SIDE - BY - SIDE

Maturing Microfinance

Emerging Challenges

2007

Sa-Dhan

The Association of
Community Development
Finance Institutuins

contents

List of Boxes, Graphs and Tables

foreword

This latest issue of the annual Side-by-Side (SBS) Report presents the collective picture of the microFinance (mFI) sector that analyses and informs stakeholders and practitioners on performance and progress of CDFIs with adequate details. The theme of the 2007-SBS Report is "Maturing microFinance: Emerging Challenges", which is the fifth in the series. The present volume has undergone several changes in nomenclature, structure, design and presentation. We are looking forward to your feedback on content and form.

Data was submitted by over 100 mFIs, out of which 83 were selected for analysis in this volume, which has been finalised in December 2007. With changes in reporting formats there has been a decline from the 117 mFIs who contributed to the SBS Report 2006, which was published in March 2007. Our sincere thanks go to all the contributing mFIs.

For the earlier SBS reports, we had acquired data in the form of Data Acquisition Sheet (DAS) from mFIs on their financial, operational and programmatic aspects. Based on these data inputs, we have published two annual SBS reports, one on operations and the other on programmes. From the current year onwards, DAS has been replaced by the advisory set / annual reports. In addition to it, the six financial performance indicators recommended by Sa-Dhan have been collated based on the information supplied by the mFIs. (This time, we made a departure by requesting the mFIs to work out their financial performance ratios and report to us.) This is a step towards implementation of standards as well as building capacity of the mFIs.

As for the current SBS-Report, we have made a beginning by introducing a separate chapter on financial statement analysis with useful ratios like debt equity ratio, return on gross loan portfolio and return on equity. This materialises from suggestions made by the policy makers during the SBS (edition 2006) release event in March 2007.

Furthermore, we have extended the scope of financial performance ratio analysis with additional analysis of lending methodology in relation to staff productivity (active borrower to credit officer) and also refined the presentation of Sa-Dhan core ratios and recommended benchmarks. In respect of programmatic issues, the current report details four important sectoral issues - governance, transparency, social performance & technology - included as separate, detailed chapters.

Work on web-enabled software has been undertaken concurrently. This software is being tested and would be available for "the next round", i.e. data compilation of Side-by-Side Report for FY 2008.

In the year 2005 we had introduced a separate individual report for each of the contributing CDFIs that covers the financial performance of the CDFI in comparison with peer groups of similar CDFIs. This report has received encouraging feedback. Also, the responses we received from bankers, development agencies and members on our earlier reports have been very useful. We believe that this report will provide increased understanding of performance trends among CDFIs based on size, operating model, age and location. We acknowledge the comments and suggestions from members including members of the board.

Congratulations to the Standards team, comprising Mr. Prabhakar S., Mr. Oliver Schmidt, Mr. Rupaal Singh and Ms. Prakati in bringing out this report. In addition supplementary support and insights have been provided by Mr. R. K. Mukherjee and Ms. Samapika Pati in bringing out this report. The work has been made possible by the support from THE FORD FOUNDATION. We thank The Ford Foundation for their encouragement and continuing support.

We would like to refine the report with additional information and in-depth analysis in the next report SBS, 2008. We look forward to hearing from you all on refining the work in days to come!

Mathew Titus
Executive Director

December 06, 2007

Overview

mF-trends & Strategic Issues

1.1 In a nutshell

In the financial year 2006-07, Sa-Dhan member-mFIs served over 1.5 crore clients, most of them women. One out of three of Sa-Dhan members' clients is from the SC/ST-segment, and Sa-Dhan members' services reach 2 out of 3 of the poorest districts.

Sa-Dhan member-mFIs though highly leveraged have strengthened their asset and liability structures, with institutional debt the prime source of funding for expansion of gross loan portfolios (GLP). Interest income from these portfolios accounts for 4 out of 5 Rupees of revenue earned. With regard to Sa-Dhan's core financial ratios on efficiency and sustainability, a trend towards Sa-Dhan's benchmarks has been recorded (see Side-by-Side-chapters 2, 3).

Indian microFinance is an ongoing growth story. As growth has taken it towards another level, it encounters new challenges, which, though mildly outlined in the past, have come to shape the debates and ultimately the further character of the microFinance industry. Governance, transparency, competition, social performance, and technology for handling them are strategic issues of future growth and sustainability and hence are of immense relevance to the microFinance sector (see Side-by-Side chapters 4, 5, 6, 7).

1.2 Backdrop: Economic growth, poverty alleviation and microFinance in India

For the past few years, the microFinance sector in India has been performing impressively with a CAGR of 76% (Sa-Dhan study, 2006). Many mFIs have had an impressive expansion in the delivery of services. mFIs today operate hundreds of branches, employing thousands of staff across different states. Some are heading for or have already passed the one-million-client-outreach. Banks and investors therefore have growing interest, targeting smaller mFIs to upscale their operations across the states. mFIs have also started focussing on the urban poor segment, which is yet another potential growth area.

The growth and prosperity of microFinance has been nestled into a supportive policy and economic outlook. The government has signalled its support for the sector, and the Reserve Bank of India has provided the necessary incentives to the microFinance asset class. Banks have followed suit in extending debt to such portfolios. Rating agencies and other third party agencies have widened the understanding and information of the work of this sector. Consequently, operational growth has been very robust.

Fundamental factors of economic growth - among others, exports, service markets, infrastructure investment, demography, and overall political stability - are suggesting a long-term real GDP-growth rate of 7% p. a. (Ranjan/ Jain/Dhal, 2007). This has provided an enabling environment for poverty alleviation that has resulted in human poverty shrinking by roughly one quarter. The Human Poverty Index (HPI) stands now at 0.35, which means about 1 out of 3 Indians faces shortcomings of education, health and/or income. India has recorded substantial progress on the UN's Millennium Development Goals (MDG), which aim at halving extreme poverty by 2015; among others, through increasing primary school enrolment and improved health care.

It may be argued that microFinance has contributed to the progress towards the MDG. Impact assessment of self-help-groups in India has demonstrated among other facet, that microFinance clients diversify their risks and thus reduce vulnerability to external shocks; in particular they are able to provide more regular and more years of schooling to their children. Women clients of microFinance tend to have strengthened their say in family decisions, in particular regarding schooling and marriage of daughters (NABARD/GTZ, 2005).

However, the extent of financial exclusion is still tremendous. On an all-India basis 59 per cent of adult population in the country have bank accounts - in other words 41 per cent of the population is un-banked.

1.3 The current Side-by-Side sample

In light of the above, Sa-Dhan membership has changed with the sector, longstanding members and younger mFIs having joined the association in recent years. To that background, Sa-Dhan collected over a hundred reports, but a good number of them did not possess the quality of data necessary for a good analysis. For 83 mFIs, financial ratios and audited accounts were analysed for the present Side-by-Side-report. They include all legal forms, i.e. Cooperatives, non-banking financial companies (NBFC), Section 25 companies, a local area bank and Societies/Trusts; the latter accounting for about half of the sample. The sample majority comes from the Southern region. West, North, and East are home to mostly medium and small mFIs. The data has been collected via annual reports, as annual reports are part of the advisory set that Sa-Dhan recommends its members to report on an annual basis. This in turn helps achieve transparency and uniformity of data reporting. (See more details on advisory set in annexure.)

The data of these 83 members have been cumulatively analysed for their assets and liability structures, income and expense structures and performance by six core financial ratios. In the following section, we present some highlights from that analysis.

1.4 Profitability

Profitability in mF context may be referred to as the ability of the organisation to earn a surplus income. A profitable organisation would also tend to present a positive picture across the two parameters i.e. ROE (Return on Equity) and ROGLP (Return on Gross Loan Portfolio). The present Side-by-Side analysis confirms that profitability is a specific strength of Indian mF. ROGLP and ROE fare positively over all legal forms, with the exception of Section 25 companies; however, it has to be taken into consideration that Section 25 companies are a more recent phenomenon. For those, a net negative profitability has been observed, which is mirrored by loss in their income-expense-sheet. Although these organisations by legal forms are supposed to be not-for-profit, their loss is surely not in the interest of either owners and promoters or the ultimate target group of the poor clientele.

Another risk for these organisations may stem from the contracting grant funding in the sector (0.2% of the total funds correspond to grant funds). Compared to other asset heads it has become virtually irrelevant. The lion's share goes to institutional debt. Three out of four of asset rupees are accounted for by the institutional debt, mirrored by the GLP on the liability side. This indicates that funding strategies focus on expanding operations.

All legal forms show a positive leverage of their debt-equity ratio. Interestingly it is highest for MACs and Societies/Trusts; NBFCs and the local area bank show a comparatively moderate gearing.

1.5 Efficiency

mFIs are increasingly measuring well on the efficiency parameters (Financial Performance Ratios) as recommended and tracked by Sa-Dhan of its members. These measures will go a long way in defining the sustainability of mFIs and sustenance of mF development in the country.

Across all legal forms, mFIs meet the Sa-Dhan benchmark of less than 20% and 30% operational and total cost ratios respectively. The highest operating cost ratio is recorded for NBFCs and the highest total cost ratio for Societies/

Trusts. Section 25-companies' PAR60 (portfolio at risk over 60 days) and CRR (clients' repayment rate) perform well. Cooperatives score comparatively lower on PAR and CRR but are still within the Sa-Dhan benchmarks of under 10% and over 90% respectively. This may be accounted for by their lending model, which is traditionally individual.

What is the observation on the OCR across all models Grameen and SHG fall short of the 20%-benchmark for OCR (operating cost ratio). JLG, Individual and Hybrid models have an OCR well within the Sa-Dhan recommended standards. SHG maintains the total cost within the recommended band, that is, below 30% TCR (total cost ratio). Grameen and JLG operators operate within the Sa-Dhan-recommended band of the ABCO (Average Borrowers per Credit Officer) ratio, i.e. around 300 borrowers per credit officer. This points to the need for stronger systems for handling back-office functions more efficiently. This falls in line with the anecdotal evidence from fast growing mFIs who note set-up of robust systems as a success factor.

1.6 Sustainability

OSS (operational self-sufficiency) is a figure to be judged for its trend over succeeding years, as a healthy OSS is a positive sign of the organisation's ability to leverage its existence out of its operational income.

Section 25 companies and Cooperatives deliver the strongest OSS figures of over 110%. NBFCs fall short of 100% OSS. This might be owing to the fact that several of the NBFCs are relatively young. It is also due to the fact that OSS captures particular-point-in-time self-sufficiency and is not indicative of future performance. Hence, as these younger organisations across various legal models are emerging they need to invest in time and resources to reach the desired revenue levels amounting to 100% OSS.

By regional outlook, the most sustainable mFIs are found in the South, which goes along with the largest and most experienced ones. This is not surprising since the roots of the mF movement in the country lie in Southern India. mF in southern India today is focussing not just on outreach expansion but also in deepening financial services for existing clients.

The strongest OSS has been presented by the Eastern mFI-group. North and West are struggling below the OSS-benchmark, for which poor cost-performance might be a reason. It cannot be denied, however, that the regional imbalance is significant. With the bulk of population growth and

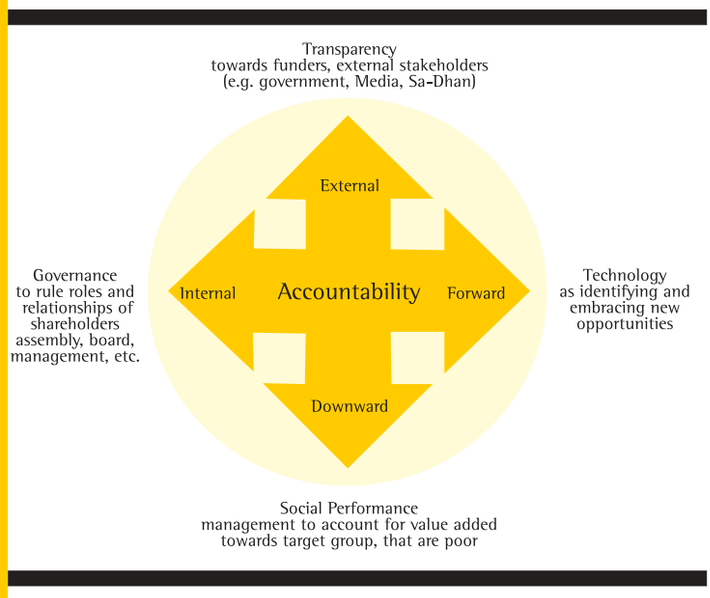
poverty expected in Northern and Central regions, microFinance has yet to prove its qualities for an invigorating growth.

1.7 Strategic issues of the coming years

Clearly growth raises implications for other key organisational functions such as governance, and a certain degree of transparency. Adding to that perspective is the need for a balance in what is being broadly classified as social performance. For appreciating what is "new" and "strategic" about these issues, consider for a moment the development path of NGO-microFinance, vis-à-vis the Cooperative movement.

What does the decade-odd long life-cycle of microFinance yield? Let us argue that it all comes down to accountability. Transparency is about external accountability - towards funders/shareholders and any other outside stakeholder. Governance is about internal accountability - towards board, management, shareholders' assembly. Social performance is about "downward" accountability, towards the clients, in a broader outlook towards the poor who are the target group. Technology is about "forward" accountability - towards squeezing the opportunities of innovation and generally finding new ways of doing old things (Graph 1.2).

Graph 1.2: The relationship of transparency, governance, social performance and technology



Successful growth of the Industry will require that all levels of accountability are met to the satisfaction of the different stakeholders. mFIs today have the following conditionalities to deliver: external accountability to be provided by client success stories, internal accountability by the organizational hierarchy, forward accountability to be provided by continuous innovation, and downward accountability to be provided by delivering effective and transparent services to end clients.

With the mF sector entering a new phase of its life cycle, new stakeholders - investors, lenders, government agencies, politicians - demand new forms

of external accountability (transparency); expanded organizations demand new internal accountability (governance); further growth, outreach and sustainability demand new forward accountability (technology); and last but not least, holding course for what we came to do in the first place demands new downward accountability (social performance). One thing is certain: all mFIs that do not live up to the demands to develop a strategy will find that functioning is an increasingly difficult and complex proposition.

1.8 Outlook

In the next decade, the potential mF-client base may be estimated at 30-40 crore (300-400 million). Among these, around 10 crore will live below the poverty line. Estimates of the arising micro-credit demand differ in assumed client-numbers (respective households) and time-horizons. By 2012, an annual demand of at least INR 25,000 crore (6.25 billion US-$ at a conversion rate of 40 rupees to a dollar) can be expected (Intellecap 2007, Sa-Dhan 2006). A significant higher figure is almost inevitable.

Based on the current growth trends, mFIs may be able to meet the funding requirements along with lenders, investors and savers by implementing thorough strategies. These strategies definitely have to:

- Provide for transparency and sound governance;
- Materialise significant efficiency gains;
- Demonstrate relevant social performance;
- Identify and apply technologies that leverage towards the above.

mF in India has given the world an impressive success story about growth and profitability of mFIs and providing over 10 crore people (equal to the entire population of many countries) with access to microcredit, many to thrift, some to insurance, and a few so far to remittance transfers. Sustaining and expanding that success over the years to come will depend on the strategic issues discussed in this Side-by-Side report.

1.9 References

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microFinance Operations

Financial Statement Analysis

2.1 Introduction

Performance of Indian CDFIs (and the leading CDFIs in particular) is now amongst the most efficient worldwide (M-CRIL 2005, p. i). The activities and improvements that took place during last decade have brought this sector under notice of different financial institutions like public and private sector banks, donors, bulk lenders, regulatory institutions like RBI and government. Their way of providing credit, savings and other services under different legal forms like Society & Trust, Co-operatives, NBFC, Section 25 Companies, MACs, LAB to the poor has proved that the poor are also bankable. Further, it has also enhanced the scope of competition to develop credit and savings services, livelihood activities, insurance and various other activities that are yet to be explored.

Based on their audited accounts, we analyse capital structure (section 2.3) and profitability (section 2.4) of 83 Sa-Dhan members from all over India. Details of the sample are given in the following section.

2.2 Sample of audited accounts

CDFIs prepare annual reports and financial statements as per the requirement of different legal forms. In the Side-by-Side Report 2006 we had analysed balance sheets of 117 CDFIs. Last year's analysis was restricted to the pattern of assets and liabilities in aggregate terms. For the current year we have extended the scope of analysis by incorporating detailed analysis of audited financial statements.

