Chapter IV

OPERATIONAL PROFILE OF SELECT MICROFINANCE INSTITUTIONS

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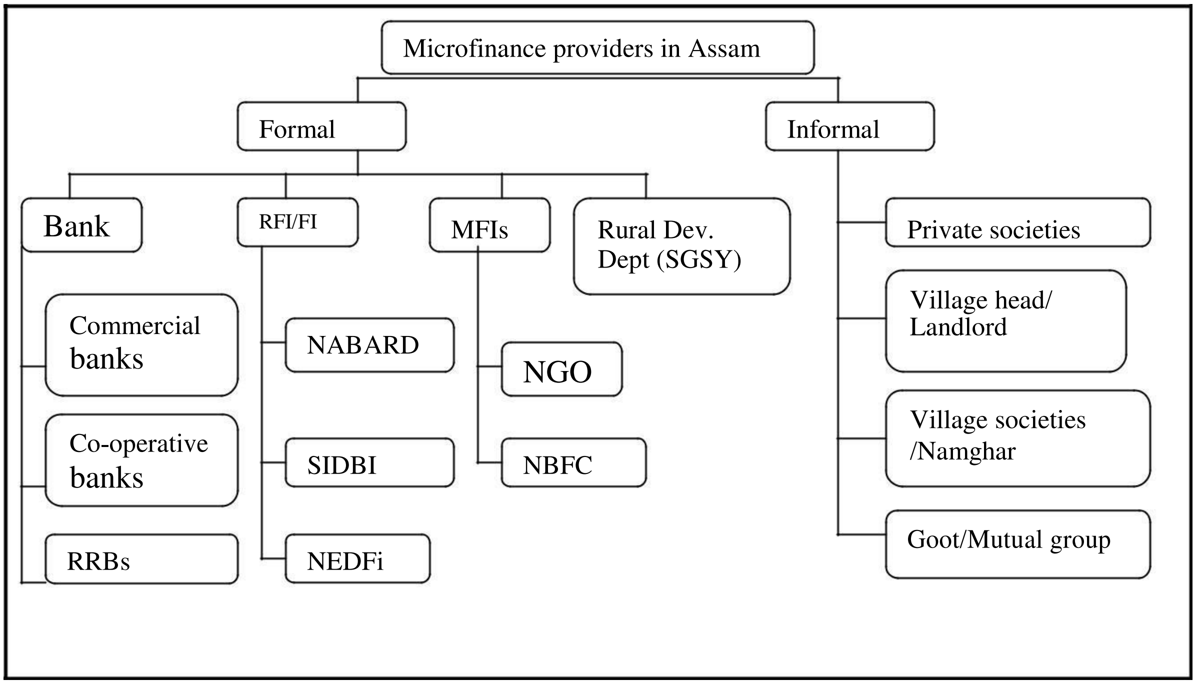
4.1 Introduction

Over the past two decades, the microfinance sector in Assam has made significant progress in terms of geographical coverage, providing financial services and financial viability. Starting as a program of SHG-Bank Linkage program of NABARD (in 1992), where a loan of Rs. 0.207 million was extended to 14 SHGs in Assam, the microfinance industry in Assam has increased to 109,587 SHGs with a bank loan of Rs. 6554.91 million during 2013-14 (Das 281 and NABARD 47). Apart from that, microfinance has significantly grown as an informal credit provider in Assam. In last twenty-year, microfinance in Assam has become a household name in the rural areas, pursued by different financial institutions and banks. Almost all banks (commercial banks, regional rural banks, and cooperative banks) have participated actively in extending microfinance may be because of the fact that microfinance has been brought in the fourfold of priority sector lending by Reserve Bank of India, since 2012 (RBI 3).

The government of India started with Swarnjayanti Gram Swarojgar Yojana, with a provision of formation, nourishment of SHGs and liberal and subsidized credit to them. The scheme basically targeted to rural women through the government machineries in order to form SHGs. The basic objective of this program was to form the community capital. On the other hand, like other regions, in Assam also a few microfinance institutions (MFIs) developed and grew up as NGO-MFI, a few of whom have later on transformed into NBFCs. MFIs in Assam turned out to be following multi-agency approach engaging banks, NBFCs, NGO-MFIs, SHG-BLP program of NABARD and government sponsored program SGSY (renamed as NRLM). Another set of microfinance providers also still exist as an informal private society (practically run by one person). Broadly microfinance providers can be categorized into four categories: (i) Banking institutions (ii) Non- Banking Financial Companies (NBFCs), (iii) Not for Profit

Microfinance Institutions (NGO-MFIs) and (iv) Informal societies. Figure 4.1 provides a pictorial summary of the microfinance system in Assam.

Figure 4.1: Microfinance providers in Assam



Note 1: RRB stands for Regional Rural Banks, RFI=Regional Financial Institutions, NABARD=National Bank for Agricultural and Rural Development, SIDBI= Small Industries Development Bank, NEDFi=North Eastern Development Finance Corporation Limited.
Source: Adopted from, Das (2011). Informal Microfinance in Assam: Empirical Evidence from Nalbari and Baksa Districts

This chapter attempts to review the operational characteristics of the select MFI in Assam under study. Organizational structure of the MFIs, the lending methodology, sources of funding, trend in growth of the MFIs in terms of clients outreach and loan portfolio, and staffing pattern of the MFIs were discussed in greater details.

4.2 Legal framework

Microfinance institutions operate under different legal forms. Banks operate under respective Banking Acts (Commercial banks operate under the Companies Act and Banking Regulation Act) while Regional Rural Banks (RRBs) operate under a separate Act promulgated for RRBs. Similarly, co-operative banks operate under the Co-operative societies Act of the State. Second category of MFIs is the NBFCs that are registered as a company under RBI and the NGO-MFIs are registered as a society under Society Registration Act 1860 and Assam Cooperative Societies Registration Act 2007 (Assam Act IV of 2012) also. The private societies are not registered under any Act of the land and are managed privately by the owner.

The legal status of the selected NBFCs and NGO-MFIs are here under (Table 4.1).

Table 4.1 Legal status of the MFIs

Sl.No.	Name of the Institution	Legal form
1	RGVN (NE) Microfinance limited (RGVN (NE) MFL)	NBFC
2	ASOMI Finance Private Limited (AFPL),	NBFC
3	UNACCO Finance Private Limited (UFSPL)	NBFC
4	Nightingale Charitable Society (NCS)	Society
5	Prochesta Thrift and Credit Cooperative Society Asom Ltd	Cooperative
6	Social Action for Appropriate Transformation and Advancement in Rural Areas (SATRA)	Society
7	Ajagar Social Circle (ASC)	Society
8	Morigaon Jila Gramya Puthibharal Sanstha (MZGPS)	Society

Note 1: For RGVN (NE) MFL data for 2009-10 was collected from MIX report.
Note 2: Data for MZGPS was not available for 2013-14, as they have closed microfinance operations
Source: Annual Reports of the MFIs

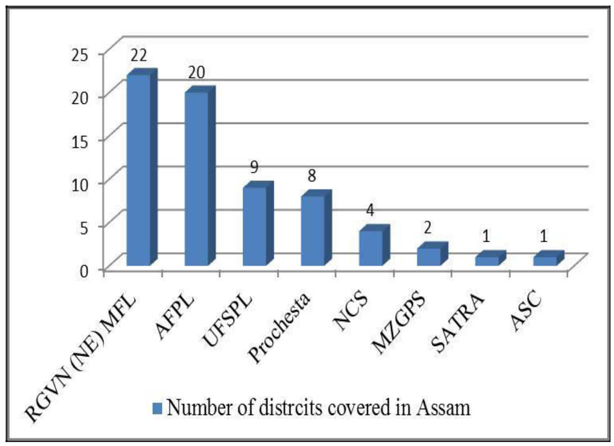
A series of transformation of NGOs into NBFCs was observed among the MFIs in Assam. MFI namely NCS transformed into Nightingale Finvest Private Limited in 2014. Two other MFIs namely SATRA and ASC were in the process of transformation during the study period. For the purpose of analysis, the MFIs are categorized by form of legal registration i.e NBFCs and NGO-MFIs.

4.3 Geographical coverage of the MFIs in Assam

NBFC-MFIs have a larger geographical coverage compared to the NGO form of MFIs. Two MFIs have covered more than 20 districts (out of total 27 districts), while two of them have covered eight to nine districts. Others are mostly confined to less than four districts and they are found to be NGO-MFIs in nature. Figure 4.2 shows the geographical coverage of the selected MFIs in Assam.

Among the eight MFIs, five MFIs are operational in both urban and rural areas, whereas three MFIs namely, MZGPS, ASC and SATRA are operating only in rural areas [i]. Within the selected MFIs, RGVN (NE) MFL has highest number of branch offices (107), followed by AFPL with 38 branch offices and UFSPL with 28 branch offices, as on 31st March 2014 (Table 4.3).

Figure 4.2: Geographical coverage of the MFIs in Assam

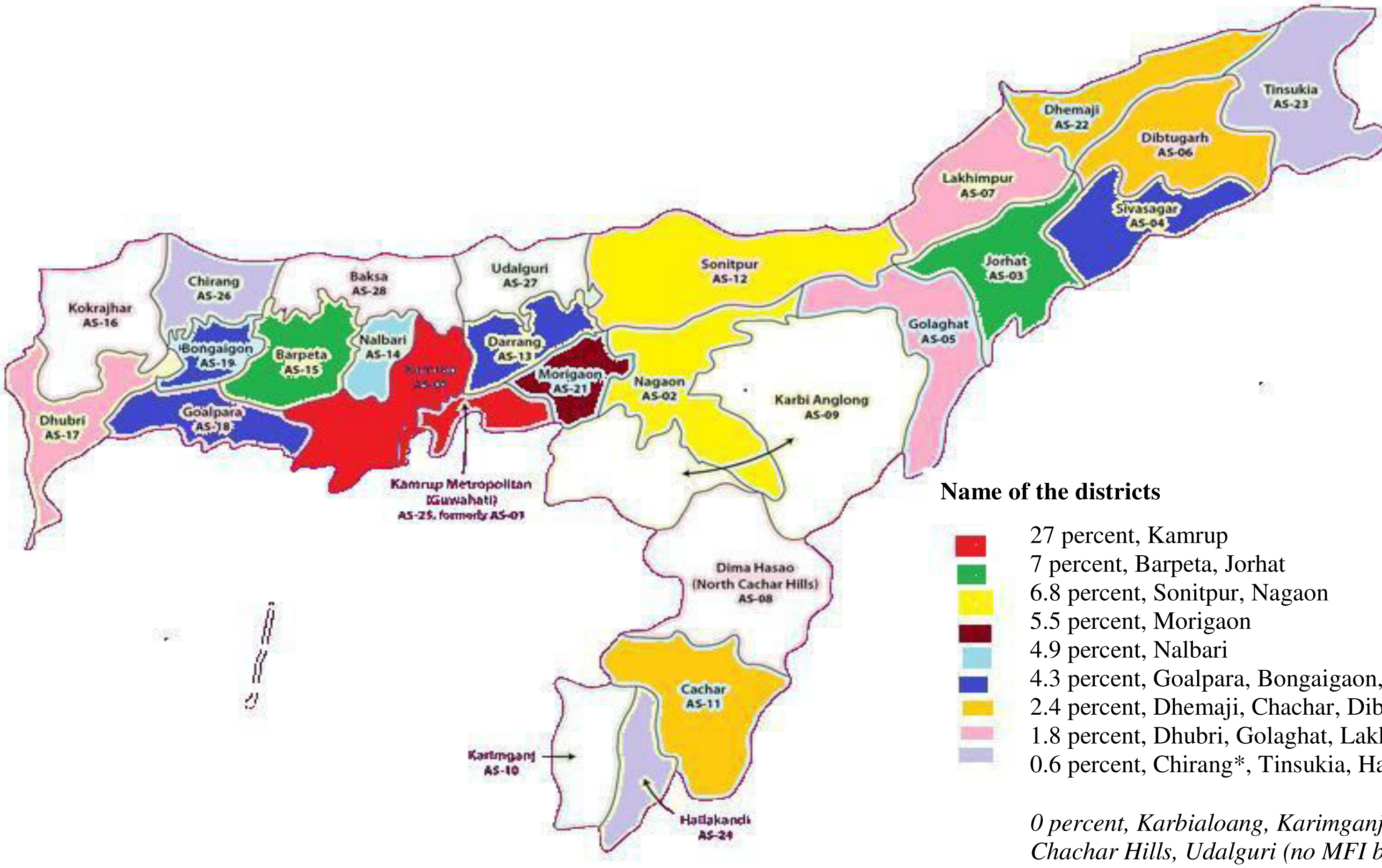


Note: Assam has total 27 districts (as per Census 2011) Source: Annual Reports of the MFIs

In case of NGO-MFIs, NCS has eight branch offices; Prochesta has seven branch offices, followed by SATRA and ASC having four branch offices each.

