distinctive feature of MFIs is their emphasis on gender equity. They frequently prioritise women as primary borrowers. This approach not only enhances women's participation in the economy but also strengthens their bargaining power and social status within households and communities. Furthermore, by facilitating the accumulation of credit histories and advancing financial literacy, MFIs act as conduits for integrating previously excluded individuals into the formal financial sector (Armendáriz & Morduch, 2010; ILO, 2012; Ledgerwood et al., 2013).

1.2 What is Mission Drift

Mission drift refers to the gradual divergence of an organisation from its original social objectives, often due to commercial pressures, institutional transformations, or the pursuit of profitability. Given the oppositional nature of MFIs' dual goals of social impact & profitability, as these organisations grow and seek external investment, their priorities can shift from social impact to financial returns, potentially compromising their founding mission (Khanal & Shrestha, 2023; Battilana & Dorado, 2010).

For MFIs, while commercialisation offers scale and sustainability, it also increases the risk of alienating the very beneficiaries MFIs were created to support. Therefore, aligning financial growth with social mission remains a key challenge for such organisations. (Khanal & Shrestha, 2023)

This risk of mission drift is not merely theoretical; it has concrete implications for the effectiveness, accountability, and ethical legitimacy of microfinance as a tool for poverty alleviation. As MFIs scale operations, attract commercial investors, or transition into more formal financial institutions, such as Non-Banking Financial Companies (NBFCs) or universal banks, their governance structures, performance metrics, and stakeholder demands shift accordingly. MFIs that operate as NGOs or cooperatives may have mission-oriented governance embedded in their frameworks, such as participatory decision-making and reinvestment of surpluses into social programs. In contrast, those that adopt for-profit models or go public via IPOs are often compelled to prioritise growth, scalability, and profitability objectives that may dilute or displace social impact metrics if not actively safeguarded. This brings in the risk that competing priorities, such as investor returns, regulatory compliance, and operational efficiency, may eclipse the original goal of serving low-income, underserved populations (Manepalli & Ramkumar, 2015; Ghosh & Guha, 2017).

Mission drift thus emerges as a pressing area of concern in development finance, particularly in countries like India, where MFIs have grown rapidly and hold significant influence in rural credit markets. This paper will investigate the relevance of organisational structure and its role as a driver towards mission drift through the cases of MFIs with different organisational structures such as NBFC-MFIs (Non-banking Financial Institution-

Microfinance Institution), Universal Bank, cooperative Bank, and For-profit NBFCs (Non-banking Financial Institution) to analyse the conditions under which mission drift occurs. Understanding how organisational structure and strategic decisions either mitigate or accelerate mission drift is vital for policymakers, impact investors, and social entrepreneurs alike. It invites a deeper interrogation of whether these dual-goal business models can truly balance market logic with social justice, or whether they risk reproducing exclusion under the guise of inclusion. (Sriram, 2016)

2. EXISTING REGULATION

Microfinance Institutions (MFIs), as previously explained, operate under a dual-goal nature, with MFIs chasing both financial success & generating poverty alleviation. This juxtaposition renders the sector particularly vulnerable to mission drift, especially during episodes of rapid commercialisation. A prominent example of this is the AP crisis in 2010, which prompted the Reserve Bank of India (RBI) to implement several regulations that anchor MFIs to their foundational social objectives. This section examines the evolution of the RBI's regulatory architecture, highlighting its shifting regulatory philosophy, major reforms, and the implications for mission alignment within Indian microfinance (Mia, 2023; Srinivasan, 2014).

In the early 2000s, the Indian microfinance sector experienced rapid expansion, propelled by private equity, international donors, and the emergence of NBFC-MFIs such as SKS Microfinance. However, this growth unfolded within a fragmented regulatory landscape. While cooperatives and NGOs operated under state or sector-specific statutes, NBFCs were subject to RBI supervision with minimal sector-specific regulation. There were no standardised borrower eligibility norms, uniform interest rate ceilings, or clear guidelines on recovery practices. The prevailing focus was on outreach expansion and financial self-sufficiency, often at the expense of client protection (CGAP, 2009).