For this report we received data of more than 100 member mFIs but due to certain limitations like availability, audited financial statements, combined financial statements of microFinance and other activities, timeline etc. we have analysed only 83 audited financial statements of our members as of 31 March 2007.

Out of the sample CDFIs, Societies & Trusts dominate the sample (at 52%), followed by MACs (20%), NBFC (12%) and Section 25 companies (10%; table 2.1). Though there is a trend towards transformation of NGO-CDFIs (not-for-profit institutions) into for-profit and registration of CDFIs as NBFC, not-for-profit institutions continue to dominate in the provision of microFinance services, in terms of numbers of service providers.

In terms of Gross Loan Portfolios NBFCs dominate with their GLPs contributing to 55% of the total sample GLP.

The sample contains 25% large CDFIs; on account of high growth of the sector, many small and medium CDFIs are transforming into large ones due to their increasing portfolios. The small & medium CDFIs constitute 59% and 16% respectively of the total sample.

As per age the sample constitutes only 13% of CDFIs above 10 years (hereafter referred to as C group); 30% of CDFIs fall into the age-bracket of 5-10 years (B group) and the majority, 57% of the sample, are start ups with up to 5 years (A group) of operation.

As per region, southern region has a greater concentration of CDFIs with 59%, east 28%, west 7% and north only 6%.

Table 2.1: Sample characteristics

Societies & Trusts	52%
MACs	20%
NBFCs	12%
Section 25 Companies	10%
Local Area Bank	1%
Cooperatives	5%
Small	59%
Medium	16%
Large	25%
A	57%
B	30%
C	13%
South	59%
East	28%
West	7%
North	6%

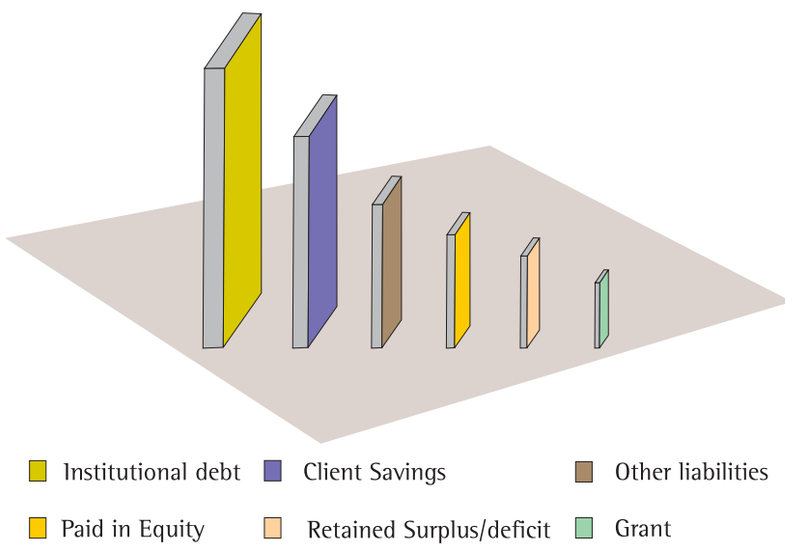
2.3 Capital structure

Sources of funding for microFinance operations

The source of funds for microFinance includes Institutional debt, Client savings, Other liabilities, Grants, Paid in Equity, Retained surplus/deficit. The distribution of sources of fund for microFinance is presented in graph 2.2. The figure is based on consolidation of information of 83 member organizations of Sa-Dhan. The member organizations include different legal forms like Society & Trusts, MACs, NBFC, Section 25 Companies, Local Area Banks & Co-operatives.

Figure 1 shows that major source of funding for microFinance is through institutional debt (75.4%); Client Savings (6.1%) is restricted to Society & Trusts, MACs, Local Area Banks and Co-operatives; Grants (0.2%) have steeply declined; Paid in Equity (5.5%) includes mainly Subscribed & Paid up capital, Corpus Fund, General Fund etc. of total portfolio financing of Rs.2,701 crores.

Graph 2.2: Cumulative Liability structure of Sa-Dhan members



When the CDFI's are 'Small' in terms of Gross Loan Portfolio, i.e. they have portfolio less than Rs. 5 crores and they are under age group 'A', the paid in equity is more than 10% of the total sources of funds and it starts declining as the portfolio and age increase.

Region-wise analysis shows that in the western region out of total sources of funds, fund mobilisation through client savings is about 66% whereas through institutional debt it is only 6%. Moreover, if we consider the managed loans that do not reflect in the CDFIs balance sheet (off balance sheet item), institutional debt as a source of fund for microFinance operations is still higher.

The Indian mF sector is attracting more commercial debt in place of grants. The study confirms earlier findings (e. g. M-CRIL 2005) that institutional debt is major/dominant source of funds for mF operations especially in the case of NBFCs. Lack of on-lending fund and operational funds are faced by most of the CDFI's due to limited availability of funders and donors. This hinders the fulfilment of the need of the poor clients and growth of the CDFIs as well. Institutional debt emerged as one of the important sources of funds, not only fulfilling the on-lending need of the CDFIs but also building up capacities to reach more poor clients in a short span of time. In the case of Co-operatives (including MACs & LAB), client savings/thrift is a dominant source of funds, as RBI does not directly regulate them like NBFCs and Section 25 Companies. The reason for the decrease in grants may be due to the diversion of grant towards other programmes like development of capacity building and livelihood activities. Retained surplus/deficit is more concentrated towards NBFCs as they are for profit organizations.

After analysing and seeing the huge pillar of institutional debt the next question that comes to mind is: Is the increasing trend and dependency for on-lending fund through institutional debt appropriate? Or paid in equity should also feature as an appropriate proportion of source of fund? It is quite understood that organizations with too much long term debt will find themselves overwhelmed with interest payments, a risk of having too little working capital and on-lending capital, and ultimately, bankruptcy. For this analysis debt-equity ratio can tell us if a business has borrowed too much money. Although different legal forms of CDFIs provide an indication that the appropriate capital structure under different legal forms is beneficial for growth and long term existence of the CDFIs whether they are debt, equity or savings oriented.

Capitalisation of mFIs via Equity (paid in or subscribed) as a measure has still a long way to go with only 5.3% of the total funds being leveraged as equity as opposed to debt which contributes to 75% of the total mFI funds. Building upon the equity base of an mFI would not only make its balance sheet healthier but would also reduce dependence on external funds for its portfolio growth.

The Debt to Equity Ratio measures how much money a company should be able to borrow safely over long periods of time. It does this by comparing the mFI's total debt (including short term and long term obligations) and dividing it by the amount of owner's equity. The result we get after dividing debt by equity is the percentage that the organization is indebted (or “leveraged"). The share of institutional debt is even greater as a whole,

with 75.4% of the funding coming from banks; paid in equity only accounts for 5.5%. Table 2.3 gives us the overview of the Debt-Equity Ratio under different legal forms.

Table 2.3: Debt-equity-ratio by legal status

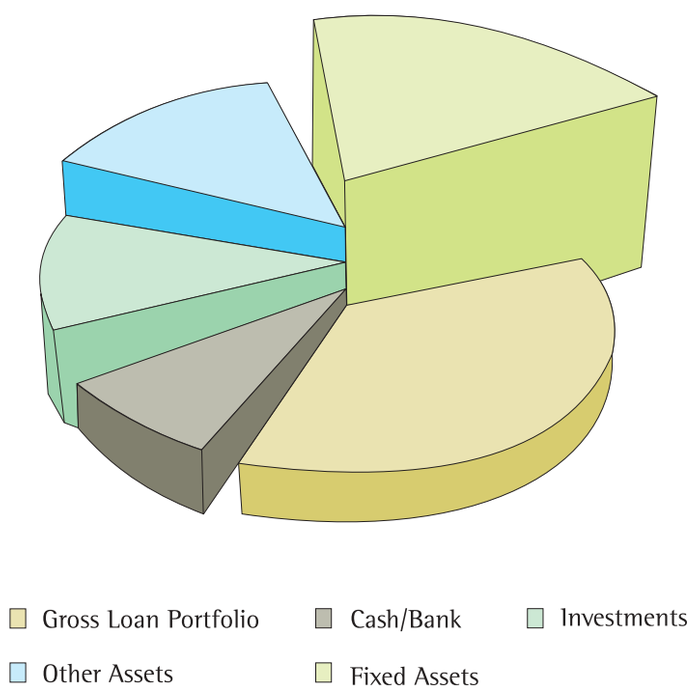
Legal Status	MACs	Society & Trusts	Section 25 Company	NBFC	Local Area Bank	Co-operatives
Debt-Equity -Ratio	248.83	44.34	13.33	9.28	2.98	1.06

Capital use

Naturally, the lion's share, i.e. four fifths of capital use, is made up by Gross Loan Portfolio. It is of interest to look at the remaining fifth which is classified under the heads Cash/Bank, Investments (Long Term & Short Term), Fixed Assets and Other Assets.

Graph 2.4 indicates that Cash/Bank balance is 10.7%. This may be in the case of bigger mFI like NBFCs, Section 25 Companies, LAB and Co-operatives. Investment is at 4.3%, with most of the investments being in the form of fixed deposits in banks. Fixed assets are at 1.6% and Other assets at 4.3%, accounting for the total resources.

Graph 2.4: Cumulative asset structure of Sa-Dhan members



The analysis shows that as the CDFIs grow older, the cash and bank balance also grows from 8% to 12%, whereas gross loan portfolio reduces from 87% to 70 %. But the reverse is seen when analysed in terms of GLP. The cash and bank balance reduces from 15% to 10%, whereas gross loan portfolio increases from 53% to 81%. When the CDFIs are small in terms of GLP the fund use for Other Assets is about 26%.

Region-wise it is observed that in the western region the use of fund for portfolio is only 48%; about 30% of the funds are under the head

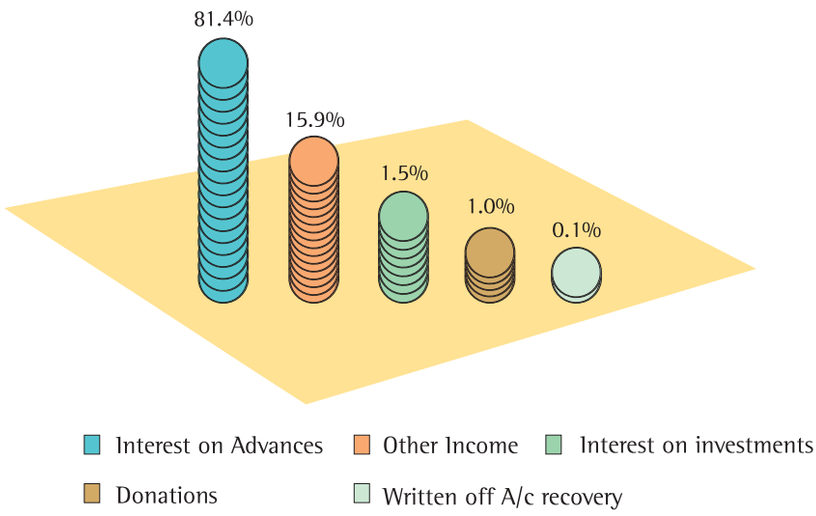
Investments and 17% under the head Cash and Bank balance. Whereas in the northern region use of fund under the head Gross Loan Portfolio is 51%, Other Assets 28% and Cash and Bank balance is about 19%.

Income and Expenditure

Income and Expenditure account generally reveals the various sources of income and expenditures incurred by the CDFIs under different heads. The main source of income for the CDFIs is interest on advances to the clients. As per analysis it ranges from 54% to 91% of the total income of the CDFIs. Major shares of expenditures come under the heads "interest expenses" ranging from 28% to 46% and "operating expenses" ranging from 29% to 65% of the total expenses under different legal forms. It was found that Section 25 Companies incur more expenses (interest expense 28%, Operating expenses 65%) than they earn income. So among all CDFIs Section 25 Companies have net deficit as of 31 March 2007. This holds over different age groups as well as GLP-sizes. Further in that perspective, about 18% of the CDFIs of age group A and small GLP-size have net deficit.

Looking into the structure of each income and expenditure statement, the following are noted.

Graph 2.5: Cumulative income structure of Sa-Dhan members

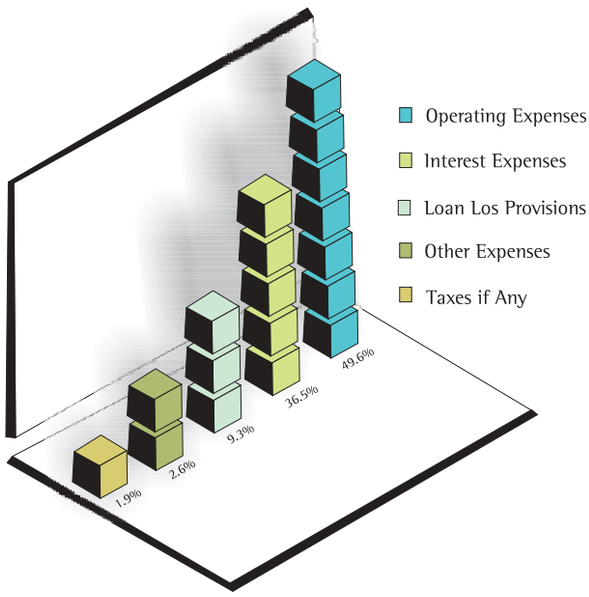


Graph 2.5 shows that major source of income for CDFIs is from interest on loans and advances (81.4%) to the beneficiaries. Other income (15.9%) includes admission fees, service charge, processing fees etc. Interest on investment (1.0%) includes interest income from fixed deposits, income from investment in shares etc. Donations contributes 1.5% of total income whereas written off A/c recovery (0.1%) is negligible. Under different legal forms the interest on advances is above 70% but in the case of Section 25 Company the interest on advances is only 54% and about 33% income is under the head Other Income whereas in the case of

Local Area Bank it is about 25%. While analysing in terms of GLP, the CDFIs that had a portfolio of more than 5 crores and less than 20 crores have about 26% income under the head Other Income.

Graph 2.6 shows that out of total expenses, about 49.6% of the total expenses are done for operations. The operating expenses include personnel expenses (salaries), travel cost, and other administrative expenses. As the sources of funds are being derived as institutional debt the amount of interest paid on debt is also increasing and it is about 36.5% of the total expenses. Other expenses (9.3%) include cash as well as non-cash expenses like interest on deposits, depreciation, training expenses etc. Loan loss provision is 2.6% and taxes mainly paid by NBFC's are 1.9% of total expenses Under different legal forms Society & Trust, MACs & Co-operatives spend

Graph 2.6: Cumulative expense structure of Sa-Dhan members



more for paying interest on debts. Whereas NBFC's, Section 25 companies & Local Area Bank incur more expenses on operations in comparison to paying interest on debts. Apart from operations about 30% of total expenses in Co-operatives are under the head Other Expenses whereas in other legal forms Other Expenses ranges from 3% to 11% of their total expenses.

Loan loss provision is not more than 6%. Large portfolio has a greater impact on operating cost as when the portfolio increases operating cost reduces but it does not hold true as per age analysis if the portfolio does not increase as per age of the CDFIs the operating costs still remain high.

2.4 Profitability

Return on GLP (Gross Loan Portfolio)

Return on GLP measures the organization's earnings in relation to gross loan portfolio that the CDFI has. The return on gross loan portfolio as on particular date tells us about how much an organization earns for each rupee of portfolio outstanding to the clients. Moreover this ratio provides

an indication of the ability of a CDFI to generate profits from its credit services. It can be seen that lower the profit per rupee of portfolio outstanding the more portfolio-intensive a business is. The higher the profit per rupee of portfolio outstanding, the less portfolio-intensive a business is. This statement is yet to be justified; if the CDFIs have more than or equal to 5% of return on GLP, the organization is more or less portfolio-intensive or profit-intensive. Although other factors do affect the ratio, like financial cost, Loan loss provision, other administrative cost, taxes etc. paid by CDFIs. Likewise in the case of NBFCs' taxes paid by them have a greater impact on the return on GLP ratio.