The unequal distribution of branch network of the MFI in Assam is a matter of concern. The districts have been arranged in Table 4.3 according to the extent of microfinance coverage. Kamrup district has more than 27 percent of the branch concentration whereas, some districts such as Barpeta, Jorhat, Sonitpur, Nagaon, Morigaon, Nalbari, Goalpara, Bongaigaon, and Sivasagar have lower level of penetration at the end of March 2014. However, districts like Chirang, Tinsukia, and Hailakandi reported presence of one MFI only. Other districts are still untapped by the MFIs (Table 4.2).

Figure 4.3: District wise concentration of MFI offices



Name of the districts

27 percent, Kamrup
7 percent, Barpeta, Jorhat
6.8 percent, Sonitpur, Nagaon
5.5 percent, Morigaon
4.9 percent, Nalbari
4.3 percent, Goalpara, Bongaigaon, Sivasagar, Darrang
2.4 percent, Dhemaji, Chachar, Dibrugarh
1.8 percent, Dhubri, Golaghat, Lakhimpur
0.6 percent, Chirang*, Tinsukia, Hailakandi*

0 percent, Karbialoang, Karimganj, Kokrajhar, North Chachar Hills, Udalguri (no MFI branch offices are located in these districts

Note 1: * only UFSPL has branch offices in Chirang and Hailakandi.
Note 2: #Percentage from total branch offices of the selected MFIs in the FY 2013-14 Source: Annual Reports of the MFIs

Table 4.2: Growth in number of branch offices of the select MFIs

Name of the MFIs	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
RGVN (NE) MFL	92	95	96	106	107
AFPL	52	54	53	43	38
UFSPL	21	26	28	27	28
Prochesta	6	7	7	7	7
NCS	7	9	10	8	8
SATRA	4	4	4	4	4
ASC	3	3	3	3	3
MZGPS	1	1	1	1	1

Source: Annual Reports of the MFIs

The RGVN (NE) MFL shows an increasing trend with the increase of branch offices to 107 in 2013-14 from 92 in 2009-10 (Table 4.2). Similarly, UFSPL increased their branch offices from 21 in 2009-10 to 28 in FY 2013-14.

Whereas, in AFPL the number of branch offices was 52 in 2009-10 which reduced to 38 in 2013-14. The organization reported merger of some branch offices in order to reduce cost. In case of NGO-MFIs, the NCS and Prochesta reported slight variation in branch expansion. The number of branch offices in NCS in 2009-10 was seven which increased to ten in 2011-12 and further reduced to eight in 2013-14.

4.4 The microfinance delivery model

Microfinance services are provided with three different lending methods in Assam. In the first model, loan is provided to Self Help Group (SHG)[ii], a group comprising 10-20 members, the second model is Joint Liability Group (JLG)[iii] with five members and third is the individual lending model[iv]. The borrowers are usually women, who form groups to borrow from the MFIs. Microfinance in Assam started with SHG model, which was followed by almost all the MFIs. In the present sample, UFSPL follows the Joint liability group (JLG) lending model, whereas AFPL follows Self-help group (SHG) lending model. The RGVN (NE)

MFL follows all the three lending models. In case of NGO-MFIs, three institutions follow JLG and individual model and rest adopted SHG model. From the survey, it was observed that most of the MFIs are accepting the JLG concept, as the group of 3-5 members is manageable and more group cohesion is found. However, the AFPL is promoting SHG model which inculcate savings habit among the borrowers (Table 4.3). Gradually, the MFIs are shifting towards the JLG model. Some of the reasons mentioned by the MFIs for switching to JLG model are as follows:

- Large group size in SHGs decreases the group cohesion and creates problems among the members.
- The groups which were formed and trained by the MFIs, were moved towards government schemes.
- Maintaining records of group savings and internal loans are cumbersome on the part of the MFI staff.
- Some MFIs thought that their staffs are not adequately trained to handle 15 to 20 member groups.

Table 4.3: Loan features of the MFIs

	Name of the MFI	**Lending model**	**Loan tenure (in months)**	**Interest rate ***	**Insurance service (yes/no)**	**Repayment schedule**
NBFCs	AFPL	SHG	12	25.5 percent	no	weekly
	RGVN (NE)	Individual, SHG and JLG	12 and 24	24 percent	yes	weekly
	UFSPL	JLG	12	26 percent	yes	weekly and fortnightly
NGO-MFIs	NCS	JLG and individual	12 and 18	25 percent	yes	monthly
	Prochesta	Individual and SHG	12 and 24	24 percent	yes	monthly
	MZGPS	Individual and SHG	12 and 24	18 percent	no	monthly
	SATRA	Individual and JLG	12 and 24	24 percent	no	weekly
	ASC	Individual and JLG	12 and 24	26 percent	yes	weekly

Note 1: * Figure shows annual interest rate on reducing basis charged by the MFIs on loans.
Source: Field survey

- All MFIs are extending income generating loan product, with a loan amount varying from Rs 2,000 to Rs 15,000 [v]. The loan amount also depends on the loan cycle. The annual interest rate on loans varies from 18 to 26 percent on reducing basis. Apart from this, MFIs namely RGVN (NE) MFL, AFPL, Prochesta, also extended loans for specific purposes which helped to improve quality of life of women, like loan for water connection, energy-efficient cooking stoves or access to clean drinking water through purifiers, construction of sanitary toilets, and education loan for kith and kin, among others. In addition to credit services, the 62 percent of the MFIs are also extending life insurance cover to the borrower and in some case to the guardian of the borrowers as well. The MFIs are tied up with different insurance companies to provide the service. For instance, RGVN (NE) MFL tied up with Bajaj Allianz and Oriental Insurance Company limited to provide normal and accidental converge to the clients and their spouses. In the FY 2013-14, the MFIs have received 500 claims from clients, out of which 450 have been settled. Three MFIs namely, AFPL, MZGPS, and SATRA, did not provide insurance services to their clients.
- The repayment schedule of the MFIs varies from weekly collection to monthly collection (Table 4.3). Out of eight MFIs, five of them had weekly schedule, whereas one had monthly schedule and UFSPL follows fortnightly schedule[vi].

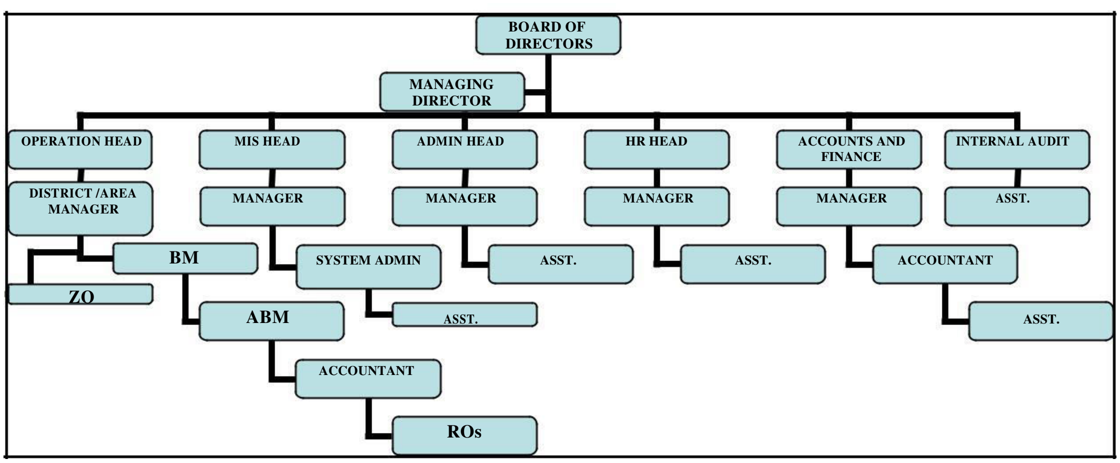
The lending methodology also varies with organization structure, the legal status of the organization and lending model followed by the organization. The lending methodology of an MFI consists of group formation, loan origination process, training, loan sanction and disbursement and at the end loan repayment collection[vii]. The time required from group formation to loan sanction varies from MFI to MFI. Ranging from nine days to one month period for sanction of loan to a new group. However, for existing groups the time takes for loan sanction varies from 2 to 5 days.

4.5 Organizational structure

The structure of an organization helps to understand the mission and vision of the organization. A well-defined structure, with a clear line of authority, motivates the employees and serves the clients efficiently. The organization structure of the MFIs is divided into different departments such as Administration, Finance, Operations, Management Information System (MIS), Human Resource (HR) and Internal Audit Department. Each department has its own function area headed by department heads. The prevalent organization structures are as follows:

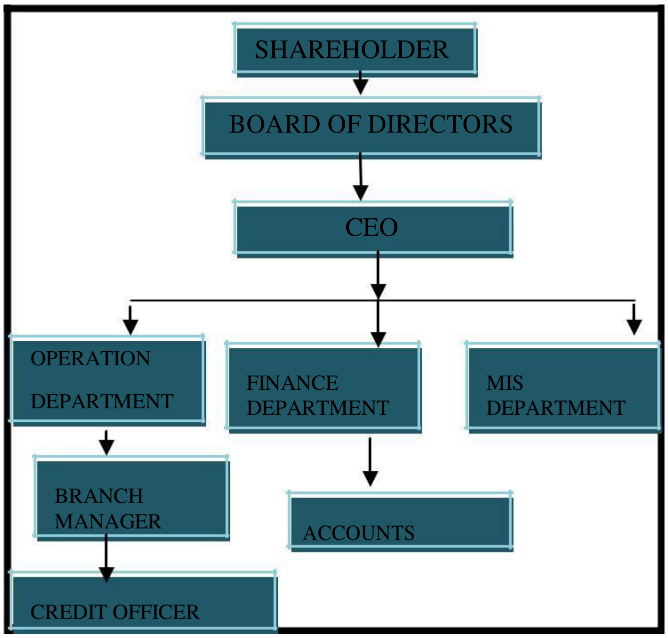
Type I: In case of NBFCs, apart from having various functional departments, the organizations have area offices or district offices (Figure 4.4). One area office monitors a group of four to five branch offices. The area offices are supported by area manager and staff for data entry and record keeping. The branch offices are maintained by one branch manager, field staff or Relationship Officer (RO) and multitasking staff. In some of the branch offices of UFSPL, an Administrative Assistant or Assistant Branch Manager is posted for data entry and record maintenance. In case of RGVN (NE) MFL, there is one additional layer of zonal offices which monitors two or three area offices. There are five zonal offices to supervise 23 areas offices. According to the annual report 2014, RGVN (NE) MFL, zonal offices were started to maintain the competitive advantage and strength the existing network of branch offices.

Figure 4.4: Type I Organization Structure



Note 1: ZO-Zonal Manager, BM-Branch Manager, ABM-Assistant Branch Manager, RO-Relationship Officer, CO-Credit Officer, Assit=Assistant
Source: Field survey

Figure 4.5: Type II Organizational Structure

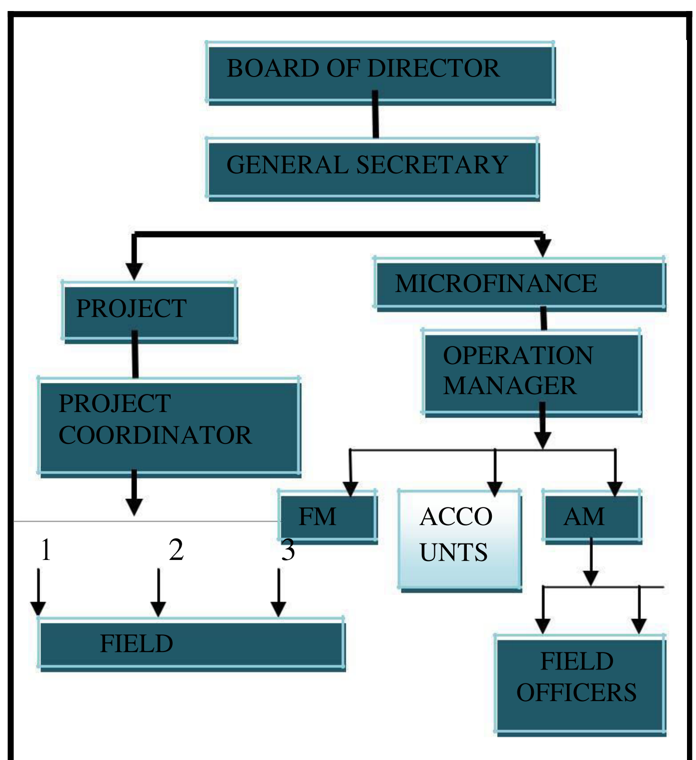


Source: Field survey

Type II: The MFIs namely Prochesta, ASC and NCS represent Type II organizational structure. Such an organizational structure has one director of operations, one director of finance, and a few MIS staff who report directly to the CEO. This team manages the head office operations. The operational director supervises the activities of the branch offices.