This regulatory gap facilitated unchecked commercialisation, with MFIs increasingly prioritising scale and profitability over targeted outreach. This led to increased loan sizes, multiple borrowings per household, and a rise in practices such as lack of transparency and coercive recoveries, culminating in heightened systemic risk, particularly in Andhra Pradesh, which became the epicentre of India's microfinance crisis (Morduch, 2002; Armendáriz & Szafarz, 2011).

The 2010 Andhra Pradesh microfinance crisis represented a pivotal moment in the sector's regulatory evolution. Sparked by widespread public concern over borrower suicides linked to coercive recovery tactics, the crisis precipitated a collapse in loan repayments, a near-failure of the sector within the state, and a broader crisis of legitimacy for MFIs (Cull, Demirgüç-Kunt, & Morduch, 2009).

In response, the RBI constituted the Malegam Committee to investigate sectoral failures. The committee's 2011 report was transformative, recommending the first comprehensive regulatory framework for NBFC-MFIs. Key proposals included (RBI, 2011):

- Defining qualifying assets as loans to low-income households, capped at ₹50,000 for initial cycles;
- Imposing margin and interest rate ceilings to prevent usurious lending;
- Restricting multiple lending and loan tenures;
- Mandating client protection mechanisms, including transparency standards, codes of conduct, and grievance redressal systems.

These measures, subsequently codified through RBI directives, subjected NBFC-MFIs to greater scrutiny and shifted the regulatory emphasis from institutional autonomy to client welfare. Critically, they embedded social targeting within the financial regulatory framework, thereby serving as an explicit safeguard against mission drift.

Recognising the increasing diversity of microfinance providers, including small finance banks, commercial banks, and cooperatives, the RBI introduced a major regulatory shift in 2022 with the Master Direction Regulatory Framework for Microfinance Loans. This framework marked a transition from prescriptive caps and definitions to principles-based regulation, emphasising household repayment capacity. (RBI, 2022)

Key reforms included (RBI, 2022):

- Establishing a uniform definition of microfinance loans as collateral-free loans to households with annual incomes up to ₹3 lakh;
- Eliminating interest rate caps in favour of board-approved, transparent pricing policies;
- Instituting a repayment obligation cap, restricting total loan repayments to 50% of household income;
- Mandating compulsory loan fact sheets, borrower education, and grievance redressal mechanisms.

This borrower-centric approach reorients regulatory accountability from institutional form (e.g., NBFC vs. cooperative) to client experience and outcomes, prioritising affordability, transparency, and ethical lending practices. The progression of RBI regulation demonstrates increasing sophistication in addressing mission drift. The Malegam reforms of 2011 directly targeted exploitative practices and realigned MFIs with low-income households, though the applicability was limited to NBFC-MFIs. In contrast, the 2022 guidelines adopt a universal, institution-agnostic approach, extending coverage to all microfinance providers.

Regulatory design alone is not sufficient to prevent mission drift. Effective implementation, strong supervision, and transparent data reporting are widely recognised as essential for ensuring that compliance is substantive rather than merely procedural. For instance, not-for-profit MFIs that have converted to for-profit NBFCs, while adhering to Reserve Bank of India thresholds, have been observed to face pressures that could lead to mission drift, particularly from commercial shareholders. In contrast, cooperatives such as SEWA Bank, despite operating under lighter regulation, often maintain their social mission through governance structures and community ownership. (SEWA Bank, 2024; Biancini, 2017)

Therefore, regulation must be complemented by strong internal accountability, ethical governance, and client-centred performance metrics. While the RBI's current framework establishes enabling conditions, its ultimate effectiveness in preserving the developmental purpose of microfinance depends on how MFIs enact the underlying principles, rather than simply adhering to regulatory formalities.

3. CASE STUDIES

Each India-based MFI discussed in this section began with a stated commitment to poverty alleviation, financial inclusion, and/or women's empowerment; before undergoing shifts in institutional form, funding models, and operational scale. The analysis below draws on both academic literature and organisational disclosures to explore the consequences of such changes (commercialisation, IPOs, and banking licenses, etc) on mission adherence for each of the 4 MFIs.