To calculate return on GLP following formula is used:

$$\text{Return on GLP} = \frac{\text{Net profit- Donations}}{\text{Gross Loan Portfolio (as on particular date)}}$$

Table 2.7: ROGLP by legal status

Legal Status	Co-operatives	Society & Trusts	Local Area bank	NBFCs	MACs	Section 25 Company*
ROGLP	2.4%	1.8%	1.0%	0.9%	0.3%	-2.3%

* The return on gross loan portfolio is negative for the following reasons: (i) Most of the Section 25 companies have net losses i.e. they incur more expenses as compared to the income generation. (ii) The income under the head donations is more than the net profit/ losses.

Return on Equity (RoE)

One of the important profitability metrics is return on equity. Return on equity as on particular date reveals how much profit an organization earns in comparison to the total amount of shareholder equity found on the balance sheet. In case of CDFIs equity includes subscribed & paid up capital, corpus, reserve and surplus, grant fund etc. An organization that has a high return on equity is more likely to be one that is capable of generating cash instantly.

The formula for Return on Equity is:

$$\text{Return on Equity} = \frac{\text{Net profit- Donations}}{\text{Total Equity (as on particular date)}}$$

Table 2.8: RoE by legal status

Legal status	Society & Trusts	Co-operatives	Local Area Banks	NBFCs	MACs	Section 25 Companies
RoE	31.8%	6.5%	5.1%	5.0%	1.8%	-18.6%

To conclude, we can say that the study of annual report and audited financial statements of our member organizations has helped us to look into the various financial aspects of CDFIs under different Legal Forms, GLP, Age and Region. mFIs have shown an increasing trend towards incorporation of Financial Principles in their operations thereby bringing increased transparency for all the stakeholders.

Henceforth microFinance has proved to be a good medium to provide credit and other services to the poor but it itself needs an overall development. It is important to look at ensuring self-sustainability of an organization with the help of such a capital structure that will assist in the building up off loan portfolio and other assets across all legal forms and at the same time maintain the focus on the poor. The proper combination of debt and equity not only reduces the operational expenses but also helps in providing better services to the poor at lower cost.

2.5 References

M-CRIL (2005): microFinance Review 2005 - India, Gurgaon.

Financial Performance

of CDFIs 2006-07

3.1 Financial benchmarking

Increasing growth and development of the microFinance sector has made financial benchmarking of mFIs' performance very important. Financial ratios are indicative of an mFI's financial performance. It also assists an mFI in knowing about the definitive patterns of its operations from varied aspects. Sa-Dhan spearheads tracking and benchmarking of six core ratios (Table 3.1) which helps an mFI as:

1) OSS is Income vs. Cost measure that is essential for an mFI to suitably capitalise itself and achieve sustainability. This in turn will help an mFI leverage and better meet its fund requirements to finance its expansion plans.

2) PAR helps ascertain the risk profile of the portfolio. This has a bearing in terms of:

- The management understanding the functioning of the hierarchical set up and proper information flow and coordination in terms of business processes and functions;

- Organizational policy for financial and human resources diverted towards risk provisioning and handling.

3) TCR and OCR as cost ratios are indicative of the costs incurred by an mFI per rupee lent. Cost factors are an important input in terms of an mFI determining its lending rate hence optimisation of costs are essential in order for an mFI to remain a competitive financial service provider.

4) ABCO as a productivity measure of an mFI indicates that apart from cost optimisation performance would also depend on the human efficiency, since mF in its most literal sense is barefoot banking. Hence overall cost can be optimised if the productivity per individual outweighs the costs incurred on and for the specific individual employee.

The following analysis reveals the macro-economic trends as emerging in terms of the financial and human performance of microFinance institutions in the country.

3.2 Distribution of CDFIs in the sample

With the maturing of mFIs the proposed hypotheseis that the rationalization of costs and income takes place seems to be justified by the OSS figure of close to 104% (this indicates that the mFI in reporting sample are meeting their costs out of operational income). Cost ratios are comparative to the Sa-Dhan benchmark (even though 64% of the reporting sample are grade A mFIs meaning an operational age of up to 5 years). For the matured mFIs the cost ratios at 12% and 20% respectively are well below the Sa-Dhan documented standards. Hence with the gradual advancement of the newer mFIs these ratios might well come down.

Table 3.1: Six standard ratios - sample performance vis-a-vis Sa-Dhan benchmarks

Standard Ratios	Ratios for the 2007-Sample	Ratios for the 2006-Sample	Sa-Dhan recommended value (benchmark)
Operational Self Sufficiency (OSS)	101.43%	104.64 %	At least 100 %
Portfolio At Risk (PAR)	2.95%	1.77 %	Less than 10 %
Current Repayment Rate (CRR)	96.46%	94.04 %	Greater than 90 %
Operating Cost Ratio (OCR)	16.12%	15.43 %	Less than 20 %
Total Cost Ratio (TCR)	22.65%	23.39 %	Less than 30 %
Average Borrowers per Credit Officer (ABCO)	231	239	Between 250-350

The operational income of an mFI is not only dependent on its client size and loan portfolio but also by the productivity of the field staff. ABCO ratio of 231 clients stands slightly below the Sa-Dhan recommended standards. Not only does arching towards a higher productivity level assist in obtaining a higher OSS but also partly helps keep the costs down. A higher productivity level means more revenue raised for the same amount of expense incurred per field staff.

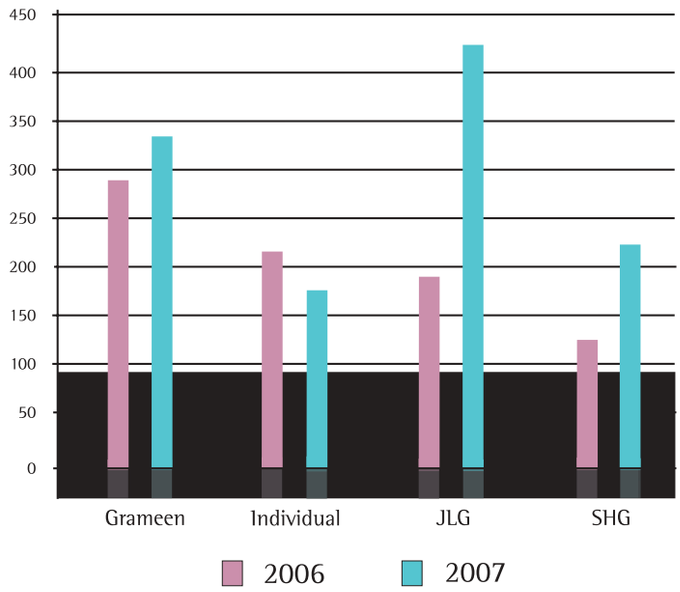
A CRR of 96.46% has meant that the recovery mechanisms of the mFIs are pretty robust. Not only do high repayment rates indicate a good portfolio and client quality but also implies timely receipt of revenues by the sample mFIs. Furthermore this performing ratio also helps in containing the risk profile of the lent portfolio of the mFIs as indicated by a relatively low PAR of 2.95%.

3.3 Productivity of CDFIs across the sample

As is evident from Graph 3.2 the productivity of the field force of mF is on the rise.

By GLP-size perspective, medium level mFIs are on an expansion mode with the productivity standing highest at 342 clients per credit officer. 33% of these medium level mFIs are constituted by NBFCs and Section 25 Companies that explains the high levels of productivities of these relatively new institutions.

Graph 3.2: Productivity per credit officer



Medium level mFIs are again concentrated on the delivery models of SHG, JLG and Individual explaining the rising levels of productivity across these models year on year. Clients per credit officer across these models range from 164-320 clients that well tallies with the medium and large level mFIs by GLP in the country.

Southern region leads the servicing capabilities of mFIs but it is encouraging to note that the rate of growth across other regions is fast catching up. Hence over the years we can expect smoothening of productivity and intra-regional variations across the country, benefiting the growth of mF across the country.

Hence it becomes imperative that for these high productivity levels to be maintained mFIs need to invest in the capacity building of staff necessary to boost employee productivity to further enhance sustainable portfolio growth.

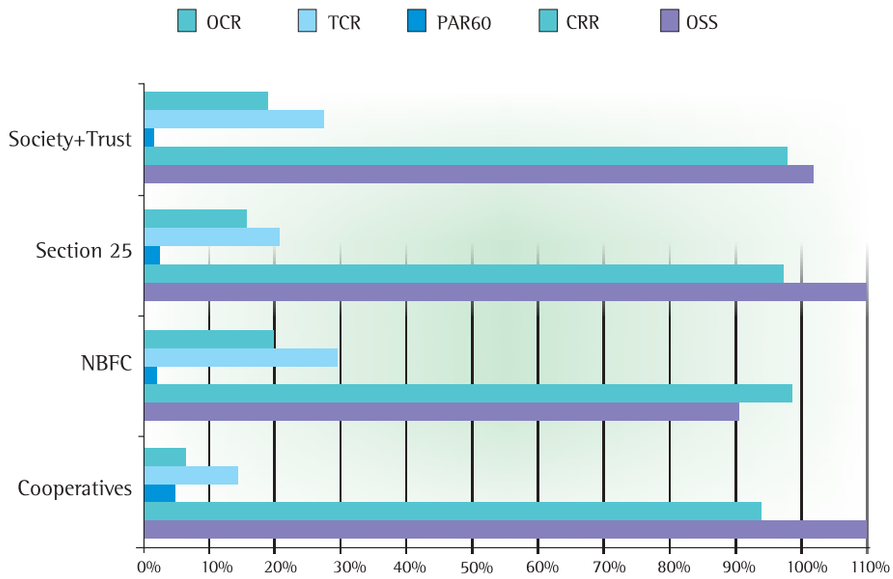
3.4 Performance by legal status and lending model

Legal Status (Graph 3.3)

Section 25 companies have been the most successful in achieving

Sustainability measures with OSS for the same standing at 121.37% for 2007. Operational costs have increased to approximately 4 percentage points and stands at 15.74% (again however this is due to the fact that 60% of the Section 25 companies are in the age profile of 1-5 years.). Cooperatives too are increasingly optimising on the income factors to be self sustained at 110.9%. Due to restriction on the sample size of Cooperative any further deductions would be limited in scope. However, given the Individual lending methodology Cooperatives will continue to face an increasing challenge in terms of devising methodologies to ensure on time repayment rate. In the preceding financial year, they met the Sa-Dhan benchmark for repayment rate, comparatively modestly at 93.9%.

Graph 3.3: Performance 2007, by legal status



Societies and Trusts note an increase of CRR from 89% to 97.44% while reducing their costs.

Performance on PAR has been impressive with a decrease of 1.5 and 3 %-points for Cooperative and Societies respectively over the previous year. It is still comparatively high for the former, mirroring their CRR-performance. NBFCs though showing a lower OSS and higher OCR and TCR ratios are recent start ups with high capitalisation requirements. However given the legal advantage and the ability to leverage NBFCs will come up the margin curve in a shorter span of time.

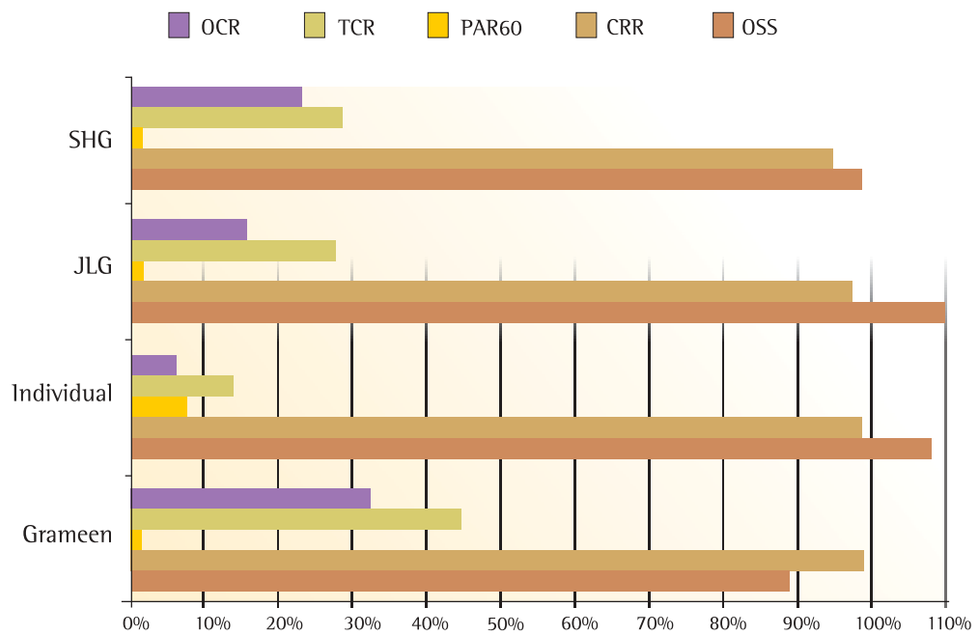
Lending Model (Graph 3.4)

JLG and individual models continue to notch an impressive growth, with OSS ranging from about 109-121%. The self sufficiency has been phenomenal looking at the last year figures when all these institutions

were just covering around 55% of their total costs from their operational income. This growth rate has been consolidated with robust portfolio quality. CRR's across all the three models (JLG, Individual and Grameen) are in excess of the 97% level. For SHG CRR is about 93%. PAR is a maximum of 4.81% for the individual model. Cost ratios over the reported period are on the high side for SHG and Grameen with 21.51% and 32.9% OCR respectively. This translates to 29.10% and 45.39% TCR respectively. In case of SHG model delivery 42% of the total organizations have an operational experience of up to 5 years, hence the economies of scale have still not taken place. Also operational costs under the SHG model are higher because these institutions have based their services on a Credit+ model rather than Credit Services alone. Pure Grameen Model followers have showed a decline in performance. In our reported sample there are three new start-ups and hence it accounts for the OSS level lesser than that recommended by Sa-Dhan.

Mixed/Hybrid models too have reported a decent performance but it is too early to say anything concrete emerging.

Graph 3.4: Performance by lending model



3.5 Region-wise performance

Southern region again leads across most of the parameters. However, its cost ratios of 13.52% and 21.1% fall into a middle rank. Lead position is

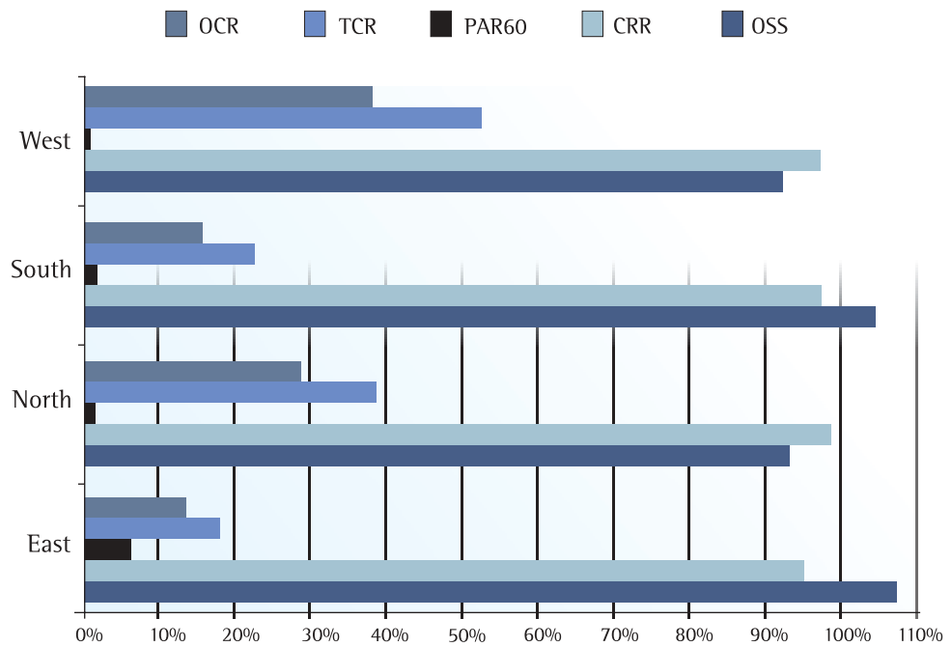
taken by the East with 12.26% (OCR) and 17.92% (TCR). With the relative maturing the growth rates in terms of new client acquisition has slowed down. With 201 clients per credit officer, south has potential for increased credit deepening of the existing clients.

North and West serve the next largest number of clients per credit officer (147 and 146) that will assist in further deepening of micro financial services.