Figure 4.6: Type III Organizational Structure

Type III: In case of SATRA and MZGPS, the organizations simultaneously run microfinance activities and funded projects. The staffs of the organization are shared for the project and their core business activities. An executive committee headed by the president of the organization comprises 12-31 members. This executive committee is selected by the general body of the organization. The general body manages the organization, whereas the executive body is responsible for management of all departments under the organization.



Note: FM-Fund manager, AM- Assistant manager

Source: Field survey

Though the structure varies from one organization to another, major variation was observed among different legal structures.

a. Top level management: The MFIs have on an average of seven board members each year, with a minimum of three and a maximum of 12. It appears that NGO-MFIs have larger board members in comparison to NBFCs[viii]. It is believed that board size has some impact on the performance of the MFI (Thrikawala, Locke and Reddy 167). In NGO-MFIs, the board has a higher number of trustees, which help the organization to deal with operational issues and improve their efficiency (Thrikawala, Locke and Reddy 167). As large board provides a range of expertise, whereas appropriate selection of the board members is important. The board members of the MFIs are equipped with diverse experience/qualifications, served as bankers, have finance qualification, or are social workers, or have experience in microfinance business.
b. After promulgamation of the Companies Act 2013, some MFIs are emphasizing on the number of independent directors and women representation in their board. In the year 2013-14, RGVN (NE) MFL and UFSPL reported two (out of eight) and three (out of four) independent directors in their Board of Directors, respectively. Thrikawala, Locke and Reddy (167), found that there is a positive relationship between firm performance and the proportion of outside directors. It is observed that women representation on boards is gradually increasing. In the given data, three MFIs out of eight have women directors in the board. In the financial year 2013-14, the percent of female board members stands at 26 percent in case of NBFCs and 36 percent for NGO-MFIs. Every MFI, on an average conducted four to five board meetings in a financial year.
c. 42 percent of the selected MFIs have six separate committees, whereas 58 percent have either one or three separate committees to maintain their business smoothly[ix]. All the MFIs have an audit department separate from the operations department. The audit departments generally conduct two audits, viz. operational audit and financial audit. In RGVN (NE) MFL, the

internal audit team visits the MFI branches twice a year. However, three out of the eight MFIs have a full-fledged HR department. Otherwise the senior management staff handling the operations also heads the HR department.

d. In all the organizational types, the senior management retains the decision-making authority for most of the major operational processes or the decision-making authority is centralized. The strategic decisions are taken by the Board of Directors, Managing Directors and head of different departments. In case of NBFCs, the managerial staffs are able to take decisions such as the amount of loan disbursed to borrowers and also the loan cheques are issued by the concerned manager. Whereas, in case of NGO-MFIs these decisions are taken by the managing director of the organization.

e. The hierarchy of structure is well defined. In NBFCs, clear division of responsibility and hierarchy of authority is observed. The organization delegates many functions and processes to branch offices and functional departments. The span of control of NBFCs is much wider than that of NGO-MFIs. The wider span of control reduces administrative expenses and increase self-management. In contrast, a narrower span of control can improve monitoring capabilities and compliance.

f. It is observed that two NGO-MFIs are simultaneously operating the micro financing activities and also implementing funded projects sanctioned to the organization. In order to receive maximum benefit from the projects, the NGO-MFIs shared their staff and resources for both their core processes and for the ongoing projects.

4.6 Source of fund for the MFIs

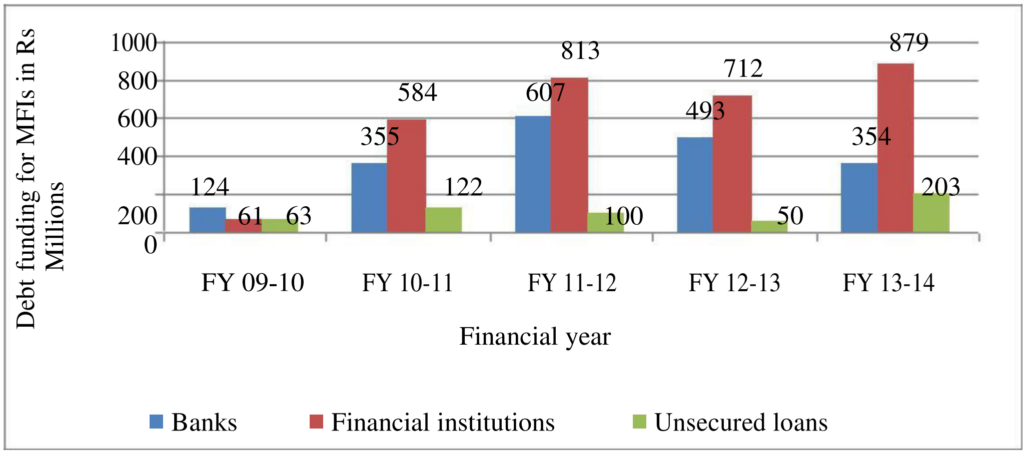
The MFIs have two primary sources of fund: debt and equity. These funds allow the MFIs to maintain approximately Rs 2,645 million worth assets, with an investment of 85 percent of these funds in the loan portfolio in the year 2013-14. The debt to equity ratio (median value) of the NBFCs in Assam is lower than that of the All Indian MFIsin the year 2013-14 (MIX 12) whereas, the debt to equity ratio for NGO-MFIs is higher than the All Indian MFIsfor the same period. The equity covers 15 to 30 percent of the total fund; rest is managed by the MFIs from borrowings from banks and financial institutions (Figure 4.12). Though, deposits are no longer funding source for the MFIs, till 2010-11, deposits form a part (RBI resolution).

4.6.1 Debt Funding of the MFIs

Funding for the MFIs in Assam has largely been through bank borrowings. The public sector banks-especially State Bank of India, Central Bank of India, Indian Bank, Bank of Baroda, UCO Bank provide credit for MFI funding. In addition, the Apex bank, Assam Gramin Vikas Bank, Assam Financial Corporation is also extending credit to the MFIs (mostly to the NGO-MFIs). Some private banks such as IDBI Bank and HDFC Bank lend to the MFIs in Assam. Apart from traditional commercial banks some new entrants to microfinance sector have come forward to provide loan such as Maanaveya Development and Finance Private Limited[x] and Dia Vikas (p) Ltd[xi].

The developmental and financial institutions such as NEDFi, SIDBI, NABARD, RMK, FWWB are continuously extending loans to the MFIs. It is observed that MFIs are receiving credit from International institutions also. Maanaveya Development and Finance Private Limited provide loans to almost all the MFIs. RGVN (NE) MFL and UFSPL received loans from Rabo Bank International[xii].

Figure 4.7: Debt funding for MFIs in Assam

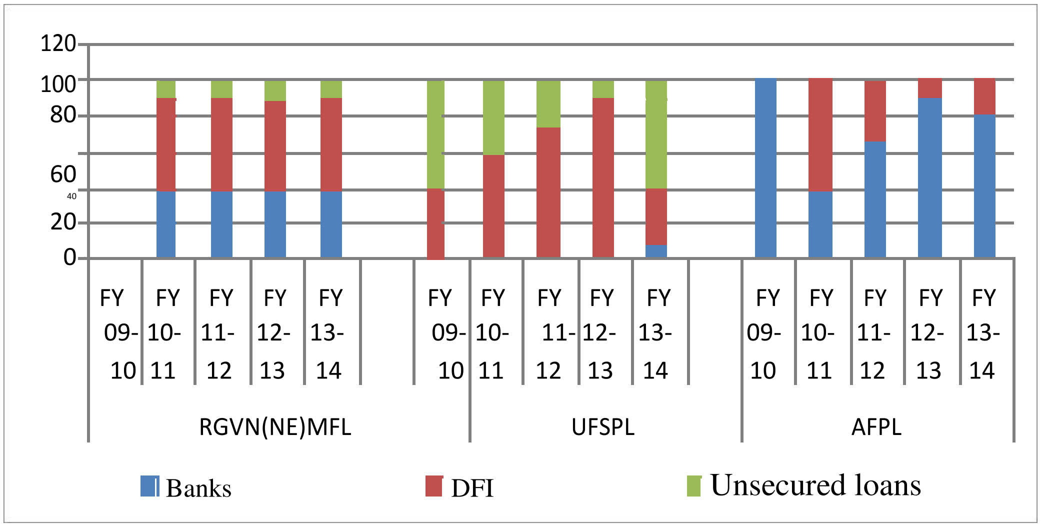


Source: Calculated from the Annual reports of the MFIs

Debt funding has flown into the sector substantially in FY 2013-14, compared to the previous financial year as can be seen from Figure 4.7– total funding grew 14 percent in FY 2013-14 over FY 2012-13, whereas funding from banks declined by 28 percent (Annexure IV). Funding by developmental and financial institutions has gone up in the year 2013-14. The growth is contributed by only the larger institutions which have managed to raise the major share of funding. Though, the total bank funding has decreased in the year 2013-14, still MFIs are highly dependent on banks for their debt funding.

Large variation is observed in the funding pattern of the MFIs. For example, in the FY 2013-14, RGVN (NE) MFL generated 55 percent of the funding from developmental and financial institutions whereas AFPL generated 83 percent of their funding from banks (Figure 4.8 a). UFSPL gathered 51 percent of their total funding from unsecured loans in the FY 2013-14 (Figure 4.8 a). Similarly, NCS, SATRA and ASC depended mainly on financial and developmental institutions for loans (Figure 4.8b).

Figure 4.8: (a) Proportion of various sources of debt funds in NBFCs for the period of five financial years (figures in percentage)

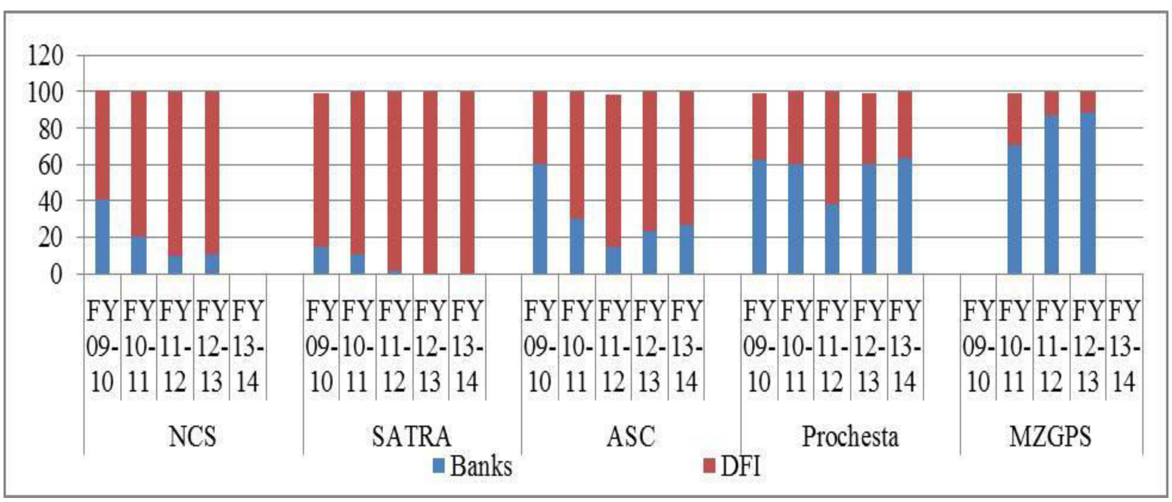


Note 1: The figure represent the proportion of various funding sources in total debt fund of the MFI. Note 2: Detailed break up of debt sources for the FY 2009-10 for RGVN (NE)MFL is not available. Note 3: DFI stands for Developmental and financial institutions

Note 4: Unsecured loans stands for the loans extended by Dia Vikas (P) Ltd in case of RGVN (NE)MFL and UFSPL received funding from Kaushal Vintrade Pvt Ltd and Navratra Tradelink Pvt Ltd.

Source: Annual reports of the MFI

Figure 4.8 (b): Proportion of various sources of debt funds in NGO-MFIs for the period of five financial years (figures in percentage)



Note 1: the figures represent the proportion of various funding sources in total debt fund of the MFI.