3.1 SKS

SKS Microfinance, now operating as Bharat Financial Inclusion Limited (BFIL), was founded in 1998 by Vikram Akula to provide financial services to India's rural poor, particularly low-income women. The organisation drew inspiration from the Grameen Bank model developed by Muhammad Yunus in Bangladesh, which emphasised collateral-free group lending to promote financial inclusion and reduce poverty among marginalised populations. It was initially registered as a nonprofit to improve socioeconomic conditions through microcredit, targeting women as key agents of household and community development (Battilana & Dorado, 2010; Khanal & Shrestha, 2023).

The MFI operates under the mission:

"Our purpose is to eradicate poverty. We do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need," (SKSFinance website: https://www.sksindia.com/)

Its lending model was designed to empower women and foster accountability through peer support mechanisms, which helped ensure high repayment rates. To scale operations and attract investment, SKS converted into a for-profit Non-Banking Financial Company (NBFC) in 2005, a strategic move that allowed it to access commercial capital markets. In 2010, SKS became the first Indian microfinance institution to launch an Initial Public Offering (IPO), raising $358 million and marking a turning point in its organisational history. The IPO was oversubscribed 13 times, reflecting overwhelming investor confidence. (Chandran & Pratish Narayanan, 2010; Khanal & Shrestha, 2023)

The pressure to deliver returns to investors and justify a high valuation altered operational imperatives. From a mission standpoint, this created a misalignment: outreach and empowerment were deprioritised in favour of scale, speed, and profitability. SKS began onboarding over 1,000 clients per day, and by 2010, it served over 25 million borrowers nationwide. Yet, the internal control systems and client appraisal mechanisms failed to keep pace. Employees, incentivised on disbursement volumes, often issued multiple loans per client without adequate due diligence, a classic indicator of mission drift driven by structural incentives. (Khanal & Shrestha, 2023; Morduch, 2000; Hudon & Traca, 2011)

In an interview with Livemint the company's CEO, M.R. Rao, said, "the for-profit organisation made the mistake of staking larger-than-life claims of empowering the poor and eradicating poverty. He added that the intense competition in the sector did not lead to a price war that would have benefited tiny borrowers and instead diluted the process of sanctioning loans," (https://www.livemint.com/Industry/hvWN2IbllrX5hXKj3keERL/SKS-Microfinance-The-inside-story.html, downloaded on 13th August, 2025).

Consequently, within 45 days, 30 borrower suicides occurred, with 17 linked to SKS clients, prompting Andhra Pradesh to issue an ordinance banning doorstep recovery and requiring government approval for second loans. The resulting state law effectively halted SKS's AP operations, leading to losses of ₹1,362 crore, writing off portfolios, closing 78 branches, and laying off about 1,200 employees by mid-2012. SKS's net worth plummeted from ₹1,795 crore to ₹390 crore between September 2010 and March 2013. These figures exemplify how structural transformation from a mission-driven NGO to a capital-market-listed firm resulted in a fundamental erosion of its social mission. The organisational structure post-IPO prioritised shareholder accountability over social accountability. (Sanjai, 2015)

While nonprofits and even NBFC-MFIs operate under regulatory mandates or mission constraints (e.g., qualifying asset criteria), listed entities like SKS were primarily governed by market expectations and lacked statutory obligations to serve the poorest. This regulatory vacuum around social performance allowed SKS to pivot operational focus without breaching any formal rules, underscoring how mission drift is not always a governance failure, but often a structural inevitability in hybrid organisations (Pache & Santos, 2013). Moreover, SKS's IPO prospectus largely focused on growth and profitability, with minimal emphasis on social performance indicators such as Poverty Probability Index (PPI) scores, client education levels, or community development outcomes, further evidence of a shift in strategic orientation (Ghosh & Van Tassel, 2011).

In essence, the SKS case exemplifies the dangers of hybridisation without accountability mechanisms. The for-profit structure, in the absence of legally enforceable social metrics or transparent internal controls, created incentives for frontline employees to compromise on mission goals. This not only jeopardised borrowers' well-being but also exposed the organisation to reputational and financial collapse.