Northern, Western and Eastern regions have fared pretty well as compared to 2006 figures in terms of possible client selection cum targeting techniques and processes resulting in higher self sufficiency and nearly on time repayment rates (between 95.82% and 99%; Graph 3.5). However in pursuit of the same the cost margins (for Northern Region the ratio is 29.25%) of the organizations has gone up which eventually will put pressures on the margins of the mFIs operating in these regions. A part of the growing operational costs can be attributed to the fact that mFIs in the North especially are newer in nature and economies of scale will be gained over the next few years.

Best performing region in terms of PAR targeting has been the northern region where PAR has decreased from 26.5% to 0.9% over the year. This reflects the significance of better mF practices being adopted in the northern region both by new organizations and the existing stakeholders. CRR as a result has increased between 16 and 19 %-points in the East and North over 2006-2007.

Graph 3.5: Region-wise performance



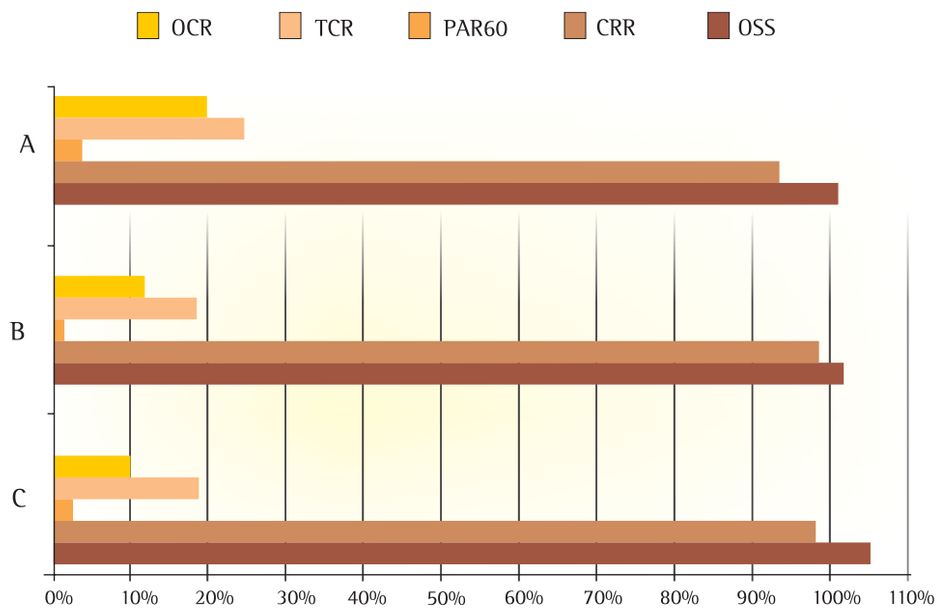
3.6 Performance by economic size (GLP and age)

Age-wise performance

The notional theory that with age the economies of scale and expansion are reaped by mFIs is quite evident from graph 3.6 below. OSS is higher and sample mFIs can be reported as self-sufficient with maturity. The sample evidently points to the following:

- mFIs over time have increased their client outreach, and resource expansion of mFIs has happened to make them self-sustainable.
- With increased maturity mFIs now are gearing towards IT and increasingly sophisticated risk management techniques to better manage their portfolios.

Graph 3.6: Age-wise performance



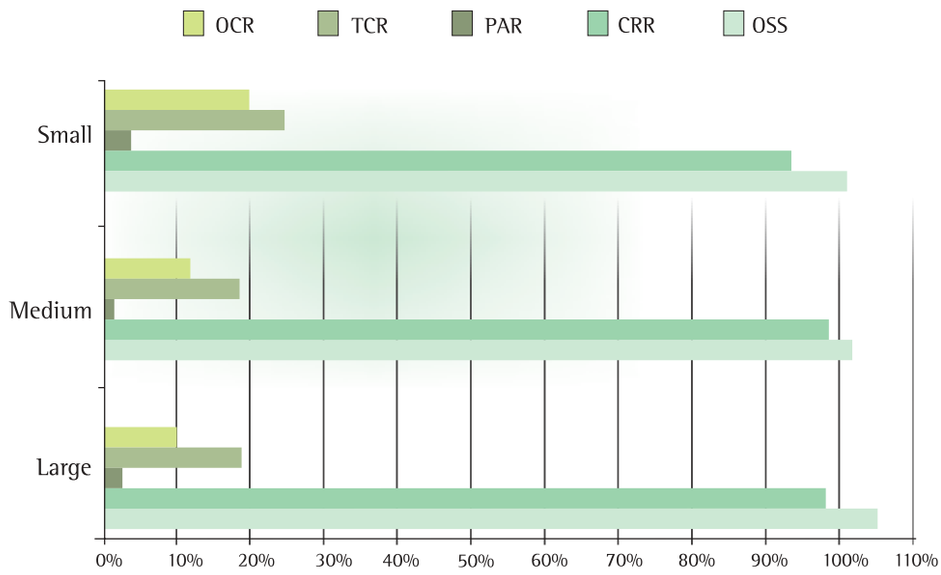
- Across years as mFIs have matured their performance has also been steadily improving. What is impressive to note is that the productivity gains have been followed with cost optimisation.
- mFIs are henceforth increasingly gearing towards balancing the dual act of revenue maximisation and cost optimisation and analysis of the future years will reveal the shaping up of the sectoral scenario.

- Newer mFIs have been faced with trickle down advantages, as they seemed to have learnt from their matured counterparts. Hence, for example a high CRR of 93.63% and a low PAR of 3.63% seems to indicate the same.

Gross loan portfolio-wise performance

mF has seen rapid expansion in terms of credit disbursement growth and sectoral outreach. The large mFIs across all the financial parameters stand well ahead of the financial performance benchmarks as laid down by Sa-Dhan (Graph 3.7). All these larger mFI are located in Southern India and hence it is not surprising that these figures coincide with the figures as reflected by the performance of the Southern Region.

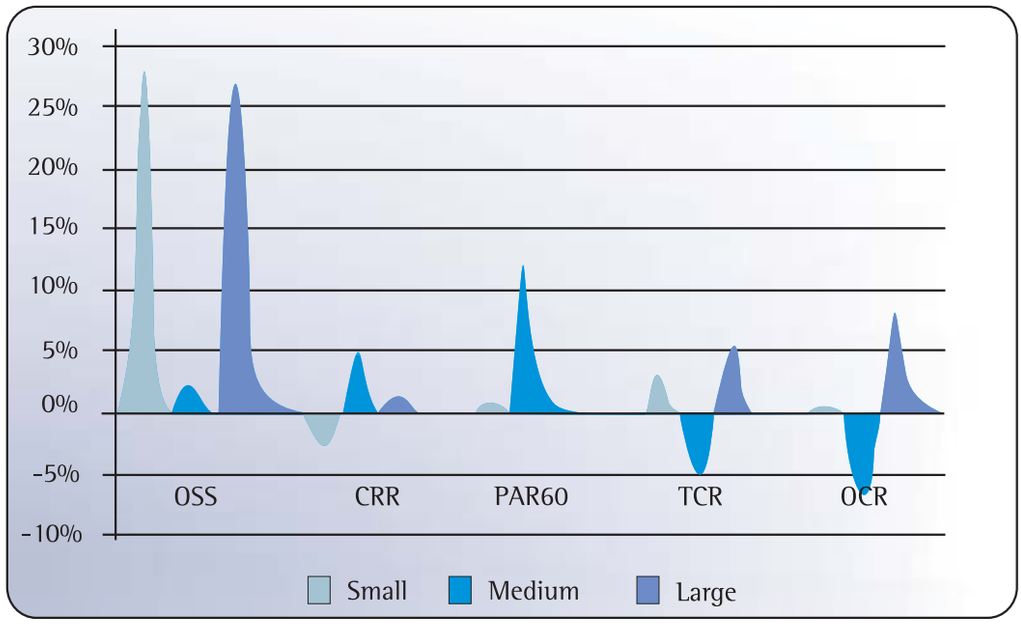
Graph 3.7: Performance by GLP-size



For the reporting sample of smaller mFIs 65% of the mFIs have an operational experience of 1-5 years. Despite the same the performance ratios of the smaller mFIs by GLP have been impressive. OSS increased from 55.82% in 2006 to 100.22% in 2007, PAR decreased by about 0.5 %-points over the same duration. CRR however did not match that trend. It fell to about 94% in 2007. Portfolio quality of small mFIs offers room for improved efficiency. In terms of costs, all age-groups sail smoothly as per the Sa-Dhan benchmarks. It is encouraging to note that institutions have shown a remarkable increase across all the parameters.

Further encouraging signs emerge as medium and large level mFIs by GLP have notched impressive figures across all the ratios. This validates the point that mFIs transitioning from Small – Medium – Large levels by GLP are realising economies of scale and are increasingly provisioning towards resources for better systems and control in their respective organizations.

Graph 3.8: Performance-Change (%-points) 2006 to 2007, by GLP-size



Note that 2006 and 2007 do refer to samples of different sizes (comprising of 117 and 83 mFIs respectively).

Board of Directors of mFIs

Composition, Qualification, Issues

4.1 Introduction

The issue of building transparency in governance of microFinance institutions was one of the topics dealt in the Sa-Dhan Standards Annual Conference 2006 (STANCON 2006). Subsequently, the Standards Quarterly Review (SQR) in October 2006 specifically focused on strategies to stimulate public reporting on governance in microFinance institutions.

In a new initiative that emerged out of the action points recommended in the SQR of October 2006, Sa-Dhan designed a database on Board of directors of member-organizations. The methodology of the database is explained in section 2.

The average mFI has a board of 8 directors. They are mostly men, with an experience of around 13 years in microFinance, professional backgrounds of law, microFinance consultancy, banking, accounting, medicine, business, software development, community development and administrative services. Community representatives include entrepreneurs, businessmen, and housewives. NBFCs and NGOs deploy board members who are more experienced and of higher formal education than Co-operatives. Section 3 summarises the key findings in greater detail, section 4 discusses the characteristics of mFIs' boards by their legal status and economic size. Section 5 concludes.

4.2 Methodology

A form was devised based on recommendation of the SQR to obtain relevant information from member organizations on their board of directors. The information sought comprised of the following aspects:

- Educational and professional background
- Membership of professional bodies
- Other engagements
- Participation in other functions of the institution
- Nature of directorship (nominee / promoter / independent)
- Gender

In the on-going work, overwhelming response from member organizations is evident. Seventy-seven members have provided data that covers five hundred and ninety directors. The questionnaire was sent out in the beginning of November 2006 and by the end of September 2007 we received responses from our members.

Given the nature of Sa-Dhan membership, the database contains not only mFIs but also other stakeholders, e. g. capacity builders and bulk lenders.. However in the discussion below, only mFI boards are considered.

4.3 Some key observations

Size of Board:

The average size of a board in terms of number of directors is eight. Size of the board does not have any relation to legal form of the organization. But organizations functioning in a small geographic area have lesser number of directors (three to six) on the board. Co-operatives have on an average larger number of members (over ten) on their board.

Nature of directorship

In the sample of 77 organizations, 10 organizations viz. Co-operatives and NGOs have community representation on the board. The composition of directors is predominantly of independent directors.

Educational background of directors

In Co-operatives and institutions especially in the eastern region, the educational qualifications are around higher secondary level. In case of Societies, Companies and NBFCs the directors have higher level of formal education; graduates and post-graduates from professional institutions like IIT, IIM and other management schools.

Professional background of directors

The board members come from varied professions such as law, microFinance consultancy, banking, accounting, medicine, business, software development, community development and administrative services. Community representatives include entrepreneurs, businessmen, and housewives.

Membership of directors in professional bodies

In companies (NBFC / Section 25) and in case of a couple of Societies the directors are members of professional bodies in the sphere of banking, finance, accounting, government department etc. but the Board of Directors belonging to Co-operatives and MACs do not represent any professional bodies.

Experience of directors

Across organizations board members have substantial experience in terms of years. The average experience of the board members is of 13 years. The Board of Directors of Co-operatives/ MACs have less work experience in comparison to their counterparts from Societies/ NBFCs/ Companies.

Natural relationship among board members

Out of 77, in only eleven organizations (around 14% of the total sample) family relationships are evident among the directors (spouses, brothers, father-son, and mother-daughter).

Representation of women in board

All organizations, except few cases, have women representation. The representation of women in the overall database of 590 directors is 37%. The percentage of women representatives in board of MACS is between 100% and 95%, in case of Companies 37%, Societies 37%, Trusts 44%, NBFCs 22% and Co-operatives 73%. Across organizations barring few cases in the Eastern region, women directors are educated beyond graduate level.

Board Committees

Institutions have several committees that comprise of selected members of board. These committees are audit committee, HR committee, finance committee, credit committee, capacity building committee, advisory committee, budget committee, planning & evaluation committee etc.

Common members on Board

Board members are common in case of sister organizations. One thing is remarkable that, persons of important reputation in microFinance sector are being repeated as board members in various organizations, while the community leaders are only specific to the particular organizations.

4.4 Board of directors by legal format and economic size

The following study on board of directors is based on the legal forms of the organization and is further based on the parameters on GLP of the mFI's i.e. Large, Medium and Small.

Society

The Board of Directors in a Society ranges from 2 to 15. Among directors 48% women represent board of Societies as a director. About 5% Societies have 100% women representation on board. The qualification of Board of Directors ranges from literates to highly qualified professionals like CA, MBA, doctors, lawyers, engineers etc. with experience of 1 to 40 years but most of the directors are found to be graduates. The work experience of Board of Directors is in various fields like IAS, Health, Education, Training & Awareness, Banking, Marketing, Social & Development Sector, Legal Practice, Rural Credit Mgmt., Audit, Teaching, microFinance etc. About 17% directors of Societies are members of a professional institute. The directors also represent the committees like audit, investment, human resource, executive, finance, credit, coordination etc. within the organization. About 3% directors have a relationship (mother, daughter, father, son etc.) among themselves. The directors are either Independent or Institutional whilst community nominee comes out to be only 3%. About 25% directors are also the directors of other organizations including other mFIs.

Large Societies: The average number of directors on the board is 9, they have higher level of formal education like graduates, post graduates, including professionals, their experience ranges from 6 to 25 years, they are not the members of a professional institute, they do not represent the committee within the organization, there is no relationship (mother, daughter, father, son etc.) found among the directors, most of the directors are institutional nominee and about 17% directors represent the board of other organizations and other mFI's.

Medium Societies: The average number of directors on the board is 5.5, they have higher level of formal education like graduates, post graduates, including professionals, their experience ranges from 4 to 20 years, 36% directors are members of a professional institute, only 9% directors represent the committee within the organization, there is no relationship (mother, daughter, father, son etc.) found among the directors, most of the directors are independent, about 36% directors also represent the board of other organization/s including other mFIs.

Small Societies: The average number of directors on the board is 8, qualification of directors ranges from literates to highly qualified professionals, their experience lies between 1 to 40 years, about 17% directors are the members of a professional institute, 20% directors represent committee like credit, project advisory, purchase, credit appraisal, executive council advisory committee, co-ordination etc. within the organization and only 4% directors have a relationship (mother, daughter, father, son etc.) among themselves. Among directors 7% are community nominees, 28% are institutional & rest are found to be independent directors and about 25% directors also represent the board of other organizations including other mFIs.

Trust

The Board of Directors in a Society ranges from 3 to 9. Among directors 39% women represent board of Trust as a director. Directors have higher level of formal education like graduates, postgraduates, including professionals with experience of 10 to 40 years. They have got experience in various fields like medical, banking, rural community development, rehabilitation, NGO, teaching, social sector, etc. About 7% directors of Trust are members of a professional institute. The directors represent the committee like audit, investment, human resource, executive, finance, credit, coordination etc. within the organization. About 27% directors have a relationship (mother, daughter, father, son etc.) with other directors. The directors are either independent or institutional nominees and about 68% directors are also directors of other organization including other mFIs.

Large Trusts: The average number of directors on the board is 8, they have higher level of formal education like graduates, post graduates, including professionals and their experience ranges from 10 to 35 years, they are not the members of a professional institute, 25% of the directors represent the committee like audit, purchase, coordination etc. within the organization and 13% directors have a relationship (mother, daughter, father, son etc.) among themselves. Most of the directors are institutional nominees, about 38% directors also represent the board of other organizations including other mFIs.