Note 2: Detailed break up of debt sources for the FY 2009-10 and 2013-14 for MZGPS and 2013-14 for NCS is not available

Note 3: DFI stands for Developmental financial institutions Source: Annual reports of the MFI

Table 4.4 contains the list of 11 banks and 12 financial and development institutions which provide funding to the MFIs in Assam. It is observed that AGVB and Apex Bank extend financial support to all most all the MFIs. In case of financial and developmental institutions NEDFi, RGVN, Maanaveya Development and Finance Pvt Ltd and Assam Financial Corporation support financially to all the MFIs. However other banks and financial institutions seem to prefer some select MFIs.

The NGO-MFIs are financially supported mainly by NEDFi, Assam Gramin Vikas Bank and APEX Bank in Assam. During the last five financial years (under study), NEDFi extended major part of debt funding to NGO-MFIs. For instance, SATRA received 86 percent, ASC (61 percent), NCS (68 percent) and Prochesta (24 percent). The Assam Gramin Vikas Bank and APEX Bank share 20 to 25 percent, whereas other institutions share very small portion of debt fund.

RGVN (NE) MFL is able to attract funding from almost all the banks and financial and development institutions which fund MFIs in Assam. For example, all the banks (except UBI) seem to provide funding to RGVN (see Table 4.4). Nine out of twelve financial institutions in Table 4.4 provide funding to RGVN. This is due to the huge outreach and efficiency of RGVN. In contrast, MZGPS seems to receive funding only from UBI, out of the 11 banks in Table 4.4. The NGO- MFIs seem to receive funding only from Assam Gramin Vikas Bank and APEX Banks. This suggests the legal status pr form of the MFIs in Assam play an important role in attracting funding.

Table 4.4: List of funding institutions

(a) List of the banks funding the MFIs

	State Bank of India	IDBI	HDFC	CentralBan k of India	IndianBank	AssamGraminVikasBank	Rabo Bank	UCO	Bank of Baroda	UBI	APEXBank
RGVN (NE)MFL	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓
UFSPL	×	✓	✓	×	×	×	×	×	✓	×	✓
AFPL	✓	✓	×	✓	×	✓	✓	×	×	×	
NCS	×	×	×	×	×	✓	×	×	×	×	✓
Prochesta	×	×	×	×	×	✓	×	×	×	×	✓
SATRA	×	×	×	×	×	✓	×	×	×	×	✓
ASC	×	×	×	×	×	✓	×	×	×	×	✓
MZGPS	×	×	×	×	×	×	×	×	×	✓	

(b) List of Financial and developmental institutions funding the MFIs

	NEDFi	RGVN	SIDBI	Ananya FinanceforInclusive Growth Pvt Ltd.	AssamFinancialCorporation	NABARD	MaanaveyaDevelopmentandFinancePvt	Cordaid(Foreigninstitutions)	Dia Vikas Capital (P) Ltd.	FWWB	RMK	IGS
RGVN (NE)MFL	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	×	×
UFSPL	×	×	×	×	×	×	×	×	×	×	×	×
AFPL	✓	×	×	×	✓	×	✓	×	×	×	×	×
NCS	✓	✓	✓	×	✓	×	✓	×	×	×	×	×
Prochesta	✓	×	×	×	✓	×	✓	×	×	×	✓	×
SATRA	✓	✓	×	×	✓	×	✓	×	×	×	×	✓
ASC	✓	✓	×	×	×	×	×	×	×	✓	×	✓
MZGPS	✓	×	×	×	×	×	×	×	×	×	✓	×

Note 1: "✓" indicates the institutions providing fund to the MFI

Note 2: Abbreviations are as follows

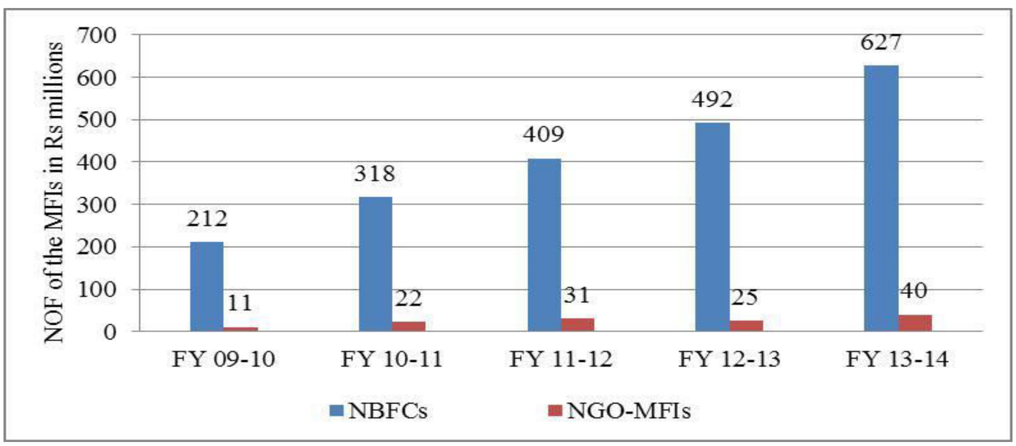
UBI=United Bank of India
NEDFi= North Eastern Development Finance Corporation Ltd
FWWB=Friends of Women"s World Banking
RGVN= Rashtriya Gramin Vikas Nidhi
SIDBI=Small Industries Development Bank of India
NABARD=National Bank for Agriculture and Rural Development .
RMK= Rashtriya Mahila Kosh, and IGS= Indian Grameen Services

Source: Annual reports of the MFIs

4.6.2 Net Owned Fund (NOF) of the MFIs

Net owned fund consists of paid up equity capital, free reserves, balance in share premium account and capital reserves representing surplus generated from operations. The equity and the reserve and surplus forms the NOF of the NBFC. In case of NGO-MFIs, security from members (upto 2011-12), and loan from members formed NOF. In the audited balance sheet the NGO-MFIs reported the grants and the contribution from members in the form of income in Profit and Loss statement. Hence, these are not included in equity for analysis. Due to rapid commercialization of microfinance in Assam, there has been a halt in the flow of grants to the MFIs (to NBFCs). However, over the years, the share of equity and reserves and surplus increases significantly from FY 2009-10 to 2013-14.

Figure 4.9: Trend of Net Owned Fund of the MFIs



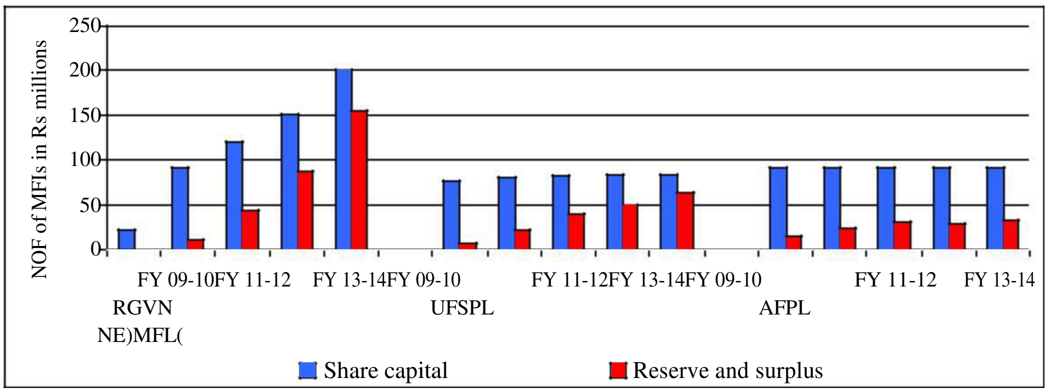
Source: Annual Reports of the MFIs

The NOF of the MFIs stood at Rs 667.2 million, increased by 177 percent in 2013-14 from the financial year 2009-10 (Figure 4.9). The NBFCs contributed Rs 627 (93 percent) million and NGO-MFIs contributed Rs 39.9 million (seven percent) in the financial year 2013-14.

During the five financial years, the NBFCs reported increase in NOF. The NOF of the most of the NGO-MFIs decreased during five financial years, due to low reserves and no security deposits taken by the NGO-MFIs.

The NOF varies with legal form of the MFI. From Figure 4.10, it is evident that the NOF of NBFCs is mainly contributed by share capital. In the financial year 2009-10 the share capital stands for 59 percent of NOF whereas, in 2013-14 the proportion increased to 64 percent. The contribution of reserve and surplus increased from seven percent in 2009-10 to 36 percent in 2013-14. The share capital and reserves of RGVN (NE) MFL is higher and following an increasing trend. In contrast, the share capital of UFSPL and AFPL remains similar in last five years under study.

Figure 4.10: Composition of Net Owned Fund in NBFCs



Source: Calculated from the Annual reports of the MFIs

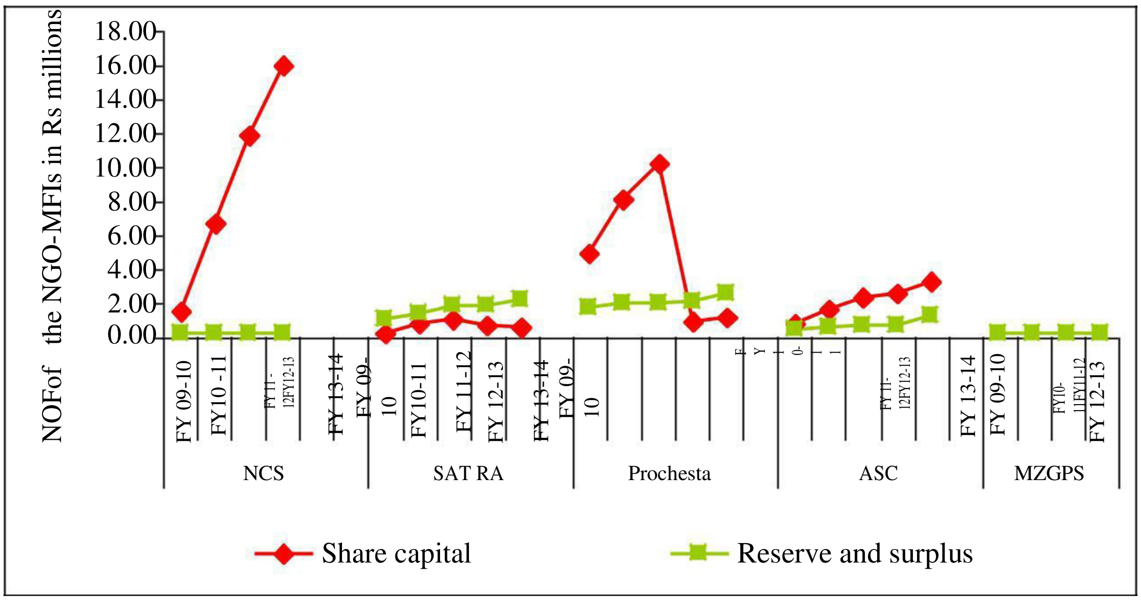
The shareholding pattern varies from one institution to other. In the year 2013-14, in RGVN (NE) MFL, 49 percent of the shares were held by the DiaVikas Capital (P) Ltd, 16.6 percent by NEDFi and SIDBI each, and 11 percent by RGVN and the clients (Table 4.5). In case of UFSPL more than 50 percent of the shares are held by individuals.

Table 4.5: Share holding pattern of NBFCs (in the FY 2013-14)

	Institutional	NGO/Trusts	Individuals
RGVN (NE)MFL	33.32 %	54.97 %	11.44 %
UFSPL	-	46.28 %	55.90%

The composition of NOF of NGO-MFIs is different from that of the NBFCs. Initially, the NGO-MFIs were funded by donor funds in the form of revolving funds and operating grants. The NGO-MFIs (SATRA and ASC) reported the grants as income in the Profit and Loss account, so not included in equity. Hence, the NOF is composed of Share capital (also called Corpus fund, Trust fund or Capital fund, which includes members contribution) and Reserve and Surplus. The capital fund contributes 60 to 77 percent of the total NOF. The share capital of NCS increased tremendously from 2009-10 to 2013-14.

Figure 4.11: Composition of NOF in NGO-MFIs



Source: Calculated from the Annual reports of the MFIs

4.6.3 Debt to equity ratio (DER)

The debt-to-equity ratio indicates the relationship of debt to equity financing. A high value of DER indicates that the MFI is aggressive in financing its growth with debt. This is done with an aim to generate more income. However, if the income generated is not enough to cover the cost of debt the MFIs may face insolvency. DER expresses the degree of protection provided by the owners for the creditors.

The NGO-MFIs are more leveraged than that of the NBFCs (Table 4.7). The average leverage ratio in the FY 2013-14 for NBFCs is 2.4 percent whereas for NGO-MFIs it is 13.7 percent. This shows that leverage ratio is lower for the MFIs with higher outreach.