3.2 CreditAccess Grameen Ltd

CreditAccess Grameen Ltd. (CA Grameen) stands as the largest Non-Banking Financial Company-Microfinance Institution (NBFC-MFI) in India, measured by gross loan portfolio. Founded in 1999 with a mission to facilitate microcredit access for rural, low-income women, CA Grameen has since evolved into a publicly traded entity with operations spanning 16 states. Despite its notable financial achievements, the institution's expansion and transition to a corporate structure have prompted significant concerns regarding potential mission drift, specifically, a departure from its foundational focus on serving the most disadvantaged populations, as highlighted in the microfinance literature (Armendáriz & Szafarz, 2011).

In the fiscal year 2023–24, CreditAccess Grameen reported total assets of ₹28,846 crore (approximately US$3.3 billion), a net profit of ₹1,446 crore, and a return on equity (ROE) of 24.85%. These figures establish CreditAccess Grameen as one of the most financially robust microfinance institutions in India. Academic research indicates that while strong profitability is essential for the long-term sustainability of MFIs, high financial returns in the sector may also signal a strategic shift toward serving higher-income or urban clients, who generally present lower credit risk and are more profitable to serve. This trend raises concerns about potential mission drift, as MFIs may gradually move away from their original mandate of prioritising the poorest and most excluded populations. The lack of publicly disclosed data on CreditAccess Grameen's average loan size makes it difficult to assess whether the institution is increasingly targeting less-poor borrowers. Additionally, the decline in the operating expense ratio to 4.54% in FY24 may indicate growing operational efficiencies, which could stem from a shift toward larger average loan sizes or a greater focus on urban markets, both of which are commonly associated with mission drift in the microfinance sector (CreditAccess Grameen, 2024; Cull et al., 2007).

Despite commercial success, CA Grameen continues to highlight its commitment to poverty outreach. According to company data, 99.98% of its clients are women, and most reside in rural areas. Moreover, the company uses the Progress out of Poverty Index (PPI) to track the socio-economic advancement of its clients. The Progress out of Poverty Index (PPI), rebranded as Poverty Probability Index, is a practical and statistically robust tool designed to help organisations and businesses measure the likelihood that a household is living below the poverty line. By using a set of ten simple questions about household characteristics and asset ownership, the PPI provides a quick and cost-effective way to gather objective poverty data, which can inform program targeting, track changes over time, and improve social performance management. Originally developed by the Grameen Foundation and now managed by Innovations for Poverty Action (IPA), the PPI is widely used across various regions to support poverty alleviation efforts. In recent assessments, 23% of borrowers previously below the $1.25/day (Purchasing Power Parity) poverty line moved above it; an encouraging sign of poverty reduction (CreditAccess Grameen, 2025; Innovations for Poverty Action, n.d.).

However, disaggregated data reveal that urban clients saw a faster rate of poverty exit (26%) compared to rural clients (21%). While this does not constitute mission drift per se, it could indicate an emerging bias toward urban markets due to higher repayment rates and lower servicing costs. If such trends continue, they may contribute to a gradual reorientation of the institution's outreach strategy, particularly if left unmonitored (Poverty Probability Index, n.d.).

As a publicly listed company, CA Grameen is accountable to shareholders, many of whom are institutional investors expecting competitive financial returns. This structural reality inherently increases the risk of mission drift, especially if social goals are not hardwired into boardroom strategy (Armendáriz & Morduch, 2010).

To counterbalance commercial pressures, CA Grameen adheres to the Reserve Bank of India's regulatory requirement that at least 60% of NBFC-MFI assets be "qualifying assets", defined as loans to households with annual incomes below ₹3 lakh. This regulatory framework is designed to ensure continued focus on low-income segments. Thus, it acts as an external check on potential drift (RBI, 2022).

The company has also adopted the Client Protection Principles (CPP) and maintains an Environmental, Social, and Governance (ESG) policy. These tools support transparency, fair lending, and social accountability, although their effectiveness depends on enforcement and integration into performance incentives.