Medium Trusts: The average number of directors on the board is 5.5, they have higher level of formal education like graduates, post graduates, including professionals and their experience ranges from 10 to 30 years, about 27% directors are the member of a professional institute, 73% directors represent the committee like finance, human resource, capacity building etc. within the organization, there is no relationship (mother, daughter,

father, son etc.) found amongst the directors, most of the directors are independent and about 82% directors also represent the board of other organizations including other mFIs.

Small Trusts: The average number of directors on the board is 7, they have higher level of formal education like graduates, post graduates, including professionals, their experience ranges from 10 to 35 years, they are not the members of any professional institute and are also not the member of the committee with in the organization, 57% of the directors have a relationship (mother, daughter, father, son etc.) among themselves, 43% directors are institutional nominee and rest are independent, most of the directors also represent the board of other organizations including other mFIs.

Section 25 Company

The Board of Directors in a Section 25 Company ranges from 3 to 14. Among directors 40% are women. The directors have higher level of formal education like graduates, postgraduates, including professionals and their experience ranges from 10 to 35 years. The director of a Section 25 company has an experience in different fields like medical, social work, law, financial advisor, banking, teaching, microFinance, management of women projects etc. About 12% directors are the members of a professional institute. 55% of the directors also represent the committee within the organization. The directors do not have a relationship (mother, daughter, father, son etc.) with any of the directors within the board. They are mostly independent directors and they are also the directors of other organizations including other mFI's.

Large Section 25 Companies: The average number of directors on the board is 8. The directors have higher level of formal education like graduates, postgraduates, including professionals, their experience ranges from 10 to 20 years, they are not the members of any professional institute, about 50% directors represent the committee like audit, credit, executive etc. within the organization, there is no relationship (mother, daughter, father, son etc.) found among the board of directors, 29% directors are independent and rest are institutional nominees moreover they also represent the board of other organizations including other mFIs.

Small Section 25 Companies: The average number of directors on the board is 9, the qualification of director ranges from literates to highly qualified professionals, about 37% directors are less qualified, their experience ranges from 5 to 35 years, 52% directors are the members of

a professional institute, 67% directors represent the committee like director, project advisory etc within the organization, there is no relationship (mother, daughter, father, son etc.) found among the board of directors, 26% directors are independent while the rest are institutional nominees and about 56% directors also represent the board of other organizations including other mFIs.

NBFC - Non Banking Financial Company

The Board of Directors in an NBFC ranges from 5 to 11. Among directors only 21% women represent board of the NBFC. The directors are professionally qualified and are postgraduates and above. The experience of the directors ranges from 8 to 45 years and they have exposure in various fields like banking, social service, finance (microFinance), rural development, CA, software, brand building etc. About 22% directors are the members of a professional institute. The directors also represent the committee within the organization like audit, investment, human resource, executive, finance, credit, coordination etc. About 3% directors have a relationship (mother, daughter, father, son etc.) among the directors. Most of the directors are Independent, about 7% directors are institutional nominees and 3% directors are community nominees. They are also the directors of other organizations including other mFIs.

Large NBFCs: The average numbers of directors on the board is 9.5, the directors have higher level of formal education like graduates, postgraduates, including professionals, their experience ranges from 2 to 45 years, about 16% directors are the members of a professional institute. 42% of the directors represent the committee like executive, human resource, audit, senior management, project advisory etc. within the organization, 5% directors have a relationship (mother, daughter, father, son etc.) among themselves, about 8% directors are community nominees, 13% are institutional nominees and rest are independent, 39% of the directors also represent the board of other organizations including other mFIs.

Medium NBFCs: The average numbers of directors on the board is 9, the directors have higher level of formal education like graduates, postgraduates, including professionals, they have good experience in various fields like CA, banking, software, finance etc. 22 % of the directors are the members of a professional institute, 67% of the directors represent the committee like audit, finance, credit policy etc. within the organization, there is no relationship (mother, daughter, father, son etc.) found among the directors,

most of the directors are independent and they do not represent the board of other organizations including other mFIs.

Small NBFCs: The average numbers of directors on the board are 5, the directors have higher level of formal education like graduates, postgraduates, including professionals, their experience ranges from 10 to 34 years, they are not the members of any professional institute but they represent the committee like advisory, coordination etc. within the organization, there is no relationship (mother, daughter, father, son etc.) found among the directors, most of the directors are institutional, about 60% directors also represent the board of other organizations including other mFIs.

MACs - Mutually Aided Cooperative Society

MACs are small and localized institutions. They are distinct by their Board of Directors, composition like gender, qualification, experience, relation to other board members, nomination etc. from other mFIs. No distinct features found on other classifications like large, medium, and small MACs on the basis of GLP and others like CBP.

The Board of Directors of MACs ranges from 9 to 13. About 95% to 100% directors are females who represent the board of MACs. Most of the directors are found to be minimally literate. The highest qualification they possess is up to 12th standard, their experience ranging from 2 to 15 years. The experience of Board of Directors is mostly in SHGs like promoting SHG, as SHG leader, organizer, member, etc. The directors are mostly community nominees. They are not the members of any professional institute. There is no relation (mother, daughter, father, son etc.) found among the directors. About 9% directors represent the committee within the organization. They do not also represent the board of other organizations including other mFIs.

4.5 Concluding remarks

mFIs of all kinds are capable of attracting directors with a wide range of professional backgrounds and appropriate experience in microFinance. Up to 22% (NBFCs) of board members are affiliated to professional institutes. Remarkably, the highest portion of such affiliates is found among small Section 25 Companies (52%). We may presume that this legal format offers an attractive blend of social and economic perspectives for professionally minded people to get involved in microFinance. There might be a lesson here for Co-operatives, among which only larger ones can attract these capacities.

A good number of board members represent other organizations and mFIs, and/or are members of more than one mFI-board. 3 out of 5 board members of small Section 25 Companies and NBFCs, and 4 out of 5 board members of small Trusts represent other organizations and/or mFIs. Again, Cooperatives fall short of that benchmark. In particular, MACs do not have any other organization's representatives on their boards. This indicates a gap in knowledge transfer between Cooperatives and other mFIs. However, multi-representation also poses risks, e. g. conflict of interest, improper execution of office (due to time restraints) etc. Interestingly, the share of other organization's representatives in larger mFIs tends to be lower than in smaller ones. This indicates that both the knowledge networks and the professional requirements change as organizations grow.

This line of reasoning is further supported by the community representation. Only 1 out of 10 board members is a community representative. This indicates that the knowledge base of mFI client - communities - is separated from that of "practitioners". The exception are MACs which recruit the majority of board members from the communities. On the one hand, this observation raises questions about the potential for demand-drive in the sector. On the other hand, mFI - clients command low educational backgrounds and may thus not be best suited to govern mFIs.

1 out of 3 directors are female (i.e. female representation on the board is around 33%). Again, the MACs stand out with practically all-female member boards. For Societies and Trusts, nearly half the directors are female, while only a fifth of NBFC-directors are women.

Good news for governance quality of mFIs is that only 11 out of the 77 organizations in the sample (that is 14%) report family relations among their board members. They are mostly found among large trusts and, to a lesser degree, in large NBFCs.

Wrapping up, it is optimistic to note that Sa-Dhan database of directors offers fascinating insights into one of the core institutions of governance. However, assessing governance standards and trends will require to take into account formulation and implementation of strategy (in that regard, see the chapters on social performance and transparency) and roles and performance of other organs, i. e. shareholders' assembly and management.

Multiple Borrowing

and the Case for Transparency

Multiple borrowing and
the case for transparency

5.1 Introduction

The Standards Quarterly Review (SQR) on Cooperation among mFIs in Sept. 2007 revealed that microFinance Managers are often uneasy with the phenomenon of multiple borrowing. They feel that it is a sign of unhealthy competition. There are three lines of reasoning in this regard (Sa-Dhan 2007):

- microFinance clients usually do not have a track record, or credit history. This is provided to them by interacting with the mFIs over a number of loan cycles. The mFI inserts an initial investment, it "lays the foundation" for the track record by group formation and training of the customer. This investment pays off only if the client undertakes a certain volume of loan business with the mFI. As mFIs have maximum loan amounts, the pay-off of the investment is driven by the time period the client undertakes business with it. Multiple borrowing might affect that time period adversely.

- microFinance clients might be seduced into cutting off the relationship with one mFI and migrate to another. One important driver is staff changing their employer. It is a phenomenon rampant throughout all service industries, because services become tangible through the officer who actually provides it. Staff migration between mFIs is quite common in the Indian microFinance industry. Another driver could be, so some mFIs fear, linking their clients with banks. Yet another assumed driver could be multiple borrowing. Logically, if a client is not exposed to multiple suppliers, her opportunity to cut off the relationship to the mFI is barred. The effect described here is often labelled “client poaching". It is important to differentiate between “client poaching" and multiple borrowing. As has been argued, they could be related, but they are not identical phenomena.

- microFinance clients who borrow from multiple sources - particularly from multiple mFIs - may be “overfed" with credit. Differently put, they may be exposed to the risk of over-indebtedness. Over-indebtedness is dangerous for the client as her property might be subjected to attachment, and dangerous to the mFIs as they would go through the harmful process of attaching property - which has resulted in some extreme cases in suicide - and would certainly lose a significant part of the outstanding loan and related income. Above all, mFIs’ credibility as agents in the interest of the poor would be harmed; mF clientele is a politically sensitive segment!

For assessing the phenomenon of multiple borrowing, it is important to handle cause and effect with precision. It is the objective of section two to define the phenomenon and track its causes and effects, based on recent research.

From that discussion, we conclude that multiple borrowing should be understood and addressed in the broader perspective of transparency. Transparency is a demand mFIs pose on clients (e. g. to disclose their various sources of borrowing) and on competitors (e.g. to share defaulters lists). But transparency is not a one-way road. It is also an obligation put to mFIs from their competitors (e.g. to source staff and conduct marketing in an accountable manner) and clients, e. g. to disclose their terms and conditions beforehand, and to disclose if they share defaulters lists. These issues are discussed in section 3. Section 4 outlines the way forward: a strategy for transparency to be spearheaded by Sa-Dhan.

Box 5.1: A Field Story - SHG member and mFI client Kallem Bujjemma

Kallem Bujjemma lives in Ibrahimpatanam (Krishna District, AP). Ibrahimpatanam is a small and growing city, right on NH 9 and about 17 kms from the big town of Vijaywada.

Kallem Bujjemma was busy tending to her two buffaloes when we met her. She has a pucca house of about 1000 sq.ft. with brick boundary. She is a member of Velugu and Spandana groups. She has been a member of DWACRA group.

The groups under Velugu and Spandana do not have same members. All groups provide loans only. Spandana groups are formed out of some members of multiple Velugu groups.

Her experience with Velugu (Andhra Bank-financed) group and Spandana group are distinct. The bank provides equal-amount loans to all members of the Velugu group. The amount takes care of a fraction of their financial needs. Spandana provides individual loans at their doorstep through group of ten members.

Bank loan is a cumbersome process and is low cost and hence repayments are lowest among all priorities. Spanda is easy and costlier. They take copies of voter's ID / ration card as client identification. As long as repayments are on time, Spandana is ever helpful. It is only if repayments are due for long period that eight-nine people from Spandana office come frequently to remind and collect repayment.

Source: Sa-Dhan, 2006b: Report on Field Visit to A.P. 27 March 2006, by R. K. Mukherjee and Sarat Ch.Das, Standards Team, Sa-Dhan, New Delhi (unpublished).

5.2 Assessing causes and effects of multiple borrowing

What is multiple borrowing

To illustrate the point of multiple borrowing let us look at the example of vegetable shopping. Do you buy your vegetables always from the same shop or supermarket outlet or market stall? Or do you buy them sometimes from the shop around the corner, sometimes from one of the bigger supermarket outlets in the suburbs, and sometimes at various markets you deem significant to visit, choosing stalls by the quality of vegetables displayed? Most of us will fall into the second category by varying degrees that are determined by choice of vegetables, volumes purchased, convenience factors and last but not least price differences. Most of us are multiple purchasers (probably not only of vegetables).

Most people are also multiple purchasers of financial products. In the case of credit, this is known as "multiple borrowing". People are multiple borrowers for the same reasons as they are multiple purchasers of vegetables: Choice of properties of the loan products - particularly speed of disbursal, flexibility of repayment, volume of credit, convenience factors - mostly proximity - and price, i. e. interest rate and other fees.

Box 5.2: A Field Story - SHG-member and mFI-client Tota Nagendramma

Tota Nagendramma lives in Ibrahimpatanam (Krishna District, AP). Ibrahimpatanam is a small and growing city, right on the NH 9 and about 17 kms from the big town of Vijaywada.

In her early fifties, Tota Nagendramma seemed to be a veteran in experimenting with microcredit providers. She is presently leader of a Velugu group and is a client of 'Kerala' (fish producers from the coastal region) people. She is not aware of any village fund.

The 'Kerala' people do not reveal any organizational form. They come on motorcycles every Wednesday, Thursday and Saturday. They provide instant loans of up to Rs.1000. They disburse 95% in cash, deducting 5%. In the following ten weeks, they collect Rs.100 every week. Tota Nagendramma has presently taken a loan of Rs.800. She got Rs.760 in cash and is repaying Rs.80 every week for ten weeks. The 'Kerala' people encourage their existing clients to 'refer' other possible clients in the locality.

Tota Nagendramma is aware of Spandana and Share but is presently not member of any of their groups. In her Velugu group, they have got loan from Andhra Bank at annual interest of 3%. The loan is divided among members at 24% per annum. Some members take loan from the SHG and give it at a higher rate to other members who are in need of an amount more than their own entitlement...

Source: Sa-Dhan, 2006b: Report on Field Visit to A.P. 27 March 2006, by R. K. Mukherjee and Sarat Ch.Das, Standards Team, Sa-Dhan, New Delhi (unpublished).

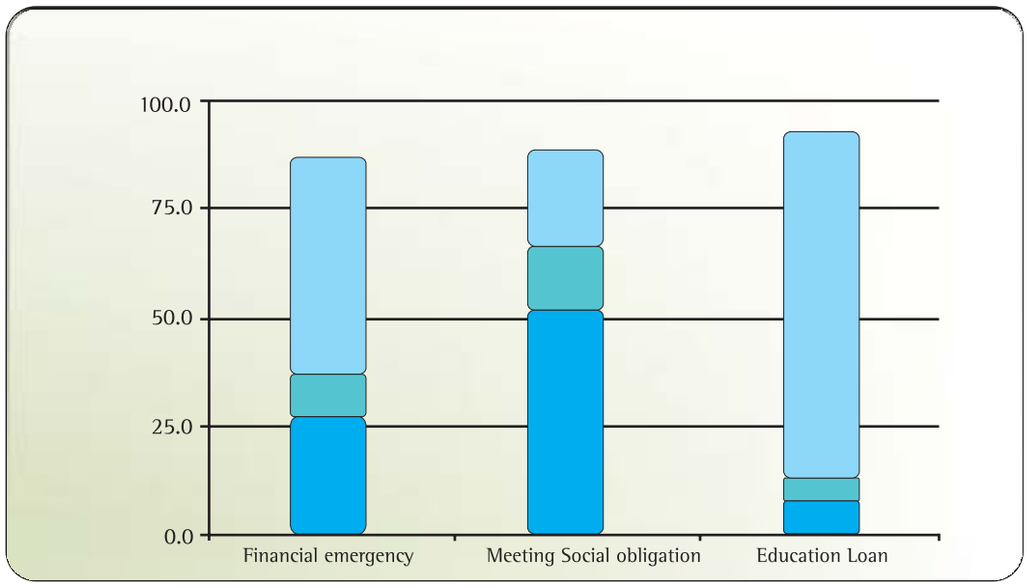
Causes of Multiple Borrowing

Depending on the blend of reasons mentioned above, many people borrow from mFIs, banks, moneylenders, friends and relatives. The main factors over different income-groups are manageable instalments, speed of loan approval, interest rate and privacy. The order of these varies between income groups and regarding loan terms. For example, manageable instalments are more important than speed of loan approval for low income earners (<= 20,000 INR). For higher-income earners (>= 39,600 INR) the priority is reversed. Privacy is much more important for higher-income than low-income earners when taking a long-term loan. However, for short-term loans, the emphasis is reversed (Data from DATAWORKS, 2007).