Table 4.6: Debt to Equity (median value) ratio of the MFIs

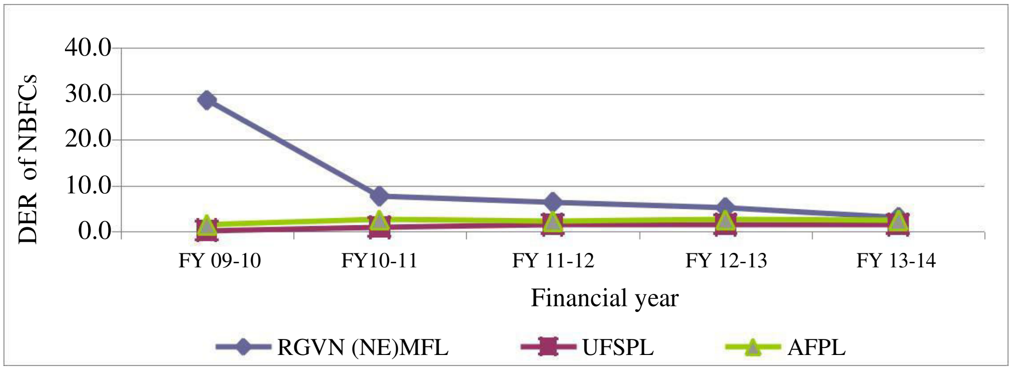
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
NBFCs in Assam	1.5	2.7	2.3	2.7	2.5
NGO-MFIs in Assam	17.1	12.9	10.4	20.4	14.4
MFIs in Assam	13.4	7.8	6.5	12.5	5.6
All All Indian MFIs	4.35	2.8	3.29	3.15	3.42

Note: Median values are reported
Source: Data for MFIs in Assam is calculated from the annual reports and for the All Indian MFIsis collected from MIX market.

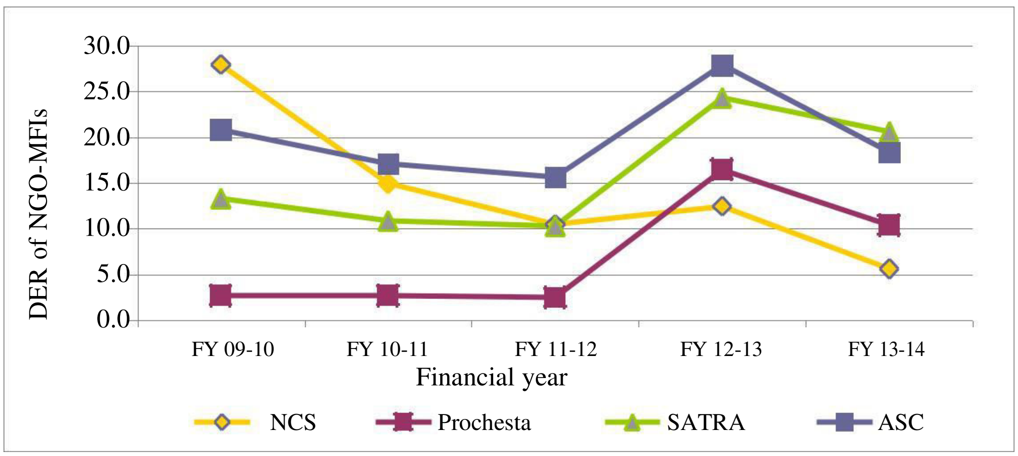
The median DER of the NBFCs in Assam is lower than that of the All Indian MFIs(Table 4.6). In particular the DER of RGVN (NE) MFL has decreased more than ten times from FY 2009-10 to FY 2013-14. The DER of UFSPL seems to be quite low in comparison to the same for the other MFIs in Assam. In contrast the DER of the NGO-MFIs seems to be increasing during this period. Due to increase in funding requirements, the NGO-MFIs are forced to finance their operations using debt. Another reason is that under the new RBI regulations the NGO-MFIs can no longer avail security deposit against the loans extended to borrowers. In addition, this indicates that banks are now confident in funding the NGO-MFIs and thus has brought in more borrowing which results in an increase in the debt to equity ratio.

Figure 4.12: DER of the MFIs

(a) NBFCs



(b) NGO-MFIs



Source: Calculated from the Annual reports of the MFIs

The debt to equity ratio across all MFIs decreased from 2009-10 to 2013-14, it is more distinct among the NBFCs due to the minimum capital adequacy requirement (Figure 4.12a). The UFSPL is the least leveraged MFIs with DER less than two. The MFIs have large equity bases which allow the MFI to be less dependent on commercial debt. The DER for the Indian NBFCs ranged between - 9.4 to 6.78 in the FY 2013-14 (MIX 12). The DER of NBFCs in Assam ranged within the limit of 1.5 to 3.1. This will help them to adhere to the capital adequacy norms of RBI. It is observed that the NGO-MFI namely NCS has lower DER in comparison to other NGO-MFIs. The NGO-MFIs are already working towards complying with the CAR requirement, which is reflected in their reducing DER (Figure 4.12 b).

4.6.4 Capital Adequacy Ratio

The Capital Adequacy Ratio (CAR) is an important indicator of an MFI‟s ability to meet its obligations and absorb losses. It measures the amount of capital relative to risk-weighted assets that an MFI should have. MFIs require larger capital for several reasons-- the delinquency rates of the MFIs are volatile, the operating expenses are higher than that of commercial banks and access to funds for emergency recapitalization is limited (Berger 5-6).

Table 4.7: Capital Adequacy Ratio of the MFIs

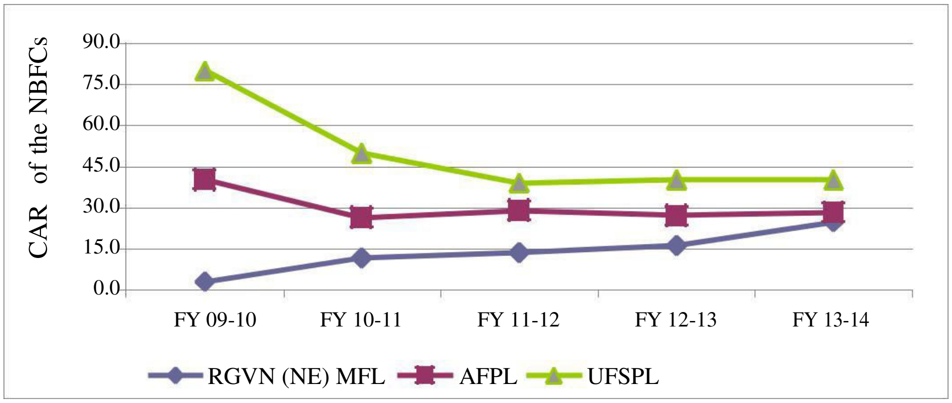
	FY 09-10	**FY 10-11**	**FY 11-12**	**FY 12-13**	**FY 13-14**
NBFCs in Assam	40.2	26.5	29.1	27.1	28.3
NGO-MFIs in Assam	5.0	6.3	9.0	4.0	7.0
All All Indian MFIs	18.7	22.8	21.0	22.0	21.5

Note: Median values are reported
Source: Data for MFIs in Assam is calculated from the annual reports and for the All Indian MFIsis collected from MIX market.

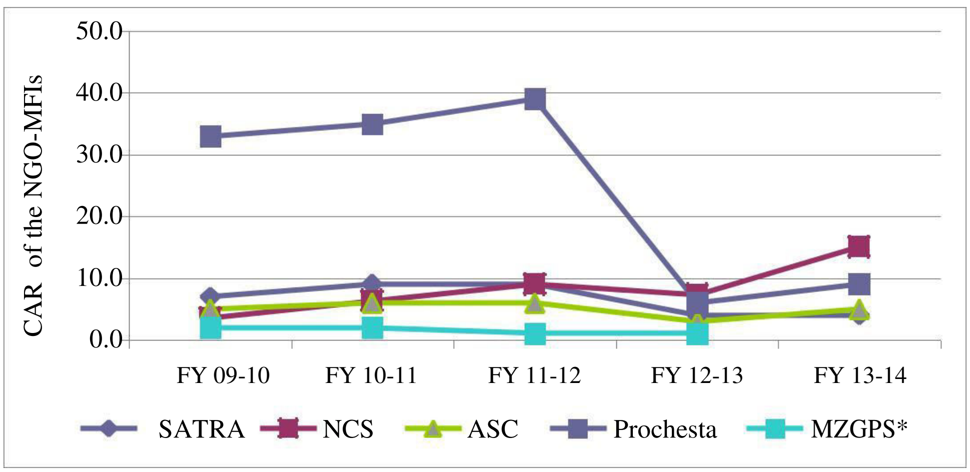
As per the latest RBI guidelines, the desired CAR for the NBFC-MFIs is 15 percent, but a higher CAR is prudent owing to the volatile and riskier environments in which MFIs operate. The median CAR for NBFCs in Assam for FY 2013-14 stands at 28.3, which is higher than the All Indian MFIs(Table 4.7). A lower CAR of NGO-MFIs indicates a higher degree of leverage, as equity contributes a lower proportion of net owned funds, which is deployed in assets.

Figure 4.13: CAR (Median value) of the MFIs

(a) NBFCs



(b) NGO-MFIs



Source: Calculated from the Annual reports of the MFIs

4.7 Trends in Outreach and Loan portfolio outstanding of the MFI

The microfinance sector in Assam is continuously growing in size and outreach in last five successive years. The total number of active borrowers touched 0.31 million and the outstanding loan portfolio has crossed Rs 42.3 million in the FY 2013-14. The number of active borrowers grew by 17.7 percent and the Gross loan portfolio increased by 67 percent over the period of five years. The findings signify greater outreach and increase in loan size of the MFIs.

Figure 4.14 (a): Growth of the MFIs in Assam in terms of number of active borrowers (in millions)

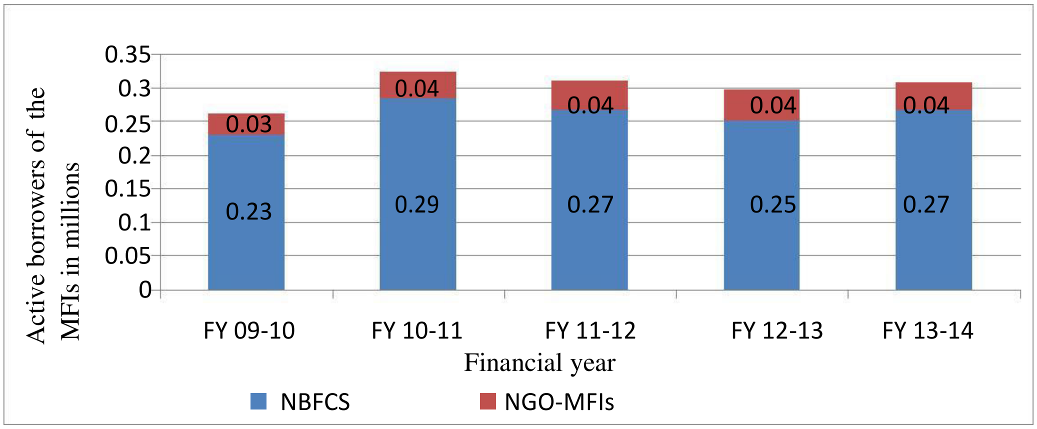
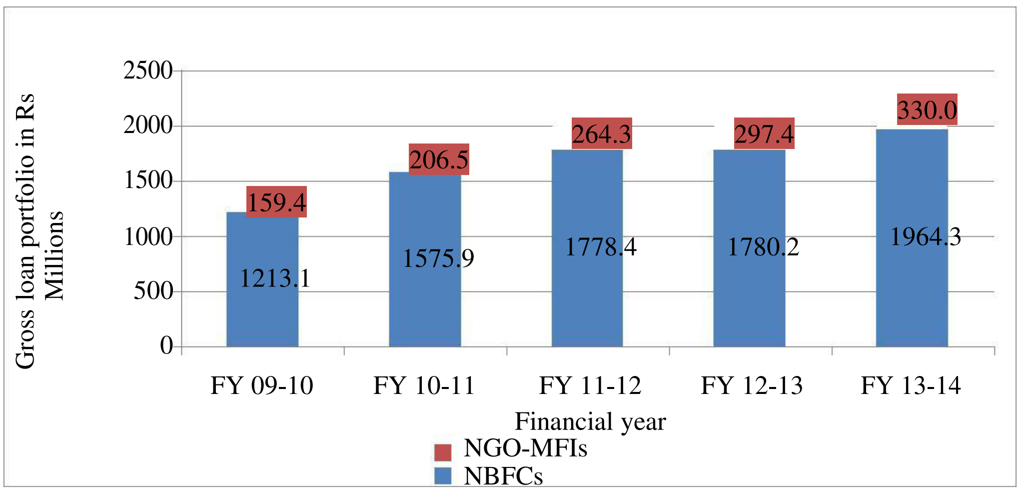


Figure 4.14 (b): Growth of the MFIs in Assam in terms of Gross loan portfolio of the MFIs (in Rs millions)



Note 1: The total values includes data of three selected NBFCs and five NGO-MFIs
Note 2: Data for 2013-14 does note include information of MZGPS
Source: Annual reports of the MFIs

The number of active borrowers was highest in 2010-11, after that there was a slight decline of 4.3 percent (Figure 4.14 a). However, in the FY 2013-14, the microfinance sector in Assam recovered with an increase of 3.4 percent in the number of active borrowers. In terms of gross loan portfolio the MFIs reported an increase of 67 from FY 2009-10 to FY 2013-14 (Figure 4.14 b). The NBFCs had a share of 85 to 88 percent (of total loan portfolio of all MFIs) of loan portfolio, whereas NGO-MFIs hold small percent of loan portfolio.