A significant constraint in evaluating potential mission drift at CA Grameen is the lack of comprehensive, publicly available data on several key indicators: trends in average loan size, the distribution of client income levels across different geographic regions, and patterns of loan utilisation (such as distinctions between consumption and enterprise-related borrowing). In the absence of such data, it is challenging to determine whether clients are genuinely advancing out of poverty through economic empowerment or if the institution is increasingly allocating credit to relatively wealthier, lower-risk borrowers. As noted by Armendáriz and Szafarz (2011), mission drift may not be readily apparent in headline financial metrics; rather, it often manifests through gradual shifts in the composition of the client base and the targeting of financial products.

While CreditAccess Grameen currently appears to uphold its original mission of serving low-income clients, the risk of future mission drift is significant and well-documented in the literature (Armendáriz & Szafarz, 2011; Cull, Demirgüç-Kunt, & Morduch, 2007). This risk is amplified by several structural and strategic factors: increasing pressure from commercial investors to maximise profits; ongoing expansion into urban markets, which may lead to reduced focus on deep rural outreach; and the accelerated adoption of digital platforms, which could inadvertently exclude clients who lack digital literacy or access (CreditAccess Grameen, 2024).

To mitigate these risks, CreditAccess Grameen should adopt a multi-pronged approach. First, the institution should regularly publish disaggregated outreach data, including client breakdowns by income level and region, to enhance transparency and facilitate monitoring of client targeting. Second, executive compensation and performance incentives should be explicitly linked to social performance indicators, such as the proportion of ultra-poor households served, growth in rural branch networks, and improvements in client outcomes. Third, increased investment in client education and the strengthening of grievance redressal systems, especially in newly penetrated markets, are essential to ensure that vulnerable clients are not left behind (CreditAccess Grameen, 2024; Armendáriz & Morduch, 2010).

CreditAccess Grameen thus exemplifies a commercially successful microfinance institution that continues to strive for social impact. However, subtle trends, such as faster poverty reduction among urban clients and declining operating expense ratios, may signal a gradual shift in priorities. The key challenge lies in maintaining a balance between commercial imperatives and the institution's foundational pro-poor mission. Sustained transparency, deliberate integration of social and financial objectives, and rigorous adherence to regulatory and ethical standards will be critical to preserving CreditAccess Grameen's developmental vision in an increasingly competitive and market-driven sector (Cull et al., 2007; CreditAccess Grameen, 2024).

3.3 Bandhan Bank

Bandhan began in 2001 as an NGO, Bandhan-Konnagar, founded by Chandra Shekhar Ghosh in West Bengal. The organisation aimed to provide collateral-free microloans to poor rural women, emphasising financial inclusion and poverty reduction through a community-based lending model. By 2006, Bandhan transitioned into a for-profit NBFC, Bandhan Financial Services Pvt. Ltd. Yet the organisation retained strong social outreach, reportedly serving over 5 million clients with near-zero non-performing loans (NPLs). On April 2, 2014, the Reserve Bank of India (RBI) granted in-principle approval to Bandhan Financial Services Pvt Ltd to establish a universal bank, with operations commencing on August 23, 2015. This regulatory landmark made Bandhan the first microfinance institution to convert into a universal bank, aiming to mobilise low-cost deposits and broaden its reach. The move is largely marked as a success, with Bandhan Bank operating 6,300 outlets with ₹151,212 crore in deposits and ₹136,995 crore in advances as of March 2025. Notably, 73% of its branches are in rural/semi-urban areas. (Ghosh & Guha, 2017; Bandhan Bank, 2025; Manepalli & Ramkumar, 2015; Reserve Bank of India, 2014)

Bandhan's trajectory shows strong initial alignment with social outreach, a textbook hybrid success. However, despite early successes, notable signs of mission drift began to surface post-bank conversion. Bandhan significantly diversified its loan portfolio into retail, housing, and enterprise loans—areas that typically serve less poor clients and offer higher returns. Concomitantly, average loan sizes increased; microfinance ticket sizes remained modest (₹45,000–₹60,000), but home and MSME loans, ranging from ₹2 lakh to ₹10 lakh, started dominating the lending mix. Such changes, according to Ranjani and Kumar (2018), indicate a strategic shift toward targeting better-off segments, consistent with drift patterns observed across MFIs. (Ranjani & Kumar, 2018; Bandhan Bank, 2025)