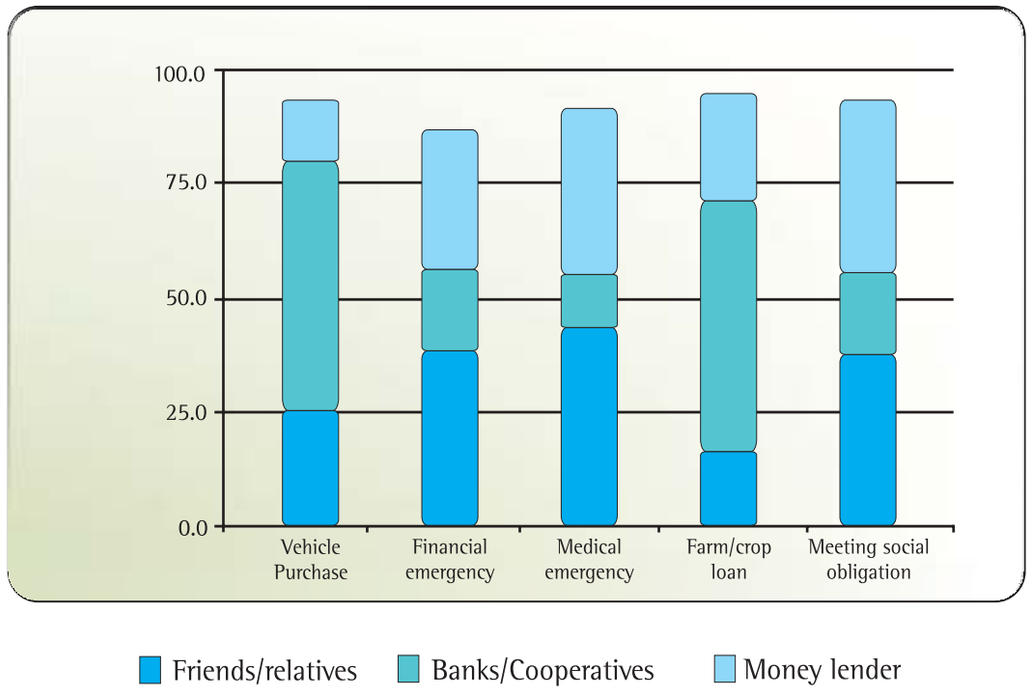
Asked for their preferred source of borrowing for emergency loans, low-income earners name friends/relatives first and moneylenders second. Higher income earners chose friends/relatives first as well, but secondly they would turn to banks (Data from DATAWORKS, 2007). In the same manner, people choose different sources for borrowing according to purpose. Figure 1 displays the most important purposes and related choices of lending agency. mFIs and SHGs do not feature high among these priorities. In the low-income group, they are mostly recognized for loans to meet business requirements, farm/crop loans (mFIs and SHGs) and house/land/real estate loans as well as consumption loans (SHGs). For consumption loans, chit

Graph 5.3: Major purposes of credit and corresponding choice of lending agency

a) Income <=20,000 INR



b) Income >= 39,600 INR



Source: DATAWORKS, 2007, own presentation

funds are a comparatively relevant source. Otherwise, chit funds are a source for emergency loans. In the higher-income group, mFIs, SHGs and chit funds are mainly means to access loans for financial emergencies and consumption loans. mFIs are also approached for business requirements, vehicle purchase and meeting of social obligations. However, the relevance of mFIs, SHGs and chit funds is very limited. Roughly 10 out of 100 requests for borrowing are directed to them; however, this figure is mainly driven by the SHGs, which account for more than 7 out of the 10 (Data from DATAWORKS, 2007).

From the previous paragraphs it transpires that multiple borrowing is a wide-spread phenomenon because one source alone, e. g. mFIs, cannot meet the demands people have of loan products (let alone other financial products). mFI- and SHG-customers (Andhra Pradesh) feel that these organizations cover only about 60% of their credit demand (Sa-Dhan, 2006a). However, research indicates that only between 3 and 4 out of 10 mFI/SHG-clients are multiple borrowers (Sa-Dhan, 2006a). Krishnaswamy (2007) finds that less than 1 out of 10 clients borrows from multiple mFIs. In the light of the above, these figures appear to be on the lower side. Two possible explanations are:

- The respondents did not disclose their multiple borrowing sources. E. G. Krishnawamy (2007) looks only at overlaps of mFIs but not other sources. Furthermore, the sample might be biased as it consists exclusively of ICICI-partner mFIs. Sa-Dhan explicitly sampled customers who are borrowing from either mFI or SHG. Furthermore, as they approached them in that capacity, respondents might have felt reservations in disclosing their relationship with other lending agencies.

- The data discussed in the previous section does not refer to multiple borrowing explicitly. It is possible - though not very likely - that the respondent would be a single borrower to different institutions at different points in time.

- Beyond the reasons discussed in the previous paragraphs, clients might be motivated to borrow from multipe sources due to the marketing efforts of the providers. Many mFI-managers presume that this motivation is significant, particularly if the corresponding loan officer changes her/his employer. Whereas staff turn-over in the microFinance Industry has rarely been studied systematically, it is commonly perceived to be on the higher side and a management challenge. Altogether, stiffening competition might well be a factor felt by mFIs. It is observed that a number of mFIs are pursuing more aggressive growth strategies than in earlier years. Also, mFI branches tend to cluster in areas that indicate viable business volumes (Krishnawamy, 2007). However, at the SQR it was stated that mFIs are often not aware of competitors' areas of operation (Sa-Dhan, 2007). Altogether, there is a lack of systematic research into the scope of tangible mFI competition at the field level.

Effects of multiple borrowing

Based on the discussion of the previous section, we may regard as well established that demand for financial services by far outstrips the supply. Therefore, practically quite a few clients frequent a multitude of supplying agents to better meet their demands. However, we know embarrassingly little about the arising effects. As participants of the SQR reminded us, microFinance has come into being for want of access and choice of financial services. These wants are thought to be embodied by informal supply agents like moneylenders and friends/relatives. However, in many regards - e. g. 24/7-presence, speed and privacy of loan approval - microFinance has not yet invaded the space of moneylenders (let alone friends/relatives). It has,

though, put downward pressure on their interest rates. That is a positive effect of competition. But how is it related to multiple borrowing?

Whereas we have to note that our understanding of the effects of multiple borrowing is limited so far, we may cautiously assume that:

- Multiple borrowers from formal institutions appear to be over-averagely business-minded, they mostly use additional credit for additional investment (Krishnawamy, 2007; Sa-Dhan, 2006a).

- Growth-oriented mFIs feel that there is an increasing number of clients who are willing to chose between microFinance providers or to frequent more than one (Sa-Dhan, 2007).

- Growth-oriented mFIs feel that they are increasingly confronted with unethical practices from competitors, such as poaching staff and clients; i.e. the groups they invested in being approached by competitors, or drawn to competitors through a corresponding officer having changed employer (Sa-Dhan 2007).

- In areas where more than one microFinance provider operate/s, there is a risk of "credit push"; to a background of neither mFIs nor clients assessing the credit absorption capacity (Sa-Dhan, 2006b).

Carving out a research programme to scrutinize the above more quantitatively is essential. Meanwhile, however, approaches for mitigation of the effects felt are also to be developed. Sa-Dhan suggests doing so by placing multiple borrowing in the broader context of transparency, which is discussed in detail in the following section.

5.3 Transparency - demand and obligation

Multiple borrowing is first an issue of transparency. No problem would arise if mFIs were aware of the total credit the applicant has outstanding when they make lending decisions. mFIs would decide consciously how to use that information, and if they wish to lend to a multiple borrower, and to what extent and conditions. The same argument can be made with regard to the areas where competitors operate, the way they approach one's clients (i. e. marketing practices), and - probably to a lesser degree - the way they recruit staff.

Box 5.3: A Field Story - SHG-Member Kamalamma

Kamalamma lives in Tharuvai Tanda, situated on NH 9, about 160 kms. from Hyderabad. Most of the houses are made of brick walls and thatched roofs. Casual labour is the main occupation with daily rate varying between Rs. 20 and 30. Most families have small and fragmented landholdings.

Kamalamma is in her mid-thirties and mother of three. She is member of an SHG titled 'Hanuman Sambhawan Sangam'. A part of her house has a concrete roof and was built with 'government assistance'. She is currently not aware of any government programme.

In her SHG, the 'matching grant' of RS.10,000 received from the mandal office was equally divided among all members.

She has currently availed loan from her SHG to buy a pump set. Her earlier loans have been for consumption needs. She occasionally obtains loans from local moneylender as the loan from SHG does not take care of her financial contingencies.

She feels that if any other institution provides her loan on a regular basis, she would pay higher rate of interest (2% per month).

Source: Sa-Dhan, 2006b: Report on Field Visit to A.P. 27 March 2006, by R. K. Mukherjee and Sarat Ch. Das, Standards Team, Sa-Dhan, New Delhi (unpublished).

However, two serious hindrances spring to the eye. First, disclosing such information would be value-adding if all competitors do so, and thus all enjoy the total (shared information) being more than the sum of its parts (individual information). But if competitors do not disclose, then the one disclosing would be disadvantaged. Second, how does the mFI know if the information shared is accurate - the total of summing up errant parts would not add much value indeed.

So, we need to have a collaborative effort which demands a co-ordinated approach. Transparency can provide the footing for it.

Transparency of mFIs

Institutions that provide financial services also need clear, standardized information to help them determine where they stand in relation to their peers or on a national basis. mFI managers that can benchmark their performance against other mFIs are better able to improve performance and more interested in doing so.

The challenge to introduce sustainable transparency and institutionalize it is twofold: On one hand, the clients do not give enough and correct information to the mFI for them to make a well informed decision when

appraising them. Consequently, this creates a gap that can lead to a loss on both sides through multiple borrowing resulting into over-indebtedness and eventually higher default rates. Thus, transparency has to be deeply ingrained in the policies and systems of an mFI. The starting point is "inside-transparency". That is, management, board and shareholders are supplied accurate financial and know-your-client information. Built thereon is "outside-transparency". That is, financial and know-your-client information is shared with potential shareholders (investors), clients, and second-level supporters - i. e. Sa-Dhan. The latter will consolidate information across mFIs and provide all parties - mFI managements, boards, shareholders, investors and actual potential clients - with comparative data and benchmarks.

Regular reporting on Sa-Dhan's Side-By-Side Report and the code of conduct are two frameworks to address the two sides of transparency - financial and customer-care. Under these, Sa-Dhan has developed and continues to develop instruments to implement them, e. g. the advisory set on structuring annual reports and capacity building on tracing information within an mFI.

However, a quick assessment of the experiences with these exercises shows that transparency has not been ingrained into mFI operations yet. We believe that in the future the disclosure of information must be an aggregate of of data-sheets covering contacts, outreach, balance sheet, income & expenses, and six financial ratios. Support for this can then come from three documents: (1) annual report and (2) audited accounts plus (3) a ratio-format provided by Sa-Dhan. From a different angle: Sa-Dhan did not request more than three documents from its members, two of which any serious institution would prepare anyway; the third, provided by Sa-Dhan, being a valuable management tool. Figure 2 shows how many members actually submitted the three documents. Sadly, extracting the data for our excel-sheet, we are left with a table with more than half of its cells empty. This clearly indicates that there is still a long way to go in building management use of data for strategic and transparency purposes. For the future Sa-Dhan will focus on supporting, guiding and enabling its members to undertake better reporting.

Turning to the "know-your-client side", mFIs are encouraged to focus on the Sa-Dhan Code of Conduct in their daily operations. It will be crucial to prioritise the different areas the code touches (see chapter on social performance, box), and to concretize it with regard to some of the issues discussed above, e. g. Marketing conduct. In the course of implementing

the Code of Conduct, the issue of sharing credit information will come up. It demands both educating clients about such a facility and building systems to share the information.

Transparency of Clients

In a growing industry, clients would be able to take advantage of competition to select among institutions and products that would serve them best. However, actual and potential clients often lack education, awareness and access to information to make accurate choices. At the same time, mFIs suffer from client fluctuations and in some cases from high arrears. These are often connected to over-indebtedness which is a result of both uninformed choices and hidden multiple borrowing by clients.

As mFIs implement the Code of Conduct, they make a commitment to transparency towards actual and potential clients. This is not a one-way-street. With mFIs being transparent - and subscribing to be scrutinised upon it - clients are also asked to share information; e.g., they are requested to disclose their credit absorption capacity, which includes credit amounts taken from other suppliers.

More concretely, clients will be asked to mandate mFIs to share some of their credit information with other mFIs through a mechanism such as a credit reference service. It will add value to them just as well, both through better risk management of mFIs (which should result in lower costs of credit) and through providing them with a credit history for expanded access to financial providers.

Transparency for Investors

Investors have regular strict guidelines about financial transparency (see e. g. CMEF 2005). mFIs are requested to abide by these for accessing funds. Such guidelines offer valuable orientation for the mFIs on how to set up their policies and systems. Rather than being a nuisance, they are an opportunity for mFI-managers to take both their individual and the institution's performance to another level.

However, investors sometimes appear to rate know-your-client second to financial viability. That would be a flawed priority indeed. Financial viability cannot be defined, and cannot be sustained, without a thorough understanding of the client. Furthermore, in the context of microFinance, a long-term relationship must be the basis of understanding the client.

Therefore, investors should emphasise the know-your-client perspective similar to the financial perspective; e.g. they should help mFIs to develop and trace corresponding indicators, like client retention. We believe that investments in knowing-your-client here will have a direct impact on product assessment and development.

5.4 Way forward: A strategy for transparency in the mF sector

A transparency framework would induce a situation whereby all stakeholders of the microFinance sector have access to a shared base of relevant information, and will make decisions and choices based thereon.

Naturally, the key to a transparency framework lies with mFIs. First and foremost, they have to build the capacity to generate inside-transparency for their shareholders, boards and managements. Policies and systems to produce financial and know-your-client ratios in a regular manner have to be increasingly put in place.

However, beyond the mFIs there is a challenge to come up with a feasible level of co-ordination. This calls for a lead agency to be the custodian of shared information. Sa-Dhan is ideally positioned to play this role, as it combines trust - mFIs are its members and owners; and neutrality - it answers to all mFIs equally - with the capacity to drive a transparency framework. A number of steps in that direction have already been taken, such as:

- Regular financial reporting which is consolidated and disseminated as the Side-By-Side Report;
- Capacity Building for calculating financial ratios;
- Advisory Set for structuring annual reports;
- Code of conduct.

In the months to come, there will be a tighter vision for a transparent microFinance sector. Four initiatives to that end are:

- Engaging members to systematically implement the code of conduct. This includes addressing some of the issues discussed earlier, e.g. agreeing on some basic practices of marketing, towards both, clients and staff.

- Carrying out a study on credit cost under different delivery models. This will provide a first quantitative basis to compare pricing of microFinance providers.

- Developing a transparency indicator that traces know-your-client information and, eventually, will allow benchmarking mFIs in that perspective.

- mFI-managers expressed openness to sharing defaulters list (Sa-Dhan 2006b). The element of positive credit information is still subject to debate. From the client point of view it would be an invaluable service as it provides her with a credit history. Sa-Dhan will drive these discussions towards conceptualising a microFinance credit reference service.

The vision of a transparency framework for the microFinance sector sets the pace for Sa-Dhan and its members to take microFinance to another quality level.

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Social Performance

Towards an operational "double-bottom line"

6.1 What is the "double bottom line" all about?

The mission of microFinance is to create social benefits and promote financial inclusion by providing financial services to low income households, including those who were previously excluded. This is often referred to as the challenge of "double bottom line" for mFIs. mFIs have to achieve a balance between their financial sustainability and their social mission.

The challenge of achieving social mission comes from the fact that the target clients of microFinance are underprivileged communities and therefore the clients need appropriate mechanisms and services that will enable them to access financial services in a sustainable manner.

Box 6.1: The double bottom line of microFinance in India

"microFinance in India has moved a long way since the early 70s. The struggle to provide poor women with financial services with human face remains. If I am to point out three achievements in the struggle, I would say that the focus on poor women has increased; financial institutions are increasingly active in the field and that microFinance has drawn attention of the policy makers. We need to grow with responsibility to serve the poor and underprivileged.

Banks and other financial institutions are now finding microFinance institutions a good business. This is welcome. But finance cannot be the sole driver to growth of the microFinance sector. We the people on the ground are best placed to lead the way."