The total client outreach for the NBFCs and NGO-MFIs touched 0.267 million and 0.046 million in the FY 2013-14. The NBFCs showed an increase of 15 percent and the NGO-MFIs reported an increase of 33 percent in the number of active borrowers from FY 2009-10 to FY 2013-14. RGVN (NE) MFL occupies the top position both in terms of client outreach and loan portfolio with a growth rate of 29 percent in client outreach and 62 percent in loan portfolio (Table 4.8 and 4.9). AFPL reported negative growth in client outreach and 22 percent growth in loan portfolio. UFSPL in comparison reported 22 percent growth in client outreach, whereas the portfolio increased by 169 percent in five years (2009-10 to 2013-14).

The gross loan portfolio of NBFCs increased by 62 percent, whereas NGO-MFIs reported 107 percent increase during the five financial years. The gross loan portfolio of RGVN (NE) MFL was much higher than the rest of the MFIs in all five financial years (Table 4.9)**.** However, UFSPL reported highest growth rate in NBFC category and three NGO-MFIs namely, SATRA, ASC and NCS registered more than 100 percent increase in loan portfolio in five financial years. ASC reported 92 percent increase in terms of active borrowers and 186 percent increase in gross loan portfolio in last five financial years. The growth in loan portfolio and client acquisition is higher in NGO-MFIs in comparison to NBFCs.

Table 4.8: Growth of active borrowers of the MFIs in Assam (in millions)

List of MFIs	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	Growth rate (%)				
						2009-10 to 2010-11	2010-11 to 2011-12	2011-12 to 2012-13	2012-13 to 2013-14	2009-10 to 2013-14
	1	2	3	4	5	6	7	8	9	10
RGVN (NE)MFL	0.129	0.141	0.155	0.158	0.166	9.5	9.6	2.1	5.3	**29.0**
AFPL	0.063	0.085	0.052	0.047	0.053	34.6	-39.1	-9.2	13.7	**-15.4**
UFSPL	0.038	0.058	0.061	0.047	0.047	53.5	4.5	-23.8	0.2	**22.4**
Prochesta	0.003	0.004	0.005	0.007	0.005	37.6	18.7	60.6	-37.7	**63.4**
NCS	0.013	0.016	0.019	0.021	0.020	20.3	20.0	8.3	-2.9	**51.7**
MJGPS*	0.004	0.004	0.004	0.003	NA	7.0	-4.3	-22.2		
SATRA	0.005	0.007	0.007	0.007	0.008	32.6	4.4	-4.2	7.1	**42.0**
ASC	0.003	0.005	0.004	0.004	0.006	59.8	-18.7	4.0	42.2	**92.0**

Table 4.9: Gross loan portfolio of MFIs in Assam (in Rs millions)

List of MFIs	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	Growth rate (%)				
						2009-10 to 2010-11	2010-11 to 2011-12	2011-12 to 2012-13	2012-13 to 2013-14	2009-10 to 2013-14
	1	2	3	4	5	6	7	8	9	10
RGVN (NE)MFL	765	1,022	1,171	1,150	1,240	33.5	19.4	-1.8	7.8	62.0
AFPL	328	319	342	354	402	-2.7	7.2	3.5	13.2	22.5
UFSPL	120	234	264	275	322	95.9	24.9	4.16	17.0	169.4
Prochesta	23.8	25.5	25.4	31.7	35	6.93	0	24.6	10.4	47.2
NCS	86	114	160	150	195	32.1	54.4	-6.2	29.8	127.0
MJGPS*	12.3	13	13	14	NA	4.5	-3.2	12.6		
SATRA	15	21	25	39.6	37	38.5	52.6	22.9	3.92	144.2
ASC	21.7	33	36.6	65	62.5	52.2	15.8	77.8	-4.0	186.8

Note 1:* Data for MZGPS for the FY 2013-14 is not available. Due to fund crisis the organization stopped microfinance activities from 2013-14.
Note 2: Column 6, 7,8,9 indicates percentage change from the previous year and column 10 indicates percentage change in five years (from 2009-10 to 2013-14).
Source: Field survey

4.7.1 Loan outstanding per borrower (average loan size): The average loan outstanding per borrower is an important indicator of the depth of outreach of the MFIs. It has implication on operating cost of the MFIs which is discussed in Chapter VI. From the given data it is observed that the loan outstanding per borrower is increasing steadily from FY 2009-10 to FY 2013-14. In the year 2012-13, the loan outstanding amount per borrower stood at nearly Rs 6,864 which is a big leap of 17 percent over the previous year (Table 4.10). According to The Bharat Microfinance Report (2014) the average loan size of the MFIs in the Northeast region is Rs 12,896 (19). However, the loan size reported by all the select MFIs in Assam is lower than that of the average loan size of the MFIs in Northeast region[xiii].

Table 4.10: Average loan outstanding per borrower of the MFIs in India and Assam (all figures in Rs)

Forms of MFIs	**FY 09-10**	**FY 10-11**	**FY 11-12**	**FY 12-13**	**FY 13-14**	**Percentage change from 2010 to 2014**
NGO-MFIs	5,312	5,427	6,416	6,666	8,246	55.2
NBFCs	5,251	5,516	6,623	7,055	7,349	40.0
Select MFIs in Assam	5,066	4,981	5,842	6,864	7,212	42.0
Industry average	7,783	7,481	7,725	8,112	10,075	29.4

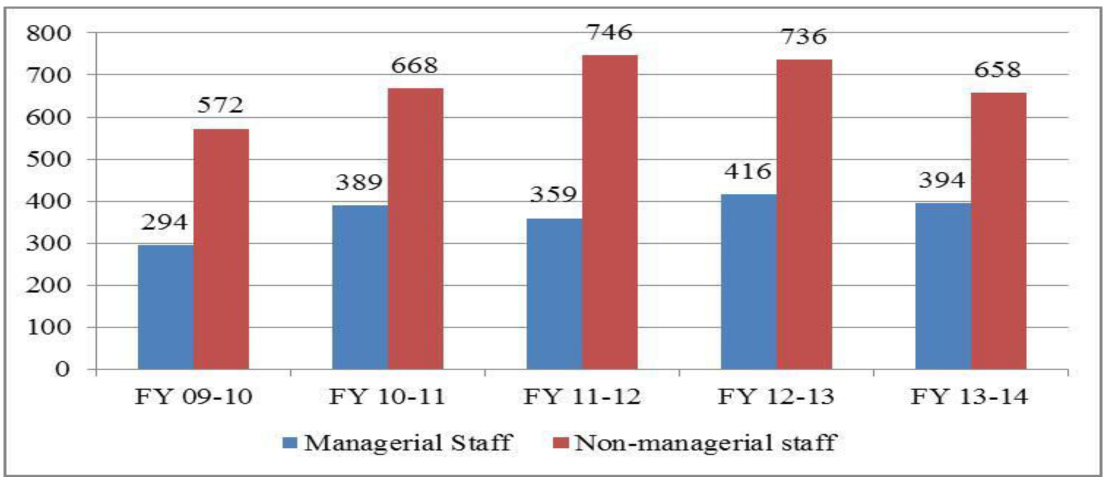
Note 1: Average loan outstanding per borrower measure the size of the loan per borrower.
Note 2: Industry average includes data of All Indian MFIsin the forms of NBFCs, NGOs and cooperative Societies, collected from M-CRIL (2012) and State of the Sector Report (2012, 2013), The Bharat Microfinance Report (2014).
Source: Data for MFIs in Assam is calculated from the Annual reports of the MFIs

The increasing trend in the loan balance reflects growth of the MFIs. The progress is fueled by the banking sector and financial institutions. The average loan outstanding per borrower for the NBFCs and NGO-MFIs in Assam is increasing, indicating higher availability of funds with the MFIs to fullfill the customers‟ demand (MFI wise data for five FY is provided in Annexure V). This also suggests that the MFI borrowers are capable to undertaking higher value economic activities. From FY 2010 to 2014 the loan outstanding per borrower increased by 42 percent for MFIs in Assam, with NGO-MFIs increasing the average to higher extent (55 percent) than the NBFCs (40 percent for the same period). The values are higher than the industry average. The loan size is an important determinant of operating expense. The operating expense ratio of the MFIs declined with the increase in loan size (M-CRIL 13). The NBFCs with smaller loan size reported higher operating expense ratio in comparison to NGO-MFIs (see Section 5.3.1 in Chapter V).

4.8 Staffing pattern of the MFIs

Microfinance is a human resource intensive service, heavily depending on staff for ensuring efficient and effective operations (M-CRIL 25).

Figure 4.15: Progress in managerial and non-managerial staff of the MFIs



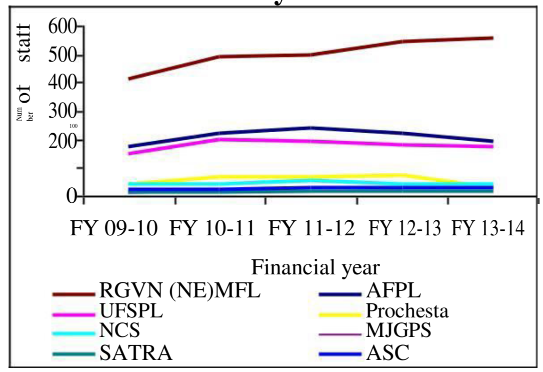
Source: Field survey

For the purpose of analysis, the staff of MFI is categorized into managerial level and non-managerial staff[xiv]. The change in staff number is due to variation in number of non-managerial level employees (Figure 4.15).

The eight MFIs have a staff strength ranging from 20 to 560, with a total of 1052 employees and an increase of 21 percent in last five financial years. In the FY 2013-14, RGVN (NE) MFL had maximum number of staff at 560, followed by AFPL (194), UFSPL (173) and NCS at 57.

It is observed that, the number of employees in AFPL reduced by 13 percent in 2013-14 (Figure 4.16). The deceleration in the number of employees in AFPL is due to merger of the branch offices (Table 4.2). For RGVN (NE) MFL and UFSPL the number of branch offices are increasing and this requires more supporting staff.

Figure 4.16: Progress in number of staff in last five years



Source: Field survey

In case of NGO-MFIs, the decrease in the number of employees in the year 2013-14 is mainly contributed by two MFIs-- SATRA and NCS. These two MFIs are in transition stage (transforming into NBFCs). They stress more on quality of employees and not in quantity of employees (MFI wise data for five FY is provided in Annexure VI). An interesting feature of the MFIs is that, there are only nine percent of women employees in the non-managerial level of the MFIs at the end of financial year 2013-14. This is despite the fact that almost 100 percent of the MFI borrowers are women. The job at the operational level requires lots of travel to field areas and long working hours which are challenging task for women (M-CRIL 27).

4.8.1 Staff productivity: Staff productivity is an important indicator of efficiency of the human resource of the MFIs. It is measured by the number of borrowers per staff and loan outstanding per staff[xv]. The variables represent the efficiency with which MFIs utilize their staff and manage a certain number of borrowers (Ganka 164). The number of borrowers per staff in Assam is higher than the average of All Indian MFIs(Table 4.11). 321 borrowers are served by each staff member in the year 2013-14, while the All Indian MFIsaverage is 294 borrowers per staff member. However, the gross loan portfolio per staff is lower than that of the All Indian MFIs. This shows that the loan size of the MFIs in Assam is lower than the average of the All Indian MFIs.