Recent financial results show both strengths and drift-related vulnerabilities. With ROA at 2.5% and ROE at 17.6% for FY24, Bandhan aligns with large private banks on profitability metrics. However, rising GNPAs—particularly in its microfinance and business loan books—have caused concern, suggesting lapses in borrower screening and oversight. While strong ROA/ROE reflect operational discipline, they also expose the tension between pursuing returns and managing the higher risks inherent in socially impactful lending. (Bandhan Bank, 2025; Buzzplus, 2025)

Bandhan's status as a universal bank, regulated by the RBI, fundamentally alters its structural incentives compared to its NBFC-MFI origins. Unlike MFIs, universal banks are not legally mandated to meet quotas for lending to low-income households or maintain microfinance-focused portfolio ratios. As a result, decisions about loan mix and growth are governed more by internal strategies and market pressures than by external social obligations. This structural shift removes protective regulatory levers and places a heavier onus on voluntary social benchmarking, or risk allowing commercial imperatives to marginalise core mission outcomes.

Despite some indications of change, Bandhan continues to maintain several mission-oriented practices: more than 90% of its microfinance clients are women, it operates its original NGO, Bandhan-Konnagar, and it supports education, health, and livelihood initiatives through its CSR activities. These efforts reflect a continued connection to its founding values. However, to ensure these commitments remain effective over time, it may be helpful to introduce formal mechanisms such as regular impact assessments, targeted outreach strategies, and board-level attention to mission alignment. As Bandhan expands into new segments, maintaining a balance between growth and social outreach will support its ongoing focus on serving low-income communities (Bandhan Bank, 2025).

Bandhan Bank has achieved notable commercial success, with extensive rural outreach and solid financial results. As it has transitioned into a universal bank, its portfolio has become more diverse, average loan sizes have increased, and regulatory requirements have changed. In this new environment, maintaining social impact will increasingly rely on the bank's internal policies and governance. To support its founding mission, Bandhan Bank may benefit from measures such as setting clear targets for poverty-focused lending, regularly tracking client outcomes, and strengthening governance practices that prioritise service to underserved communities. These steps can help ensure that growth and diversification continue to align with the bank's original social objectives. (Bandhan Bank, 2025)

3.4 SEWA Bank

Shri Mahila SEWA Sahakari Bank Ltd. (SEWA Bank), established in 1974 in Ahmedabad, Gujarat, by the Self-Employed Women's Association (SEWA), was founded with the principal aim of advancing financial inclusion and empowerment among poor, self-employed women. As a cooperative institution owned and governed by its female members, SEWA Bank represents a grassroots approach to microfinance, wherein its social mission is fundamentally integrated into both its governance structure and daily operations (ILO, 2012).

The cooperative model of SEWA Bank offers strong resistance to mission drift. Because clients and shareholders are identical, namely, low-income women working in the informal sector, these members elect the management board and collectively establish institutional priorities. This alignment significantly reduces the likelihood of financial objectives superseding poverty outreach, a risk more prevalent among commercially oriented microfinance institutions. Distinct from investor-driven MFIs, SEWA Bank prioritises the mobilisation of savings and the promotion of financial literacy, rather than the aggressive expansion of credit portfolios. (SEWA Bank, 2024; Armendáriz & Morduch, 2010)

From a financial perspective, SEWA Bank has exhibited steady, moderate growth. By 2023–24, the bank reported ₹346.2 crore in deposits and ₹215.65 crore in outstanding advances, alongside a net profit of ₹2.57 crore. Loan amounts remain modest, and interest rates are set at competitive levels, approximately 17% for business loans, 9.5% for housing loans, and 20% for loans against property. These figures indicate a sustained emphasis on affordability and client protection, rather than yield maximisation through larger loan volumes or higher interest rates (SEWA Bank, 2024).

Social performance data further underscores SEWA Bank's commitment to its mission. The client base is composed almost exclusively of low-income women, many of whom earn as little as ₹1,500 per month. SEWA Bank supplements its financial offerings with a range of non-financial services, including healthcare, childcare, business training, and legal assistance, thereby adopting a holistic empowerment strategy that extends beyond the provision of microcredit. Impact assessments reveal that repeated borrowing and consistent savings behaviour are associated with positive long-term income outcomes for clients, supporting the bank's development-oriented mandate (Gobezie & Mussie, 2009; ILO, 2012). Nevertheless, SEWA Bank faces certain operational challenges. The 2009 KfW evaluation reported relatively low capital efficiency, with less than half of deposits disbursed as loans and higher administrative costs compared to other institutions (KfW Entwicklungsbank, 2009).