Source: Ela Bhatt in her opening remarks on STANCON 2006

The context becomes increasingly important in light of the high rate of growth of accomplishment in the sector in reaching larger number of clients across the country. mFIs are expanding at a high annual growth rate across regions. More importantly, the outreach of mFIs reaches some of the poorest districts in the country and the client coverage includes a high share of scheduled caste / tribe families. Sa-Dhan member mFIs serve nearly 2 out of 3 of the poorest districts, and 1 out of 3 of their clients are from the SC/TC-segment.

The issue for social performance is that the mission of microFinance would need to be put in practice. microFinance draws its legitimacy from its social mission. "If serving the people is the reason, then client perspective becomes integral to the functioning of the sector. We need to revisit the goal we have set for ourselves to determine how much of the client's perspective is there in our goal. The pertinent question is whether we were in the business of developing a mission driven system or an organization driven system of micro financing. This would have a bearing on whether

compliance is an issue or values. Further, what is the gap between our professed values and values in practice? While we are comfortable in upward accountability, mechanisms need to be put in place for downward accountability."

6.2 Concept of "downward accountability" (= social performance)

The values can be achieved through a set of social objectives. The set of social objectives could focus through the following:

- Reaching the poorer segments among the unserved communities;
- Equipping clients with knowledge that would help them understand the financial services and enable them to make informed choices,
- Providing financial services in a manner that is suitable to the clients,
- Instilling elements of qualitative measures that would in turn ensure that the processes of financial services are optimal and appropriate.

Box 6.2: Sa-Dhan Code of Conduct (excerpts)

2.2.1 INTEGRITY

We agree to:

Act honestly, fairly and reasonably in conducting microFinance activities.

Conduct our microFinance activities by means of fair competition, not seeking competitive advantages through illegal or unethical microFinance practices. No officer, employee, agent or other person acting on our behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.

Prominently display the core values and code of conduct on the notice board of head office and all branches, and put systems in place to ensure compliance. Ensure that our staff and any person acting for us or on our behalf, are trained or oriented to put these values into practice.

2.2.2 TRANSPARENCY

We agree to:

Disclose to clients all the terms and conditions of our financial services offered in the language understood by the client.

Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.

Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/quarterly/half-yearly), terms of repayment, and any other information related to interest rates and other charges.

Provide information to clients on the rate of interest offered on the thrift services provided by us.

Provide information to clients related to the premium and other fees being charged on insurance and pension services offered by us as intermediaries.

Provide periodical statements of our accounts to the clients.

2.2.3 FAIR PRACTICES

We are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. We agree to:

Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.

Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.

Recognize our responsibility to provide financial services to clients based upon their needs and repayment capacity.

Promise that, in case of loans to individual clients below Rs 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, etc as collateral security for loans except when obtaining copies of these for fulfilling "know your customers" norms of the RBI. Only in case of loan to individual clients of Rs 25,000/- and above can land titles, house pattas, vehicle RC books, etc. be taken as collateral security.

Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.

Maintain decency and decorum during the visit to the clients' place for collection of dues.

Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.

Scrupulously avoid any demeanour that would suggest any kind of threat or violence.

Emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what are the obligations of social collateral.

2.2.4 GOVERNANCE

We agree to:

Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of Board of Directors. We shall ensure that the majority of the directors are independent directors and/or duly elected representatives of the community we serve, and that we will involve the Board in all policy formulation and other important decisions.

Ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.

Put in our best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).

Place before the Board of Directors, a compliance report indicating the extent of compliance with this Voluntary Mutual Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

2.2.5 FEEDBACK/ GRIEVANCE MECHANISMS

We agree to:

Establish effective and efficient feedback mechanism.

Take steps to correct any errors and handle complaints speedily and efficiently.

Provide, where a complainant is not satisfied with the outcome of the investigation into her complaint, she shall be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Source: www.sa-dhan.org

Clearly, the centrality of clients is important. Our mission is to service low-income clients - women and men - and their families, providing them short term and/or long-term access to financial services, that are client focused, designed to enhance their well-being, and delivered in a manner that is ethical, dignified, transparent, equitable and cost effective. Sa-Dhan's code of conduct provides a framework for standards of quality of services, transparency, fair practices, privacy of client information, integrating social values into operations and feedback mechanisms (box 6.2).

The centrality of social performance in microFinance is not so much in the impact of the work of mFIs on the clients. It is more important to look at the processes that would reflect the intent and capacity of mFIs to achieve their social mission.

6.3 Assessment of social performance ("downward accountability")

The three core components of assessing social performance of an mFI could be:

1) What needs to be assessed?

The indicators for social performance would need to be defined. Clarity on mission and objectives of the mFI would be essential. The indicators would comprise of:

- Client selection - criteria and processes adopted
- Products - How products are designed to be appropriate to needs of clients
- Service - Mechanisms of providing services to clients

- Staff orientation - Training and other mechanisms that orient staff to social objectives
- Governance - Mechanisms that formulate, assess and undertake corrective measures to keep balanced focus of mFI on its social objectives along with its financial sustainability.

2) How could assessment be made

mFIs would need a structured design and mechanism to assess the practice of social performance. Design of the assessment would focus on the indicators given above.

The tracking mechanisms would have to be selected with view to monitor the periodic progress in results on each of the indicators. Internal mechanisms, such as client satisfaction assessment and social audit would be useful. Impact assessments could periodically add to providing feedback for improvements. Impact assessment would capture broader social indicators like changes in clients' household and local community level aspects.

3) How would the results be used for further improvement?

mFIs would need to review their overall objectives that in turn would reflect in their annual results and plans. Assessment of social performance of an mFI would be useful for its internal improvements as also for providing information to stakeholders like funders and government. Assessment of social performance therefore would need a robust system for reporting in public.

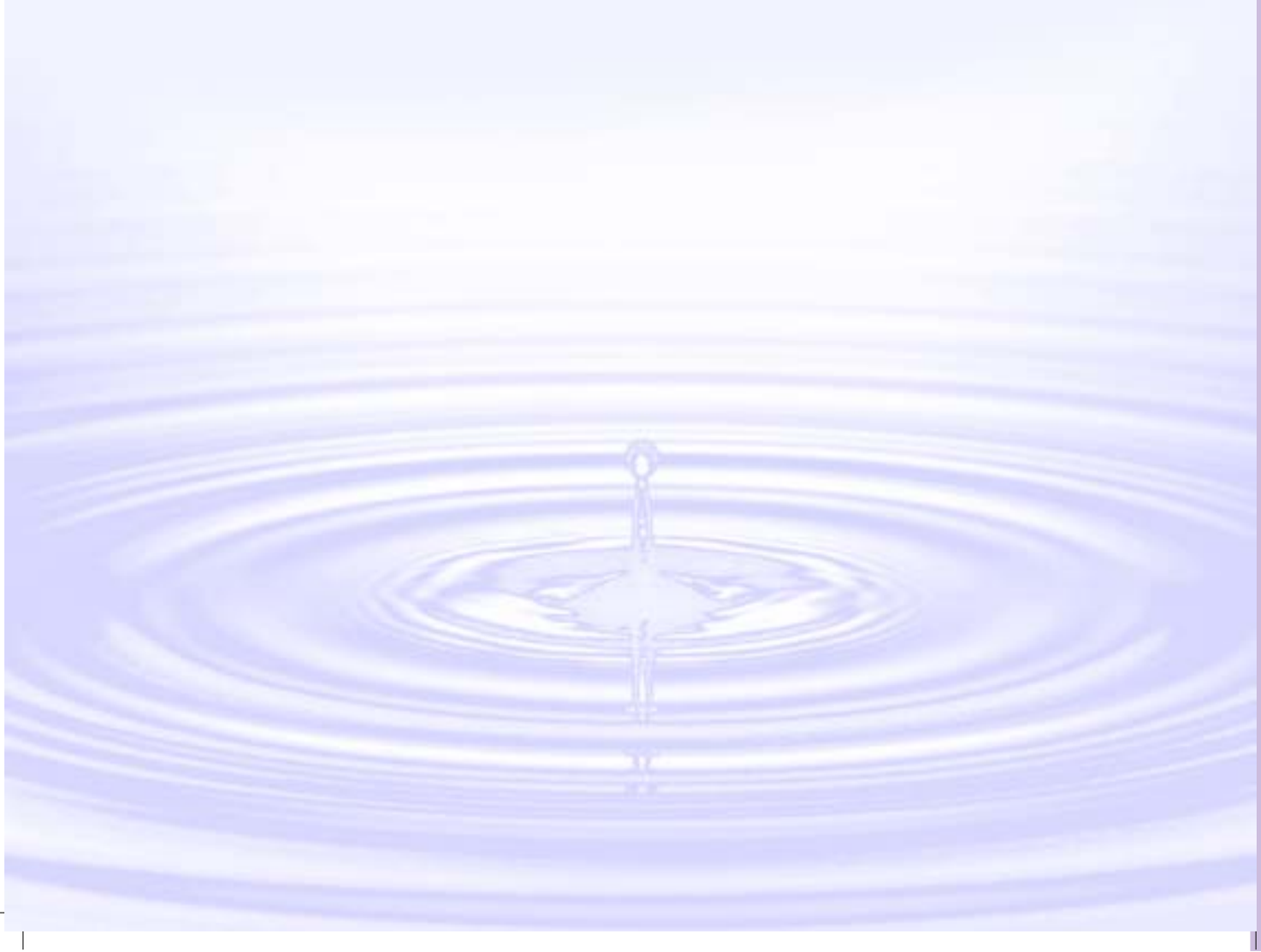
6.4 The challenges ahead

Clearly, the issue of social performance in mFIs is an emerging challenge. Growth of the microFinance sector has increased the importance and urgency in dealing with systems and reporting that would reflect the social objectives of mFIs. In specific terms, mFIs would need to:

- Review the social objectives that would be represented by definitive and verifiable indicators;
- Internalize systems and processes to instil and review practice of social objectives on the ground;
- Expand public reporting to include achievements on social objectives.

Technology

for microFinance



Technology for microFinance

7.1 Holding out for “new" technologies: mFI perspective

What are new technologies?

Long term perspectives are built on systems that can last, support economies of scale and guide innovation. Today, such systems are based on electronic data management. This might hold some novelty to mFIs, but it is not new as such. Systems of electronic data management have a history of over thirty years. Much younger are information technologies (IT), which allow transforming data into information essentially to aid the management and its team to manage more efficiently (e. g. for decision making). IT stems from the expanded and inexpensive capacity of storage and increasingly speedy processing of data, and from various options of different electronic devices to communicate with each other. While expanding storage and processing capacities, computers have also become ever smaller (chips) opening the door for integration of mainstream IT systems with mobile devices. Regularly, "new" technology refers to applications of such mobile devices in microFinance. However, everybody has to crawl before they walk. Every organization has to get its "old" technology right before it targets the "new" ones. Table 7.1 shows current and potential usage of IT in mFIs.

From this, we may conclude that the introduction of technology in microFinance should follow three steps:

- Identify your electronic data management needs.
- Identify IT solutions that will fuflil organization's information needs for a reasonable future term depending on your organization's growth plans. Decide on how much is enough!
- Invest in proven and robust devices that can improve your operations.

How does the mFI prepare for IT applications

Now, here is the surprisingly unexciting part of it: The most important portion of a technology road map is not technological at all. To set up electronic data management, the mFI needs to know which data it (i) does, (ii) could and (iii) wants to generate.

To answer (i), the mFI has to look at what it is doing, and which records are produced from that. Many mFIs find that their records are rather scanty. A

not-yet-tested hypothesis is that they also produce a lot of data that is never used for anything.

To answer (ii), the mFI has to look at what it should be doing. It has to identify all the processes that happen regularly, and to identify the records that come out of these. And it has to identify how these regular processes could be changed such that the records would be different (optimized, if necessary).

Table 7.1: Current and potential usage of IT in mFIs

Where IT has been used	Potential Usage of IT
Transaction Management Portfolio Tracking Reporting and Monitoring Cost Reduction Scaling Up Limited Transparency	Absolute transparency Business Analysis Customer Service Process Optimization Quality (Lean 6-Sigma) Knowledge Management Integration with Bank Systems Insurance Remittances Pay roll, HR Perfomance Measurement Activity based Costing Data Warehousing Data Mining Robust Security

Source: Sa-Dhan (2006): IT Roadmap for microFinance Sector - Role of Sa-Dhan, prepared by Murali Srinivas and Sudhir Kumar, New Delhi (unpublished).

Assuming an mFI has scrutinized the above, it has got an understanding of what data it has and could have at its disposal. Now it may turn to answering (iii), what does it actually want to have? The answer to that depends on the information that the organization considers relevant for the decisions it has to make.

Decision makers at different levels will need different information. For example, loan officers need to know the repayments due in their groups, so

that they can organize recovery. Branch managers need to know the productivity of their loan officers, vis-a-vis the productivity of other branches. Senior management needs to know the profitability of its branches, vis-a-vis profitability of other mFIs. Data collected should serve these needs. If it does not serve them, it should not be collected. On the one hand, it is cost-effective if one "piece" of data can be used to generate different "pieces" of information; e. g. from the repayment schedules at loan officer level, liquidity ratios can be generated at senior management. On the other hand, it is important to apply different data sources to cross-check information. For example, PAR-data generated by loan officers should be compared with cash book-data generated by cashiers, to cross check if loan officers underrate repayment delays.

Ultimately, the complete set of informational needs - translated into the number of reports an mFI will generate - will derive from its strategy, vision and mission. Surely, it will include growth pattern, profitability, income and costs, and risks.

In building this argument, the focus takes into consideration the fact that the information demand is being discussed particularly for mFIs that have already been in operation for a while and at a certain scale. So, if they start with the informational needs and then demand adjustment of their operations to meet them, they may find it costly and disturbing, and may end up adjusting (or constantly postponing) their information demands instead.

Box 7.2: Three takeaways on mFI perspective of IT-applications

Data and Information are not the same thing;

The existing structure has, one way or another, to be taken into account;

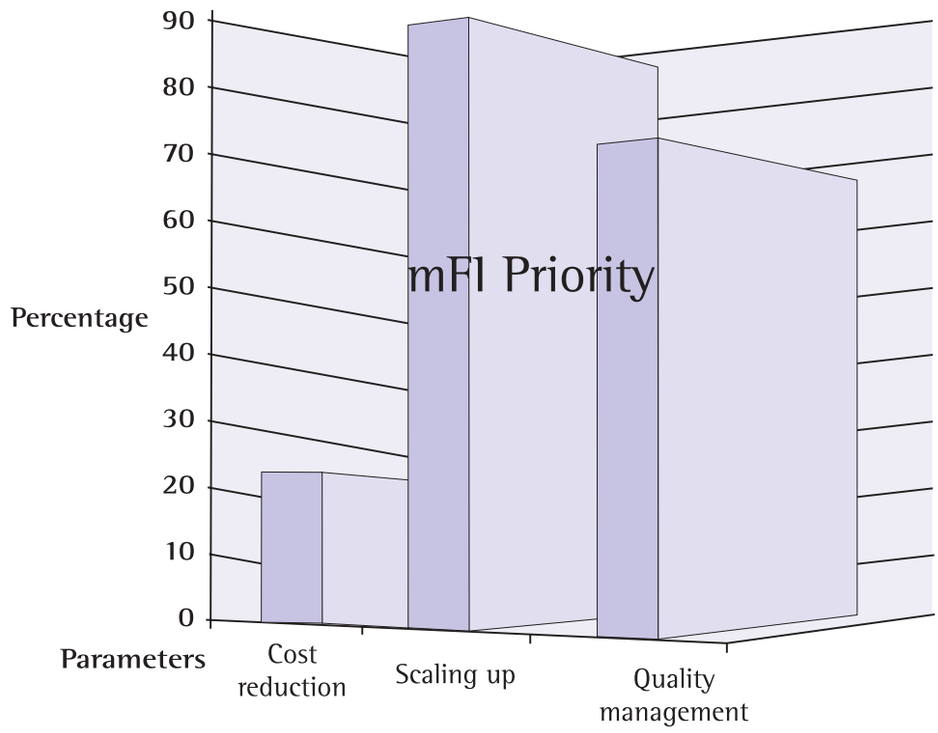
The information needs of each single mFIs require sharing and consolidating data between all mFIs.

The reader has noted that we have not talked about any IT technology so far. And rightly so! IT, i. e. the electronic underpinning of decision making, will be successful only after the above have been thought through and mapped well. By successful, we mean that the IT applications contribute to cost reduction, managing quality and scaling up. These are, by increasing order, the mFI priorities with regard to IT applications (see figure 7.3). However, many experts hold the view that cost reduction, i. e. improved return on investment (ROI), should be the priority point of reference for technology investments.