Table 4.11: Staff productivity of the MFIs

Number of borrowers per staff					
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
MFIs in Assam*	249	284	290	272	321
All All Indian MFIs#	250	293	223	268	294
Loan outstanding per staff (in Rs millions)					
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
MFIs in Assam*	1.2	1.4	1.54	1.73	2.13
All All Indian MFIs#	2.2	2.0	3.8	5.1	6.3

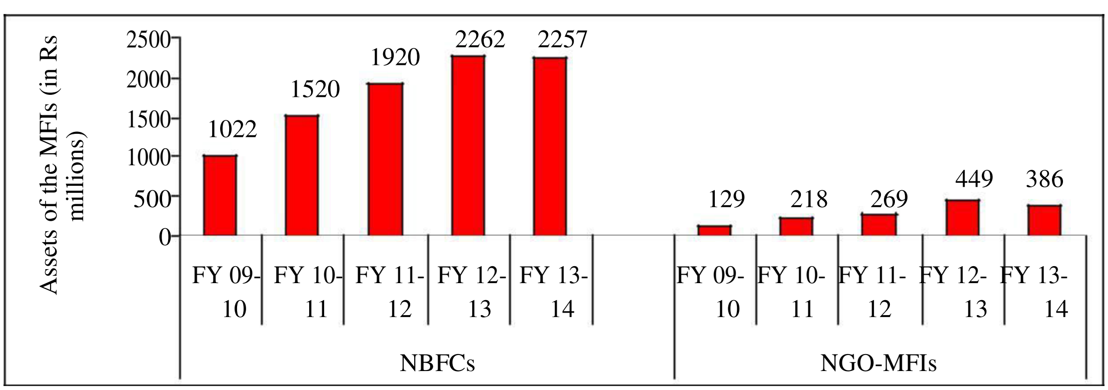
Note 1: Loan outstanding per staff is calculated by dividing loan outstanding by total staff of the MFIs
Source 1: * Field survey, calculated from Annual reports of the MFIs
Source 2: # Data for all Indian MFIswas collected from M-CRIL (2012) and State of the Sector Report (2012, 2013), The Bharat Microfinance Report (2014).

From the above analysis, it is found that, the productivity in terms of borrowers per staff increased by 28.9 percent across all MFIs while the quantum of loan portfolio handled by each staff increased by 77 percent. The findings commensurate with the increased loan disbursement and increase in average loan outstanding per borrowers (discussed in section 4.7 and 4.7.1, respectively).

4.8 Assets of the MFIs

The assets of the MFIs are composed of loan portfolio, fixed assets, cash and cash equivalents, short and long term investments and other assets which include accrued interest and accounts receivable[xvi].

Figure 4.17: Total assets of MFIs



Source: Annual reports of the MFIs

The total assets of the MFIs in Assam are increasing over the years. Their total assets stood at Rs 2,644 million in March 2014 (Figure 4.17). In the total assets, the NBFCs contribute for 75 to 85 percent whereas the share of NGO-MFIs stood at 15 to 24 percent. The total assets of the NBFCs as on March 2014 stood at Rs 2258 million and of NGO-MFIs is Rs 386 million (Annexure VII).

Table 4.12: Trend of various asset components of MFIs (all in percentage)

Asset components	**FY 09-10**	**FY 10-11**	**FY 11-12**	**FY 12-13**	**FY 13-14**
Loan portfolio	82.9	85.4	83.5	79.3	85.5
Fixed assets	1.3	1.0	0.9	0.8	0.7
Cash and cash equivalents	13.1	8.0	8.8	11.9	7.3
Short term investments	2.0	1.1	1.4	2.0	0.9
Long term investments	0.4	4.0	4.9	5.7	5.4
Other assets	0.3	0.4	0.4	0.2	0.2

Source: Annual reports of the MFIs
Note1: The figures represent proportion of each component in total assets of the MFIs.
Note 2: Other assets which include accrued interest, accounts receivable, income tax suspense and sundry debtors.

The increase in asset holding is mainly due to the increase in loan portfolio over the years. More than 85 percent of the total assets of the MFIs, was extended as loans to borrowers at the end of March 2014 (Table 4.12). Previous year the share of loan portfolio was 79 percent only. The long term investments of the MFIs from 0.4 percent in 2009-10 increased to 5.4 percent in 2013-14. The proportion of other components of the MFI assets is given in Table 4.12. The allocation of assets varies for different forms of MFIs (Table 4.13 and 4.14). In both the forms it is observed that the proportion of fixed assets to total assets is decreasing and there is an increase in loan portfolio. This reflects that the MFIs in Assam are managing their assets effectively and efficiently.

For the NBFCs the net loan portfolio for the FY 2013-14, stood for 85 percent of the total assets, followed by cash and cash equivalents of 8.1 percent and fixed assets and other assets stood for 0.8 and 7.8 percent of the total asset (Table 4.13). It is observed that during the last five years the share of loan portfolio appears to be increasing[xvii].

Table 4.13: Asset composition of NBFCs

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Loan portfolio	82	84	84.1	82.6	85.4
Fixed assets	1.9	1.3	1.1	0.9	0.8
Cash and cash equivalents	8.9	9.6	10.7	11.5	8.1
Other assets	2	2.3	1.3	0.9	0.8
Investment	5.2	8.4	8.3	8.8	7.8

Note: Investment includes both short term and long term investments
Source: Calculated from the Annual reports of the MFIs

Table 4.14: Asset composition of NGO-MFIs

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Loan portfolio	81.2	83.2	80.5	65	71.8
Fixed assets	2.6	2.9	2.8	1.4	1.8
Cash and cash equivalents	7.7	6.5	8.2	12.7	12.1
Other assets	4.6	5.3	4.8	8.9	6.9
Investment	5.9	4.4	5.4	8.1	3.4

Note: Investment includes both short term and long term investments
Source: Calculated from the Annual reports of the MFIs

Similarly, for NGO-MFIs the share of loan portfolio in FY 2013-14, stood at 71 percent which is followed by cash and cash equivalents (12.12 percent), other assets (6.91 percent) and investments (3.46 percent). In contrast to NBFCs, the share of loan portfolio in total assets of the NGO-MFIs is decreasing over the years (Table 4.14). However, the amount spent on in investment and other assets are increasing. This may be due to the fact that the NGO-MFIs are spending more on cash and cash equivalents. The proportion of cash and cash equivalents has increased by 57 percent from 2009-10 to 2013-14. This is due to the fact that the MFIs usually get bank lending at the end of the financial year, when it is too late to lend money to their clients. Hence, the fund remains unutilized in the bank accounts (Sa-dhan 36).

4.9 Revenue analysis

Revenue (also referred as income) for the MFIs is generated from the interest charged on the microfinance loans. The MFIs also generate revenue from other sources which includes commission from insurance companies, interest from employees‟ personal loans, and interest from the fixed deposits or savings account, write off collection, etc. Revenue that is generated from interest earned, fees, and commissions (including late fees and penalties) on the gross loan portfolio is referred to as financial revenue from loan portfolio. The revenue earned from interest, dividends, or other payments generated by financial assets other than the gross loan portfolio, such as interest-bearing deposits, certificates of deposit, and treasury obligations is referred to as financial revenue from investments (CGAP 3). For the analysis of revenue, the above mentioned categories of revenue are reported.

Both NGO-MFIs and NBFCs have increased their income substantially from FY 2009-10 to FY 2013-14 (Table 4.15). The NBFCs earned Rs 510 million and the NGO-MFIs earned Rs 64.4 million in the FY 2013-14. Both NGO-MFIs and NBFCs registered positive in each year. The growth rate for NGO-MFIs is higher than that of the NBFCs.

Table 4.15: Income for the MFIs in Assam (in Rs millions)

	FY 09-10	FY 10-11	Growth Rate (%)	FY 11-12	Growth Rate (%)	FY 12-13	Growth Rate (%)	FY 13-14	Growth Rate (%)
NBFCs	190.8	248.5	30	392.5	57.9	459.6	17.1	510.7	11.1
NGO-MFIs	13.4	22.6	69	36.5	61.5	48.4	32.5	64.4	33.1

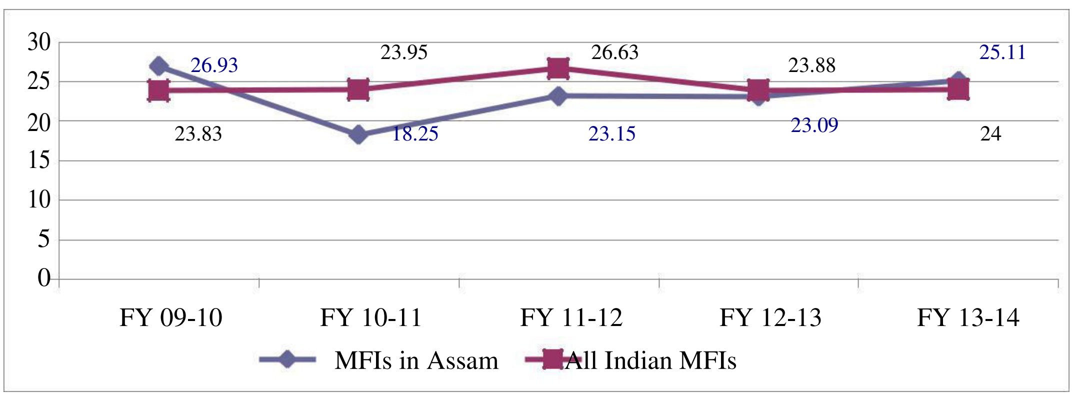
Note: Data for MZGPS is not available for 2013-14.

Financial revenue from loan portfolio is the main source of income for the MFIs. On an average it stands at 95 percent for NGO-MFIs and NBFCs in the FY 2013-14, whereas the proportion of income from investments stands at 5 percent for NBFCs and NGO-MFIs, respectively.

4.9.1 Yield on loan portfolio (financial revenue ratio) of the MFIs

Portfolio yield measures the income actually earned by the MFIs on their portfolio (M-Cril 48). Analysis of yield not only helps in understanding the income pattern but also helps in analyzing the margin of the MFIs compared to cost (Sa-dhan 31). From Figure 4.17 it is observed that the level of portfolio yield of MFIs in Assam has decreased to 18 percent in 2010-11 from 27 percent in 2009-10. The yield of the MFIs in Assam seems to be improving slowly from 2011-12 to 2013-14. In the FY 2013-14 the average yield of the MFIs in Assam is higher than the average yield of the MFIs in India.

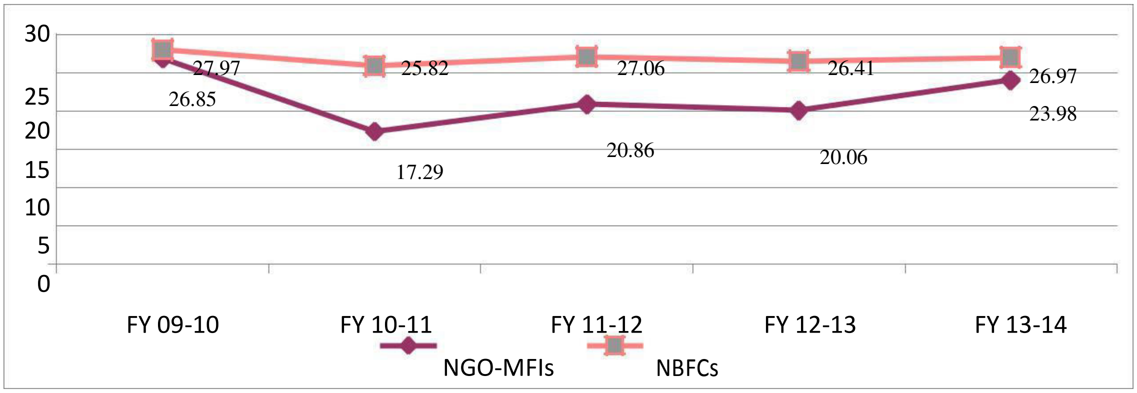
Figure 4.18: Yield of the MFIs in Assam and India over the period of five years



Source: For All Indian MFIsdata collected from Microfinance India-State of the Sector Report 2012 and 2013 (53). For the MFIs in Assam the figure was calculated from the Annual reports of the MFIs

Among various categories of MFIs (Figure 4.19), NBFCs reported higher median yield in each year and 26 percent during the FY 2013-14, followed by NGO-MFIs with a median yield of 23.9 percent in 2013-14. In the year 2010-11, the yield of NBFCs and NGO-MFIs decreased by 8 percent and 35 percent respectively. The decline was the immediate response of AP crisis and continued due to regulatory announcements on margin cap and interest rate. The chit fund scam (Saradha Chit fund Scam in 2013) also hampered the business of the MFIs.