Regulatory oversight by the Reserve Bank of India and the state government is less stringent than that imposed on NBFC-MFIs. SEWA Bank is not subject to capital market pressures or the rigid asset qualification requirements faced by commercial MFIs. Instead, its principal accountability lies with its member-owners, ensuring that operational decisions remain closely aligned with the interests of its intended beneficiaries and providing an internal mechanism for maintaining mission discipline (RBI, 2022; ILO, 2012).

SEWA Bank offers a compelling alternative to the mission drift frequently observed in more commercialised microfinance models. Its organisational structure, client composition, and integrated service delivery reflect a sustained and substantive commitment to poverty alleviation. While it may not achieve the financial efficiency characteristic of corporate MFIs, SEWA Bank demonstrates how cooperative governance can provide a powerful safeguard against mission drift, thereby ensuring enduring social impact.

4. COMPARATIVE ANALYSIS

The issue of mission drift in microfinance is deeply linked to the institutional design of MFIs, encompassing their ownership models, governance structures, regulatory frameworks, and financial motivations. Although SEWA Bank, CreditAccess Grameen Ltd. (CA Grameen), Bandhan Bank, and Bharat Financial Inclusion Ltd. (BFIL/SKS) all began with explicit goals of poverty reduction and financial inclusion, their developmental paths have diverged significantly due to changes in their structural configurations. This section offers a comparative analysis of how these institutional characteristics influence each organisation's vulnerability to mission drift.

TABLE 1: INSTITUTIONAL TYPOLOGY AND GOVERNANCE ALIGNMENT

Institution	Legal Form	Ownership	Governance Mechanism	Regulatory Classification
SEWA Bank	Cooperative Bank	Member-owned (women clients)	Democratic (elected board)	Cooperative bank (light RBI oversight)
CA Grameen	NBFC-MFI (Publicly Listed)	Institutional & retail investors	Corporate board (investor-aligned)	RBI-regulated NBFC-MFI
Bandhan Bank	Universal Commercial Bank	Public shareholders (listed)	Commercial bank board (corporate-led)	RBI-regulated full-service bank
Bharat Financial (SKS)	NBFC-MFI (Post-IPO)	Public shareholders (listed)	Corporate board, SEBI-regulated	RBI & SEBI (post-IPO)

Source: Authors' own

SEWA Bank demonstrates the highest degree of congruence between governance and social objectives, owing to its cooperative structure in which clients are also the owners. Conversely, Bandhan and SKS's evolution into commercial entities has shifted governance priorities toward shareholder interests, resulting in a structural departure from their initial focus on serving the poor. CA Grameen occupies an intermediate position: it retains a rural focus but is increasingly influenced by investor-driven priorities.

TABLE 2: FINANCIAL PERFORMANCE VS. OUTREACH INDICATORS

Indicator	SEWA Bank (2023–24)	CA Grameen (FY25)	Bandhan Bank (FY25)	SKS/BFIL (Peak 2010–11)
Net Profit	₹2.57 crore	₹531 crore	₹2745 crore	₹111.63 crore
Return on Equity (ROE)	Not disclosed	7.70%	11.60%	7.20%
Avg.. Loan Size	Not disclosed	₹ 0.55	₹. 43353	₹11k
Outreach Focus	Low-income women	Rural women (urban drift)	Diversified (micro, MSME)	Initially rural poor, then mixed
Social Performance Tracking	Strong, integrated with services	PPI, 99.98% women (Grameen Koota)	Weak since full bank status, CSR focus	Absent after IPO, focus on scale/profit

Source: SEWA Bank, 2024; CreditAccess Grameen, 2024; Bandhan Bank, 2025; Khanal & Shrestha, 2023; International Labour Organization, 2012; KfW Entwicklungsbank, 2009

While all four institutions have achieved notable financial outcomes, SEWA Bank and CA Grameen are distinct in their ongoing efforts to track and report social performance. Bandhan and BFIL, by contrast, display patterns of increasing loan sizes and client base diversification, clear indicators of mission drift.