According to Saral Services (2007), less than 1 out of 5 mFIs use field-based electronic gadgets, e. g. handheld devices to capture transactions. This figure contrasts significantly with the attraction such IT-technologies enjoy in conference halls. Based on the discussion of this chapter, it is easy to see where the shortfall are. Various gadgetry communicating with one another demands that the concept of information is clear, and that the various devices provide data that feeds into that concept of information. This has a technical side, e. g. data-formats need to be consistent. But first and foremost, the data management has to be gotten right. Otherwise, data collected remains unused, and thus useless. Many practitioners hold the view that this is what has happened so far to most of these mFI-level IT-applications.

So getting the data right, and the management thereof, is at the root of everything else. If the mFI has mastered to lay that root, the choice of a software package that will meet its needs in terms of cost, flexibility then security shall be a minor step (see Gopalkrishnan/Arjun/Narayanan [2006] for a detailed guideline on how to choose an mF software package; Regy/Mahajan 2007 survey various packages used throughout the sector).

Graph 7.3: mFI priorities with regard to IT applications



7.2 IT applications for mF sector perspective and Sa-Dhan role

IT applications: Sector perspective

We shall now turn our attention beyond the mFI-level towards a sector perspective. The previous chapter has established that it is the well-understood self-interest of each mFI to share data with all the other mFIs. This is underlined by three arguments:

- Consolidating performance data from all (or most) mFIs will enable each of them to benchmark themselves against their peers, and thus improve senior management decision making.

- Sharing risk data will help all mFIs to manage their risk better, i. e. it will bring down risk profiles, and thus costs.

- Sharing performance and product data will raise the understanding of the wider public and thus generate trust which will translate into increased demand (client volume), increased investment inflows and a more favorable regulatory environment.

Hereof arises the demand for industry-wide IT-applications that will facilitate data sharing beyond the single mFI. Examples for industry-wide IT-applications are:

- A data exchange facility ("platform") to enable interaction between mFIs and also other stakeholders (e. g. insurance companies, banks). A more immediate need!

- A national mF database to consolidate performance data,

- A credit bureau (also called credit reference service).

These are to a certain extent, but not wholly, dependent on the mFIs doing their "homework" as has been explained above. For example, Sa-Dhan produces comparative reports since 2004 using a semi-manual process.

Role of Sa-Dhan

Obviously, the handling of delicate data demands a partner of high trustworthiness. At the same time, this partner must command the capability

to manage the implementation and operation of industry-wide IT applications. Sa-Dhan, the association of microFinance institutions all over India, combines these two requirements better than any other player one can think of. For years, Sa-Dhan standards team has been working on the collection and provision of comparative performance data, and is commended for the "Side by Side" reports that are published since 2004. In early 2006, Sa-Dhan carried out a survey on the understanding and application of IT in the microFinance sector. It provided a basis to lay out the main areas of intervention, which have been the subject of the previous discussions.

Sa-Dhan wants to take the IT-use in the microFinance sector to the next level through three initiatives:

- Compiling an almanac of microFinance processes and transactions. This will provide a useful tool in the hands of all mFI managements to prepare their institutions for computerization or expansion of their IT applications, along the lines of the previous chapter.

- Development of a standard set of code, protocols and exchange formats to cover all important mF processes and corresponding data to enable mFIs to electronically interact or transact with other stakeholders, e. g. banks and insurance companies, and also Sa-Dhan, and a future credit reference service. It will be set up such that apart from the various software packages mFIs use (about 10 different ones) and those of other stakeholders will be enabled to transfer their data into a common format.

- Conceptualising a Credit Bureau Service for the microFinance industry. Such a service will go a long way to improve risk management of mFIs. It is likened to the IT initiatives above, but beyond that it demands a strong participation of mF customers, i. e. customer education component. This in turn demands transformed transparency attitudes of the mFIs.

7.3 Conclusion

As the microFinance market matures, the demand for more sophisticated systems both on mFI and industry level grows. Such systems will allow mFIs to scale up, manage their quality better, and control costs. Pan-industry systems will add improved decision making through performance benchmarking, expanded business options through electronic interaction, e. g., mobile devices, improved risk management through credit reference services, and eventually expanded access to capital.

Key to both mFI and industry level systems is a thorough understanding and mapping of the processes that are undertaken regularly in mFI operations, and the data that is generated thereby. These will drive the choice of software packages mFIs opt for; they will also drive standardizing of software codes enabling electronic interaction of mFIs with their stakeholders. A Credit bureau service will draw on them as well. However, it will demand active participation of mFI customers as well.

Sa-Dhan is ideally positioned to further facilitate the discussions around IT usage in the microFinance industry, and to eventually drive the initiatives for mapping of mF processes, the standardizing of software codes and the conceptualizing of an mF credit bureau service to their "tipping point".

7.4 References

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Annexure

Methodology of Data Work at Sa-Dhan in building transparency and public reporting for microFinance sector in India

Introduction

The challenges of producing meaningful reports for management, boards, funders, and other stakeholder has been an arduous task for mFIs. Associations like Sa-Dhan are mandated to support them in three ways:

- Give CDFIs orientation on the kind of data and information their systems should generate.
- Consolidate selected data sets into sector-wide information and play it back to mFIs for their management decisions.
- Help CDFIs identify and address capacity building needs for management information systems.

The discussion of this note focuses on the first two mandates, which are inseparably intertwined. The SBS-reports, which have been published in 5 volumes now - and have come to reflect sectoral standards - are the result of intensive interaction between technical committees, Sa-Dhan staff and CDFIs in determining and implementing the scope of data, and its transformation into information over several months for each report. The following paragraphs highlight the experiences and lessons learned from interactions.

Data scope and collection

The first dimension of the work essentially involves gathering of operational and programmatic data across CDFIs covering information aspects like operational models, regions, capital structure, legal forms and outreach.

The second dimension is to work closely with CDFIs to obtain data on the data acquisition sheet (DAS). The DAS was designed through a rigorous process involving the Standards Sub-Group and couple of statutory auditors and bankers. A preliminary design was circulated among the bankers, auditors and members of the Standards Sub-Group. Their feedback on usefulness of various data sets was incorporated. The DAS was finalized with six sections of data sets covering operational and financial aspects of CDFIs. Suitable guidelines have been incorporated as explanations for helping CDFIs fill up the information. The form (DAS) has been printed as a concise booklet and has also been made available on Sa-Dhan website for on-line reporting by CDFIs.

The key challenge is that the audited financial statements of mFIs do not

cover all dimensions of microFinance operations of microFinance institutions in the desired detail. The work therefore requires intense interactions with mFIs to enable Sa-Dhan to consolidate the data from each mFI. This continues to be achieved with reasonable success through the data validation work that precedes the preparation of the Side-by-Side reports. The work involves first stage verification of completeness of data as required in the DAS form. The second stage involves checking data for consistency and correlation. The data from DAS is keyed into the CDFI database. The third stage requires another phase of data cleaning based on further queries that get identified through the database analysis. Interactions with CDFIs through telephone calls and e-mails are undertaken at all stages, and in some cases personal visits to CDFIs are undertaken. If the data of some CDFI may get excluded in any of the above stages for reasons of incompleteness and/or inconsistency that is where DAS then calls attention of organizational heads. This is then to be incorporated in their strategic layout as plan for their microFinance operations.

To facilitate and streamline this process further, work on web-enabled software is being undertaken concurrently. This software is being tested and would be available for Side-by-Side work of FY 2008.
Transforming Data into information

Table1. Number of CDFIs contributing to Side by Side reports

Reporting year	Overall sample	Samples included for financial analysis
FY 2004	53	42 (79%)
FY 2005	86	74 (86%)
FY 2006	129	117 (91%)
FY 2007	100	83 (83%)

Sa-Dhan has now devised the model financial statement format for the mFIs in the form of an advisory set in order to bring about uniformity in reporting. This advisory set covers all aspects of mFI operations (see excerpt of recommended design of annual report of mFI given at the end of this note). If this advisory set is practiced by mFIs, it will not only bring about a "single window" of reporting but also transparency; thereby reducing information costs for all stakeholders.

The framework of the operational report has moved from analysis based solely on set of financial standards evolved by Sa-Dhan, to a wider analysis that co-relates financial performance of CDFIs in three sets of peer groups.

The peer groups are (a) CDFIs grouped by range across their gross loan portfolio (b) CDFIs grouped across their institutional age in microFinance and (c) CDFIs grouped across range of their size of client outreach. The three peer groupings evolved from an exercise that involved the Standards Sub-group and a couple of bankers. The peer group based analysis of CDFIs has resulted in greater depth of the quality of inferences drawn from the data of CDFIs.

Furthermore, as the data volume evolved over the succeeding SBS-issues (see table1), it was decided - following members' feedback - to consolidate the earlier two SBS-reports on operations and programmes respectively into one annual SBS-report to come out 8-10 months after closure of the corresponding financial year. On the other hand, the "Quick Report" was invented to present an overall synopsis of the sector (see below). Therefore, the current SBS-report includes broader issues on board of director's database, multiple borrowing in terms of transparency, and social performance. The financial data for the current report is based on annual reports/other financial ratios of CDFIs. This also becomes the first step in streamlining the use of the advisory set format.

Timeliness of Information

The SBS-report is based on the annual audited financial information/ statements of mFIs that involves a time lag between institutional data and the published report. However, in order to keep pace with the timely information requirement of various stakeholders in the sector, Sa-Dhan has emerged with a new initiative which is generically being termed as 'Quick Report'. That report has been shaped to address the demand for key information on social contribution, costs and institutional growth of mFIs with the essence of keeping the time span short between the period of data of institutions and the published report.

This First Quick Report 2007, “A Snapshot of microFinance Institutions in India”, was released by Ms. Usha Thorat, the Dy. Governor of Reserve Bank of India (RBI) at an event in Chennai on 10 August 2007. Ms. Thorat appreciated Sa-Dhan for providing data for the year 2007 by August and for having the commitment of producing the audited data by October. She stated that she could not get the data for RRBs and SHGs in such a short span of time.

Promotion or: putting information to use

Sa-Dhan has, for the first time, organized launching of Side-by-Side report event on 19 March, 2007 at New Delhi. The purpose of this launching event was to strategically position our sectoral report and to disseminate the findings of the report.

The Side-by-Side reports have been well received by various stakeholders like public policy makers, government departments, commercial banks, Regional Rural Banks (RRB) and donors - Indian and international as a cost effective mechanism to obtain information on the performance and characters of the mF sector in the country after the closure of the FY.

The reports are printed and also made available on Sa-Dhan website. The mailing list of the report covers international development agencies, donors, commercial banks and RRBs in India, in addition to the contributing CDFIs and their associated agencies.

Annex 1: Recommended Design of Annual Report of a microFinance Institution (excerpt).

The annual report may comprise of the following components:

- Directors' report
- Balance Sheet
- Profit and loss account
- Cash flow or receipt and payment account
- Notes on accounts
- Key financial information
- Information on clients
- Board of directors - functions, profile of directors, sub-committees
- Functions of key management personnel

The Directors' report would contain information on:

- The broad context in which the institution operates. For a microFinance institution the context of financial inclusion, underserved regions and communities would be important to be dealt with; it would be good to use national and regional data.

- The institutional goals and objectives;
- Description of programs of the institution;
- Activities during the year: A detailed note on the activities of the institution - location, funds, major donors/lenders, nature of activities financed, programmatic achievements of the year;
- Evaluations done by rating agencies, donors and other funders;
- Financial effects during the year;
- Future outlook;
- Plans for the next year;
- Acknowledgements.

Key financial information

- Key performance data and ratios (Sa-Dhan set of six financial ratios)
- Effective annualized charges (on reducing balance method) on credit to clients
- Basis of institutional cost allocation - in case of an institution having programmes in addition to microFinance
- Basis of loan classification and loan loss norms
- Loan portfolio classified into standard, substandard, doubtful and loss assets.
- Funding under partnership model (managed loans)- funding institutions involved, key conditionality, amount involved, numbers of borrowers involved, percentage of managed loans to total loans made by the microFinance institutions

Information on clients

- Client profile - number of clients, clients under BPL and SC/ST, locations, livelihood patterns, clients classified by their access to various services from mFI, trainings and counseling services to clients,
- Insurance services to clients,
- Client complaint redressal information (numbers, nature and resolved.

Name of the contributing mFI's

1 Action for Community Service Society (ACTS)
2 Adarsha Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
3 Ajiwika Society
4 AMMACTS
5 ANG resources Ltd.
6 Bal Mahila Vikas Samiti
7 BANDHAN Hope for the Poor
8 Bhagyalaxmi Mahila Paraspara Sahayaka Sahakara Parimithi Sangham (Mari)
9 Bharat Integrated Social Welfare Agency (BISWA)
10 Bharathamatha Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
11 Bhartiya Samruddhi Finance Ltd (BASIX)
12 CASHPOR Micro Credit
13 CDC Puri
14 Community Development Centre (CDC)
15 Darbar Sahitya Sansad (DSS)
16 Evangelical Social Action Forum (ESAF)
17 Gram Utthan
18 Grameen Koota
19 Gramin Vikas Mandal
20 Guidance Society for labour Orphans and Women (Glow)
21 Hope Foundation
22 HOPE Integrated Rural Development Society
23 Initiatives for development Foundation
24 Innovative microFinance for Poverty Allivation and Community Transformation
25 Institute of Integrated Resource Management
26 Jeevika Livelihoods Support Organization
27 Jhansi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
28 Jyothi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
29 Kalighat Society for Development Facilitation
30 KOPSA
31 Kotalipara Development Society
32 Krishna Bhima Samruddhi Local Area Bank (BASIX)
33 Krushi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
34 League for Education and Development (LEAD)
35 Liberal Association for Movement of People
36 Mahila Pragathi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
37 Mahila Vikash Prathamika Sanchaya Samabaya Ltd.
38 Nanayasurabhi Development Financial Services
39 Nav Bharat Jagriti Kendra
40 Nirantara Community Services
41 Pavithra Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
42 Peoples Action for Transformation (PAT) Trust

43 Pikepara Kamala Seva Samity
44 Prayas Jan Vikas Bhandol
45 Priyasakhi Mahila Sangh
46 Pushtikar Laghu Vyaparika Pratishtan Bachat & Sakh Sahakari Samiti Ltd.
47 Rajapur Seva Niketan
48 Rashtriya Seva Samithi
49 Saadhana Microfin Society
50 Sakhi Samudya Kosh
51 Sammakka Sarakka Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
52 Samuha Janarahana Project
53 Sangamam Women's Multipurpose Thrift and Credit Co-operative Society Ltd.
54 Sanghatitha Mahila Mutually Aided Cooperatives Federation
55 Sarvodaya Nano Finance Limited (BASIX)
56 Satin Creditcare Network ltd.
57 Semam Microfinance Investment Literacy & Empowerment Ltd.
58 Shalom Charitable Ministries of India
59 Sharada's Women's Association for Weaker Section
60 Share microfin Ltd
61 Shree Dhanalaxmi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
62 Shri Kshethra Dharmasthala Rural Development Project (SKDRDP)
63 Shri Mahila Sewa Sahakari Bank ltd. (Sewa Bank)
64 SKS Microfinance Private Limited
65 Society for Model Gramin Bikash Kendra
66 Society for Model Gramin Bikash Kendra
67 Sonata Finance Pvt. Ltd.
68 Spandana Sphoorty Innovative Financial Services Ltd.
69 Sreema Mahila Samity
70 Star Microfin Service Society (SMSS)
71 Sthree Chaitanya Mahila Paraspara Sahayaka Sahakara Parimithi Sangham (Mari)
72 Sthree Shakthi Mahila Paraspara Sahayaka Sahakara Parimithi Sangham (Mari)
73 Subhashini Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
74 SUPPORT
75 Swadhaar FinAccess
76 Swayamkrushi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham (Mari)
77 Swayamshree Micro Credit Services (SMCS)
78 The Activities for Social Alternatives (ASA) (Gram Vidiyal)
79 The Payakaraopeta Women's Mutually Aided Co-operative thrift & Credit Society (Pwmacs)
80 Ujjivan Financial Services Pvt. Ltd.
81 Village Micro Credit Services
82 Village Welfare Society (VWS)
83 Youth Volunteers Union (YVU)

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