Figure 4.19: Yield on gross loan portfolio of the MFIs of Assam (NBFCs and NGO-MFIs)



Source: Calculated from the Annual reports of the MFIs

Table 4.16: Summary table

PARAMETERS		UNITS	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	GROWTH from FY 09-10 to 13-14
		Institutional Characteristics						
Number of branch offices	**(∑)**		186	199	202	199	196	5.3 %
Number of staff	**(∑)**		866	1057	1105	1146	1052	21 %
Assets of the MFIs	**(∑)**	(Units in INR Millions)	1,174	1,799	2,225	2,712	2,680	128 %
		Outreach Indicators						
Number of active borrowers	**(∑)**	(Units in Millions	0.25	0.32	0.31	0.29	0.31	24 %
Gross loan portfolio	**(∑)**	(Units in INR Millions*)*	1371.8	1,782	2,037	2,079	2,294	67 %
Average loan balance per borrower	**(A)**		5066	4981	5842	6864	7212	42 %
Number of borrowers per staff	**(A)**		249	284	290	272	321	29 %
Loan outstanding per staff	**(A)**	*(*Units in INR Millions)	1.2	1.4	1.54	1.73	2.13	78 %
		Financing Structure						
Debt to equity ratio	**(M)**		13.4	7.8	6.5	12.5	5.6	(56 %)
Capital Adequacy ratio	(M)		28.1	24.8	26.0	21.6	18.4	(35 %)
		Revenue						
Yield on loan portfolio	**(M)**		26.85	22.38	24.01	23.09	25.11	(6.45 %)

Note: Figures in parenthesis indicates negative growth

∑ indicates summation, „A" indicates average figure and „M" indicates median values.

4.10 Conclusion

Microfinance industry in Assam has grown in two sectors, one under the privilege of government and other non-government. From the above analysis, it is observed that the microfinance industry in Assam has emerged as a market consisting of small or medium NGO-MFIs, dominated by a few large NBFCs, and apart from government sponsored schemes, which are attracting fund, human resource and clients at a faster rate. NGO-MFIs with their aggressive growth plan and efficient management are able to transform their legal entity. In contrast, MZGPS one of the oldest organisations failed to attract fund and consequently their microfinance activities had to be reduced.

In spite of the Andhra Pradesh crisis in microfinance sector during 2011, the MFIs in Assam have achieved significant growth (Table 4.16). This can be seen in all the outreach indicators (number of active borrowers, gross loan portfolio and average loan size). In the FY 2013-14, the total number of active borrowers increased by 20 percent from FY 2009-10. The total gross loan portfolio of the institutions has grown by 72 percent in FY 2013-14 as from FY 2009-10. The average outstanding balance per borrower has increased to Rs 7,466 in the FY 2013-14 from Rs 5,258 in FY 2009-10. The NBFCs have achieved impressive growth in terms of client outreach and 62 percent in loan outstanding in past five financial years. It is observed that during the last five years the average loan size of the NBFCs increased in comparison to all Indian MFIs. For NGO-MFIs the increase was only 24 percent in loan size. RGVN (NE) MFL reported the highest in all the three outreach indicators followed by AFPL.

During the five FYs, the MFIs increased their workforce by five percent. RGVN (NE) MFL is the only MFL which reported continuous increase in the number of employees over the five years. In contrast, the other MFIs either reduced their workforce or remained stagnant. Over the five years, the average number of borrowers per staff increased by 31 percent. This reflects efficient utilisation of workforce by the MFIs. The total asset size of the MFIs studied grew by 128 percent from FY 2009-10 to FY 2013-14.

The net portfolio stands at 85 percent of the total assets followed by other components (Table 4.12). While comparing the total assets of the institutions by legal status, it is seen that NBFCs reported 84 percent of aggregate assets. Similarly the aggregate equity value of the MFIs increased in five financial years. RGVN (NE) MFL and AFPL held the highest NOF sizes of Rs 334 million and Rs 148 million respectively. The majority of NOF for MFIs is in the form of share capital, followed by reserve and surplus. For NBFCs the reserve balances have increased rapidly over the past five years, reaching over Rs 198 million. The accumulated retained earnings of the NGO-MFIs also increased, while security from clients was no more available after 2011-12.

The MFIs in Assam rely on local funding from banks and financial institutions. Development banks and institutions provide most of the funds, whereas funding from foreign investors is very low. The debt to equity ratio of all the MFIs declined in FY 2013-14 as compared to the previous year. While comparing the ratio by legal status of the institution, the ratio decreased for the NBFCs, but increased for NGO-MFIs. This shows that the NGO-MFIs are heavily weighted towards debt financing. The lower debt to equity ratio of the NBFCs ensures long term financial safety and greater protection for creditors. The degree of leverage greatly affects the Return on Equity ratio of an MFI (discussed in chapter V). The Capital Adequacy Ratio (CAR) of the NBFCs increased and the same for the NGO-MFIs declined during the last five financial years. The CAR ratio of the MFIs in Assam still seems to be well above the RBI guidelines. The NBFCs are better positioned to meet financial obligations and address unexpected losses. For NBFCs, the ratio is well above CAR floors declared by RBI.

In addition to the credit services, the MFIs are proactive in fulfilling its social responsibilities. Financial literacy program seems to be the most common training provided by the MFIs to their clients. In addition, livestock training and treatment camps, skill-based training, health camps were also organized by the MFIs.

Notes:

[i] In the Census of India 2011, the definition of urban area adopted is as follows: (a) All statutory places with a municipality, corporation, cantonment board or notified town area committee, etc. (b) A place satisfying the following three criteria simultaneously: i) a minimum population of 5,000; ii) at least 75 per cent of male working population engaged in non-agricultural pursuits; and iii) a density of population of at least 400 per sq. km. (1,000 per sq. mile). For identification of places which would qualify to be classified as 'urban' all villages, which, as per the 2001 Census had a population of 4,000 and above, a population density of 400 persons per sq. km. and having at least 75 per cent of male working population engaged in non-agricultural activity were considered. An area is considered 'Rural' if it is not classified as 'Urban' as per the above definition.

[ii] The Self help groups, consists of socially and economically homogeneous group of rural or urban people, who assembled together for some productive purpose. The SHG are small and informal groups of 10 to 20 members. The members usually form a group of self selected members and are trained by the MFI field staff regarding account opening, maintenance, and ledger book entry. The members are required to select president and secretary for their group and open an account for their group in the near by banks. Initially the members are needed to maintain a regular account, which inculcates savings behavior and also trained them for handling their money.

[iii] JLG is an assembly of 5 member clients (new or existing) informally recognized as a group by the MFI. These members jointly receive loan from the bank for pursuing individual or joint activities. MFIs, particularly in urban areas, form JLGs of five-members. Here members are not required to open account for the group. Few members have their personal bank account, but there is a clear absence of group account and savings. However, it was observed that MFI staffs of RGVN (NE) Microfinance Private Limited are trying to inculcate the saving behavior among the members by encouraging them for group savings. Few groups have been collecting weekly savings of Rs 50 each, but there is no bank account to keep the money. Rather the money is deposited to one of the member of the group; in some cases people are using indigenous (in earthen pots) methods to collect the savings.

[iv] In individual lending the MFI gives loan directly to the borrower. There is a bilateral relationship between the borrowers and the MFI. The loan is usually extended to the members who graduated in group loans. (Crombrugghe 273).

[v] The minimum amount in case of the MFIs following SHG lending model is Rs 2000 whereas the MFIs following JLG model offers minimum loan amount of Rs 5000 in the first loan cycle. The maximum loan amount for one year loan is Rs 15,000 for all MFIs. During the period of study MFIs are not offering two-year loan products.

[vi] The MFIs felt that they are going according to the need of the clients. The MFIs collecting repayment monthly said that weekly recovery is a burden to the borrowers. In the majority (seven MFIs) of the cases, the repayment is collected at the group meetings, whereas for one MFI the borrowers deposited the repayment amount in the respective bank. In few cases like holidays, prepayments were also collected by the field officer.

[vii] The field officer identified and formed groups of five or 10-12 members. The field officer conducted Compulsory Group Training (CGT) to train the members about the principles and operations of the MFIs, group formation, and responsibilities as a group member, etc. The number and duration of CGT vary from one MFI to the other. In case of UFSPL, two CGTs were conducted. After CGT the branch manager along with the credit officer conduct group recognition test (GRT). After GRT, the group is finally selected for loan availing. The loan application and other related documents of the Group were assessed and then verified for Know Your Customer (KYC) compliance, identity proof, etc., and the same was recommended to head office. The applications meeting the credit disbursal criteria are sanctioned and then the loan cheques are forwarded to branch office for disbursal.

Disbursement and Cash management: For the selected MFIs, the loan is disbursed in the form of cheques. Cash disbursement is provided only in few branch offices of UFSPL. Once the loan is sanctioned, the cheque is issued by the area manager or from the head office. The cash is collected daily by the field officer during the recovery process, and deposited in the banks. The field officers count their collection, make entries and deposited at the nearest bank where the MFI branch office had an account. No cash is maintained at the branch office level.

[viii] Table 1: Average of Board Members of the MFIs

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
NBFCs	5.0	5.3	5.3	5.7	5.7
NGO-MIFs	10.5	11.0	10.0	10.5	9.5

[ix] Table 2: Committees of the MFIs

Name of the MFI	Committee	Yes /No (✓/✗)	Name of the MFI	Committee	Yes /No (✓/✗)
RGVN (NE)MFL	Operation	✓	Prochesta	Operation	✓
	MIS	✓		MIS	✓
	Human Resource	✓		Human Resource	✓
	Administration	✓		Administration	✓
	Accounts and Finance	✓		Accounts and Finance	✓
	Audit	✓		Audit	✓
AFPL	Operation	✓	SATRA	Operation	✓
	MIS	✓		MIS	✓
	Human Resource	✓		Human Resource	
	Administration	✓		Administration	
	Accounts and Finance	✓		Accounts and Finance	✓
	Audit	✓		Audit	
UFSPL	Operation	✓	ASC	Operation	✓
	MIS	✓		MIS	✗
	Human Resource	✓		Human Resource	✗
	Administration	✓		Administration	✗
	Accounts and Finance	✓		Accounts and Finance	✓
	Audit	✓		Audit	✗
NCS	Operation	✓	MZGPS	Operation	✗
	MIS	✓		MIS	✗
	Human Resource	✓		Human Resource	✗
	Administration	✓		Administration	✗
	Accounts and Finance	✓		Accounts and Finance	✓
	Audit	✓		Audit	✗

[x] Maanaveeya Development & Finance Private Limited (Maanaveeya) is an Indian subsidiary of Oikocredit, a 40 year old Global Development Financing Institution that responds to the needs of businesses that create jobs and income for disadvantaged people.

[xi] Dia Vikas Capital Pvt. Ltd. is a venture capital arm of Opportunity International Australia Limited specializing in start-ups. The firm primarily invests in microfinance sector in India. It typically provides loan, equity and quasi-equity funding. Dia Vikas Capital Pvt. Ltd. was founded in 2008 and is based in Gurgaon, India.

xii Rabobank International (RI) is the part of the Rabobank Group that deals with rural and retail banking activities outside the Netherlands.

xiii The study Microfinance India by Sa-dhan (2014) included 15 MFIs from North east region. Out of 15 MFIs, 10 belongs to Assam and rest are from Manipur. The loan outstanding of MFIs in Manipur is higher than that of Assam (for further details see http://www.mixmarket.org/mfi/country/India).

xiv Managerial staff includes the employees holding managerial positions and are responsible for activities such as accounting, operations, maintenance and personnel management. Whereas the non- managerial staff includes branch managers, field officers or relationship officers, and the multitasking staff.

xv Number of Active Borrowers / Personnel= The ratio measures the overall productivity of the MFI"s staff in managing borrowers. This ratio will vary both by productivity and by the nature of the MFI"s products and services mix.

Loan outstanding per staff= loan outstanding of the MFI divided by total staff of the MFI.

This study considers total staff of the MFIs in denominator it is difficult to classify staff as loan officers across MFIs. Many MFIs give field officers responsibility for all functions related to microfinance groups. In this situation the definition of who is a loan officer is clear. In other MFIs, however, field officers are responsible for group formation and record keeping but branch - based tellers make disbursements and collect repayments as well as performing other branch office functions. This is just one example where the distinction between loan officers and other staff is unclear (M-Cril 40).

xvi For details of asset see https://www.cgap.org/sites/default/files/CGAP-Consensus-Guidelines-Definitions-of-Selected-Financial-Terms-Ratios-and-Adjustments-for-Microfinance-Sep-2003.pdf

xvii RGVN (NE)MFL increased their loan portfolio by more than 30 percent in 2010-11 and 2011-12. Similarly, UFSPL increased their loan portfolio by 97 percent in the year 2010-11. The NBFCs invested more in long term investments.

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