TABLE 3: STRUCTURAL VULNERABILITY TO MISSION DRIFT

Dimension	SEWA Bank	CA Grameen	Bandhan Bank	SKS/BFIL
Profit Maximisation Pressure	Low	High	Very High	Very High
Investor Influence	None	Strong	Strong	Strong (Post-IPO)
Product Diversification Risk	Low	Medium	High	High
Regulatory Safeguards	Light	Moderate (60% QA)	Weak (post-bank)	Moderate (NBFC)

Internal Social Metrics	Strong	Moderate	Weak	Absent

Source: Authors' own

SEWA Bank's cooperative framework makes it the least susceptible to mission drift, while CA Grameen, although still largely mission-oriented, exhibits early warning signs. Bandhan and SKS/BFIL, on the other hand, illustrate the classic trajectory of mission drift following commercialisation and public listing.

When it comes to ownership and accountability, SEWA's client-owned model fosters inherent accountability, whereas public ownership (as seen in Bandhan, SKS, and CA Grameen) can introduce conflicting priorities. The process of commercialisation and public offerings may enable rapid growth, but often undermines the integrity of the social mission unless robust internal mechanisms are present. Regulatory requirements, such as the RBI's Qualifying Assets rule, provide some protection against drift, but are not sufficient on their own. Moreover, the lack of detailed, disaggregated data on outreach and client characteristics makes it difficult to monitor mission drift effectively, underlining the importance of mandatory social performance indicators.

Overall, the institutional architecture of an MFI is a fundamental determinant of its ability to maintain its original mission. SEWA Bank's cooperative model illustrates how social goals can be embedded and preserved through structure, while SKS/BFIL and Bandhan Bank serve as examples of how commercialisation can lead to systematic mission drift in the absence of strong social governance. CA Grameen, while still striving to balance scale and mission, faces mounting pressures. As commercial capital continues to flow into the sector, it will be crucial to design governance frameworks that place a premium on inclusion, equity, and transparency to protect the core values of microfinance.

5. ETHICAL IMPLICATIONS

Cases such as SKS/BFIL, Bandhan Bank, and CreditAccess Grameen illustrate how commercialisation, when not accompanied by robust ethical safeguards, can undermine the original social mandate of microfinance. Conversely, SEWA Bank's experience demonstrates that embedding ethical principles through member ownership and participatory governance can serve as an effective countermeasure to mission drift, preserving the integrity of the institution's developmental mission.

The issue of mission drift in MFIs presents significant ethical challenges, particularly when organisations that originate with explicit pro-poor mandates later transition to market-oriented or profit-maximising models. The central ethical dilemma is how to reconcile the sector's dual objectives, achieving financial sustainability while advancing poverty alleviation, without undermining either objective? As MFIs expand, attract commercial investment, or undergo institutional transformation, there is a documented tendency to shift their operational focus away from the poorest clients toward wealthier and lower-risk borrowers. While such a shift may enhance efficiency and profitability, it also risks excluding the very populations these institutions were created to serve, thereby contravening principles of equity, justice, and social inclusion (Ahuja & Yadav, 2023; Armendáriz & Szafarz, 2011).

Furthermore, the adoption of practices such as aggressive loan targeting, inadequate client education, and incentive structures that reward loan volume over client outcomes can expose vulnerable populations to exploitation and erode trust in the institution (Hudon & Traca, 2011; Morales, 2022). From an ethical standpoint, microfinance should foreground the welfare and agency of clients, ensuring that the dignity and long-term development of marginalised groups remain at the forefront of institutional priorities. The absence of transparent social impact reporting, diluted governance accountability, and weak grievance redressal mechanisms exacerbates the risk of ethical lapses (Nayakaratne & Perera, 2024). In this light, mission drift must be understood not only as a strategic or operational deviation but as a fundamental ethical failure, one that may manifest in increased inequality, borrower over-indebtedness, and social harm, even as institutions claim to pursue financial inclusion (Morduch, 2000).

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